

Maximizing Profits

Gerke-Meyer conference runs the gamut in two days

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SAN ANTONIO, Texas -- In just the first day of their first jointly produced conference, industry consultants Gene Gerke and Dick Meyer--and other participants--delivered a week's worth of ideas, information, tips and suggestions for improving profits in the convenience store business, according to attendees of the two-day conference, which wrapped up Monday afternoon.



The conference, titled Maximizing C-Store Profits, was produced in combination with the McLane Co. Technology Conference and the Professional Datasolutions Inc. User Conference--which combined this year to form The Industry Event. Approximately 50 retail CEOs, CFOs and other senior-level managers and owners spent two days listening to nearly a dozen speakers on an array of subjects with direct impact on a retailer's bottom line.

Saying the industry was at a crossroads, Meyer, principal of Neenah, Wis.-based Meyer & Associates, called on attendees to "demand accountability and a sense of urgency" in their companies at a time when "the landscape is changing." Meyer pointed to the growth in the industry's independent retailers, declining cigarette consumption, the use of gasoline as a commodity by high-volume retailers, a distribution system in turmoil and a lack of funding for any retailers other than the most financially solid.

To kick off the conference, Meyer joined Open Pantry Food Marts of Wisconsin Controller Adam Meier in a discussion of how financial modeling helped the chain create a clear view its historical performance, thereby enabling it to more accurately forecast future performance. Using a detailed system of line-item performance tracking developed by Meyer for the chain, Meier is now able to quickly assess store-level performance versus expectations. According to Meyer, retailers should track same-store sales and even make that performance information available to store-level personnel in an effort to create a competitive environment between stores in a chain.

With such detailed data in hand, Open Pantry was recently able to secure \$15 million in new funding, including a \$5 million acquisition facility in a difficult borrowing environment. In addition, the company has been able to employ its model to quickly assess the viability of potential acquisitions, as well as generate \$4 million from the sale of 21 underperforming units.

Attendees addressed a number of issues they see as challenges in tracking store performance in an industry with limited benchmarking data, such as categorizing sales in the growing prepaid category, categorizing supplier rebates. One attendee pointed to Tulsa, Okla.-based QuikTrip's use of individual P&Ls for each site's individual profit centers as a more accurate way to track store performance.

In a brief discussion of technology trends, PDI President Greg Gilkerson reviewed those technology implementations from which retailers are enjoying the highest return on investment, such as pricebook implementation (still the most measurable ROI). In a discussion of future technologies, Gilkerson said networking stores via a wide-area network (WAN) and the use of wireless will continue to grow and reap benefits for multi-store operators. "The fun part is, we're just getting started," Gilkerson said.

Later in the day, Bill Kent, president of Midland, Texas-based The Kent Cos., discussed his company's battle to compete in a market that has quickly become a hotbed for gasoline sales by high-volume retailers. According to Kent, whose 22 Kent Kwik Stores saw HVRs spring from one installation to no fewer than eight locations controlling 20% of the gasoline market in just a few years, the key is not to back down.

Seeing that stores that lost volume by not matching the HVR gasoline pricing were never able to regain that business, Kent matches the HVR street price in all of his competitive locations. In addition, he said the company has worked hard to improve efficiencies and run an organization that can survive on a thinner gasoline margin.

"If you can operate on a margin of six cents [per gallon] or less, you are bulletproof," he said. "If you need more than

10 cents, you're in trouble. When you think there's nothing else left to cut, find another 10% to cut."

But at the same time, he said it is important to differentiate between "costs" and "expenses." While certain added expenses are warranted to compete, costs can be eliminated from within the operation. To that end, Kent said his company has invested in personal trainers to improve the customer's shopping experience. The company has also contacted its suppliers and discussed their competitive situation. "Don't be afraid to ask for help," he said. "You'd be surprised what your suppliers can do for you."

In a session on the evolving tobacco business, Dan Elrod, McLane Co.'s national manager of cigarettes and tobacco, told retailers not to give up on the full-price category in the face of skyrocketing excise taxes and consumers seeking cheaper alternatives. "More than one-half of the full-price cigarette smokers purchase ancillary items in your store while only one-third of the deep-discount customers will," Elrod said. "Sacrificing the limited space in your store for the fourth-tier deep-discount customer will no doubt result in attracting a customer that spends less."

Elrod also warned retailers that selling products by manufacturers who are not in compliance with the Master Settlement Agreement increases their risk of product liability.

In a first-day closing session, Gerke, president of the Columbia, Mo.-based consulting firm, Gerke & Associates, discussed the need for benchmarking data in the c-store industry. Having served as a consultant to the industry since the late 1970s, Gerke has compiled his own data on category performance over that time.

According to Gerke, the industry currently conducts annual benchmarks using overly broad, outdated data because there has not been a system in place to collect data, compile it, and set industry benchmarks on an ongoing basis. Through a joint venture with Meyer called CSX, the consultants are seeking to capture data electronically and set rolling benchmarks that, at any given time, are accurate and valuable to retailers.

Today, with technology available to most retailers, Gerke and Meyer have collected comparative data from more than 1,000 stores, and they are seeking to roll the technology out on market-by-market basis to establish a database of benchmarks against which similar stores can compare their performance. Ultimately, Gerke said, a system that would capture transactional data directly from store-level systems at a broad base of individual locations could provide the industry with invaluable data with which the performance of individual stores can be quickly graded.

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