ADAM'S PETRO & DINER

> "Iris, we have been operating this service station and diner for many years. Lately, I have the feeling that my income has declined. I think that there are opportunities out there that I have not taken advantage of. I want to pass this business on to my sons and am not comfortable with our current position and strategy."

The words above, spoken to Iris, the primary accountant for Adam's Petro & Diner, reveal a number of concerns Adam has concerning his operation. Adam's Petro & Diner (Adam's) is an independently owned service station and restaurant on a major interstate highway. Adam has been in operation for over a decade and customers have liked to frequent his business. Often they choose their routes to stop at places like his with low fuel prices and to enjoy food like the juicy burgers and good food Adam's provides. He has a great reputation with his customers, especially truckers, and enjoys their business. Adam has noticed, however, that when busiest with truckers, fewer families stop by.

Adam has made a pretty good living running the place. However, even though his income continues to seem satisfactory, it does not seem to buy as much as before. This perception, as well as the maturity of his sons, George and Adam Jr., has heightened Adam's concern over the future of his operation. Adam wants to know what he can do to make this a more profitable business and pass on a more effective operation to his sons. Adam knows that his operation attracts many commercial truckers. However, he is also popular with families stopping to use the facilities and eating in the restaurant after filling up the family vehicle on vacations.

Over the past decade, Adam's typical markup on diesel is about 1 cent, and on gasoline is about 1.5 cents. This fuel pricing follows the typical process in this business of taking the delivery price and marking it up between 1 and 5 cents per gallon. Adam has also noticed an ebb and flow by season – summer and winter being highest and spring and fall being lower. (Winter is December, January, and February. Summer is June, July, and August.)

Adam knows that he has some control over fuel prices and can alter the prices of his typical meal. The dilemma he faces is to know in what direction he should change them or whether or not he should modify his pricing practice at all. Also, he does not know what other activities or attractions he could add that might increase his profits. If he raises prices, he knows that he will reduce sales. At lower prices, he will sell more but incur greater costs.

Adam is getting ready to step back from his business and turn the operation over to his sons. Before he does that, he wants to be comfortable in leaving his sons with a well-defined pricing strategy, based upon data.

Following up on the expression of Adam's future concerns, Iris, his accountant, has gathered a substantial amount of information regarding his firm's performance over the past decade. This data is available in an Excel file on the course website.

Specifically, Adam wants to know:

1. Whether or not recent inflation eroded his income.

2. Whether he should continue with his current fuel pricing practice of marking up diesel by 1 cent and gasoline by 1.5 cents per gallon? Should this practice continue even if fuel prices rise over $4.00 per gallon?

3. How does seasonal demand affect his sales and what might be done to take better advantage of these fluctuations?

Required:

As members of your own consulting firm, Adam has turned this project over to your team. He wants you to prepare a business report for him. This report should address his concerns, including the standard executive summary, and make recommendations. Be sure to use the guidelines for writing a report as found on the course website.

The lower division core topics that might be helpful in preparing your report include microeconomics topics 1, 3, and 5 and statistics topics 1, 4, and 7.