FINANCIAL INSIGHTS

By Terry Monroe, American Business Brokers

Targeting the Right Kind of Buyer

Prospects are out there, particularly single-store operators, despite a discouraging profit picture for some multi-unit retailers

Consumers are not the only ones feeling pain at the pump and in the wallet these days. Convenience store owners are feeling the pinch as well, fighting decreasing profit margins due to high fuel prices and credit-card fees. Soon in-store sales, which once could be counted on to sustain margins, may also begin to slip. While the trend of rising costs and decreasing profits is affecting c-store owners on a broad scale, it's the multi-store operators who seem to be most desperate to find a way to right the ship. And for many, culling stores with the weakest profit outlook is an option worth considering if a buyer can be found in today's daunting market.

Multi-store operators have seen hard times in the past, only to wind up with stronger profits on the flip side. Many owners consider today's emerging trends to be yet another valley, with an upswing to come after gas prices stabilize. However, there are indicators that suggest these new trends are not only affecting consumers' short-term spending habits, but long-term spending as well.

A recent Reuters news report indicated consumer confidence is not as depressed by rising gas prices as in the past, but consumers' nonfuel purchases are directly influenced by the expectation of higher fuel costs. As Americans come to terms with the annual hike in gas prices, they will adjust their overall spending habits, which will result in fewer in-store sales. In essence, consumers are cutting down on their nonfuel expenditures to make up for higher gas prices. Meanwhile, a recent *Convenience Store News*/TNS Retail Forward analysis reported that the nation's c-stores are losing monthly and weekly gasoline shoppers, down by an average of 4.5 percent over 2006, because consumers are conserving fuel and cash by frequenting more one-stop alternative fueling locations. (*CSNews*, June 18 issue, page 14). Both reports indicate that as gas prices climb, Americans will continue to purchase gas, but will buy fewer nonfuel items and make fewer c-store fuel stops in order to combat the high fuel prices.

That change in consumer spending will have long-lasting effects on multi-store owners. Many are already struggling with debt and owe millions of dollars in mortgage payments, while their stores are barely breaking even, or at best, bringing in just a few thousand dollars in profit each year. In particular, c-stores in rural, nongrowth markets in America are actually costing owners money each year. Meanwhile, despite sagging profits, administrative overhead remains a consistent, and sometimes rising, cost.

Multi-unit operators should target single-store owners as potential buyers.

Facing that difficult future, the list of available options is short for the multi-store operator. Maintaining the business is the first option, but it may not provide the answer to the questionable profit outlook plaguing much of the industry. The second option is selling. Selling the business may be the more drastic, but if the multi-store operator does decide that selling is the right option, there is a readily accessible pool of potential buyers.

There are 89,957 single-store owners, which accounts for 62 percent of all c-stores in the U.S. That is a 12-percent increase in the number of single stores since 2001, which means a significant portion of new stores are being opened and that there are multi-store operators choosing the option of selling their stores to the one-shop operator. Simply put, there are more potential single-store owners than available c-stores, which means there's an opportunity-rich seller's market for the multi-store operator who decides to sell.

Most multi-store operated c-stores are eventually going to mature beyond the point where they are profitable, due to high gross profit-operating expenditures and overhead. Choosing to sell those stores could prove lucrative for both the multi-store operator and single-store owner. Most single-store owners already have a proven game plan to follow to ensure they make a profit, so they're willing to pay close to top-dollar. Consider that the single-store operator can then immediately cut the overhead. He'll operate and manage the store with a small staff, so his employment costs will be minimal, and he'll take care of maintenance and upkeep on his own. In addition to trimming operating costs, many single-store owners are able to grow profits simply

There are more single-store owners than available c-stores, which means there's an opportunity-rich seller's market.

because they are able to work the business more closely. Single-store owners often have a greater sense of having their personal "nest egg" money at stake, and they work hard to keep that income steady.

As the former owner of several chain stores, including c-stores, I understand the tough decisions multi-store operators have to consider when thinking of selling. Owning any kind of business is an investment, both personal and monetary. You're reluctant to part ways with a business you've grown and nurtured. You know the people who work for you. You know their families. You've put time, sweat equity and money into your pride-and-joy business, and at times, it has rewarded you with a comfortable income. But, if your stores have maxed out, understand there is a profitable option. Selling today may pay better than banking on tomorrow. ■

Terry Monroe is president and chief operations officer of American Business Brokers, a national business brokerage company based in St. Louis. Over his 25-year career, he has owned more than 30 businesses and 10 franchises, and has been president and COO for five organizations. Monroe can be reached at tmonroe@american-businessbrokers.com.

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