

Tough Times Call for Tough Decisions

By Terry Monroe

Anyone who is able to read or turn on a television has heard the news: we are in a recession. Everyday it seems that one company is trying to outdo the other in how many people they 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 that no longer have a job ... or a source of income. And that was just one day.

The result is an 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. wrote, "Businesses need to understand that 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 bases 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 or 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 the 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 the consumer with too little money to go inside and purchase the products they usually buy?

Remember the price increases on food products that were a result of corn prices going up to help satisfy the demand for ethanol – prompting you to charge higher prices for some of the daily items you sell in your 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.

OPEC, the cartel that has made billions and billions of dollars from the run-up in oil prices, has publicly stated that 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 that it will get the job done.

Now that I have set the stage for future doom and gloom, let me make my point. Last week I talked with two operators of convenience stores. Both were men in their late 50s and each has been in the business for more than 30 years. One has approximately six stores; the other roughly 40 stores. Both are very knowledgeable about the convenience store business and understand how to purchase fuel, merchandise a store, how to buy correctly and all the other functions of running convenience stores. In short, they were both very experienced operators.

Both of them lost money last year.

Why? They took their eye off the ball and lost focus on running their operations. Both of them 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 that 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 apply to you? Because 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. You need to 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 like 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 stores or get rid of the under-performing stores altogether and reinvest into new stores or get liquid.

Continuing to operate a non-performing asset is just dumb! 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 under-performing 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 had sold five, three and one year ago. I compared their market values then to their market values today and discovered that 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 that 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 c-stores that were making money because they were well run and kept up. He spoke about one 12-store 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 is true, having seen it in the early 80s when people were losing their jobs. It seemed that they always had 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. Take control of your business and make those tough decisions. It is a lot more productive to make those decisions now rather than waiting and having to make them later ... or worse yet having someone else making 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

Links referenced within this article

Terry Monroe

<http://www.csnews.com/csn/news/mailto:tmonroe@americanbusinessbrokers.com>

Find this article at:

http://www.csnews.com/csn/news/article_display.jsp?vnu_content_id=1003942954

Uncheck the box to remove the list of links referenced in the article.

2008 Nielsen Business Media, Inc. All rights reserved.