

CONTROL OF GROCERY INVENTORIES  
IN THE FOOD CHAINS

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## CHAPTER I

### AN APPROACH TO THE STUDY OF GROCERY INVENTORY CONTROL IN THE FOOD CHAINS

#### Introduction

Since King Kullen opened the doors of his first supermarket, the food industry has been characterized by high volume, low margin selling. Emphasis is increasingly being placed on attaining high rates of stock turnover so the companies can operate on less capital, lowered interest charge on inventory, maintain fresher stocks, reduce expenses, reduce the loss from spoilage, and meet market changes and thereby reduce risk.<sup>1</sup>

The efforts of the food chains to constantly increase stock turnover have focused additional attention on the problem of inventory control. Several recent studies have been made at store level concerning the rates at which items are selling.<sup>2</sup> These studies have disproved the popular conception that most of the items carried by the food chains are fast movers. In addition, these studies have

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<sup>1</sup>Norris A. Brisco, Principles of Retailing (New York: Prentice-Hall, Inc., 1929), p. 148.

<sup>2</sup>The studies specifically referred to are "The Food-town Study" published by Progressive Grocer in 1955 and "The Super Valu Study" that is currently being published by Progressive Grocer.

caused many questions to be raised concerning the control of inventories from the standpoint of the variety and quantity needed to maintain selling efficiency.

Need for the study. When one considers that retail shrink cost The Kroger Co. an estimated \$7,300,000.00 during the operating year of 1957, the problems of inventory control became very significant. This means the company lost nearly \$20,000.00 in merchandise per day.<sup>3</sup> Of course, this figure is the combined results of factors inherent in both the operating and accounting control of inventories. Nevertheless, it does point out the importance of the problem.

The importance of operating control of inventories is summed up in the following statement by Mr. Leonard C. Hobert, assistant comptroller of Gimbel Brothers, Incorporated:

Retail stocks represent one of the largest single assets in a retail store and therefore, it is important that they be kept at a minimum and yet be adequate to maintain the planned sales volume.<sup>4</sup>

Retailing probably feels the impact of good or poor inventory control more directly than any other type of business. A study of the du Pont Company's chart, "Relationship of Factors Affecting Return on Investment," reveals

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<sup>3</sup>Personal interview with Mr. Albert E. Rain, Director of Grocery Merchandising, The Kroger Co., Cincinnati, Ohio, April 23, 1958.

<sup>4</sup>Leonard C. Hobert, "Merchandise Planning and Control," Readings in Cost Accounting, Budgeting, and Control, William E. Thomas, Jr. (ed.) (Cincinnati: South-Western Publishing Co., 1955), p. 659.

that there are two basic factors affecting this return: stock turnover and earnings as a per cent of sales.<sup>5</sup> Since the food chains have relatively small permanent investments in relation to sales, inventory control becomes a prominent factor affecting return on investment. Furthermore, good inventory control measures will also affect the earnings as a per cent of sales.

The purpose of the study. The purpose of this study is to determine the methods used to control grocery inventories. The basic objective of inventory control is to maximize return on inventory investment.<sup>6</sup> Achieving this objective requires that the component factors of quantity, gross margins, and variety be controlled.

The quantity of inventory necessary to maintain sales is generally considered the most important facet of inventory control. Of particular interest in this area of inventory control is the possible trend toward automatic reordering for both the warehouses and the stores.

The department stores have long recognized the importance of variety as a factor of inventory control. However, the food industry has been less inclined to consider this factor as important. This is due in part to the myth that

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<sup>5</sup>Ibid., p. 755.

<sup>6</sup>Personal interview with Mr. Pain.

all grocery items are fast movers, and the fact that there has been a tremendous increase in the number of items carried during the past fifteen years. The food chains are placing more emphasis on variety today than in the past. One of the trends noted in 1957 by food retailers was that items and brands need reappraisal to determine if the variety of present inventories is adequate.<sup>7</sup>

This study lends insight into the factors affecting inventory control and some of the methods and systems used to control quantity, variety, and gross margins.

Limitations of the study. A complete study of inventory control in the food chains would cover the control exercised from the time merchandise is bought and placed in the warehouse until it is sold at the retail store. However, this scope is too wide to be handled in this study. The major emphasis of the study is placed on the buying and merchandising control of grocery inventories warehoused by the food chains. Such areas as physical control, store level control, direct store delivery control, et cetera, have been deleted from this study. Many specific areas of

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<sup>7</sup>"Ten Trends Noted by Food Retailers in 1957," Progressive Grocer, April, 1958, p. 12.

this total problem have been researched or are being researched currently.<sup>8</sup>

Methodology. The specific control systems described are those utilized by various divisions of The Kroger Co. Information concerning procedures and objectives is based on material obtained through personal interviews and letters and the writer's personal experience as an assistant grocery buyer. The theoretical background material as well as some information concerning other systems was obtained from numerous secondary sources in the library.

#### The Nature and Purpose of Control

The word control, as used in the business sense, has a dual meaning. It is commonly used interchangeably to describe both the systems and function of control; therefore, a short discussion and definition of control as used in this study is needed.

The following statement, written by Henri Fayol, is one of the most frequently quoted definitions of control.

The control of an undertaking consists of seeing that everything is being carried out in accordance

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<sup>8</sup>Some of the studies that have been made in this area are: Lawrence Milton Berry, "Pilferage Control Within A Retail Food Chain Supermarket" (unpublished Master's thesis, Michigan State University, 1953); Woodrow Harrison Joyner, "Inventory Control In the Retail Operation of A Grocery Chain Store" (unpublished Master's thesis, Michigan State University, 1953); and Frank Wordley Tuppeny, "Inventory Control Techniques for A Grocery Warehouse" (unpublished Master's thesis, Michigan State University, 1952).

with the plan that has been adopted, the orders which have been given, and the principles laid down. Its object is to point out mistakes in order that they may be rectified and prevented from occurring again.<sup>9</sup>

E. F. Fitzmaurice, director of method planning, General Foods Corporation, wrote an article entitled, "The Essence of Control." In this article he draws an example of a one-man operation that grows into a two-man operation. The conclusion reached in the article is that "the moment he [the owner] hires someone to help him, he must start some means of control."<sup>10</sup> The main theme of this article is that assigned responsibility must be controlled and the essence of control is controlling the performance of people. In reality the man (he was producing, selling, and delivering) had to exercise control when he was performing all three functions himself. In some manner it was necessary that he control the amount he produced, the quality of the product, the cost of the product, the delivery cost, et cetera. The only difference being that he set the standards and exercised the control on himself.

Ralph C. Davis defines control as,

the function of constraining and regulating business activities in accordance with the requirements of a business plan so that the final objectives of a business project may be achieved with the maximum practicable economy and effectiveness.<sup>11</sup>

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<sup>9</sup>Thomas, Jr., op. cit., p. 84.

<sup>10</sup>Ibid., pp. 82-89.

<sup>11</sup>Ralph Currier Davis, Industrial Organization and Management (New York: Harper and Brothers, 1940), p. 106.

There are two points of significance in this definition of control. This definition conceives control as a method to regulate a phase of business as well as people. Secondly, there is a degree of flexibility present in this concept. Provision is made for changes needed to compensate for various situations that might occur that would affect the profit of the activity.

"While establishing standards is not a function of control, it tends to precede the development of control."<sup>12</sup> In order to have meaningful control measures, there must be some standards established by a basis of judgment. This does not mean, however, that these standards are necessarily used to judge human performance. For instance, for control purposes it may be decided that a new product must yield a certain sales volume on a test to be approved as a regular item.

Wherever there are business activities that require control, their constraint and regulation require the performance of eight organic functions of control: routine planning, scheduling, preparation, dispatching, direction, supervision, comparison, and corrective action.<sup>13</sup> Mr. Davis defines these functions as follows:

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<sup>12</sup>Ibid., p. 121.

<sup>13</sup>Ralph Currier Davis, The Fundamentals of Top Management (New York: Harper and Brothers, 1951), pp. 647-652.





Routine planning. The routine provision of information concerning the particular plan that is to be executed.

Scheduling. To determine when or at what rate the principal phases of the plan must be completed to meet the final time objective of the project.

Preparation. The function of assuring that the factors and conditions required for the execution of the plan will be available as needed.

Dispatching. The function of assuring proper coordination through controlling the release of authority to act.

Direction. The function of instruction concerning the requirements for proper execution of the plan.

Supervision. The function of assuring that execution is taking place in accordance with plans and instructions.

Comparison. The function of determining the degree of agreement between actual and planned results.

Corrective action. The function of promptly removing any interferences with planned execution and of restoring effective coordination.<sup>14</sup>

The first four of these functions (routine planning, scheduling, preparation, and dispatching) tend to be performed in advance of the execution of a particular action. These functions are descriptive of a mechanical type of control in which a specific system is initiated and there is little or no deviation desirable. Such systems as billing and cost control depend largely upon the execution of these functions.

The latter functions are known as concurrent functions because they occur while a particular action is in progress.<sup>15</sup>

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<sup>14</sup>Ibid.

<sup>15</sup>Ibid.

These functions provide for the changes needed to achieve the final objectives of the company.

The objectives of the organization are defined broadly in the company policies. The need for control is derived both from the need to meet these objectives and from the assignment of responsibility for the activities. The standards are derived in part from company policy and in part from historical data. The purpose of control then becomes twofold: (1) to judge the performance of an activity, and (2) furnish information by which the direction of the activity can be changed to achieve the desired or improved results. The purpose of a particular control will determine the nature of the control in that the purpose will indicate the degree of control necessary. Some of the factors involved in determining the degree of control will be: flexibility needed, working capital available, personnel involved, and the existing organizational structure.<sup>16</sup>

#### Inventory Control Defined

The problem of inventory control contains two separate and distinct components: (1) accounting control of inventories, and (2) operating or merchandising control of inventories.<sup>17</sup> Each of these components is equally important.

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<sup>16</sup>William E. Fitchie, Production and Inventory Control (New York: The Ronald Press Co., 1951), pp. 7-20.

<sup>17</sup>David R. Anderson, Practical Controllershship (Chicago: Richard D. Irwin, Inc., 1951), pp. 325-337.

If either component is neglected, it may cost the retailer many thousands of dollars.

Accounting control. The accounting phases of inventory control entail those measures taken to account for and report on the existing status of inventories. These include the physical inventory, the perpetual inventory, methods of cross checking invoices and purchase orders, and the interim records and reports that accounting can make available concerning inventories.

Until quite recently, the food industry has been more concerned with the accounting control than with the operating control of inventories. This has been manifest in many ways. Inventory control measures in the food industry have been used primarily to protect investments and as a standard for judging human performance. The performance of store managers has been, and to a large extent still is, judged mainly on their ability to control retail inventory shrink. The grocery merchandiser is judged by sales performance and by the mark-up the grocery department maintains on merchandise moving out of the warehouse. Most of the records and reports concerning inventories have been designed to measure human performance.

The end result of accounting control is the interim records and reports that accounting can make available concerning inventory status. Accounting control is an organized method of obtaining, recording, and interpreting

desired merchandising facts and information. However, this alone does not constitute control, but rather is the basis for control.<sup>18</sup>

Merchandising control. Very little has been done to use inventory control as a merchandising tool. "The Food-town Study" and "The Super Valu Study" were fore runners of this application of inventory control. Even though these studies were conducted primarily for purposes of space allocation at store level, they have had a considerable impact on other phases of the total problem of inventory control.

Only recently, as a result of the tight money market and rapid expansion, has considerable effort been placed on controlling the level of inventories. The Kroger Co. now charges interest to the divisions at the rate of four per cent on the excess of a budgeted inventory level. This interest charge is passed on to the stores. The objective of this charge is to control the level of inventories. As a result, the divisions are making a more conscious effort to control inventory levels and are more critical of the items carried by the stores.<sup>19</sup>

Merchandising control is defined in part as "the maintaining of inventories, at the optimum level, considering

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<sup>18</sup>Ibid.

<sup>19</sup>Personal interview with Mr. Pain.

operating requirements."<sup>20</sup> These levels should be determined consistent with the firm's objectives to:

1. Render service to the customers.
2. Make effective use of capital.
3. Minimize loss as a result of mark-downs.
4. Maximize sales efficiency by having items available when needed and replaced before out-of-stocks occur.
5. Maximize economy in purchasing by making the most effective use of quantity buying and still maintain a favorable position in regard to stock turn-over and price declines.<sup>21</sup>

Merchandising control of inventories is the action taken by management as a result of analysis and interpretation of pertinent data available.

Control measures may be used to protect capital investment, judge the performance of individuals, as a merchandising tool, or may encompass all three. The nature of the inventory control system will be determined by management's appraisal of which control usage is the most important.

The entire function of inventory control is an attempt to correlate and coordinate several actions. It is not possible to perceive inventory control as a static system. Instead, there is a constant state of flux in which interim results are measured and evaluated and changes made in order to meet the basic objectives. While the emphasis in the

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<sup>20</sup> Anderson, op. cit., pp. 325-337.

<sup>21</sup> Ibid.

past has been on the accounting control of inventories, future emphasis will probably be placed on merchandising control as well. Therefore, using these concepts of control and control systems, inventory control is defined as: Any action taken by management, based on policy, to coordinate and correlate all activities concerning inventory to achieve the company's objectives. This action can be divided into two broad spheres: accounting action and merchandising action.



## CHAPTER II

### EFFECTS OF POLICIES AND ORGANIZATIONAL STRUCTURE ON INVENTORY CONTROL

#### Effects of Policies and Methods

There must be an objective for each business enterprise from which a philosophy of business is derived, based on the theory of trusteeship. This business philosophy is necessary to guide the course of operations.<sup>1</sup>

The supermarket philosophy of high volume sales and low margins of gross profit, along with good inventory control measures, has enabled food chain operators to achieve very high stock turnover rates. This does not mean that achieving high rates of stock turns is an end objective in itself. It is only a part of an over-all objective of the food chains to maximize return on inventory investment.

General policies. In order to achieve the end objective of maximum return on investment, certain basic policies pertaining to buying and merchandising must be established. One definition of policy is, "an established guiding cannon premised on objective, devised to govern the activities of business and from which the basic precepts of conduct are derived."<sup>2</sup>

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<sup>1</sup>John G. Glover, Fundamentals of Professional Management (New York: Republic Book Co., Inc., 1954), p. 56.

<sup>2</sup>Ibid., p. 57.

The buying and inventory policy outlines for the Kroger Co. are:

1. To buy merchandise that meets established Kroger standards, measures up to quality in terms of established grades, and at competitive prices or below.
2. To accomplish the fastest possible turn rate, short of causing out-of-stocks on available merchandise.
3. Considering such factors as extra trucking, outside storage costs, rehandling, and extra investment, to buy in the most economical quantities.
4. To avoid forced distribution of merchandise to the stores.<sup>3</sup>

These policies outline very broadly the objectives of the company to buy quality merchandise; maintain minimum, but adequate stocks; and to buy as advantageously as possible. These are the general objectives of food chains. Attaining these objectives is not a simple matter for there are several opposing factors which must be resolved. Because of these factors, policies on the division level are stated in broad terms that allow freedom for discretionary action on the part of the operating executives. As a result of such freedom of action, a balance between seemingly opposite alternatives is achieved.

Brand policies. The brand policies that an organization pursues will have some effect on inventory control.

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<sup>3</sup>The Grocery Buyer's Manual (Cincinnati: The Kroger Co., 1942). (Mimeographed.)

There is considerable evidence that national brands do attain higher rates of stock turns for the retailer than distributor brands. Both Publix Markets and Thorofare Markets, who carry national brands exclusively, achieve much higher stock-turn rates than their competitors who carry both distributor and national brands. In fact, Publix Markets achieved almost twice the number of stock-turns during 1956 as the average food chain.<sup>4</sup>

The retailer carrying distributor brands often has an opportunity to enjoy higher gross margins on these products. In addition, he may be able to avoid a certain amount of direct price competition and build some repeat patronage for his stores because of these exclusive brands. In return he may expect to have higher promotional costs and to perform the quality control function.<sup>5</sup>

Distributor brands do not require large inventory investments for the operating divisions of a large food chain. Distributor brand merchandise carried by the various divisions of Kroger is ordered on the same turnover basis as the manufacturer brands; therefore, there is no penalty imposed on the division as a result of having the distributor brand.

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<sup>4</sup>"Publix Rides the National Bandwagon," Super Market Merchandising, October, 1957, pp. 69-85.

<sup>5</sup>E. A. Brand, et al, Functional Analysis of Food Distribution (East Lansing, Michigan: Campus Book Store, 1958), pp. 38-44.

Some heavily promoted distributor brands may out sell their national brand counterparts. For example, during 1957, Spotlight instant coffee totaled 38.7 per cent of the total instant coffee sales in the Kroger stores as compared with 29.1 per cent of total instant coffee sales for all sizes of the largest selling national brand of instant coffee.<sup>6</sup> The total grocery sales for the Kroger Company during 1957 was made up as follows: 43.9 per cent distributor brand merchandise, 34.9 per cent advertised brands, and 21.2 per cent packer label merchandise. This can only mean that in the Kroger stores, the distributor brands far out sell their national brand competitors.

Distributor brands ordinarily do not carry floor stock protection against declines in market prices.<sup>7</sup> The significance of this factor with respect to inventory control is that the retailer must absorb any and all price declines, thereby running the risk of losing his profit in the event of a price decline.

Quantity versus turn over. Buyers today are not as prone to adhere to strict turnover policies as in the past. Mr. L. C. Woerner, buyer for the Columbus division of Kroger stated that:

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<sup>6</sup>Personal interview with Mr. Albert E. Rain, Director of Grocery Merchandising, The Kroger Co., May 23, 1958.

<sup>7</sup>Brand, et al, op. cit., p. 40.

There are times when it is necessary to buy into the market in order to protect your competitive position. An example of this is the recent freeze in Florida. The price of frozen orange juice was certain to advance. We must be able to hold our retail price down as long as possible; therefore, it was necessary to buy larger than normal quantities. This is especially true if our competitors have bought up large quantities at the lower cost.<sup>8</sup>

There are times when the difference between truck-load and carload prices is very substantial. Mr. Woerner cited another example where he bought a carload of paper plates, although he knew this would necessitate carrying heavier stocks for approximately thirty days. However, the difference in quantity discounts was more than enough to offset the additional cost of carrying the inventory.

Canners frequently offer early buying allowances as an inducement for retailers to buy heavily early in the season.<sup>9</sup> The Campbell Soup Company's offer on tomato soup is the most outstanding example of this practice. While the pack is in progress, Campbell offers tomato soup at a substantial discount if delivery on the merchandise is taken immediately.

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<sup>8</sup>Personal interview with Mr. L. C. Woerner, Grocery Buyer, Columbus Division, The Kroger Co., April 23, 1958.

<sup>9</sup>This is commonly called a seasonal allowance. For a discussion of various terms and discounts in buying, see Brand, et al, Functional Analysis of Food Distribution, op. cit., pp. 13-20.

Quite often manufacturers advise buyers when the cost of merchandise is scheduled to increase and allow orders to be placed at the old cost. These cost increases are published; therefore, the buyer is protecting the competitive position of the company by taking advantage of the offer to buy at the lower cost.

In analyzing any of these opportunities to buy in larger than normal quantities at lower prices, the buyer must consider many different factors such as the competitive situation, the possibility of price declines, and the cost of carrying the inventory. A rule of thumb used by the Kroger Co. is that it costs at least one per cent per month to carry an inventory.<sup>10</sup>

Deal packs.<sup>11</sup> Retailers generally object to deal pack merchandise since it may duplicate stocks and cause heavier inventories. This objection is made on the premise that large quantities of deal pack merchandise are bought each time. If this is true, and the deal pack is handled as a separate item, stocks will be duplicated. The regular merchandise remains in the warehouse until all the deal pack is sold. If the chain follows a policy of buying deal packs only when needed to replenish regular stocks and bills

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<sup>10</sup>The Grocery Buyer's Manual, loc. cit.

<sup>11</sup>Deal packs include any manufacturer's promotional deals such as off-labels, special packs, etc. that generally require special handling for accounting and/or merchandising purposes.

deal packs on the same code number as regular merchandise, then the effects on inventory level will be negligible.<sup>12</sup> This indicates that deal pack policies will affect inventory levels.

Distribution policies and methods. Some chains use forced distribution as a means for allocating promotional merchandise. While this policy may tend to ease the problem of quantity at the warehouse level, it may complicate the inventory problem at the store level. The buyer who knows that all promotional merchandise bought will be sent to the stores may be less aware of promotional failures and resultant overstocked conditions in the stores. If a promotion fails during one week, the stores have little or no opportunity to adjust the following week's orders and thereby control inventory levels. As many as four to six weeks may elapse before adjustments are made.

Conversely, allowing stores complete freedom of ordering places pressure on the buyer to estimate the amount of merchandise needed for promotions. However, an overstock in a central location is easier to handle than an overstock spread among the stores, because the merchandiser can reschedule a promotion at a later date, advertise the item, and move the merchandise. If an overstock is

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<sup>12</sup>This is the policy followed and the results achieved by the Indianapolis division of The Kroger Co.



spread among the stores, the merchandiser does not know how much merchandise is available or if a subsequent promotion can be successfully scheduled.

Increasing the frequency of store orders can, but does not necessarily, decrease the amount of inventory carried and increase the rate of stock turnover by improving the flow of merchandise through the distribution center to the stores. Hillman's Incorporated deliver to all stores on a daily basis and have been able to effect substantial decreases in inventory with resultant increase in stock turnover. Since 1951, grocery sales volume has doubled, but warehouse inventory is down fourteen per cent. Reserve stocks generally carried by the stores have been reduced substantially.<sup>13</sup>

#### Effects of Organizational Structure

Most retail organizations are divided into two logical spheres of activity: operations and merchandising. At the store level it is difficult to distinguish between operating and merchandising responsibilities. The operations department of the organization is responsible for the actual operations in the stores, including sales and profits. As such they have a responsibility for implementing the merchandising plans and a definite interest in merchandising results.

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<sup>13</sup>Gardner H. Stern, Jr., "Absolute Minimum Stockroom Inventories Is Our Answer," Super Market Merchandising, March, 1958, p. 64.

Both the buying and selling functions fall under the general heading of merchandising. While there is still some distinction between these functions at division level, in ninety-three per cent of the large companies (thirty stores or more), the merchandiser supervises the buying function.<sup>14</sup> The merchandiser has on his staff buyers who are specialists in their field of buying, sales promotion specialists, and in some cases retail store merchandising assistants. Through his staff, the merchandiser is able to exercise control over the buying, promotion, and merchandising of goods in the stores. Because he is in a position to coordinate the efforts of these functions, inventory control may be affected by organizational structure.

The most common type of supervisory structure in the food chains from division to store level consists of either the single or dual line structure. A third and newer type of organizational structure is beginning to evolve as a result of decentralization of management by the larger companies. Although there is no formal name for the newer type organizational structure, it is best described as a functional type organization. For purposes of discussion, the single and dual line organizations will be called district manager type organizations and the functional type a zone manager type organization.

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<sup>14</sup>"The Merchandiser. . . Wizard of Promotion," Super Market Merchandising, January, 1958, p. 46.

Description of the district manager type organization.

The district manager in the typical chain organization will have approximately fifteen stores to supervise the operations and merchandising of the grocery, produce, and (depending if single or dual line) the meat department.<sup>15</sup> In his role as supervisor, the district manager is expected to supervise all phases of the operations and merchandising of these stores. In this type of organization, the merchandiser must depend upon the district manager to insure that important merchandising plans such as space allocation and over-all control of store inventories are being followed. Because of the size of some operating divisions, it is impossible for the merchandiser to visit stores frequently; yet he is responsible for merchandising in the stores.

Description of the zone type organization. This type of organizational structure is more common to the smaller regional type chains than the larger chains. Such companies as Marsh Foodliners of Yorktown, Indiana have been using this type of organizational structure for a long time.<sup>16</sup> In

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<sup>15</sup>In the dual line organization there are two supervisors for each store: one for the grocery and produce department and one for the meat department. However, the supervisors in this type organization are responsible for both the operations and merchandising of the departments.

<sup>16</sup>Dan Simpson, "Merchandising Through the Organization," Super Market Merchandising, January, 1958, p. 53.



this type of organizational structure there are field sales managers in addition to the zone manager.

The zone manager is the line executive in the organization, i.e. he has line authority over the store manager. He is responsible for the over-all operations of the store; however, his main area of interest is controlling the store operating expenses. The zone manager cannot, however, disregard merchandising because operating budgets are built around expected merchandising results. Because he is responsible for both sales and profits in the stores, the zone manager must have more than a passive interest in merchandising plans and results.

Each of the field sales manager works directly under the respective merchandisers of grocery, produce, and meats, and has no outside interests such as administration. The field sales manager is the functional merchandising arm of the merchandiser and maintains constant contact with the stores in the division.

Comparison of the two organizational structures. If there is one phrase in the food industry that gets constant use, it is "follow through." This phrase marks the real distinction between the district and zone type organizational structures. The grocery merchandiser can devise some of the best sales and merchandising plans, but without proper follow through at the store level, these plans are worthless. Because of his many and varied duties, the

district manager is unable to give his full attention to all departments. Quite often he is buried with a maze of operational problems and has very little time to devote to the merchandising problems of the stores. On the other hand, the main responsibility of the field sales manager is to see that the stores are properly merchandised. The field sales manager is able to maintain close contact with the stores and insure that follow-through is being achieved at the store level for the various merchandising plans. In addition, the grocery merchandiser receives reports through the field sales managers from nearly every store within a division and is, therefore, in a better position to know the merchandising needs of the stores.

There are several ways in which this direct store contact aids the merchandiser in maintaining better control of inventories. In some cases the field sales manager may be a part of the new item buying committee and, therefore, be able to provide first hand knowledge of store conditions. Important merchandising plans such as space allocation are more closely supervised with the result that over-all division results can be improved. The merchandiser is able to extend his authority directly to the store level through the field sales manager.

#### Summary and Conclusions

The general policies of the food chains form the basis for inventory control by providing the objectives and the

general direction for action by the operating executives. At the division level policies are stated in broad terms that allow considerable freedom for discretionary action on the part of the operating executives. This freedom of action is necessary in order that opposing alternatives concerning brands, quantity versus turnover, and deal packs can be resolved to the best advantage at the given time.

Buyers today are less prone to adhere to strict turnover policies as in the past. The buyer is constantly faced with opposing alternatives which he must resolve. A few years ago, buying on the expectation of a price increase was uncommon; however, today it is an accepted part of the buyer's job to determine if such action is needed. The ultimate objective to maximize return on investment will be the buyer's primary consideration in selecting an alternative action.

Distribution policies have direct effects on inventory levels. By making frequent store deliveries it is possible to improve the flow of merchandise to the stores and thereby decrease the amount of inventory carried at both the store and warehouse levels. Forced distribution may improve the flow of merchandise out of the distribution center, but complicate the problem at the store level.

The buying function in the food chains is either subordinated to the merchandising function or integrated with it. Very few organizations still maintain a separation of

these two functions. In addition, the merchandiser in today's food chain organization is responsible for the inventory from the time it is bought until it is ultimately sold.

The type of supervision the merchandiser is able to maintain over the stores also affects inventory control. With the district manager type organization, the merchandiser is unable to extend direct control over the stores, whereas the zone organization does offer this opportunity. The merchandising plans of an organization are only as good as the follow-through achieved at the store level.



## CHAPTER III

### INVENTORY CONTROL SYSTEMS, RECORDS, AND REPORTS

Profitable operation of a chain organization has always been greatly influenced by the methods used to control inventory, bill shipments, and furnish management with necessary facts.<sup>1</sup> Billing merchandise to the stores and maintaining a perpetual inventory of stocks currently in the distribution center have been and still are major problems for the food chains.

#### The Evolution of Billing Systems

There have been many mechanical improvements in billing systems since the days of the hand written invoices. One of the first was the combination of the hand written invoice with the use of mechanical computers to tabulate the total amounts of merchandise shipped and to determine the new balance of stocks in the warehouse.<sup>2</sup>

The use of tabulating machines in the food industry dates back to the 1920's. These machines utilize punched

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<sup>1</sup>"RAMAC for the Chain and Wholesale Industry, Featuring In-line Data Processing" (New York: IBM Corporation, n.d.), p. 3.

<sup>2</sup>Personal interview with Mr. Orland Parsons, Tabulating Supervisor, Indianapolis Division, The Kroger Co., March 25, 1958.

cards as a source of information for printing invoices and then use the same cards to calculate and print an inventory report. The use of various types of tabulating equipment has spread rapidly, until today most organizations classified as chains use some type of tabulating equipment for inventory control purposes.<sup>3</sup>

There have been no major changes in these processes until quite recently. These recent changes can be divided into two categories: (1) changes in store order systems, and (2) changes in methods of data processing. Recently some companies began using mark-sense cards for store ordering purposes. When used with a card-order converter, this eliminates the need for manually punching information into the cards used in the billing system.<sup>4</sup> The Denver division of Safeway Stores has begun experimental use of a teletype order system that accomplishes the same advantage as the mark-sense system.<sup>5</sup>

The tub-file billing system was one of the first punched card methods for billing store shipments and

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<sup>3</sup>Stephen A. Wasser, "A Study of Selected Tabulating Machine Procedures in the Chain Supermarket Field" (unpublished Master's thesis, Michigan State University, East Lansing, Michigan, 1956), p. 5.

<sup>4</sup>"Card Order Plan with the IBM Card Order Converter" (New York: IBM Corporation, 1955), pp. 1-13.

<sup>5</sup>"Communications the Fastest Way," Super Market Merchandising, January, 1957, pp. 104-108.

inventory control introduced into the food chains. Using this method for billing orders, each store's order is processed separately. The batch billing system was devised to obtain more and more timely reports for management. However, at a recent conference of Kroger division controllers, the tub-file system was preferred to the batch system. In fact, some divisions are considering converting back to the tub-file system.<sup>6</sup>

International Business Machines Corporation (IBM) recently introduced PAMAC,<sup>7</sup> a system which supposedly combines the advantages of both the tub-file and the batch billing systems and Remington Rand has introduced the file computer process. To-date, the installations of these systems are so new that valid conclusions regarding their value cannot be drawn. However, The Kroger Co. has plans to equip four divisions with PAMAC installations and one PAMAC is already in operation.

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<sup>6</sup>Personal interview with Mr. Herbert V. List, Manager, Retail Store Accounting, The Kroger Co., May 23, 1958. It should also be noted that the batch billing system requires more equipment (higher rentals) and more technically trained personnel (higher wage costs) than the tub-file billing system.

<sup>7</sup>This is the trade-mark name for Random Access Machine Accounting development by the IBM Corporation. This system utilizes electronic data processing and requires a special accounting machine called PAMAC. Remington Rand and others have similar electronic data processing systems.

### Requirements of a Billing System

Regardless of the method or type of equipment utilized, the following basic operations need to be performed by a billing system:

1. an invoice must be printed for the stores,
2. a perpetual inventory of warehouse stocks maintained, and
3. the billing information summarized into reports required by the buyers and merchandisers for control purposes.

To perform these operations a billing system must provide a means for adding receipts and deducting shipments from the existing inventory, summarizing this information, and converting it to dollar figures.

Generally speaking, food chain buyers and merchandisers are more concerned with unit control than with dollar control. Dollar control becomes important in the analysis of operating results which are considered in a later chapter of this thesis.

There are several reasons why the food chains utilize unit control systems in preference to dollar control systems. For day to day buying and merchandising, unit control offers the following advantages over dollar control.<sup>8</sup>

1. Aids in maintaining balanced stocks. Many items ordered by the buyer are ordered by manufacturer's lines

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<sup>8</sup>For a detailed discussion of unit control versus dollar control, see Herman Fiske Bell, Retail Merchandise Accounting (New York: The Ronald Press Co., 1956), pp. 163-168.

such as Gerber baby foods.<sup>9</sup> Unit control records reveal the approximate number of cases of each item on hand, and/or in transit, and the number of cases of each item required to build stocks back to desired levels.

2. Reveals movement of merchandise. The buyer may know that the total movement of a manufacturer's line totals a carload each week. With unit figures he is able to ascertain which particular items account for the total movement. Within a particular product line such as peaches, the buyer can compare unit movement figures and readily determine which brands and sizes are the fastest sellers. Slow moving items can be detected and eliminated from the line if necessary. This same type analysis can be made for any manufacturer's, commodity, or product line within the total inventory. This can also indicate customer buying habits and consequently, the group of items on which out-of-stocks must be rigidly controlled.

3. Aid in selection of promotional items. If part of the unit control system is the notation of items promoted, the buyer has a ready reference concerning the results of previous promotions and the sale price of the item. Because the buyer can detect the items which are fast sellers, he has an idea which items in a line should be promoted.

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<sup>9</sup>The word lines as used in this thesis will refer to various types of merchandise lines. There are three: manufacturer's lines--merchandise manufactured by an individual manufacturer, the items may or may not be related; commodity line--includes all items in a broad groupings such as vegetables, fruits, juices, etc.; and product lines--includes narrow categories such as peaches, corn, peas, et cetera.

Over a period of time the sales history of each item will reveal when the item attains peak seasonal sales. This type of information can be helpful in indicating when an item can be most successfully promoted.

In addition to the above advantages, unit control figures can be easily converted into dollar figures when the need arises.

#### Controlling Accuracy of In-Put Information Used in Billing Systems

The billing system is the basic information source for quantity control systems and, consequently, the basis of many important merchandising and buying reports. Like all merchandise control systems, unit control can only supply the information upon which judgment may be based; therefore, the information made available should be accurate and pertinent.<sup>10</sup> In order to insure accuracy in the system, it is necessary to control the basic types of information used in the system which are: costs, retails, and quantities of merchandise.

Purchase order control.<sup>11</sup> The purchase order is the basic form utilized to control both the quantity and cost information used in the billing system. This form originates in the purchasing department.

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<sup>10</sup>Bell, op. cit., p. 165.

<sup>11</sup>System used by the Indianapolis division, The Kroger Co.

The purchase order specifies the general description, size, pack, cost, quantity, discounts, and buying terms of the merchandise to be shipped. At the time a purchase order is prepared, two receiver copies are sent to the warehouse.<sup>12</sup> These copies show no quantity or pack; only the description and size of the merchandise. This requires the receiving clerk to write in the quantity and pack of merchandise as it is received; thereby reducing the possibility of his assuming the amount shipped is correct. When merchandise is received, the receiving clerk prepares the receiver in duplicate; sending one copy to the purchasing department and one copy to the billing department.

The copy sent to the billing department is matched with an invoice, the specifications checked, and the quantity (and cost change, if any) recorded on the master card. The master card is then sent to the key punch where the information is punched into cards for use in the billing system.

The copy sent to the purchasing department may or may not be posted to purchasing department records; according to the system used. If a tab-file billing system is used, it is generally necessary for the purchasing department to post receivers, if for no other purpose than to note which orders

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<sup>12</sup>Receiver, as used in this thesis, refers to a written notice prepared by the warehouse receiving clerk that is used to notify billing and purchasing that a shipment of merchandise is physically present in the warehouse.

are still in transit. Posting by the purchasing department is not necessary if the batch billing system is utilized since this information is available on the perpetual inventory report.

Cost and retail information control. Since the purchasing department deals with suppliers daily, it is natural that cost information would originate in this department. Retail prices of merchandise are established in the purchasing or merchandising department; therefore, this information also originates outside the billing department.

Information on changing costs is secured from one of three sources: brokers or sales representatives, direct letter from suppliers, or invoices. The first two sources are known as market changes; the latter being a cost change. The distinction between the two is that a change in a published list cost is called a market change. Upon receipt of merchandise at a different cost, the cost information in the billing system is changed and retail prices are reviewed; hence, the term, cost change.

Because of the many items handled and the nature of food prices, there can be a large number of both market changes and cost changes daily; therefore, it is necessary that some type of system for controlling the accuracy of cost and retail information be utilized. A general system of control may function as follows:



1. Market changes are recorded on stock record cards for all items as they occur.
2. When a cost does change, i.e. merchandise is received at a cost different from the cost currently used in the billing system, the purchase order will so state. This is the authority for the billing department to change the cost information upon receipt of the merchandise.
3. Should merchandise be invoiced by supplier at a cost other than that shown on the purchase order, the invoice and purchase order are checked against purchasing department records. A cost is not changed until verified. This may require a telephone call to the broker or representative.<sup>13</sup>

Co-ordinated with the cost control system is a cost and retail relationship control system. Whenever an item has a cost change, the information is recorded on a cost and retail history card. The card is then sent to the person responsible for establishing retail prices. The card is reviewed and, if necessary, a new retail price is established and a notice sent to the billing department. Regardless of the amount of the cost change, the card is reviewed to be sure that an item does not have two or three minor cost changes without some thought of a retail change. Records in the purchasing department will be changed to note the new cost and/or retail price. The new cost information will then be used on future purchase orders.

### Billing Systems

The ultimate requirements of a billing system are not changed by the methods utilized by a particular chain. The

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<sup>13</sup>System used by the Indianapolis division, The Kroger Co.

differences lie in the timing and ease of obtaining various reports needed by management. Consequently, these differences may affect inventory control and are, therefore, more important than the differences in procedures for each method.<sup>14</sup>

The tub-file method. The tub-file billing system is one of the oldest and simplest billing systems utilized by the chains. The system operates in the manner suggested by the name. A card known as a detail card is filed in a cabinet under the proper code for each unit of merchandise in the warehouse.

The tub-file is the heart of the IBM accounting plan for inventory control in the grocery industry. It constitutes a miniature warehouse from which a general stock condition can be determined at a glance, or a specific stock condition can be obtained in a moment.<sup>15</sup>

An essential feature of this system is that there is a card for each unit of merchandise.

In order to build the inventory when merchandise is received, a card is punched and placed in the file for each shipping unit received; regardless of the source of the receipt. Store orders are prepared for billing by selecting the proper detail card for each unit of merchandise ordered

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<sup>14</sup>For discussion of details of procedures for each system see Wasser, op. cit.

<sup>15</sup>"IBM Accounting, Warehousing Control for the Grocery Industry" (New York: IBM Corp., 1949), p. 7.

by the store. This automatically reduces the inventory on hand and the cards remaining in the file represent the stock that will be left in the distribution center when the order is shipped to the store. Regardless of whether merchandise is shipped to the stores or back to vendors, a card is removed from the file to represent each unit of merchandise being moved out of the distribution center.

Unit control tub-files show inventory position at a glance, simply and without processing. However, a printed inventory record is more difficult to obtain, especially if dollar information as well as quantity is required.<sup>16</sup>

The following are some systems recommended by IBM:

1. Read card numbers in the tub-file and manually record inventory count on a stock record cards.
2. Pull highest numbered card (sequence number punched as well as end printed) for each item from the tub-file. (Optional--combine with previous balance cards and receipts cards to obtain sales.)
3. Periodically total all sales, receipts, and previous balance cards, by item, summary punching new inventory balance card.<sup>17</sup>

The batch system. Because of a need for more timely and better reports, the batch billing system was devised. This system can be best described by pointing out the essential features contrasted with a tub-file system.

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<sup>16</sup>"An Analysis of 'Batch' vs. 'Tub-File' Billing in the Grocery Distribution Industry" (New York: IBM Corp., n.d.), p. 2.

<sup>17</sup>Ibid., p. 3.

1. There is no tub-file with its mass of detail cards.
2. Each card in the system can represent any number of units of merchandise.
3. Inventory balances are maintained and determined by means of a master inventory card, line summary cards, and receiver cards. This information is processed through a calculating machine and a new inventory card derived. This is usually done as each batch is processed.
4. Processing is done in batches. All store orders for a particular day are processed together in a single batch; therefore, the total day's activity on a particular code number can be summarized on one card.
5. Supplemental reports and records can be easily obtained. Daily inventory reports can be prepared quickly and simply from the old and/or new inventory master cards. Current inventory position is always available, quantity and/or dollar valuation. Unlimited modification of inventory reporting and control is possible. This can include such features as:
  - a. signalling of re-order points
  - b. control of on-order amounts
  - c. control of available stock
  - d. reporting on damaged merchandise
  - e. reporting on returns to vendors
  - f. reporting on accumulated sales for any desired period
  - g. reporting on inventory adjustments
  - h. control of size of store order, rationing, allocation, quotas, etc.
  - i. handle price variances which depend upon quantity ordered.<sup>18</sup>

While the batch billing system is much more flexible in regard to inventory reports, it does require that a more rigid schedule of store ordering be maintained. Because all orders for a particular day are processed together in a single batch, flexibility in the processing of store orders is reduced.

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<sup>18</sup>Ibid.

Screened and non-screened billing. Both the tub-file and the batch billing system can be modified to use a screened or a non-screened technique. The main difference between the two techniques is the point at which out-of-stocks are noted. Using the screened technique, store orders are checked against the perpetual inventory to determine if merchandise is available in the warehouse.

Because the cards in the file represent units of merchandise in the warehouse, the screened technique is quite simple with the tub-file system. If there are enough cards in the file to fill the order, there should be enough merchandise in the warehouse to fill the order. If an item is out-of-stock, it will not be printed on the store's invoice.

With a batch billing system the screened technique is more complicated. The calculator tests to see if the inventory is sufficient to ship what is ordered, if so, a control hole is punched to note the filled orders and the pertinent information is punched into each store order card. Should an item be out-of-stock in the warehouse, the calculator suppresses calculation on all store order cards and punches zeros for units shipped, weight, cost, retail, and profit. It does not punch the control hole for filled orders. At the end of this process the new inventory card will contain all the pertinent information concerning the item as a single summary. A printed inventory report, unit or dollars

can be obtained by processing these cards through a printer to print the information. Further calculation is not necessary.<sup>19</sup>

The non-screened technique disregards warehouse stocks and all items ordered are invoiced by the billing department. When the order is being picked in the warehouse, the order picker marks those items not filled and copy of the invoice or a stub is returned to the billing department. Those items not shipped are billed on a credit invoice and the summaries are added back into the inventory in order to adjust the inventory balance back to zero.

The non-screening technique with the tub-file system is well described and evaluated in the following letter received from the comptroller of the St. Louis division of The Kroger Co.

Cards are prepunched on a basis of estimated requirements each day, with no control as to relationship of units in the warehouse. Cards are reused when prices are stable. They are used as an indicator on the order for the warehouse to ship, and for perpetual control; whereas, under a screened principle, the cards in the tubs are the perpetual inventory.

After the day's billing, the cards are sorted and run for a line analysis.<sup>20</sup> The sum total of each line then is the relief to the perpetual. It is as simple as this--beginning inventory each week + receipts for the week, less weekly line analysis for ending inventory.

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<sup>19</sup>"Warehouse Inventory Control for Chain Grocery Companies" (New York: IBM Corp., n.d.), p. 4.

<sup>20</sup>The word line as used in this letter refers to an individual item code number. The analysis consists of summarizing the units shipped, total cost and retail values, etc. for various accounting and inventory reports.

Control procedures under the non-screening principle from a realistic viewpoint, are not as desirable as the screened principle.

We run the perpetual weekly under non-screening, since we feel this achieves our purpose. However, compared with the screened principle, we do not know where we stand each day. Theoretically, of course, we could arrive at our perpetual under non-screening each day, but the clerical effort is not justified.

We are not completely satisfied that non-screening is a solution. Theoretically, merchandising-wise, it appears advantageous, since we bill today everything the stores order, disregarding physical position. If merchandise is temporarily out at the time of billing and it arrives before warehouse selection, the store receives the merchandise. Under screening method, the store would be scratched at billing level, since cards representing the physical are exhausted. Therefore, the store does not receive merchandise, even if the merchandise is received in the warehouse between billing and selection time.

There is considerable card handling under non-screening. From a control point of view, this leaves something to be desired, since there are many more possibilities of error.<sup>21</sup>

The non-screening technique with the batch billing system eliminates the step in which the store orders are tested against the inventory to see if there is enough merchandise to fill the order.<sup>22</sup> All items ordered by the stores are invoiced. The perpetual inventory shown at a particular time is not necessarily accurate because credit summaries are not added back to the inventory until the orders are picked in the warehouse.

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<sup>21</sup>Personal letter from Mr. F. J. Kocar, Comptroller, St. Louis division, The Kroger Co., dated May 2, 1958.

<sup>22</sup>Personal interview with Mr. C. Parsons.

Most merchandisers and buyers favor the non-screening technique because it eliminates the lag between the time merchandise is physically received in the distribution center and the time it begins moving to the stores.<sup>23</sup> For instance, using the screened technique, information concerning receipts is not placed in the billing system until the merchandise is physically present in the distribution center. A minimum of one day, and more than likely two to three days, is required to receive merchandise in the warehouse, write a receiver, process the information in the billing department, and begin invoicing the merchandise on store orders. Another day or two may elapse before the merchandise is stocked on the store shelving.

Using a non-screening technique, merchandise may be in the warehouse only a matter of minutes before it begins moving to the stores. As a general rule, non-screening will eliminate failure to ship merchandise on store orders that is physically present in the distribution center. However, the true physical position is more difficult to ascertain and there is more possibility for errors with this technique.

Perpetual-physical inventory reconciliation. Physical inventories of warehouse stocks are generally taken once or twice each year. The purpose of this inventory is to

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<sup>23</sup>Personal interview with Mr. Rain.



correct any errors that have been made in recording the perpetual inventory. (Corrections are known as inventory adjustments.) The billing department prints a perpetual inventory report and proceeds to check the actual inventory against what is shown on the perpetual records. A list of code numbers of the items to be corrected along with the number of units to be added or subtracted from existing perpetual figures is made. A copy of this report is sent to the purchasing department to up-date their record. The physical inventory process is not complete until all major discrepancies are reconciled. Generally, merchandise is not shipped from the warehouse while physical inventories are in progress.

#### Reports Derived from Billing and Accounting

The foregoing pages have dealt mainly with the billing systems and the information used therein. While the primary purpose of the system is to prepare invoices and maintain a perpetual inventory, there are numerous types of reports and records that can be summarized to aid the buyers and merchandisers.<sup>24</sup> These reports are in addition to the perpetual inventory report which is the basis for reordering merchandise.

This section is concerned with a description of the various reports available to management. The following

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<sup>24</sup>The number and kind of analyses is virtually unlimited. Time and cost are generally the limiting factors.

chapter will be devoted to the use of these reports and records as buying and merchandising tools.

Commodity group analysis report. Perhaps the most important supplemental report is the sales and profit analysis that is made by product groups. This report summarizes the following information for each product group: the total sales at cost and retail, the average gross profit percentage, and sales of the product group as a per cent of the total sales. The number of categories used in this report is generally determined by the desires of management; however, as the number of categories increase, the machine time required to produce the report also increases. As a general rule this report is issued on a weekly basis.

This report also summarizes the combined total of all sales at cost and retail and shows the average gross margin for merchandise moving to the stores.<sup>25</sup>

Pre-shipping reports. In many cases it is possible for the billing department to bill merchandise in advance and send the purchasing department a summary of the billing. The actual movement may not occur for from twelve hours up to a week. If movement does not occur during the same week, the report is often compiled manually with the aid of a comptometer.

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<sup>25</sup>"IBM Accounting, Warehousing Control for the Grocery Industry," loc. cit., p. 16.

Out-of-stocks reports and scratch lists. Both of these reports are notices of merchandise not shipped to the stores. Items on a scratch list may or may not be out-of-stock, according to how efficiently the warehouse operates. The billing department does not generally differentiate between an out-of-stock and a warehouse scratch.

Other reports. As was indicated during the discussion of batch billing systems, the billing department can produce nearly any type of analysis that management may require. In requesting various type analyses from the billing department, management must consider the value of the report in view of the time and cost required to produce the desired information.

In addition to these reports derived from the machine billing process, there are special accounting reports that are prepared for purposes of analyzing buying and merchandising results. These reports will be discussed and described in the following chapter.

### Summary and Conclusions

The billing operation is the basic information source for quantity control systems and, consequently, the basis of many important merchandising and buying reports. The ultimate requirements of a billing system are not changed by the methods utilized by a particular chain. Basically these requirements are to print invoices for the stores,

maintain a perpetual inventory of warehouse stocks, and to summarize records and reports needed by the buyers and/or merchandiser for control purposes.

A screened or non-screened technique can be used with either the tub-file or the batch billing system. While the use of the non-screened technique eliminates scratching merchandise that is physically present in the warehouse, the true physical position is more difficult to ascertain.

The ease with which reports can be derived is the basic difference between the tub-file and the batch billing systems. Either system is capable of producing the reports needed by management for control purposes. The principal concern of the billing system is to produce accurate reports that fit management's needs for control purposes.

## CHAPTER IV

### UTILIZATION OF CONTROL DATA

#### Introduction

The preceding chapter dealt with the sources of information available to the buyer. The billing department renders several unit control reports which are, in effect, raw data. "At the very best, control reports can facilitate the exercise of human judgment . . . but never serve as a substitute for it."<sup>1</sup>

In order to utilize the data, the purchasing department organizes the information into a unit stock control system and summarizes this data on a single card known as a stock record card. Although supplemental reports are available, this system is the basic source of buying information. Because of the vast amount of information these cards contain, the unit control system is often the center of purchasing department activities.

#### The Stock Record System

Information contained. A well organized method of unit control provides the buyer with factual information

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<sup>1</sup>Clare Wright Baker, Ira D. Anderson, and J. Donald Butterworth, Principles of Retailing (New York: McGraw-Hill Book Company, Inc., 1956), p. 384.

upon which buying decision can be based.<sup>2</sup> While the specific information recorded on these cards may vary from company to company, the following information is recorded by The Kroger Co.:

1. buyer's code number
2. item description, size, and pack
3. item cost (f.o.b. factory and delivered)
4. gross margin per cent
5. market changes
6. inventory on hand
7. item retail
8. movement
9. outstanding orders
10. movement history by periods for previous years
11. manufacturer's name and/or broker and representatives name and address
12. quantity discount schedule
13. terms of purchase
14. store unit
15. vendor's shipping unit
16. store code number
17. freight rates for delivery
18. price protection (if any)
19. case weight

In addition to the above listed information, the buyer may include many supplemental notes regarding the specific item. The supplemental information is generally of an explanatory nature such as pending promotions, special case allowances, and the amount stores ordered on past or future promotions.<sup>3</sup>

While all the information recorded is necessary, the historical information is often of particular value for

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<sup>2</sup>John G. McLean, "Better Reports for Better Control," Harvard Business Review, Vol. 35, No. 3 (May-June, 1957), 104.

<sup>3</sup>Information concerning future promotions is posted to the stock record cards from the pre-shipping reports. This information may be recorded as much as two to three weeks in advance of the actual movement.

interpreting trends in movement, seasonality, et cetera. Furthermore, information for other merchandising purposes can be obtained. For example, the merchandiser may decide to compare gross profit dollars as well as percentage. Information for previous operating periods would have to be calculated by using information from the stock record cards.

Up-dating stock record cards. This voluminous amount of information requires considerable clerical work in order to keep the system accurate and current. Of the items listed, inventory balance, orders, cost, and retail prices are the only factors that change frequently. The remaining items are either historical or are seldom, if ever, changed.

Inventory balances and receivers are the most frequently posted items on the buyer's cards. The receivers are posted as they are obtained from the receiving clerk or the information is copied from the perpetual inventory report. The purchasing department generally posts receivers only if the billing department is unable to print the information on the inventory report; although some buyers may desire a cross-check for accuracy.

Inventory balances are obtained from the perpetual inventory report received from the billing department. This report may contain any or all of the following information for each item:

1. current inventory balance
2. movement for the past week

3. merchandise shipped other than to the stores
4. merchandise received
5. average movement for a certain period<sup>4</sup>

### Objectives of Reordering

In many respects the routine reorder of merchandise for the warehouse is very much like reordering merchandise for a store. The major differences lie in the time element, transportation, and the source of supply. Whereas the store can replenish its stocks on a single order sent to a central location, and the orders delivered by company controlled trucks on a definite schedule; the buyer must replenish his stocks with numerous orders sent to wide-spread vendors. He must rely on many modes of transportation for delivery, without the benefit of specified delivery schedules.<sup>5</sup>

Regardless of the specific type of reorder system utilized, certain basic factors should be considered. Special situations may influence reordering of merchandise from time to time; however, the main considerations in reordering are:

1. To minimize out-of-stocks. Unlike many industrial firms which calculate a certain percentage of out-of-stocks the buyers in the food industry attempt to operate with no out-of-stocks.

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<sup>4</sup>Generally this information is one to three days old by the time the buyer begins to reorder merchandise.

<sup>5</sup>Delivery times can be calculated; however, the buyer has no assurance that the delivery time will be the same every time he reorders merchandise.



2. To achieve maximum turnover. Typically the food industry is a fast turnover business. While storage capacity is available in the distribution center, the objective is to move merchandise through the center and to hold only enough merchandise between shipments to satisfy store requirements. The chains are not interested in speculating in merchandise values by buying and warehousing merchandise for long periods of time. A conscious effort is made to maintain minimum, but adequate stocks at all times.

3. To order by pre-determined minimum quantities. The objective of the buyer is to order in such quantities that the highest possible quantity discount is obtained consistent with turnover objectives. Several factors are taken into account in determining the desired minimum quantity to be ordered. The basic factors are similar to the following list compiled by the National Association of Purchasing Agents.

1. Storage costs
2. Obsolescence
3. Handling charges
4. Transportation charges
5. Investment costs
6. The cost of buying
7. Quantity buying<sup>6</sup>

One of the improvements The Kroger Co. hopes to achieve with the use of RAMAC is the determination of the economic reorder quantity for each item.<sup>7</sup>

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<sup>6</sup>N.A.P.A., Handbook of Purchasing Policies and Procedures, Vol. I (New York: N.A.P.A., 1939), p. 319.

<sup>7</sup>Personal interview with Mr. Herbert V. List, Manager, Retail Store Accounting, General Office, The Kroger Co., May 23, 1958.

4. To maintain balanced stocks. Most grocery items are ordered by manufacturer's lines in predetermined minimum quantities such as truck or carloads. A reorder may be needed on all items in the line to obtain the predetermined quantity requirements; therefore, the buyer should plan the stock level for each item so that all items require reorders at the same time. In the event one or two items require reorders before the other items in the line, the buyer has three alternatives: (1) allow the item to run out-of-stock, (2) order the item as a single shipment, or (3) build all stocks in the line to the point where the minimum order can be made. The results of the respective alternatives will be lost sales, higher merchandise costs, or heavier inventory stocks than necessary. In any event the net result will be reduced return on investment from the total inventory.

#### Fundamentals of Reordering

Basic systems. Basically there are two types of reorder systems: the two-bin system and the ordering cycle. The two-bin system utilizes two sets of stocks, a current stock and a reserve stock. When the current stock is depleted it is time to reorder the item. During the replenishing period the reserve stocks are used. When an order arrives, it becomes the reserve stock, et cetera. The order cycle method utilizes a specific interval of time

between the placement of orders. Once during each cycle orders are placed to bring the stocks up to a specified control level.<sup>8</sup>

The large reserve stocks required by these systems defeats the objective of the food chains to achieve maximum stock turnover; therefore, these basic systems are modified to reduce the reserve stocks required. The most common among these is a variation of the two-bin system which utilizes minimum stock level points. When the minimum level is reached, a replenishing order is sent. Quite often the maximum level will be less than the amount required during the replenishing period.

Using a screened billing system it is possible to establish minimum and maximum levels for merchandise. However, even with the establishment of these levels, buyers tend to make reorders on a specific day of the week; therefore, losing some of the advantages of the system.

Mechanics of reordering. When merchandise is re-ordered the buyer uses the following information from the stock record cards: (1) movement for the previous weeks, (2) present level of stock, and (3) orders that are outstanding.<sup>9</sup> With this information, the buyer can readily

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<sup>8</sup>Thomas M. Whitin, The Theory of Inventory Management (Princeton: Princeton University Press, 1957), pp. 15-22.

<sup>9</sup>Some systems may record an average weekly movement also.

determine the need for merchandise. Should stocks be low and an order needed, the buyer can determine the amount to reorder by:

1. calculating average movement,
2. determining the number of days' supply on hand and/or in transit, and
3. deducting (1) from the desired maximum supply on hand and in transit.

After these steps are taken for each item, the total amount ordered is calculated to determine if the order meets the desired minimum. If so, the purchase order is sent to the vendor. Using this procedure, all items ordered from a vendor should have the same number of days' supply on hand and/or in transit. Should the order total less than the minimum requirement, the buyer has the three alternatives noted under maintaining balanced stocks.

In some cases it is possible to further simplify the reorder process. The buyer knows the minimum order quantity from information contained on the stock record card. By calculating average movement for all items in a line, he can determine the number of days' movement that will be required to equal a minimum order.

For example, assume that five items are being ordered from a vendor and that 900 cases are needed for a minimum carload shipment. Average weekly movement for this group is as follows:

<u>Item</u>	<u>Average Weekly Movement</u>
A	150 cases
B	75 cases
C	200 cases
D	50 cases
E	25 cases
Total Ave. Movement	500 cases

Since a minimum of 900 cases is needed for a carload, merchandise cannot be reordered on a weekly basis; therefore, two weeks' movement is required to equal the desired minimum shipment. Once the stocks are balanced and the buyer calculates the safety margin required, he can reorder the group of items bi-weekly by simply adding movement figures and be reasonably sure that at least a minimum order can be made. Theoretically stocks should remain balanced at all times because the relative movement of items will remain constant. Occasionally the buyer will have to recalculate average movement in order to adjust for trends in movement. Failure to periodically recalculate average movement will result in safety margins being increased or decreased, depending on the trends in movement.

If safety margins are reduced, this system can reduce average inventory levels to an absolute minimum and minimize out-of-stocks. Furthermore, the over-all procedure can be reduced to a routine that could be handled by someone other than a buyer. In any case, valuable time can be saved.

Judgment factors in reordering. Sound judgment is an important part of successful buying, for control exists

only when the information contained in the stock record system is interpreted and translated into action.<sup>10</sup> The routine calculation of any order is simple as long as nothing unusual occurs. It is the unusual situation that requires the close attention of the buyer. Mr. Woerner, grocery buyer for the Columbus division of The Kroger Co. summed the problem up as follows: "We buy on past experience, but not for past experience. We buy for the future sales."<sup>11</sup> While auditing the cards the buyer must be constantly aware of the many factors that may influence movement of merchandise. Such factors as promotional activities of manufacturers, seasonality, and holidays may require adjustment of orders. In addition to these factors, the buyer must exercise judgment in the interpretation and analysis of past sales data, current or prospective general business conditions, and any changes in conditions within the organization.<sup>12</sup>

Common fallacies in reordering. There are several common fallacies concerning the reorder of merchandise. The two most common ones are that: (1) an increase in travel time requires a proportionate increase in minimum stocks necessary to supply expected demand during replenishment

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<sup>10</sup>Delbert G. Duncan and Charles F. Phillips, Retailing Principles and Methods (Chicago: Richard D. Irwin, Inc., 1955), p. 305.

<sup>11</sup>Personal interview with Mr. Woerner.

<sup>12</sup>Baker, op. cit., pp. 324-344.

periods, and (2) that frequent orders will lower warehouse stocks.

Whitin illustrates the effects of travel time by pointing out that if an item requires two years for delivery, it is unlikely that anyone would suggest that a minimum stock of two years supply is necessary. "Although longer replenishment periods do make larger safety allowances necessary, the relationship between the two is not a simple ratio."<sup>13</sup>

The effects of order frequency were summed up by Mr. E. C. Shull as follows:

Unless the safety margin carried in the warehouse is decreased, frequency of orders will not reduce the average inventory level. Many buyers unconsciously associate frequent orders with low inventories.<sup>14</sup>

#### Routine and Automatic Reorder Systems

Several factors are probably responsible for the fact that the reordering of merchandise in the food chains has remained a manual operation. Most buyers regard reordering as one of their most important functions; and it may well be. While performing this function, the buyer is affecting the rate of turnover, cost paid for merchandise, and sales volume. Furthermore, future ordering may be affected if balanced stocks are not maintained.

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<sup>13</sup>Whitin, op. cit., p. 29.

<sup>14</sup>Personal interview with Mr. Shull.

Such factors as the promotional activities of the chain and/or its competitors, weather, holidays, seasons, pay dates, et cetera, may affect the movement of merchandise. This is one reason given by buyers for maintaining manual reorder systems.<sup>15</sup> However, these factors are often the exceptions rather than the rule.

The time lag in getting information concerning inventory status to the buyers is another important factor that has discouraged the use of automatic reorder systems. However, the recent introduction of electronic data processing has opened new possibilities. The organizations that have utilized this type of equipment are improving their inventory position. A reduction in inventory levels has been attributed to reduced time lag in processing store orders and getting information to the buyers.<sup>16</sup>

Industrial firms have been utilizing automatic reorder systems for quite some time; however, these systems are calculated mathematically to have a certain percentage of out-of-stocks.<sup>17</sup> The food industry has been categorically opposed to tolerating out-of-stock conditions. Articles such as "Out-of-stocks = Out-of-sales" appear

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<sup>15</sup>Personal interview with Mr. Albert Pain.

<sup>16</sup>"Electronic Ordering Starts In the Store," Chain Store Age, May, 1958, pp. 72-73.

<sup>17</sup>Howard Thompson Lewis and Wilbur B. England, Procurement, Principles and Cases (Homewood, Illinois: Richard D. Irwin, 1957), p. 293.



frequently in food trade publications.<sup>18</sup> Quite frequently penalties such as higher costs of merchandise and/or higher inventory levels are tolerated in preference to out-of-stock conditions. A significant factor concerning out-of-stocks is the relative importance of the item that is out-of-stock. Certain items such as sugar should always be in stock; however, an occasional out-of-stock condition on an item such as sardines is not serious. In defense of a no out-of-stock policy, Mr. Albert Rain, director of grocery merchandising, The Kroger Co. states that "the buyer's efforts to reduce the day's supply on hand for fast moving items will compensate for the heavier inventories needed on slower moving items."<sup>19</sup>

Automatic reorder systems have several advantages to offer, some of which are:

1. A substantial reduction in the number of purchase orders issued.
2. Buyers have more time to devote to more important aspects of buying.
3. Less follow-up action is necessary.
4. Helps to reduce out-of-stocks and resultant rush orders with their attendant problems.
5. Because of greater efficiency, fewer employees may be necessary.<sup>20</sup>

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<sup>18</sup>"Out-of-Stocks = Out-of-Sales," Super Market Merchandising, July, 1953, pp. 61-65.

<sup>19</sup>Personal interview with Mr. Rain.

<sup>20</sup>Lewis and England, op. cit., p. 297.

Automatic reorder systems are by no means an answer for all inventory control problems; however, indications are that inventory control can be materially improved.

Routine reorder system used by the Columbus division of The Kroger Co.<sup>21</sup> The following system was devised by Mr. E. C. Shull, comptroller of the Columbus division of The Kroger Co. It was devised to be used with a screened tub-file billing system. The purpose of the system is to place the reorder process on a routine basis.

In developing the plan, the following assumptions were made:

1. The movement of merchandise is relatively constant.
2. The normal lead time for orders plus three days' supply is the maximum amount needed in the warehouse at one time. (If this does not meet the desired minimum for discount purposes, the cycle is lengthened.)
3. A reorder should be due the date a shipment arrives.
4. It is not necessary to have more than one shipment of merchandise from a single vendor in the warehouse at any one time.
5. An order should be prepared only when needed, but regardless of the day of the week needed.

A card is placed in the tub-file at the point representing a normal lead time plus three days' supply of

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<sup>21</sup>Information concerning this plan was obtained by personal interviews with Mr. Schull and his associates. The plan is in an experimental stage, however, the number of items being reordered has been increased from a single group to the present total of five groups.

merchandise in the warehouse.<sup>22</sup> As detail cards are pulled to bill store orders and stocks are reduced to the reorder point, the inventory card will appear. When it appears the card-puller takes the card, records the current inventory in the tub, and then proceeds to pull the inventory card for all associate code numbers.<sup>23</sup> When the current inventory for all the associate items is recorded on the respective inventory cards, the cards are sent to the buyer. The purchase quantity has already been calculated for each item; therefore, the reorder procedure is simply a matter of copying the reorder amount onto the purchase order. Periodically the inventory cards must be reviewed, the average movement recalculated, and a new reorder quantity established. The frequency of this review will depend upon the fluctuations in the movement of the merchandise.

This system has worked very satisfactorily for over a year. The following items are currently being reordered by this system: Post Cereals, Gerber Baby Foods, Swift Products, Maxwell House Coffee, and Kraft Foods. These items show a fairly constant movement and therefore lend themselves to this type of reorder system.

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<sup>22</sup>For purposes of presentation this card will be called an inventory card.

<sup>23</sup>Associate items are all items ordered from the same manufacturer in the same shipment.

According to Mr. Shull, this reorder system has the following advantages:

1. It has reduced out-of-stocks to a point where they are practically non-existent.
2. It has made the job more routine; and therefore can be delegated to someone other than the buyer.
3. The number of purchase orders, receivers, etc. has been reduced.
4. The inventory information time lag has been materially reduced.

Figures were not available concerning how much better, if any, this system operates than the conventional system. The only definite improvement is in the reduction of out-of-stocks. While stock levels are heavier at times during the cycle than with the conventional system, they are also much lower just prior to receiving a shipment. The average total inventory is probably reduced.

If all the items for the Columbus division were placed on this system, it was estimated that the services of at least one additional card puller would be required. However, the system would eliminate the necessity for a scheduled perpetual inventory report. A movement report for historical purposes would be sufficient, but not absolutely necessary.

#### Utilizing Special Reports

In addition to the inventory figures for reordering merchandise, several special reports are issued that aid in making other decisions regarding inventory. These

reports are generally designed to measure performance; therefore, with the aid of these reports, the buyers and merchandisers can make decisions that will improve the net results.

Out-of-stocks and/or scratch lists. Since inventory reports are posted weekly, some means is needed to advise the buyers when items are out-of-stock and being scratched on store orders. Some systems may even notify the buyer when stocks reach a minimum stock level. Often out-of-stocks may occur a day or two after an inventory report is issued. If action were delayed until the next inventory report date, an item could be out-of-stock as long as six days before action would be taken.

Upon receipt of the out-of-stock report, the buyer can determine why the item is being scratched and check to see whether there is an outstanding order.<sup>24</sup> The traffic department can be notified of the items being scratched along with the pertinent data needed to trace orders. By spending a few minutes daily reviewing the out-of-stock report, the buyer can have many shipments expedited and the period of time during which items are scratched can be materially reduced.

The report summarizes the following information: (1) the total number of units and the total cost and retail

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<sup>24</sup>Scratches can result from many reasons such as out-of-stocks failure to ship, deal packs, etc.

value for each item, and (2) the total value at cost and retail for all items that were scratched. The buyer's superiors can not only determine at a glance if the number of out-of-stocks is high, but also the probable effects these scratches have had on sales. While the total dollar scratch figure cannot be assumed to be lost sales, it does serve as an indication of lost sales.

Pre-shipping reports. This type report is most commonly used for special promotion items and grocery perishables. Because grocery perishables can generally be bought and received on short notice, this report, along with a current physical inventory enables the buyer to maintain an absolute minimum, but adequate inventory on these items.<sup>25</sup> It is possible to turn stocks at least once each week and sometimes more often.

Store orders for items being promoted by the chain are often summarized and this information posted on the buyer's cards. This report is generally available at least one or two weeks before the promotion begins. Therefore, the buyer usually has time to purchase more merchandise if needed to fill all of the orders. Without such a report the buyer must estimate the amount the stores will need and hope that he has bought enough, but not too much.

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<sup>25</sup>Physical inventories of perishable items are often taken on a daily basis.

At the same time that the store promotional orders are summarized for the purchasing department, a copy is furnished the merchandiser. From this report the total sales at cost and retail for promotional merchandise can be estimated. Since this report is available in advance of the actual movement, the merchandiser knows whether or not the promotional efforts for the week will raise or lower the net results for the period. From previous experience he can determine whether or not these results will balance out to his budgeted figure. While he probably cannot take corrective action on the specific sales plan in question, he can alter future actions to achieve the overall desired results.

Commodity group analysis report. The billing department can furnish a weekly summary of movement of merchandise to the stores by commodity groupings. This summary is made in terms of sales at cost and retail. The groupings used in this report are the same as those used on the "Grocery Merchandising Results Report";<sup>26</sup> therefore, the merchandiser knows each week what the results should be on the final report.

Using this method, the merchandiser can readily determine the results for any particular commodity group, the combined results for all groups, and take action if the

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<sup>25</sup>Title of the report used by The Kroger Co.

results are not in line with the desired objectives. Some of the alternative corrective action may be:

1. Adjust future sales promotion plans.
2. Examine individual retailers for product groups that need attention.
3. Insure that each discounts are received.
4. Determine if merchandise is being advantageously bought to receive quantity discounts.

Store shrinkage reports and price change effects can be reported separately. The only remaining unknown is the actual dollar inventory figure and the days' supply of inventory on hand. With these various reports, the merchandiser has at hand each week an approximation of the net merchandising results.

Grocery merchandising results report. Most of the reports and records the buyer utilizes are unit controls; however, for purposes of analysis, it is necessary that these figures be converted to dollars. The Kroger Co. utilizes this type report to compare budgeted and actual sales and to determine inventory results.

The particular report utilized by The Kroger Co. has the following pertinent information for each of the forty-seven commodity groupings:

1. per cent of deliveries to total at retail.
2. actual deliveries to stores at retail.
3. actual deliveries to stores at cost.
4. gross margin per cent.
5. gross margin dollars.
6. actual warehouse inventory in dollars.
7. number of days' supply on hand.
8. the net effects of price changes.
9. total stores' inventory losses (shrinkage).
10. grand total of all actual dollar sales, gross



- profit dollars, mark-up per cent, and warehouse inventory.
11. grand total of budgeted sales, mark-up dollars, mark-up per cent, and warehouse inventory.

This particular report is designed to be used by both the buyer and the merchandiser. It serves to bridge the gap between buying and merchandising. By analyzing this report, the buyer can detect any weaknesses in his inventory by commodity groups and thereby be able to know which commodity groups need attention to attain the desired results.

The buyers are particularly interested in analyzing the number of days' supply on hand for each commodity group. While the total inventory may average approximately thirteen days' supply, it does not follow that all commodity groups should have thirteen days' supply on hand. Some groups, such as canned fruits may average twenty-six days' supply, while tobacco products may average about six or seven days' supply. These differences can be explained by the distance merchandise must travel, the difference in volume, the number of items in the group, and the manner in which the merchandise is shipped. Buyers generally have an informal objective for each commodity group; however, this is flexible and the objective may change from time to time according to the circumstances.<sup>26</sup>

In order to justify the same number of days' supply for all items, it is necessary to show that all items:

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<sup>26</sup>Personal interview with Mr. John Commons, Grocery Buyer, Indianapolis division, The Kroger Co., March 25, 1958.

1. Have the same time lag (the sum of manufacturing time, posting time, transport time, etc.).
2. Have the same variations in lag time.
3. Have the same expected demand variations.
4. Have the same cost of depletion (depreciation, obsolescence, insurance, risk, storage, etc.).
5. Have the same cost involved in placing orders.
6. Have the same quantity discounts.<sup>28</sup>

For the merchandiser the grocery merchandising results report reveals the net merchandising results for the period including adjustments for price changes, store inventory shrinkage, and a comparison between budgeted sales and gross profit dollars and the actual results. An analysis of this report reveals to the merchandiser how the net results were derived and an indication as to how the results may be improved. Each commodity group can be analyzed to determine if the results are desirable. A comparison with past performance will reveal if each group is contributing the amount of sales and gross profits expected. After analyzing this report, the merchandiser should be able to determine if improvement is needed in buying, merchandising, or store's handling of inventory, and the appropriate action taken.

#### Summary and Conclusions

The buyer in the food industry has nearly every conceivable kind of unit control data at his disposal when he

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<sup>27</sup>Whitin, op. cit., p. 20.

reorders merchandise. However, this wealth of information only serves as a basis for judgment. The buyer has certain reorder objectives, but these objectives are flexible and may change from time to time. His interpretation and analysis of past sales figures, rate of growth or decline, and current business conditions may cause the buyer to temporarily alter his actions.

The reorder function is important, because it is at this point that the buyer's action will influence turnover rate, the cost of merchandise, and possibly sales volume. Several reasons can be advanced for not inaugurating more routine or automatic type reorder systems. They can be summed up as:

1. Reluctance on the part of buyers to relinquish any part of the buying procedure.
2. Movement of merchandise is erratic.
3. Time-lag in getting information to the buyers.
4. Refusal of the chains to accept a certain percentage of out-of-stock as necessary and desirable.

The two routine systems discussed in this chapter are quite simple to operate. Both of them are based on the assumption that while over-all sales and movement may fluctuate, the relative movement of a manufacturer's line is less than the variation of individual items within the line. It is this stability in total movement that allows routine systems to function.

While out-of-stocks are common within the food industry, management generally has been prone to attempt

no out-of-stock policies. There are certain staple fast-moving items that should never be out-of-stock, but there are many more items on which occasional outs may improve net results.

Controlling quantity and gross margins can be summed up as having two parts: the routine operations such as reordering and the cost-retail control system and the action taken as a result of interim reports. Both the buyer and the merchandiser receive interim inventory reports that aid in the evaluation of current results and facilitate decisions regarding any changes in direction that might be needed. It is the action taken as a result of these reports that constitute the real control of this phase of grocery inventories.

## CHAPTER V

### CONTROL OF VARIETY

#### Introduction

One of the difficult buying problems facing the food chain operators today is the selection and control of variety of merchandise needed in the stores today. "Buying is no longer a matter of just stocking the store with merchandise and letting the customer take it or leave it."<sup>1</sup> The wide variety of merchandise carried by the supermarket, along with the phenomenal increase in the number of new items being introduced on the market compound the problem.

Twenty years ago the average food store carried only a few hundred items. Today's supermarket carries thousands of items. An actual supermarket opened in 1954 with estimated annual sales of two million dollars was initially stocked with 1259 brands of items; a count which did not include merchandise received in the store by drop shipment.<sup>2</sup>

The food chain operator is faced with the dual problem of which new items to accept and which current items to

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<sup>1</sup>Donald K. Beckley and John W. Ernest, Modern Retailing (New York: The Gregg Publishing Co., 1950), p.113.

<sup>2</sup>M. M. Zimmerman, The Super Market (New York: McGraw-Hill Book Co., Inc., 1955), pp. 207-212.

discontinue. Because of the many new items being presented to the buyers, some chains are attempting to discontinue items at the same rate that new items are accepted and thereby maintain a consistent number of items carried in the stores. Although an effort is made to maintain a static position, the number of items carried by the food chains is gradually increasing. According to a survey conducted by McCall's magazine, the net increase of new items in the stores studied over a two year period was fifteen per cent.<sup>3</sup>

The importance of new items to future sales. In determining new item policies and throughout the new item buying procedure, the buyer needs to be cognizant of the increasing importance of new items in the stores today. The following facts substantiate the importance of these new items:

1. Thirty-five per cent of General Foods sales in its last fiscal year were from items introduced since World War II.
2. Gerber Products Co. estimates that 40% of its sales the last fiscal year were derived from products developed in the last decade.
3. Campbell Soups, which offered only 29 products in 1940, has more than 80 products today.<sup>4</sup>

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<sup>3</sup>Survey cited in the article entitled, "Slow Movers Can Build Traffic," Super Market Merchandising, February, 1957, p. 55.

<sup>4</sup>"Product Profusion," The Wall Street Journal, CLI, No. 1 (January 2, 1958), 1-8.

These figures are historical, however, Mr. A. C. Nielsen, Jr., President of A. C. Nielsen Company states that "if we continue the present pace of producing new products, then in 10 years from now more than 50% of grocery product sales will come from products which are non-existent today."<sup>5</sup> Mr. Nielsen is not the only one making such predictions. Pillsbury Mills, Incorporated, expects to be getting half of its profits in five to ten years from products not yet on the market.<sup>6</sup> Mr. Paul S. Willis, president of GMA, predicted approximately the same situation for manufacturers as a whole.<sup>7</sup>

Because manufacturers are attaching so much importance to new items, it is unlikely that the number of items presented will decrease or that the decisions regarding which items to buy will become easier. Mr. Robert A. Magowan, President of Safeway Stores, summed the problem up as follows:

Everyone with a product to sell deserves a hearing. With the tremendous expansion of items of supply no retailer can handle all lines. However, no food management can afford to close their eyes to new products.<sup>8</sup>

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<sup>5</sup>"Three Factors Held Necessary for New Products," Supermarket News, October 21, 1957, p. 57.

<sup>6</sup>"Product Profusion," loc. cit.

<sup>7</sup>Ibid.

<sup>8</sup>"Safeway-Major Professor, Major Customer," Food Processing, September, 1957, p. 30.

The effect that new products may have on old established brands must be considered. An analysis by the A. C. Nielsen Company showed that of the top brand leaders in 1940, thirty-one per cent had lost their brand leadership by 1956. Furthermore, seventy-seven per cent of those brands that had lost leadership, and had lost leadership to new or improved products.<sup>9</sup>

The number of items presented to food chains. There have been several estimates, but no exact figures, regarding the number of new items presented to buyers in the food industry each year. The National Association of Food Chains estimates as many as 6000 items were offered to individual buyers of food chains in 1956.<sup>10</sup> Of this large number of new items, a very small percentage is accepted by the chains.

A tabulation of the items presented to the Indianapolis division of The Kroger Co. during November 1957 shows that a total of 230 items were presented to the buyers. Of these, 87.2 per cent were screened out and rejected before they reached the committee. Thirty items were presented to the committee, of which eighteen were accepted; however, this represents only 7.8 per cent of the total number of items originally presented to the buyers. During the same

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<sup>9</sup>"The Mid-Century of New, New Products," Super Market Merchandising, February, 1957, pp. 69-70.

<sup>10</sup>Ibid., p.69.



period, twenty-three items were discontinued, none of which could be considered seasonal items.<sup>11</sup>

The possible affects of too much variety. There have been several studies indicating that a wide variety of merchandise may be costly and unnecessary. The "Foodtown Study" revealed that in many product groupings a small fraction of the total number of items carried account for the majority of the sales for the group. The following table is the results of their findings.

TABLE I  
HOW IMPORTANT IS VARIETY OF ASSOPTMENT

There can be no doubt that it is important to offer customers a broad assortment of items from which to choose. It is possible, however, that assortments can be too broad, for in virtually every product group, there are a certain few items that do the bulk of the business.<sup>1</sup>

Product Group	No. of Items Stocked	DOLLAR						
Canned Juices	86	YET 18	ITEMS DO	53.2%	of	SALES		
Cake and Cokkie								
Mixes	50	" 8	" "	53.4%	" "			
Cigarettes	28	" 4	" "	58.5%	" "			
Canned Pineapple	25	" 7	" "	56.6%	" "			
Canned Tuna Fish	22	" 4	" "	56.3%	" "			
Canned Peaches	20	" 6	" "	50.0%	" "			
Canned Corn	16	" 4	" "	56.1%	" "			
Canned Peas	14	" 3	" "	60.0%	" "			
Canned Tomatoes	14	" 5	" "	65.8%	" "			
Canned Applesauce								
and Apples	11	" 2	" "	55.6%	" "			
Fruit Cocktail								
and Fruit Salad	11	" 2	" "	56.0%	" "			
Canned Pears	11	" 2	" "	68.1%	" "			
Liquid Detergents	6	" 2	" "	70.4%	" "			

<sup>1</sup>Source: "The Foodtown Study" (Reprint), p. 3.

<sup>11</sup>This information is based on a study completed by the writer in December 1957.

This is not to say that all the items except those that are fast movers should be eliminated. A certain number of the slower moving products are needed to fill out the product lines in order to offer the variety of merchandise the consumers desire. The variety a particular chain carries is dependent to a large extent on the particular commodity group in question and the merchandising policies of the chain. For example, the canned meat section does not require as wide a variety in brands as the canned vegetable and/or fruit sections. The merchandising policy of a company may be to carry the unusual items as well as the known items.

#### Organization for Buying New Products

While a few companies allow the buyers to be the sole judge as to whether a new product should be accepted, the buying committee is by far the most widely used system for buying new products in the food chains.<sup>12</sup> The number of members and the composition of the committees are widely varied. A short time ago it was not uncommon for all the administrative personnel in a Kroger division to be members of the new item committee. Today most division utilize only the grocery merchandiser and the buyers. According to Super Market Merchandising, the typical committee for the

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<sup>12</sup>"All About the Buying Committee," Super Market Merchandising, February, 1957, p. 65.



industry is composed of the following persons: buyer(s), merchandising manager, ad manager, sales manager, and the branch head.<sup>13</sup>

The strength of committee buying revolves around the old adage that "two heads are better than one." This may or may not be true. One grocery buyer cited the following advantages for committee type buying: (1) helps to reduce bias and prejudice on the part of the buyer, (2) relieves the pressure on the buyer to accept or reject new items, and (3) the committee is not influenced directly by persuasive salesmen.<sup>14</sup>

Lack of flexibility is one of the main criticisms of the committee system. Quite often one to three weeks elapse between the time an item is presented to buyers and the time the item is approved by the committee. Another two or three weeks may elapse before the item is available to the stores due to the time required to order, receive, process, and distribute the new item.

Since the buyers decide what items will be presented to the committee, establish the general framework of criteria for committee discussion of new items, do the research, and make the presentations to the committee; the true effectiveness of the committee system of buying can be challenged.

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<sup>13</sup>Ibid., p. 67.

<sup>14</sup>Personal interview with Mr. John Commons, Grocery Buyer, Indianapolis division, The Kroger Co., March 25, 1958.

The buying committee can be reduced to nothing more than a rubber stamp type action when the buyer's actions are likely to influence the decision of the committee members.

#### New Item Buying Procedure

Studies by students from various chains enrolled in the curriculum in food distribution this year reveal that there are very few, if any, significant differences in the new item buying procedures from one chain to another. The only significant difference was whether the final buying decision was made by the individual buyer or a committee. The procedure generally consists of the salesman's presentation, a screening process by the buyer, committee presentation, and committee action.

In addition to approving new items, the buying committee may review the sales record of various sections of the grocery department for the purpose of discontinuing slow moving items. In order to do this, the purchasing department (or in some cases the billing department) tabulates the sales of all items within a particular section such as shortening or peaches. The committee reviews these sales figures, discusses the need for discontinuing any items, and votes as to the action needed. The objective is to keep the variety consistent with company policy.

The salesman's presentation. Much of the buyer's time in a food chain is spent interviewing salesmen. Most chains

have specific days and hours set aside for this purpose. The presentation may vary from a simple statement of the pertinent data by the salesman to a very elaborate presentation with a fancy brochure and sales presentation.

While most chains have some type of new item form for both the buyer's and salesmen's use, the buyer usually listens to the salesmen's presentation and jots down the pertinent information on a pad of paper. He attaches these notes to any printed material left by the salesman. The buyer's objective is to get the information needed for deciding to accept or reject the item. An example of the information required on a new item form is shown on the following sample form. This particular form is very complete and detailed.

The screening process. The main concern of both the buyer and the committee is to determine the ultimate sales direction of a new item. The difficulty of this determination is revealed by the A. C. Nielsen studies of new item sales performances. These performances can be divided into four groups:

- Group "A" Never get off the ground.
- Group "B" Sales decline after initial introduction and item continues to decline.
- Group "C" Sales peak following introductory effort, and subsequently level off.
- Group "D" Spectacular growth over extended period of time before leveling off.

It is group "B" that represents the greatest pitfall to the buyer or committee.<sup>15</sup>

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<sup>15</sup>A. C. Nielsen, Jr., "How Long Should You Live With A New Product?," Super Market Merchandising, February, 1957, p. 73.

NEW ITEM RECORD

BRAND NAME OF PRODUCT: \_\_\_\_\_ DATE SUBMITTED: \_\_\_\_\_  
 DESCRIPTION: \_\_\_\_\_  
 MANUFACTURER'S NAME: \_\_\_\_\_ ADDRESS: \_\_\_\_\_  
 MANUFACTURER'S DUN AND BRADSTREET RATING: \_\_\_\_\_  
 PRODUCT'S LIABILITY POLICY NO.: \_\_\_\_\_ AMOUNT CARRIED: \_\_\_\_\_  
 PRESENTED BY: \_\_\_\_\_ REPRESENTING: \_\_\_\_\_  
 CONTAINER: \_\_\_\_\_ SIZE: \_\_\_\_\_ WEIGHT: \_\_\_\_\_  
 PACKING PER CASE: \_\_\_\_\_ WEIGHT PER CASE: \_\_\_\_\_  
 COST PER CASE: \_\_\_\_\_ PER DOZEN: \_\_\_\_\_ TRADE DISCOUNT: \_\_\_\_\_  
 NET COST EACH: \_\_\_\_\_ MARKUP: \_\_\_\_\_ RETAIL PRICE: \_\_\_\_\_  
 PROFIT: \_\_\_\_\_ F.O.B. \_\_\_\_\_ FREIGHT: \_\_\_\_\_ SWELL ALLOW: \_\_\_\_\_ CASH DISC: \_\_\_\_\_  
 LABEL ALLOW.: \_\_\_\_\_ INTRODUCTORY OFFER: \_\_\_\_\_  
 DISTRIBUTION ALLOWANCE: \_\_\_\_\_  
 PROMOTION ALLOWANCE: \_\_\_\_\_ PERIOD: \_\_\_\_\_  
 ADVERTISING ALLOWANCE: \_\_\_\_\_ NO. OF FEATURES: \_\_\_\_\_  
 GUARANTEED AGAINST PRICE DECLINE: \_\_\_\_\_ PERIOD: \_\_\_\_\_  
 GUARANTEED SALE: \_\_\_\_\_ PERIOD: \_\_\_\_\_  
 ARE GOODS GUARANTEED TO CONFORM TO FEDERAL FOOD & DRUG  
 STANDARDS: \_\_\_\_\_  
 START OF AD CAMPAIGN: \_\_\_\_\_ COUPONS: \_\_\_\_\_  
 RADIO: \_\_\_\_\_ TELEVISION: \_\_\_\_\_ NEWSPAPERS: \_\_\_\_\_  
 DISTRIBUTION OBTAINED TO DATE: \_\_\_\_\_  
 IS THE PRODUCT AND ANY DEALS, PROMOTIONS, OR ADVERTISING  
 ALLOWANCES IN CONNECTION THEREWITH, OFFERED TO COMPETING  
 COMPANIES ON PROPORTIONATELY SAME TERMS: \_\_\_\_\_  
 APPROVED: \_\_\_\_\_ BUYER'S COMMENTS: \_\_\_\_\_

Source: "60 Questions a Chain Buyer Asks About New Products,"  
Food Business, February, 1956, p. 11.

Because of the large number of items presented to the chain, buyers screen the items presented. The committee receives only those selected as the most promising. This screening is generally based on the need for the item and the buyer's experience. In making his decision as to whether an item should be presented to the committee, the buyer may have a set of general criteria on which to base his decision. Those used by the Indianapolis division of The Kroger Co. are represented by the following pertinent points:

1. Sales possibilities. Have we had experience with this item before? What like items do we carry? What are the manufacturer's promotion plans for the item? How effective have this manufacturer's promotions been in the past?
2. Distribution in the market. What competitors are stocking the item in this market? What kind of distribution does the item have in other markets?
3. Duplication of advertised brands. Is this product a duplication of a highly successful nationally advertised product? If so, how much promotional support will the product have? Will this support be of long time duration?
4. Sales and profit potential to space required. The space required to display an item or group of items in the stores is considered. The sales possibilities of the item may be good, but in relation to the space required to display the item and the expected gross profit return, the company may better utilize the space to display other items.<sup>16</sup>

In the screening process, the above listed criteria are the points generally considered in addition to the pertinent data listed on the new item form. Other criteria may

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<sup>16</sup>Personal interview with Mr. Commons.



on occasion be a causal factor in the elimination of items. For example, on non-food items for special promotion, the guaranteed sale may be important.<sup>17</sup> The cost of the item may be important when considering an addition to the existing line of vegetables or fruits carried.

In addition to these criteria, it may be wise for the buyer to consider the manufacturer's reasons for introducing new items. Two that are often listed are: (1) to meet an old demand more effectively or to meet a new demand, and (2) to compensate for a shift in the demand for products currently being manufactured.<sup>18</sup> Because only a minor percentage of the brand leaders in 1950 lost their leadership by 1956 as a result of being out promoted, indications are that when a new item is a success some similar item currently being carried will probably decline in sales.<sup>19</sup>

Special allowances very seldom influence the decision to accept or reject new items. Buyers are generally more interested in the extended sales and profit potential of an item rather than the short-run effects. The buyer is constantly aware that profit is made only if the merchandise

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<sup>17</sup>Guaranteed sale refers to the right of the retailer to return unsold merchandise that is in salable condition.

<sup>18</sup>Percival White and Matilda White, Development and Marketing of New Products (New York: Market Research Company of America, 1948), p. 3.

<sup>19</sup>"The Mid-Century of New, New Products," loc. cit.

is rung through the registers at the stores. Furthermore, it costs money to accept slow movers that will eventually have to be discontinued.

Presentation to the committee. After new items have been screened, those remaining are presented to the buying committee. In addition to the information supplied by the salesman, the buyer supplies the committee with supplemental information which may influence the committee's decision. This information may include such things as a sales and profit analysis of items currently carried, a summary of general market conditions, or a short resume of the total market potential for the particular type item being considered.

When presenting items to the committee, the buyer uses much the same type presentation that the salesman used. There are, however, two significant differences: the buyer does not particularly express enthusiasm and the buyer has generally made his own decision whether the item should be accepted or rejected. This decision may affect his presentation by affecting the forcefulness of the presentation.

Committee action. Basically, the buying committee decides whether to accept or reject new items and which items currently being carried should be discontinued. On occasion the committee may decide to wait and see if demand for the item develops, approve the item for certain stores

only, decide to sales test the item in specific stores. If the committee decides to wait and see or sales test an item, they will discuss the item again at a later date and either accept or reject the item based on the additional information obtained.

The stores are notified that the item is available and a standard initial distribution of the item is made. Very few companies allow the store managers the discretion of accepting or rejecting new items. The distribution of promotional items may be decided by the committee at the same time the item is accepted.

As noted earlier, most chains attempt to discontinue items as new items are accepted. The ever-widening variety of merchandise carried is evidence, however, that more items have been added than the number dropped from the lines.

Quite often the supplemental information furnished the committee for new items contains a sales analysis of similar items stocked by the chain. Under this system the current items are being reviewed for possible discontinuence while the new item is being discussed for approval.

In addition to discontinuing items in this manner, many companies periodically review the sales performance of all items by groups for the specific purpose of discontinuing the slow movers. On occasion a buyer may decide while reviewing stock cards for reorders that a particular item should be discontinued. If so, he may make a sales

analysis of the similar items and present the data to the committee for approval. If an item is to be dropped from the line, the buyer marks the card so the item is not re-ordered and either allows the item to run out-of-stock or forces distribution of the remaining stock.

Follow-up of committee action. After a certain action is decided upon by the committee, the purchasing department takes appropriate action. If an item has been accepted, an order is placed with the vendor, the new item information processed through the billing department, and the initial distribution sent to the stores.

If any of the alternative actions are taken, i.e. wait and see, sales test, et cetera, the purchasing department advises the committee of any changes and may recommend the final action that should be taken.

### Summary and Conclusions

The control of variety of merchandise represents two problems to the food chains: which new items should be accepted, and which old items should be discontinued. Although there is an attempt to discontinue items at the same rate new items are bought, there has been a steady increase in the number of items stocked by the food chains. This increasing number of items poses two problems for the buyer: an increased investment in inventory with a possible resultant decrease in over-all stock turns, and an

aggravation of an already acute space problem in the stores. Although there are no figures to prove it, it seems logical that as the retailer increases variety, the amount of stock needed to maintain an inventory will increase. Therefore, the number of stock turns may decrease.

Regardless of the problems involved, the importance of new items to future sales and profits cannot be denied. Both past records and future predictions indicate that the buyer cannot afford to disregard new items. Furthermore, whether new items are accepted or rejected by a particular chain, the sales potential of current brand leaders may be affected.

Relatively few items in each product group generally do the bulk of the business; however, a certain amount of variety must be offered in order to meet customer demands effectively. Merchandising policies will generally determine how much variety will be carried.

Although the committee system for the selection of new items is widely used the buyer still plays the most critical role. Because the buyer screens new items and makes the presentations to the committee, he is in a position to influence committee decisions.

Except for the use of a single buyer instead of committee in some cases, the new item buying procedure is about the same in all companies. However, specific criteria for buying will vary from one company to another. Even

though a general set of criteria is used, the relative importance of each criterion will vary according to the item and the particular situation. Each new item must be viewed in perspective because no two items have the same identical advantages to offer the chain.

There is no set formula for determining how much variety should be carried. If sales and profits were the only factors involved, the problem would be relatively simple. Many slower moving items must be carried because they do create a certain amount of traffic; unfortunately, the buyer is unable to know exactly where the point of diminishing returns in variety begins.

## CHAPTER VI

### SUMMARY AND CONCLUSIONS

At the operating division level, inventory control is defined as: Any action taken by management, based on policy, to coordinate and correlate all activities concerning inventories in order to achieve the company's objectives. This action can be divided into two broad spheres: accounting action and merchandising action.

Because there is a direct relationship of sales, gross margins, retail shrink, and stock turns to return on investment; there is little question that inventory control is one of the most important functions performed by management in the food chains.

Policy can be pictured as the hub in the wheel of control. Through policy a company provides the plan that is adopted and lays down the principles to be followed in achieving the plan. The over-all objectives of the food chains with regard to stock turnover, quality, variety, gross margins, and physical safeguarding measures are a part of company policy.

At the operating division level, policies are stated in broad terms that allow considerable freedom for discretionary action on the part of the operating executives.

This freedom of action is necessary in order that the opposing alternatives, quantity versus turnover, can be resolved to the best advantage at the given time. The ultimate objective to maximize return on investment will be the primary consideration in selecting alternative actions.

Organizational structure has an effect on grocery inventory control. This has come about in part because there is a division of responsibility for control. Recently there has been an effort on the part of some companies to combine some of these divisions of responsibility under as few persons as possible. Under this organizational structure the purchasing department is subordinated to the merchandising function and the merchandiser becomes responsible for both buying and selling.

Organizational structure has also been altered to extend closer control over the stores. At the store level it is difficult to distinguish between the operation department and the merchandising department responsibilities for inventory control. The operations department of the organization is responsible for the actual operations in the stores, including sales and profits. Because operating budgets are built around expected merchandising results, the operations department maintains more than a passive interest in merchandising plans and results.



The zone-type organizational structure affords the merchandiser an opportunity to exercise closer control over the stores than can be achieved through the district manager type organizational structure. The constant contact with stores maintained by the field sales managers aids in effecting better follow through on such merchandising plans as space allocation, promotion of seasonal items, regular sales plans, and moving distress merchandise. In addition, the merchandiser gains first hand knowledge of store conditions through reports received from the field sales managers.

The billing system is the basic information source for quantity control purposes and, consequently, the basis of many important merchandising and buying reports. In order to insure accuracy in the system, the basic information used in the system which is costs, retails, and quantities of merchandise must be controlled.

The ultimate requirements of a billing system to print invoices for the stores, maintain a perpetual inventory of warehouse stocks, and to summarize records and reports needed by the buyers and merchandiser are not changed by the methods utilized by the food chain.

The tab-file method of billing is not as flexible for rendering control reports as the batch billing system. RAMAC, the latest advancement in this field is claimed to be capable of rendering instantaneous information concerning

inventory status. Although indications are that the use of RAMAC will allow reductions in total inventory levels, positive conclusions cannot yet be stated. Basically the frequency of reports and ease of obtaining reports represents the main difference between billing systems.

A screened or non-screened technique can be used with either the tub-file or the batch billing system. While the use of the non-screened technique eliminates scratching merchandise that is physically present in the warehouse, the true physical position is more difficult to ascertain and the possibility for errors is increased.

From the billing system various reports are derived to aid the buyers and merchandisers in the control of quantity of inventory on hand and the gross margins on merchandise moving out of the distribution center. The buyer's inventory, out-of-stock reports, and billing summaries of sales and profits are the principal reports used for these purposes. In addition, the billing department can produce nearly any specific type of report that management may require. In requesting special reports from the billing department, management must consider the value of the reports in view of the time and cost required to produce the desired information. In addition to the machine billing reports, there are special accounting reports that are prepared for purposes of analyzing buying and merchandising results.

Using manual methods, the buyer audits the stock record cards each week to determine the needs for merchandise. High and low levels may or may not be used, according to the desires of the buyers. The principal concern in reordering merchandise is to: (1) insure that enough merchandise is ordered each time to entitle the company to a predetermined quantity discount, (2) insure that stocks are properly balanced in order that one item generally ordered in a carload does not run short before all items run short, and (3) maximize sales efficiency by having items available when needed and replaced before out-of-stock occur.

The reorder function is important, because it is at this point that the buyer's action will influence the turnover rate, the cost of merchandise, and possibly sales volume. The reordering process has remained a manual procedure in most of the food chains. Several reasons can be advanced for not inaugurating more routine or automatic type reorder systems. They can be summed up as:

1. Reluctance on the part of buyers to relinquish any part of the buying procedure.
2. Movement of merchandise is irregular.
3. Time-lag in getting information to the buyers.
4. Refusal to accept a certain percentage of out-of-stocks as necessary and desirable.

There has been a tendency for the food chains to stress the exceptional situations as reasons for not accepting routine systems for reordering merchandise.

Buyers utilize trends in movement and average movement figures as a basis for calculating reorder requirements, yet they refuse to acknowledge that these same trends and averages can be used to establish routine and/or automatic systems.

The controversy arises over the frequency which average movement should be calculated and the purpose of routine systems. Most buyers believe that the status of inventory levels and average movements should be reviewed weekly whereas the writer believes that longer periods such as six to eight weeks will suffice.

Routine systems probably cannot be successfully devised for every manufacturer's line of merchandise; however, routine systems can be used for manufacturer's lines such as Gerber Baby Foods, Maxwell House Coffee, and Cambell Soups. The purpose of a routine system is not to replace the human factor in the reorder process, but to supplement it. The use of routine systems cannot only aid in improving inventory results; but can also allow the buyer more time to devote to other aspects of buying.

The merchandiser utilizes a cost and retail relationship control system to insure that the desired gross profit on merchandise moving out of the warehouse is achieved. The sales and profit analysis and grocery merchandising results report serve to indicate if a particular commodity grouping needs detailed analysis to improve gross profit results.

The control of variety of merchandise poses two problems for the food chains: which new items should be accepted, and which old items should be discontinued. The steady increase in the number of items stocked by the food chains tends to increase the total inventory investment necessary, with a possible resultant decrease of stock turnover rates.

A wide variety of merchandise is often considered an advantage in the food industry; however, there is evidence that such is not the case in all instances. One of the major findings of the "Foodtown Study" was that a relatively few items in each product group account for the majority of the sales for the entire group. This indicates that variety for variety's sake may be costly. However, a certain amount of variety must be offered in order to meet customer demands effectively.

Regardless of the problems involved, the importance of new items to future sales and profits cannot be denied. Both past records and future predictions indicate that the buyer cannot afford to disregard new items. When considering the acceptance of a new item, the main concern of both the buyer and the committee is to determine the ultimate sales direction of the new item and the possible effects the item may have on items that are currently carried.

The organization and procedure for buying new items is about the same in all food chains. Very few organizations vest this authority in the hands of a single buyer. Committee action is the most common method for approving new items and discontinuing old items.

Since the buyers decide what items will be presented to the committee, establish the general framework of criteria for committee discussions of new items, do the research, and make the presentations to the committee; the true effectiveness of the committee system of buying can be challenged.

Because the ultimate objective of inventory control is to maximize return on investment, management must control the major components of this factor which are stock turnover and gross margins. Since inventory levels are closely related to stock turnover, management has concentrated on controlling this factor; however, other factors such as variety of assortment are also being closely controlled.

Inventory control cannot be viewed as a static system. Instead, there is a constant state of flux. Management is constantly faced with alternative actions. Part of the control system provides management with reports with which to evaluate these various alternatives and aid in making decisions. Other reports serve to measure the results of the decisions that were made. As a result of interim

reports, management may decide to make changes to improve operating results and achieve the ultimate objective of maximum return on investment. In the final analysis, it is the action taken by management that constitutes control. Effective inventory control is dependent on timely information translated into action as a result of sound judgment on the part of management.

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