

# CSP

CONVENIENCE STORE | PETROLEUM



## Securing the Area

- ▶ Providing ROI Substance .....42
- ▶ Avoiding Incidence .....48

# Providing ROI Substance

*Five retailers put interactive technology to the test through a six-month study to determine the impact interactive has on the bottom line. The results may surprise you.*

By D. Douglas Graham

The convenience store and retail petroleum industry has been technologically challenged since its inception. Until recently, many companies could not seem to warrant the investment in technology. Many retailers looked at technology with a skeptical eye. The real question was whether more money could be made opening new stores or by investing in technology? The answer was opening stores, at least from a traditional look at its return on investment.

The problem has been that ROI isn't as easy to measure with technology as with other more tangible business segments. Multiply that statement when it comes to deciding to make an investment in something like interactive technology.

To gain a better understanding of the potential of interactive technology, five retailers recently took part in a six-month test underwritten by Westec Interactive, Newport Beach, Calif. and conducted jointly with b2b Solutions, a Lake Forest Ill.-based consulting firm. Companies participating in the study included: E-Z Mart Stores Inc., Texarkana, Texas; Krause Gentle Corp., West Des Moines, Iowa; 7-Eleven Inc., Dallas; Thornton Oil Corp., Louisville, Ky.; West Star Corp., Olympia, Wash.

There were 80 sites in total that were included in the test, half of which were control stores. Preliminary findings, released in June, indicated that all measured areas showed improvement when interactive was in play at the sites. Test stores showed average sales per month increased \$11,056, while control stores' sales increased an average of \$5,952. The net increase of the test stores over the control stores averaged \$5,104.

Gross profit in the test stores improved by a net increase of \$1,608 vs. the control group. Merchandise variation

improved by \$637, cash variation by \$95, and turnover by \$989. The total gross savings amounted to \$3,329 per store, per month when Westec's interactive system was in place.

One of the most important factors in terms of being able to achieve the desired ROI came in the way of employee retention, according to Steve Kimmes, vice president of operations for Krause Gentle, which operates roughly 300 Kum & Go stores. "We were able to hold down cost by reducing turnover." The system provided the chain another tool to set itself apart from its competition.

Executives at E-Z Mart shared Kimmes' view, after overcoming initial skepticism. "Supervisors who were initially skeptical are now using the interactive technology very successfully to improve employee retention," said James "Bubba" Kirkland, director of merchandising.

"Our San Antonio, Texas, store was having difficulty keeping employees and there was high turnover. With monitoring capability, our employee retention has improved greatly. In addition, the interactive technology has helped us improve employee effectiveness."

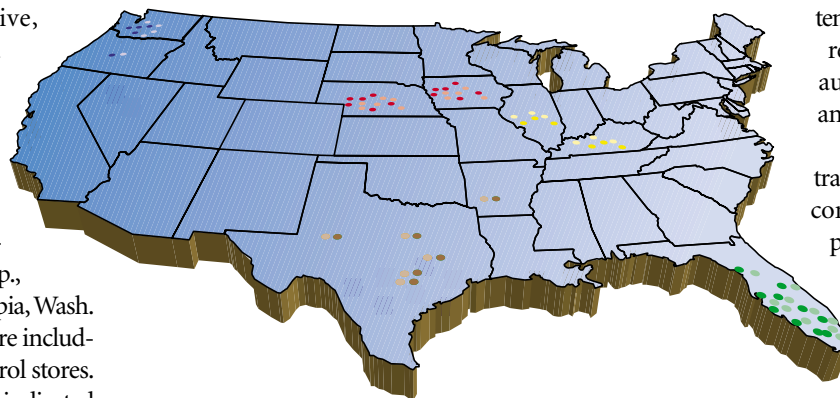
What was discovered during the months of the test was the number of different ways interactive systems can impact a chain's performance. Once deemed merely a security device, retailers are now realizing they can use the technology in almost every aspect of operations.

## Standard protocol

Remote interactive security systems are a step or two beyond the widely deployed CCTV systems most retailers use today. Remote interactive systems are yet another spawn of the digital revolution. It is now possible not only to observe what is happening at a location, but also interact with the individuals there. Some systems have one-way video (store to remote location) and two-way audio (store to remote location and remote location to store).

The test started with a retail training session to educate the five companies on the system components and Westec's response system. Chains also received a training program (CD or video) and manuals to take back and train their store-level employees.

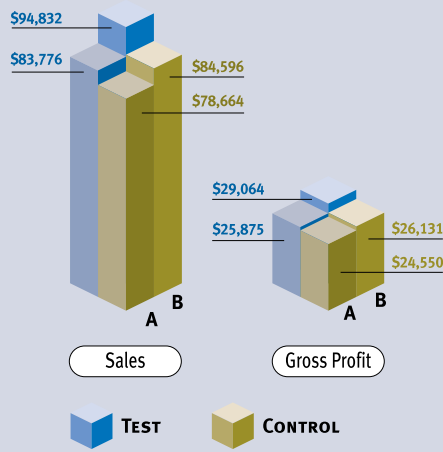
Those that were to use the InTouch Manager, which allows remote access to a site, were given additional training. To ensure a fair comparison of results between the two test groups, test and control stores consisted of matched pairs, so each test store mirrored the control store in the key areas. Criteria included:



		TEST	CONTROL
7-ELEVEN INC.	11 TEST SITES	■	■
E-Z MART STORES INC.	12 TEST SITES	■	■
THORNTON OIL CORP.	6 TEST SITES	■	■
KRAUSE GENTLE CORP.	6 TEST SITES	■	■
WEST STAR CORP.	5 TEST SITES	■	■

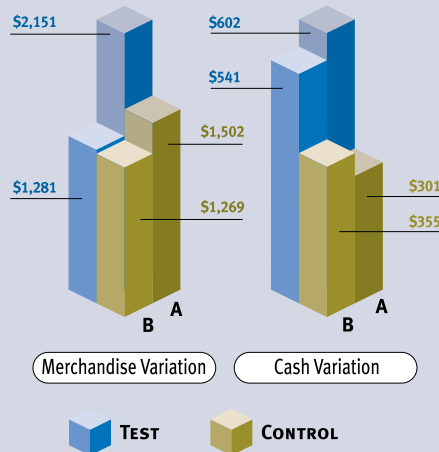
Source: Westec Interactive, b2b Solutions

## Change in Sales and Profit



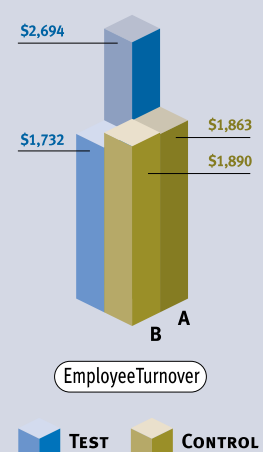
Period A: Oct. 98 – Mar. 99  
Period B: Oct. 99 – Mar. 2000

## Change in Shrink



Period A: Oct. 98 – Mar. 99  
Period B: Oct. 99 – Mar. 2000

## Change in Turnover



Period A: Oct. 98 – Mar. 99  
Period B: Oct. 99 – Mar. 2000

Source: Westec Interactive, b2b Solutions

- Stores were in the same market with similar demographics.
- The same supervisor was responsible for both the test and corresponding control store.
- The stores had the same profile (c-store, gasoline, fast food).
- Stores had similar volumes.
- Cash shortages at each store were the same.
- Merchandise shrink was similar at each site.
- Employee turnover was equal at each location.
- Gross margins were constant.
- Each store had a similar history of robberies/incidents.

The test was conducted to validate the effectiveness of interactive services and remote management. Westec executives set out to unblock the thinking that the system was limited to helping chains overcome security issues. The company wanted to further establish additional applications for the technology, develop a ROI model, and shorten the industry adoption cycle of new technology.

Retail participants primarily wanted to lower shrink and improve store security and safety. They were also curious to find out firsthand if the system could have an impact on sales and gross margin. Reducing turnover and improving operational effectiveness were also key goals. Accomplishing all, plus substantiating the ROI, would prove the biggest challenge. Retailers are frequently presented with amazing numbers by manufacturers looking to bring their product to a chain. Having a company come in and prove it to them on the level that Westec committed to doing was something entirely different.

Five key metrics would be monitored: sales, gross profits, merchandise shrink, cash shortage and employee turnover. Some companies also elected to monitor additional metrics internally.

Sales were monitored as a first indicator that could impact the other areas. For example, if a competitor opened or closed, the sales line would immediately reflect that and an adjustment in the test could be made. Turnover was measured because of the tremendous direct and indirect costs associated with it.

Equipment included an integrated audio system and a mixture of CCTV cameras, including Westec's PTZ cameras (which can be remotely controlled to pan, tilt and zoom). The setup also included a transmitter box for processing voice and image data; a two-way audio system complete with high-tech microphones and speakers; a modem; and two dedicated two-way phone lines or a single dedicated ISDN line.

Four to six indoor or outdoor cameras were used, depending on the coverage needed, plus a multiplexer and VCR, a camera power supply, monitors, supporting brackets and cables. The alarm system included an alarm panel, alarm keyboards, door contacts, panic buttons, bill traps, pendant alarm buttons, and a "Hot Phone," which is linked directly to Westec's Visual Command Center in California.

Additionally, the system included a monitor facing the front door so customers quickly realize they are being viewed. A variety of standard and customized signage informed customers of the system's presence.

Westec's Visual Command Center conducted a pre-determined number of remote moni-

toring visits where someone would "voice in" to announce they were monitoring the store. Other times during the test, the "visits" would occur unannounced.

Mike Upp, Westec's vice president of marketing and business development, explained how the system works: "Let's say the clerk sees a couple of kids getting ready to do a beer run. He pushes a button to activate the system and within seconds someone at the control center sees the same thing the clerk does. A voice suddenly comes on over the loudspeaker, telling the kids they've been caught and the police are on the way. That voice seems to come right out of nowhere. It's almost like God personally scolding them. Most of the time it has the desired effect. The thieves leave the store in a hurry, without the beer."

Westec's remote retail software product, InTouch Manager, was also installed on test chain's computers. The Windows-based software allows an authorized person to remotely visit a store. The advantage as an employee management tool is unmatched. A manager can do remote site tours, ensure that the store is clean, keep watch of closing and opening procedures, and determine if the labor hours are being used or abused.

InTouch Manager also promises strong marketing advantages. The technology can be used to monitor customer traffic patterns, verify that store displays are being put up appropriately, keep track of customer responses to promotions, and observe purchasing patterns.

"The system allows a district manager responsible for 12 stores to do much of his work from home," Upp said. "All he has to do is dial in to determine if the inventory is going up on

the shelves or just sitting there. He can also see whether or not the beer cooler is full, or the grill has hot dogs on it at peak periods of the day.

"How many people are in line at any give time, and what are they buying? Are the employees up-selling the coffee program? Are they doing all the things they were trained to do when they first took the job? These are questions you can't really answer when you visit a store in person and everyone is on their best behavior. You can only find out for certain when no one thinks you're looking. But even if your employees assume you are looking, or might be, they'll be more likely to do the right things all the time."

The system also inherently provides managers with plenty of opportunities to dispense praise for jobs well done, not just point out the errors. It can also be useful in accessing working conditions, cutting back on corporate liabilities, confirming employee complaints and checking on the progress of recently hired personnel.

"I used to travel to my stores three days a week and was in the office only two days," commented Kirkland. "Now I can do it all from my desk. The most important benefit of interactive is the ability it gives you to visit stores without having to travel. Whether it's a merchandising or human resource issue, the manager can dial up a store and see what's going on. As long as you can access a phone line you can visit the store. In the beginning, there was some resistance to the 'Big Brother' aspect of employees being watched. But as they were educated about the advantages of interactive technology, the employees came to like the system."

### Retail results

E-Z Mart CEO Sonja Hubbard reported one of the key reasons for participating in the study was to determine if the investment in the system (which is significant) would pay off. "The test subjects were stores we were having trouble with," she said. Testing began in October 1999.

Field operations people, who are in charge of between eight and 10 stores each, dialed in

regularly, as did sales managers and divisional vice presidents. "The results were good," Hubbard confirmed. "Sales went up, shrinkage went down, and all other factors being tested showed significant positive change."

As a family business, Hubbard has developed close relationships with employees. "You get to know the people. With interactive technology I can meet and get to know people when, geographically, it's hard to get there. Being a family business, I'm really glad I can meet everyone up close and personal."

The chain did experience some initial resistance regarding the "Big Brother" issue, but staff acceptance has been strong overall. Many have come to view the system as a de facto employee that they interact with.

At Krause Gentle, Kimmes reported the system did show benefits. "The overall benefits manifested themselves in increased gross profits, improved inventory control, reduced turnover of associates and gains in sales," he said.

"The security aspect allows people to have immediate access to a trained professional," Kimmes noted. "Relationships with the local police departments have improved, plus the system has had an impact on our ability to apprehend suspects and control crime. I can tell you the smile on my face is due to the financial rewards I will reap as a result."

Other retailers expressed similar satisfaction in their participation in the test and several expect they will install the system at some level in their chain.

Throughout the test period, retailers reported raw data back to b2b Solutions for analysis. "Every participating retailer had the opportunity to review the results on a three and six month basis and then tell us where the interactive technology had impacted negatively or positively on their operations," said Steve Montgomery, president of b2b Solutions. "This gave us the opportunity to better validate the raw data."

Retailers reported the five data segments monthly. Data was then reviewed and dissected. Monthly meetings also worked to give retailers access to Westec executives to discuss various aspects of the test.

A variety of financial measures were taken into account in the final analysis, according to Montgomery. Sales were monitored, but not used in the actual ROI calculations. Savings were instead determined by measuring the dollar

## How it works

Through a marriage of CCTV cameras and other high-tech devices, a Westec security specialist on the West Coast can observe what is happening in stores throughout the U.S. If they were to see a shoplifter filling his pockets with merchandise, the specialist can inform him via speakers located at various points in the store ceiling, that his activities are being observed and recorded.

Westec's interactive system is designed to support the clerk in any circumstance in which they feel the need for assistance. This can range from the store having too many customers for a clerk to handle to incidents where the clerk feels uncomfortable dealing with a situation.

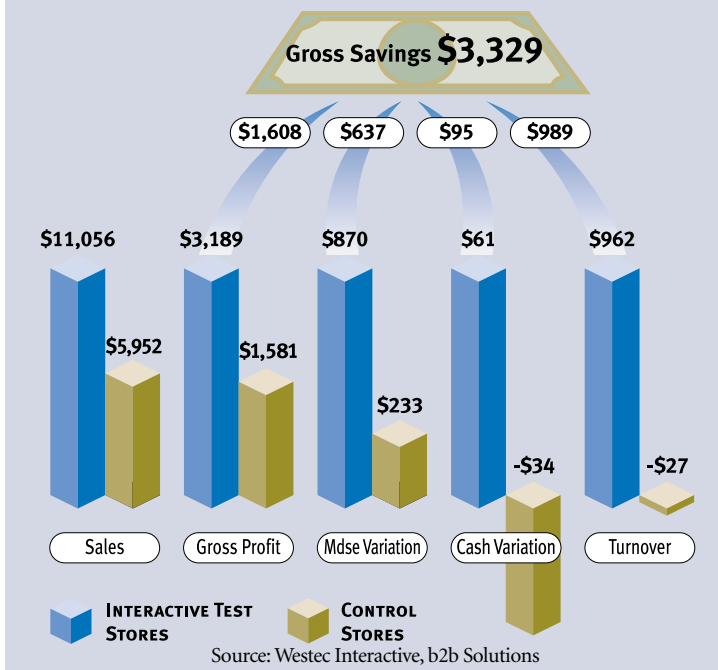
When an employee feels sufficiently concerned to activate the alarm button, the security specialist's main video screen comes to life within seconds, as does another screen right next to it. The main screen allows the specialist to observe what's occurring while the second screen contains all relevant store data, including the number of the local police station. In addition, the specialist can hear what is being said at the location. The specialist will not intercede until they have determined what is happening. Instead, the specialist will observe the situation and determine the appropriate course of action. This might include "voicing down" from the speakers in the ceiling or outside the stores indicating that the store is being monitored and that the activities are being recorded and/or informing the local authorities if something that warrants their attention is going on.

"I think interactive technology will make a significant difference in safety and security around the country," says Dallas' former chief of police Bill Rathburn. "I can foresee governments mandating the use of this technology. It is critical to improving safety. It will also prove to be a major step forward as a technology helping police departments, from reducing time spent on false alarms and prevention of crime to preventing employees from being killed or injured during robberies. Interactive security will be proven to be a major benefit for law enforcement. There's no question of interactive security's deterrence value."

### Savings Per Store

Average \$ per store per month	TEST	CONTROL	CHANGE
Sales	\$11,056	\$5,952	\$5,104
Gross Profit	3,189	1,581	1,608
Merchandise Variation	870	233	637
Cash Variation	61	(34)	95
Turnover	962	(27)	989
Dollar Improvement	5,082	1,753	3,329

## Validating The ROI



changes in gross profit, merchandise shortages, cash variations, and turnover.

This was then compared with figures for the

same period the previous year for both the test and control stores. The differences were calculated for both test and control stores. The net result was that improvements were realized in each of the five areas segmented: sales, gross profits, merchandise shrink, cash shortage and employee turnover.

The average sales per month in the test stores increased \$11,056, while that of the control stores increased \$5,952. Gross profit in the test stores improved by a net increase of \$1,608 over control stores. Merchandise variation improved by \$637, cash shortage by \$95, and turnover by \$989. Total gross savings resulting with the use of the Westec system was determined to be \$3,329.

The test demonstrated a significant ROI.

The average payback is less than a year. According to NACS 2000 State of the Industry report, an average new store investment is \$1.5 million, with an average EBITBA of \$140,200, for the top quartile stores.

According to Westec executives retailers can take that same \$1.5 million and purchase interactive systems in approximately 60 sites, which would yield just over \$2 million.

The results cemented the notion that the system would have an impact on a variety of areas within a chain. It also worked to give retailers some hard facts to examine. "People in this industry want to make fact-based decisions, but when a supplier conducts their own research, the results are sometimes viewed with a jaundiced eye. In the case of this test, b2b Solutions worked as a third party to solidify the facts," Montgomery said.

Prior to this study, Westec conducted similar tests with Circle K, which also showed positive results. "The trouble was that the testing was done with only one retailer, and because there was no independent third party involved, other retailers were reluctant to believe it," Montgomery said. "We went to great lengths to ensure this test was not only accurate, but valid as well." □

Circle XXX on reply card