



The discipline to Succeed



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Education

Hard decisions

Don't let under-performing stores erode your company's financial foundation.

When was the last time you had a check-up and a thorough physical? If you are on the "mature" side and haven't been to the doctor lately, you owe it to yourself and to your family to get checked out.

And guess what? Your stores deserve exactly the same kind of attention. In his thought-provoking session entitled "Dealing with the 'Dawgs,'" **Dick Meyer**—"the c-store doctor"—shared some of his basic "diagnostic procedures" retailers can use to assess their own financial health.

"My objective is to assure that every company has a definitive strategy in place that helps them identify their under-performing stores as well as potential alternatives for disposing of them," Meyer told his audience. "I'd be happy if every retailer went home increasingly selfish about their financial future. If you had reservations before about closing this store or that store, I hope to provide the rationale as to why you must attack these hard decisions sooner rather than later. If you don't, the profit-depressing stores can erode your company's financial foundation.

"The industry as a whole does not mandate adequate accountability and return on investment on a store-by-store basis," he adds. "It's time we change that."

Meyer knows from experience how making the hard decisions can pay off.

"I went to work for **PDQ Food Stores** in 1977 as their CFO," he says. "We didn't know how to make a profit until we closed our first store. Then we started to have fun. The point is, you have to know when to hold 'em, and know when to fold 'em."

A Quik (Trip) validation

Meyer says the "know when to fold 'em" formula is further validated by some of the industry's savviest marketers.

"Many of us have heard that the **QuikTrip** chain, with 300-plus stores, has closed as many stores as it has opened," says Meyer. "An uninformed retailer might think they can't be that smart with that kind of history. But when you see Chairman **Chester Cadieux** confess this with confidence, it becomes clear that this company is driven by a focus on volume and profitability."

Open Pantry Food Marts is a Wisconsin-based chain for which Meyer serves on the board of directors. Over the past year, Meyer says, Open Pantry CEO **Robert A. Buhler** has orchestrated the successful sale of 21 under-performing franchise locations.

"With the Open Pantry signs recently taken down on those stores, the public now has a more consistent and favorable impression of the remaining 35 stores," Meyer says. "Not only are we financially stronger from disposing of these assets, we're also now a well-positioned buyer."

Diagnostic procedures

According to "Doctor" Meyer, the basic steps required to obtain an accurate diagnosis of your financial health include:

- **Income summaries for each store**, to include two to three years of historical P&L line-item data, with projections for the current year. Past income statements typically provide the information required to develop these compilations. "It's a one-time effort," Meyer says.



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COO Rocky Dewbre says **Susser Petroleum** uses a "decision tree" to find the best alternative for under-performing sites.

- **Consolidated income summaries** showing stores' annual performance, side by side, plus grand totals and percentage relationships. This analysis allows you to view volume and margin growth, expense and profitability relationships between comparable stores, Meyer says, and will help crystallize the best profitability "model" for future development.

- **"Base Stores" analysis.** This is a recap of all operating stores, with a summary of historical and estimated data for key performance barometers, including average monthly volumes, gross profit dollars from merchandise and fuel, margin relationship (% of merchandise sales, cents per gallon), operating income and EBITDA.

"This will become the most utilized tool for top management once they see its day-to-day value," Meyer says. He suggests sorting stores by variable views, then recording each store's ranking by performance indicator (i.e., #10 in volume, #1 in profitability, etc.). Also, view average

per-store performance by division or market.

- **Merchandise sales and gallonage trends** by month, by store for the last three years, with estimated monthly volumes for the new year. Meyer says it can be risky to suggest a store's volume will "improve by 3%" next year; instead, he advises retailers to estimate growth month by month, making note of site-specific circumstances such as road construction or new competition.

Once these "tests" are complete, a preliminary diagnosis can be made for each "patient." At that point, Meyer suggests getting a second (or even third) opinion. "I find far too many

decisions are based on emotion, without a planned, strategic approach to a possible divestment," he says. "Too often, a 'hard' decision is either made or postponed without regard for the company's strategic direction."

The SSP decision tree

Houston-based **Susser Petroleum/Rusche Distributing Co.** is the fuel distribution division of Corpus Christi-based **SSP Partners**, supplying fuel to more than 300 independent dealers. "When I joined the company we had a handful of stores, but we've grown our retail and wholesale operations through acquisition," says Rusche COO **Rocky Dewbre**. Cash flow is examined for every acquired site as well as under-performing corporate locations. "We use a decision tree: convert to dealer; use it for an alternative site, such as fast food; or sell it to a competitor," Dewbre says. "But we've made a concerted effort to develop the dealer channel. We believe in the dealer channel because the individuals we supply operate at much lower costs than most. We've successfully turned over many stores that had been operating at negative cashflow."

Comparing individual store performance to company averages can unlock the secret to profitability—but will also help diagnose "sick" stores.

