

# Petrol PLAZA

## The Ins & Outs of “Outsourcing”

**Whether outsourcing the payroll or fuel management services, a company has a lot to gain—or lose—by electing to bring in a third party. INCON’s Enrique (Rick) Sales counsels readers on how to make the right decision for their company.**

Compliance and fuel management services



First off, let’s be clear about the term “outsource.” It means simply to farm out the performance of a task or tasks to an outside company or individual, rather than do them with regular staff and other inside resources. Decisions on whether and what to outsource are among the many tough issues that fuel marketers face today. They are perhaps simple questions on the surface, but upon further examination, ones that challenge you to think carefully about what is important to you and your business.

### **You make the call**

We tend to think about outsourcing when we look to reduce the cost of non-strategic functions, to increase efficiency and to free up time to focus on “core” activities. Okay, but what criteria do you use to define core activities?

For example, consider the distribution of sales literature (fulfillment). At INCON, we outsource our literature fulfillment because we determined that companies specializing in this field can provide our customers with a better level of service than we can, and at a lower cost, all the while freeing up our staff to perform “core” functions. We also determined that we were not in the business of fulfilling literature. Literature is a tool we use to support the selling of our products and, therefore, not core. Pretty basic, right?

How many companies do you know that outsource their payroll function? Unheard of 20 years ago, outsourced payroll services are very common today, and in many cases are preferred because of their efficiency and reliability. Do you consider payroll a core function? Why?

It would seem that identifying non-core activities is critical to the outsourcing decision, and that companies are likely to define “core” activities differently. One way to identify non-core activities is to

look at them and see how they fit within the company's business definition. To use the last example: Are you in the business of running the payroll? For most of us, the answer is "no"; payroll is a necessary tool we use to run our organizations and not why we run our organizations. Payroll is also an area where many of us perceive that outsourcing can provide a better combination of service and cost than what we can provide internally. So, two criteria emerge: "core vs. not core" and the perception of increased value with outsourcing. Payroll, not core? Which way is better and less costly?

### **The supermarket scene**

Let's look at supermarkets for a moment. You could define their business as the reselling of consumable goods to the general public. You would think that, under this definition, deciding product mix, price level and stock level would be considered core activities. Yet, many supermarkets outsource the merchandising of certain aisles, specifically health and beauty aids, to distributors.

Why? Because some supermarkets define their business as maximizing the profit generated by the available shelf space, instead of just reselling foods. They have learned that, particularly in the case of health and beauty-aid items, outside merchandisers can help the supermarket generate more profit per shelf area than the supermarket can by itself. The same supermarkets would not dream of outsourcing their meat or produce departments, as they find themselves the best qualified to maximize the return of that shelf space. Perhaps we can expand our simple selection criteria for outsourcing non-core activities to include knowing your level of competence in the activity and its associated cost.

Let's use these simple criteria—core or not core, increased value and level of competence—to evaluate the outsourcing of UST environmental compliance activities, as well as of fuel inventory control and associated logistics.

### **UST environmental compliance**

Let's understand that environmental compliance involves knowing the requirements in the laws and regulations, and executing the actions necessary to attain and maintain compliance with them. Most, if not all, good petroleum marketers and fuel site operators follow regulations and use the industry's best practices for UST compliance and leak detection. And, even though among America's fuel marketers you will find some of the most knowledgeable and experienced people on the subject of compliance, most would struggle to define compliance activities as core to their businesses.

Further, some feel that outsourcing compliance can provide a better value than what could be achieved internally. Using our simple criteria and looking strictly at compliance activities, we would find that:

- Some marketers do not view them as core activities.
- Service providers (i.e., companies whose business is to provide environmental compliance services fuel facilities) exist and openly advertise their value.
- Fuel marketers can measure their level of competence in, and the costs of, performing

environmental compliance activities “in-house.” They can use this to evaluate a potential service provider.

If you agree, then it is just a simple matter of comparing the proposal to the incremental cost of your own equipment and labor, spread over the useful life of your equipment. Right? Not quite. Still using compliance activities as our case in point, let’s look a little closer.

Let’s assume that, although your organization has a significant amount of knowledge about your fuel sites and how UST compliance regulation affects them, you determine that you are not in the compliance management business. Compliance management is just not core for you, and you find that outsourcing can provide a better value.

You performed an “apples to apples” comparison between your competencies and their related costs, versus those offered by potential service providers. And therefore, you are ready to make a decision and scratch this task from your never-ending list of things to do, Right? Well, not so fast.



**This automatic tank gauge gathers inventory information and environmental data that can be utilized by the end user or by an outsourced agency.**

### **Look at the fine print**

Outsourced environmental and UST compliance services come in a wide variety of sizes and colors. However, four types of companies generally provide them: equipment distributors; service and monitoring companies; Statistical Inventory Reconciliation (SIR) providers; and gasoline marketers. Each type of organization will bring different benefits to your company as they all offer different compliance solutions.

“Feature bundling” is a very common practice in the industry, so it is very important to get very detailed breakdowns of the services provided and the service provider’s responsibilities. The fine print is very important here. It defines, for a contractual period of time what services you should get from this vendor and how the services will be executed. Ensuring that you establish a valid “apples to apples” comparison is essential to your long-term satisfaction with the service that you are about to contractually purchase.

A critical element to your long-term satisfaction is understanding and choosing the method of data collection you will use for your compliance solution. Choices range from an entirely manual method of reporting (utilizing stick readings) to a totally automated solution with tank-gauge monitoring. This choice will have major implications on how successful your program is, so let’s consider it in more detail.

Manual data collection is just that—manual. This means that you will provide the personnel who will collect and submit the information for analysis and report. Take note of this cost! Take note also of the management costs and other associated issues with manual data collection.

The saying “garbage in, garbage out” is particularly true. Inaccuracies in the daily and shift data can

result in “inconclusive” test results, which are not particularly acceptable to regulators who will force you to perform additional compliance testing, and therefore incur more costs. Do not underestimate the cost of managing this process, which includes at least one employee per shift per site. Remember that you and your company are still responsible for the environmental compliance of your system, regardless of whether you have outsourced services or not.

Automated data collection, on the other hand, involves the use of a probe, sensor or other device to automatically collect data on your UST system. The most common method involves the use of an automatic tank gauge (ATG).

In the past, automated data collection meant that you had to purchase expensive hardware that was difficult to operate. Today, you may purchase or lease competitively priced, state-of-the-art hardware and software solutions, or finance them as part of a multi-year “pay as you go” service contract agreement. For about \$100 per month, you can lease excellent tank gauging equipment and even have the choice of financing a significant portion of your installation costs. Check with your local distributor for specifics on available programs.

**Wonder what activities are outsourced at this Texaco station? Deciding whether to outsource or manage fuel inventory and environmental compliance in-house is an important question for any station owner to consider.**



#### **Proceed with caution**

The advantages of automating your data collection process cannot be over emphasized. If part of your outsourcing strategy is to reduce the level of internal resources dedicated to compliance activities, then automated data collection is a must for you. Nevertheless, and as with any new technology, you need to be wary of a few things:

- Beware of services that automate your collection, but hold your data hostage by not giving you access to all of the information available from the tank gauge. Regardless of how you structure the service contract, one thing is for sure: you will pay for that tank gauge one way or another. You should not have to ask permission or incur extra service charges to access the ATG information yourself, independently of when your service provider accesses it.
- Beware of service providers telling you that they will perform Statistical Inventory Reconciliation (SIR) on your ATG data. SIR is a process by which you analyze daily readings statistically to determine if your UST is tight or leaking. The software used for SIR typically finds trends indicating the existence of a leak or other inexplicable loss of product. However, ATGs from major manufacturers already come with leak-detection algorithms approved by independent testing laboratories and blessed by EPA’s regulatory work group. These devices will accurately detect a leak and report the information in real time, so no further analysis of the data is required.
- Beware of vendors that force you to standardize on one equipment platform. Today, open monitoring platforms are available that allow you to own and monitor multiple types of equipment in

your population of fuel sites. At least one leading ATG manufacturer offers software today that allows for the monitoring of multiple brands of ATGs, provided you equip them with phone lines and modems. Buying new modems is certainly more cost effective than buying new tank gauges for sites so they can be monitored remotely.

- Beware of exaggerated claims. Only a trained and experienced organization can provide and install a remote monitoring network. If it sounds too good to be true, it probably is: Make them prove it to you. Most reputable companies will gladly agree to let you test their solution for at least 30 days as part of your purchase commitment.
- As previously noted, the decision to outsource an activity is based on more than just its definition as a core or non-core activity. Economic value is key to the decision as well. The fact is that, today, you can outsource just about anything. Therefore, it is imperative that you determine whether you generate greater value from outsourcing the activity than by performing it yourself.

Are we ready to make a compliance outsourcing decision yet? Yes, except for one thing. In deciding to automate your data collection through the use of a tank gauge, you have enabled your company to take advantage of remote inventory control, fuel delivery notification and other fuel inventory and logistical functions critical to your organization. I will call this collection of activities “fuel management.”



**Line-leak detection is a crucial aspect of ensuring environmental compliance.**

### **Compliance/fuel management combo**

I define fuel management as the activities that you perform to purchase, control and market motor fuels through your retail sites. Because of their potential to affect your sales ability, compliance activities are included in this definition, as well.

The good thing about this definition is that it ensures that the same technology you utilize to automate your compliance data collection activities is perfectly suited to give you all the information you need to significantly improve the efficiency of your fuel inventory control and logistics operations. Great! An easily measured, added value to your organization.

The bad thing about this definition is that it will force you to rethink your decision to outsource UST compliance. Why? Quite simply, because outsourced compliance services alone cannot improve the efficiency of your inventory control and logistics operations. Looking at fuel management issues instead of just compliance issues changes the nature of the decision. This is because, even though you may not be in the environmental compliance business, you are clearly in the business of managing and controlling your petroleum inventory.

You may or may not have the expectation that others can manage your fuel assets better than you. An “apples to apples” comparison now requires you to consider the impact of your solution on inventory, dispatching and other operational activities in addition to compliance. Automated data collection supports these expanded decision criteria and you know proven technology exists to help

you manage centrally and remotely.

Let's be clear on one thing here: Automated data collection through an ATG is required for remotely-monitored, centralized fuel management. Any service provider that would suggest using manually-collected data to improve your logistics operation is wasting your time. Only real-time information can tell you when to deliver a full load into a diesel tank at any one of your 200 sites.

Therefore, when evaluating whether to outsource your fuel management, make certain to look to service providers that can monitor your tank-gauging equipment. Only service providers that offer an automated solution are qualified to address your needs in this area.

And what about monitoring your own tank gauges? Depending on the manufacturer, for little or no incremental cost, the same equipment you purchased to automate your data collection activities will give you the ability to centralize and remotely control fuel inventories at your retail sites while automating and recording your compliance activities. Isn't new technology great? And yes, you need to add to your decision criteria list one more thing: look to see if new technology helps you improve your cost position or capitalize on your level of competence.

You may, after reviewing all options, decide that you would like to take advantage of improved inventory control in-house, but want to outsource your compliance activities. Who will accommodate you? Many distributors, service providers and jobbers will perform strict environmental compliance monitoring at your sites, while still allowing you to monitor tank gauges for inventory information.



**Remote fuel management software collects valuable information from multiple sites and presents it in an easy-to-read format.**

### **Are you in or out?**

Some final thoughts: Simply outsourcing your compliance activities may not be as simple a decision as you may have originally thought. Much will depend on the competency and cost structure of your internal organization compared to your potential service provider.

Automating your data collection can prove to be very cost competitive when evaluated over the useful life of the equipment (five to ten years). Such automation is one of the most effective ways to improve the responsiveness of your compliance system and increase your overall level of satisfaction with your selected compliance service solution.

Expanding your business definition to include fuel management instead of just compliance will increase the complexity of the decision on whether to outsource, but it is likely to help you get more mileage out of your automated data collections assets, and significantly improve your inventory control procedures and results. Here are some other key things to incorporate into your decision-making process:

- Use an open-architecture platform. Whether you decide to outsource or manage your own assets, be sure to look for a firm that utilizes an open hardware and software platform. This will give you the greatest flexibility as you continue to acquire or build new stores.

- Don't underestimate the effects of new technology and what it can do for your organization. With current advances in communications and measurement technology, state-of-the-art remote monitoring and centralized inventory control solutions are available today—and at a fraction of what they would have cost five years ago. Don't forget to explore the technology options. They can help you redefine your decision criteria.

- Use the web. Most service suppliers, industry organizations, magazines, equipment manufacturers and distributors have web sites that provide valuable information and even software downloads for customers to learn more about available options.

And finally, remember that you have choices. There are many different solutions available for addressing your compliance and fuel management needs. Demand and get the results you are looking for—after all, it is your choice!

Where to look for outsourcing help

Company	Tankology	INCON	Marley Pump/ Red Jacket	Veeder-Root	Lexicon Environmental Association, Inc.
<b>Contact</b>	Bill Marshall, VP of Site Sentry Operations	Rick Sales, VP of Sales & Marketing	Chad Oberman, Petroleum Mktg. Specialist	Paul Stone Karen Newman	Donta Hymes, Vice President
<b>Phone</b>	800-964-2018	800-872-3455	800-2Marley	888-561-1942	610-344-380
<b>Outsource Service Available</b>	Customized, remote monitoring, compliance management and fuel inventory management programs.	All tools for customers to manage their own fuel management and environmental compliance, or to outsource it. Can remotely manage varied systems and hardware.	Complete line of compliance & fuel mgmt. equipment for use in the moving, monitoring or managing of wet stock. Comprehensive training & certification programs provided.	Comprehensive compliance management and fuel logistics.	Complete environmental engineering and management, especially storage tank mgmt., remote monitoring investigation & remediation.
<b>Geographic Area</b>	25 offices across US international licensees	All over US and Canada, Latin America, South America and Asia	Global	North America, Europe & Australia	National capability
<b>Staff</b>	329 (163 service technicians)	100	350	425 (in North America)	200, including National Alliances
<b>Warranty</b>	Standard one year, extended five to ten yrs. Guaranteed environmental compliance	Standard on almost all products for one year, plus 24-hour terminal support	Standard company product warranty	5 or 10 years, depending on contract	Contract-specific
<b>Systems Monitored</b>	Emco-Wheaton, INCON, Red Jacket, Veeder-Root & others	INCON and all other major brands	Red Jacket systems & competitive systems	Veeder-Root	Omtec, Veeder-Root & others
<b>Reporting</b>	Alarm summaries, maintenance actions, compliance, and fuel inventory reconciliation via fax, internet & data files.	Comprehensive	Comprehensive	Comprehensive	Comprehensive

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