Continuous Improvement
At 7-Eleven Inc.

UT Dallas
Project Management Symposium

Wes Hargrove
Senior Vice President and Chief Information Officer
Our Beginnings - 1927

7-Eleven started as an ice house in 1927 in Oak Cliff, Texas...
Listening to Customers…

What other products would you like?

Milk, Bread Eggs…
An Industry is Born

7-Eleven, Inc.

This giant trailer-truck, completely refrigerated, brings fresh fruits and vegetables direct from farms and orchards from coast to coast to the 104 7-Eleven Stores which serve Texas food shoppers. This is only one of a fleet of trucks which handle the vast amount of produce for the extensive operation.
52,285 stores ■ 16 countries ■ Open a store every 2.0 hours
25 million customers a day

9 billion transactions a year

Revenues $24B North America and $72B total system
36 Years with 7-Eleven

17 Leadership Roles
- Operations
- Human Resource
- Merchandising
- Logistics
- IT

Wes Hargrove
Senior Vice President and Chief Information Officer
Approach – 4 Step Process

Current Situation Analysis

Hypothesis

Action Plan

Verification

September 4, 2014
Retail is changing at an unprecedented pace

**Current State**

1. Economy is slowly recovering and income inequality is expanding across the U.S. population

2. Fight for the consumer discretionary dollar is driving competition and blurring channels

3. Omni-channel has ignited a digital revolution via smartphones and connected devices
“The focus of CEOs and boards - business growth powered by technology.”

Success here requires a fundamental shift in thinking:

It is okay to be IT, just not the same old IT.
Objective

- Align IT and Business Objectives
- Positioning IT Department with the Business
- Adding Value
7-Eleven Strategy Map

“Drive Profitable and Efficient Growth for All Stakeholders”

Financial Performance
- Grow Net Income for SEI and Franchisees
- Grow EBITDA
- Drive Operating Income
- Improve ROIC
- Grow Sales & Guest Counts

Guest Experience
- SERVICE
  - Make Shopping Fast, Friendly, Simple
- ASSORTMENT
  - Offer the Right Products and Services
- VALUE
  - Deliver Value
- QUALITY
  - Provide Quality Food and Beverages
- STORE ENVIRONMENT
  - Be Food-Service Clean, Well Lit, Safe
- COMMUNITY
  - Embrace the Neighborhood and Environment

“Make The Everyday Better”

“Operate a Quality Franchise System”

“Retailer Initiative”
- Understand the Guest
- Execute Item-by-Item Management
- Excel at Team Merchandising and Private Brands

“Innovation”
- Utilize Stores as Points of Distribution
- Develop Digital Relationships with Guests
- Consolidate & Leverage Guest Intelligence

“Profitable Store Network”
- Be a Fresh Food & Beverage Destination
- Optimize Demand Chain
- Build Market Concentration
- Optimize the Store Base
- Simplify and Support Store Operations
- Leverage Scale (SEI and Global)

“Effective and Efficient Infrastructure”

“Be A High Performing Team and Franchisor”

Culture
- Grow Enterprise Diversity
- Attract, Develop, and Retain Top Talent
- Recruit Great Franchisees
- Improve Communication with Employees/Stakeholders
- Be a Continuous Improvement Organization

SERVANT LEADERSHIP – Guests First & Support Stores
3 Fundamentals

Spirit of Re-engineered IT Department

- Do the right thing based on strategy
  - Simplify store operations

- Think like we run the company
  - Improve FZ’s profits first to improve SEI’s profit
  - Always keep both short term / long-term perspective

- Be flexible and innovative
  - “Don’t rely on past experience”
  - “Challenge the future with a solid hypothesis”
IT Proprietary Technology CSA – Operating Model

IT’s deep dive on the system capabilities to support business processes

Common Systems
- Item Master
- Main Order Processing (MOP)
- Information Analysis and Reporting (7-IA)

Store Systems
- RIS
- ISP /POS /MOT/ Scanner
- CBT

Back Office Systems
- Retail Accounting Systems
- Oracle Accounting/HR Systems
- Mainframe Systems
- Various packaged software

- Costly
- Multiple applications
- Lacks support for future direction

- Inflexible architecture
- Hardware at end of life

- Inflexible systems
- Out of support code
- High costs
CSA – Lacks a business focus IT takes too long, cost too much, not meeting needs

–Customer Service
- Poor IT Performance
- 17 out of 75 projects over budget
- Average Project Overrun 25%

–Misaligned Cost Structure
- Multiple Staff Aug Contractors and Consultants
- 50 IT Vendors
- Insufficient Challenging of Vendor Pricing

–Lack of business focus and alignment
- Project Write offs ~ $34.9M
- Inadequate Pre-Project Funding Review
- No Roadmap
- Poor Communication with Business
Hypothesis

- Cost Management
  - Prioritization / Roadmap
  - Re-engineering / Right Sizing
  - Outsourcing & Contract Review

- Business Process Improvement
  - Store Efficiency
  - Operations Excellence

- Guest Centric
  - IT Org Aligned with Business Areas
  - Store and Guest Focus
- Organization Structure
- Communication Process
- IT Strategy Aligned with Business Goals
- Prioritization
Organization – IT Operating Model

Real Estate / Facilities / Construction

Store Ops / Gas / FZ / AP

Merchandising / Logistics / Marketing

Accounting / HR / Legal

Planning / Finance

Store Ops Support Team

Merch / Logistics / Vendor Support Team

Accounting / HR Support Team

Business Transformation (BT)

Initiatives

KTLO & Regulatory

Infrastructure

IT Operations and Company Support

Vendor Management

Enterprise Architecture

CIO / CTO

Outsourcing / IT Steering Committee / Release Management

Demand Management / EPMO
A Simple Comparison: Store & IT

**STORE**
- Remodels
- Repair & Maint.
- New Programs

**IT**
- Infrastructure
  - Generational upgrades of software and hardware that improve system reliability and flexibility
- KTLO & Regulatory Initiatives
  - Maintain essential business systems, mitigate risk and protect shareholder value
- Initiatives
  - New strategic and functional capabilities to grow revenue and gross profit to help us better connect with the guest

Recommend breakdown of IT spending into three areas
IT Legacy

- Inconsistent Device Integration
- Hard Coding – Lack of User Configurability
- Redundant Systems
- Legacy Programming Code
- Point Solutions – Inconsistent Holistic Strategy
- Oracle ERP De-supported by 2013

FLOWCHART LEGEND
- ISP - Stores
- Retomware - EDS
- 2B Host - EDS
- 1A Host - EDS
- 7-Insight - EDS
- Mainframe - ACS
- Outside 7-11 Network
- Corporate Support
- Oracle - EDS
- End User Computing
- Daily Interface
- Monthly Interface

RETAIL ACCOUNTS PAYABLE
Master Files
Supplier Master
Vendor Supplier Xref
Supplier Options
Retail File (SRP/CRP)
UPC/Prod Code Xref
Item Master

MFG BILLBACK
Supplier Master
Vendor Supplier Xref
Supplier Options
Retail File (SRP/CRP)

RETAIL ACCOUNTING SYSTEM
Master Files
LDB
Store Retail Stock Ledger
VIP Master
Franchise Analysis System
From / To Table

KEY REPORTS
Cash Report - C07
Monthly Cash Report - C07

VENUE ACCOUNTING
Cash Book Corrections
Commission Income

CASH BOOK SYSTEM

7-Ins. Decision and Data Warehouse

Accounting Automation
1A HOST
Accounting Time Sheets
Gasoline System Masters

Service Providers
ADS, Incomm, ValuLink, Certegy
Credit Cards
Credit Card Reconciliation Exceptions

Pay Out Audits
Clean Outs

WEB VTS
TRINTECH RECONNET

Service Providers
Certegy

3rd Party Files

3rd Party Service Providers
WebWare, Money Online
ValuLink - Stored Value Cards
Incomm - Gift Card
States - Lottery Files
Banks - Store Deposits

Oracle ERP

Oracle A/P

ORACLE G/L

Checks to Vendors

BANK INFORMATION SYSTEM

ACH to Vendors

3 Charts of Accounts
IT Prioritization Strategy

Strategic Initiative 1st Priority
- Must Do

Strategic Initiative 2nd Priority
- Should Do
  (If Profitable)

Nice to have
- Stop

Keep the lights on
- Accomplish in most cost effective manner

Regulatory

Strategic IT Projects

40+% Reduction

Number of Projects


Projects
Defense to Offense Transition

- Balanced Resources and Spending -

**Offense**
- Strategic Initiatives
- Business Oriented
- New Biz

**Defense**
- Daily Tasks
- Maintenance
- System Management

2014 Strategic Spend target related to projects is 66%, currently 64%.

Resources Diverted To Offense

IT Outsourcing
Standardized Outsourcing Procedure

1. Define Core Competencies of 7-Eleven, Inc
2. Define Core Competencies of IT department
3. Define purposes of outsourcing
4. Overhaul SEI IT processes and Standardize them.
   (like deleting dead items)
5. Define SLA (service level agreement) and SLM
   (service level management)
6. Relationship Management

- Leveraging vendor spend across fewer partners
- Less time/effort managing partners
Improved Project Results

SEI Focus
- Prioritization
- Efficient Outsourcing
- Re-engineering

GARTNER – “…only 68% of IT projects are completed within budget…”

GARTNER – “…only 56% of IT projects are completed on-time…”

On Schedule – 98%

On Budget – almost 100%
Contract Renegotiations

Contract Strategy
• External Benchmark
• Flexibility
• Built in Continuous Improvement

7-IA Financials Negotiation Summary (in Millions)

Main Order Processing Fee

Saves 71%
Saves 10.2%
CTS – Value Beyond Cost Savings

CTS worked with 7-Eleven to define and implement the SLA measurement processes. IT Operations validates CTS performance results each month.

Participates with 7-Eleven IT Operations’ new Kaizen continual improvement program

Significant reduction in critical incidents
ITO (IT Operations)

Challenge the Status Quo

Projected First 5 Year Savings: - 53% Cost Reduction

An average 38% reduction in hourly rates
Business Process Improvement

- Store Efficiency
- Operation Excellence
Business Transformation

BT Supports Retailer Initiative

- BT stores experience a 2.4% sales increase vs. non-BT Stores
- More time for store teams to focus on RI

Current
- 2,489 BT Stores
- 30% of Total Stores

2014
- 4,293 BT Stores
- 52% of Total Stores

2015
- 8,422 BT Stores
- 100% of Total Stores

Model Store Results

- 29% Savings in Paperwork
- 66% Savings in Ordering
- 43% Savings in Check-In

2013 APSD MSDE Sales Change Over Prior Year

Start
Completed

Following IT Roadmap
Modernize Infrastructure

Focus
• Store
• Simplification
• Support RI
• Cost Efficiency

Short Term Projects
Long Term Initiatives

Store Equipment Refresh

75% Call Reduction
Schedule savings $5.4m

Shelf Tags

100%
0%
Time Savings to Shelf Sequence

65% Savings

Before
After

EBT

Eliminates Guest Stigma
Shortens CIC by 4-6 weeks
$2.4M telecom saving/yr
Field Operations Efficiency
Tablets with Applications

7-Hub
Usage up 20%
30K page views / day
3K searches / day

7-Help
On Line
Track Status
FZ Approval
RIS & Acctg. Cust. Service

Improved Communication

Digital Guest Experience
Mobile App, CRM, VOC
In Process

Following IT Roadmap
Modernize Infrastructure
Focus
• Store Simplification
• Support RI
• Cost Efficiency
Short Term Projects
Long Term Initiatives

RISE
- Retailer Initiative
- Simplify
- Fresh Foods
- Flexible

Accounting Simplification

Hybrid Thin Client

✓ Simplifies / Provides More Info
✓ Enables Franchising of Canada
✓ 20 Systems / 37 Processes Improved

✓ $M ISP Cost Avoidance 2018

Graphs:
- Ordering: 20% Time Savings
- Help Desk Calls: 25% Reduction
- ISP Screens: 30% Reduction
- Yearly Future Software Development Costs: 25% Reduction

Following IT Roadmap
Modernize Infrastructure
Focus
• Store Simplification
• Support RI
• Cost Efficiency
Short Term Projects
Long Term Initiatives
Strategy – High Level

Fresh Forward Technology

Cloud ESL/SOA SAAS GSS

Social Tablets/Hybrids Information

Customer Changing Information Technology Business Changing

Proprietary Information Technology Systems

Common Systems Store Systems Back Office Systems

Infrastructure
**Historical OSG&A: Cost of IT By Store**

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Situation</th>
<th>Analysis</th>
<th>Hypothesis</th>
<th>Action Plan</th>
<th>Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$XX,XXX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>$XX,XXX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>$XX,XXX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$XX,XXX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>$XX,XXX</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Improving Quality & Value**

- Staffing & Application Rationalization
- Vendor Contract Negotiation
- Partner Change & Efficiency Projects
- Store System Technology Updates

Software Quality Assurance, Vendor Management, Architecture

24.8% reduction since 2007

Target 28.7% reduction
**Senior Level Survey Results**

The IT organization provides effective help when I need it.

Our external IT services providers, that are managed by IT, deliver effective services.

The IT organization delivers value for money.

IT systems provide excellent support for business processes.

Changes to IT systems are delivered in a timely fashion.

We are provided with effective IT tools to do our jobs.

IT supports innovation in the way we run our business.

Critical business information is appropriately protected.

The IT management team provides sound guidance and leadership.

Overall, I am satisfied with IT's contributions.

---

**Graph Data**

- **2013**: This Year
- **2012**: Last Year

---

**Cost Management**

**Business Process**

**Guest Centric**
Key Learning to Add Value

- **Cost Management**
  - Prioritize the Work
  - Challenge the Status Quo
    - All Contracts / Include Continuous Improvement
    - All Vendor Partners

- **Business Process Improvement**
  - Utilize an end to end holistic approach
  - Roadmap is critical to success

- **Customer Service**
  - Listen; communicate; align
  - Roadmap is again a priority