

EVERYBODY LIKES TO SAVE MONEY, whether it means seeking out inexpensive gasoline, using coupons or hitting a one-day sale. But for convenience store operators, saving money is about more than the thrill of the bargain — it's a survival tactic. Reducing costs and increasing operational efficiency is the key to success in this competitive channel, where pennies can mean the difference between profit and loss. Myriad costs impact the bottom line, but labor, technology and energy are three major areas of focus for store operators.

Smarter Labor Deployment

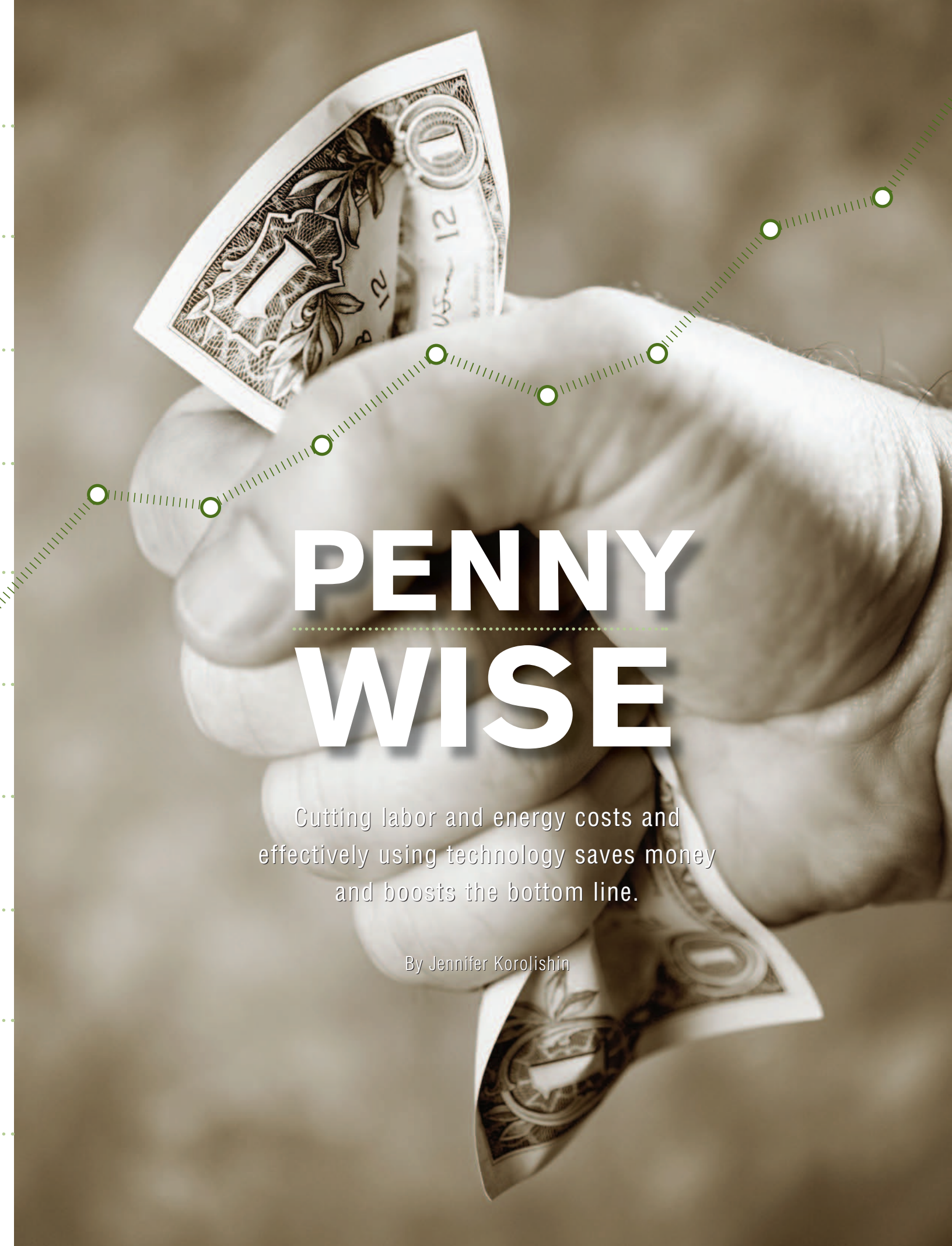
Labor is every convenience store's biggest operating expense. Employees are needed to keep stores humming, but people are expensive — salaries, benefits and training costs add up, particularly in this high-turnover industry. Store operators strive to provide the best customer service possible, so when it comes to saving money, the answer usually isn't fewer employees, but deploying associates in a smarter, more efficient way.

"The first thing store operators try to do to control payroll costs is to curb turnover, as the expense of hiring, training and replacing employees is rather expensive in itself," says NACS Vice President of Retailer Services Michael Davis. "Retailers are making sure they train, motivate and reward current employees so they can keep them. We don't necessarily think of reducing turnover as a way of controlling costs, but it definitely provides cost savings and improves customer service because employees are better trained and perform better on the job."

Taking work out of the store, especially through use of technology, also can help operators reduce labor costs. Inventory control systems make receiving and tracking merchandise easier and help control shrink. Point-of-sale (POS) scanners and electronic pricebooks remove the need to individually price products. Kiosks can move time-intensive transactions like money orders off-register.

Reengineering tasks also can save steps in common in-store processes: pre-portioning sandwich meats, for example, can reduce foodservice prep time. "It may seem like you only save a minute a day on a certain process, but if you multiply that by 10 stores by 365 days a year, those pennies start adding up into real dollars," says Davis.

Perhaps the biggest way to reduce labor costs is through labor budgeting. If a manager understands a store's percentage of sales by day and by hour, as well as when tasks like product deliveries typically occur, the



PENNY WISE

Cutting labor and energy costs and
effectively using technology saves money
and boosts the bottom line.

By Jennifer Korolishin

store's labor force can be properly budgeted and scheduled to ensure adequate coverage at peak times. NACS developed its Labor Budgeter in 1998 to offer an industry-specific alternative to commercial products aimed at more general retail needs and to provide a more scalable solution for smaller operators.

The NACS Labor Budgeter includes labor standards based on time and motion studies conducted to determine the average time needed to complete common convenience store tasks. It takes an actual workload estimate and converts it into weekly and monthly

hours so an operator can schedule employees more effectively.

"Labor budgeting has never been an exact science," says Davis. "This starts taking the guesswork out. Depending on the amount and level of sophistication of the data the operator collects and how they utilize the data that comes out, the NACS Labor Budgeter is a much better way to budget labor than the way it may currently be done, which is usually based on a percentage of sales."

Bloomington, Minnesota-based Holiday Stationstores, which operates 308 convenience stores, provides an example

of how retailers can benefit from labor budgeting. It developed its own labor budgeter in 1999 with the consulting firm KPMG, which also helped to create the NACS Labor Budgeter. The combination of an improved training department, the development and application of best practices and use of the labor budgeter helped Holiday to achieve significant operational efficiencies.

"From 1997 to 1999, we were increasing labor at a rate — and this is both hours and dollars — of 4 to 7 percent each year," says Chuck Monson, Holiday's regional director of operations. "Since we implemented the labor budgeter in all stores in February 2001, just looking at our comparable store group [227 stores], we have reduced labor hours 9.4 percent and we've held our wages basically flat between 2001 and 2004, so it's made a substantial difference."

For Holiday's managers, the labor budgeter has helped redeploy their time so they can spend more time on the floor with customers and associates. In fact, floor time is built into the labor budgeter to ensure that managers interact with associates and assign and oversee specific tasks, which contributes to the store's overall efficiency.

"It definitely helps cut down managers' planning time because the budgeter tells them how much time each task should take," says Monson. "It helps them write the work list for the day, and by giving associates a specific amount of time to accomplish a task, managers then can deploy that person in other tasks much more quickly. It's a fantastic time savings for the manager."

Additionally, Holiday made the switch to scanning since it began using the budgeter, and has found that scan data improves the budgeter's function. "For example, we know how many cooler products are sold, so we know exactly how often that cooler needs to be

Making Energy Deregulation Work for Your Stores

In some markets, energy deregulation offers retailers an opportunity to buy electricity and natural gas at a more favorable rate. Denver, Colorado-based EnergyWindow (www.energywindow.com) helps retailers with multiple locations purchase electricity and natural gas and manage overall energy supply costs. About a dozen states have competitive electricity markets, while almost every state offers businesses a competitive natural gas market. EnergyWindow helps retailers find the best deal through an online RFQ system; suppliers respond to the request and buyers need only accept the deal if it meets their requirements and will generate the requisite savings.

"A lot of retailers actually aren't aware of the opportunity," says EnergyWindow President Dr. John Mason. "Some people just haven't thought about it or assume utility costs are non-negotiable. It looks relatively challenging to figure out what's going on and how to compare prices."

Because companies like EnergyWindow have a constant eye on electricity and natural gas markets, they can help retailers to take advantage of temporary price dips by locking in favorable rates for a longer period of time. This can help retailers save money in the long run, especially when prices are rising steadily. In one example, EnergyWindow helped the U.S. Postal Service procure electricity for 2,400 facilities in five states during a temporary price dip in May 2005, resulting in \$2.6 million in savings.

Some businesses in deregulated markets also turn to energy aggregators that pool numerous individual businesses and procure energy on behalf of the group, generally at the same price and under the same terms. EnergyWindow differs in that it can offer retailers a more customized plan.

"In the face of rising energy prices, the only thing to do is to pick a good time to get bids, put a contract in place for two to three years and take advantage of the fact that you've been able to fix your price for the supply component of your costs while prices are going up," says Mason.

restocked, how long it should take and how much cleaning should happen. Each task is broken down based upon sales, so that's made a huge impact," says Monson.

Going forward, Holiday is updating and re-timing all of its 155 tasks and upgrading the budgeter's scheduling capabilities. "What we're working on now is how do we get this to be more of a predictive tool? How do you get it to be a scheduler and really tie the hours into the wage dollars?" says Monson. "We've done a decent job of tying dollars and wages together, but we need to have one system that can do both. That's our next step."

Using Technology Effectively

Technology, in the form of everything from POS scanners to high-speed Internet connections, is more accessible and more prevalent than ever before in the convenience store industry, helping stores to cut costs and boost efficiency. However, convenience stores face two major technology challenges. First, given that technology usually represents a large expenditure, how can store operators maximize their investment? Second, how can stores make IT systems or applications from different vendors work together smoothly?

For many store operators, POS systems and scanning are the starting point for technology investment. Both fulfill the desire to save money and gain efficiency by improving customer throughput and providing item-level information that impacts product assortment, category management and inventory replenishment.

"Once you have a level of POS sophistication, you can start allocating shelf space correctly, which makes room for more goods; therefore, you're selling more, so that basic scanning implementation can translate into a deep set of benefits," says Mike Finley, vice president, global product marketing for Atlanta, Georgia-based Radiant Systems Inc., a provider of point-

of-sale, customer self-service applications and fuel control technology. "I think of it in terms of a ladder with different benefit levels from speed of service at checkout at one end to eliminating back-office processes that reconcile invoice mismatches at the other end. Every step in between is a major return."

Having item-level information can help in the application of loss prevention technology, as well as allowing retailers to implement order forecasting, which compares inventory data to sales to help retailers forecast optimal inventory levels.

"What will happen invariably is retailers will implement back-office software such as ours and the first thing they will find is that they're overstocked in several categories," says Jimmy Lord, director, mid-market channel for BlueCube Software Inc., a former Radiant unit also based in Atlanta that provides retail back-office technology. "They will also find they are understocked in several categories. Retailers end up saving money because they can reduce their on-hand inventory initially, and then they will have the appropriate level of inventory in those under-stocked categories. So they'll start capturing sales they were otherwise losing."

Security is another major area where technology can help convenience stores cut costs, as it can help reduce shrink, including employee theft and drive-offs. Digital security systems, which provide more and better images and storage, are replacing video tapes. Digital systems also offer more flexibility, as images are more easily isolated and shared, making it easier to observe remote store locations.

Setting a Standard

Industry-wide, adopting a set of technology standards is the best way to help retailers maximize technology investments and make disparate systems work together. While several retail technology standards bodies exist, none focused exclusively on

convenience stores until the Petroleum Convenience Alliance for Technology Standards (PCATS) was formed in 2003 from the NACS Technology Standards Project.

The first area of focus for PCATS is on POS/back-office integration, where it created a standard that allows POS and back-office systems offered by different vendors to communicate more easily.

"In the past, retailers had to pay to have POS/back-office integration done if they bought systems from two different vendors," says PCATS Executive Director John Herve. "Today, assuming that both sides of the equation are using the PCATS standard, it's very close to plug-and-play and it greatly reduces the cost to the retailer. In addition, it helps suppliers reduce their costs, which hopefully are passed along, because they don't have to spend time doing one-off integrations."

Having standards means retailers aren't limited in their technology solution purchases, so it's possible to build best-in-breed solutions by choosing different system components from different vendors. For example, it used to be the case that if stores owned certain gasoline pump brands, they'd have to buy the same brand's POS system to ensure the two solutions could communicate; getting either system to work with another brand involved developing a custom interface, usually at great expense and difficulty. The use of standards means operators are free to choose what's best for their business, often at a lower price.

Currently, four companies — BlueCube, Radiant, The Pinnacle Corporation and Professional Datasolutions Inc. — offer PCATS-certified POS or back-office applications. At least four more companies are expected to become certified by year's end.

To become PCATS certified, solution providers use a Web-based conformance tool. The POS/back-office technical specification contains 150 use cases covering

Tips for Reducing Energy Costs

GENERAL:

- ▶ Preventative maintenance of the heating and cooling systems
- ▶ Check vents on the roof, including skylights and chimneys, for possible leaks
- ▶ Close vents and seal doors and windows to conserve heat
- ▶ Perform an energy audit
- ▶ Clear inventory from near vents
- ▶ Conduct employee training about maintenance and energy savings

AIR CONDITIONING SYSTEM MAINTENANCE:

- ▶ Clean evaporator and condenser coils
- ▶ Reduce moisture accumulation and keep condensation drains clean and flowing
- ▶ Monitor and adjust airflow
- ▶ Change HVAC filters routinely
- ▶ Check refrigerant level and adjust if necessary
- ▶ Clean and adjust blower components

Source: Trane

a wide variety of transactions. Suppliers submit their use cases to PCATS online to be validated via the conformance tool. The tool immediately reports back on whether the supplier's submission has passed or failed. Those that fail have an opportunity to make corrections and resubmit.

Currently, PCATS certification applies only to POS/back-office applications, but the program is poised to expand in the coming months into areas such as EB2B, an updated version of EDI (Electronic Data Interchange) with three standards categories: retail/general merchandise, lottery and motor fuels. The standard

will allow convenience store retailers to exchange documents electronically with suppliers, reducing data entry errors and manpower.

PCATS motor fuel standards will allow retailers to receive things like invoicing and credit card reconciliations electronically from distributors and major oil companies. One of the companies involved is Houston, Texas-based FuelQuest Inc., which helps retailers to manage fuel inventory levels and minimize freight and transportation costs. Allowing electronic documents to flow between the retail fuel buyer and fuel delivery vendors will help reduce costs because it speeds order placement and response to demand changes.

"We have a firm belief that by using standards, and not just creating one-off interfaces, it lowers costs for everybody," says Ryan Mossman, FuelQuest director of solution marketing.

"It lowers our costs because we can build the one standard interface and we don't need to recreate it for each customer. It helps the retailer because now they don't need to have someone entering invoices into their system. They can set up freight contracts in our system, and then every time the carrier delivers a load of fuel, all the information flows into our system automatically, providing dramatic administrative savings."

As more suppliers adopt PCATS standards, certification may provide a significant competitive advantage as retailers become aware of what standards usage can mean to the bottom

line. "We think certification is going to drive the POS and back-office vendors who haven't been involved to want to get certified," says Hervey. "It's going to get the attention of retailers who are going to say, 'I'm in the market for a new POS system and I want to be sure that what I'm buying is PCATS certified.'"

Heritage's Dairy Stores, a small convenience store chain based in Thorofare, New Jersey, gambled on technology and won big. A PCATS member and a client of both Radiant and BlueCube, Heritage's launched an ambitious technology program in an effort to reduce costs, gain operational efficiencies and position the chain for the future. Its journey started with the purchase of Radiant POS and BlueCube back-office systems

"Starting with the POS system, when you start scanning, you're no longer pricing all the merchandise," says Jay Dempsey, Heritage's director of marketing. "The cost of doing all that manually is measured not only in dollars, but also in the time that's taken away from taking care of customers and performing other store tasks. That pressure is relieved by the speed at the point of sale because the throughput is so much quicker."

Switching to high-speed Internet in-store helped Heritage's to take advantage of faster transaction processing times. "All of our credit and debit processing is now high-speed," says Dempsey. "Processing now takes roughly 2.5 seconds, so now credit and debit sales actually take less time than cash sales. That's a cost savings, but it all gets down to saving time. We're able now to have more of an in-store focus, and that's going to lead to increased sales."

"At Heritage's Dairy Stores, we feel that by embracing the PCATS standards, and the industry embracing PCATS, we can quickly integrate all suppliers and equipment for maximum efficiency," says Dempsey.

Cutting Energy Costs

Like labor, energy is something store operators can't do without, but rising costs are of great concern, given convenience stores' high energy usage per square foot. Lighting, refrigeration, heating and air-conditioning systems, and foodservice equipment all contribute significantly to convenience stores' energy load in a 24/7/365 environment.

For new stores, reducing energy costs begins at the blueprint stage. "Operators should be looking at energy as a key cost strategy in their business, which starts with the design of the store itself. At the very least, operators should make sure they're designing to existing energy efficiency standards," says Chuck Blythe, retail market leader for Trane, a provider of indoor heating and air-conditioning systems and other facility solutions.

Some of the ways to ensure energy efficiency in a new store include:

- ▶ Using the proper amount of insulation
- ▶ Making sure door and window seals are tight
- ▶ Choosing energy-efficient equipment, including HVAC, lighting systems and coolers
- ▶ Consulting with architects and engineers on ideas for incorporating energy efficiency into building plans

For existing stores, operators can save on energy costs by:

- ▶ Surveying stores to gather ideas on where they may be able to save energy. The EPA's Energy Star program can help: www.energystar.gov;
- ▶ Adjusting the thermostat; and
- ▶ Cleaning and maintaining equipment; dirty coils on air conditioning or refrigeration units force the equipment to expend more energy.

Lighting is an area to consider in both new and existing stores, as advances in electronic lighting ballasts and compact fluorescents can help retailers save money. "Typically the biggest and fastest payback for an existing building is to take a look at the lighting," says Blythe. "There are tremendous advances in lighting technology every three to five years, so if stores have had the same lighting fixtures in place for 10 years, they should investigate new options."

Vancouver, British Columbia-based TIR Systems is a developer and manufacturer of LED-based solid state lighting (SSL) systems, which the company says can cut down on electricity usage of in-store lighting and signage by up to 90 percent in some cases.

"Convenience stores are facing increasing regulatory pressure in some jurisdictions such as California to meet specific energy usage requirements," says TIR Systems Director of Business Strategy Grant Harlow. "This trend will cause the need to adopt more efficient light sources such as LED-based SSL systems. Additionally, rising electricity costs mean convenience stores will look more closely at operational budgets when choosing new lighting and signage products, whereas today, the upfront price is often the primary factor."

Rising energy prices prompted Carmi, Illinois-based Martin & Bayley Inc., operator of the 150-store Huck's chain, to

seek out a better way to manage energy consumption. It found that in many of its stores, employees were adjusting the thermostat and leaving lights on when not in use. Its search for a cost-effective solution led the chain to invest in a wireless energy management system from Profile Systems LLC, which controls store lighting, HVAC and freezer/cooler monitoring.

"Profile saves energy by making sure the thermostats are set at the right temperature in all seasons, as well as making sure that freezers are running properly," says Martin & Bayley Vice President Todd Jenney. "It measures and tracks the energy load and adjusts every day by the minutes per day that the lighting system should be on or off. It's amazing the savings you can get from that."

The results are impressive: Martin & Bayley's estimates that using the Profile system has meant a 21 percent savings on lighting costs and 14 percent savings on HVAC. It means increased margins for the chain as a result of reduced operating costs, accurate HVAC set points, lighting schedules set freezer/cooler temperatures and longer equipment life. The Profile system is incorporated into all Huck's new builds and remodels; Jenney estimates that it's used in about 35 to 50 percent of the chain's stores. He also notes Huck's is experimenting with applying the Profile system to additional areas, like car wash.

"The main benefit to us is the ease of use and the efficiencies it helps us achieve," says

Jenney. "It's not a worry for us anymore. We very seldom pull up to a store and have to go in and say, 'Hey, turn your lights off.' That used to be a fairly common occurrence." ○

Jennifer Korolishin is a Philadelphia-based writer and editor with extensive retail and food industry association experience.

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- ▶ www.fpl.com/savings/energy_advisor/PDF/CEA_offices.pdf
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