

**Retailer Newsletter**

**November 1, 2022**

**Tom’s Business “TIPS”**

***“To Improve Profits”***

**RE: Good Recordkeeping Is Priceless!**

**Happy Fall,**

**You may recall, in September I wrote about a retailer who was trying to sell her business, even though she knew her business recordkeeping was not up to par. Shortly after that, I received an email from a reader who told me a similar story. He was trying to decide whether to make an offer to purchase a store and the business records did not indicate a profitable business. During discussions with the seller, he was told there was a significant amount of business ‘not on the books’. The seller said that there was a large amount of car wash, propane, and ice business that had not been reported. He also told the prospective buyer the amount of $$ that didn’t appear anywhere was exorbitant, which piqued his interest to the point that he no longer believed any of the numbers. Obviously, he decided to walk away from the negotiations simply because the numbers and the reports he reviewed were marginalat very best. The fact that the seller claimed to have a huge amount of $$ *‘not on the books’* spooked him and made him feel very uncomfortable. Remember many times a buyer will be required to obtain financing to purchase a business. Any banker I have met will always review the financial documents of the business being considered as a possible acquisition by their customer. There is not a banker (or loan committee) anywhere who will approve a loan based on numbers ‘not on the books’. That’s the reason most banks want to review three years of business reports, plus tax returns. Figures ‘that are not on the books’ do not have credibility with any legitimate lender. The ’off the books’ numbers can be anything the seller wants them to be. If the reports indicate a profitable business or even a marginal business, the buyer and banker can then make that call. Here are a couple of steps your banker will go through to determine if the prospective business is viable or not.**

* **Working Capital – is a measure of both the company’s efficiency and its short-term financial health.**

**Current Assets (cash or near cash)**

**- Current Liabilities**

**= Working Capital**

* **Current Ratio – measures a company’s ability to pay current obligations.**

**Current Ratio: Current Assets**

**Current Liabilities**

* **A Current Ratio of 2 or better, is considered GOOD**
* **Quick Ratio – very similar to current ratio except for the fact it excludes inventory.**

**Quick Ratio: Cash + Accounts Receivables**

**Current Liabilities**

* **A Quick Ratio of .5 or better, is considered GOOD**
* **Cash Flow – tracks the movement of cash in and out in your business over a period of time.**

**Total Cash Inflows (-) Total Cash Outflows = Net Cash Flow**

* **This is best computed using a Statement of Cash Flow which could be provided to you from your accountant.**
* **Many times, the Statement of Cash Flow is a better indicator of the ‘Business Health’ than the Profit and Loss Statement.**

**We go through these formulas and more, in our**

**Financial Management training seminar.**

**When I began my career as a small business owner, I was 27 years young. I knew it all, or so I thought. My banker requested my financials, and I provided him with quarterly statements. I felt he could see quarterly changes better than month to month. A day or two after providing the reports, he called and commented on the reports. I didn’t know how he came to the conclusions he did, until I finally realized he was applying the above ratios/analysis to my statements.**

**I often hear from retailers asking me why it is important to take a physical inventory. Here are the examples I have often used in my presentations.**

**This is the simple ‘definition’ to compute gross profit:**

**Inventory Method:**

**Beginning Inventory**

**+ Purchases**

**- Ending Inventory**

**= Cost of Goods Sold (Gone)**

**This example depicts computing gross profit using sales of $1000:**

**Sales are $1000**

**+ Starting Inv 12/31/XX $3500**

**+ Purchases $1400**

**- Ending Inv 1/31/XX $4250**

**= Cost of goods gone $650**

**Gross Profit on sales = $350 (35% gross profit)**

**This next example depicts computing gross profit without taking inventory: (Estimating)**

**Sales are $1000**

**+ Starting Inv 12/31/XX (estimated) $6000**

**+ Purchases $1400**

**- Ending Inv 1/31/XX (estimated \*) $6750**

**= Cost Of Goods Gone (estimated) $650**

**Gross Profit on Sales = $350 (35% gross profit\*)**

**\* In order to make the 35% gross profit, inventory values need to be inflated (estimated). Your accountant simply keeps adding to the fictitious inventory amount. I have met several accountants who will not do business with retailers who do not take a physical inventory. Why, you ask? The reason is simply that if you don’t take inventory, the gross profit numbers you display are fictitious, made up. These accountants do not want to sign their name to documents they know with certainty are not accurate.**

**I recently read an article on NACS Daily, “Why You Should Sell Fresh Popcorn in Your Store”. That brought back fond memories of my stores. At one of my locations, we gave away small bags of popcorn free. Yes, I said FREE. The aroma in the store was almost sinful. By that I mean it smelled delicious and drew customers to it like a magnet. We sold an unbelievable quantity of fountain drinks as a result. I became addicted to a bag and a cup of coffee each morning. Whether you sell it or give it away, it is an absolute winner!**

**A local newspaper article stated, “Burglars Break into Store and Damaged An Empty Register Getting It Open”. That reminded me of a c-store owner I know. I walked into her store one morning after noticing an Out of Order sign on all the pumps. I asked if they were out of fuel and I was told, “No, we had a break-in last night. They didn’t get anything because the register was empty”. I looked at the register and it looked like it was run over by a truck. The retailer again said they didn’t get anything because the register was empty. I know I must have had a shocked look on my face because I exclaimed, “They didn’t get anything? They destroyed your register, you can’t sell gasoline, and now you are going to have to pay $5,000+ to fix or replace your register, and you said they didn’t get anything!!” I struggled for a moment, then I asked, “why don’t you leave the cash drawer open and hide the bills?” That’s always been my policy when closing a store at night. Just leave the drawer wide open and avoid a needless, expensive repair bill.**

**I’ll leave you with one final thought, winter weather has popped up in many parts of the country. Make sure your windshield washing equipment is properly maintained and ready. This early in the winter, you can mix washer fluid and water in your buckets, but as the cold weather progresses, you will need to switch to straight washer fluid. This part of your operation may not be as important to you or your staff, but it is a big customer convenience item that many of your customers have come to expect. If you fail to meet their standards, these customers may start to look elsewhere.**

**If your store is not as profitable as you think it should be, give me a call or an email. If you are a supplier or organization with retailers, and they are struggling to maintain profitable stores, please reach out to me. We can help these stores operat~~e~~ more efficiently and improve their profitability!**

**"To conquer frustration, one must remain intensely focused on the outcome, not the obstacles."**

**T.F. Hodge**

**Don't be a victim of the 5 Dangerous Words –**

***‘Maybe I’ll Do It Tomorrow’***

**Do it today because tomorrow (~~could be~~) will be too late!**

Tom                                                                       
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***“Our business is making your business better!”***