

Bear Island Trading Post

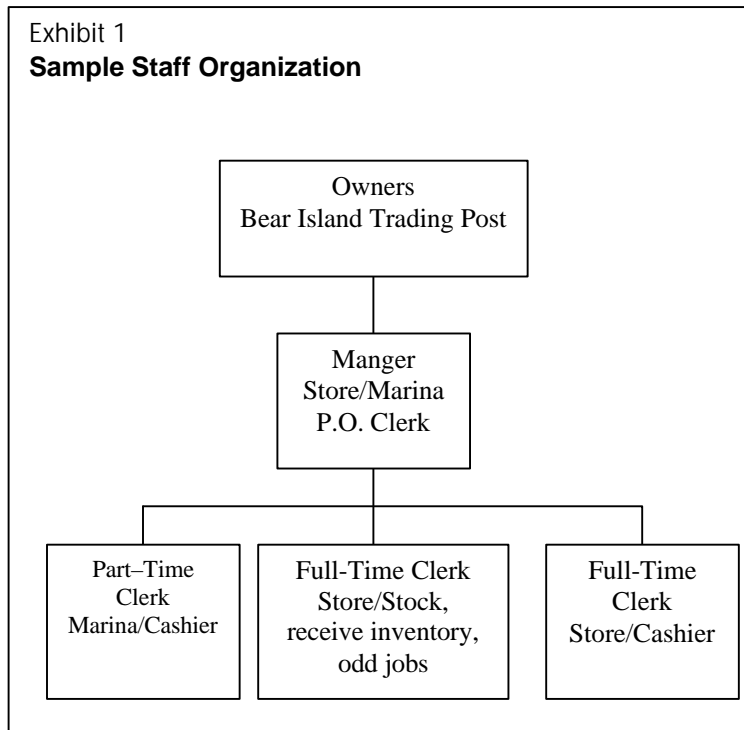
John Pliniusen, Nipissing University

Susan MacKenzie was reviewing the background information on her first project, the Bear Island Trading Post. As the newly hired small business consultant for the Union of Ontario Indians, her job for the next three months would involve helping local and regional businesses improve their operations. Susan felt fortunate in being selected for this summer position as it provided her a way of applying the skills she had been obtaining as a fourth-year business student enrolled at Nipissing University in North Bay, Ontario.

Since opening in the spring of 1985, the Bear Island Trading Post had been operating at a loss. At first, the Trading Post was subsidized by a federal grant through the Local Employment Assistance Program (LEAP). The Trading Post is currently being financed by the Temagami Indian Band. The Band would like repayment of this loan in the future and would somehow like to eliminate their financial obligation to the Trading Post, although they would prefer the store to remain on Bear Island. The Band Administrator contacted Susan in hopes that she could come up with a plan of action to improve operations.

Background

The Bear Island Trading Post is a small general store and marina. It was originally established as a Hudson's Bay Company Post in 1875. In 1974, the Hudson's Bay Company sold their property to the Zufelt family, who then renamed the store the Bear Island Bay Post. The Zufelts operated the store for seven years. During these seven years, the family experienced business problems, break-ins, and vandalism. In 1981, these obstacles forced the family to cease operations.



In 1981, the Temagami Indian Band purchased the property from the Zufelt family in hopes of providing economic development for Bear Island. In 1982, with the financial help of the Local Incentive Program, the Band constructed a dining hall on a piece of property that had been donated to them by a local camp. In 1984, the Band hired a national accounting firm to perform a feasibility analysis on redeveloping the property. With the assistance of another LEAP grant, the store and marina reopened for business under the name of the Bear Island Trading Post in the spring of 1985.

From the first day it opened, the Trading Post was not as financially successful as had been planned. In March 1989, the

Temagami Indian Band hired NewStart Management Services (a consulting service) to address the concerns of the Trading Post.

Then in May 1989, the Temagami Indian Band also requested that a counsellor from Counselling Assistance to Small Enterprises of the Federal Business Development Bank make recommendations concerning the problems of the Trading Post. Unfortunately' both New-Start and the FBDB counselor were unsuccessful in improving the Trading Post's situation.

In the spring of 1991, the Temagami Indian Band leased the Trading Post marina to Rose McCleod, a local artist and hairdresser, who managed the marina until September 1992. At this time, the Temagami Indian Band withdrew the lease and began to operate the marina again because Rose had been ill for most of the summer and had to remain hospitalized for an unknown length of time.

In April 1993, the store and the marina were leased to a new store manager, Johnny Miller, a former schoolteacher. Johnny believed he could improve the store's situation, and as a long-time resident of the Temagami area he felt comfortable with the challenge. His proposal was accepted by the Temagami Indian Band and he leased the facilities, with the marina to follow in September 1993. By the fall of 1994, it seemed that this venture as well was not generating the results that had been expected. Johnny resigned and left. the Band with more liabilities.

The Trading Post

The Trading Post employed approximately eight people in the summer and four in the winter. It did not have an organized or formal chain of command. Most managers wished to retain a relaxed and comfortable working environment with the workers. The Trading Post employed a manager, an assistant manager, and several clerks. One clerk operated the post office when necessary, and in the summer another clerk was placed in charge of the marina operations. All clerks worked the cash register, and duties were not directly assigned. Exhibit I provides a sample staff organization chart (although this was not being followed).

A bookkeeper was hired on a part-time basis to maintain the financial records. The manager also performed some of the bookkeeping duties. The manager did most of the purchasing for the store, which required a trip to either Temagami or North Bay. Inventory was purchased, on average, twice a week and took a full day's work. Exhibit 2 provides a history of the staffing trends at Bear Island Trading Post.

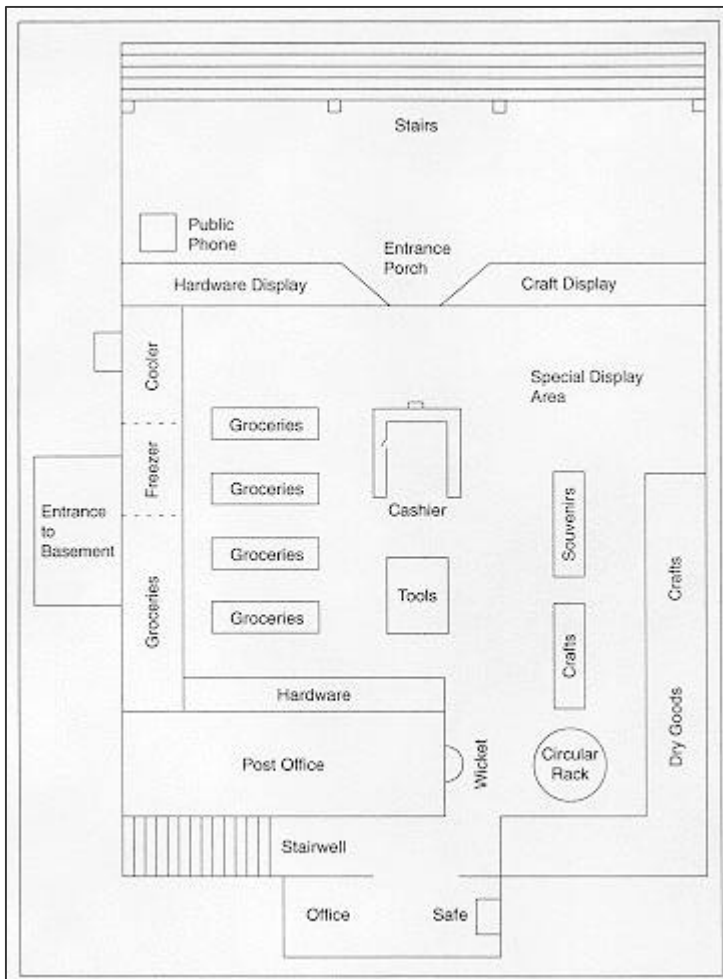


EXHIBIT 3
Floor Plan of Bear Island Trading Post

Marketing

Unlike other local stores, the Trading Post only occasionally used the delivery services provided by area wholesalers and dealers in the summer months. Whenever the Trading Post required supplies, an employee traveled by van to the wholesaler or dealer in Temagami or North Bay. The goods were sold at a 30 to 35 percent markup on their wholesale price. Some goods were purchased from retailers and priced according to the same markups.

The Trading Post held a Water Carnival every July long weekend to promote the store. Advertisements were placed in the Temagami Times weekly newspaper and in the Temagami Lake Association Directory. Advertisements were used to inform potential consumers of the Trading Post's goods and services. The Trading Post also posted a small notice on the public bulletin board at the end of the Temagami Access Road. Currently, the Trading Post carries a wide variety of merchandise including convenience goods, groceries, tobacco products, hardware, and souvenirs. The marina supplies customers with gas, oil, naphtha gas, live bait, ice, and boating supplies.

Facilities

The Trading Post resembles a general store (see Exhibit 3). The store has a historical appeal and serves as a meeting place for the lake community. The Trading Post is well located at the hub of Lake Temagami and access is very convenient for boaters. The buildings are visible from the main channel on the lake and the marina docking facilities are easily accessible. The trip from the Trading Post to Temagami takes approximately 20 minutes by boat and then 30 minutes by vehicle.

Control

The Trading Post did not have a standard procedure for controlling inventory levels and purchases only when necessary. There was no method of control involving delivered goods, which made theft a possibility in the opinion of the Band Administrator.

The Trading Post records at times had over 80 overdue accounts, and bad cheques were frequently received. This caused a strain on cash flow.

Market

The Trading Post is located on Bear Island, which is known locally as the Hub of Lake Temagami. Lake Temagami is situated 97 km north of North Bay (see Exhibit 4). Temagami has an average population of around 800.

In the spring of 1995 there were 746 cottages, 9 youth camps, and 12 commercial lodges on Lake Temagami. Approximately 60 percent of the cottage owners resided in Ontario, while the remaining 40 percent resided in the United States. In the opinion of the Bear Island Elders, the most important customers were the cottage owners, the 140 Bear Island residents, and the youth camps' staff and guests.

In the summer of 1993, an informal survey of 47 visitors to the Island tried to determine the main reasons why they would normally come to Bear Island. In order of importance, the main reasons given were to use the post office (85 percent), to use the pay telephone (78 percent), to buy goods at the store (78 percent), to buy fuel and fishing supplies from the marina (45 percent), to get reading materials from the public library (35 percent), and to attend church services

Competition

The only other grocery store in the immediate area is called M & M, and is located in the town of Temagami. Temagami is approximately 29 km from the hub of Lake Temagami. Prices at M & M are comparable to prices at the Trading Post.

A few tourist camps also sell a small selection of tobacco, confectionery, and grocery products for the convenience of their guests. The majority of the tourist camps do not sell supplies or gas to the general public because of the difficulty in purchasing inventory.

Boat Line Bay Marine is located at the end of the Temagami Lake Access Road. The marina provides parking to boat owners and repairs boats and motors. Boat Line Bay Marine is in direct competition with the Trading Post since it offers similar services. It is located on the outer rim of the hub area, approximately 8 km by water from the Trading Post. On average, the Trading Post marina prices are lower than the Boat Line Bay Marine prices.

Financial

Since opening, the Trading Post often encountered problems related to projecting accurate sales, monitoring expenses, and breaking even. A Local Employment Assistant Program grant was used to finance the Trading Post when it first experienced losses. The Trading Post seemed overstaffed, which created unnecessary wage expenses. All consultants' reports recommended a reduction in staff, but the desire to provide employment training for local residents or their relatives often seemed more important.

Store operations were integrated into company financial statements with no specific attention paid to profitability. The number of outstanding accounts and NSF (bad) cheques significantly reduced the amount of available cash resources and made inventory purchases difficult (see Exhibits 4 to 6).

Current Situation

The Trading Post is now operated by the Temagami Indian Band. A new manager, with no related retail experience, has been hired. Currently, the Trading Post employs one manager, two clerks, and a part-time bookkeeper. The manager operates the post office and handles purchasing. The bookkeeper is attempting to train one of the clerks to perform the bookkeeping activities on a computer.

The Trading Post is open Monday, Tuesday, Thursday, and Friday from 9 a.m. until 5 p.m., and Saturdays from 2 p.m. until 4 p.m.

Many Bear Island residents do not want the Trading Post to become a cooperative, an option that has been discussed. Residents believe it should be sold and operated as a privately owned business. They feel that new and experienced ownership is the only alternative if the business is to be profitable.

The future of the Trading Post was discussed at a recent Bear Island community meeting. A group of six individuals were interested in purchasing the Trading Post property, but after a lengthy discussion, there was no agreement on the future of the Trading Post. The inaccuracy of recent financial records the Council received was among the issues reviewed. These records were completed by the former Trading Post manager.

Presently, the Trading Post has a debt of approximately \$25 000 owing to the Temagami Indian Band. The Band could not indicate how much longer they would provide financial assistance to the Trading Post.

It was pointed out to the Council that the objectives of the Trading Post were to provide economic development (jobs) and a convenience store for the residents of the community. The Council brought attention to the potential value of the fixed assets on the property and suggested renting some in order to recover part of the outstanding debt owed to the Band. Recently, the Band had received information concerning financial guidelines for retail stores (see Exhibit 7).

The Next Steps

Susan realized that this business had a long history and tradition involving many aspects that would have to be considered before a plan of action could be developed. She also wondered, though, if it would ever be possible to make this business profitable without major changes. She had been asked to prepare her recommendations for a meeting with the Bear Island Band scheduled in five weeks. Now she wanted to come up with a way to get the information needed to develop a plan that would help resolve the many issues confronting the Trading Post.

EXHIBIT 2

Staffing History, 1987-1994

Month	1987	1988	1989	1990	1991	1992	1993	1994
January		5	6	6	3	3	3	2
February		5	6	6	3	3	3	2
March		5	6	6	3	3	3	2
April		5	5	5	3	3	3	2
May	11	12	14	7	6	3	3	2
June	11	15	14	7	6	7	5	8
July	11	15	14	7	6	7	5	8
August	11	15	14	7	6	7	5	8
September	5	5	6	4	3	3	3	3
October	5	5	6	4	3	3	3	3
November	5	5	6	4	3	3	3	2
December	5	5	6	4	3	3	3	2
Staff Positions								
Manager	1	1	1	1	1	1	1	1
Asst. Manager	2	2	2	1	1	1	1	1
F/T Clerks	3	2	3	2	1	1	1	1
P/T Clerks	2	6	5	2	2	2	2	2
Bookkeeper	1	1	1	1	1	0	0	0
Student	2	3	2	0	0	2	0	3
SW totals	11	15	14	7	6	7	8	5

EXHIBIT 4

Income Statements (Unaudited)

	1990	1991	1992	1993
Revenue				
Store Sales	\$242.1	\$247.9	\$216.2	\$173.5
Post Office	6.9	6.9	7.5	7.6
Apartment Rent	0	0	0.6	2.3
Other	1.0	22.1	9.9	7.2
Gross Revenue	\$250.0	\$276.9	\$234.2	\$190.6
Cost of Goods				
Beginning Inventory	\$ 45.6	\$ 27.4	\$ 25.1	\$ 11.4
Add: Purchases	217.7	216.7	162.7	127.2
Less Ending Inventory	27.4	25.1	11.4	12.5
Total Cost of Goods	\$235.9	\$219.0	\$176.4	\$126.1
Gross Profit	\$ 14.1	\$ 57.9	\$ 57.8	\$ 64.5
Operating Expenses				
Wages and Benefits	\$ 46.2	\$ 44.9	\$ 30.3	\$ 28.0
Other	77.2	47.9	52.8	44.9
Total Expenses	\$123.4	\$ 92.8	\$ 83.1	\$ 72.9
Net Income (Loss)	(\$109.3)	(\$ 34.9)	(\$ 25.3)	(\$ 8.41)

EXHIBIT 5

Monthly Cash Sales, 1991- 1993

	1991	1992	1993
January	\$5,471.54	\$6,421.16	\$6,366.87
February	4,762.86	5,537.27	3,856.04
March	6,267.57	6,598.83	6,637.61
April	5,183.10	7,217.43	8,190.30
May	7,509.61	9,274.62	13,097.28
June	11,308.41	12,515.82	18,373.04
July	26,433.69	29,749.28	37,178.40
August	28,870.50	28,763.84	39,326.34
September	8,957.62	9,233.49	15,557.94
October	6,360.68	6,809.14	13,563.70
November	5,055.18	4,994.04	13,786.86
December	6,134.49	5,366.35	12,672.68
TOTAL	\$122,315.25	\$132,481.27	\$188,607.06

EXHIBIT 6

**Partial Balance Sheet (Unaudited) for the Year Ending
December 31, 1993**

Assets	
Cash	\$1,100
Accounts Receivable*	12,000
Inventory	16,500
Prepaid	1,400
Total Current Assets	\$31,000
Land, Building, Equipment	\$65,120
Total Assets	\$96,120
Liabilities	
Accounts Payable	\$9,200
Notes Payable	26,400
Total Liabilities	\$35,600
<i>*Approximately \$4000 of this total figure was believed to be bad debt.</i>	

EXHIBIT 7

**Selected Industry Ratio Averages for
Convenience Stores**

Sales	100%
Cost of Goods Sold	53-71%
Gross Profit	29-47%
Expenses	
Salaries	7.4-12.2%
Supplies	0.5-1.0%
Repairs	0.4-1.7%
Advertising	1.3-4.4%
Legal and Accounting	0.5-1.0%
Rent	2.7-6.3%
Utilities	0.9-2.1%
Taxes and Licenses	0.5-0.8%
Insurance	0.3-1.0%
Depreciation	1.2-2.5%
Miscellaneous	5.2-13.6%
Total Expenses	20.9-46.6%
Net Profit	2.3-5.1%