

Can't Get More than Two Percent Profit From Your Convenience Stores? One Michigan Company Is Growing its Margins.

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It's tough to make a buck in the convenience store business. While gross sales have been growing since 2003, the industry is finding it ever more difficult to make money. In-store gross profit margins declined from 28.7 percent in 2004 to 28.2 percent in 2005. Increased competition, and the rising cost of goods sold, labor, benefits, and upward spiraling credit-card fees are already squeezing net profits to below two percent for most stores.

But at least one gasoline – convenience store company, Wesco, based out of Muskegon, is bucking the trend. For the past three years it has been implementing a strategy that has seen its gross and net profits increase to record levels. 2006 was Wesco's most profitable in its 54 years and they expect profits to continue to grow. What is that strategy? In the words of co-owner Jerry Westgate, it's hiring the right people and getting them focused on profit.

Like most smart managers in the convenience store business, Jerry Westgate understood the problems caused by his employee churn rate – increased training costs, lowered productivity, less customer connection, poor teamwork to name but a few. But in an industry where the average company expects more than 100% employee turnover in a year, Westgate felt his company's 84% average churn rate was pretty good. Even though he guessed that was still costly he didn't actually know what it was costing him. In 2002 he asked his financial officer to look into it and they discovered that every churned employee had direct costs of \$2,400, costing Wesco

over \$1.2 million a year. Turning over a couple of employees could eat the entire monthly profit of one of his 51 stores. How could he reduce churn and hire the right people to increase his profitability?

Jerry decided to use the Big Rapids Group's performance amplification process. BRG combines knowledge about the psychology of motivation, leadership and change with bottom line business acumen to build companies whose profitability is best in class. Past clients have been as diverse as Herman Miller furniture manufacturers and Trillium Staffing. "Tom really was a bright light for me", says Westgate. "He said why not and what if and why not be about making life a little richer for everyone".

According to BRG's Tom Pitman, when they first started to look at Wesco, Westgate had the right instincts about what his business needed but didn't know how to implement his vision. He needed to transform the way his company operated. "Jerry needed to change how he focused his attention and used his authority. We believe that you have to focus your entire organization on uncovering, understanding and then amplifying the best of what you already do", says Pitman. "Jerry wanted to start by focusing the company on reducing churn, and that made sense to me as well. You can't build a profit making machine if the people required to make it work keep changing all the time".

BRG's system starts by identifying what you want more of and getting the whole organization focused on the key measure of it. In this case that was easy. Every single

store, every single month, was measured on its retention rate. They had never measured it that way before. The company began at a 16% retention rate – the average lifespan of a new associate was less than 90 days. With BRG's system, when a manager churned an associate, they had to report it that day and briefly describe why. That information was compiled by the retention coordinator and emailed to everyone in the company, including the owners, every day. "Wesco tapped a highly credible HR staff member who had been a top producing store manager to work with BRG as the coordinator of the retention process. He created beautiful graphics," says Pitman. "The graphics they use today shows every store, every day, three years of data, color coded – it's gorgeous and highly functional. Mike's design allows everyone to know everything about Wesco's retention performance at a glance.

As Westgate and the Regional Managers studied what was happening in their company they noticed some store managers just seemed to do a better job of retention so they decided to study those people. They brought in BRG experts to identify the personal qualities and skills of successful store managers and developed tools to help hire those kinds of people. They also identified the kind of people who would enjoy and do well working at a convenience store and trained their store managers in how to make those hires. They invested in training and coaching their Regional Managers in how to do a better job of interviewing. They slowed the hiring process down and got more levels of management involved in every hire.

"One of the many things we learned that first year was that some people were just naturally better at hiring, so we made them coaches for other managers who found it more difficult", says Westgate. The impact of BRG's change process? "After one year

our retention rate went from 16% to 69%" says Westgate. A 431% increase!

Eighteen months later, in 2005, Jerry and his brother Jim decided to apply BRG's process to the actual profitability of their company. According to Pitman, this is where BRG's profit amplification process takes off. BRG helped revise Wesco's financial reports to make them more user friendly and then created a set of monthly conference calls around them. On the same morning once a month, in sequence, each regional manager would have an hour with his 10 or so stores and Pitman and the Executive team on the line, looking over the P&L's, identifying what was working and where potential profits were. After each region had completed its call, all the regional managers, executives and Pitman discussed what they'd learned and their plans for the coming month.

"Most people don't really understand profit", says Pitman. "When I told a store manager 'I want to double your profit' they thought that meant they had to double their revenue, but that's not it at all. Every business has a break even point and once you get over that point a much larger percentage of every new dollar falls to the bottom line. Depending on the cost structure of the business, doubling your profit might not require much increase in revenue at all". The Westgate's began teaching their employees how the business worked and amplified associate's efforts to increase their profit margins.

Studying what led to small increases in profitability at each Wesco store led to a series of changes. For example, they realized associates didn't know what the margins on their products were and put out top 10 lists that went into all the managers' offices. Managers learned to display the high margin items prominently in the impulse purchase zones. They ran short

training sessions at the stores and people were amazed at how wide the differences in margins were on different products. They realized that people didn't know how to up-sell so they ran contests to encourage associates to sell up into those high margin items and passed around winning strategies.

"To make any business into a money making machine you have to line up the incentives so that everyone gains, and gains visibly, from the growth and profitability of the company" says Pitman. But so many small business owners have found little return from incentive plans. Colin Genge, CEO of Bellingham, Washington based Retrotec probably speaks for many when he says "We tried profit sharing and it just created more problems. There was always a big fight about what the profits actually were". Pitman agrees that incentive plans need to be well thought through, and need to be tied to an overall profit amplification process, to be successful.

How did Wesco wire up the incentives for profitability? "I've always believed in profit incentives", says Westgate. "We give the store crew 20% of the profit for that store; the store manager gets half of that, the assistant manager gets a fifth, and the rest is given out equally to the crew". "So the store manager gets 10% of every profit dollar he brings to the bottom line", notes Pitman, "and his P&L gets a thorough going over every month with all the support in the world to increase profit. The alignment is absolutely perfect. You know, nobody at Wesco ever asked "what's in it for me." NEVER.

And, says Pitman, just providing incentives is not enough. You also have to ensure that the power system is fully energizing the business. "During the conference calls, says Pitman, "I would always encourage Jerry and Jim to give people their big picture analysis of where they saw the money in

that store. It was transforming. You had almost everybody working on the biggest opportunities. Prior to that, almost nobody was working on the biggest opportunity. That's a big deal, and that goes on in all of these amplification efforts.

"On the conference calls the folks who had the highest return on sales numbers were the ones we would tend to dwell on, recalls Pitman. "We asked them about what they'd been doing, and what are you going to do next and what do you think is your next big jump in profitability. The wisdom is already there in your organization, what you have to do is put the light on instances of high performance and get all your managers talking about it and learning from it. That by itself will put heat on people who are not making the change to your new performance standards".

The incremental changes taking place every day at Wesco have built up into some pretty impressive innovations. "Our IT now lets us know which products have been sold at which store every day. We estimate the improvement in inventory management contributes three quarters of a million dollars to our ongoing profits", says Westgate. Wesco has changed its relationship with fuel suppliers and how they handle credit cards to reduce costs. "What we sell is time", says Westgate, "so we redesigned our stores to make it quicker, faster & easier and give them value". They've adapted an innovative loyalty program where customers who buy high margin products get money taken off gasoline purchases. "When you get a customer who comes in and says 'I got my gas this week for free', that's a pretty happy customer. But that's a customer who has brought a whole lot of business to our store and all week, when they are driving around, they are thinking good thoughts about us".

Sometimes on a conference call a store manager goes over his numbers and there is nothing good to talk about. "They get asked what they are going to do about it and sometimes the silence on the line can get pretty uncomfortable", notes Pitman. "It's been a huge shift and we've lost some people as a result" admits Westgate. "We had people who didn't like the pressure, didn't like the change". We had managers who told us why it just wasn't possible to increase their profits and then they'd leave and we'd hire someone who was in alignment with our new strategy and all of sudden that store's profits are doubling".

"Leaders have to be clear about their expectations", says Westgate, "and mine was to get from under 2% to 5% net profit. And I want 75% retention. I think those are a stretch but absolutely doable and we already have stores doing better than that. People not only need to recognize that an

improvement can be made", says Westgate, "they have to recognize that they are capable of doing it. It's about moving the standard and then rewarding them in a positive way". According to Pitman, changing assumptions and expectations about what is possible is what makes leaps in improvement possible. "You don't change people's assumptions by telling, selling or arguing with them", says Pitman. "They have to make that change themselves and the way we see it happen is when they see their peers do things they didn't think were possible. In this case, using community networks to get better hires, reducing hidden waste, successful up-selling, reducing suppliers' prices. We make sure those are highly visible and that people talk about what happened and how that happened. Then it dawns on people, well if so-and-so can do it, so can I".

And if Wesco can do it, you probably can too.

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