

[Home](#)

Human Resources

[Organizational
Charts](#)[Job
Classifications](#)[Job Descriptions](#)[Policies &
Procedures](#)[HRIS](#)[EEOC Reports](#)[Employee Files](#)[OSHA](#)[Recruitment and Selection
Practices](#)

Recruitment and Selection Practices

[Training & Development](#)[Compensation Philosophy](#)[Pay Ranges](#)[Employee Recognition
Program](#)[Employee Handbook
Introductory Statement
Customer Relations
Employee Relations
Equal Employment
Opportunity](#)[Performance Evaluation
Employee Benefits
Vacation Benefits
Holidays
Workers' Compensation](#)[Insurance
Health Insurance
401\(k\) Savings Plan
Timekeeping
Paydays
Work Schedules
Smoking
Employee Conduct and
Work Rules
Attendance and
Punctuality
Personal Appearance](#)

Kudler Fine Foods currently recruits employees primarily from outside the organization for entry level jobs (stockers, clerks and baggers). All other positions are posted internally within each store. Current employees may apply for these jobs and are considered before the company looks outside of the organization.

Openings for department managers, assistant store managers and store managers are posted internally to see if current employees may be interested and they are simultaneously advertised in local newspapers, industry periodicals, and through Internet services. Internal candidates are considered along with external candidates.

The organization uses the following methods for recruitment:

- Online advertisements at Monster.com
- Advertisements at industry web sites and with industry associations
- Chef programs at local colleges and universities
- Newspaper advertisements in local newspapers
- Employee referrals (including a referral bonus for employees who successfully complete 90 days of employment)
- Use of employees from temporary agencies

Since all of the facilities are relatively close to each other, all job openings are available to the employees at all of the stores. The company intranet is used to post job openings. Whenever new stores open, we try to fill key leadership positions with people who are already familiar with store operations.

[^Top](#)

Training & Development

Our customers expect to be served by courteous and knowledgeable associates. In order to meet the highest standards of customer service, our employees take part in an extensive training program and have opportunities for further professional development. The company's training program includes:

- New employee orientation
- Employee handbook
- A three-week on-the-job training program

- A sixty day period of working with an assigned "buddy" co-worker

In addition, each store offers regular workshops on products and their uses to familiarize employees with the products in their departments.

If an individual is hired or promoted into a supervisory role, additional training is required. Within the first year of hire, supervisors attend the following workshops:

- Interviewing Guidelines
- Motivating Workers for Performance
- Preventing EEO Claims and Sexual Harassment in the Workplace
- Building a Positive Service Environment
- Conducting Effective Performance Reviews
- Interpersonal Skills

[^Top](#)

Compensation Philosophy

The purpose of the pay program at Kudler Fine Foods is to help the company achieve its mission and goals by attracting, motivating, and retaining the most highly-qualified people. Our philosophy is that highly satisfied employees create highly satisfied customers, so we intend to provide a total rewards system that is above the market. However, we also believe that pay should be linked to performance, so our base pay opportunities will be indexed to the market median in each of the markets we serve. We will offer incentive plans to those who perform well to increase their overall compensation.

We have established a job-based compensation system, with pay grades that are closely tied to the responsibilities and requirements for each position. Key positions and hard-to-recruit positions may receive a market premium, as in the case of butchers and bakers. We will supplement this pay system with a merit-pay system, whereby employees who receive exceptional performance review ratings are eligible for higher increases in pay than those who are rated as satisfactory. Employees who receive an unsatisfactory performance review will not be eligible for pay increases.

We have also established an incentive program tied to overall store performance. This program is a store-by-store program, with all employees sharing equally in the incentives earned. This incentive can pay up to 20% of after-tax store profits, distributed equally among all employees. Measurements of store performance include the following.

- Customer satisfaction — Results of a quarterly Mystery Shopper survey
- Operational results (sales & profitability)
- Employee satisfaction — measured by turnover and employee satisfaction surveys

Because we want to properly support our employees, we will offer the following benefits to all full-time employees, in addition to those

benefits required by law, such as social security, workers' compensation.

- Health insurance for employees
- Dental insurance for employees
- Life insurance for employees
- 401(k) savings program
- Vacation (schedule varies with seniority)
- Paid holidays
- Educational assistance/tuition reimbursement
- Paid family and medical leave in accordance with California State law
- Employee discount cards
- Cooking classes

We also provide the following benefits through our flexible benefits program.

- Child care reimbursement account
- Medical reimbursement account (flexible spending account)

Part-time employees who work more than 20 hours per week may be eligible for pro-rated benefits. In addition, part-time employees who convert to full-time status may be able to apply past work towards their seniority date.

[^Top](#)

Pay Ranges

Headquarters

Pay Level	Pay Grade	Jobs Included	FLSA Status	Minimum	Midpoint	Maximum
5	Executive	President Director of Finance & Accounting Director of Store Operations Director of Administration & HR	Exempt	\$50,000	\$85,000	\$120,000
4	Managerial / Professional	Purchasing Manger Inventory Manager	Exempt	\$36,000	\$45,000	\$54,000

3	Professional	HR Assistant Purchasing Assistant	Exempt	\$30,000	\$37,500	\$45,000
2	Technician	Computer Support Specialist	Non- Exempt	\$13.75/hr	\$17.25/hr	\$24.50/hr
1	Office / Clerical	Administrative Assistant Accounting Clerk	Non- Exempt	\$11.00/hr	\$13.75/hr	\$16.50/hr

Stores

Pay Level	Pay Grade	Jobs Included	FLSA Status	Minimum	Midpoint	Maximum
5	Executive	Store Manager	Exempt	\$48,000	\$61,000	\$82,000
5	Managerial	Assistant Store Manager	Exempt	\$33,000	\$45,000	\$57,000
4	Supervisory	Department Manager	Exempt	\$25,000	\$35,000	\$45,500
3	Service Associate	Retail Assistant	Non- Exempt	\$8.75/hr	\$11.65/hr	\$14.50/hr
2	Service Assistant	Cashier Stocker Clerk	Non- Exempt	\$7.25/hr	\$9.50/hr	\$11.75/hr
1	Service Clerk	Bagger	Non- Exempt	\$6.75/hr ¹	\$8.50/hr	\$10.00/hr

1. California Minimum Wage

[^Top](#)

Employee Recognition Program

Kudler Fine Foods is deeply committed to employee recognition. The following awards are available to recognize outstanding employees.

- **Associate of the Month** — Awarded every month in each store to the associate who best exemplifies “inspiring service.” The recipient is chosen by the store manager, based upon three criteria:
 1. Mystery Shopper ratings
 2. Smiling Face Certificates awarded by customers
 3. Nominations from co-workers

Winners have a reserved parking spot for the month and are honored with a plaque in the front of the store.

- **Store Associate of the Year** — Each year, each store identifies its Associate of the Year, based upon a review of the monthly winners. In addition to the criteria for the monthly award, store managers also consider contributions to store events, teamwork and special activities these associates may have undertaken during the year. The winner receives \$1,000 and is entered into competition for the Company Associate of the Year.
- **Company Associate of the Year** — Given to one of the three Store Associates of the Year. The winner is selected by the store leadership team. In addition to a cash bonus of \$2,500, the winner is offered the opportunity to become part of the company's leadership development process and is recognized in local newspapers.
- **Discretionary Spot Bonuses** — Store managers have a pool of money available for "on-the-spot" rewards for employees who have gone above and beyond. Managers can give these \$10 - \$25 awards at any time, as they see fit.

[^Top](#)

Employee Handbook

Kudler Fine Foods

Kudler Employee Handbook

September, 2004

Introductory Statement

This employee handbook will give you important information about working at Kudler Fine Foods (KFF). The policies in the handbook explain many of the benefits of working here. The handbook also explains what we expect of you and tells about many of our rules.

However, this employee handbook cannot cover every situation or answer every question about policies and benefits at KFF. Also, sometimes we may need to change the handbook. KFF has the right to add new policies, change policies, or cancel policies at any time. The only policy we will never change or cancel is our employment-at-will policy. The employment-at-will policy allows you or KFF to terminate your employment at any time for any reason. The employment-at-will policy is further described in the policy titled Nature of Employment. If we make changes to the handbook, we will tell you about the changes.

Customer Relations

Our customers are very important to us. Every employee represents KFF to customers and the public. Our customers judge all of us by how we treat them. One of the highest priorities at KFF is to help any customer or potential customer. Nothing is more important than being courteous, friendly, prompt, and helpful to customers.

Your contacts with the public and any communications you send to customers reflect not just on you but also on the professionalism of KFF. Good customer relations can build greater customer loyalty and increased profits.

Employee Relations

We believe that the work conditions, wages, and benefits we offer to KFF employees are competitive with those offered by other employers in this area and in this industry. If you have concerns about work conditions or compensation, we strongly encourage you to express these concerns openly and directly to your supervisor or the store manager.

Our experience has shown that when employees deal openly and directly with management, the work environment can be excellent, communications can be clear, and attitudes can be positive. We believe that KFF fully demonstrates its commitment to employees by responding effectively to employee concerns.

Equal Employment Opportunity

To give equal employment and advancement opportunities to all people, we make employment decisions at KFF based on each person's performance, qualifications, and abilities. KFF does not discriminate in employment opportunities or practices on the basis of race, color, religion, sex, national origin, age, or any other characteristic protected by law.

Our Equal Employment Opportunity policy covers all employment practices, including selection, job assignment, compensation, discipline, termination, and access to benefits and training.

If you have a question about any type of discrimination at work, talk with your immediate supervisor or the store manager. You will not be punished for asking questions about this. Also, if we find out that anyone was illegally discriminating, that person will be subject to disciplinary action, up to and including termination of employment.

Performance Evaluation

We encourage you and your supervisor to discuss job performance and goals on an informal, day-to-day basis. In addition, you and your supervisor will have formal performance evaluations to discuss your work and goals, to identify and correct weaknesses, and to encourage and recognize your strengths.

Employee Benefits

KFF gives eligible employees many benefits. Some benefits are required by law and cover all employees. The legally required benefits

include Social Security, workers' compensation, state disability, and unemployment insurance.

You must be a regular, full-time employee to be eligible for any benefits not mandated by law.

This employee handbook contains policies describing many of the benefit programs. Sometimes a policy will tell you that there is more information in another place such as the Summary Plan Document.

The following benefit programs are available to full-time employees:

- 401(k) Savings Plan
- Health Insurance
- Holidays
- Vacation Benefits

You may have to pay part or all of the cost for some benefits but KFF fully pays for some of them.

Vacation Benefits

KFF offers vacation time off with pay to full-time employees. The amount of paid vacation time you receive each year depends on how long you have been working. This is the schedule for accruing vacation:

- Upon initial eligibility the employee is entitled to 5 vacation days each year.
- After 5 years of eligible service the employee is entitled to 10 vacation days each year.
- After 10 years of eligible service the employee is entitled to 15 vacation days each year.

We calculate the length of your eligible service on the basis of a "benefit year." A "benefit year" is the 12-month period that begins when you start earning vacation time. Your benefit year may be extended for any significant leave of absence except military leave of absence. (Military leaves do not affect the benefit year calculation.)

Once you become a full-time employee, you begin to earn paid vacation time according to the schedule in this policy. You can use earned vacation time in the year after it is accrued.

You may not take less than one-half day vacation at a time. To schedule your vacation time, you should first ask for advance approval from your supervisor. Each request will be reviewed based on a number of factors, including our business needs and staffing requirements.

You will be paid for vacation time off at your base pay rate as of the time of the vacation. Vacation pay does not include overtime or any special forms of compensation such as incentives, commissions, bonuses, or shift differentials.

We encourage you to use your available paid vacation time for rest and relaxation. If you do not use your available vacation by the end of a benefit year, you will lose the unused vacation time.

If your employment terminates, you will be paid for any unused vacation time that has been earned through your last day of work. However, if KFF, in its sole discretion, terminates your employment for cause, you may lose any remaining unused vacation and will not be paid for it.

Holidays

KFF gives time off to full-time employees on the following holidays:

- New Year's Day (January 1)
- Memorial Day (last Monday in May)
- Independence Day (July 4)
- Labor Day (first Monday in September)
- Thanksgiving (fourth Thursday in November)
- Christmas (December 25)

The store will be closed on Thanksgiving and Christmas. On other holidays, any employee scheduled to work (full- or part-time) will be paid overtime rates.

Workers' Compensation Insurance

KFF provides a comprehensive workers' compensation insurance program to our employees. This program does not cost you anything.

The workers' compensation program covers injuries or illnesses that might happen during the course of your employment that require medical, surgical, or hospital treatment. Subject to legal requirements, workers' compensation insurance begins after a short waiting period, or if you are hospitalized, the benefits begin immediately.

It is very important that you tell your supervisor immediately about any work-related injury or illness, regardless of how minor it might seem at the time. Prompt reporting helps to make sure that you qualify for coverage as quickly as possible and lets us investigate the matter promptly.

Workers' compensation covers only work-related injuries and illnesses. Neither KFF nor its insurance carrier will pay workers' compensation benefits for injuries that might happen if you voluntarily participate in an off-duty recreational, social, or athletic activity that we might sponsor.

Health Insurance

Our health insurance plan offers medical benefits to regular full-time employees and their dependents.

The eligible employees can enroll in the health insurance plan subject to the terms and conditions of the agreement between KFF and its insurance carrier.

There are more details about our health insurance plan in the Summary Plan Description (SPD). When you become eligible for health insurance, you will receive an SPD and rate information. If you have questions about our health insurance plan, contact the Human Resources Manager for more information.

401(k) Savings Plan

KFF offers a 401(k) savings plan to help full-time employees save for the future and their retirement years.

To be eligible to join our 401(k) savings plan, you must have completed 12 months of service and be 21 years of age or older. You may join the plan only during open enrollment periods. When you are eligible, you may participate in the 401(k) plan subject to all the terms and conditions of the plan.

There are more details about our 401(k) savings plan in the Summary Plan Description. If you have questions about the 401(k) plan, contact the Human Resources Manager for more information.

Timekeeping

Nonexempt employees are responsible for accurately recording the hours they work. The law requires KFF to keep accurate records of "time worked" in order to correctly calculate employee pay and benefits. "Time worked" means all the time that nonexempt employees spend performing their assigned work.

If you are a nonexempt employee, you must accurately record the time you start and stop work, when you start and end any meal periods or split shifts, and when you leave the workplace for personal reasons. Before you work any overtime, you must always get advance approval.

Falsifying time records is a serious matter. You may not change time after it is already recorded, enter a false time on purpose, tamper with time records, or record other employees' time for them. If you do any of these actions, you may be subject to disciplinary action, up to and including termination.

If you are a nonexempt employee, you should not start working more than 15 minutes before your scheduled start time. You should also not continue working more than 15 minutes after your schedule end time. You can only you can start earlier or work later when your supervisor approves it in advance.

Nonexempt employees must sign their time records to say they are accurate. Each supervisor will review and initial the time record before submitting it for payroll processing.

Paydays

All employees are paid biweekly on every other Friday. Each paycheck includes pay for all work performed through the end of the previous payroll period.

If a payday falls on a weekend or holiday, you will be paid on the last work day before that payday. If you are on vacation on payday, you will get your paycheck when you return.

KFF has a direct deposit program. Direct deposit means that we will deposit your pay directly into your bank account if you authorize it. On paydays, instead a check, you will get a statement explaining how much you were paid and all the details.

Work Schedules

There are different work schedules at KFF. Your supervisor will tell about your work schedule.

Our staffing needs and work demands may require that we change the starting and ending times of work schedules. We may also need to change the number of work hours that are scheduled each day and week.

Smoking

KFF prohibits smoking throughout the workplace. This policy applies equally to all employees as well as to our customers and visitors.

Employee Conduct and Work Rules

We expect you to follow certain work rules and conduct yourself in ways that protect the interests and safety of all employees and KFF.

While it is impossible to list every action that is unacceptable conduct, the following lists some examples. Employees who break work rules such as these may be subject to disciplinary action, up to and including termination of employment:

- Falsification of timekeeping records
- Working under the influence of alcohol or illegal drugs
- Possession, distribution, sale, transfer, or use of alcohol or illegal drugs in the workplace, while on duty, or while operating employer-owned vehicles or equipment
- Fighting or threatening violence in the workplace
- Insubordination or other disrespectful conduct
- Violation of safety or health rules
- Smoking in prohibited areas
- Sexual or other unlawful or unwelcome harassment
- Unauthorized absence from work station during the workday

- Violation of personnel policies
- Unsatisfactory performance or conduct

Since your employment with KFF is voluntary and at will, you may terminate your employment at any time you want, with or without cause or advance notice. Likewise, KFF may terminate your employment at any time, with or without cause or advance notice.

Attendance and Punctuality

We expect KFF employees to be reliable and punctual. You should report for work on time and as scheduled. If you cannot come to work or you will be late for any reason, you must notify your supervisor as soon as possible.

Unplanned absences can disrupt work, inconvenience other employees, and affect productivity. If you have a poor attendance record or excessive lateness, you may be subject to disciplinary action, up to and including termination of employment.

Personal Appearance

Personal appearance means how you dress, how neat you are, and your personal cleanliness standards. Your personal appearance can influence what customers and visitors think about KFF. Personal appearance can also impact the morale of your co-workers.

During business hours or whenever you represent KFF, you should be clean, well groomed, and wear appropriate clothes, including any uniforms that we provide. This is particularly important if your job involves dealing with customers or visitors in person.

If your supervisor finds that your personal appearance is inappropriate, you will be asked to leave work and return properly dressed and groomed. If you are asked to leave, you will not be paid for the time you are away from work. See your supervisor if you are not sure about the correct clothing standards for your job.

Where necessary, KFF may make a reasonable accommodation to this policy for a person with a disability.

[^Top](#)

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