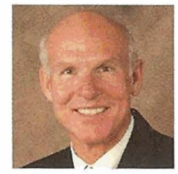
By Terry Monroe, American Business Brokers



Tough Times Call for Tough Decisions

You have to know when to hold them, know when to fold them

Anyone who is able to read or turn on a television has heard the news: we are in a recession. Everyday it seems one company is trying to outdo the other in how many people it can lay off. Just last week, on one page of *The Wall Street Journal* I counted more than 30,000 job positions that were cut due to poor economic conditions. That's 30,000 people who no longer have a job ... or a source of income. And that was just one day.

The result is a historic number of people filing for unemployment benefits, putting a tremendous amount of financial strain on the state governments. This in turn, is prompting the federal government to draft legislation to send emergency bailout money to the states in order to pay the people who are currently receiving unemployment benefits.

There is little disagreement as to how bad it is out there. In his new book, "The Great Depression Ahead," *New York Times* best selling author and renowned economist Harry S. Dent Jr. said, "Businesses need to understand a 'survival of the fittest' battle is coming between 2008 and 2012 that will determine the leaders for many decades to come. The businesses with the largest market shares or niche dominance and with the lowest costs, and strongest balance sheets and liquidity will grow stronger and gain long-term market share, but many more will fail or be taken over by the stronger companies."

Dent based his economic forecasts on the demographics of people throughout the world, not just the United States. You may ask, "How does this affect me? Why should I care what goes on in India, Indonesia, Latin America or China? My store or stores are in Ohio, South Carolina or California. I am worlds away from these places." Well you should care, because what is going on in the production and manufacturing countries is going to dictate what you pay for the gas and products you sell.

Remember the $4 per gallon gas last summer? Did you have enough credit to keep your tanks full? With fuel prices fluctuating so rapidly, did you get caught with gas you had bought at a high price and then had to sell under cost?

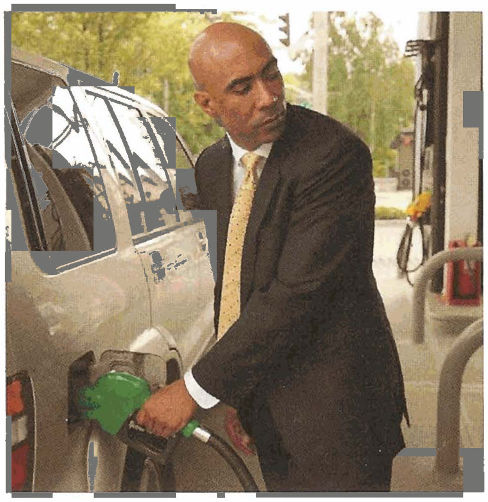
Do you remember pain of the consumers who had to spend $80 or more to fill up their vehicles? Did your inside sales take a hit because the high fuel prices left consumers with too little money to go inside and purchase the products they usually buy?

Remember the price increases on food products as a result of corn prices going up to help satisfy the demand for ethanol — prompting retailers to charge higher prices for some of the daily items sold in the store?

All of this sounds like a long time ago, doesn't it? Well, based on the predictions of many economists, we are not out of the woods yet.

The Organization of Petroleum Exporting Countries (OPEC), the cartel that has made billions upon billions of dollars from the run-up in oil prices, publicly stated it wants the price of oil at $75 a barrel and will do whatever it takes to get it there. And since OPEC either controls or influences more than 60 percent of the world's oil supply, there is a good chance it will get the job done.

Now that I have set the stage for future doom and gloom, let me make my point. I recently spoke with two operators of convenience stores. Both were men in their late 50s and each in the business for more than 30 years. One has approximately six stores, the other roughly 40. Both are very knowledgeable about the convenience store business and understand how to purchase fuel, merchandise a store, buy correctly and all the other functions of running convenience stores, but both of them lost money last year.



Why? They took their eye off the ball and lost focus on running their operations. Both knew what was going on in the marketplace with the fluctuating fuel prices and did nothing. They were not paying attention to where their business was going until it was too late. There is no sugar-coating this situation. They both lost a lot of money. Admirably, both operators admit it was their fault, and I respect them for taking responsibility for their actions. But they messed up and they know it.

So how does this apply to you? Unless you want to become one of the businesses that doesn't survive the competitive evolutionary climate to come, you must be very proactive in your business. Surround yourself with competent people who know what questions to ask, and have ideas and solutions about what should be done to remedy the situation.

Are you reading your profit and loss statements as a banker would (i.e., with no emotion and seeing things in black and red), or are you too personal with the stores you operate and treat them as a family member?

Never fall in love with a business or a building, because it can't love you back. The operators who emerge victorious from this "survival of the fittest" competition will be those who can stand back and look at their business in an objective manner. The survivors know when to hold them and know when to fold them. They'll be able to cut out the non-performing items within the convenience stores or get rid of the under-performing stores altogether and reinvest into new stores or get liquid.

"When people have discretionary time either from lack of work or loss of employment, they tend to spend more money on the things they can get pleasure from."

Continuing to operate a non-performing asset is just not smart! Especially in a market that is not expected to improve for several years.

Many people will take a wait-and-see approach when it comes to selling off underperforming assets. They will wait until the market is better and try to get a better price. Nobody wants to sell at the bottom of the market, right? Well, what if we are not at the bottom of the market?

To test this theory, I checked the records on all the stores I sold five years ago, three years ago and one year ago. I compared their market values then to their market values today and discovered all the stores have decreased in value every single year. These results were based on more than 100 stores that were sold by our company within the last five years. None of them are worth more today than they were when they were sold.

Some of those sellers still call me to say thanks for selling their stores when they did. Like most people at the time, they thought they had missed the high point of the market and were hesitant about selling their assets. Ask them about the "wait and see" approach now.

I'm not trying to convince you to sell or get out of the business. Quite the opposite, actually. This is a call to action. Get your business tuned-up and running properly. Capitalize on the existing opportunities that are available in the market. Yes, there are opportunities.

A banker friend of mine who is a past convenience store operator/retailer and manufacturer, told me the convenience store business is one of the few making money right now.

How could that be? Well, he had seen the profit and loss statements of dozens of convenience stores making money because they were well-run and kept up. He spoke about one 12-store convenience chain where every store was profitable. "Not a non-performing store in the bunch," he said. That was because every time a store became unprofitable, the owner either sold it or closed it and replaced it with another profitable store.

The banker reminded me of my experience years ago when I was in the entertainment business. He said, "When people have discretionary time either from lack of work or loss of employment, they tend to spend more money on the things they can get pleasure from." For example: cigarettes, beer, movies, snacks and sodas. "The reason is simple," he said. "They tell themselves regardless of how bad their economic situation may be, they feel entitled to these items and still deserve the pleasure derived from them. Therefore, they will spend the money for them."

I know this it true, having seen it in the early 1980s when people lost their jobs. It seemed they always had the money for color televisions, movies, a 12-pack of beer or a carton of cigarettes — even when they didn't seem to have the money to make the bank payment.

Tough times call for tough decisions. Don't go the way of the businesses who won't survive because you are reluctant to make the tough decisions today. It is a lot more productive to make those decisions now rather than wait and have to make them later ... or worse yet, having someone else make those decisions for you. ■

Terry Monroe is a regular financial columnist exclusively for *Convenience Stores News*. He also is president of American Business Brokers, a national business brokerage firm specializing in the market valuation and sale & acquisition of convenience stores. He is also managing partner of American Market Advisors, a consulting company specializing in helping retailers capitalize on underperforming assets. He often consults and works with owners in optimizing value and has personally owned more than 34 businesses and 200 stores. He can be reached at tmonroe@americanbusinessbrokers.com

Editor's Note: The opinions expressed in this column are the author's, and do not necessarily reflect the views of *Convenience Store News*.