Are 2 retail locations better than 1?

BY SID RAISCH

IMAGINE YOU OWN a retail nursery or garden center and you're thinking about adding a second or third location.

You know that if the new location is successful, it could enrich your pocketbook, scale your operation more beneficially, provide another outlet for plants you may be growing, expand your profile, grow your legacy in the community or industry, and create better career opportunities for your employees.

But you also know that failure could jeopardize your financial well-being, your successful current location and perhaps your familial relationships.

It's a daunting choice, whatever you ultimately decide.

"When we went from just one location to two, it was a huge jump for us," said Mark Bigej, chief operating officer and part owner of Al's Garden & Home, an Oregon-based garden retailer and grower. "It was a huge learning curve."

The decision worked out for Al's. They ended up adding a third location and then last month, a fourth. But it may not work out for everyone.

So what are the factors to consider before you stand pat or make the big leap?

Looking at your current location

The first question to ask is how well that original location is really doing.

It's not that a second, third or more retail locations are a bad idea. The problem is simply that the first location isn't profitable enough for a second one to even be considered.

The answer is to stop doing things that create the situations that cause the struggle in the first place.

I have found three common roadblocks that nursery retailers encounter on the road to profitability:

1. Heavy discounting. Discount-oriented promotional marketing brands your business as a discounter. Your customers become price-sensitive comparison shoppers. You get trapped in an ever-repeating cycle of sale events, discounts and gimmicks, and profitability never seems to increase.

Instead, focus on a value-add market position and practices. Stop competing on price and instead find ways to give customers more value than competitors.

2. Too many fixed expenses. Look at your payables and adjust as needed. Sometimes financial obligations that should be variable expenses are not managed as such and become fixed expenses. You might be employing under-productive team members, often family members. This seems like an obvious point, but I've run into businesses where the owners didn't see it or didn't want to. Take an honest look at this and all expenses.

3. Excessive debt burdens. Once you have addressed costs, your payments to lenders may still be excessive. That is a major issue to be solved. It may or may not be possible to renegotiate your obligations to lending institutions or refinance, but you won't know if you don't ask.

Deciding when more is more

Once you have made yours a value-adding business, and once that business is stable and profitable, new locations are worth a look. They can add revenue while spreading the burden for certain expenses, such as marketing, accounting and management costs.

New locations come in two kinds — entirely new locations that are built from the ground up, and existing locations that you purchase or lease from someone else.

New locations can take years to carefully plan. Land must be purchased, plans must be drawn up and submitted, and construction takes time.

Existing locations are different. They can also take time, but sometimes, the right opportunity simply presents itself. If not, don't let that keep you from inquiring. You never know when someone is seeking an exit opportunity that may be right for you. A very large percentage of business owners are aging out and are anxious for an exit. You might be theirs.

Buying an "ongoing" business — that is, one that is already viable and successful — often carries much less risk than opening a new store from scratch in an unproven new location, with no customer base.

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Jack Bigej (left) and his son Mark, two of four co-owners of Als' Garden & Home, discuss plans for the opening of their fourth retail location in Wilsonville, Oregon. PHOTO BY CURT KIPP

How much is an existing business worth? This is a matter of agreement; if the seller and you agree, then that's what the business is worth. However, as a buyer you should base your decision on the current and historic profit stream of the business, not the one that you think you can create for it.

Evaluating your options

Whether you are looking at opening a new location or adding an existing one to your portfolio, there are several factors to consider.

1. Location, location, location. Some spots are "less than ideal" but they can still be made to work. However, you should be careful of the "destination" moniker. It often means "out of sight, out of mind, and hard to get to."

Time is the new currency. It is more difficult to get time out of your potential customers than it is to get their money. Get a well-rounded suite of professional input before you commit to any location. No matter how much time and energy you've already invested, be willing to pull the plug. If you do everything else right but the location is wrong, you still lose.

According to Bigej, when looking at new locations, Al's has considered the demographics of a community as well as the impact on their existing stores.

2. Consider your talent. It needs to come from somewhere. If you're building new, you can tap into bench strength at your current location and perhaps give people greater opportunities. That's what Al's has done.

"We like to promote from within as we get people coming up who are good," said Jack Bigej, Mark's father and co-owner of the business along with Mark's sisters, Darcy Ruef and Dorothy Russo.

If you're purchasing an existing business, you can hire the existing staff, but there are downsides. You must consider how they will fit into your management style and your corporate culture.

3. Have strong processes in place. Related to personnel is the issue of processes. If you have strong processes in place for everything, micromanagement is less apt to be necessary.

"When we had one location, we could easily run it with three of us," Mark said. "We were all there and we were doing a lot. When you expand, you have to make sure you have processes in place so you can trust people to do things and make decisions without having to micromanage."

If you are buying a location, you have to consider how you will teach your processes to the new people.

4. Know the market. There have been many cases where a new owner of a purchased business, or the owner of a new location, fail to consider how the marketplace will accept the new location. It's important to understand the demographics and try to figure out the impact the new location will have on your existing one(s).

Most businesses create financial plans based on best-case scenarios. That's a mistake if they don't have deep enough pockets to ride out early struggles.

5. Have a business plan. Yes, capital matters, but cash flow is king.

When creating a new location, it's important to understand its break-even point, and what you must accomplish in order to achieve a profit.

Never underestimate the effects of seasonality. Ask yourself how you will get through to the next spring. Understand that spring and summer pay the rent. Winter can add to profit, if not work to minimize the loss. It's worth asking what you can do to help drive year-round traffic that results in increased revenue and profit.

The final analysis

There are good reasons to expand and add locations and there is potential for pain and struggle. The best motives and reasons to expand in the world won't be overcome with the wrong new location decision. So don't make the wrong decisions.

That's a simple statement and I mean it. Look before you leap, but do look. You can do this if you do it right.

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