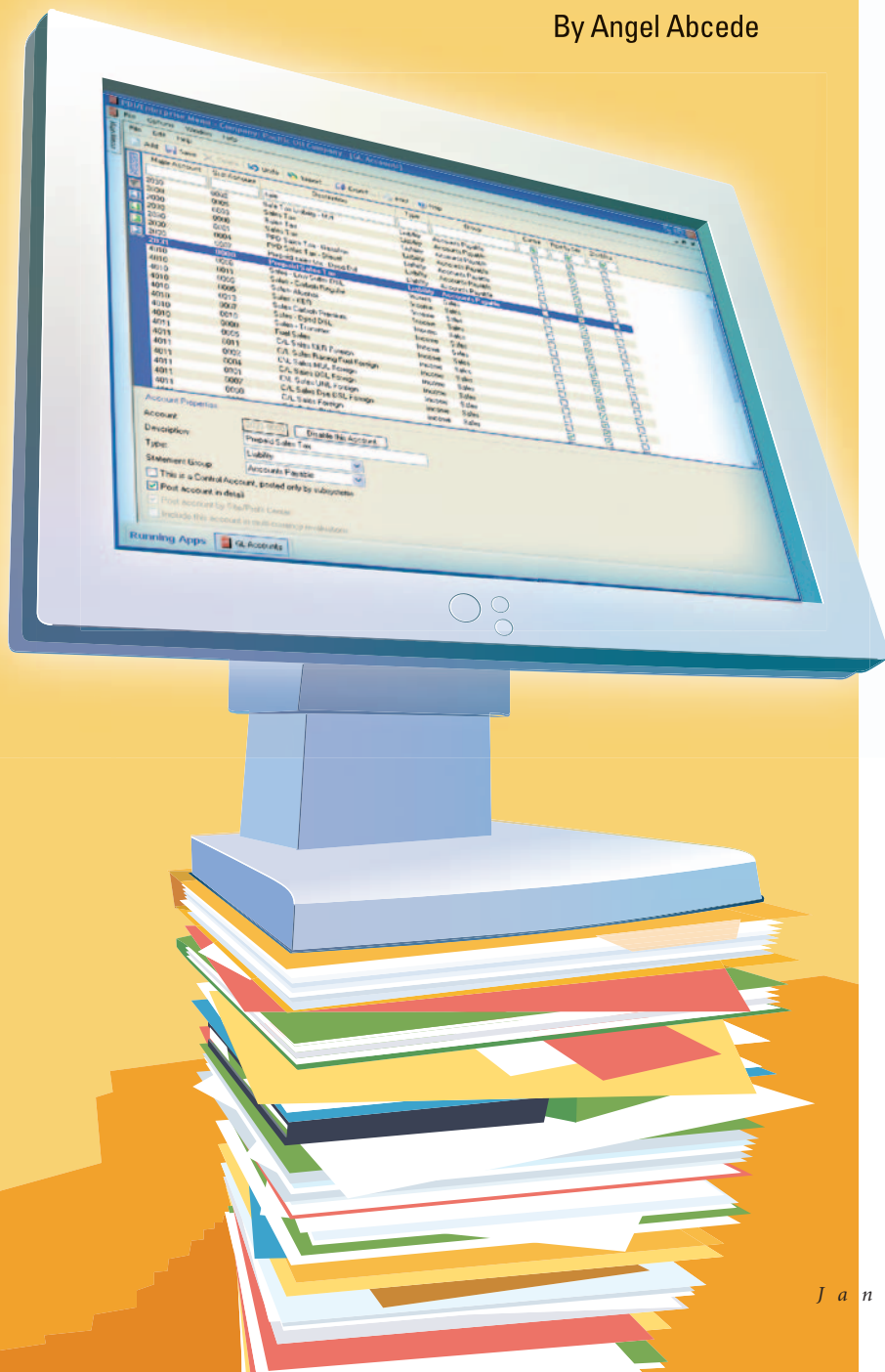


The Rise of Enterprise

As ERP barriers fall, opportunities emerging for retailers

By Angel Abcede



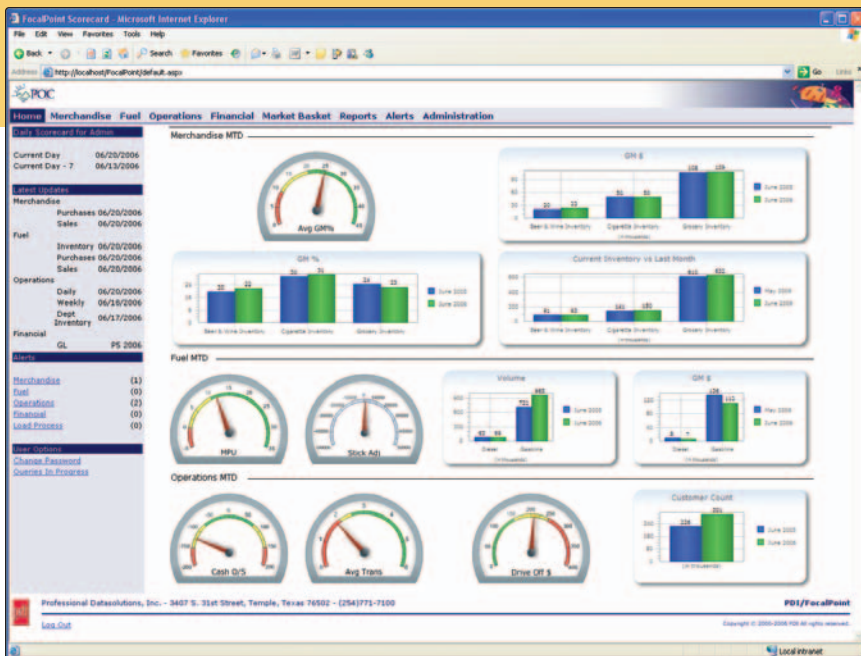
Enterprise is not just a ship on “Star Trek.”

Enterprise resource planning (ERP) applications are beaming into the real-world routines of petroleum retail and convenience-store operators, with everyone from Cumberland Farms to 12-store retailer Gary McKee of Pak A Sak, Amarillo, Texas, taking advantage of the latest developments.

Though automated systems that run throughout the company have the reputation of being complex and expensive, advances in Web-based platforms and wide-area networks are making accessible a single, automated solution that touches as many parts of a retailer’s business as possible.

Spurring this streamlining are several high-profile, c-store-specific automation firms, including FACTOR, Professional Datasolutions Inc. (PDI), RedPrairie and its BlueCube Enterprise product, The Pinnacle Corp. and Retalix USA. But cross-industry ERP players are in the game as well, including names such as SAP and Oracle.

For McKee of Pak A Sak, the goal was simple. He wanted to get rid of as much paper as possible, making electronic all the processes that consumed time and exposed his business to the



GAUGING BUSINESS: With the ability to feed sales figures into a centralized database, an enterprise system can produce timely reports.

frailties of human error.

“I could leave at night and you’d see stacks of paper on [employees’] desks—invoices, all kinds of stuff they’d have to do,” says McKee, referring to the period before installing the latest suite in his software provider’s enterprise solution. “And now, when I leave the office, those desks are clean.”

Being up to date on a daily basis with store- and corporate-level reporting “doesn’t sound like much,” says McKee, Pak A Sak’s IT vice president. “But it’s huge if you can stay caught up on things like invoices and accounts payable. It helps you stay focused.”

Many companies, from the modest to the massive—such as 900-store operator Cumberland Farms, which last fall inked a deal with Redwood Shores, Calif.-based Oracle—are automating within the “enterprise” and gaining access to store data in meaningful ways.

Essentially, these “enterprise-wide” systems provide automated solutions to departments within corporate all the way through to each store. While implementing ERP may require an

investment in manpower, such solutions deliver an unbroken, electronic flow of data, effectively transferring information among different departments or from store level up to corporate without data entry and the possibility of manual mistakes.

C-store operators have for years had the option of choosing a single vendor for everything from store-level back-office solutions to corporate general-ledger applications, but a lot has changed in recent years. New software versions are emerging, barriers to effective implementation are dissolving and an increasingly savvy industry is beginning to understand the importance of a fluid transfer of sales, inventory, shrink, supply-chain and payroll data between stores and corporate.

Such seamlessness is opening up to retailers of all sizes, many of whom are taking advantage of evolving opportunities. Projections put the ERP business at around \$64 billion by 2009, with petroleum-retail and convenience-store operators increasing their activity in the space. According to the 2006 NACS State of the Industry report, “enter-

prise/executive system upgrade” is the second-biggest IT challenges facing respondents’ businesses today, surpassed only by “POS upgrades.”

In addition to Cumberland Farms, 7-Eleven Inc. and Wawa Inc. have recently upgraded all or portions of their enterprise applications.

But high-profile companies are not the only ones jumping onto the enterprise bandwagon. A joint study by Boston-based AMR Research and the New York-based publication *Managing Automation* found that while only 27% of small companies (those with less than 500 employees) in the study currently used ERP, those firms are realizing “they do not have the IT architecture needed to compete in the new, demand-driven world,” said David Caruso, senior vice president of research at AMR.

In a press release describing the study of 550 companies that the two firms released this year, Caruso said, “Companies are taking a look at their existing ERP systems and making substantial changes by either adding functionality, upgrading or evaluating a wholesale replacement of their existing ERP systems.”

Where We Stand

Though the AMR study primarily consisted of businesses in the service (30%) and manufacturing (70%) industries, the findings and Caruso’s comments ring true for the c-store industry as well. Retailers today find themselves competing directly with technology-savvy companies such as Bentonville, Ark.-based Wal-Mart Stores Inc. and a multitude of other mass merchants, supermarkets and drug stores for core products such as gasoline and snacks.

What has made the ERP puzzle particularly difficult for the c-store operator is the very nature of the business itself. "Convenience retailing is very complex," says Bob Johnson, president of The Pinnacle Corp., Arlington, Texas. "You've got fuel, lottery, a wide merchandise mix and foodservice. If you look at that business model and how complicated it is to deal with product-wise and then place the environment miles away from the home office ... and then multiply that by a chain of 15, 20, 300 stores, it's the most complicated business model [there is]."

In addition to the issues that Johnson raises, other challenges exist, notably the industry's reputation for a lack of technological sophistication, coupled with the thin margins that retailers live off. Though retailers are steadily moving up the learning curve, the business is essentially one of \$3 to \$5 transactions inside the store and tight margins at the pump.

Comparatively, costs for ERP solutions in the c-store realm would typically average lower than other industries, just because the convenience-retail market will bear only so much, according to Greg Gilkerson, president of PDI, Temple, Texas.

That's not to say that enterprise solutions come cheap at any level. Chains with more than 2,000 stores as well as companies such as Pak A Sak, for instance, both operate off PDI's enterprise solution, and obviously have different cost structures in place due to the size, number of suites involved and complexity of the chain's operations. But to be profitable in the convenience space, PDI's Gilkerson says companies such as his tailor their product lines to the industry in more

ways than simply cost.

"We welcome the SAPs," he says. "It's doubtful they'll put the same emphasis on the [c-store] industry as we have.

They have a lot of strengths, but that helps shine more light on the value we bring to the table."

Through collaborative efforts with

200 retailers in its user base, the company has developed a series of application “suites,” encompassing various aspects of petroleum and convenience retail. These suites cover areas such as petroleum wholesale, store-level back-office and point-of-sale, pricebook and general ledger. A foodservice suite is due out next year, Gilkerson says.

A single-system approach such as the one PDI offers certainly is growing in favor within an industry that today resembles more of a patchwork quilt than a “seamless” answer. Ted Elston, vice president of marketing for FACTOR, Oklahoma City, says his company encounters many potential clients who take multiple vendor applications and “bolt them together with interfaces and try to make it all work as a unified system.”

Part of the beauty of an entirely integrated system, he says, is that “you have one database, so there’s no transfer of information going from one system to another and no opportunity for data to be compromised.”

Barriers Falling

With the challenges to ERP inherent in convenience retailing, numerous barriers had to come down for enterprise applications to make headway. Only recently, with the advent of Web- and browser-based technology as well as improved communications including wide-area networks, have enterprise solutions become more accessible to the average retailer. Here are other trends that appear to be aiding the enterprise movement within the c-store industry:

The emergence of industry-specific solutions. Building upon Web-based protocols and other cross-industry techni-

cal standards, more suppliers have tailored solutions for the petroleum retail and c-store sector that operators find easier to use and implement.

Size is not an issue. Retailers from five stores to hundreds can find solutions appropriate to their size. Not everyone needs a multimillion-dollar system.

Tips for Enterprise Upgrades

Earlier this year, Robert Beatty and Craig Williams, two IS professors from Northern Illinois University in DeKalb, Ill., published tips for upgrading enterprise systems in the journal *Communications of the ACM*. Here's a synopsis:

Build a case. Like any new project, even an upgrade to an existing system ought to have a business case complete with ROI attached to it.

Treat the upgrade like a new project. Often businesses do not allocate the proper amount of time and resources to an upgrade because they fail to fully consider what is needed.

Keep the old team. The team that initially put the system together is the most familiar with the project and can provide invaluable input into the upgrade.

Think business project, not IT project. The upgrades will affect the way people do their jobs, so key department heads must play a role.

Beware of hidden infrastructure costs. Upgrades can sometimes mean the need for more memory, additional hardware or high-speed capability. Consider these invisible costs.

Keep customization to a minimum. The temptation to customize a package can lead to future complications. Sometimes companies need to undo what they had done earlier in order to upgrade.

Retailers are getting the picture. More executives today appreciate the value of a system that covers their entire operation, resulting in reduced errors, time savings and improved productivity.

Complicated Past

Part of the reason enterprise solutions have had difficulty moving into the c-store arena is the technology's reputation of cost and complexity. Veteran IT managers remember where they were when Hershey, Pa.-based Hershey Foods literally "kissed" away \$100 million in candy orders just before Halloween eight years ago. The culprit: a poorly planned ERP implementation.

The packaged-food giant had spent three years working on a \$115-million enterprise system that would replace multiple legacy applications and tie the company together in one big electronic bow. But in September 1999, glitches and other implementation delays affected the order-processing piece of the project, tying up the supply chain and forcing retailers to seek alternative sources during the candy industry's peak trick-or-treat season. *CFO* magazine reported Hershey's third-quarter sales that year dropped by 12.4%

over the previous year and annual earnings fell 18.6%.

Though IT historians rethinking the Hershey case put the blame more on bad timing than the capability of the software, enterprise-level solutions have failed to shake off a reputation of complexity and corporate vulnerability.

And yet, within the c-store ranks, a rethinking has occurred. Quite possibly, the idea of enterprise has evolved not so much in its physical construct, but in what people view as the end result. One of the main concepts to emerge from the idea of ERP is a single database or, as Tom List calls it, "a simple truth."

The enterprise system, says List, vice president of marketing of retail productivity solutions for RedPrairie, Waukesha, Wis., is a "solution with a platform that applies across the entire scope of the organization. ... It's a consistent bevy of tools, whether at the store or manager levels."

Elston of FACTOR defines the concept further, explaining how information under an ERP remains neatly wrapped in a single database.

"You're able to use your data to its maximum capability with decision support," Elston says, "because every-

thing's tied together. Whatever information you complete at store level is automatically updated at the corporate level so there's no 'pushing' of data."

Another benefit, List says, is "real-time" access to data. "If you can home in on what's happening at the store level in real time, then you can make some great decisions," he says.

Retailer View

So how does simplifying the data flow help retailers? Well, real-time movement means better customer service.

"We've got to react to our customer base, and if I'm looking at data from a month ago, then I can't do that," says Bill Wicker, vice president of eight-store Tops Petroleum Corp., Chapel Hill, N.C. "There were all kinds of conditions [that exist] where if I'm not reacting quickly enough, I'm losing out. For example, if I'm not conducting movement analysis, things will start becoming out of stock—especially with cigarettes."

Wicker, who is upgrading with new enterprise applications from PDI, says real-time data allows him to plug potential shortages, in some cases shifting product from store to store if necessary.

And being more nimble does not affect other operational elements such as labor. In fact, McKee of Pak A Sak, who also runs an enterprise solution from PDI, believes he can now do more with less.

"At this point, we could take on three more stores without needing to hire another [administrative] person," he says. "For a small company like ours, that \$30,000 salary means something."

Confronting Change

Despite the obvious benefits of enter-

prise-level solutions, operators such as Wicker and McKee don't deny the challenges that face any chain seeking to implement an ERP.

Kevin Saum, vice president and general manager of petroleum and convenience stores for RedPrairie, which offers a solution called BlueCube Enterprise (a division handled out of the company's Alpharetta, Ga., office), says retailers must understand how moving to an enterprise solution is going to change their operations. "It's going to mean you have to rethink how you're doing business," he says. "In general, with enterprise solutions, you're changing your business process, and that needs to be addressed. Training is a critical part of success."

Tom Hennessy, retail operations manager for Brewer Oil Co., Albuquerque, N.M., has been running an enterprise-level solution from FACTOR since the spring. He certainly appreciates the centralized structure of the system and says corporate has regained control over price-book since the system altered the company's store-based paradigm.

But Brewer Oil has yet to completely turn over to the new system. "Because we're still just like any business, when we changed systems we're still trying to do things the old way," Hennessy says, although eventually the chain's 37 stores will turn over to the new system.

Saum and colleague List of RedPrairie say people get attached to the old way of doing things, such as a chain with 500 stores, for instance, having 500 databases to synchronize. "With an enterprise solution, all parts of the business are [now] looking at the same data," Saum says. Going from one business model to another has benefits, he says, but requires forethought and planning.

In many ways, however, retailers are ready to take on the challenges that change brings. Saum says RedPrairie is seeing new interest for increased functionality, with enterprise systems linking areas such as accounting and labor-scheduling. BlueCube was one of the first enterprise solutions specifically designed for c-stores, launching back in 2001, so Saum has seen the demand for enterprise solutions evolve over the years and observes an industry hungry for what enterprise solutions have to offer.

"Retailers [today] understand the value of better data," he says. "It's a rethinking of how you do business in the future." ■