

The second tool also gives you an edge. By knowing how much equipment will be required, along with other costs of the pre-opening time frame, you will have a good understanding of how much capital is required to launch your second shop. The working capital amount can be calculated by working out how long the first location took to be in a positive cash-flow position.

Now you can start the development of estimated cash flows for the second shop. Using the historical data you have, along with knowing how not to make the same mistakes the second time around, estimate how much money and time is required for the second location to stabilize.

To do this, setup the following simple work sheet:

Cash Flow Statement						
	Pre-Opening	Month One	Month Two	...Month ...Twelve	Total	
Sales:						
Services	0	850	1050	... 3800	31000	
Products	0	25	75	... 350	2200	
	-----	-----	-----	... -----	-----	
Cash In	0	875	1125	... 4150	33200	
	-----	-----	-----	... -----	-----	
Expenses:						
Accounting	0	100	100	... 100	1200	
Advertising	250	350	400	... 250	3600	
Bank Charges	25	25	25	... 25	325	
Maintenance	0	25	35	... 45	250	
Memberships	0	25	25	... 0	250	
Other	250	250	250	... 125	2000	
Rent	0	1000	1000	... 1000	12000	
Supplies	0	75	100	... 100	1300	
Telephone	0	55	55	... 60	755	
Utilities	0	100	100	... 100	1150	
Wages	500	1050	1300	... 1400	18225	
	-----	-----	-----	... -----	-----	
Cash Out	1025	3055	3390	... 3205	41055	
	-----	-----	-----	... -----	-----	
Cash from Operations	-1025	-2180	-2265	... 945	-7855	
	=====	=====	=====	... =====	=====	
Opening cash	0	10975	8445	... 2350	0	
	-----	-----	-----	... -----	-----	
+/-Cash from operations	-1025	-2180	-2265	... 945	-7855	
	-----	-----	-----	... -----	-----	
Less:						
Equipment purchases	15000		1000	...	17000	
Deposits	2000			...	2000	
Supplies Inventory	2500			...	2500	
Loan Payments		350	350	... 350	4200	
Leasehold Imp.	3500			...	3500	

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	23000	350	1350	...	350	29200
	-----	-----	-----	...	-----	-----
Plus:						
Bank Loans	10000			...		10000
Owner contributions	25000			...		30000
	-----	-----	-----	...	-----	-----
	35000	0	0	...	0	40000
	-----	-----	-----	...	-----	-----
Closing cash	10975	8445	4830	...	2945	2945
	=====	=====	=====	...	=====	=====

By doing this you have effectively created a cash budget for the new operation. You also have something to present to your banker when it comes time to borrow the money. Finally, it will give you a good idea of what to expect in terms of your own financial contributions to this new venture.

Another consideration is the cost sharing between the two locations. While inventory, for example, needs to be in both places, the storage may be centralized. Labor costs will not be dramatically reduced, but you will have some flexibility in temporarily transferring some support staff between the two locations. Equipment costs, utilities and the like tend to have no overlapping benefits, while areas such as advertising and printing can be easily shared.

On the whole, be careful not to over-state the benefits of two locations. The second location will also cause some costs that a single location does not have. An example of this is the increased management time to control the two locations. Another will be the increased wage costs as you promote another individual to a manager level. Finally, the basics of cash control become even more important when you are not always there to watch that cash register.

Look to yourself as well. Your methods of management will have to change. Decisions will now have to be made not based on direct observation, but rather through third-party reporting. If you have been at all casual about your accounting and financial reporting, this must end. Stricter policies of cash handling and management will have to be enforced. An example is the area of accounts payable. In the past you paid those invoices because you were there when the goods and services came in. Now you will have to rely upon others to approve those payments.

Expansion into the second location is both dangerous and rewarding. What made your first location great may be your presence. Make sure you have considered this in the move. Also make sure that you have the financial resources to weather the storm of the new location. It will be a cash-flow drain and may take some time to turn positive. There is also the outside chance that there may be a down turn in business at your first location. Plan for these contingencies and have enough financial resources available to stay in there.

When should you expand? When you have the resources on hand to successfully accomplish it. You should expand when you see the potential to create more than what you have now, and you should expand when your original location is running to the point it does not need you every day. The benefits of expansion are increased sales, increased personal equity and a feeling of accomplishment.