



This is Dick Meyer's eighth year of providing his commentary on industry trends and dynamics. Dick's predictions on the industry's per-store profit for 2002

and 2003 were right on target. He's proud to be one of the four co-founders of CStoreXchange, because he believes that providing monthly benchmarking data to industry retailers will help them—and the industry as a whole—make higher profits by being proactive with information. Meyer can be contacted at dmeyer@dickmeyer.com.

Benchmarking to drive profits

Results for 2003 show an expected rally, but be prepared for 2004

In January 2003 I predicted that our industry's 2003 per-store profits would increase by 50% and they did, by exactly that much. The prior year I projected 2002 profits would slide from 2001 by 25%; they declined by 28%. The year before I was pretty close again, so I'm thinking maybe it's time to retire my uniform.

Having analyzed current trends and dynamics in our industry, my projection for 2004 is that we might be happy if we're only down 20%, on average, when the year is over.

I'm hoping the industry will outperform my latest prognostication, but many chains will have to modify old habits to achieve this result. This year's profit pressures encompass rising interest rates; the implications of higher fuel prices at the pump (i.e., lower disposable income, higher credit-card costs per store); double-digit health premium increases (again); escalating sales of excise-tax-free cigarettes on the Internet, including by American Indians to non-American Indian smokers; and the continued uncertainty of terrorism. On the positive side, more marginal or loss sites are likely to be shed, because many operators have seen their earnings before interest, taxes, depreciation and amortization (EBITDA) and peace of mind elevate as they dispose of their "dawgs."

In my SOI analysis last year (CSP—

July '03, p. 51), I focused on seven marketing strategies to enhance EBITDA in the shortest period of time. Because 2003's SOI profits suggest that our marketing prowess improved, including year-to-year favorable increases in several product categories, I committed this year's thesis to benchmarking.

The concept is simple, and our industry is positioned to leverage its benefits and make more profits. NACS senior vice president Teri Richman has espoused "you treasure what you measure," and Krause Gentle's CEO/chairman Bill Krause leads his chain on the premise "know the score, keep the score and the score will improve." These phrases provide motivation that supplements that of the industry's original soothsayer (John Roscoe), who said something like, "If you don't budget for profits, chances are you won't make any."

2003's performance

At this year's NACS State of the Industry (SOI) Summit in partnership with CSP, the debate on how 2003's performance rallied by 50% per store was refreshing. Yes, we made another penny per gallon margin and sales of a

few in-store categories were up, but so were some operating expenses.

However, for the first time I can recall the words "productivity gains" were used to describe our success in harnessing stores' labor costs and reducing administrative costs per store. That's a major breakthrough. Scott Hartman, NACS vice chairman and CEO of Rutter's Farm Stores, also earned my attention when he said that about 40% of margin related to fuel credit-card sales was "going to the bank" as credit-card fees.

Learning from top profit performers

Listening to the key financial distinctions of top profit performers is always a highlight at the SOI meeting; they have higher volumes, gross profit dollars per store, etc. However, these companies also have important cultural differentiations. Many are "best in class" in people development, including lower employee turnover rates and higher productivity.

As my colleagues debated these attributes it dawned on me that probably all of these "winners" are also

Credit-card costs effect pre-tax profit

If you concur with the assumptions of my six data elements below, a c-store may pay as much as 6.0 cents per gallon for a credit-card fuel sale, which computes to about 30% more in 2004 per store than last year! Using NACS SOI per-store credit-card expense of \$24,000 for 2003, this singular cost element could adversely affect 2004's profits by \$7,000 per store, or about 23% of 2003's per-store profit of \$30,700.

1. Average fuel sale—say 10 gallons X \$2.00 average selling price (SP)/gallon = \$20.00
2. Credit-card fee at 3.0% of average credit-card sale = 60 cents
3. Cents per gallon profit to credit-card company per credit sale = 6.0 cents/gallon
4. Estimated percent of credit-card fuel sales to total fuel sales—say 50%
5. Cents per gallon of all fuel sales used to pay credit-card fees = 3.0 cpg
6. If the 2004 average SP/gallon is \$2.00, or 45 cents higher than 2003 of \$1.55, then a company's credit-card expense per store could rise about 30%.

benchmarking-driven. They set goals, and average performance or missing projections is not an option.

Metrics *drive* almost every successful business, as does knowing the score in sports. For c-stores, most employ “benchmarking 101,” which is tracking the growth in per-store sales, gallons and CPW (cartons per week sold), this year vs. last, along with pooled margin and salaries costs. What this thesis is all about is accelerating our acceptance of 101 metrics, but demanding a more formidable accountability of our overall business, especially in terms of productivity.

A picture is worth 1,000 words

I view productivity, deserving of constant vigilance, in four areas:

- ▶ **People-related:** sales per labor dollar and labor hour; total gross profit dollars per labor hour; customer transactions/labor hour; manager and hourly employee turnover; general and administrative costs per store and as a percentage of total activity (inside sales plus gallons sold)
- ▶ **Facilities:** inside sales per store square foot; break-even pooled margin in cents per gallon (cpg); total gross-profit

CIRCLE 105 ON REPLY CARD

dollars; total customer transactions; inventory turns

► **Equipment:** gallons sold per fueling position; gallons sold per fuel customer; percent of fuel gallons pumped vs. total gallons

► **Financial performance:** return on assets, return on equity and return on capital employed, etc.

Some might conclude that if we try to measure all these different activities, we'll drown in data. That's the right conclusion unless you allocate "ownership" of the critical data elements to people willing to sound the alarm when something is out of whack or a trend is unusually favorable. The metrics on the adjacent CStoreXchange report can help:

► While one month's operational productivity data (lines 12–18) could be rationalized by special circumstances (e.g., road closing or new competition), viewing the by-month trends over a period of time (this example shows 12 months and a weighted average) will usually crystallize whether a new data element is an anomaly or indicative of future results.

► If we concede "it's all about traffic," then we should monitor the facility, equipment and people productivity measurements as reported on lines 20–27. Compare the company averages to industry and regional line items to view opportunities for improvements.

► Financial ratios as on line 1–8 are often confusing and burdensome to calculate, much less interpret when they're needed for compliance reviews or new funding. However, if you can automate these trends and compare to industry averages, you

SAMPLE COMPANY

Rate of Return Measures and Operations Productivity Report

Data represents a sample 28-store company in the CSX database for 12 months ended September 2003. The weighted average applies to the company's 12 months of data.

Rate of Return Measures (Annualized)	Weighted Average	Oct 02	Nov 02	Dec 02	Aug-03	Sep-03
1. Net Profit Margin	1.98%	1.60%	4.63%	1.09%	1.80%	4.12%
2. x Total Asset Turnover	11.11	10.13	9.57	9.45	10.48	7.92
3. Return on Assets	21.96%	16.23%	44.32%	10.32%	18.83%	32.62%
4. x Financial Leverage Multiplier	3.00	2.90	2.80	2.69	3.42	2.38
5. Return on Equity	65.84%	47.14%	123.98%	27.79%	64.35%	77.69%
6. Adjusted Return on Equity	47.47%	36.64%	96.85%	27.79%	37.83%	58.23%
7. Return on Capital Employed	29.56%	22.01%	55.31%	15.00%	28.50%	40.61%
8. Adjusted Return on Capital Employed	25.48%	19.64%	49.38%	15.00%	22.23%	34.89%
Turnover Measures (Annualized)						
9. C-Store Merchandise Inventory Turnover	19.2	16.8	16.6	18.0	19.7	17.2
10. Employee Turnover Percent	84.0%	80.4%	54.0%	61.2%	85.2%	69.6%
11. Manager Turnover Percent	28.8%	57.6%	28.8%	14.4%	21.6%	39.6%
Operational Productivity (Monthly Avg.)						
12. Inside (CS+FS)** Sales per Labor Hour	\$108.10	\$121.89	\$125.73	\$129.74	\$102.28	\$86.59
13. Inside (CS+FS) Sales per Labor Dollar	\$5.92	\$6.20	\$5.36	\$6.04	\$6.34	\$6.11
14. Labor Cost per Hour	\$18.25	\$19.66	\$23.46	\$21.49	\$16.14	\$14.16
15. Gallons + Inside (CS+FS) Sales per Store	234,647	230,021	223,548	226,690	262,057	254,010
16. Fuel GP + Inside (CS+FS) Sales per Store	\$114,181	\$111,992	\$111,748	\$112,255	\$128,499	\$131,364
17. Total Gross Profit Dollars per Labor Dollar	\$2.75	\$2.86	\$2.61	\$2.93	\$2.78	\$3.25
18. Fueling Positions per Store	7.18	6.41	6.32	6.32	7.68	\$7.88
19. Gallons Sold per Fueling Position	19,232	21,034	20,966	20,908	19,716	\$18,782
Customer Transactions Detail (Monthly Avg.)						
20. Customer Transactions per Store	27,453.2	25,018.6	23,561.1	22,862.6	27,895.2	28,739.2
21. Gallons Sold per Transaction	5.0	5.4	5.6	5.8	5.4	5.1
22. C-Store Merchandise Sales per Transaction	\$3.19	\$3.48	\$3.54	\$3.82	\$3.58	\$3.25
23. Food Servicesales per Transaction	\$0.33	\$0.33	\$0.32	\$0.31	\$0.38	\$0.43
24. Other Store Operating Income/Transaction	\$0.11	\$0.07	\$0.07	\$0.08	\$0.12	\$0.08
25. Transactions per Labor Hour	30.7	32.0	32.6	31.4	25.8	23.5
26. Transactions at the Pump per Store	1,058.20	356.8	356.8	270.2	1,167.90	352
27. Transactions at the Pump/Fueling Position	147.4	55.7	56.4	42.7	152.1	44.7

*January through July omitted from chart due to space

** (CS+FS) = C-Store plus Foodservice

Source: CSX LLC

are ready when that right acquisition comes along; your financial position won't be a surprise.

Amplify your internal benchmarking now to ensure your 2004 year-end data proves me wrong! ■