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| **MODEL ANSWERS – KNOWLEDGE TEST** | |
| Qualification | 103150 OC: Retail chain store manager |
| Knowledge module | KM05 Concepts and principles of stock control  NWF5 Credits 3 |

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| Total possible marks | 190 | Minimum marks required (80%) | 152 |

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| **INTERNAL ASSESSMENT CRITERIA** | **QUESTION** | **GUIDELINES FOR ANSWER** | **MARKS** |
| KM05 IAC0101 | 1. Explain the flow of products from supplier to customer (supply chain) in the retail environment. | 10 marks for 10 points  Product flow is a system in which interdependent parties *work together* to build *value* as products feed *through the distribution channel to the consumer*.  The *manufacturer* supplies the *distributor*, who supplies the *wholesaler*, who supplies the *retailer*, who sells to the *consumer*.  **There is also an *internal supply chain* (learners may use a diagram or they may just explain the steps in the internal supply chain)** | 10 |
| KM05 IAC0102 | 1. Explain what stock turn is | A ratio showing how many times a store’s inventory (stock) is sold and replaced over a period of time. | 3 |
| KM05 IAC0102 | 1. Explain what days cover is | Calculation of days of cover lets the chain store manager know how long there is until the amount of inventory at the store will run out. | 3 |
| KM05 IAC0102 | 1. Explain what weeks supply is | Weeks of Supply (WOS) is an inventory measure calculated by *dividing current inventory* by *average sales*. | 2 |
| KM05 IAC0103 | 1. Explain how logistics and the supply chain impacts on stock availability | Lead time affects the amount of stock a chain store needs to hold at any point in time.  Longer lead times have several impacts on the chain store:   * The longer the lead time, the more stock a chain store has to keep in reserve. * Operating capital (cash) is locked in when higher stock levels are required to compensate for longer lead times. * Longer lead times impact the adaptability and agility of the store.   + With more resources being dedicated to purchasing larger quantities of the same products, it becomes harder to introduce new or improved products to the store.   + When more stock is kept, it is easier to overstock – it is not easy to quickly adapt to changing shopping patterns. * Longer lead times make deliveries more unpredictable and forces a chain store to rely heavily on demand forecasts to make orders. | 7 |
| KM05 IZC0104 | 1. Explain how the chain store manager can influence the supply chain | A chain store manager can influence the supply chain to improve stock availability, by *shortening lead times* and *optimising inventory management.*  *Strategies for influencing the supply chain by reducing lead times include:*   * *Increase the frequency of order and de crease the volume* * *Automate the inventory management process* * *Where possible, change suppliers if there is a supplier in the supply chain whose lead tomes are too long* | 7 |
| KM05 IAC0201 | 1. Describe the impact of stock management on minimising overstocks and sold outs | Ineffective stock management may lead two one of two situations, namely overstock or soldout situations.  Overstock: | 10 |
| KM05 IAC0202 | 1. Explain the following components of effective stock management:  * Inventory planning * Effective order cycles and replenishment * Balance in inventory categories * Inventory tracking | |  |  | | --- | --- | | **Inventory planning** | Inventory planning as part of stock control is important. Running out of high-demand items leads to lost sales and lost customers.  In an ideal stock control situation, new inventory should come in at the same time old inventory is depleted. There should be no soldouts and no overstocking.  Accomplishing this requires accurate, up-to-date data on stock on hand, stock on order and stock that is being shipped. | | **Effective order cycles and replenishment** | To avoid either an overstock situation or soldouts stock control systems must include effective order cycles and methods for replenishment.  Replenishment methods must ensure ordering enough stock to meet demand without exceeding predicted turnover. | | **Balance in inventory categories** | Stock control requires balancing stock categories, ensuring that high-demand items do not reach soldouts and preventing slower-moving stock keeping units from becoming obsolete.  One principle to keep in mind the 80:20 principle, namely that 80% of the store’s profits come from 20% of its product mix.  Effective replenishment procedures are required to maintain this balance. | | **Inventory tracking** | Without regular stock counts, it is not possible to manage stock effectively.  There are different methods of stock counting. These are discussed further in this module. | | 10 |
| KM05 IAC0202 | 1. Explain the principles of managing stock levels:  * Threshold * Forecast * Product flow | **Set threshold levels**   * Chain stores – in fact, all retail stores - must hold a *safety stock* to meet unpredicted sales. To attain that, threshold stock levels should be calculated and maintained. * When stock levels reach the threshold quantity, the chain store manager should reorder stock to replenish stock on hand. * Threshold levels include both maximum and minimum stock levels. Establishing appropriate maximum-minimum thresholds, based on lead times and safety stock level, helps the chain store manager ensure adequate stock quantities are available, without overstocking. * Both over supply and under supply of inventory can have negative impacts on the chain store.   **Forecast demand:**   * Accurate demand forecasting has the highest potential savings for any of the principles of inventory management. Both over supply and under supply of inventory can have critical business costs. Whether it is end-item stocking or raw component sourcing, the more accurate the forecast can be. * Demand forecasting help establishing re-order points to ensure the right quantities of stock are ordered at the right times.   **Manage product flow:**   * Effective product flow (supply chain management) is a critical principle of stock management. * If the chain is not managed effectively making the right quantities of inventory available to customers when they need them, it has a negative impact on the bottom line of the store. Product flow is managed by forecasting demand, establishing order cycles and tracking stock through stock counts. | 8 |
| KM05 IAC0203 | 1. Explain the principles of managing stock counts | 15 marks for 15 points mentioned   |  |  | | --- | --- | | **Establish accountability** | Set performance goals (e.g. 98% accuracy on first count).  Define levels of accountability for the overall physical count. Setting high goals for record accuracy is one way of establishing accountability for the physical count. Best-practice companies typically appoint supervisors or managers to supervise a counting group. These people have specific responsibility for planning the count, organising the count teams, reviewing counts, investigating discrepancies and approving adjustments.  Decide on strategies for counting – cycle or physical count. | | **Establish written procedures** | Document policies and procedures for entire count processes  Establishing and documenting policies and procedures are essential for effective and reliable stock counts. Written procedures help ensure consistent and accurate compliance to achieve high levels of integrity of the process and accuracy of stock records.  Well-documented procedures cover all aspects of the physical counting process including before, during and after the count. (Principles of counting procedures are explained in the next section.)  The chain store manager should regularly review and update established policies and procedures. | | **Select an approach** | The chain store manager should select the approach for the count, that is, cycle count or physical count.  When selecting the approach, the chain store manager should consider:   * The objective and purpose of the count * The capabilities of the stock management system * The characteristics of the inventory | | **Determine frequency** | Determine which items to count and how frequently. | | **Segregate duties** | Segregation of duties is a control measure. It entails separating key duties and responsibilities and allocating them to different people.  This reduces risk of error and fraud so that no single individual can adversely affect the accuracy and integrity of the count.  Typically, people involved in the following duties should not be responsible for any part of the counting process:   * Physical responsibility for assets * Processing and recording of transactions * Approval of transactions. | | **Train staff** | Staff responsible for the counting process are to be trained on the counting procedure.  Staff responsible for counting should have product knowledge, because they are able to distinguish between similarly looking products. This assists with accuracy of the count. | | **Provide supervision** | Supervision involves directing the efforts of counting staff.  Elements of supervision of counting include allocating responsibilities, giving instructions, training staff, solving problems, reviewing the counts and ensuring all items are counted. | | **Perform blind counts** | Blind counts mean that the numbers of items on hand are not included on stock counting sheets. This prevents short cuts during counts. | | **Ensure completeness** | A physical count requires that all the items that should be counted should be present and that all items are, in fact counted. | | 15 |
| KM05 IAC0204 | 1. Explain the principles of the receiving process:  * Inspect incoming goods * Identify and tag goods * Log in received goods | 10 marks for 10 points   |  |  | | --- | --- | | **Inspect incoming goods** | * Ensure standard operating procedures for preparing the area are followed, including cleaning, sweeping, mopping, tidying * Ensure all other stock is removed or clearly separated to prevent confusion * Ensure all necessary requirements, equipment and/or utensils/tools for proper receiving of stock are present (e.g. weighing scales, thermometers, stock moving equipment) * Ensure security measures are in place. During and after receipt, stock should not be left unattended * Ensure the persons responsible for receiving are available. Accountability is one of the critical aspects of receiving stock. Each worker must record his or her actions in the context of the overall operations. In this way, problems of miscounts, defective shipments and incomplete deliveries are not overlooked during a hectic delivery day * Ensure relevant occupational health and safety procedures are followed * Sort off-loaded stock – according to characteristics, storage zone and type of packaging * Check stock for quality, expiry dates, etc. * Check against documents – order and delivery note * Ensure the responsible person is notified of variances between stock received and documentation * Ensure procedures for rejection of unacceptable stock are followed, for example, storing rejected products in a secured area until the products are either shipped back to the suppliers, or the supplier delivering agent takes possession of the rejected products. * Record rejected products. * Ensure receiving area is tidied up after stock has been moved to appropriate storage areas | | **Identify and tag goods** | * Tag goods for storage. Tagging may be done in different manners, depending on the technology available at the store. * Label stock according to procedures for storing * Promptly move received stock to the appropriate areas (e.g. stockroom, cold room) * Ensure stock is moved correctly according to stock characteristics to prevent damage | | **Log in received goods** | The responsible staff member must record what was received against purchase orders. Outstanding order quantities are always shown on goods delivery notes. It is good practice to immediately record goods received on the stock management system. | | 10 |
| KM05 IAC0204 | 1. Explain the principles of managing stock in the stockroom | 10 marks for 10 points   * **Labelling.** Activities involved in labelling stock can include:   + Physically placing existing labels on storage containers and shelving in order to:     - Identify the stock items     - Display delivery date   + Preparing hand-written and/or computer-generated labels and attaching them to individual stock items   + Using electronic bar coding and labelling equipment   + Attaching labels to shelves, containers, stock items * **Easy access to stored stock** is important to prevent injury and ensure all stock is moved to the sales area when needed. Appropriate equipment should be used to reach stock that is stored above shoulder level. Stock should also be organised properly, for example, all types of stock must be facing the front of shelves so that stock is not overlooked. If a box with different products is hidden behind other boxes, it will not be found to be merchandised. In the case of perishable stock, losses may be suffered. In the case of seasonal items, the “hidden” stock may become obsolete. * **Correct storage according to product characteristics** should be maintained at all times to prevent damage. For example, heavy stock at the bottom of shelves and lighter stock at the top; separation of cleaning products from food items; separate and appropriate storage of toxic products. * **Stock rotation**. Ensure that the principle of First In First Out (FIFO0 is applied at all times to prevent stock from becoming obsolete. * **Access control.** Some form of access control must be implemented to ensure that only authorised persons can enter or leave the stockroom. Common systems include manual systems, such as intercoms, key locks or keypad locks and electronic systems using swipe cards or proximity cards/fobs. | 10 |
| KM05 IAC0206 | 1. Explain the principles of managing stock in the sales area | 20 marks for 20 points mentioned   |  |  | | --- | --- | | **Create a satisfactory shopping experience** | * Customer shopping experiences are enhanced when stock is organised and merchandised in a manner that makes their shopping experience easier because they can find the items they are looking for where they expect them or because stock is merchandised in a logical flow, that is, similar products are grouped together. * Interesting displays create excitement and prompt impulse sales. * Slow-moving stock and dead stock may receive new interest if such stock is merchandised in an interesting manner or at “hot spots” (high traffic areas in the store). Dead stock may be moved if positioned strategically or if a promotion is run. * Soldouts and empty merchandising spaces must be avoided as these frustrate customers and cause loss of sales for the store. | | **Ensure stock is marked and merchandised** | * Marking and merchandising should be done according to written procedures, established by the chain store manager. * The purpose of merchandising is to have the right merchandise at the right place at the right time in the right quantities at the right price, to meet customer needs. * Merchandising is done to achieve several objectives, namely: * Optimum use of space for displaying merchandise * Effective space allocation for various brands and packages * Sensible presentation of products available for sale * Optimum exposure of products to consumers in order to increase sales and generate revenues for the retail store * Creating a consistent, orderly and clean appearance for the merchandise * Creating consumer awareness of brands and promotions * Display instructions may be given to the merchandiser by means of planogram instructions. * Procedures for unpacking merchandise * Merchandise must be displayed using appropriate display units, fixtures and fittings, according to the characteristics of the merchandise. * Merchandise must be handled based on stock characteristics and according to instruction. * All merchandise displays are founded on basic principles that increase product purchases. | | **Protect stock from losses and damages** | * Losses take place when security measures are not adequate or not effective. A variety of security measures is available, including security tags and security monitoring cameras. * High value items such as cameras, cell phones, tablets, expensive pens and jewellery should be displayed either in lockable display cabinets or on special lockable display stands for cameras and tablets. Access to keys should be limited and controlled to prevent theft. * Stock must be displayed on appropriate display equipment to prevent damage. | | **Create a positive impression** | * A positive impression is important for good sales. Neat and well-organised displays create a positive impression, enhancing the shopping experience. In retail chains, planograms play an important role in well-planned displays to encourage buying and cross-buying of related products. Planograms should be followed and maintained. * Displays should therefore be clean and tidy at all times. Staff wo are not required at Point of sale should be encouraged to continuously tidy up displays and put items in the correct positions. | | **Ensure accurate recording of transactions** | * Accurate recording of transactions is important, because the records are fed into financial reporting for the store and because stock replenishment decisions are made based on the information. Controlled procedures for recording transactions are also important to prevent stock shrinkage and losses at the point of sale. | | 20 |
| KM05 IAC0207 | 1. Explain how to manage understock | In most cases, not much can be done about understocking and stockouts. As an attempt to a short-term solution, the first step is to deal with it by placing an emergency order.  That is only helpful if the supplier can respond with short lead time for delivery. | 2 |
| KM05 IAC0207 | 1. Explain how to manage overstock and dead stock | Overstocking and dead stock situations require both short-term and long-term managing.  **Short term:**   * Sale * Promotion * Pricing strategy * Remerchandise * Use as incentives   **Long term:**   * To prevent overstock and dead stock, the chain store manager should understand customer demand. * The chain store manager can get insight into demand by studying sales trends at the store. For stock that is replenished regularly, it is best practice to consider sales figures for six months. * Historical sales data can help predict what will sell during specific times of the year. It is especially helpful to plan for seasonal sales. | 12 |

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| KM05 IAC0301 | 1. Discuss the safety stock replenishment model | Safety stock (also called buffer stock) is stock held in a reserve to prevent stock shortages.  Deciding how much safety stock to carry depends on a number of factors, such as lead times, demand, and carrying costs.  The chain store manager should aim to enough safety stock to meet demand and support the usual stock replenishment cycle, but not so much that increased holding costs tie up finances or that an overstock situation develops. | 4 |
| KM05 IAC0301 | 1. Discuss the reorder point model of stock replenishment | * The definition of reorder point is the point at which you send a purchase order to your supplier or warehouse. * Most inventory management systems are programmed to follow replenishment rules to automate replenishment. * Replenishment is typically triggered when inventory levels hit what is known as the reorder point. The reorder point is the point at which stock needs to be reordered – considering current and future demand, along with how long it will take the supplier or warehouse to deliver the order. * The reorder point is the sum of the lead demand plus the safety stock. | 4 |
| KM05 IAC0301 | 1. Explain what demand forecasting is | Demand forecasting is used to estimate how much stock is needed for a given period.  It is the real foundation of successful replenishment and has a big impact on effective replenishment. | 3 |
| KM05 IAC0302 | 1. Explain the role of the buyer | * The buyer in a retail chain identifies, selects and purchases stock that matches company requirements. * Buyers source new products and review existing merchandise to ensure the company’s products remain competitive. Most buyers tend to specialise in one product type (for example, clothes, fashion accessories, food and drink, books, furniture, electrical items or household goods) while those who work for smaller companies may focus on more than one but still a limited number of categories. * Buyers must be able to anticipate the needs of the company’s customers and they need to establish positive and lasting liaisons with providers. They must further ensure that the merchandise they are purchasing is of the quality that the consumer expects. They must also be able to foresee new trends, especially in the fields of fashion, technology, and electronics, as new items and models are released constantly. * They understand that trends change and that a business needs to be ahead of the trend to be successful. Buyers know what is happening in other markets and can translate that to the markets of the companies they work for. * Buyers are also usually responsible for the merchandising operations of retail chains. | 5 |
| KM05 IAC0302 | 1. Explain the role of the planner | * The planner in a retail chain ensures that stock is in the right place at the right time, at the right price and the right quantities. They seek to satisfy consumer demand. * While buyers identify suitable stock for the retail chain, planners are responsible for the planning and control of the product range. They are responsible for planning the long-term buying strategy and negotiating price structures, delivery dates, specific merchandise requirements and contracts. * By using past data, the planner plans future demand. | 3 |
| KM05 IAC0303 | 1. Explain how the chain store manager can influence the buying and replacement process to improve stock turns. Give examples | * Chain store managers can influence the buying and replenishment process to improve stock turn in the store through *proper planning* and making use of *performance ratios* such as *stock turn*, *days supply* and *weeks of supply* to *prevent understock*, *overstock* and *dead stock*. * They can further improve stock replenishment by following the steps of the *replenishment process*, namely *demand forecasting*, *lead time analysis*, *order cycle analysis* and *service level goal analysis* | 13 |
| KM05 IAC0401 | 1. Explain what product mix is | * The total number of product categories that a company offers to its customers. * All the product categories, when grouped together, form the product mix of the company. * Product mix has four dimensions:   + Width   + Length   + Depth   + Consistency | 7 |
| KM05 IAC0401 | 1. Explain the influence of product mix on the bottom line | |  |  | | --- | --- | | **Shopping patterns of different groups of customers** | When a chain store sells a wide product mix to a broad base of customers, there will be, on any day, a mix of which customers buy which products from the store.  Because each product has a different product margin, this mix will impact on the store’s overall profitability.  It may be that even if the store has identical revenues for two consecutive months, the profit for the two months may be different because of the product mix bought by customers in the two months. | | **Shift in sales in different product categories** | Any shift in increased sales in some categories and decreased sales in another category will impact on the profitability of the store. | | 5 |
| KM05 IAC0402 | 1. Explain the principles of category management | * Categories should be divided and arranged as per the *consumers’ needs and ease* (what consumers buy and how easy it is for them to find what they need) rather than the retailer’s convenience (what the retailer wants to buy and how the retailer wants to arrange categories). * Category management should be based on *differentiation* and uniqueness. For example, if you run a children clothing store you would separate clothing into a boy's section, girl's section and baby section. How you divide up the clothing is dependent on what types of clothing you carry. * Category management should *drive multiple item purchases* at the same time. Since the key aim of category management is to maximise profits, it is important to manage categories in such a manner that consumers buy multiple items at a time. Displays should encourage cross-selling. * Category management should be *based on the basis of product response*, space and profitability. * *Planogram discipline* should be maintained. The planogram is the document that shows how the store merchandising should be applied. It is a blueprint of the store’s layout and merchandising plan. | 5 |
| KM05 IAC0402 | 1. Explain the aims of category management | Category management aims to:   * Provide customers with what they want, where they want it, and when they want it. To do so, products are grouped into categories according to how they are used, consumed or purchased. * Obtain long-term improvements in the efficiencies of the retailer, which leads to:   + Increased sales;   + An improved shopping environment; and customer loyalty. | 4 |
| KM05 IAC0402 | 1. Explain the impact of the brand’s image and target market on product mix allocation | * Brand image is how customers perceive the brand. The image develops over time. Customers form an impression on their interactions and experience with the brand. * The image of the brand will have an influence on the product range. For example, if the brand was built to be and is perceived by consumers as a luxury brand, the product mix needs to be aligned to that image in terms of, for example, exclusive products (such as bath products sold by Rain), scarcity (sufficient stock to trigger excitement but no huge displays of the same SKU; no impression of masses of the same dress displayed in a boutique chain store that targets shoppers who want exclusive dresses), and luxurious packaging and merchandising. On the other hand, luxurious bath and personal care items would be out of place in a plasticware discount store that also stocks bath soaps with a convenient role. * The store’s target market also has an influence on the product mix, which should meet the needs, demands, likes and dislikes of the target audience. A health food chain store should, for example, not stock products that are perceived as having too many preservatives and colouring. | 3 |
| KM05 IAC0403 | 1. Explain the disadvantage of all stores in the chain having to sell the same product mix | The main disadvantage of all stores in the same chain having to stock the same product mix is that the needs of the store’s local target market may not be met adequately. | 2 |
| KM05 IAC0404 | 1. Discuss, with examples, how the chains store managers can influence the product mix for the store | The retail chain store manager can influence the product mix and range for the store in several ways, including the following:   * Carefully studying consumer buying patterns at the store, including factors that influence customer decision trees, as well as their movement through the store. This information can be used to limit or increase category width and depth. * Selecting product assortment that is customer-centric. * Being involved in decision making for the retail chain to which the store belongs. | 3 |