

The Case for Casino Convenience Stores

Why don't we see more convenience stores near casinos in Indian Country? Even though a few more such stores flourish under their big brothers, the casinos, than previously, they are often nowhere to be found within casino complexes. C-stores have been the Rodney Dangerfield of the casino boom -- getting no respect from the more affluent and glitzy casino enterprises. However, upon close examination, it turns out that dollar-for-dollar the lowly c-store can produce a return in the same league as the casino itself when compared to investment.

The key to creating revenues at c-stores is location. They must be in the path of heavy traffic. What better place is there than at the entrance to a casino where hundreds, even thousands, of vehicles pass every day at, I might add, reduced speeds. Further, these vehicles are captive in the sense that their occupants do not have other nearby options for their purchases.

Every casino counts the number of customers in attendance per day. In many cases they even count the number of vehicles from in-state and out-of-state. This information forms the basis for your c-store projections. A basic formula for understanding the potential can be developed by measuring the total number of daily vehicles and assumed passengers less the percentage expected to be captured for sales of fuel, tobacco, alcohol, and other c-store items.

There are a number of ways to calculate the potential capture rate, a topic that is beyond the scope of this article, but in general it will depend on such variables as competition, price, service, and facilities. Once this key assumption is made, the rest of the projection becomes fairly straightforward. Based on the anticipated capture rate, we can calculate a potential demand for fuel, tobacco, alcohol and general c-store items.

Let's turn to the issue of the investment required for a c-store. The size of the building will be determined by how much retail floor space and how many gas/diesel pumps are required to serve your projected capture rate. Getting these figures is fairly easy. A number of petroleum distributors and c-store vendors can be very helpful in supplying everything from inventory requirements to floor plans. Once the capacity requirements are known, building the facility to house the operations becomes much easier, leaving decisions on style and design to preference and budgeting.

Budgeting for a c-store is a combination of art and science and will depend on how confident you are in the capture rate prediction discussed earlier. Sizing the facility will largely be tied to the capture rate,

but in some instances you may wish to oversize in case you underestimated the capture rate or to provide for future growth. On the flip side, you need to maximize the value you get for the dollars invested in the project by keeping the upfront costs low and efficient so that the profit potential is also maximized.

Along with the sizing considerations, the style and design will be important factors in determining the upfront investment cost. Some c-stores are very basic, no-frills enterprises, while others take on the outside appearance of their big brother casino. While external appearance is important to the customer, issues of product cost and cleanliness are probably greater factors to consider. And of course to help hold costs down a well-designed but lower-cost structure is preferable.

Other budgetary considerations are fixtures and equipment. The largest equipment cost will be in the fuel side of the business, which requires tanks, pumps, surveillance and payment handling equipment. Store refrigeration, shelving, surveillance, restroom, check-out and back office comprise the rest of the equipment and fixture needs. Inventory is a large part of the budget, especially for gas and diesel products. Rounding out the budgetary needs are pre-opening and operating costs.

Keeping the budget costs in line with the assumed capture rate gives the best prospect for success and the greatest opportunity for profits. Assuming we have been successful in our decision-making and are enjoying profits, what can make the tribal c-store perform even better? Tribal c-stores have a big brother casino next door that gives away prizes, I have seen instances where the casino will provide gas as a prize with the gas obtainable only at guess where?

Pricing is important to everyone, so keeping the budget in line by reducing investment and operating expenses helps. In addition, there may be no property taxes to pay, and tribally-issued licenses, security and maintenance can perhaps be purchased at a reduced cost. If costs are kept low, the tribal c-store should be able to keep its price structure on gas and other items competitive and increase casino customer patronage because people can see they are getting a good deal by filling up at the casino.

Lastly, we would be remiss without a short discussion on the tax revenue potential, which can be as much or greater than the net profit of the c-store depending on the state-tribal agreement in place. A projection can be performed based on estimates for sales of fuel, tobacco, alcohol and taxable items and the tribe's tax agreement with the state. This is what I have termed the "two bites of the apple" development approach. In Indian Country, the c-store can be transformed into a significant revenue earner.