FINANCIAL INSIGHTS

By Terry Monroe, president and COO, American Business Brokers

The Silver Bullet: Myth or Reality?

Retailers should research new profit centers, so they don't end up shooting blanks

Silver bullet: a product or service that, when added to an existing business, will instantly become a profit center, add to the overall value of the business and put cash in the owner's pocket. Myth or reality?

While that is my own personal definition, many owners and operators within the convenience store industry can identify with the term "silver bullet." As a former owner, I too was lured by the magic a silver bullet had to offer. It came with the promise of immediate increased profits and was a guaranteed cure-all for sales woes.

The search for the silver bullet, or new profit center, in the c-store industry is evident in the recent explosion of foodservice. In 2006, the average c-store reported nearly $313,629 in operating expenses per store, up 16.3 percent over 2005, according to *Convenience Store News*' 2007 Industry Report. To offset those expenses, operators have been seeking to add profit centers to help raise store margins. Most of that search has been focused on in-store sales, specifically in foodservice, which featured a 9.9-percent rise in gross margin dollars nationally last year.

One example of a c-store owner investing in the silver bullet came to me from a client in Terre Haute, Ind. He decided to put pizza in his store to boost profitability. After investing thousands in startup costs (along with adding equipment and hiring the labor to operate), his sales figures rose slightly. Then, after six months, his pizza oven broke. Interestingly enough, the loss of pizza sales did not affect his bottom line. The overall cost of installation — coupled with added labor costs, and food and paper costs — negated any profit he could have anticipated, making his six-month sales figures look remarkably similar with pizza as they did without it.

Foodservice is not a bad idea. However, it's important to consider the factors that influence the performance of your business

before investing in that profit center. In this example, my client thought adding pizza would increase profits, but he underestimated the other factors that affected his bottom line, including the costs of additional labor, employee training, construction, and equipment and supplies.

Sometimes we hear about a fellow operator adding a new product or service that resulted in $5,000 in increased in-store sales, tempting us to do likewise. However, the mistake many make is not planning for the upfront and included costs of buying into, developing and maintaining that profit center. To help prepare for those costs, I counsel my clients to do two 12-month projections. Factor the new profit center into one projection and do the other projection without it. If your new profit center projection works out to $30,000 in increased sales, determine what it is going to cost you to add that additional $30,000. Keep in mind the upfront costs and that it may take you more than one year to realize that $30,000. Most importantly, discover the real bottom line and determine whether it's going to be worth your time to develop.

Finally, before you decide to invest, locate an operator outside of your market area who is not a direct competitor and who has already invested in the same profit center. Many times, you can ask your vendors to give you the name of someone and then call them to ask how the new product or service has worked for them. The point is, do the research and fact-finding first, before you pull the trigger. You may find out that adding the silver bullet is worth your time and money, but you also may find out that the silver bullet is really a blank. ■

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