GAS STATION/CONVENIENCE STORES

Report U#160 from George Heaslip

Convenience store sales continue to move upward, and reached $569.4 billion in 2006, nearly double the 2002 total of $290.6 billion, according to the National Association for Convenience and Petroleum retailing. But, net profits to owners went down by about 23.5% based on motor fuels margins and escalating fees associated with credit card purchases. The surge in sales was the largest yearly increase ever reported, in part due to a 17.9% surge in motor fuels sales.
In store sales rose 8.3% in year 2006, surpassing the composite of all US retail sales, which rose 5.0%.

Here is a breakdown of where sales are: ( ) indicates percent of in-store sales.

1. Cigarettes (34.4) percent of in-store sales)
2. Packaged beverages (13.8)
3. Beer (12.2)
4. Food Service (12.1)
5. Other tobacco (3.8)
6. Candy (3.7)
7. Salty Snacks (3.2)
8. General merchandise (2.0)
9. Fluid milk products (1.9)
10. Packaged sweet snacks (1.5)

= 88.6%

Not shown on the NACS report are:
(a) Lottery
(b) Check Cashing and Money Transfer Service (e.g., Western Union)

Although in-store sales rose nicely, overall profits dropped as owners dropped motor fuels margins (profits) to attract customers into the convenience store.

Pump (regular unleaded, plus unleaded, premium and diesel) profits per gallon fell 1.7 cents to a nationwide average of 14.7 cents. Most fuel buyers use credit cards, meaning the owner got hit with 4.2 cents per gallon, bringing the average profit per gallon down to 10.5 cents. In areas of fierce competition, some owners drop the per gallon price to lure drivers, and their passengers, into the convenience store.

Fuel sales fuels now account for 71.3 percent of total gas station/convenience store industry sales, it accounts for only 33.7 percent of total profits.
Profits are in the C-Store.

As for owner expenses, look at the numbers....

Labor: 33.5%
Credit Card Fees: 8.3%
All others, 58.2%

Is the place suitable for an SBA loan?

Simple: answer these questions:
(1) Does the borrower have retail experience?
(2) Does the borrower have a credit score over 650?
(3) Can the borrower show that he or she can inject 20% cash into the project.
(4) Is the borrower willing to take out key person life insurance, assignable to the bank if the loan goes into default?

Four yes answers means great!

Let us look at some other factors:

(a) Is this a lease deal? (Toughest of deals!)

(b) Is this a land and building(s) buy? (Easiest of deals)....if yes, carefully read all of the lines below.

VERY IMPORTANT FOR REAL ESTATE DEALS...
Realize right of the bat if the deed contains a supply agreement stating that only one brand of gasoline can be sold; the project is not eligible for a Small Business Administration loan. The deed restrictions in question are viewed as a part of a buy/sell agreement between an oil company and a purchaser of one of its gas stations, whether it is a lease deal or a land and facility buy deal. Lenders and the SBA have found deed and/or franchise restrictions to be unacceptable since they severely compromise the marketability of the business real estate collateral and equipment, which must be used in securing an SBA-backed loan.

VERY IMPORTANT FOR NON-REAL ESTATE DEALS...
The lease agreement for gasoline delivery must be for 10-12 years, since the loan will either be a 10 or 12 year one. The lease for the facility must be the same, with an option to renew for 5 or more years.

(c) Will the seller provide tax filings for the last three years, plus a profit and loss statement through last month? (If not, forget this deal.)

(d) For Real Estate deals, will a Phase 1 or Phase 2 environmental assessment be needed? (Yes, if one has not been done in the last six months. The applicant has to pay for this.

(e) Will the lender reject the loan if the Phase 1 or Phase 2 shows soil or subsurface water contamination? (Yes, unless the seller clears up the problem.)

(f) What does and Environmental Phase 1 cost? (Assume $2,000 - $3,000, and it takes an average of 2 weeks.

(g) Will a new appraisal for land and building, be needed? (Yes, unless there was one done within the last 6 months. The applicant has to pay for this and it takes an average of 2-5 weeks, assume costs of $2,500 to $3,500)

(h) What if the gas station has old steel tanks? (Financing is possible but the applicant will have to have the tanks replaced with fiberglass tanks in the upcoming months, due to EPA regulations that will fall into place in year 2009.

(i) Will a formal business plan be needed? Yes!

(j) Will a cash flow projection be needed? Yes!

(k) How long does the process take? (About 45 days from the submittal of a formal business plan, seller financials, and the cash flow projection).

(l) What can delay this? The time to get an appraisal and a Phase One Environmental report.

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