

Couche-Tard: Acquisition, Development and Integration: Logistics and Retail

2003-2004 was a year of acquisitions. It was undeniably one of the most important years in Couche-Tard's 25-year history. For the third time in seven years, its North American network has doubled. The fourth-largest chain of independent convenience stores in North America, it is also the leader in its sector in Canada. Things are moving fast at Couche-Tard, which has more than 34,000 employees.

BY CHRISTINE GIRARD

Couche-Tard remains oriented towards acquisitions, while keeping in mind its two main priorities: development and integration. It's not surprising that change management is the priority for the operational management team.

INTEGRATION OF PRODUCTS

At Couche-Tard, acquisitions are synonymous with challenges. But integrating products and innovations also give managers grist for the mill. "We have to exercise a lot of creativity in the management of our operations to adapt to change and market demands," says Guy Champagne, Laval distribution centre manager, whom we met at the beginning of 2005.

"A very dynamic team?" asks Stephan Lauzon of the Groupe 4L2 (4L squared), and consultant with Couche-Tard. "The word dynamic doesn't go far enough. Couche-Tard is actually a team of highly visionary pioneers," 4L2 was closely involved in a highly innovative project at Couche-Tard last fall,

involving the implementation of a robotic, single-unit picking system.

A STEP TOWARDS ROBOTIZATION

Robotics is a good example of the kind of innovation needed to respond to market demand. "We are in the deployment phase of robotic technology that allows us to pick products by the unit," says Champagne. "Since last September, we have been offering a new brand of pastries—La Maisonnée—in a new package. Before, these products were delivered in packages of six. Now, they are delivered by the unit. The product is more appetizing with a shorter shelf life. Our challenge was to go from a box of six to single-unit picking. Picking single units as fast as boxes of six forced us to find a logistics system allowing us to maintain sufficient speed without increasing the workforce. We have opted for robotics. We now pick 28 products in robotized cells. We are in a process of continuous improvement. The integration is spectacular. These are not traditional robots. These robots do unit picking, which is an unprece-

dent innovation in our field."

LOGISTICS AND RETAIL

Lauzon, now the president and cofounder of 4L2 Group, has been a consultant for Couche-Tard for over four years. He says Couche-Tard logistics are definitely at the service of retailing. "Projects come at us from all sides and often, we have little time to think. We have to react quickly. You have to remember that Couche-Tard is not a distribution organization. Couche-Tard is an organization of sales outlets. It's a network of non-traditional convenience stores, which is what determines the strategic orientation of the supply chain. The logistics of Couche-Tard is constantly responding to this retail network rather than the opposite. Therefore, it is necessary to be very creative. Robotization is a perfect example. Couche-Tard is often seen as operating in the food sector, which is not actually the case. They are in convenience store products. This means many different products, as opposed to the food industry where volume is primary. Yes, we have a certain volume obviously, but mainly we have a very, very large number of products, new items, and changes. For example, the well-known slush drink requires its own logistics. The same thing applies to sandwiches or muffins. This is a very different dynamic from dealing with cases of jam."

FOUR TIMES MORE PRODUCTS SOLD

In March 2004, 1800 products (SKUs) were listed at the distribution centre and shipped across Quebec with a fleet of 21 trucks. This represents a doubling of the initial number of products. Since April 2004, with the start of distribution to Dunkin' Donuts stores, more than 2600 products (SKUs) are stored and distributed through the chain of Couche-Tard stores and Dunkin'



Donuts restaurants by a fleet of 23 trucks. The number of products has almost tripled in three years.

"We had to hire 40 additional people, including about 30 stock handlers," says Champagne. "Our growth crisis involves complex labour issues. That's definitely our biggest challenge." Finding personnel and keeping them in an environment that is constantly changing is certainly a very big challenge. The centre plans to set up a training program for employee awareness of the reality in stores in the coming year. "The human factor is the key to our success," continues Champagne. "We may well have the best systems, the most efficient equipment, robots, etc., it's still the individual human being that makes all the difference. Human resources remain the biggest challenge in any company."

PICKING ACCURACY

Picking accuracy, in March 2004, was 99.85% after doubling the cubic volume of delivered products. Today, there are more than 2600 SKUs sold, and there has been a period of adjustment, which has included the hiring of new personnel and the implementation of robotics. But there was a temporary decrease in accuracy.

"When we introduced unit picking of breakfast and sandwich products, robots were not yet installed, and we had to do a lot of manual picking," says Champagne. "Boxes of six and four were replaced by units, and thus quantities multiplied by six and by four. The possibility of errors was all the greater. We were not able to maintain our accuracy rate then. We noted a decrease to 99.65%. Now, we are back to 99.85%. The robots are more and more effective. Our workforce is also all becoming more stable and well-trained during this period of growth."

LAVAL: A MODEL FOR THE U.S.

4L2 is also involved in studying the location and design of a future distribution centre in the American Midwest. "We are currently studying the potential for a sufficient return on investment," says Champagne. "This is only a first step. The decision to build has not yet been taken. The decision to study the situation has been taken and that is what 4L2 is doing with us currently. We are going make this decision around the end of January, 2005."

The Laval centre is the model that will inspire the facilities on US territory. Certain modifications will have to be made however. The Laval centre was first designed according to the market directions of the period, and a certain vision of the group. Practical experience throughout these three years of operations has brought out various ideas for improvements.

"As far as the model for the future is con-

DISTRIBUTION CENTRES

Acquisitions and partnership		
2003-2004	2 290	
Circle K	2,290	16 American states
Dunkin' Donuts master franchise	94	Quebec
Clark Retail Enterprises, Inc.	43	Illinois, Indiana, Iowa, Michigan, Ohio
2002-2003		
Handy Andy Food Stores	16	Indiana
Dairy Mart	285	Ohio, Kentucky, Pennsylvania, Michigan, Indiana
Tabatout	30	Québec
Dairy Mart	119	Ohio, Kentucky, Pennsylvania, Michigan, Indiana
2001-2002		
R-Con Centres	31	Manitoba
Bruce Miller Oil	12	Indiana, Ohio
BP Amoco	6	Indiana
2000-2001		
Johnson Oil	225	Illinois, Indiana, Kentucky
Irving Oil Partnership	56	Eastern Canada
1998-1999		
Silcorp	980	Ontario, Western Canada
1997-1998		
C-Corp	295	Quebec, Ontario, Western Canada

cerned, what we have developed for the Laval centre is sure to be the basis of what we want to export, with some modifications," says Champagne. "We didn't completely understand the environment at the time of building the Laval centre. Now, we know it much better, and certain aspects will be modified. It is important to understand that, in the Midwest and in the US in general, we are one of the only companies specialized in convenience stores, which is in acquisition mode. We continually have acquisition projects on the table. Thus our geographic distribution can change rapidly. We could position a distribution centre in a specific place and, a few months later, we might acquire stores 500 miles from there. So, currently, we position ourselves based on what we know. We look to our studies of what should happen in the next three years and where the Midwest management thinks development should go."

AN IN-HOUSE LOGISTICS SYSTEM

One of the modifications sure to be adopted for the new American centre is the implementation of a WMS. "We are examining the

Midwest case," Champagne says. "We are also conscious that a WMS will be required for our Laval centre. We have almost reached our full capacity. In the beginning, three years ago, we only occupied 40% of the total space."

No decision has yet been made. The managers are leaning in this direction for the future centre. As far as the Laval centre is concerned, the existing in-house model corresponds perfectly to current needs. Champagne explains: "It's an enterprise system that does the accounting, demand forecasts, purchases, warehouse management and transport management. It is thus a complete system. It's not state-of-the-art technology, but it's a system that we can adapt to our needs, and do it quite rapidly. Being in acquisition mode, it is extremely important for us to be able to control our systems. For example, last April, when integrating Dunkin' Donuts, if we had to develop extensions to a packaged system, we wouldn't have been able to launch our operations as rapidly. We were thus able to perform modifications to the source code quite fast. These developments will be very

useful for implementation in the US given that they will also have an integration of Dunkin' Donuts. Our final decision is not yet made, but the influence is real. In general, in a mode of constant acquisition, Couche-Tard likes to control the development of its own systems. Will we still be thinking this way in future? That remains to be seen."

SUPPLY CHAIN CHALLENGES

One of the current challenges of the operational management team concerns fresh goods, such as breakfast and sandwich products. As products with short shelf life, they must be delivered twice a week to all Quebec Couche-Tard stores. They demand extraordinary turnover, as well as a very high synchronization with suppliers. "This supply chain is complex and fragile," says Champagne. "Every day, we have deliveries of milk, pastries, and sandwiches, which turn over very rapidly. The challenge is to maintain an extremely solid daily routine in a just-in-time environment. The fragility of the product and the delivery cycle time make the task complex. Thus, the importance of establishing an excellent relation with suppliers." Rapid picking (robotics and manual) and problem-free distribution represent daily operational challenges. A continuous improvement committee formed of employees was created to find solutions to picking errors.

REFRIGERATED WAREHOUSING

Refrigerated warehousing was conceived especially for fresh products, and implemented three years ago, at the time of the centre's construction. We are talking, among other things, about a refrigerated dock, a refrigerator and a freezer of 10,000 square feet each. This equipment has been very effective. But the freezer was not used at first. Initially, it was rented to third parties for a few months. The arrival of Dunkin' Donuts within the group was beneficial for this part of operations. Dunkin' Donuts frozen products will occupy 15% to 20% of freezer space. Then, bringing in the fresh breakfast products will require frozen warehousing for a two-week inventory-period, thus occupying another percentage of the space. "In the Midwest, we are also building a freezer," says Champagne. "We are thinking of operating there very similarly. How everything will develop, remains to be seen. It's a risk in logistics to build based on forecasting, but in our case, everything moves so fast because of acquisitions, the introduction of new categories, and the development of products that we must adjust rapidly and our logistics must be flexible and easy to adapt." ■