

## Operations

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### Purchasing

There is no purchasing department in any of the stores although standard purchasing procedures are in place. Each of the three department managers in each store determines requirements for the items their department sells and places purchase orders directly with suppliers using a purchase order form that is standard between the three stores. It is the responsibility of the Department Managers to obtain the best price, quality, and delivery possible. They also receive and verify all orders in terms of whether they received the correct items and quantities and in undamaged conditions. Received items are documented on an Order Received form and sent to Accounting so that invoices for the items can be paid.

The three department managers are encouraged to check with their counterparts at the other stores on the pricing, quality, and delivery of the merchandise they order. They are also encouraged to combine orders between their stores if they feel there would be a cost savings resulting from ordering a larger quantity of a particular item or multiple items.

Kathy also places purchase orders. Kathy's purchases relate mostly to unique, capital, or repair items that might be required by an individual store or for items used by all three stores, such as bulk Purchase Orders or Receiving forms.

Prepared purchase order forms are either mailed, handed to supplier salesmen, faxed to suppliers, or sent by E-mail if acceptable to suppliers. Whatever the method used, a purchase order form is always filled out initially and becomes the key tracking and financial document for an order.

### Advertising

Advertisements are prepared for local newspapers by Kathy. Advertised specials are offered at all three stores simultaneously. Kathy coordinates the items on sale with the store managers from each store during her weekly operations review meetings to make sure adequate supplies of merchandise will be on hand. Merchandise can be shifted between stores should one store have a higher demand of an item than another store, time permitting.

### Accounting

Accounting data is collected by the point-of-sale terminals (cash registers) that are used in each store at check-out to record all items, quantities, prices, taxes and totals for all daily sales transactions.

### Inventory Management

Excess inventory is always a concern since it represents company monies being tied up in merchandise that is not moving or generating further income. Excesses can also lead to write-downs of the merchandise.

The department managers are responsible for maintaining high customer service levels for the items they sell, which means carrying higher levels of inventory, but not excessive service levels. Kathy's policy is that adequate levels of inventory should be maintained to assure that stock-outs do not occur more than 2-3 times a year. This customer service level is discussed during Kathy's monthly operations review meeting and adjustments to merchandise stocking levels made if warranted. A customer service level of 95% has been a general goal for a number of items carried. 95% means that 95% of the time a customer will find merchandise available in a store. 5% of the time there will be no merchandise due to a previous stock-out. The store decides on an item-by-item basis whether a rain check will be offered customers if an item is out of stock.

## Forecasting

Forecasting which items to carry and how much to carry in the future has always been a challenge. Kathy and her department managers utilize historical data on which items and what quantities were sold in the last 2-3 years, especially on holidays. This provides an indication of which items and what quantities to carry in the future. Forecasts are basically an extrapolation of past history to the future. In an increasing sales market, the trend extrapolating forecast works fairly well. The difficulty has always been in determining the forecast's turning points, from increasing sales to decreasing for example, since significant errors can occur at these points. This is a reoccurring topic in monthly operations review meetings in which monthly sales are reviewed for the last year and monthly forecasts prepared for the next three months, a quarterly forecast for the quarter after that, and for six months for the next six-month period after that. The accuracy of this forecasting method has not been as good as desired and has resulted in the obsoleting of some merchandise and in offering others at drastic discounts.

## Merchandise Selection and Pricing

The Kudler stores are no different from any other store in that business success is geared to being able to provide total customer satisfaction. One way to satisfy customers is to offer a changing selection of gourmet foods as they become available since customers always appear to be demanding something new. Kathy considers one of her key responsibilities to be that of identification of new gourmet items that can be offered in her stores. To keep up with what's available, Kathy monitors what other gourmet foods stores are offering, what's being advertised in gourmet magazines, what is being shown at gourmet conventions, and what shows up on gourmet Web sites.

After finding some new and interesting items, Kathy usually obtains a small amount of each item and introduces them at one of her operations review meetings. The managers attending the meeting get to sample the items and to offer their comments, suggestions and recommendations on whether to offer the items or not.

In checking on all the new items, especially on what competitors are offering, Kathy is also in a position to determine what current selling prices for the items are. With this information, Kathy and her staff then discuss if and when merchandise prices should be changed and by how much.

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