Out and About the Industry

New Overtime Mandate will complicate store operations in 2016.

A review of PMAA's legislative issues since 2008 attests to the diversity of challenges that the convenience store industry has faced from governmental legislation and regulation. From gasoline to cigarettes and sugary snacks, marketers have had to content with a steady assault over the last six or seven years.

Now that 2016 has arrived, chain operators will face another challenge in the form of the Overtime Mandate. This mandate being implemented by the Department of Labor will more than double the salary whereby employees become exempt from overtime to $50,440 from $23,660. It is conservatively estimated that each newly eligible employee will cost a store operator at least $5,000 more in overtime a year. This will add hundreds of millions of dollars of additional expense to the convenience store industry, as the traditional manager's position reverts to a standard hourly pay formula.

The new overtime mandate will undoubtedly compound the stress on the traditional c-store operational model. Stores that were previously on the fence for continued direct operation will see their profitability and long term viability seriously impacted. Besides the direct economic damage, the process of employee advancement and job growth will be altered as operators adjust their staffing to this new reality.

This situation should prompt store operators to make a New Year's resolution to conduct comprehensive business assessments with the following objectives:

- Confirm that the current operational model is still the most appropriate for the new realities of the day. Have a willingness to consider other alternatives in the event that the direct operation of some sites is no longer an appropriate option.

- Consider divesting targeted sites into a lessee dealer arrangement or sell them and hold a long term fuel supply contract. For leased properties, conduct a lease analysis to determine the possibility and timing of a withdrawal from the store entirely.

- Understand the various contributing factors of business profitability and resultant current value. Be willing to put the retail chain and other areas of the business under a full and pragmatic stress test with a consideration made to competitive factors that could negatively influence the local market, including but not limited to recent acquisitions by national chains and MLP's, or the introduction of modern new-to-market stores by sophisticated national store operators.

- Consider alternate use scenarios whereby the value of the real estate is significantly higher than the current use going forward. For example, we are currently marketing two c-store properties where the current-use cash flow value is around $350,000, but a national QSR chain has offered over $800,000 for each location. This does not apply in all instances, but an alternate use evaluation of all impacted sites could prove enlightening and represent a profitable divestiture option.

- Once a comprehensive understanding of the "current state" of the business is achieved, develop and implement a strategic plan to guide the company into the future in order to preserve business relevance and long term value.

The New Year is going to be challenging with the continued onslaught of government interference and regulation, but at least there is some light at the end of tunnel and the hope that the upcoming election brings. That is of course if the American electorate will finally come to their senses after eight long years of economic purgatory and vote to put the country back on track.

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