

WAREHOUSING

Warehouse; This is a building or a part of a building where goods are received and stored until need arises for them.

-Other terms used to refer to a warehouse are *depot, a godown or a silo*.

Warehousing; This is the process of receiving goods into a warehouse, protecting such goods against all types of hazards and releasing them to users when need arises for them

-There are three distinct stages in warehousing process namely:

- i. Receiving goods into a warehouse
- ii. Storing them
- iii. Releasing them to users

Importance of warehousing to Business.

- i. Steady/continuous flow of goods;** Producers can produce and store goods awaiting demand through warehousing e.g. agricultural products that are produced seasonally are made available throughout the year
- ii. Stability in prices;** Warehousing ensures that there is no surplus or shortage of goods. It ensures that goods are stored when in plenty and released to the market as their need arises. This helps to keep their prices fairly stable
- iii. Security;** Warehousing ensures that goods are protected against physical damage and adverse weather conditions. This also ensures that the quality of the goods is maintained until they are demanded. Goods are also protected from loss through pilferage and theft.
- iv. Bridging the time lay/difference between production and consumption;** many goods are produced in anticipation of demand. Such goods must be stored until their demand arises e.g. gumboots, umbrellas and sports equipment are needed seasonally but are manufactured in advance and stored in a warehouse so as to be released to the users when need arises for them.
- v. Continuous/uninterrupted production schedules;** Manufactures are able to buy raw materials in large quantities and store them awaiting their need to arise. This prevents interruption of the production process because of lack of raw materials
- vi. Preparation of goods for sale;** While in the warehouse, goods can be prepared for sale e.g. they can be blended, packed, graded or sorted out.
- vii. Sale of goods;** Goods may be sold while still in the warehouse. If sold while still in a bonded warehouse, duty passes to the buyer
- viii. Specialisation;** Warehousing encourages specialization in production and distribution. Producers concentrate on producing while distributors store the goods for sale to the customers.
- ix. Unexpected demand can be met;** The government collects agricultural goods e.g. cereals and stores them as buffer stocks to be used in times of disaster or serious shortages.

- x. **Clearance of goods;** Warehousing helps in clearance of goods i.e. goods entering the country can be inspected by the customs officials.
- xi. Warehousing helps to improve the quality of goods e.g. goods like tobacco and wine mature with time.
- xii. Warehousing enables buyers to inspect the goods before they buy them.
- xiii. Wholesale warehouses may also operate as showrooms for traders.

Essentials of a warehouse

These are the features and resources a warehouse should have in order for it to function effectively.

These include;

- i. **Ideal location;** A warehouse should be located at a suitable place to facilitate receipt and issue of goods e.g. a manufacturer's warehouse should be located near his/her factory.
- ii. **Proper building;** A warehouse should have proper buildings which are suitable for different types of goods to be stored.
- iii. **Equipment;** A warehouse should be equipped with appropriate facilities for handling goods such as fork-lifts conveyer belts e.t.c. It should also be well equipped with necessary storage facilities e.g. provision of refrigerated or cold storage for perishable goods such as meat and fruits.
- iv. **Accessibility;** A warehouse should be accessible to its users. It should therefore be linked with good and appropriate transport system to facilitate movement of goods in and out of the warehouse.
- v. **Safety and security;** It should have/be fitted with safety equipment or facilities necessary for protection of goods against damage caused by such things like water, fire or sunshine as well as for the protection of the personnel.
- vi. **Communication;** A warehouse should have a good communication network or system for easy contact with its clients and suppliers
- vii. **Qualified personnel;** A warehouse should have well trained and efficient staff/personnel for proper management and efficient functioning of the warehouse.
- viii. **Recording system;** There should be a proper recording system in a warehouse to ensure that all movement of goods is properly monitored.
- ix. A warehouse should be spacious enough to allow easy movement and accumulation of goods and personnel.

Types of warehouses

-Warehouses can be broadly classified into three namely:

- a. Private warehouses
- b. Public warehouses

c. Bonded warehoused

i) **Private warehouses**

These are warehouses that are owned by private individuals/organizations for the purpose of storing their own goods only. They include;

- a) Wholesalers warehouses
- b) Producers warehouses
- c) Retailers warehouses.

a) **Wholesalers warehouses**

These are warehouses for storing the wholesalers' goods as they await distribution or sale. They need warehouses because they buy goods in bulk from producers and store them until they are needed by retailers.

-The wholesalers warehouses also act as showrooms i.e. they display their goods in the warehouse.

-These warehouses also enable the wholesalers to prepare their goods for sale e.g. branding, blending, packing and sorting may be carried out in the warehouse

b) **Producers warehouses;**

-These warehouses are owned by producers and they are for storing goods prior to their demand.

-The producers may be manufactures of finished goods or farmers

-Such warehouses are built near the manufactures factories or the farmers production points.

-Manufactures who export may locate some warehouses near ports through which they export e.g Mumias sugar warehouse, Bamburi Portland cement warehouse e.t.c

C) **Retailers warehouses**

Some large-retailers such as chain stores and supermarkets own warehouses for storing their large stores

-It becomes necessary for such business to have warehousing facilities due to their large and bulky purchases dictated by the nature of their business

-Goods are distributed from their warehouses to the retail outlets or to the branches

Advantages of private warehouses

- i. The owner has full control over its operation and may make major decisions without having to consult anyone.
- ii. The warehouse is designed to suit the specific needs of the organizations
- iii. It enables special handling, storage and protection of goods by having special facilities which may not be available in a public warehouse
- iv. The owner is not tied down by procedures of receiving and issuing goods unlike in public warehouse.
- v. The owner does not incur the cost of hiring space unlike with a public warehouse
- vi. The operation can be easily automated because the goods to be received stored and dispatched are already known.

Disadvantages of private warehouses

- i. The initial construction cost of a warehouse is high
- ii. Under-utilization of personnel and facilities may occur especially in times of low volumes
- iii. They may not employ qualified management personnel and are consequently disadvantaged in dealing with management problem.
- iv. Risks arising from dangers such as fire,pests,theft or damage are not spread

ii) Public warehouses

These are warehouses owned by individuals or organizations who do business by renting space. To those traders who are in need of storage facilities to store goods temporarily. They have the following characteristics;

- Are owned and operated by individuals or companies who do not use them for storing their own goods.
- Are open to any member of the public who wish to rent storing space for their goods
- The customers pay on the basis of space rented and the period of time required to store the goods.
- They are often situated near terminals as airports, sea-ports and railway station and industrial areas. This facilitates the movement of goods in and out of the warehouse.
- The rent paid includes charges for insurance and other services i.e. goods are insured against loss or damage as a result of fire or theft while they are still in the warehouse.
- They provide other services apart from storing the goods e.g. grading,packaging,preparing export samples, preparing market reports and clerical documents
- Imported goods can be sold while they are still in the public warehouse. If such a transaction takes place the goods may change ownership without being physically moved out of the warehouse. This becomes possible if the importer has signed a document called '**a warehouse-**

warrant' (which is a negotiable instrument out of order), it is issued by the new owner after the transaction has taken place.

Advantages of a public warehouses

- i. A public warehouse serves a number of customers that deal with the same product. It assembles the small orders from these customers and places one order for all of them. This enables them to enjoy economies of large scale buying and delivery of goods to a warehouse.
- ii. Goods stored in a public warehouse may be sold without their physical movement from the warehouse.
- iii. Traders can rent space to store their goods
- iv. Traders do not have to construct their own warehouses/do not have to tie up capital in storage buildings and handling equipment.
- v. Goods are insured against risks such as damage by fire and theft
- vi. A trader may get a short term loan from the warehousing firm by using the goods held as collateral security.
- vii. Apart from the handling, sorting and documentation of goods additional services such as bottling, bagging and repairs of damaged goods can be offered by public warehouses.
- viii. Sharing equipment and machinery enables the users to reduce handling costs
- ix. Inspection, re-packaging and labeling services provide users of public warehouses the expertise they themselves may not have.

Disadvantages of public warehouses

- i. The hirer is denied the opportunity to physically handle the goods and is forced to compete for attention with other hirers of the warehouse. If the hirer had his/her own warehouse, he/she would have absolute authority on the goods and therefore enjoy individual attention.
- ii. The hirer may lose contact with his/her customers since they get goods from a rented warehouse, away from the hirers premises
- iii. The hirer may get poor services or miss space altogether during peak seasons due to stiff competition for the same facility.
- iv. Documentation involving receipt and release of goods in a public warehouse is likely to be a long and complicated procedure due to the large number of clients involved.
- v. Continued renting of space can even be more expensive than constructing one's own warehouse in the long run
- vi. Public warehouses are sometimes situated far away from the hirer's premises unlike private ones which are usually within the vicinity of the owner's premises.
- vii. The operations of a general merchandise public warehouse are difficult to automatic because different kinds of goods need different methods and equipment to handle them.

iii) Bonded warehouses

These are public warehouses for keeping imported goods until customs duties have been paid against them. They are mainly located at the points through which goods enter a country

-Imported goods are kept in this type of warehouses if the owner has not paid customs duties. Such goods are said to be “**goods under bond**” or “**goods in bond**”

-Bonded warehouses are so called because the owners of such warehouses give a ‘**bond**’ to the customs authorities i.e. a sum of money as guarantee that they will not release goods from the warehouses until customs duties have been paid.

-The importer may withdraw the goods either in part or in full after the customs duties have been paid for the goods he/she intends to collect.

-If the goods are sold while still in a bonded warehouse, the new owner of the goods pays the duty before taking them out of the warehouse.

-If the goods re-exported to another country while still in a bonded warehouse, the importer does not have to pay the customs duties e.g an importer may import some goods and further prepare them for sale inside a bonded warehouse and can then re-export them without having paid the customs duties

-When the importer pays the duties to the customs officials, a “**release warrant**” is issued. This is a document that enables the importer to have his/her goods released from a bonded warehouse

-Bonded warehouses have resident customs officials who monitor the movement of goods in and out of a bonded warehouse.

Features of a bonded warehouse

- i. Goods are bonded until customs duty is paid
- ii. Goods can be re-exported while in the warehouse
- iii. Storage charges are made on all goods stored in the warehouse
- iv. Goods can be sold while still under bond
- v. Goods can be inspected and prepared for sale i.e. they can be repacked, branded and blended while in the warehouse
- vi. Goods are released only on the production of a release warrant

Advantages of bonded warehouse to the importer

- While in bond, goods can be prepared for sale
- The owner can look for the market for the goods before paying the duty
- Some goods lose weight while in the warehouse so the duty paid becomes lower if based on weight.
- If goods are sold while still in the bonded warehouse, the duty passes to the buyer
- The importer has more time to arrange for payment of customs duty.

- Security is provided for the goods, so the importer is relieved of the task of providing security for his/her goods
- Some goods improve in quality while in a warehouse for example, wine and tobacco.

Advantages of Bonded warehouse to the Government

- i. The government gets revenue by levying duty on the goods
- ii. The government is able to control the entry of harmful goods
- iii. The government is able to verify the documents for goods in transit
- iv. The government is able to check on the quantity, quality and the nature/type of goods imported.
- v. The government is able to check on illegal goods entering the country.

Disadvantages of a bonded warehouse

- i. The importer may eventually fail to pay customs duties. This forces the customs authorities to auction the bonded goods in order to recover the duties.
- ii. When the importer withdraws goods from a bonded warehouse he/she ends up paying a higher duty if he/she had paid the duty at once.
- iii. The importer incurs costs in hiring a bonded warehouse as opposed to if he/she had a private warehouse

Free warehouses

These are warehouses in which tax-free goods are kept awaiting sale or collection by owners

-Goods stored in these warehouses can be either locally produced, requiring no taxation or imported goods for which customs duties have already been paid.

NOTE: i) All warehouses apart from bonded warehouses are free warehouses since goods held in them are not subject to control by customs authorities. This includes all private and public warehouses

ii) Locally produced goods are stored in free warehouses since no custom duties are paid for them.

Advantages of free warehouses

- Owners of goods stored need not to pay any taxes, thus the goods cannot be auctioned for failure to pay customs duties
- It is cheaper to store goods in free warehouses as compared to bonded warehouses since there are no customs duties levied.
- Clearance of the goods from the warehouse is simple since a “release warrant” to prove payments of duties is necessary
- These warehouses are located at places that are convenient to users

Disadvantages of free warehouses

- The Government does not benefit since no customs duty is levied on the goods stored
- Some unscrupulous traders might use them to store durable goods so as to evade tax.
- Checking and security of goods is more relaxed hence the possibility of storing illegal goods.

Current trends and emerging issues in warehousing

Warehousing technology is undergoing important changes in both building design and handling in storage equipment. These may include;

- i) **Warehousing design**-In modern times, there is an increasing emphasis on high ceiling warehouses to permit storage of more goods and to make it possible for the movement of fork lift trucks and stuck-cranes
- ii) **Handling of goods**-Handling includes the steps involved in moving of goods to and from storage. There is widespread use of modern machines in most warehouses such as conveyer belts, tracks, forklifts and stuck cranes. The use of automated stucker cranes which more by remote control in a fixed path on guide rails, is a new development in warehousing
-Computerization has also greatly helped in monitoring the movement of stock in and out of storage. This has eased the handling, especially in loading and unloading of goods.
- iii) **Storage of goods**-Storage is the condition of the goods at rest in their assigned areas of the warehouse. Most warehouses are currently using storage racks that permit replacement or retrieval of goods without disturbing neighbouring goods.

iii) **Environmental pollution**-Goods that expired or spoilt while in the warehouse are sometimes discarded in a manner or in areas that may cause pollution to the environment e.g. expired chemicals are sometimes thrown into rivers and oceans thereby endangering the marine life.

-Other times they are burned causing air pollution with toxic gases. Some goods when thrown on land are dangerous to human life

-To avoid the effects of improper disposal of expired or spoilt goods the warehouse owners should come up with methods that are environmentally friendly such as recycling of these goods. They should also be socially responsible for whatever goes out from their warehouses.

