

## Start a car dealership by following these 10 steps:

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1. Plan your Car Dealership
2. Form your Car Dealership into a Legal Entity
3. Register your Car Dealership for Taxes
4. Open a Business Bank Account & Credit Card
5. Set up Accounting for your Car Dealership
6. Get the Necessary Permits & Licenses for your Car Dealership
7. Get Car Dealership Insurance
8. Define your Car Dealership Brand
9. Create your Car Dealership Website
10. Set up your Business Phone System

We have put together this simple guide to starting your car dealership. These steps will ensure that your new business is well planned out, registered properly and legally compliant.

| Exploring your options? Check out other [small business ideas](#).

### STEP 1: Plan your business

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A clear plan is essential for success as an entrepreneur. It will help you map out the specifics of your business and discover some unknowns. A few important topics to consider are:

Luckily we have done a lot of this research for you.

#### What will you name your business?

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Choosing the right name is important and challenging. If you don't already have a name in mind, visit our [How to Name a Business](#) guide or get help brainstorming a name with our [Car Dealership Name Generator](#)

If you operate a [sole proprietorship](#), you might want to operate under a business name other than your own name. Visit our [DBA](#) guide to learn more.

When [registering a business name](#), we recommend researching your business name by checking:

- Your state's business records
- Federal and state trademark records

- Social media platforms
- Web domain availability.

It's very important to secure your domain name before someone else does.

### **What are the costs involved in opening a car dealership?**

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Becoming a car dealer isn't easy in most states. You will need a surety bond, proper licensing, and business experience to compete in this industry.

Auto dealers usually must file a surety bond with the resident state's DMV before they get an auto dealer license. The license allows them to sell vehicles in that state.

Purchasing a bond can be very confusing. A surety bond is a form of insurance which is designed to protect consumers and the state from fraud.

There are several types of bonds you may need, depending on the kind of dealership you want to run. Some general bonds include:

- DMV bonds.
- Used car dealer bonds.
- Wholesale car dealer bonds.
- RV bonds.
- Motorcycle dealer bonds.

Bond premiums depend entirely on your unique situation, which makes it difficult to quantify exact costs to start a dealership. In general, the surety bonds you need are priced based on:

- The amount of the bond needed.
- Your financial credentials.
- Whether or not you choose to finance the premium.
- Your credit score.

If you have good credit, for example, your premium might be just 1% of the total bond amount. So, on a \$10,000 bond, you would pay a \$100 premium.

In addition to the bond, you will need licensing. The types of licenses needed depend on the state, county, and locale where you intend to conduct business.

Most states have several categories of dealer licenses, such as:

- New car dealer
- Used car dealer (retailers)
- Wholesaler licensing
- Rebuilder licensing
- Reconditioner licensing

The general process for getting into business is:

1. Fill out an application form.
2. Get a surety bond (states specify the minimum amount based on your line of business).
3. Buy liability insurance for your inventory (vehicles).
4. Get your sales tax number.
5. Establish your permanent business location.
6. Take photographs of your business sign and location and adhere to your state's specific photo and signage rules and regulations.
7. Pay the mandated fees.
8. Get your dealer's tags from the local county courthouse.
9. Get your sales license to sell vehicles (if you intend to be a salesperson in the business).

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### **What are the ongoing expenses for a car dealership?**

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Dealer costs vary a lot by the type of dealership and the specific bonds and insurances needed. A dealership can be run for several thousand dollars per year in operating costs or \$15 million for a franchise operation.

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### **Who is the target market?**

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Dealers typically run advertisements locally for customers, but most of the business is generated by referrals through the salesforce. Friends, family, neighbors, and community members are the "target market" for a dealership.

Good customers usually have fair to good credit (minimum). Many customers will finance the purchase so they need the ability to qualify for a vehicle loan. Dealerships typically have a difficult time selling to individuals with poor credit. However, some dealerships specialize in hard money loans and "buy here, pay here" plans where customers with poor credit are able to finance a vehicle directly from the dealership through a special financing program, similar to "rent to own" payment schemes found in other industries.

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### **How does a car dealership make money?**

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A dealership makes money by selling vehicles above the dealer's invoice price and by doing routine maintenance on vehicles sold. Customers typically pay commissions on vehicles they purchase (which is bundled into the total sales price of the vehicle) and pay hourly or a flat fee for maintenance.

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### **How much can you charge customers?**

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Dealers usually charge the manufacturer's suggested retail price (MSRP) for their vehicles. However, a dealer may discount their vehicles to entice prospects to buy. When this is done, a dealer may discount the vehicle to the dealer invoice price. Dealers often also receive incentives and "holdback" from the manufacturer. Pricing to the consumer is not transparent. Meaning, a consumer doesn't typically see the costs and profit for the manufacturer. Instead, consumers see total vehicle price.

## How much profit can a car dealership make?

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As with dealer operating costs, profit depends entirely on the dealer's wholesale pricing and cost for inventory, cost for bonds and insurance, and other overhead. In general, a dealer can make between 2% and 3% of the sticker or invoice price of the vehicle.

## How can you make your business more profitable?

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Making a dealership profitable isn't easy. Because there are so many laws and regulations governing the sale of vehicles, most dealerships rely on good customer service to fuel future growth. However, a dealer can increase the odds of making more money by specializing. For example, a Honda dealership may make more than a general used car dealership. Luxury dealers may also make more than dealers selling mid to entry-level brands.

## STEP 2: Form a legal entity

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The most common business structure types are the sole proprietorship, partnership, limited liability company (LLC), and corporation.

Establishing a legal business entity such as an **LLC** or **corporation** protects you from being held personally liable if your car dealership is sued.

### FORM YOUR LLC

You can form an LLC yourself and pay only the minimal state LLC costs or hire one of the Best LLC Services for a small, additional fee.

**Recommended:** You will need to elect a registered agent for your LLC. LLC formation packages usually include a free year of registered agent services. You can choose to hire a registered agent or act as your own.

## STEP 3: Register for taxes

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You will need to register for a variety of state and federal taxes before you can open for business.

In order to register for taxes you will need to apply for an EIN. It's really easy and free!

You can acquire your EIN through the IRS website. If you would like to learn more about EINs, read our article, What is an EIN?

There are specific state taxes that might apply to your business. Learn more about state sales tax and franchise taxes in our state sales tax guides.

## STEP 4: Open a business bank account & credit card

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Using dedicated business banking and credit accounts is essential for personal asset protection.

When your personal and business accounts are mixed, your personal assets (your home, car, and other valuables) are at risk in the event your business is sued. In business law, this is referred to as piercing your corporate veil.

### **Open a business bank account**

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Besides being a requirement when applying for business loans, opening a business bank account:

- Separates your personal assets from your company's assets, which is necessary for personal asset protection.
- Makes accounting and tax filing easier.

### **Get a business credit card**

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Getting a business credit card helps you:

- Separate personal and business expenses by putting your business' expenses all in one place.
- Build your company's credit history, which can be useful to raise money later on.

**Recommended:** Apply for an easy approval business credit card from Divvy and build your business credit quickly.

## **STEP 5: Set up business accounting**

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Recording your various expenses and sources of income is critical to understanding the financial performance of your business. Keeping accurate and detailed accounts also greatly simplifies your annual tax filing.

Make LLC accounting easy with our LLC Expenses Cheat Sheet.

## **STEP 6: Obtain necessary permits and licenses**

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Failure to acquire necessary permits and licenses can result in hefty fines, or even cause your business to be shut down.

### **State & Local Business Licensing Requirements**

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In most states, it is necessary to obtain a dealer's license. Applications for this license will vary by state. This article offers general advice on how to get one.

State specific licensing information can be found here.

**Most businesses are required to collect sales tax on the goods or services they provide.** To learn more about how sales tax will affect your business, read our article, [Sales Tax for Small Businesses](#).

## **STEP 7: Get business insurance**

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Just as with licenses and permits, your business needs insurance in order to operate safely and lawfully. **Business Insurance protects your company's financial wellbeing in the event of a covered loss.**

There are several types of insurance policies created for different types of businesses with different risks. If you're unsure of the types of risks that your business may face, **begin with General Liability Insurance**. This is the most common coverage that small businesses need, so it's a great place to start for your business.

Another notable insurance policy that many businesses need is Workers' Compensation Insurance. If your business will have employees, it's a good chance that your state will require you to carry Workers' Compensation Coverage.

Find out what types of insurance your Car Dealership needs and how much it will cost you by reading our guide [Business Insurance for Car Dealership](#).

## **STEP 8: Define your brand**

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Your brand is what your company stands for, as well as how your business is perceived by the public. A strong brand will help your business stand out from competitors.

If you aren't feeling confident about designing your small business logo, then check out our [Design Guides for Beginners](#), we'll give you helpful tips and advice for creating the best unique logo for your business.

## **How to promote & market a car dealership**

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Getting new customers can be difficult. Some new dealers hold a tent sale. This is a special sale conducted off-site (away from the primary business location) to attract new customers. Every state and county has different rules and regulations regarding tent sales. In some states, for example, you will be expected to give notice to the local authorities and pay a fee for a license to hold the sale.

## **How to keep customers coming back**

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Auto dealerships are relationship-driven. Many customers are past customers, so referral business and retaining customers through excellent customer service is key. Offer special incentives to customers, like special dealer financing or dealership perks (special deals

on service) to attract new customers. Some dealers also go beyond sales and service to provide a unique experience for the customer. For example, a dealer might create a “play area” for children and offer day care services while parents shop.

## STEP 9: Create your business website

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After defining your brand and creating your logo the next step is to create a website for your business.

While creating a website is an essential step, some may fear that it’s out of their reach because they don’t have any website-building experience. While this may have been a reasonable fear back in 2015, web technology has seen huge advancements in the past few years that makes the lives of small business owners much simpler.

Here are the main reasons why you shouldn’t delay building your website:

- **All legitimate businesses have websites** - full stop. The size or industry of your business does not matter when it comes to getting your business online.
- Website builder tools like the GoDaddy Website Builder have made creating a basic website extremely simple. **You don’t need to hire a web developer** or designer to create a website that you can be proud of.

**Recommended:** Get started today using our recommended website builder or check out our review of the Best Website Builders.

Other popular website builders are: WordPress, WIX, Weebly, Squarespace, and Shopify.

## STEP 10: Set up your business phone system

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Getting a phone set up for your business is one of the best ways to help keep your personal life and business life separate and private. That’s not the only benefit; it also helps you make your business more automated, gives your business legitimacy, and makes it easier for potential customers to find and contact you.

There are many services available to entrepreneurs who want to set up a business phone system. We’ve reviewed the top companies and rated them based on price, features, and ease of use. Check out our review of the Best Business Phone Systems 2023 to find the best phone service for your small business.

**Recommended Business Phone Service:** Phone.com

Phone.com is our top choice for small business phone numbers because of all the features it offers for small businesses and it's fair pricing.

## Is this Business Right For You?

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This business is perfect for individuals who are auto enthusiasts and who have a good business sense. Former sales managers and car salesmen are also good candidates for this type of business. As the owner, you may have a flexible work schedule, but this is not guaranteed.

## What happens during a typical day at a car dealership?

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Day-to-day activities include checking invoices, talking to prospects and customers on the lot, negotiating deals, and managing a sales force. Dealerships have a strong sales culture and interpersonal communication skills are important. So salespeople (including the owner) who work for a dealership may spend most of their day speaking with prospects face-to-face.

## What are some skills and experiences that will help you build a successful car dealership?

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While there are no special skills required by the state, there are practical skills most business owners in this industry have. First, they have a strong sales background. They also have a strong business and management background. Some dealership owners have worked as a mechanic in the past, which helps them better understand the service side of the business.

## What is the growth potential for a car dealership?

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Small dealerships are usually used car dealers. These types of dealerships purchase used vehicles at auctions and mark them up for resale to consumers. This type of business can be highly profitable and doesn't require a lot of overhead or inventory.

A larger dealership might secure a contract with a major manufacturer to sell new and certified used vehicles. This type of dealership business is typically large scale, requires significant upfront costs (including franchise fees), and may require high volume sales to keep the manufacturer's contract.

## Take the Next Step

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### Find a business mentor

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One of the greatest resources an entrepreneur can have is quality mentorship. As you start planning your business, connect with a [free business resource](#) near you to get the help you need.



Having a support network in place to turn to during tough times is a major factor of success for new business owners.

## **Learn from other business owners**

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Want to learn more about starting a business from entrepreneurs themselves? Visit Startup Savant's [startup founder series](#) to gain entrepreneurial insights, lessons, and advice from founders themselves.

## **Resources to Help Women in Business**

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There are many resources out there specifically for women entrepreneurs. We've gathered necessary and useful information to help you succeed both professionally and personally:

- Funding
- Events
- Guides
- Support

If you're a woman looking for some guidance in entrepreneurship, check out this great new series [Women in Business](#) created by the women of our partner Startup Savant.

## **How and when to build a team**

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Most dealerships need a crew of salespeople, accounting and bookkeeping professionals, and service technicians. Unless you're a small one-man operation, you'll probably want to hire a team of professionals immediately.

[Read our car dealership hiring guide](#) to learn about the different roles a car dealership typically fills, how much to budget for employee salaries, and how to build your team exactly how you want it.