

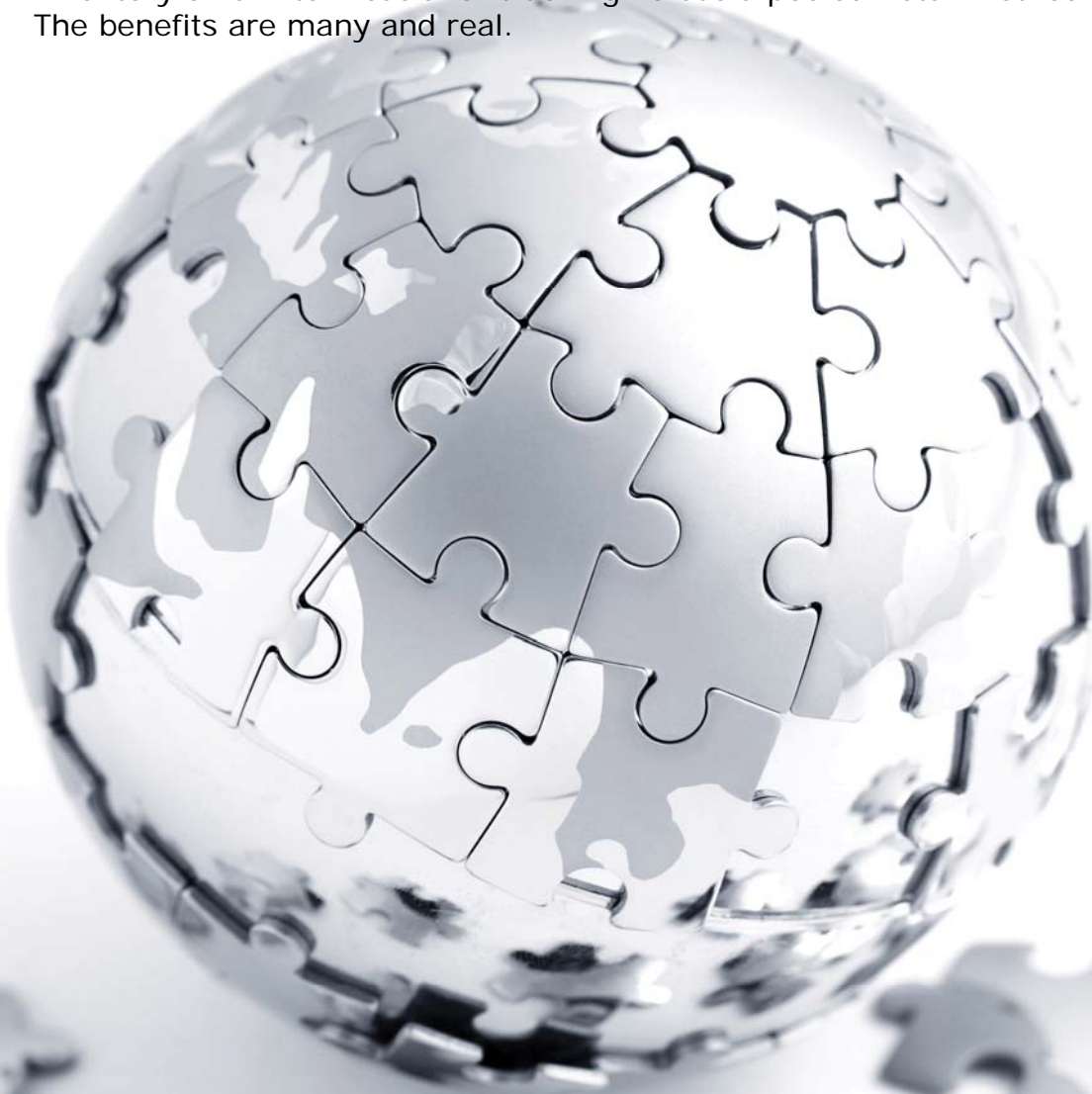


Automation Solutions for Convenience Retailing

The Benefits of Item Level Inventory

Overview of advantages of tracking inventory on an item basis versus a retail basis

This short White paper describes some of the many benefits of maintaining inventory on an Item basis for tracking versus a pooled Retail Method basis. The benefits are many and real.



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Item Level versus Retail Level

Envoy GRM allows you to track inventory at the Retail Level (also called Retail Accounting) or at the Item Level. The Retail Level tracks and maintains inventory using the retail monetary value of stock on hand. The Item Level tracks inventory by physical count of individual products. The difference in the methods followed doesn't have to do with the way the transactions are handled. The difference is in the way you track inventory. There are some categories such as magazines that are time consuming when tracked at the Item Level. In such cases, the Retail Level method is more appropriate. For certain other categories such as Bulk Candy where sales are made based on weight rather than individual items, the Retail Level method is the best solution for maintaining inventory. Almost all other items carried in the store are best tracked on an item basis. It is far better to know the number of a specific candy bar you have on the shelf and associated margin versus simply knowing you have \$50.00 of Candy in the Candy category.

Some companies may want to switch from Retail Level to Item Level gradually. It is not uncommon to start

operating the system with Retail categories and making a gradual transition to Item Level receiving. Over a period of time, the store can switch to inventory tracking completely by Item Level.

Better Vendor Control & Product Mix

Envoy's reordering capabilities are extremely precise because it takes into account on an item-by-item level basis:

- Demand (based on sales history)
- **On-hand inventory** (incl. any adjustments and transfers made to the item).
- Min/Max or Safety Stock
- Outstanding orders (from the site or the HQ)
- Vendor delivery time and frequency

Accurate Inventory Counts

True item-level inventory management allows you to know the **exact quantity** in stock by item, by day. Some of the main benefits of item level inventory are that:

- Accurately track shrink. Let employees and vendors know you know the exact quantity on-hand of each item thereby ultimately reducing theft.

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- Perpetual item inventory allows you to reduce out of stock situations. According to a recent study published by the CSNews, an average of 9.2% of the items in the categories audited were out of stock. Out of stock items translated into a **3% loss of sales annually!**



Accurate Margins and Cost of Sales Calculations

Cost accounting significantly enhances margin analysis. Envoy uses a **WAC** (Weighted Average Cost) for each item to calculate margins. Overall "Cost of Sales" is calculated on an item basis versus being calculated on a department basis. Envoy does not rely on current Price Book margins (which are calculated as Cost to Retail ratios by department).

Simplifies Food Service

True cost management makes margin analysis on recipes much more accurate and easier to manage:

- Each recipe has its own set of ingredients. In Envoy, each ingredient or component of a recipe is assigned its own WAC.
- You can assign different quantities

- of an ingredient for each recipe. For example, an all-dressed roast beef sandwich will have a different set of ingredients compared to a plain sandwich.
- With recipe item cost inventory you can:
 - Pull out accurate margin reports for recipes.
 - Verify if employees are being too generous with the quantity of ingredients they are giving.

Simplifies Price Changes

Because Envoy GRM was built on item level management and uses a WAC, our Price Book is extremely easy to use. It features wizards that allow you to make simple changes to prices and costs without having to worry about the quantity on hand each time. In other words, it eliminates the requirement of having to make a markup or markdown every time you send a price change down to the site.

Reduces the Risk of Employee Theft

Envoy reduces the risk of employee theft by eliminating markups and markdowns. Markups and markdowns give the manager the ability to hide stolen items or cash. For example, a cashier does not ring up a sale and pockets the cash. They can then cover that by taking a bigger markdown (more items) on a price decrease or a lower markup (less items). In addition, inventory theft can be covered with price changes. Not only does item level eliminate retail price changes, it accurately reflects which items are missing.