Case Study

neXstore: planning and executing a new strategy in a convenience store chain

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In February 2009, James Sanford felt the excitement of undertaking a new challenge. At the end of 2008, James had been hired to be in charge of neXstore, a chain of convenience stores with 15 locations that had been recently acquired by a private investment fund.

James, a young executive with several years of experience in big supermarkets, was facing for the first time the task of managing a business of convenience stores. The first two months were mainly dedicated to an immersion into the company, the market, and the people surrounding him. The company's future seemed challenging, and James would need capable and motivated collaborators for the road ahead. He knew it would not be advisable to change the whole team before having a clear view of his business strategy, but he did not want to start the strategy formulation process with executives that will not be engaged on the implementation of the designed strategy. He went for small changes, and decided to keep Tommy Arnold (Operations) and Andrew Mays (Marketing and Sales), while at the same time incorporated Paul Huff (Control Management) and Karin Rogers (Human Resources). He would also need someone to handle logistics, but given the small size of the company James preferred to personally take care of this area in the meantime, while systems support would have to be outsourced for the time being.

1 The early days of neXstore

neXstore had started as a second generation family business. In 2002, after finishing his MBA, Richard Payne decided to manage two small neighborhood shops that belonged to his father, which were located in a high-end area of the city. During his studies, the 7-Eleven business case left a deep impression on him, and he realized that in his 10 million people city there was no dominant player in this sector. With this idea in mind, Richard transformed his two neighborhood shops into small convenience stores, and his plan was to add more, depending on the results of the first two. Richard's father, Alfred, liked the business plan and the vision, and he injected some capital to finance the early stages of the expansion. Alfred had some friends who were looking for investment opportunities and, with the additional help of a local bank, Richard was able to secure a reasonable sum to begin implementing his strategy.

The first years went as planned, but not without some bumps. Local customers were used to the assortment offered when the stores were managed by Alfred, and started complaining that they were not finding the products they were used to. The new assortment was optimized by Richard, and in many cases traditional products were removed from the store. Furthermore, the expansion plan was based on acquisition of similar businesses, that is, people who owned two or three small stores that were not always close to each other. Richard always tried to keep his stores within at most four neighborhoods, to avoid major logistic complications.

After 3 years Richard had 15 stores, and his brand started to become known in the city. However, Richard hoped for a greater growth rate, and problems started to appear. The stores had no operational standard, and the knowledge acquired in some stores was not propagated to the rest of the company. On top of that, the main indicators exhibited a very high dispersion among the 15 locations, something unacceptable for a convenience store chain. The creation and consolidation of a brand in a sector that had no relevant actor was definitely an achievement, but at the same time the image was suffering negative impact from logistics and quality of service problems, due to the lack of clear protocols and processes defined by the organization.

Logistics was clearly below par, and the amount of each product in the stores was not appropriate. There were frequent stock outs of some products, and in other cases the number days of inventory was exceedingly high. To put it bluntly, Richard still had an amateur operation, and he was running out of money. The break-even was not around the corner, and before reaching the point in which his assets would be at risk, he decided to sell the whole business. Richard's primary goal was to recover part of the money invested without incurring in huge losses, and possibly reimbursing the current investors. To his surprise, there were several potential buyers attracted by the growth possibility, and by the lack of competitors in this segment. In the end, the famous Frontier Investment Fund, who managed similar retail businesses, made an offer and bought the whole business. No one ever knew how much was paid, but Frontier aggressively overcame all competitors and closed the deal rapidly. The fund managed a fast-food chain with 10 stores, and also a spa chain (8 stores), and they hoped their expertise would help them with neXstore.

2 The future of neXstore

During the negotiation between Frontier and neXstore, James has been hired through a head hunter firm. After several interviews with the three partners of the fund, James was convinced that the growth plan they had for neXstore was viable.

In the next 5 years, Frontier wanted to increase the chain from 15 to 120 stores all over the country. Even before acquiring neXstore, Frontier sent a real estate agent to look for attractive locations for the future stores. The key point was to choose sites that met the needs of a convenience store, even though there might be other retailers in the area. Frontier's managing team knew they would have to finance the expansion in the first years with their own money. Among the financial challenges was to obtain a Return on Capital Employed (ROCE) of 12%. For James, the challenge was just too exciting to let it go.

3 James' first months

Once the deal was finally signed, it was time for James to get his hands dirty. Besides the changes in the team, James dedicated the first months to immerse himself into the business, and to visit all the stores. With Tommy Arnold, the Operations Manager, they pretended to be regular customers and learned a great deal about the customer experience in each of the stores. They also travelled to Mexico and United Stated to visit two giants of the convenience store business, Oxxo and 7-eleven respectively, and they came up with several ideas for improvement. Simultaneously, James requested to his Marketing and Sales manager, Andrew Mays, a detailed study of the customer of neXstore, and the world trends in this segment.

His general impression of the current state of neXstore left him somewhat concerned. There were mid-term challenges, such as improving operational indicators and clarifying the value proposition of the company, while at the same time adjusting the management control system currently in place. In the long term, the pressure for growth and profitability was significant, especially in relation to the expansion outside the country's capital. With all those topics going through his head, James summoned the whole team for a series of strategic meetings that would hopefully converge into a Strategic Map, with its Balanced Scorecard and set of initiatives associated.

4 The strategy meeting

James started the meeting with a very clear message, mixing a sense of urgency and motivation for the challenge they faced ahead:

We know we have several challenges, which can be narrowed down to operational aspects, the value proposition, and management control. On the other hand, I must confess my motivation is huge because I believe few times in our professional lives we will be able to face a strategic challenge as exciting as the one we start facing