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Just Baked™ Inventory Management—Exercise

Just Baked™ is an upscale, specialty cupcake bakery headquartered in Livonia, Michigan. Just Baked got its start in founder Pam Turkin’s kitchen when she began to make s’more cupcakes for her children. Word of mouth spread the news and she began to supply cupcakes for office events. As she experimented with more and more flavors of gourmet jumbo cupcakes, she realized there was significant unmet market demand for premium cupcakes in the Detroit area. Just Baked grew from one retail store in 2009 to thirteen stores in early 2013. Most stores are owned and operated by franchisees, though a few are company-owned.

Demand for cupcakes exhibits patterns based on seasons, store location, day of the week, and time of day. The “freshness promise” implicit in the name Just Baked™ had to be supported by the daily baking and topping of thousands of cupcakes at the Livonia bakery as well as early-morning delivery of cupcakes to each store.

Retail Store-Level Cupcake Inventory Planning

Just Baked cupcakes sold at retail stores for prices ranging from about \$2.30 each for simpler cupcakes by the dozen up to about \$3.50 for the fanciest cupcakes sold individually. Most of the cupcakes were sold in 2-packs priced at \$5.50. An approximate overall average selling price was \$2.75 per cupcake. Franchisees were charged \$1.25 per cupcake. Company-owned stores were also “charged” the same transfer price of \$1.25 per cupcake. Total variable costs per cupcake out of the Livonia bakery were about \$0.50, representing \$0.25 in direct material and \$0.25 in variable labor. Cupcakes not sold by the end of the day were discarded. Just Baked credited the stores \$0.75 for each unsold/discarded cupcake.

Research indicated that customers were generally willing to purchase cupcakes from those available, even if they had to substitute a second choice for a most-preferred flavor. For the purposes of this exercise, understocking costs are confined to the immediate lost sales profit.

In practice, Just Baked did not permit franchisees to make their own cupcake-ordering decisions. Instead, cupcakes were baked and delivered to all stores based on centralized decisions.

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