

What To Think About When Buying A Retail Business

If you're thinking about buying a retail business, there is a lot that you must consider outside of the basic nuts and bolts of the business. There's an old saying that retail success hinges on three factors: "location, location, location". While this is true to a large extent, it's not always the case. When looking at retail businesses, your number one goal must be to determine what "drives" the customers to the store.

What Brings In The Customers?

Location:

If the business relies on its location then you'll want to be certain:

- The lease in place is transferable/assignable and is long-term. You must negotiate additional options to give yourself at least ten years of contract length.
- Is there an anchor tenant that brings customers to the locale? If so, then you'll want to know how long their lease is, and if they have any plans to relocate in the near-term. Also, be certain that this anchor tenant is solid financially- think about all the poor merchants who relied on K-Mart and General Cinema traffic. The stores surrounding these faced disastrous situations when they closed numerous locations.
- Is there any planned road construction that can impact the business? Typically, major roads undergo some form of construction every ten years or so. Visit the city hall/planning office to see when the last work was done and what plans if any may be in place.
- Above all, think about every possible situation that can impact the location and investigate it thoroughly.

Product Offering:

If the operation is driven by its product offering you'll want to be certain that you're capable of continuing to identify the types of products that customers want. If this function is performed by an employee/buyer, you may want to have them own a stake in the business as well. However, if you're not 100% comfortable with performing this function yourself, or are not the type that has an "eye" for product, you may not want to go down this road.

Marketing:

For some retail businesses, it's the marketing that brings in the customers, and location takes a back seat. These are destination locations. Furniture and specialty retailers are typical examples. They spend a fortune on advertising and promotion, and they get the people to the stores. Here again, if this is what drives the business then you'll want to be certain that your greatest skill lies in this area.

Avoid Working 100 Hours Per Week!

The biggest issue that I discuss with clients who want to become retail merchants is for them to get a true grasp upon the actual workload that's required in this environment. Retail hours can be hell, especially if you're in a mall where you're required to maintain certain hours. I meet far too many retailers who seem to work seven days a week. It does not have to be this way, as long as you set up the business to run properly without you having to be there every minute.

Hire great people! Getting good employees is an ongoing challenge. You shouldn't be afraid to churn through employees until you get the right ones. Pay them well. Train them effectively. Put policies and procedures in place that allows them to get up to speed quickly. Work towards having a key manager in place that can relieve you of some of the daily burdens. Never, ever tolerate stealing. Hire a mystery shopping company to do an assessment at least once a year. It's a great way to learn what the customers are experiencing.

Implement the most effective technology you can afford. There are tremendous systems available today for point of sale tracking, inventory management, accounting modules, etc. Systematize everything so that you're not beholden to being there every minute. One program that I've seen quite a bit of is RetailPro. It appears to be very robust and cost effective. It's well worth checking out. There are many others available as well.

Growing The Business

If your agenda is to make a lot of money, then it's hard to do so with one location. Growth usually requires expansion. Many times however, one successful location does not translate well into a second successful one. This usually happens because the owners cannot duplicate the business effectively. That's why systems are crucial. It's also why you need to have a crystal clear view of what brings in the customers and then be able to duplicate it effectively.

The other reason why this happens is that the owner is the business and then ends up trying to be effective in two locations. Guess what? It doesn't work! Build the first one. Get the recipe in place that includes a top notch manager. Then, you can decide to either run the second one yourself or put in the manager from the existing location.

If you're running a large sized operation, you may want to consider opening a second one that may be a bit smaller, with an option to expand. This doesn't always work, but should be considered.

Certainly when thinking about buying a retail operation, and growth is your objective, you have to decide if it's even a possibility, or is it too specialized? If you buy a scuba diving store that's on the ocean, well you cannot open up a second location in a rural area and expect similar results. The business itself may be restrictive from a growth perspective.

What's A Retail Business Worth?

Just like any other business resale, there are no “golden rules” to establish the value of a retail business. The main issue must always be how much the business is making. This is the key component that must dictate the purchase price. Inventory is one element that clouds many retail business purchases. You need the inventory to drive revenue. It may or may not be treated separately in the price. Notwithstanding this, the combination of the profit and inventory acquisition cannot over inflate the price to the point where it's not a feasible investment. Liquor stores for example may sell at a reduced multiple of earnings, but inventory is priced and purchased separately. Conversely, a clothing retailer may be sold at one fixed amount and includes all of the assets.

When it comes to inventory, your investigation must conclude if the product is saleable, and in what time frame. Specialty retailers usually have a ton of obsolete or slower selling product. If there's old inventory it must be discounted heavily in the valuation.

What To Do Next?

Lots of people have made lots of money operating retail businesses. If you're cut out for it, you can also be successful. But, you'll want to weigh all of the factors to be certain that this type of business fits both your strengths and the lifestyle you want.

In most regions, there are always an abundance of retail businesses listed for sale and some excellent local websites available to find them. You should check out the major business for sale websites, the local business broker sites, keep an eye on the classifieds as many retailers attempt to sell their businesses privately. Often times, a local merchant will foolishly hire a commercial real estate agent to sell their business and so you should review the multiple listing sites as well. Lastly, you may want to think about businesses that you patronize that you feel have growth potential. Then, simply approach the owner to discuss it.

While many people think that it all comes down to location, the savvy retail business buyer knows there's far more to consider in the equation.