

Outsourcing: A growing strategic alternative

As an independent consultant, I get to view many different successful (and unsuccessful) modes of operations. One of my profession's greatest benefits is when I observe yet another way that a retailer adds sanity and cost-savings to their success formula and realize that the company wouldn't object to (and is often enthusiastic about) sharing its ideas with other industry friends. After all, if others jump on the new bandwagon it will trigger increased utilization, which typically accrues more efficiency and less cost to all subscribers.

We wouldn't attempt to reset our child's broken wrist so we outsource that task to an appropriate medical resource. We'd be reluctant to defend ourselves in court so we outsource that requirement to a specialized attorney. And, in our industry, many companies find it more cost-effective and efficient to utilize external crews to take retail physical inventories on a random or scheduled basis in our stores. In brief, outsourcing is simply about getting something done more efficiently and cost-effectively than you could do it internally.

Over a year ago I was introduced to an innovative systems alternative that triggered my curiosity far beyond any high-tech or systems-automation option that I've seen in 20 years. The business model I studied seemed so obviously beneficial that I wondered if its simplicity might threaten its acceptance.

The birth of PerformanceRetail, Inc., a venture created by retailer powerhouses Tosco and Amerada Hess, and technology specialists Andersen Consulting and Retek, Inc., is a perfect example of the profit potential of outsourcing. Looking at the retailers' motivations to take this giant step helps us imagine similar external resources that could further simplify our business environments. Consider these quotes:

(a) "This will enable Circle K stores to have consistent access to a broad range of services, allowing for greater adaptability and *responsiveness to the customer*,

improving the business performance of each individual store and decreasing operating costs in the process," VP & CIO, Tosco Corporation.

(b) "PRI simplifies Hess' growth process by giving the retailer *greater flexibility* to quickly revamp acquired stores and sooner realize profits *without the huge burden of large capital investment*." Senior VP, Amerada Hess Corporation.

I italicized key words in these quotes to focus on points that I believe are relevant to many operators. Essentially, these major chains have concluded that their core competencies lie in operating, acquiring and integrating new stores within their existing structures, rather than maximizing a return on investment from focusing on their prime skill sets. Concurrently, they've concluded that the enlistment of an external industry-specialized alternative for technical prowess and information management allows each of the companies to invoke "best practices" in their respective disciplines.

Will this concept grow beyond these two mega retailers? I suggest it will for the same reasons that PDI succeeded in developing their software applications as industry-standard solutions for some 300-plus companies, then developed a service bureau to help smaller chains that opted not to handle hardware and software applications and its related responsibilities (and often headaches). Further, with technical solutions proving to be a moving target, and many IT professionals moving between employers as fast as the solutions, a business model of exiting this in-house task begins to make sense.

A word of caution

Beware that outsourcing may be talked down in some companies as vehemently as many teachers' unions will lobby against school voucher programs. Those insecure with their contribution level to the company will invent roadblocks every step of the



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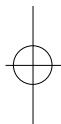
Title: President

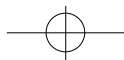
Years in the industry: 23 years

First job: Paper route in Bayonne, N.J.

Family: Wife of 28 years Dotty, and two sons Rich (Aerospace Engineer) and Ben (Marketing degree)

What do you like most about the convenience/petroleum marketing industry? I like its predictability and, most of all, its great people.





way. Regardless, those who see their role surviving and enhancing, as I suggest will be the case for true IT and financial management professionals, will analyze the best solution and recommend what's best for the company as a whole.

I developed the accompanying inset that discusses other outsourcing ideas whose time is now. As an example, if the current board serves at the pleasure of the owner, maybe the company is missing the benefit of an independent director who will tell it like it is and help the company grow much stronger?

Facilities management (e.g. preventive and event-specific equipment/site maintenance and repairs, electrical and HVAC needs, etc.) is another outsourcing trend that I think offers our industry potential relief. Just as Quick Service Restaurants educated our industry on cleanliness, food cost and sales productivity skills, I believe we'll see specialized process service companies transform these (typically stepchild) activities into a more harmonious way to manage them, while decreasing related costs. In my opinion, the supplier that earns the business from a majority of chains will:

- (a) Have a proven network of reliable and cost-effective independent technicians (that can fix fountain/refrigeration/other equipment, lighting, pumps, HVAC).
- (b) Provide a by-site information system that assures timely preventive service and event-specific services.
- (c) Have a significantly lower cost per store versus that incurred via our random approaches to these non-core tasks.

From pondering the above, I'm hopeful that you have identified some areas for outsourcing tasks in your company. If they're not anyone's favorite job, it's probably safe to conclude that the tasks are being subordinated or ignored and, therefore, costing the company profit dollars. Why not, then, start the process of listing the task needing better attention and identifying the resources that might do them better? Oftentimes this will compute to better results and more profits. ■■■

MARKETING STRATEGIES INDUSTRY NEWS

Spherion, ExxonMobil expand employee-screening agreement

Spherion Corporation, Ft. Lauderdale, Fla., in December announced it is expanding its relationship with ExxonMobil Corporation, Irving, Texas, to provide an automated pre-screening program to assist in hiring new employees at most existing and new retail locations, as needed. The company had been providing Exxon Mobil with telephone-based pre-screening services since January 1998, most recently covering 450 stores with 5,000 employees across the United States.

ExxonMobil will use Spherion's program to prescreen candidates for cashier positions. The phone-based system, which can be accessed 24 hours a day, seven days a week, generates "best-match" candidates for live interviews.

"Spherion's pre-screening program gives companies an edge in identifying and attracting qualified candidates. This can be critical when the economy is running at record low unemployment," said Carl Williams, president of Spherion's assessment group, which is based in Charlotte, N.C. "We are pleased that Exxon Mobil is satisfied with our services and is now expanding their use of our program."

With the program, applicants use a touch-tone phone to answer a two-tiered series of "Yes" or "No" questions. First-tier questions are those typically found on employment applications regarding experience and availability. If they satisfy eligibility standards, applicants continue to the second tier of questions.

"Second-tier dimension questions are designed to seek out candidates that best match the client's culture and, most importantly, the characteristics necessary to perform in a productive manner," said Ken Kunda, managing director of Spherion's Assessment Group.

Kunda noted that the automated screening program offers a high degree of fairness. "All applicants are asked the same questions and can be assured they are evaluated using the same criteria for all," he said.

C-STORE INDUSTRY — OUTSOURCING VENUES TO CONSIDER

Opportunity	Why?
Accounting, Information Management Administration	High turnover of expensive/specialized IT personnel; too many accounting departments not perceived as providing timely and valuable info to operations. Most data management tasks better done by specialists.
Strategic Planning	Independent view of a company's strengths, shortcomings, opportunities, financial and operating trends and positioning for the future.
Company Valuation, Acquisitions, Strategies, Funding Alternatives	Top management remains focused on Exit enhancing profit from today's activities while specialists help quietly and professionally define expansion/disposition choices.
Branded Foodservice	History of proprietary foodservice efforts provide inconsistent results, concept becomes stepchild of retailer; branded QSR should enhance customer traffic and bottom line \$.
Facilities Management — equipment repairs, lighting, gas pumps, building, HVAC	Provides routine and specialized preventive maintenance programs for store/fuel equipment and focused/documented services for specific repair requirements.
Energy Management	Utilities are second-largest occupancy cost; experts know questions to ask, major local or regional cost-saving plan alternatives.
Board of Directors	Adds dimension and unprejudiced input for family or other owned companies; offers external balance on "tough" decisions.

