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Express

Wash Expenses and Values

The express-exterior model got up to full speed around 2008, just as the economy was tanking. So it's about time we took a peek behind the curtain to really see what this express market survives on (expenses) and thrives on (market values).

Around 2006, the express-exterior wash started evolving as an alternative to the longer wash time and higher-priced full-service car washes. It resembles the full service model in appearance except that it typically has a longer tunnel (about 120 to 140 feet) and is expected to wash 7,000 to 10,000 cars per month, usually offering free self-vacuuming. The price point starts typically at \$3 with additional \$5, \$7, and \$9 wash options. Pretty simple. With a 5-minute wash at a national average of \$6.30 per car, the express exterior is the wave of the future.

The key to success for the express-exterior wash is the payroll expense — 11 percent to 18 percent vs. 40 percent for a full-service wash. This express-exterior wash concept is a superior investment value especially for the absentee owner. The goal is to begin the wash at an average of 6,000 to 8,000 cars per month for the first year and, at the end of the third year, to arrive at 10,000 cars per month at an average ticket of \$7 per car. By 2016, the express exterior should, in this author's opinion, consume 65 percent of the total available market (TAM), that is, the car wash customer base.

NEW BUILT

The reproduction approach takes the following into consideration: land (30,000 to 40,000 square feet at \$15 to \$25 per square foot); building (5,000 square feet at \$150 per square foot); equipment (\$450,000); soft costs (\$100,000); landscape and water hookups (\$100,000 to \$400,000); advertising and start-up costs with free washes for 30 days (\$50,000 to \$75,000). As you can see, the reproduction cost is about \$2.6 million to \$3.2 million, greatly depending on the cost of the land, i.e., the geographic location of the wash.

In essence the express-exterior wash model was crafted for rocket speed, convenience, economy, and security for the car wash customer since the customer stays in the car during the 5-minute wash experience versus the traditional full-service wash where the customer exits the car and remains in a waiting area while the service is being performed.

TRACK RECORD

Since 2008, we have five years of history of expenses and resale transactions for express-exterior washes. Wash owners, potential buyers, and curious investors now have access to data to assist in assessing the value of these businesses. What originally launched the express-exterior wash concept was the lean payroll of 11 percent to 18

percent of the gross sales, \$3 to \$5 price point, speed (5 minutes or less), free vacuums, and reasonable quality. Well, the result is that full-service and self-service operators have had a tough time competing. The express-exterior trend is exploding, and we need to establish a reasonable expectation of expenses and reasonable resale "exit strategy" for existing express operators. We have all seen the full-service, in-bay automatic, and self-service surveys for years, listing national average expenses. From time to time, we have also read articles that discuss what washes sell for. We now look at these two issues as they relate to the express exterior.

The table below lists average expenses.

Expenses:	
Wash Direct Labor	15.0%
Site Manager	8.0%
Payroll Tax Expense	10.0%
Workmen's Comp Insurance	5.0%
Supplies/Chemical	7.0%
Credit Card Fees	2.0%
Utilities	8.0%
Professional Fees	1.2%
Repairs and Maintenance	0.6%
Customer Claims	0.7%
Advertising	2.0%
Phone/Internet	1.0%
Miscellaneous Expenses	1.0%
Total Expenses	61.5%
EBIDTA	38.5%

By Roger A. Pencek, MBA

Values

Express washes have been around for a sufficient number of years for resales to be recorded at a rate that creates usable data. The equation we currently use to value an express wash is 4.6 times the gross sales. As an example, car wash A washes 11,000 cars per month at an average ticket of \$7 per car

and sells a few extra-service upgrades for total gross sales of \$1 million per year. Based on gross sales, the market value of this express wash is around \$4 million.

Assume a buyer makes a down payment of \$1 million and finances \$3 million at \$20,000 per month debt service (\$240,000 per annum). Deduct this debt

Many neophytes have attempted the ground-up process and failed.

service from \$385,000 (EBIDTA at 38.5 percent) and an absentee owner can enjoy a \$145,000 profit — a 14.5 percent ROI. This is a real estate land secured investment; who couldn't be excited about this. Keep in mind, this example is based on an absentee-owner scenario; an onsite owner can eliminate the 8 percent site-manager expense and increase the EBIDTA to 46.5 percent.

A word of caution: There are many variables involved in placing a value on an express-exterior wash. Only a qualified car wash broker or other professional can adequately protect the seller's optimum selling value while also protecting the buyer from over paying.

The reason for applying the multiplier to the gross sales rather than the EBIDTA with regard to express-exterior washes is that some of the washes are being operated with excessive payroll. For example, if the wash has a customer base that requires more wash prep (due to geographic or weather conditions, etc.) the express concept is being compromised and a lower value will be assessed. Here the express value is determined simply by multiplying the yearly gross sales as discussed above. The caveat is that breakeven for these express washes requires at least 6,800 cars per month at an average \$5.85 per car.

NEWBIES BEWARE

It takes many critical ingredients to develop a 10,000-car-per-month express car wash. There are very few current owners in the industry who can put together that perfect express site.

Many neophytes have attempted the ground-up process and failed. Consider buying an existing performing express-

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ACQUISITIONS

exterior wash. Inexperienced buyers should be very cautious of optimistic new express wash proformas.

SUMMARY

The express-wash concept is still in its early stages of maturity. The above cited average expenses result from over 28 years of experience in reviewing, consulting, listing, and selling car washes. Use them as a guide. It is imperative to hire an expert in the car wash industry when buying or selling a car wash, or preparing a wash for sale. The variables that need to be taken into consideration in selling, building, and/or buying a wash are critical. Assure the best results by consulting an appropriately qualified professional. ☞

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