

# **Carwash Investor's Guide**

**Presented by**

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## 1. Introduction

The carwash industry is comprised of commercial establishments that provide car-care services such as exterior washing, interior cleaning, waxing and exterior and interior detailing.

These services are provided to motorists, automobile dealerships, fleet operators and other businesses. Carwashes may offer a combination of facilities and services and are generally classified as self-service, in-bay automatic or conveyor carwash.

According to the International Carwash Association, the U.S. carwash industry is comprised of over 101,500 retail outlets which gross in excess of \$35 billion annually.

It is this large amount of money that often makes the carwash business seem like a sure bet and attracts "new-to-the-industry" investors.

Regardless of motivation, carwash is a capital investment.

A capital investment is the acquisition of property that is expected to have a long useful life before it has to be repaired or replaced.

The property (fixed assets) is what carwash owners use to produce income. Fixed assets include tangible items such as land, building and carwash equipment and intangible items like brand name, trademarks and customer recognition. Since fixed assets are not readily converted to cash, the carwash is in a less liquid position which entails the risk to profits if revenues fall.

Carwash is a hard-asset based business. Building a carwash requires a large outlay of capital to acquire the fixed assets which can cost from \$550,000 to \$3.0 million or more depending on the category of wash and the scale and scope of the project. Because of the size of the investment, investors will usually finance a carwash project with external funding.

Since debt can be used to finance almost all of a carwash assets cost, lenders will generally require the asset to provide collateral against the loan. Consequently, the carwash operator must earn enough income to cover the cost of debt financing and earn a reasonable return on the investment.

With this in mind, carwash should not be considered a low-risk business investment.

Carwash is generally classified as a special purpose property. The barriers for entry are relatively modest. Carwash operators must bear labor costs and other operating expenses and fixed costs to establish and maintain a business presence and yet owners sell a non-essential service that can be difficult to differentiate. Price competition can

be intense. Carwash can also be affected by the weather, time of day, weekday and season, competition and the local economy.

Carwash is very resilient industry but it is not a recession-proof business.

The keys to success for a hard-asset based business are cost leadership, uniqueness and prudent financing.

Carwash operators that consistently deliver high quality products and services most efficiently will have a strong advantage and can achieve superior financial performance. Investors should focus on operating margins and return on invested capital.

When limited assets are required to fulfill the delivery of a particular service, the ownership of those assets are key. A well located carwash represents a significant competitive advantage and barrier to entry when it is combined with an owner who is dedicated to the customer loyalty business model.

Having a load of debt that cannot be easily financed by the cash flow of the carwash business is a recipe for disaster. When investors evaluate a carwash opportunity, they should always be sure that the debt can be serviced from the free cash flow even under a downside scenario.

## **2. Success/Failure**

According to Brian Head, an economist with the SBA Office of Advocacy, "As a general rule of thumb, new employer businesses have a 50/50 chance of surviving for five years or more."

Although the experts always have opinions about what a business owner should and shouldn't do, it is a fact of life that a percentage of new small businesses do fail each year, carwashes included.

Experience has shown that the carwash industry has a better track record than the national average for most other business types. The most common reasons for carwash failures are listed below.

- Poor location
- Insufficient capital
- Poor planning
- Poor management
- Partnership breakup

One of the most important decisions carwash investors can make is where to locate an outlet.

Because convenience is so important to today's consumers, a carwash can prosper or fail solely based on its location. To accomplish the final store site choice, carwash developers need rational and formal use of information.

Retailers have always understood location as paramount but understanding all aspects of store performance and site potential in addition to consumer behavior demands a great amount of information including geographical, demographic and competition.

With this in mind, trade area evaluation, the demand and competing offer, are keys.

### **3. Carwash Formats**

Self-service carwash is a facility where motorists can clean their own vehicles in wash-bays equipped with hand-held spray wands.



A selector device is used by the customer to allow for various types of wash products to be dispensed and used on the vehicle being cleaned. Equipment is coin-operated but there are also code generated or credit means of system activation available.

Self-service users include all age groups and income levels but primarily it attracts younger motorists with lower incomes.

Many self-service facilities will provide one or two in-bay automatic carwash systems.

An in-bay automatic carwash is a facility where motorists can have their vehicle washed without having to leave the comfort of their vehicle.



Once the customer pays at the automated teller (pay station) and pulls their vehicle into the wash-bay the machine automatically moves back and forth over the vehicle to clean it by using a combination of chemicals, brushes and/or high-pressure water spray.

In-bays typically attract motorists who are older and have higher incomes than self-service users. A conveyor or "tunnel" carwash is a facility where an automated conveyor system is used to move the vehicle and it is cleaned by using a combination of chemical, brushes and/or high-pressure water spray.



There are two types of tunnel washes. Exterior conveyors provide motorists with an exterior only wash. Full-service conveyors not only clean the exterior of the vehicle but also offer valet services such as interior cleaning, waxing and reconditioning. Conveyors attract motorists who are older and have higher incomes than self-service users.

## **4. Business Model**

A business model is essential for carwash start-up ventures because it is an important determinant in how production inputs are used to create economic output, the profits to be made by the company.

A good business model will describe how you are going to solve the customer's problems, how you are going to target the needs of the different market segments, how the company will generate sales and target profit margins given its cost structure and how the company will develop a competitive advantage by means of a cost, differentiation or niche strategy.

Quite frankly, there is no limit to what an investor can combine on a single carwash site.

The underlying notion is that each business model has different levels of capital investment, management and skill requirements and associated risks.

If you want to minimize your investment and don't want to manage a lot of labor, a self-service carwash with wand-bays and in-bay automatic or a stand-alone mini-tunnel may be right for you. If you require more income, a high-volume express exterior might be the right model. If you want to service a broad range of motorist needs, a full-service, flexible service or a multiple profit center would be more relevant.

Consequently, the challenge for investors is to determine what business model will help them achieve their goals and objectives given the dynamics that exist in the marketplace.

## **5. Carwash Markets**

A crucial first step is to determine if a market can support an additional carwash outlet. This is difficult because the supportable number of carwash outlets does not necessarily comport to the size of an area's population. Like many relationships in marketing, the relationship between the number of carwash outlets and market share is usually S-shaped.

Since we cannot be certain that the recommended number of carwash outlets is in reality the best, the best number often depends on a combination of market, economic, competitive, technical and legal-political factors.

The appeal of a carwash market can be evaluated by looking at several dimensions that define the competitive environment; market size, growth rate, diversity of segments, sensitivity to price and overall demand; variety and strength of competition

and history of failure, success and growth; degree of standardization that exists; and environmental rules, zoning regulations and any union or special interest positions.

Once market potential and the supportable number of retail outlets have been determined, the next step would be to select property that is economically desirable and suitable as a carwash site.

## **6. Location**

The premise of building a successful carwash is that its location, design and mix of products and services will provide customers with a more convenient, more attractive and more desirable experience than the competition.

Offering a better customer experience is the design objective of any successful carwash business and location is the key to this offering.

The objective of site selection is to find real estate that is superior to competing retail sites in terms of proximity, visibility and accessibility to highway traffic, businesses and consumers. If a site is superior to competing sites in these terms, it will be perceived as being more convenient by a relatively large number of motorists.

A well-located carwash site involves many factors.

A "pride-of-ownership" facility built on a site will make it inherently more appealing from a physical standpoint than nearby carwash sites. Excellent curb appeal combined with superior convenience inevitably succeeds in reallocating the demand inherent in a stream of highway traffic.

A competitive advantage among retail stores (e.g. gas stations, convenience stores, carwash, fast lube, etc.) is the ability to attract women motorists. A modern, clean, active, well-lighted facility is the first choice of women motorists.

Highway traffic also plays an important role. How much of it is residential and how much of it is transient and how fast is it traveling?

Convenience retail sites depend on adjacent resident populations for the bulk of their business. Consequently, only one particular site will be the geographically closest site for any household. Location also depends on the density and composition of retail development which serve as attractors for the carwash.

With a conscious, customer-centric operation, the carwash built on sites with these characteristics have the greatest potential to become dominant in their trade area.

## 7. Customer Attraction

The customer attraction rate is the percentage of highway traffic that actually stops to patronize a carwash business.

Once the average traffic flow is measured, a traffic count capture rate can be used to prepare estimates and projections of the number of carwash customers that can be expected to visit a site each day.

Capture rate is one of the most important statistics for any carwash investor. However, investors often have difficulty in determining what value to use because the attraction rate of a carwash can be affected by a great many factors such as visibility, travel speed, highway configuration, weather and competition, to name a few.

Some experts claim that the daily traffic count capture rate for carwash varies from 0.45 percent to 1.5 percent. This assertion relies on rules-of-thumb developed by analysts that have applied a combination of experience, observation and trial and error to isolate the relationship that exists between sales volumes and the amount of highway traffic that passes by carwash sites.

This method is relatively inexpensive to use and it may offer rapid solutions for location decisions. However, this simple rule-based method may be overly simplistic and subjective.

Carwash site access studies generally assume that all highway trips to a new retail development are new trips which were not made prior to the development being completed. This is incorrect since a portion of the new trips are already being made to other similar and existing retail developments. In this case, a route diversion occurs.

A second assumption for carwash site studies is that all of the trips are primary trips being made for a specific purpose, to return directly to their place of origin. However, experience has shown that land use generators such as carwash, drive-in fast-food, gas stations, convenience stores and other support services capture trips from the normal traffic passing by the site. For many of these trips, the stop at the site is a secondary part of a linked trip such as from work to shopping center to home.

A third assumption is average daily traffic (ADT) should be used as the activity factor to estimate carwash sales volume or turnover. This is incorrect because ADT are raw 24-hour counts that have not been adjusted for seasonality or multiple truck axles. After correcting for these factors, annual average daily traffic (ADDT) may be as much as 25 percent lower than ADT counts.

Given the importance that sales projections have in the process of determining the commercial viability of a new carwash venture, investors should make an attempt to avoid the consequences inherent in using the capture rate approach.

This can be accomplished by seeking out qualified professionals who have extensive experience in the application of location assessment and mathematical-based site evaluation models.

Many national retailers have learned that the development of accurate sales forecast is central to successful retail site selection and the value of store location analysis is now well established.

The use of techniques and methods such as analog-based procedures, gravity models, regression analysis and geographical information systems are now considered a competitive advantage.

## **8. Site Planning**

Once the location problem is solved, the next step would be to develop a conceptual plan. This is a way to take the investor's business concept and place it on paper so that it can be thoroughly examined, quantitatively and qualitatively.

Formulating a good carwash design requires careful attention to detail and should be approached in several steps.

- Obtain a survey and legal description of the property
- Review planning and zoning regulations and identify applicable criteria
- Determine peak cars per-hour for the site
- Plan length and width of property and placement of building and equipment
- Develop a scale drawing that complies with zoning regulations, building and equipment needs and carwash design criteria

A conceptual plan would provide you with the commercial data to make well-informed decisions with your architect, civil engineer and equipment distributor.

## **9. Cost to Build**

The cost to build a carwash depends on wash format and scope of the project.

The final total cost would be affected by overall size, architectural style, real estate market, building materials, labor rates, impact fees, environmental regulations, equipment, etc.

Over the past decade, the cost to build a carwash outlet has risen by about 25%.

Since carwash developers are not in the habit of publishing the final cost to build their projects, it is often difficult for people "new-to-the-industry" to identify how much it can cost to build ground-up. However, experience has shown that the average cost (including real estate) is usually within the following ranges.

Wash Format	Low-end	High-end
Self-Service	\$850,000	\$1,250,000
Express Exterior	\$1,800,000	\$2,500,000
Full or Flex-Service	\$3,000,000	\$3,500,000
Gas/C-Store/Carwash	\$3,500,000	\$4,500,000

## 10. Construction

Investors have a wide choice in carwash building design and construction.

Today's carwash facilities are built with split-face block, stucco, masonry-metal combinations and professional signage and landscaping. The appearance of a carwash can take a certain theme and many buildings are infused with glass block and neon or LED lights and signs.

Besides conventional construction techniques, carwash can also be built with pre-engineered or modular building systems. Store design is only limited by the investor's imagination and budget.

Carwash facilities should be designed to enhance their surroundings and be noticeable and inviting while being strong and durable enough to handle the weather and environmental conditions of a carwash operation. Facilities should be of the latest, modern design with a very good functional utility.

Motorists like "new and modern" regardless of economic or social status. Carwash owners that provide this offer will attract more customers, more easily.

## 11. Operating Expenses

The cost to operate a carwash depends on wash format, equipment, wash process, quality of materials (e.g. chemical, water), geography, environmental conditions and other considerations.

Carwash operators face variable costs, semi-variable costs and fixed expenses in the production of carwash services. Investors should identify what operating cost factors are applicable and the level of activity that is anticipated with the particular wash application and circumstances.

Cost of goods includes credit card fees, chemicals, utilities, attendant labor plus payroll expenses, wash supplies and vending merchandise.

Variable costs include telephone, equipment maintenance and repairs, pit cleaning (lift service), auto expense, advertising, customer damage claims, laundry and uniforms, dues and subscriptions, education and training, entertainment/travel, bank charges, website hosting and miscellaneous expenses.

Fixed expenses would include any management salaries and payroll expenses, employee benefits, liability insurance, property tax, garbage collection, building and grounds maintenance, rent/mortgage and lease payments. Other expenses would include depreciation and income taxes.

Wash Format	Operating Expenses (1)
Self-Service	38% to 43%
Express Exterior	45% to 50%
Full-Service	65% to 70%

(1) Measured as percentage of gross sales

## **12. Equipment**

Good equipment is crucial for the success of any carwash venture. The carwash system must be durable and capable of consistently producing a clean, shiny and dry vehicle.

Equipment is essential to achieve production needs, quality and operational efficiency.

Some experts believe that selecting the wash-related equipment is the most important decision that a carwash investor has to make. However, the equipment does little to bring motorists and carwash owners together. If the motorist does not have a good customer service experience, all the equipment in the world will not make a difference.

Selecting carwash equipment is often a challenge for people "new-to-the-industry."

All manufacturers make high quality carwash equipment. Consequently, investor's should base the purchasing decision on the quality of the equipment distributor since it is this person who will install, calibrate and service the carwash equipment.

When selecting equipment, there are a number of factors that should be taken into consideration. Some of the more important ones are listed below.

- The distributor's proximity to the location is important because distance will have an effect on the service response time. If the carwash is not working, the business is not making money
- The distributor should have hands-on experience with the type of wash format that is being considered
- The distributor should be factory-trained in the installation, calibration and repair of carwash equipment
- The distributor should provide references to support their qualifications
- Avoid distributors with a legal history involving customer disputes and law suits

There are other aspects of carwash equipment that should be taken into consideration. Some of the more important factors are listed below.

- The total price of the equipment should be within the project budget
- The total price should include the base carwash system, ancillary equipment, delivery, sales tax, assembly and installation and start-up and testing
- The equipment must be capable of achieving the anticipated wash volume and quality for the type of services being offered
- Information should be provided regarding per unit cost for chemical, water, electricity, fuel and maintenance and repairs
- Information should be provided regarding "up-time" and longevity of equipment design
- Information should be provided on warranties for materials and workmanship

### **13. Carwash Development**

Complete a thorough location assessment and select the most suitable property.

Once a property has been selected, procure a real estate attorney and make verbal buyers approach and contingency contract.

Procure a carwash consultant or civil engineer to develop a conceptual site plan.

Procure a local architect and planners who understand the political climate and environmental issues. These folks should be familiar with planning and zoning codes

and the review board process. Hire professionals who have experience with carwash or very closely related retail experience.

Procure an equipment distributor and general contractor willing to submit not to exceed bids.

Once the project team is assembled, you can finalize the image design.

Get preliminary bids for site work, building construction and carwash equipment and begin the feasibility study.

Approach the zoning review board for an informal review of the conceptual site plan.

If there are no issues, develop final budget, complete feasibility and seek to obtain a term sheet from lenders.

Once you receive a commitment letter, prepare architectural blue prints and master site plan.

Start preparing a business plan and bank loan package.

Upon approval and closing, file for permits, order equipment, complete construction, install and test equipment, train operator and open for business.

## **14. Management**

Carwash is a customer service business or contact sport.

If you not a people-person or don't like having or being responsible for employees, this is probably not the right business for you. Even the owners of virtually "people-less" businesses like self-service and express exterior must interface with customers and some employees on a daily basis.

How well the customer is cared for will ultimately determine the success of the carwash business.

The loyalty business model is the foundation of the carwash industry. With this model, the quality of the products and services leads to customer satisfaction which leads to customer loyalty which leads to profitability. Since customer service is the most important aspect of the carwash business, keeping customers happy generates tomorrow's business.

One of the keys to successfully managing a carwash business is to avoid indifference, the number one reason why customers don't come back.

Carwash managers should provide good up front information, sales and communication. They should deliver on the company's advertising and reputation. They should maintain a good appearance and presentation. Managers should get to know customers by name and make them feel comfortable. Managers should go above and beyond average customer service and show customers that you're different than the wash down the street. A good carwash manager gives customers what they need and want and the unexpected.

Carwash managers are usually responsible for cash management, customer claims and dispute resolution, personnel management and scheduling, routine equipment maintenance and minor repairs, housekeeping, inventory control, customer and personnel safety and recruitment and training.

Tommy Hoffman, Jr., a very successful carwash operator, once described his formula for success in the carwash business as 20% of the right equipment and splash and 80% how you treat the customer.