

Lesson 48. Warehousing

48.1 Introduction

Warehouses are scientific storage structures especially constructed for the protection of the quantity and quality of stored products. Warehousing may be defined as the assumption of responsibility for the storage of goods. It may be called the protector of national wealth for the produce stored in warehouses is preserved and protected against rodents, insects and pests, and against the ill effect of moisture and dampness.

The warehousing scheme in India is an integrated scheme of scientific storage, rural credit, price stabilization and market intelligence and is intended to supplement the efforts of co-operative institutions. The important functions of warehouses are:

1. **Scientific Storage:** Here, a large bulk of agricultural commodities may be stored. The product is protected against quantitative and qualitative losses by the use of such methods of preservation as are necessary.
2. **Financing:** Warehouses meet the financial needs of the person who stores the product. Nationalized banks advance credit on the security of the warehouse receipt issued for the stored product's to the extent of 75 to 80 per cent of their value.
3. **Price Stabilization:** Warehouses help in price stabilization of agricultural commodities by checking the tendency to making post-harvest sales among the farmers. Farmers can store their products during the post-harvest season, when prices are low because of the glut in the market. Warehouses ensure that supplies will be available throughout the year. They thus help in the stabilization of agricultural prices.
4. **Market Intelligence:** Warehouses offer the facility of market information to persons who hold their produce in them. They inform them about the prices prevailing in the period, and advise them when to market their products.

This new facility prevents distress sales for immediate money needs or because of lack of proper storage facilities. It gives the producer holding power; he can wait for the emergence of favourable market conditions and get the best value for his product.

48.2 Types of warehouses

Warehouses may be classified on two bases:

(i) On the Basis of Ownership

(a) Private Warehouses:

These are owned by individuals, large business houses or wholesalers for the storage of their own stocks. They also store the products of others.

(b) Public Warehouses:

These are the warehouses which are owned by the government and are meant for the storage of goods of any member of the public against a prescribed storage charge. The method of operation and the charges for storage are regulated by the government.

(c) Bonded Warehouses:

These warehouses are specially constructed at a seaport or an airport and accept imported goods for storage till the payment of customs by the importer of goods. These warehouses are licensed by the government for this purpose. The owner of the warehouse gives an undertaking to the government that customs duty will be collected from the person before he is allowed to remove goods from the warehouse. In other words, the goods stored in this warehouse are bonded goods. They may be owned by the do authorities or privately-owned; but they have to work under the close supervision and control of the customs authorities. The following services are rendered by bonded warehouses:

(i) The importer of goods is saved from the botheration of paying customs duty all at one time because he can take delivery of the goods in parts.

(ii) The operation necessary for the maintenance of the quality of goods-spraying and dusting, for example are done regularly.

(iii) Entrepot trade (re-export of imported goods) becomes possible. The importer may take delivery of the goods without paying the customs duty if they are to be re-exported. He is thus saved from the botheration of first making the payment of customs duties on imported goods and then getting a refund on re-exported goods. ,

(ii) On the basis of Type of Commodities Stored

(a) General warehouses:

These are ordinary warehouses used for storage of most of food grains, fertilizer etc. No specific requirement the commodity is there regarding the speciality in the construction of warehouses.

(b) Special Commodity Warehouses:

These are warehouses which are specially constructed for the Storage of specific commodities like cotton tobacco, wool and petroleum products. They are constructed on the basis of the requirements of the commodity.

(c) Refrigerated Warehouses:

These are warehouses in which temperature is maintained as per requirements and are meant for such perishable commodities as vegetables, fruits, fish, eggs and meat. The temperature in these warehouses is maintained below 30° to $50^{\circ}F$ or even less, so that the product may not get spoiled by high atmospheric temperature.

48.3 Costs and Return of a Warehousing Enterprise

The costs incurred in storage and warehousing can be divided into groups:

(i) **Fixed costs:** These costs are of permanent nature and remain the same irrespective of the quantity stored in the warehouse. The main components are

- (a) Depreciation on building and machinery, if any;
- (b) Insurance premium paid to the insurance company;
- (c) Taxes, license fees etc.;
- (d) Repair and maintenance of the warehouse;
- (e) Interest on the investment in construction of the warehouse.
- (f) Salary of the permanent staff;
- (g) Cost of records and book-keeping;
- (h) Fixed part of the electricity charges (meter rent and minimum fixed charges).

(ii) Variable Costs: These costs are of varying nature i.e. they vary with the quantity stored in the warehouse. The main components are:

- (a) Cost of protective material used viz. insecticides, pesticides, rodenticides, gunny bags, polythene cover, and wooden slabs etc.;
- (b) Cost of electric power;
- (c) Wages of temporary labour.

A young entrepreneur has constructed a warehouse with a storage "capacity of 3000 quintals at a cost of Rs, 2.80 lakhs. The owner has to incur following expenditure on the operation of the warehouse:

- (i) Interest on capital @ 15% per annum;
- (ii) Repair and maintenance cost - Rs. 2000 per annum;
- (iii) Cost of records and book-keeping -- Rs, 1000 per annum;
- (iv) Taxes and insurance premium - Rs, 2500 per annum;
- (v) Wages of the manager and permanent labour - Rs. 30,000 annum;
- (vi) Electricity bill - Rs. 12000 per annum;
- (vii) Cost of protective material - Rs, 4000 per annum;
- (viii) Wages of temporary labour - Rs, 10000 per annum.

Assuming 50 years as the life of the warehouse and 90 per cent capacity utilization, the cost structure of the warehouse emerges as follows:

Particulars	Rate	Rs. Per annum
Fixed		
(i) Depredation on the building	2 per cent of Rs. 2.80 lakhs	5600
(ii) Interest on the capital	15 per cent of Rs. 2.80 lakhs	42000
(iii) Repairs and maintenance cost		2000
(iv) Cost of account books & records		1000
(v) Taxes and insurance		2500
(vi) Wages of manager and permanent labour		30000
Total fixed cost		<u>83100</u>
Variable Costs		
(vii) Electricity bill		12000
(viii) Cost of protective material		4000
(ix) Wages of temporary labour		10000
Total variable costs		<u>260000</u>
Total costs of storage per annum = 83100+ 26000 = 109100		

Assuming a capacity utilization of 90 per cent, the cost of warehousing for a month works out to Rs. 3.37 per quintal. This cost includes the return on capita I investment. In case the entrepreneur has borrowed the capital, the interest that has been charged on the capital investment has to be repaid to the lender. He will be able to repay six-monthly installment of Rs. 14000 and retain a sum of Rs, 3000 a month as his profit, only if he is able to charge the users a rate of Rs. 5.35 per quintal per month.

48.4 Working of Warehouses

Acts: The warehouses (CWC and SWC) work under the respective Warehousing Acts passed by the Central or State Governments. They are licensed under the provisions of the Act.

Eligibility: Any person may store notified commodities in a warehouse on agreeing to pay the specified charges. The person is required to bring his produce to the warehouse for storage, The commodity is inspected, and the quality of the product is determined. The bags are weighed.

Warehouse Receipt (warrant): This is a receipt/warrant issued by the warehouse manager/owner to the person storing his produce with them. This receipt mentions the name and location of the warehouse, the date of issue, a description of the commodities, including the grade, weight and approximate value of the produce based on the present price.

The warehouse warrant is a negotiable instrument and can be transferred by a simple endorsement and delivery. A delivery of part of the goods may be taken through this warrant by the depositor. Sometimes, the warrant may be non-negotiable.

Use of Chemicals: The produce accepted at the warehouse is preserved scientifically and protected against rodents, insects and pests and other infestations. Periodical dusting and fumigation are done at the cost of the warehouse in order to preserve the goods.

Financing: The warehouse receipt serves as a collateral security for the purpose of getting credit. Commercial banks advance up to 75 per cent of the value of the produce stored in the warehouse.

Delivery of Produce: The warehouse receipt has to be surrendered to the warehouse owner before the withdrawal of the goods. The holder may take delivery of a part of the total produce stored after paying the storage charges.

References:

- 1) Hall, D. W. Handling and storage of food grains in tropical and subtropical Areas.
- 2) Sinha, R.N & Muir. Grain Storage: Part of a System. Avi Publisher