Revving Up Your Working Capital: How AutoZone Evaluated Smart Safes to Streamline Operations

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Today’s Agenda

- Smart Safes – Then and Now
- Driving Efficiencies through Remote Cash Capture Technology
- Overview of AutoZone
- The Challenges of Managing Cash Across Many Locations
- Starting our Engines
- Our Course for Success
  - Removing Roadblocks
  - Selecting the Right Partner
  - Optimizing Our Working Capital
  - Positive Impacts to Our Locations & Treasury
- Where We Are Today
- Lessons Learned & Tips to Share
## Smart Safes – Then and Now

<table>
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<tr>
<th>Technology originally developed in the mid 90’s</th>
<th>New and improved smart safes developed in 2006/2007</th>
<th>Remote Cash Capture is born and the growth of smart safes is fueled by select banks providing daily provisional credit</th>
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<td>• Loss Prevention initiative</td>
<td>• Communication to central point revolutionized the program</td>
<td>• Improves access to cash and working capital</td>
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<td>• Adversely affected other areas within the organization</td>
<td>• Value proposition improved significantly for Retailers</td>
<td>• Expedites and increases the accuracy of reconcilement</td>
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<td>• Slow adoption rate</td>
<td>• Win for all stakeholders involved</td>
<td>• Streamlines banking relationships and fees</td>
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<td>• Reduced need for daily armored car pickups &amp; expense while maintaining daily cash flow.</td>
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Driving Efficiencies with Remote Cash Capture (RCC) Technology

• AutoZone originally tested smart safe technology in 2003
• Currently leveraging RCC in proof of concept stores
• New technology allowed AutoZone to maximize its benefits:
  – Daily provisional credit of cash
  – Automated dollar validation & counterfeit detection
  – Software for online reporting of store receipts by store location
Overview of AutoZone

• Leading national retailer & distributor of auto replacement parts & accessories
• Over 4,500 locations in the US, Puerto Rico & Mexico
  – Average store size is approximately 6,500 square feet
• Rich culture of customer service and recognition
• Strong financial disciplines with emphasis on working capital management
The Challenges of Managing Cash Across Multiple Locations

• Timely access to cash sales

AND

• Efficient management and control over costs associated with getting cash to the bank
  – In-store deposit preparation and cash handling
  – Armored courier pick-up expense
  – Deposit errors, cash shortages & miscellaneous supplies
Starting Our Engines

How has the technology changed over the past 5-10 yrs?
Will we gain quicker access to store cash?
Who should be involved in the evaluation process?
Who should lead the team?
What are our options? Banks? Armored Car Services? Safe Manufacturers?
Who should we team with?
How long will a transition take?
How will it impact our in-store cash handling labor processes?
Will it lower our bank & armored car fees?

Questions We Asked Ourselves

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Sourcing RCC Partners - Know the Market

- Variety of distribution channels & partners
  - Limited number of Banks offering provisional credit
    - Banks team up with armored carriers
  - Armored Car Companies
    - Some have exclusive arrangements with Safe Manufacturers
  - Safe Manufacturers
    - Safes may not communicate with another armored carrier’s information system
    - Propriety software
- Dynamic market place
- Bundled vs. Unbundled
Taking the First Steps

• Form an internal team to evaluate merits of RCC/smart safe technology
• Pilot RCC in select locations
• Establish KPIs to measure benefits
• Re-evaluate in-store cash handling procedures given program features
• Gain “champions” within the pilot stores and seek their feedback
• Evaluate all market providers
Our Course for Success-Removing Roadblocks

AutoZone wanted a wholistic approach to re-engineer our cash settlement process.

- Establish a model to measure costs and benefits
- Gain executive team support through periodic updates
- Ensure a collaborative effort between stakeholders such as Treasury, Loss Prevention, Bank Reconciliation, and Store Operations
- Establish consistent cash handling procedures for stores
  - Hard to change store behavior across numerous locations
  - Re-engineer all cash handling processes at the same time
Our Course for Success-Selecting the Right Partner

- Single source safe provider
  - Ensures consistency across all stores
  - Multiple bank and armored carriers
- Partner with providers who have strong commitment to the business
  - Premier Infrastructure & Operations
    - Software, infrastructure & IT are the foundation of the solution, not the safes
    - Ongoing investment and enhancements to offering
- Seamless project management & expert leadership skills across the project team

Diagram:

- Bank
- Armored Courier
- Safe Manufacturer
- Retailer
Our Course for Success - Selecting the Right Partner to Pilot RCC

- Conducted store observations, analysis, ROI construction

- Able to provide guidance for re-engineering processes

- Benefited from an Industrial Engineer who was on-site in our locations
  - Industry expert - non banker background
  - Provided extensive guidance and operational expertise
  - Retooled policies and procedures
  - Coordinated store & treasury training

- Dedicated ongoing support for reconcilement training
Our Course for Success - Optimizing Working Capital

- Received provisional credit while cash was still in safe
  - Balances are validated by the safe and transmitted at the end of the day to the armored carrier
  - Armored carrier consolidates information and electronically forwards information to the bank
- Seamless to implement
- Improved working capital/decreased cash in transit
- Reduces ROIC by 20 bps
Our Course for Success - Positive Impacts to our Store Locations

Drove down costs

- Reduced the number of armored carrier pick-ups
  - AutoZone adopted a 1 day pick-up schedule for most pilot locations
- Decreased operating expenses associated with deposit tickets, plastic & paper envelopes, deposit bags, etc.

Gained process efficiencies

- Significant time savings in tasks associated with preparing and managing cash deposits
- Cash no longer double or triple counted
  - Validated directly by Smart Safe
Our Course for Success - Positive Impacts to our Store Locations

Tighter controls over cash
- Less exposure to cash reduced errors, shortages, missing deposits, theft
- Helps mitigate the risk of fraud

Enhanced reconciliation
- Helped eliminate deposit adjustments
- Challenges remain with dropped checks and cash
Our Course for Success - Positive Impacts to Treasury

- Improved working capital by expediting access to cash in stores
- Better decision making with more accurate & timely information on daily cash sales
- Optimized treasury structure with flexible account hierarchies
- Enhanced store deposit audit trail
Where We are Today

- Testing in a full Region
- Continue to evaluate partnership options and costs
- Evaluating POS integration opportunities with smart safes
- Finding ways to streamline reconciliation process
- Buy, Rent or Lease
- Evaluate which store profiles are best fit for a RCC
Lessons Learned & Tips to Share

- Sourcing the right partners is key
  - Bank
  - Armored Carrier
  - Safe Manufacturer

- Ensure depth of knowledge of banking partner to allow you to leverage industry expertise

- Need internal champions to drive benefits of the program
  - Store Operations Managers & Finance Managers

- Understand the alternatives to allow you to design the optimal solution
  - Bundled vs. unbundled

- Execute a phased-in implementation approach
  - Clearly identify test parameters, success criteria and procedures

- Understand the implications of buying, renting or leasing

- Get IT involved sooner, not later
Questions and Comments Welcomed

Thank you for your participation today!
Contact

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