

# How to **Open a Second Dealership Location** Without Losing Business



# Understand What You're Getting Into

If you have a successful dealership that gets far more customers than your current location can accommodate, then you might be thinking of opening another one – which is perfectly logical.

However, **you need to be 100% sure that it's something you can actually handle.** After all, opening another location is very often like building a whole new business, which makes it a huge investment in terms of time and money. You also can't expect the new location to succeed right off the bat just because you've already established your brand. Factors like geography, staff and so forth can all significantly impact its development.

To help you decide what's right for you, check out the steps each dealer must take in order to open a new location, as recommended by our multi-location customers.





# Step #1: Evaluate Your Business

It may seem obvious, but before you even consider a second location, you need to first understand if your dealership – in its current condition – can withstand the transition.

**Our customers recommend examining these three things:**



## The profitability of your original location

Remember that the money from your original location will be putting food on your table until the second location becomes profitable. So, you don't want your second store to have any negative impact on the success of the first one – either because of their proximity to each other or because you've decided to reallocate some of the employees.

In case your second location runs over budget, you should have a contingency plan that would keep you out of debt. The best way to account for potential budgetary blunders is to lower your sales expectations and assume that your expenses will be high.



## The reason for your current success

Analyze your original location and figure out what gives it a competitive edge, because you may be able to transfer some of that to your new store.

It may be your customer service, location, store layout, product selection or something else. So, talk to your customers and try to pinpoint what keeps them coming back – or what has attracted them to your dealership in the first place.

Once you know which aspects of your business customers love the most, see if they can be duplicated.







## Your goal for the second location

It's not uncommon for dealers to open a second location without a solid strategy in place, which makes it difficult for them to create a roadmap to sustainable growth. So, before you do anything, clearly establish what you want to achieve with your second location.

Are you expanding to build capital? Is your existing location at capacity? Do you see demand for your products in a specific geographical area? Is one of your departments so successful that you think it would do better as its own location?



**Tip: Use your dealership management system to track your labor efficiency rates by getting your technicians to clock in and out of each job.**



Evaluate Your Business



# Step #2: Examine Your Finances

Opening a dealership of any kind is never cheap. To ensure you have enough capital to invest into its success, your first location needs to have a healthy cash flow – otherwise, you may lose both.

**Here's what our multi-location customers suggest doing:**



## Keep both locations financially independent

If your first location is doing well, don't squander its success by taking money out of its cash flow to keep the second location afloat. It's not uncommon for dealerships to fail after opening a second location because of this mistake.

Keep in mind that you can use your capital to make the initial investment, but you should treat it like a bank loan. If you continue pulling money from the first location to pay for the failures of the other one, neither of the two will succeed.





## Rely on your capital

Though mixing cash flows is not advisable, it's a good idea to save as much money as you possibly can to give the second location the push it needs to succeed.

Going to a bank or an investor is the easier option, but doing so also means that you won't be able to fully profit from your venture since most investors ask for a significant rate of return. Banks have lower expectations when it comes to returns on loans, but they still expect something. So, your goal should be to minimize their involvement as much as possible.





# Step #3: Pay Attention to Geography

Finding the right area for your second business is a tricky proposition since there are numerous factors to consider.

**Here are some of them:**



## Competition

If you're thinking of opening your new location in an area of heavy competition, you have two most likely options – hold your ground until the competition goes out of business or settle in a different town/city, invite some of your old customers and attract new local customers.

Unless your dealership is a total “game changer,” it's best to avoid opening your second location in a highly competitive region because becoming successful would be unnecessarily difficult and time-consuming, especially if your brand is not widely known.



# Demographics

Research the demographics within each area on your consideration list to make sure that the local population can buy your products. This includes knowing their:



**Income.** Can they afford your products?



**Age.** What's the primary age group of the community?



**Transportation.** What's the main method of transportation for most people in the community? Do most of them own vehicles or do they rely on public transit?



**Family.** Are there many families in the area or a lot of singles?



**Recreational activities.** What do most people in the community do in their spare time?







## Traffic

It's always better to be in a high-traffic area where people who are walking or driving by can easily drop in and check out what you have. In most cases, however, high-traffic areas are rife with competition, so be on the lookout for that.

## Demand

Determine how strong the demand for your product is in the area. Alternatively, if the demand is low, measure how much time, money and effort it would take to create stronger demand.



**Tip: In the ideal scenario, you should be able to test sales of your products and services in the market you're considering before committing to it fully.**



Pay Attention to Geography





# Step #4: Choose the Right Space

Once you've established where you want your second dealership to be, it's time to decide how you will handle property.

**Here are some factors to consider:**

## Square footage

The bigger the location, the more you have to pay. The challenge is in determining how much square footage you need and how much you're prepared to invest in it. For instance, are you more interested in having a lot of space or being in a high-traffic area?

If you're not confident enough in the local market, it's best to start out as conservatively as possible. Rent a small lot to test the waters before investing in something bigger.



Choose the Right Space



## Leasing vs. Buying

In most cases, leasing is the safer option. It costs less than buying a location since you only need to pay first and last month's rent and a security deposit. This option also offers a lot more flexibility because a typical lease will lock you into a location for only two to four years.

If you're planning to own your space, you will need to make a down payment, which can be a significant percentage of the purchase price. To qualify, your credit history needs to be in good order, which is why you should have two to three years of positive business cash flow before applying.

Tip: If you're not fully convinced that the location will pay off, avoid buying until you have established a strong enough presence in the region, which will help you minimize losses in case the store fails.







# Step #5: Decide Who Will Manage What

It'd be great if you could just clone yourself, but sadly, you can't. So, you need to make sure that each location has the right people to take care of it whenever you're not there.

**Here are some recommendations:**

## Focus on the second location

Devoting most your time to the new location, particularly in its early days, will help you discover its strengths and weaknesses as well as show the staff that you're fully invested in its success. Speaking of staff, you may also want to transfer some of your best workers to the new location – but be sure not to compromise the original store as a result.

In some cases, it's possible for the second location to differ from the first one when it comes to demographics. If that's the case, you may need to hire someone local to manage the store, so that they can assist you in adapting your approach to the new market. If, however, the second location is either the same or only slightly different from your existing one, then it's best that you take full control of it until it becomes self-sufficient.



**Tip: Since your second dealership won't be profitable for at least six months, it would be risky to leave it with someone who doesn't care about its success as much as you do.**



Decide Who Will Manage What





## Leave a good manager in charge of your original store

As a new business, your second location will need as much of your attention as possible. This means that you'll be spending a lot of your time away from your original dealership, which is why you need to leave it in the hands of someone who would manage it as well as you.

Start by analyzing if your presence at the original location is critical. The best way to do so is by looking at your customers – if they would rather do business directly with you instead of your employees, then your current employees aren't apt enough to handle their needs effectively. You need to find someone who is.



Decide Who Will Manage What

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## Step #6: Make Your Second Location is Self-Sufficient

Whether you're planning to stick around with your second location or not, you need to make sure that it can run with minimal involvement from you – just like your first location.

**Here's how our customers recommend going about that:**



## Hire the right staff

In addition to managing the second location yourself, you should also be the one to do all the hiring. Doing so will allow you to pinpoint the hiring challenges in the area early on and in turn come up with solutions.

If you're not familiar with the region, and as such, decided to hire someone local to help you manage the dealership, then you may want to hand off the hiring duties to them.

No matter which route you choose, over time, you should be able to build a group of trustworthy employees to ensure the location can run on its own without requiring any handholding from you.



Make Your Second Location is Self-Sufficient



## Standardize your procedures

Establishing consistency when it comes to policies, processes and overall customer experience will eliminate confusion among your employees and make it easier for you to serve customers better and faster. Consider standardizing your procedures around the following:



**Customer service.** Outline clear instructions when it comes to employee behavior around customers, including what to say and not to say, how to handle complaints, when to call the manager and so on.



**Monetary handling.** Cover all monetary transaction concerns, including what types of payments you accept, how you process returns and exchanges and so on.



**Safety and security.** Have proper procedures around standard safety and security issues, such as who should open and close the store, how to deal with theft and so on.



**Store layout.** Create specific rules around how your products should be arranged in the store, including what furniture should be used, which items should be at the front and so on.



Make Your Second Location is Self-Sufficient



# Step #7: Set Up a Business Management System



Multi-location management requires owners to account for many variables, which makes it easy for them to miss crucial details. To avoid mistakes that can cost you your business, consider getting dealership management software that can handle multiple locations.

**At the very least, it should come with the following functionalities:**

## Inventory management

With two locations, optimizing inventory becomes doubly important. You don't want to alienate customers, especially new customers, by not having the right items in stock.

That's why you need a system that can provide you with a clear view of your inventory across all your locations. Good software should help you account for seasonality, set minimum and maximum ordering levels and provide automatic order recommendations. With a tool like that, you can avoid under-ordering during the busy season and over-ordering during the slower months.



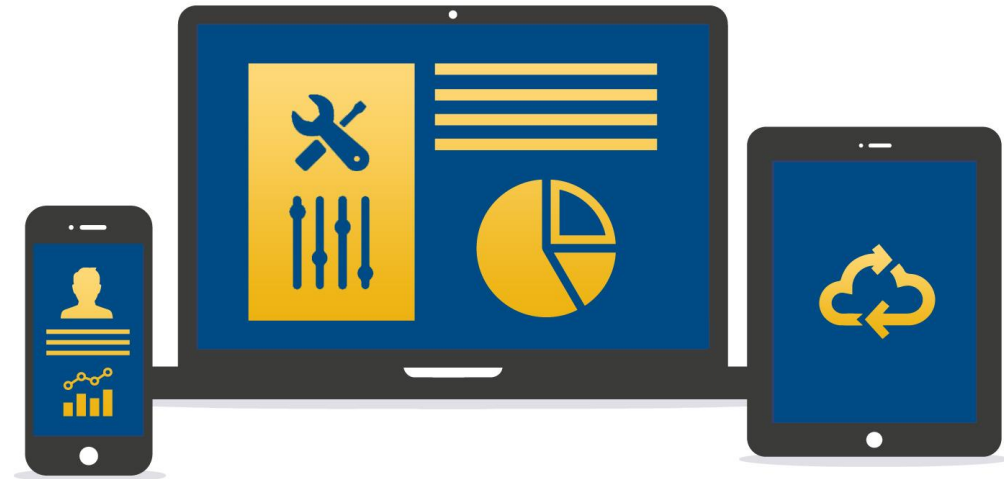
## High-level business overview

Since you can't be at both of your locations at the same time, you need something or someone to keep track of what's going on. A proper dealership management solution should let you view real-time reports on just about every aspect of your business.

Since most of your time will likely be spent managing your second location, you may want to keep a close eye on your original dealership as it will be your major source of income for at least six months.

Here are some of the aspects that you should be tracking in real time:

- **Sales and F&I**
- **Employee performance**
- **Best- and worst-selling products**



# What's Next?

If you're convinced that you're ready for a second location, then you need to start with step one: evaluating your business. To help you with that, we recommend checking out dealership expert **Bob Clements' guide to the key metrics every dealer must track** to ensure they perform at their best.

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