

my brg | settings | logout



BRG search convenience

[◀ back to search results](#) | [view all industries](#)

Business Reference Guide Online

search for information on 556 industries



Convenience Stores

SIC: 5411**NAICS:** 445120**Number of Businesses / Units:** 140,000

60,000 of the above are "mom & pop" locations. The above number includes those with gas and those without.

This industry comprises establishments known as convenience stores or food marts (except those with fuel pumps) primarily engaged in retailing a limited line of goods that generally includes milk, bread, soda, and snacks.

Rules of Thumb

15% to 30% of annual sales plus inventory

1.5 to 2 times SDE plus inventory

5 times EBITDA less cosmetic renovation to receive a national brand of fuel; inventory is separate and above

2 to 3 times EBITDA plus inventory—C-store only

6 to 8 times EBITDA plus inventory—real estate + business

General Information

"First-time buyer who has a notion that a 10% to 20% down payment will enable them to purchase a business is a common impractical concept. This is a cash business. Cash businesses require cash to purchase a business in general, more so in this business, however they come up with the funds. Besides, a c-store, which often has a gasoline retail operation, requires a whole lot more strict environmental requirement up front from lender.

"Bottom-line profit, length of lease agreements, hours worked by owner and/or family members."

Looking at a C-Store:

- ▶ Look at the four (4) primary profit centers in a convenience store, including typical sales, cost, margins, and cash flows;
- ▶ Consider the impact of real-estate ownership versus leasehold;
- ▶ Review the various petroleum products supply

Pricing Tips

"Average price is between 2 and 3 times of SDE, 3 to 5 times when real estate is involved. Business with nominal revenue, average under \$1,000 per day in sales, is actually buying a job and sale price is 1 time or 1.5, definitely under 2 times of SDE."

"Location of Business. Competition in the immediate area. Types of Products sold. Lottery commissions helpful."

"Or you can do the Korean way of a rule of thumb, which Korean store owners typically approach in pricing: 20 x average weekly sales."

One industry expert reported: "Should strive for an overall 'weighted' inside gross profit margin of 30 percent. Included in this margin, you should attempt to get a margin between 50 percent and 60 percent for deli sales. Outside gasoline/fuel sales margins will vary all over the place depending on competition. You're in the ballpark, generally, if you get a bottom line profit of between 6.5 percent and 7.0 percent of total sales after taxes, depreciation and amortization."

"Interstate location more desirable"

"(1) Gas included, (2) Location, (3) Owner works, (4) Beer and wine license, (5) Franchise or independent"

"Location and brand of gasoline very important"

"(1) Age and condition of petroleum equipment is important, (2) Environmental issues must be dealt with prior to closing. Phase I and II reports required."

"An up-to-date current property appraisal is helpful. Also, there is software available for measuring the potential value and potential revenue/gallonages of a new-build location, or for measuring the investment value of an existing location based on the gallonage, inside sales, quick food sales, and car wash

agreements to determine normal parameters for valuation;

- ▶ Calculate with accurate books and records a possible market value that can be financed; and
- ▶ Review crucial 'reality checks' that may help you determine whether or not to list a particular store for sale."

Source: "How to Evaluate a Listing or Sale in the C-Store Industry," a presentation by Jim Town

"Petroleum Supply Agreement:

- ▶ How long does it have remaining?
- ▶ Are there any financial strings such as loans, unamortized rebranding costs, volume rebates, buyout penalties?
- ▶ Is the brand competitive in the trade area, or should rebranding be considered?
- ▶ Are the financial terms competitive, can they be renegotiated to take advance of current market practices? Sometimes sales volumes have increased that would qualify for better competitive allowances, prepayments, etc. not being offered by the supplier to the current operator.
- ▶ For sites with petroleum sales greater than 1,000,000 gallons per year, or about 83,000GPM, there are some lucrative arrangements if a supplier is 'buying' market share ... timing is important.
- ▶ Don't take the supply agreement as an administrative function ... it's a very important part of the sale."

Source: "How to Evaluate a Listing or Sale in the C-Store Industry," a presentation by Jim Town, Business Evaluation & Appraisals, Inc

"Check store on their gross/traffic count; compare to average hours that generate profit, not 1 a.m. to 5 a.m., most stores do not generate enough business at this time."

"Demand for this type of business has in general declined in the last two years, mainly due to the hours of operation the owner needs to put in for an average salary of \$50K to \$60K annually."

"Small volume, marginal stores are nearly impossible to sell in this bad-margin market. "

"With all due respect, rule of thumb pricing for a gas/convenience store can be extremely misleading. Need to know gasoline supply agreements & margin that the operator is working on.... High volume, good margins.... The most important factor to determine justification of the seller's asking price is the profitability of the business. A convenience store working on a high margin on inside sales and having high monthly sales will sell for a higher price than a high-volume store working on a low margin. A convenience store operating at 30 percent + gross profit & monthly sales over \$50K is very attractive to a buyer & should sell for a higher price."

Expert Ratings

▶ Competition	1	(1=Lot of : 4= Not Much)
▶ Amount of Risk	2	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2.4	(1=Down : 4= Up)
▶ Location & Facilities	3	(1=Poor : 4= Excellent)
▶ Marketability	2.2	(1=Low : 4= High)
▶ Industry Trend	2.2	(1=Declining : 4= Growing)
▶ Ease of Replication	2	(1=Easy : 4= Difficult)

Expert Comments

"C-Stores depend more on inside sales now because of high gas prices."

"Easy to start up a convenience store location. Some areas are saturated with this type of business."

sales."

"Usually valued at 3 to 4 times the monthly gross depending upon age of the structure, a new versus mature business, location, etc. This price would not include the real estate or inventory, but would include the fixtures and equipment at market value. The value of the food inventory for a super market is about \$12 per sq. ft."

"The buyers/jobbers and lenders all accept the 5 times EBITDA."

"Beer and wine license a plus; good deli counter a plus; 3,000+ sq. ft; ample parking; easy in-out; extra storage; good corner location, ample inventory."

"High sales volume with profit important; need loss leaders especially milk and bread, good personnel, customer service important; open early morning; clean facility."

Benchmarks

Product/Services	Share
Groceries	24.0%
Cigarettes & other tobacco	23.0%
Other	16.0%
Alcoholic beverages	13.0%
Non-alcoholic beverages	10.0%
Dairy and Bakery Products	7.0%
Candy	5.0%
Drugs, health and beauty products	2.0%

Item	Cost %
Purchases	70.0%
Wages	12.2%
Interest	1.0%
Rent	1.0%
Utilities	1.0%
Insurance	1.0%
Repairs and maintenance	1.0%
Depreciation	1.0%
Advertising	.05%
Other	9.7%
Profit	1.6%

Source: IBISWorld, September 5, 2007 Report

"Should strive for average 30 per cent 'weighted' inside margin on merchandise sales."

"Rental less than \$15 per square foot can make all the difference in a successful convenience store business."

"C-stores annual sales \$767,000; food service annual sales \$115,000"

"High volume, easier to sell. Small stores under \$25,000 month, very hard to sell."

"Secondary Income (About 1.7% of Total Sales; \$250,000 = \$4,250 and at \$150,000 = \$2,550)"

- ▶ Rebates & Allowances
- ▶ Product Placement Fees
- ▶ Special Promotions
- ▶ Pay Phones
- ▶ Car Vacuums/Air/Water
- ▶ ATMs
- ▶ Money Orders
- ▶ Lottery

Seller Financing

"5 years all due and payable with 15-year amortization"

"5 to 7 years"

Questions

"Any previous environmental issue, current leak test result, 3 years' tax return, lease agreement. Do you want to sell or test the market?"

"Amount of Gross that's tobacco related. Lottery sales, any employee or customer thefts?"

"Location, location, location; traffic count and number of rooftops dictate the best locations, along with traffic patterns, red lights, curb cut access, etc. Age and condition of petroleum and other equipment are important; environmental issues must be dealt with prior to closing. Phase I and II reports are almost always required for financing and property transfer. What is the mixture of sales? How do your sales break down concerning gas, merchandise/cigarettes, beer, grill, deli? Have all of your EPA requirements been completed? How many robberies have you had since you bought the store? Do you have key people? Who supplies your gasoline? Who owns the gasoline equipment? Who is your wholesaler that supplies the majority of your groceries? Are there any convenience stores being built within two miles of the store?"

▶ Prepaid Cards"

Source: "How to Evaluate a Listing or Sale in the C-Store Industry," a Presentation by Jim Town, Business Evaluation & Appraisals, Inc.

"Average store size (new construction—2002): 3,291 Sq. Ft. Average 'existing' older store: 2,490 Sq Ft."
Source: National Association of Convenience Stores (NACS) Selected Expense Profile (as a percent of gross profit)

Expenses as a Percentage of Sales

▶ Cost Of Goods	50% to 60% or less -- Good Store
▶ Payroll/Labor Costs	20% +/- (Owner operator will lower)
▶ Occupancy Costs	7% to 15% +/- (Rent or Mortgage Payment)
▶ Profit (pretax)	10% to 15% Gasoline Profit Should Cover Rent/Mortgage+)

Industry Trend

"Steady Trend in convenience stores. Still a valuable service to small communities."

"According to the 2007 report, convenience store sales hit new highs in 2006, climbing 15 percent to reach a record \$569.4 billion. Inside the store, revenues grew 8.3 percent to reach \$163.6 billion, with merchandise revenues increasing 8.7 percent to hit \$144.8 billion and foodservice revenues growing 5 percent to reach \$18.8 billion. On a per-store basis, combined in-store sales surpassed hit a record \$1.14 million per store.

"While revenues increased, so did expenses. Credit card fees continued to burden retailers in 2006, costing the industry \$6.6 billion – a staggering 22.2 percent increase over the \$5.4 billion in card fees in 2005, according to the State of the Industry survey."

Source: National Association of Convenience Stores: www.nacsonline.com

Advantages

- ▶ "Cash business, high gross profit"
- ▶ "High traffic and cash sales"
- ▶ "Easy operation, customer demand if good location"
- ▶ "This primarily is a cash business, which means you turn your inventory costs into cash very rapidly with minimum accounts receivable collection problems and bad debt."

Disadvantages

- ▶ "High employee turnover. High investment versus return on investment."
- ▶ "Hard to find good employees—and safety"
- ▶ "Long, long hours, some 24-hour locations. Employee theft can be a problem without good inventory controls in place."
- ▶ "Health issues, high rent costs, inventory control"

"NACS defines convenience store as: '... a retail business with primary emphasis placed on providing the public a convenient location to quickly purchase from a wide array of consumable products (predominantly food or food and gasoline) and services.'

"There are six convenience store formats, as identified by a National Association Convenience Store (NACS) research report, as prepared by Gene Gerkle of Gerkle & Associates, Inc.

"Kiosk—This format is less than 800 square feet and is intended to provide some additional revenue beyond gasoline sales... This store sells only the fast-moving items found in traditional convenience stores (tobacco, beverages, snacks, and confectioneries)...Store sales may be only about ten percent of revenues in such locations...

"Mini Convenience Store—This store format, usually 800 to 1,200 square feet in size, is extremely popular with the oil companies, and the emphasis is on gasoline sales. However, in such locations, the owners view store sales as an important part of the revenue and margin picture.....

"Limited Selection Convenience Store—These stores, which range from 1,500 to 2,200 square feet, are becoming more numerous. They are often affiliated with oil companies and are in the size range of a converted two-bay service station...They differ from the 'mini convenience store' in a broader product mix and grocery offering.... Also, simple foodservice...may be offered...

"Traditional Convenience Store—Most of the original convenience stores fall into this category. They are about 2,400 to 2,500 square feet in size and offer a product mix which includes dairy, bakery, snack foods, beverages, tobacco, grocery, health and beauty aids, confectionery, and perhaps prepared foods to go, fresh or frozen meats, gasoline, various services, and limited produce items.... Such operations are normally owned by convenience store chains, but oil companies have also built or acquired stores of this size..

"Expanded Convenience Store —Growth is occurring in the number of stores in the 2,800 to 3,600 square feet range. Such stores can accommodate ... additional grocery products or room for significant fast food operations and seating ... taking advantage of the niche which has developed as supermarkets increasingly move above the 40,000 square foot range.... A greater percentage are using the space to take advantage of the high profit margins in fast food....

"Hyper Convenience Store— These are very large stores (4,000 to 5,000 square feet) that usually offer an array of products and services arranged in departments. For example, such stores may offer variations such as a bakery, a sit-down restaurant area, or a pharmacy. Many of these locations do sell gasoline...In some locations, such stores are mini-truck stops, which obviously affects product mix and the customer base."

The Convenience Store Directory is a comprehensive directory of stores that must meet the following -- It includes "small format stores, between 500 and 3,000+ square feet and also meet the following criteria:

- ▶ The store must be operating more than or at least 13 hours a day, and
- ▶ The store must have at least one checkout, and
- ▶ The store must carry a limited selection of grocery items including at least two of the following: toilet paper, soap, baby products, pet foods, breakfast cereal, tuna fish, toothpaste, ketchup and canned goods."

Additional Resources

Related Websites

- ▶ [This is an excellent site—lots of valuable information.](#)
- ▶ [CS News Online](#)

Associations

- ▶ [National Association of Convenience Stores](#)

[Terms of Use](#) | ©2008 Business Brokerage Press, Inc.