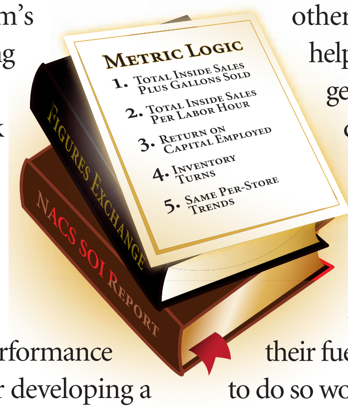
Meyer's Metrics

Thirty years ago Sam Jacobsen, co-founder of NACS and owner of PDQ Food Stores and sister company Pick Kwik, gave his new CFO, Dick Meyer, two of his business "bibles." The first was the annual NACS State of the Industry (SOI) report. The second was an Arthur Andersen-compiled "Figures Exchange" book that included multiple performance comparisons of Sam's 150-stores chains vs. six other noncompeting convenience retailers.

A big-8 CPA by background, Dick became an avid student of these initial metrics. And so began his quest to find the essential metrics for the c-store channel.



Metric Logic

Dick's agreement to provide his top five performance metrics is meant to stimulate dialogue for developing a consensus on the most important financial and operational barometers that will shape our industry's fiscal foundation.

1. Total Inside Sales Plus Gallons Sold: Graph a trailing 12 months track for your chain and compare it to the national trends in the NACS/CSX database of same firms' data. You'll reap two important conclusions: The CSX national average will provide a very informative benchmark of the industry's overall per-store growth over the past two years. Second, compare your company's percentage changes for the same time frame to discern if you're pacing at average, below or above industry trends.

2. Total Inside Sales Per Labor Hour: Martin Smith, president of Elmer Smith Oil Co. in Arkansas, proudly says that when he first focused on this benchmark and shared its significance with his company's 12 store managers, it changed the way they managed their stores. Today, the company is beating CSX's national averages. This statistic zones in on employee productivity.

3. Return on Capital Employed: Assuming a chain is reasonably sound viewing metric 1 and achieving good productivity per metric 2, the ROCE benchmark takes all other financial and operating factors into play and helps us understand whether the business model is generating an adequate return on total capital and debt at risk. Assuming this measurement is favorable, perhaps along with your favorite EBITDA and EBITDAR cash-flow metrics, your strategic plans are probably solid and you are likely to be earning higher pretax profits than average.

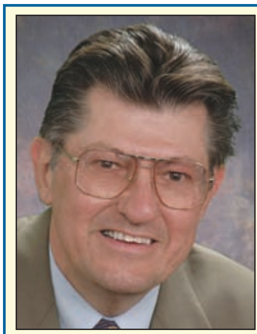
4. Inventory Turns: Most fuel marketers watch their fuel days-in-inventory religiously, knowing failure to do so would create severe cash-flow strains. This metric represents one of the easiest places to reap significant free cash-flow improvements. He encourages marketers to target for annualized turns (computed at retail) of 20–24 and 16–18 for cigarette and noncigarette inventory, respectively.

"Check these turns by store and by division at least quarterly, and I'll bet you find several opportunities to increase your cash flow by better inventory management of your gondolas, cigarette displays and coolers," he says.

5. Same Per-Store Trends: This is probably the most traditional measurement. Retailers and informed suppliers monitor the annual SOI survey. In addition, we are accustomed to tracking quarterly earnings of publicly traded chains. And CSX's database lets participating retailers observe monthly trends. Meyer says the consistently most-talked-about tracked statistics during his three decades in the industry have been the percentage per-store changes in fuel gallons and margin and merchandise and foodservice sales and margin dollars.

Great Ideas

CSP asked Dick about the first things he might do if he were brought in as CEO of any convenience chain of 20 to 2,000 stores that needed some fiscal and operational attention to improve cash flow and profits. Because he has lots of experience working with financial-turnaround teams, he was



Dick Meyer is president of Meyer & Associates, a consulting firm that specializes in the convenience store industry. He also is co-founder of CSX LLC. He can be reached at dmeyer@dickmeyer.com.

quick to identify what he calls some "back to basics" steps to maximize cash flow and identify the underlying strengths of the chain.

▶ **Assessment of the Team.** Obvious? Should be, but still easy to miss. Because "culture" and discipline, passion and a sense of urgency are often underlying strengths of top-performing chains, the first priority is whether you have the right team in place to overcome obstacles and to grow.

▶ **State of the Stores.** Dick endorses a KIS (Keep It Simple) Excel template that asks the management team to provide two or three lines of input by store. These worksheets should offer snapshots that capture store management; that management team's view of what should be changed at the store level; the five aforementioned metrics; and some history about that store. The report, Dick says, lets you quickly assess what the management team knew about their stores and furnishes great information on top- and underperforming locations.

▶ **By-Store Historical Performance.** Tap technology to crystallize the operating performance and key trends of a chain by store, division and total network. Excel's linking and analytical capabilities allows every retailer, regardless of size, the ability to create similar analyses routinely. Dick's first page shows summary P&L data (sales, gross profit, etc) with key statistics on the bottom of that page (percent increase this year vs. prior for gallons, total inside sales, fuel margin, etc.). Pages two and three drill into operating expenses.

▶ **Ranking Store Performance.** Amazing how some straightforward analyses of growth by store for volume, margins, etc, will capture the attention of top management when they see those data ranked and sorted by top-performing manager to bottom.

▶ **Category-Management Decisions.** Do you look for per-store seasonality trends by major categories? Are you using warehouse shipments data, tobacco and OTP suppliers' volume trends analyses effectively? Are you benchmarking category trends against external industry trends such as NACS/CSX? ■

Do you agree with Dick? Share your thoughts with CSP group editor Mitch Morrison at mmorrison@cspnet.com or Dick Meyer at dmeyer@dickmeyer.com.

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