THE LAUNDROMAT GUYS
GROWING PROFITABLE LAUNDRY BUSINESSES

CHARTING THE EXPANSION COURSE

Asking yourself the right questions can simplify the expansion process

Opening your first store was loads of fun and you worked hard to make it a success. Now you're pondering expanding to two locations, but you're not ready to relive all the joys of starting from scratch. For you, purchasing an existing location is far more attractive. There are definite pros and cons with this scenario. The bad news is next to opening your first store, adding a second location is the hardest transition. The good news is if you choose this location wisely, you won't have near the ramp-up period.

TOUGH QUESTION

Before expanding, ask yourself a few questions. Are you willing to give up some level of control? There are only so many hours in a day, and you already know the time involved in making your first store a success. If you are to replicate that success, you're going to have to rely on at least one staff member to keep the momentum going. Store problems are going to happen at the most inopportune times. It's important to feel comfortable that you have staff in place to take care of problems in store No. 1 while you are handling challenges at store No. 2, especially if the two locations are miles apart. That brings up another question. What distance between the two stores is too far? What if both locations are coin-operated? Chances are you'll want to personally take care of collections and that could mean quite a bit of time if they are far apart. The main point is to not underestimate the amount of time that comes with expansion. You cannot let one business suffer while you get the other up and running.

THE IDEAL SPOT

Don't discount that dated store with old equipment. There are deals to be had, and the root of what we're looking for are what I call "good bones" — all the factors that represent a good site. That means a highly visible location, ample parking and solid demographics. A low purchase price combined with solid bones may make upgrading the store with new machines and paint a far more attractive option than that "Grade A" store you're also considering.

Obviously, the benefits to buying the "Grade A" are its established base, newer machines and overall appearance. Downside is the higher price for the premium location. Buyers, however, have to review the financial to ensure the profits match the higher asking price.

Due diligence should focus heavily on the demographics of the area. You're looking for a high renter population (at least 40 to 50 percent), old housing stock (at least 15 years) and middle- to low-income residents.

Once you are serious about a site, get an accurate snapshot of the business. Find out what type of money is being generated. This figure will help you put everything else in perspective. Due diligence should include a review of at least one year of utility bills. However, I recommend two years if you can get them. If the owner doesn't have this data, a letter signed this person will allow the utility company to release the data to you.

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These expenditures should total roughly 25 percent of what the owner claims the business is generating. You'll also have to temper this figure with the age of the equipment — obviously, the older equipment in that "diamond in the rough" may post a higher percentage compared to the "Grade A" store. Having a wider data sample gives a view into the range of prices for commodities such as natural gas. During a two-year period, we can see swings from 50 cents a therm to $1.70 per therm.

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