Continuous Improvement At 7-Eleven Inc.

UT Dallas
Project Management Symposium

Wes Hargrove
Senior Vice President and Chief Information Officer
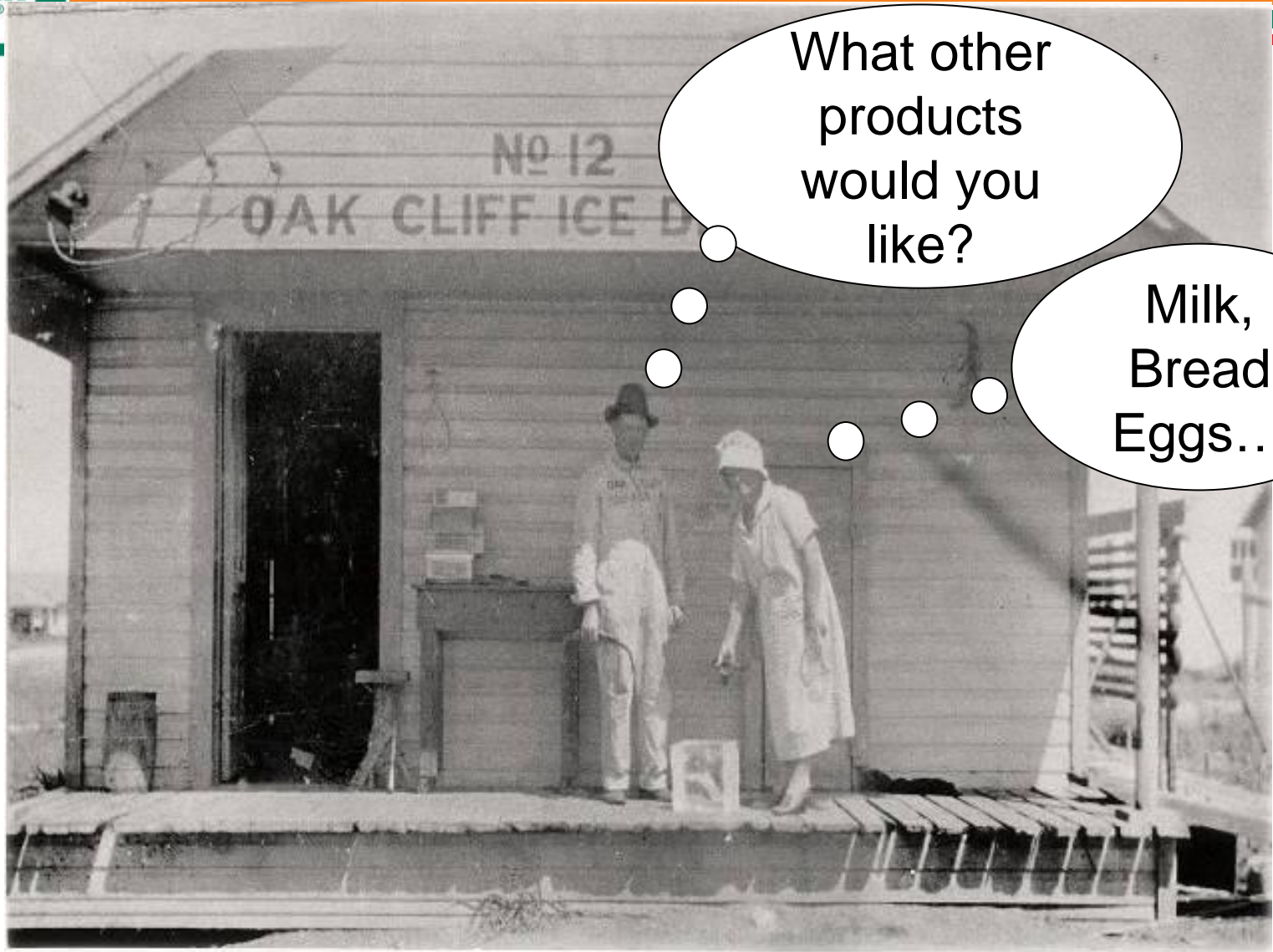
7-Eleven started as an ice house in 1927 in Oak Cliff, Texas…

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.
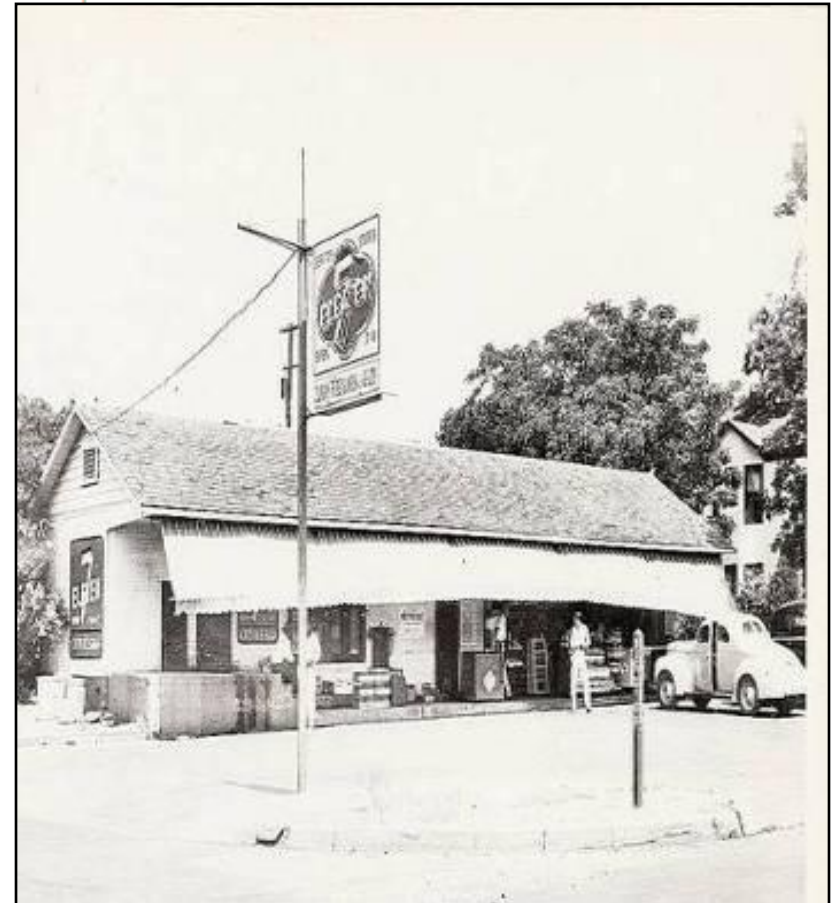
52,285 stores ■ 16 countries ■ Open a store every 2.0 hours

25 million customers a day

9 billion transactions a year

Revenues $24B North America and $72B total system

- **36 Years with 7-Eleven**
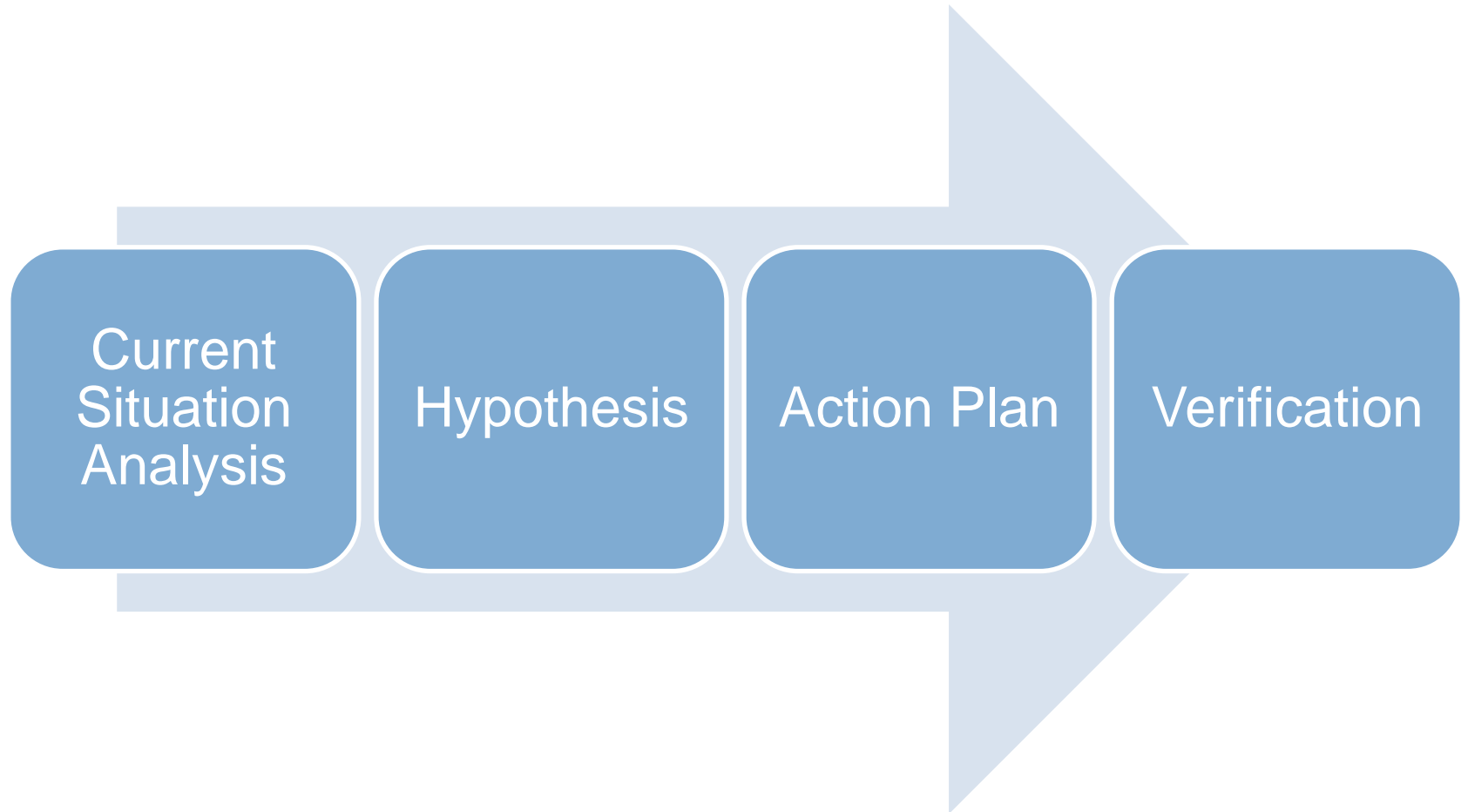
- **17 Leadership Roles**
  - **Operations**
  - **Human Resource**
  - **Merchandising**
  - **Logistics**
  - **IT**

Wes Hargrove
Senior Vice President and Chief Information Officer

Approach – 4 Step Process

Current Situation Analysis → Hypothesis → Action Plan → Verification

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.

Gartner.

- Align IT and Business Objectives

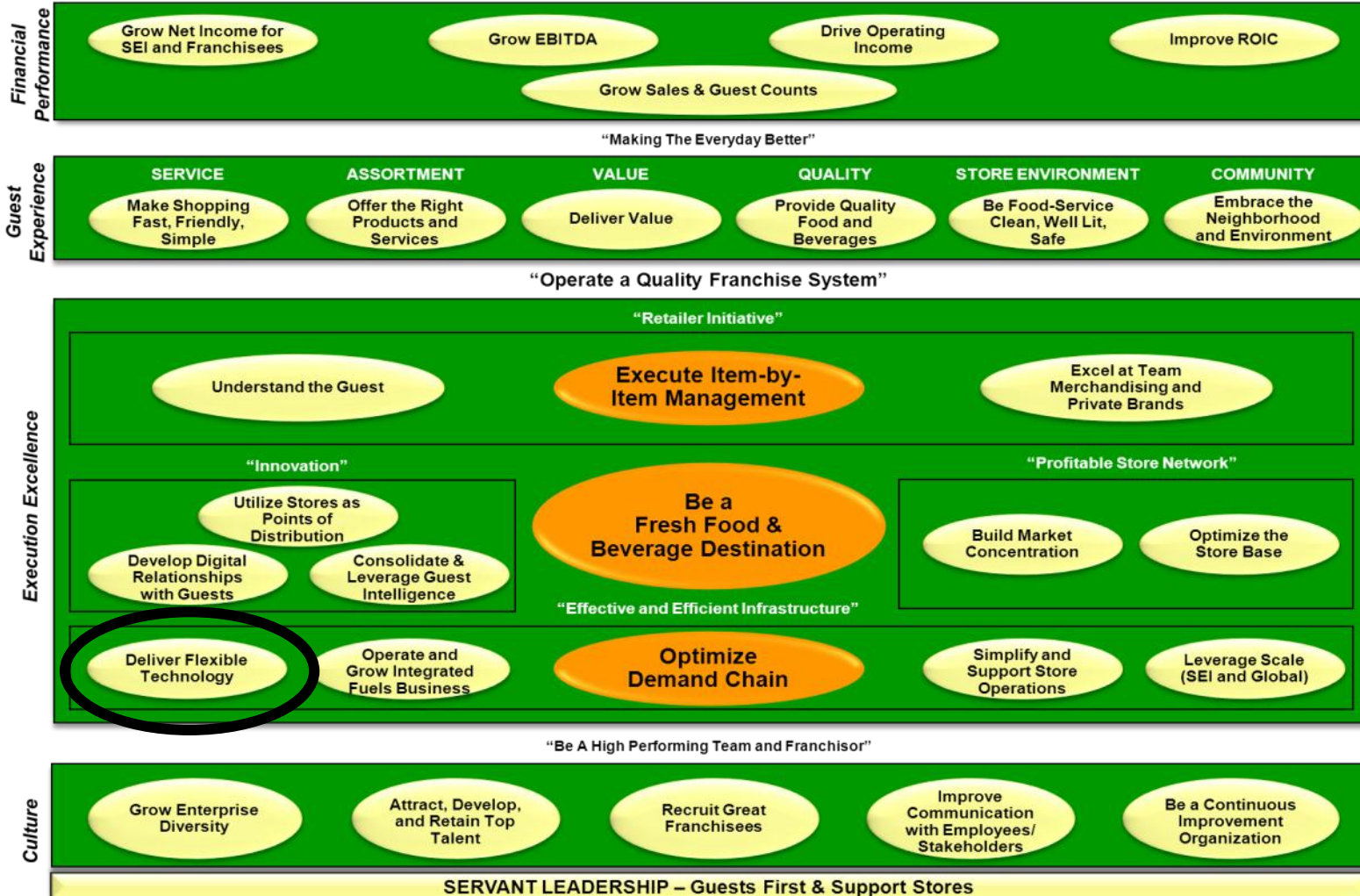- Positioning IT Department with the Business

- 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

"Making The Everyday Better"

Guest Experience

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

"Operate a Quality Franchise System"

Execution Excellence

"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

Be a Fresh Food & Beverage Destination

"Profitable Store Network"

- Build Market Concentration
- Optimize the Store Base

"Effective and Efficient Infrastructure"

- Deliver Flexible Technology
- Operate and Grow Integrated Fuels Business
- Optimize Demand Chain
- Simplify and Support Store Operations
- Leverage Scale (SEI and Global)

"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
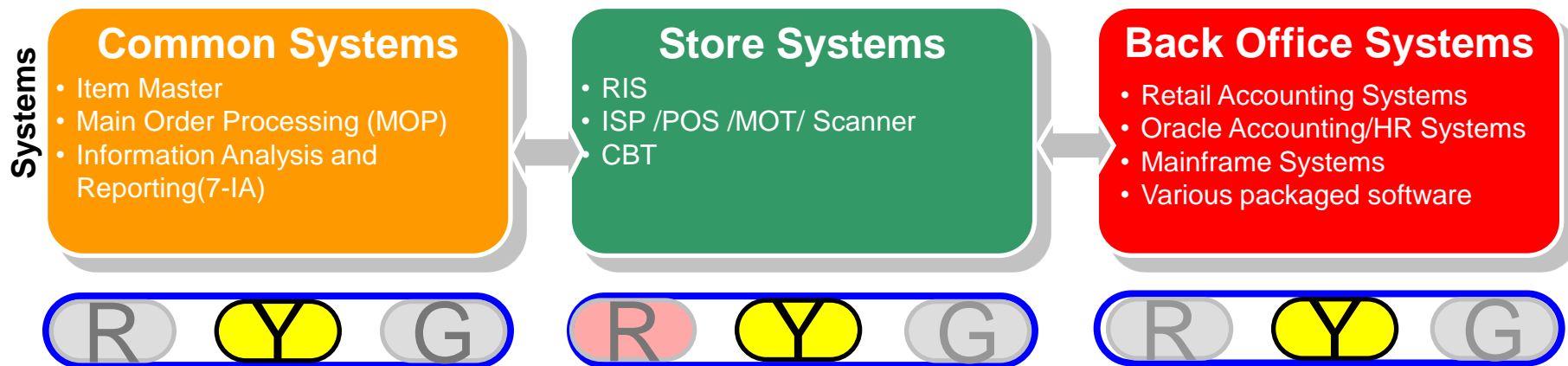
December 2013

September 4, 2014

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

Systems

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

R **Y** G | R **Y** G | R **Y** G

• 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%

☐ Excellent

☑ Good

☒ Poor

–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

- 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

Action Plan
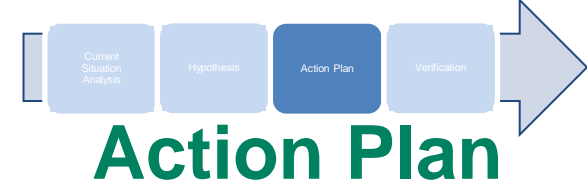
- Organization Structure

- Communication Process

- IT Strategy Aligned with Business Goals

- Prioritization

Organization – IT Operating Model

FZ/Store ⟷ **Business/Functional Departments**

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)**

Information Systems Dept

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		IT	
Infrastructure	**Remodels**	≈	**Infrastructure**	*Generational upgrades of software and hardware that improve system reliability and flexibility*
Base Activity	**Repair & Maint.**	≈	**KTLO & Regulatory**	*Maintain essential business systems, mitigate risk and protect shareholder value*
Functional	**New Programs**	≈	**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
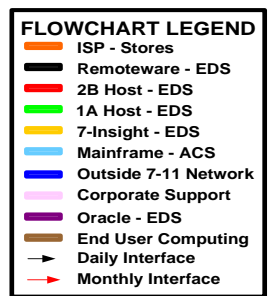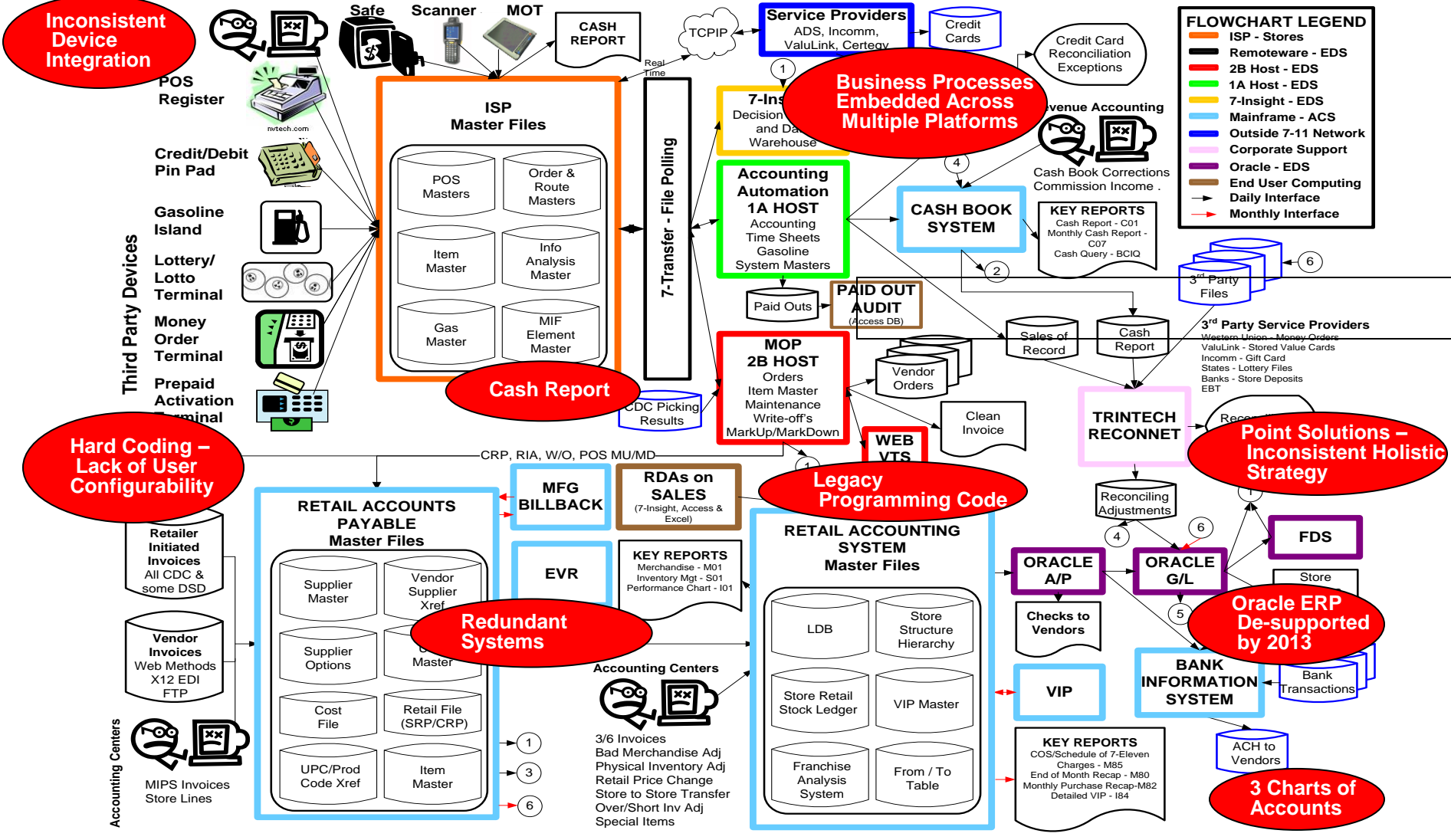
IT Prioritization Strategy

| Strategic Initiative 1st Priority | **Must Do** |

| Strategic Initiative 2nd Priority (If Profitable) | **Should Do** |

| Nice to have | **Stop** |

Strategic IT Projects

40+% Reduction

Number of Projects: 0, 20, 40, 60, 80, 100, 120

Years: 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014

— Projects

Keep the lights on

Regulatory

Accomplish in most cost effective manner
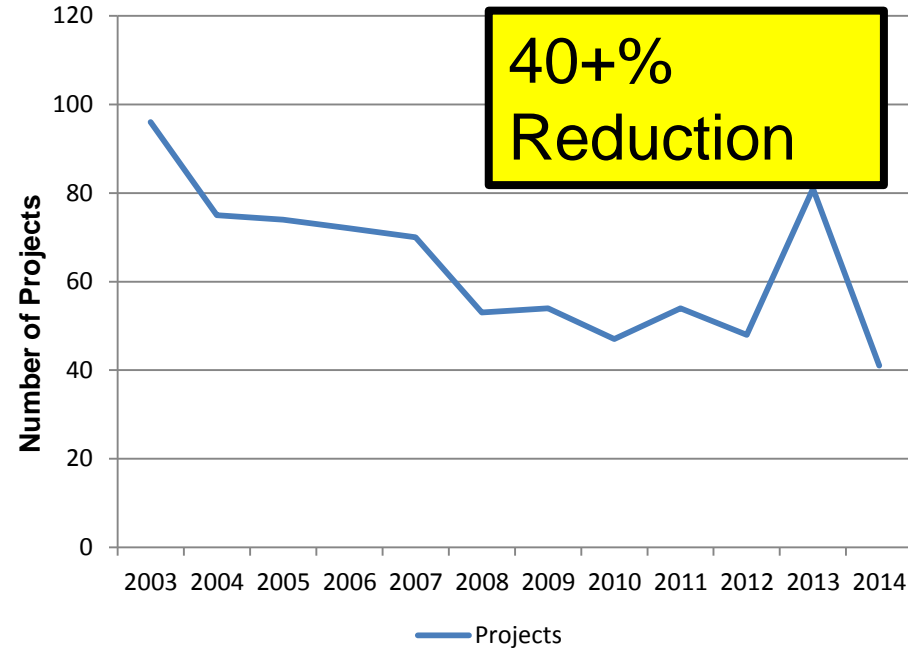
Cost Management	Business Process	Guest Centric

- 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%.

30%

70%

Resources Diverted To Offense

50%

50%
Move to Outsource
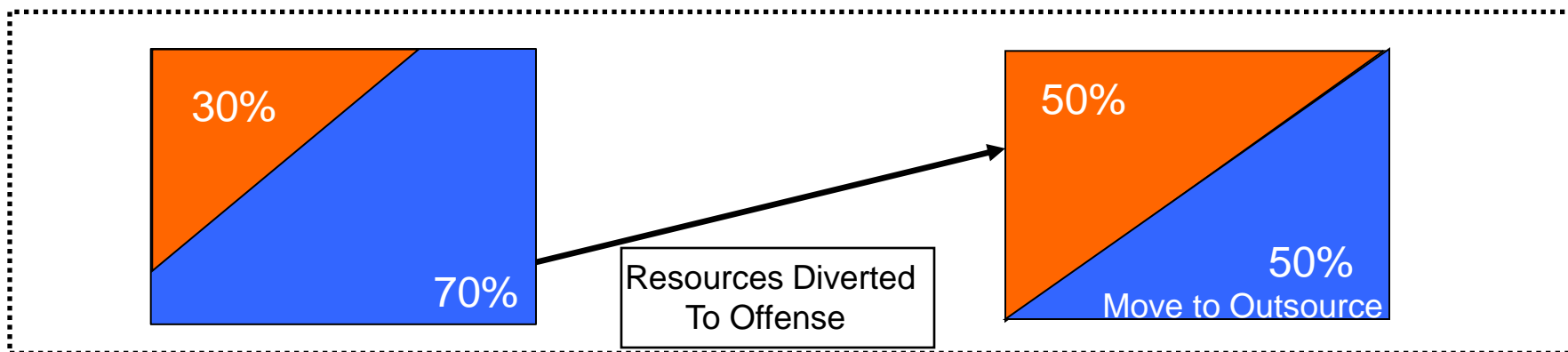
IT Outsourcing

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

IT Key Vendors

50 → 5

- IT Key Vendors

Pre…   Post…
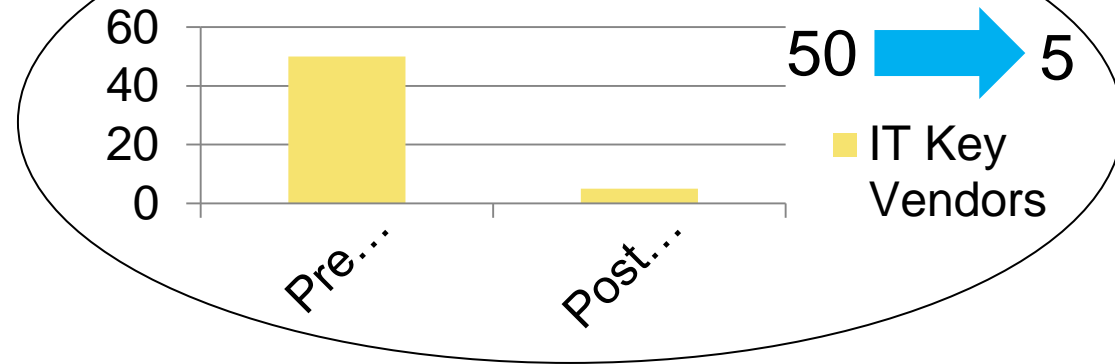
- Leveraging vendor spend across fewer partners
- Less time/effort managing partners

4-Step
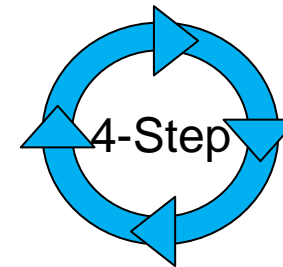
Improved Project Results

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 Budget – almost 100%

IT Projects

% At or Below Budget

On Schedule – 98%

% On or Ahead of Schedule

September 4, 2014
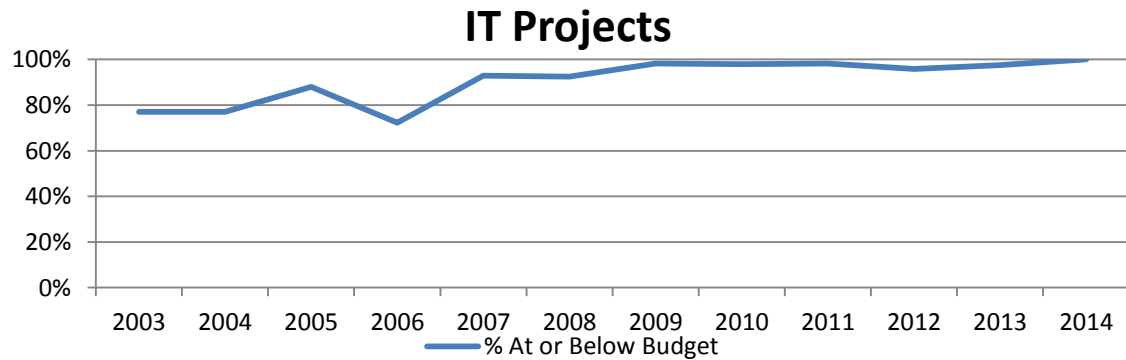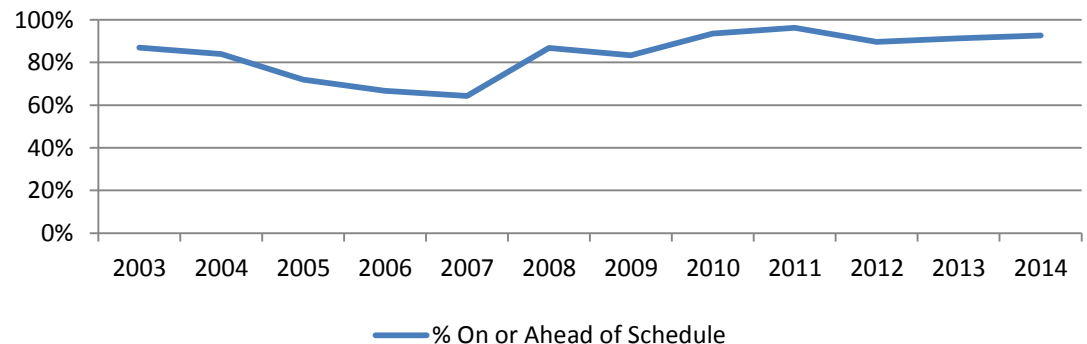
Contract Renegotiations

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

Saves 71%

7-IA Financials Negotiation Summary (in Millions)

Saves 10.2%

Current Agreement

New Fixed Fee
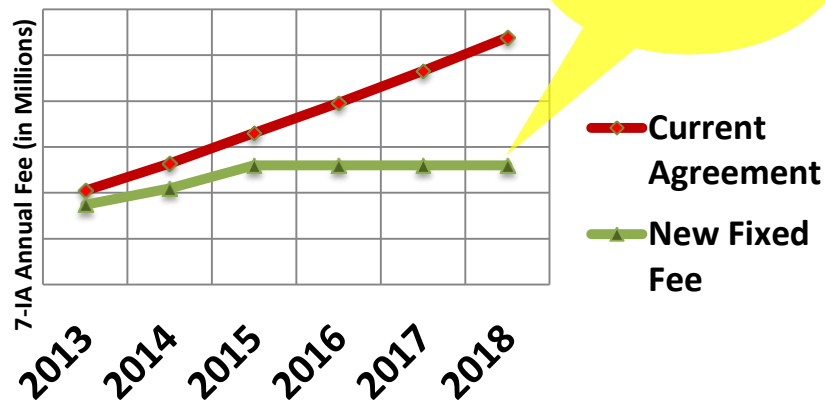
Main Order Processing Fee

04/10/2014
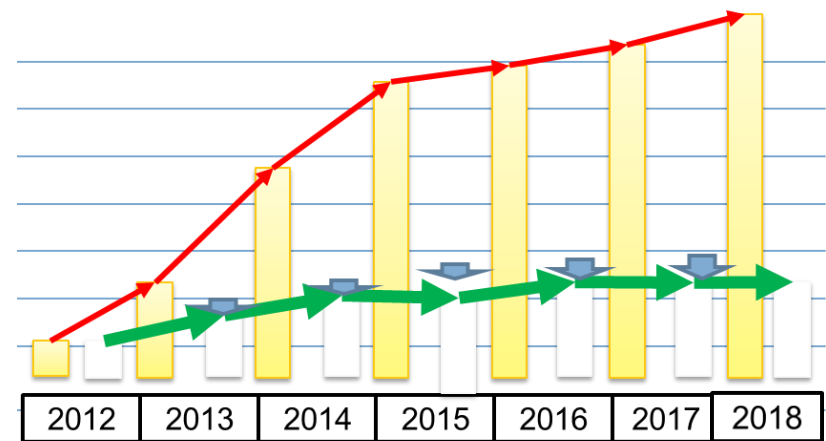
Participates with 7-Eleven IT Operations'
new Kaizen continual improvement program

CTS - Critical Incidents
Oct 2012 - Nov 2013
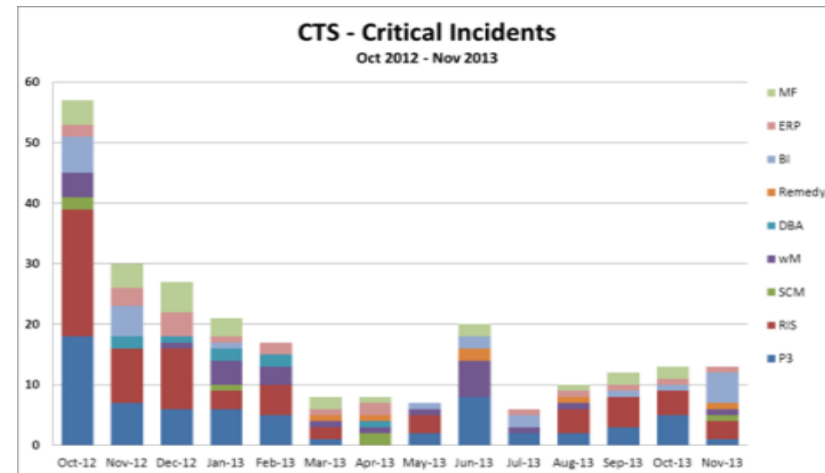
Significant reduction in critical incidents

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

Cognizant

ITO (IT Operations)

Challenge the Status Quo

**Projected First 5 Year Savings:
- 53% Cost Reduction**
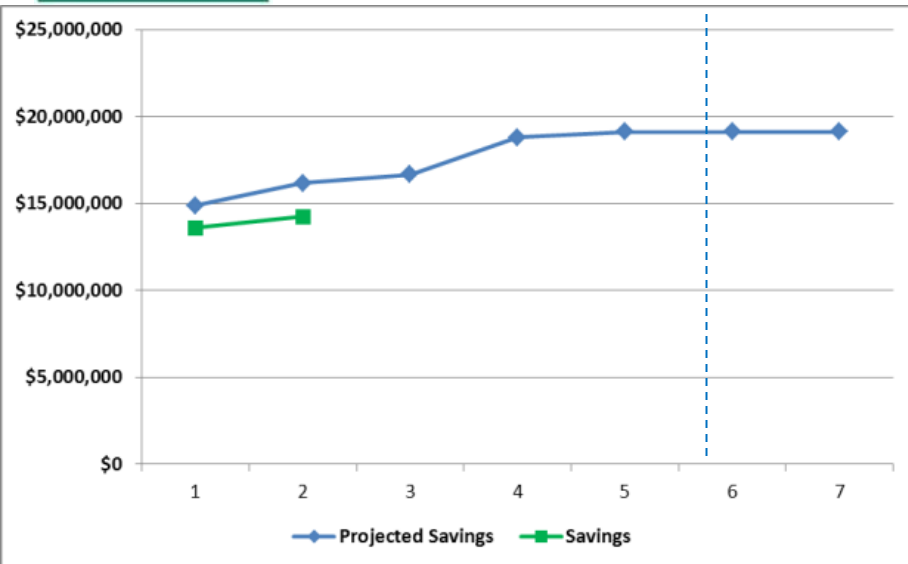
An average 38% reduction in hourly rates
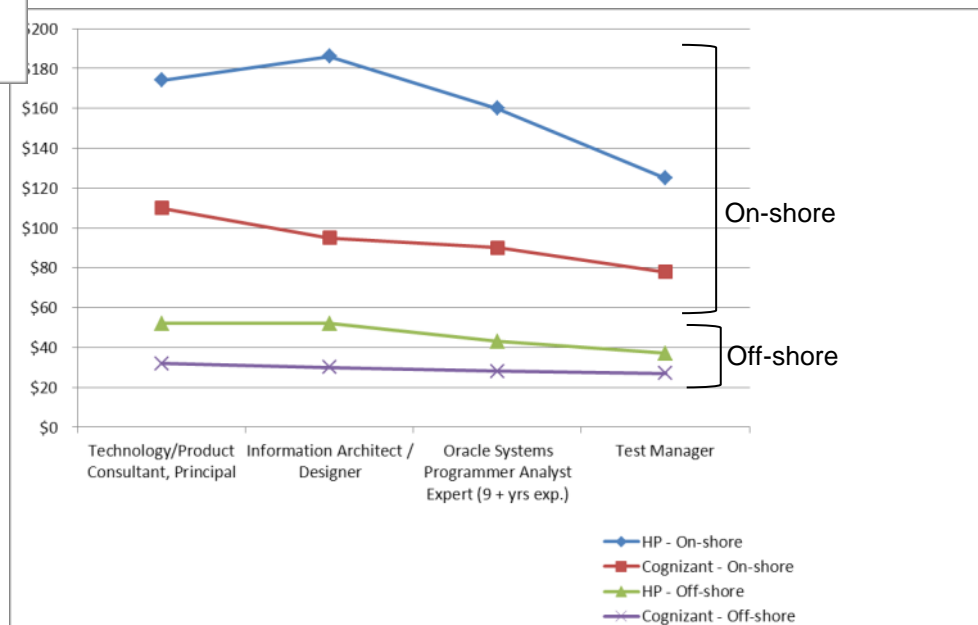
Business Process Improvement

- Store Efficiency

- Operation Excellence

Business IMPROVEMENT

Business Transformation

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
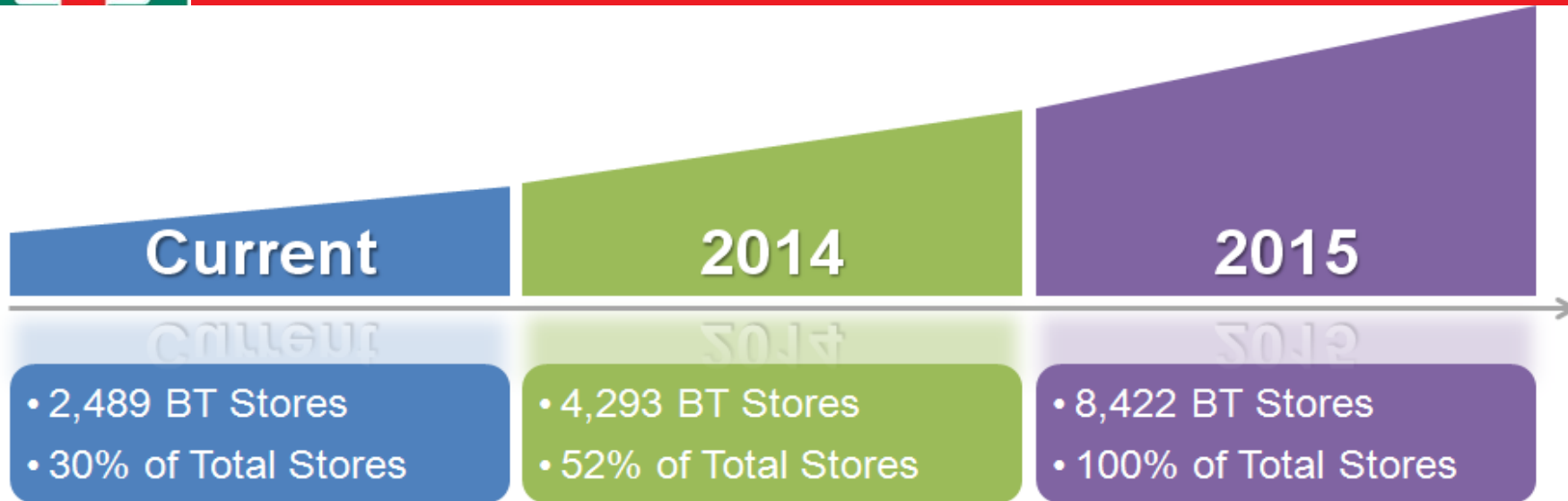
BT Supports Retailer Initiative

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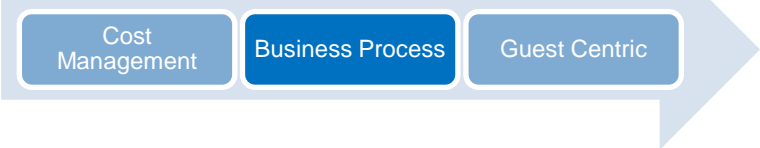- More time for store teams to focus on RI

Paperwork — 29% Savings (Hours per Week, Pre-BT to Post-BT)

Ordering — 66% Savings (Hours per Week, Pre-BT to Post-BT)

Check-In — 43% Savings (Hours per Week, Pre-BT to Post-BT)

Model Store Results

2013 APSD MSDE Sales Change Over Prior Year — Start (Jan-13 to Nov-13), Model Stores, Control Stores
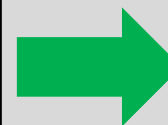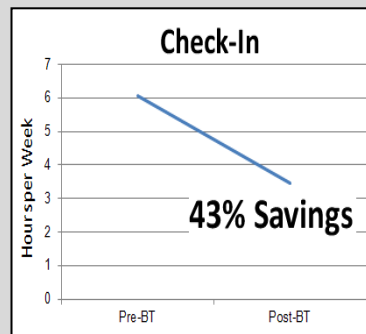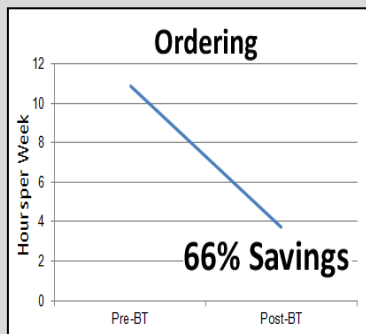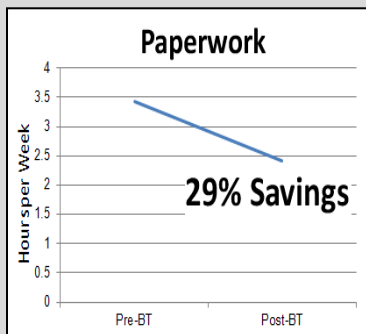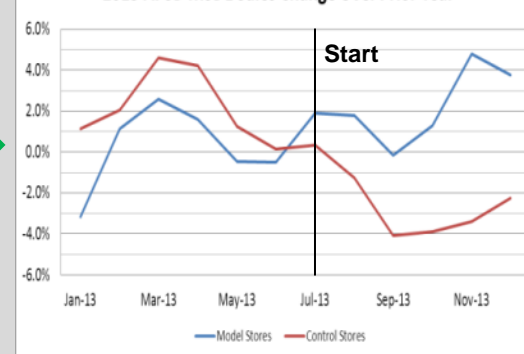
Completed

Following IT Roadmap

Modernize Infrastructure
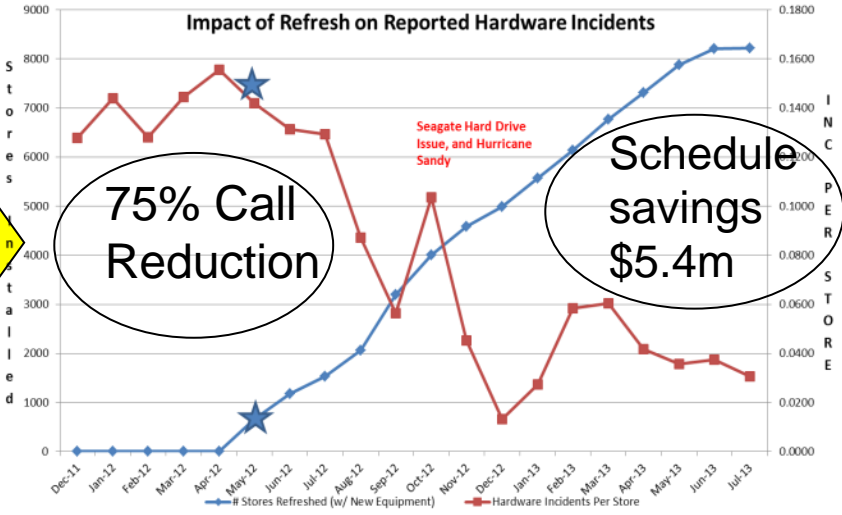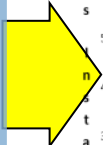
Focus
- Store Simplification
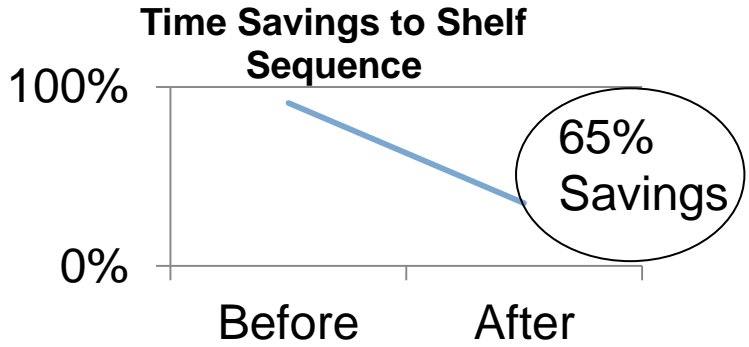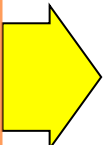- Support RI
- Cost Efficiency

Short Term Projects
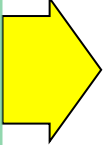
Long Term Initiatives

Store Equipment Refresh

Impact of Refresh on Reported Hardware Incidents

Seagate Hard Drive Issue, and Hurricane Sandy

Stores Refreshed (w/ New Equipment) — Hardware Incidents Per Store

75% Call Reduction

Schedule savings $5.4m

Shelf Tags

7-Select Water .5L
Retail Price
99¢
0 5 2 5 4 8 2 4 0 8 1 3
Unit Price 0.2¢ Per ML

✓ Reduced Out of Stock

Time Savings to Shelf Sequence

100%

0%

Before | After

65% Savings

EBT

Eliminates Guest Stigma
Shortens CIC by 4-6 weeks
$2.4M telecom saving/yr

Completed

Field Operations Efficiency

Tablets with Applications

7-Hub

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

Improved Communication

7-Help

On Line
Track Status
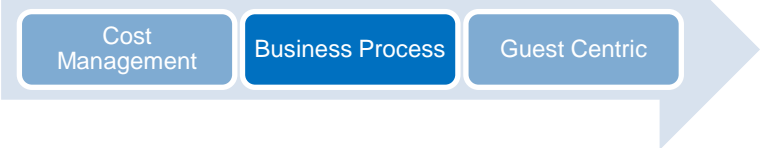FZ Approval

RIS & Acctg. Cust. Service

Digital Guest Experience

POS

CRM

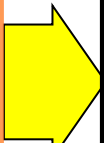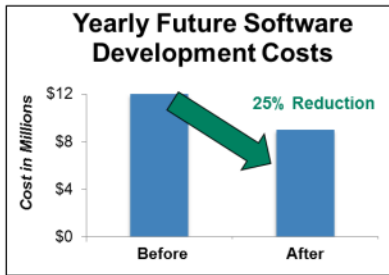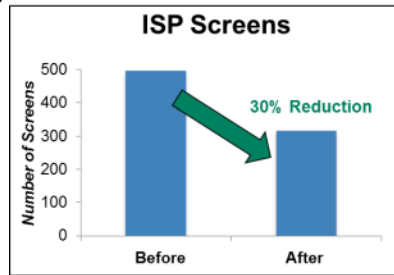Mobile App, CRM, VOC
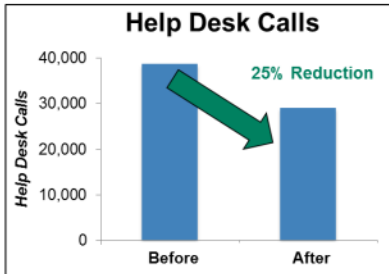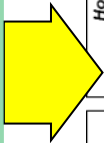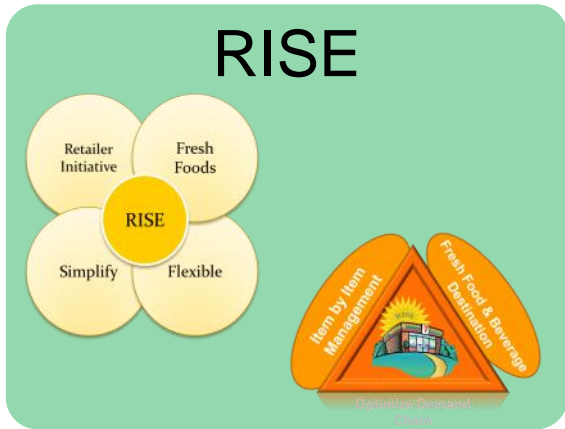
In Process

Following IT Roadmap

Modernize Infrastructure

Focus
- Store Simplification
- Support RI
- Cost Efficiency

Short Term Projects

Long Term Initiatives

RISE

Retailer Initiative | Fresh Foods

RISE

Simplify | Flexible

Item by Item Management | Fresh Food & Beverage Destination

Ordering
Hours Per Week — Before / After — 20% Time Savings

Help Desk Calls
40,000 / 30,000 / 20,000 / 10,000 — Before / After — 25% Reduction

ISP Screens
500 / 400 / 300 / 200 / 100 — Number of Screens — Before / After — 30% Reduction

Yearly Future Software Development Costs
$12 / $8 / $4 / $0 — Cost in Millions — Before / After — 25% Reduction

Accounting Simplification

ASI

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

Hybrid Thin Client
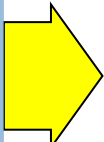
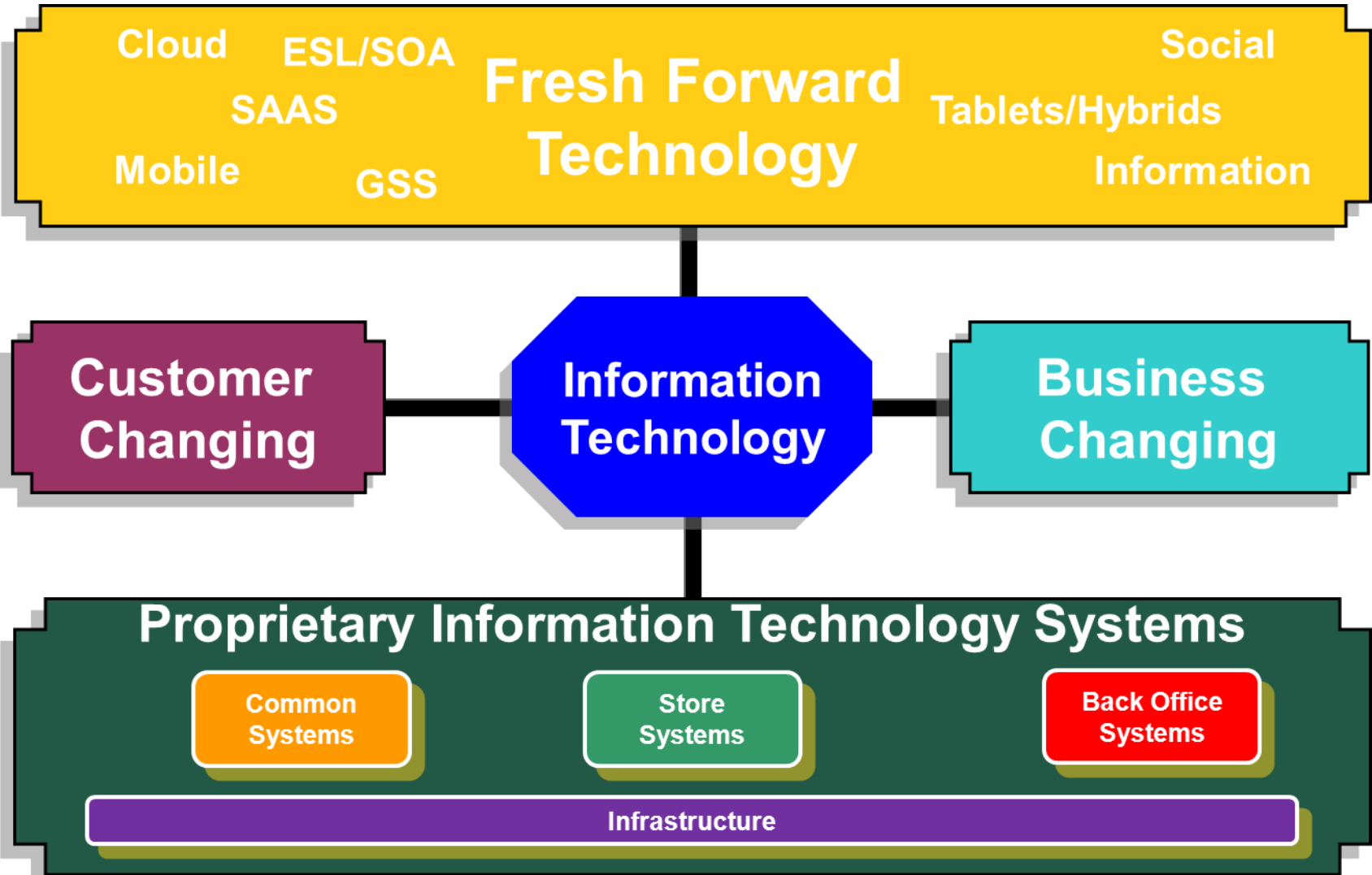- ✓ $M ISP Cost Avoidance 2018

Historical OSG&A: Cost of IT By Store

2007	2009	2011	2013	2015

$XX,XXX

$XX,XXX

24.8% reduction since 2007

Target 28.7% reduction

$XX,XXX

Staffing & Application Rationalization

Vendor Contract Negotiation

$XX,XXX

Partner Change & Efficiency Projects

$XX,XXX

Store System Technology Updates

Improving Quality & Value

Software Quality Assurance, Vendor Management, Architecture
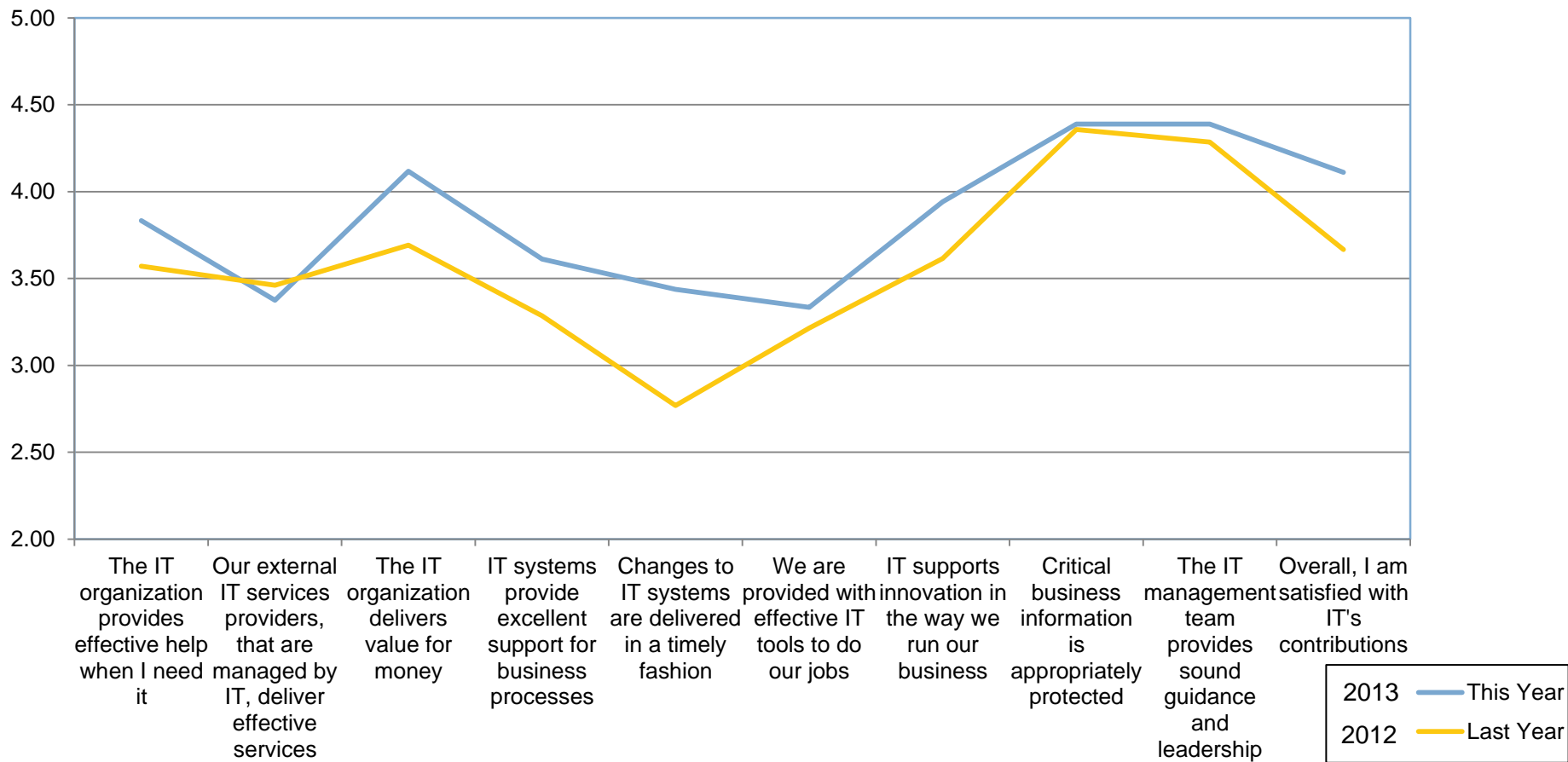
- Cost Management
  - Prioritize the Work
  - Challenge the Status Quo
    - All Contracts / Include Continuous Improvemen
    - All Vendor Partners

- 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