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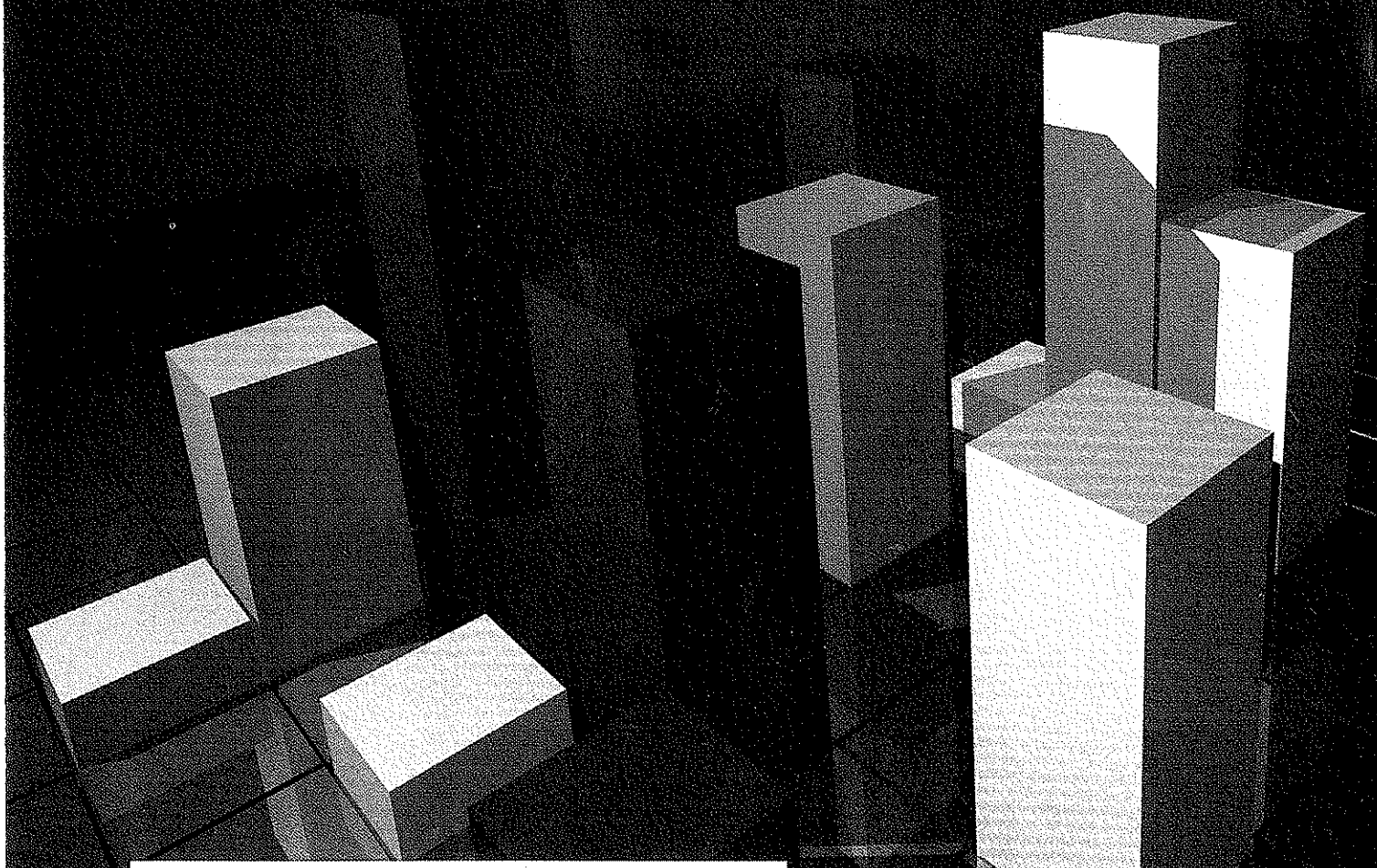
1995 AUTOMATIC Carwash Survey



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How Much Does Traffic Count?

A carwash's traffic count is just one part of the site selection process.

By Steven Schmidt Herron and Jeffrey M. Key

In 1986 we received a call from a lender who occasionally had complex appraisal assignments for us. His request was that we appraise a proposed carwash. We explained that because we had no experience in this field, it would be an expensive endeavor due to the learning curve involved.

There was no dissuading him because, as he put it, "Nobody else knows how to value these things, either." It was our first exposure to the study of carwash operations and the influence of passing traffic on wash volume. That was nine years ago and now, over 100 carwash appraisals later, we continue to think of ourselves as students of the industry; we would be skeptical of anyone claiming graduate status.

We have learned to appreciate the results of the annual survey performed by *Professional Carwashing & Detailing*. Of particular significance is the percent of traffic count washed, or "capture rate."

In the 1995 survey, there was an average capture rate of 0.76 percent reported by the respondents. This means that, on average, 76 of every 10,000 cars passing the site will turn in for a carwash.

Taken at face value, this implies that high wash volumes depend only on high traffic counts. Such is not always the case, and a simplistic analysis can lead to trouble.

A good case in point is a carwash we appraised that has 300 feet of frontage toward a major freeway that carries over 150,000 vehicles per day. Now that's traffic count! It is located about one-quarter mile from the off-ramp and averages about 130 to 160 cars of daily wash volume; it has a capture rate of only 0.1 percent.

Conversely, another carwash we appraised is at an intersection where the traffic is only about 5,000 vehicles per day, both streets included. Yet it regularly averages 300 to 400 washes daily, or a 7 percent capture rate. So what makes the difference between these two extremes?

Obviously, there are numerous factors that enter the equation, including competition, pricing and quality of service. The task becomes one of studying these variables and how they relate to one another, especially capture rate.

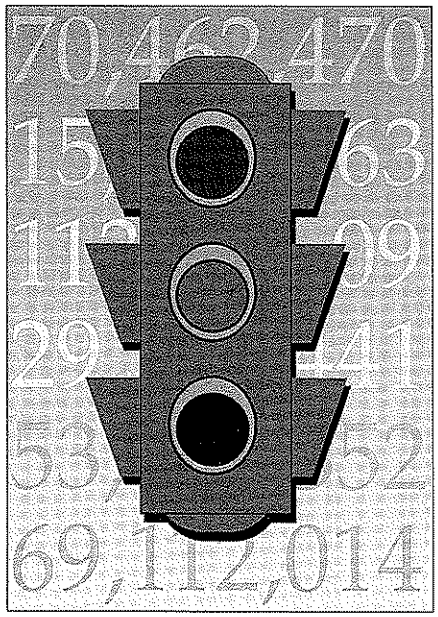
However, all other things being equal, a thorough understanding of passing traffic is critical to optimizing the performance of an existing carwash or making the site selection for a proposed facility.

Local Traffic or Commuters?

One way to gain a better understanding of the relationship between traffic and capture rate is by asking the questions: Why are people driving by in their cars anyway? Do they have places to go (elsewhere) or do they have things to do (around here)?

As carwash feasibility analysts, we try to categorize this passing population into those two camps. People with "places to go" represent commuter traffic. People with "things to do" represent local traffic.

It is evident that local traffic will yield a much higher capture rate than commuters. So it is critical to the feasibility of a carwash (or a carwash marketing strategy)



to know the percentage of the traffic falling into these two components. There are a couple of ways to go about it.

In many cities, there are fairly sophisticated traffic engineers who can provide not only average daily traffic counts, but, to the really inquisitive, they can give hour-by-hour, day-by-day counts. If you can get it from them, by all means do so.

If you can't, hire someone who'll do it, or make the observation yourself. You can spend one weekday and a Saturday with a good click counter to obtain an average estimate. This is especially important in the feasibility stage.

Characteristics of local traffic arteries include a relatively stable traffic volume throughout the day, with some peak activity during the morning and evening hours as the work force joins the crowd. Weekends will also have strong counts.

On the other hand, commuter traffic arteries will have a very high volume in the early morning and late afternoon hours, with considerably lower volumes on the weekends.

Other Traffic Characteristics

Another assessment that should be made is the average speed of the passing traffic. Cars traveling on streets with speed limits over 40 miles per hour tend to fall into the places to go (commuter) category, and the capture rate expectations should be adjusted downward.

Proximity to freeway or highway on/off ramps does not necessarily improve the situation because a high percentage of that traffic will be on the way to other places — that is, commuters. A 20,000 or 30,000 daily traffic count by a site that is one or two miles from a highway is often better than one with similar counts but located only a half-block from a highway, because the traffic artery serves more as a commuter conduit.

The presence of other nearby retail activity strongly affects capture rate because it acts as a magnet for local traffic. When Mom or Dad can stop to get groceries, pick up the laundry, and have the car washed while getting a haircut, more items on the "things to do" list can be efficiently accomplished during the same trip.

The highest volume carwash we have ever appraised (regularly exceeding 600 washes per day and sometimes 1,200 on a Saturday) is located across the street from a shopping mall miles away from the nearest freeway but in a reasonably dense residential area.

What's a Good Site?

In the site selection process for a proposed carwash, care should be taken to assess its visibility to passing traffic. Obviously, a deep-lot configuration is inferior to a lot that has greater frontage along the main traffic artery.

A corner is even more important because it provides access and exposure to two traffic arteries, which increases accessibility. When a signalized intersection is at hand, motorists can literally sit at a stoplight and observe the activity, thereby developing an impulse to take advantage of the service.

We have discouraged carwash developers from relying too much on traffic from a major commercial artery when their site is located on a side street, even though it might be just one property removed from the intersection. This distance is a real disadvantage, and a capture rate projection in this scenario should be made very conservatively.

If the traffic along that artery is primarily in the local traffic category, there is some cause for greater expectations with strong marketing. But if commuter traffic predominates, having only a "peek-a-boo" window of visibility from a side street almost entirely eliminates that artery from consideration in the capture rate/traffic volume equation.

Curb Appeal

Another much more subjective variable can play a part in influencing capture rate upward or downward. It is one we call "curb appeal." Retail shopping center developers are very familiar with this terminology, and they have come to highly regard this visual aspect playing a major role in attracting consumers.

For example, once a shopping center is 15 or 20 years old, the addition of a new facade with canopies, neon lights, new signage and attractive planters can virtually turn a failing center into one that is quite successful. Consumers are heavily attracted to modern facilities in any retail category, and carwashes are no exception.

A facility with a dated appearance can stir memories of past negative experiences. With so many new carwashes making their appearances in cities across America, carwash consumers have ample opportunity to be selective, often opting for those which appear to be on the cutting edge of technology. The more an existing facility can modernize its appearance, the greater a magnet it will be to passing motorists.

One of the most innovative concepts we've witnessed in this regard was a carwash in which the dry-off area was located right at the curb. All the carwash attendants dressed in tuxedo-type uniforms, connoting class, sophistication and elegance. Combined with immaculate landscaping, stainless-steel surfaces and crisp, clean paint everywhere, it's no wonder the facility scored so high in its capture rate.

Tuning Your Marketing Strategy

The operator of an existing carwash won't be able to change any of the traffic characteristics at their location. But by categorizing the traffic into the two components, local or commuter, a more effective marketing strategy, specifically targeted toward the appropriate market segment, can be designed to increase capture rate.

For example, in locations where local traffic prevails and there is other good retail support, cross-couponing with other merchants is one potential. Asking patrons for their ZIP code and then targeting those neighborhoods with direct mail or flyers should be considered. There are good computer hardware and software systems available for this.

The marketing task, however, is more challenging where most of the passing cars represent commuter traffic. Some effective promotional techniques we have observed include large signs offering free commuter mugs for a week or two.

Free coffee and doughnuts or a free newspaper or *Wall Street Journal* can be good temporary advertising campaigns. An espresso bar and shoeshine stand are helpful to the working crowd. When daylight hours permit, opening at 7 a.m. and closing at 7 or 8 p.m. will allow working commuters to avail themselves of a wash on the way to or from the job.

One carwash has been very successful giving out punch cards promoting every fifth or sixth wash as a freebie instead of the more normal 10th wash.

No matter the location, the passing traffic should become a matter of careful study. The visibility, visual impression, width/depth, width/depth ratio of the site and the important sub-components of commuter versus local traffic are all items that merit serious consideration. To those who understand these variables will come the fruits of higher capture rates when choosing a site or marketing an existing facility. ❑

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What the 1995 Survey Suggests

The experts analyze *Professional Carwashing & Detailing's* findings.

As appraisers, we find the annual *Professional Carwashing & Detailing* surveys to be important sources of data. It's important to remember, however, that the surveys are merely a small sampling of a much larger population of carwash facilities throughout the country.

Furthermore, the conclusions generally represent average quantities and must be applied with discernment. For example, one of the most important conclusions in the survey, from an appraisal standpoint, is the percent of traffic count washed daily, or capture rate.

For full-serve carwashes, that rate is 0.76 percent. This means that slightly fewer than 1 percent of the passing traffic will patronize a carwash on a business day.

Obviously, this is an average number which should be used to estimate total annual wash volume potential. Capture rate would not be useful in estimating the number of cars to be washed on a specific day such as Saturday; weekend activity typically is much higher than weekdays. Similarly, in California the wash volume will usually be higher in June than during the wet winter months.

Furthermore, operators must be careful using the data. Individual numbers in the survey don't necessarily add up to other individual numbers.

For example, if you take the capture rate of 0.76 percent and multiply it by the reported average daily traffic count of 27,200 vehicles from the 1995 survey, that results in an overall average of 207 cars per day. The survey also indicates that the average full-service conveyor wash was open 305 days in 1994, which, when multiplied by an average daily wash volume of 207 cars, produces an annualized wash volume of just over 63,000 vehicles. That differs by around 5 percent from the survey results, which indicate that the typical full-service conveyor wash handled 66,500 cars in 1994.

Some Important Conclusions

Such surveys may be skewed dramatically by a small number of participants operating at volumes significantly outside the norm. For example, there are facilities in Southern California which wash more than 200,000 vehicles yearly. Because they are located near major commercial centers and other attractions, their capture rates are much higher than normal. Also, it may be that the operator of a high-volume facility is reluctant to report his true performance.

The usual statistical limitations aside, there are a number of important conclusions which may be drawn from the 1995 survey, especially when compared with the 1994 survey results.

The capture rate in the 1994 survey, for example, was 0.75 percent for full-serve conveyors. That is nearly the same as the most recent survey.

Both years are down dramatically from the results of previous surveys, however; at one time, average capture rates were over 1.3 percent. Recently, we have had some clients who have asked us to reappraise their properties and were then disappointed when we applied the lower capture rate.

We have been operating under the assumption that much of the decline in the capture rate was related to the economy and that there could be a substantial rebound as the recession dissipates. We would have expected the capture rate to climb back perhaps 10 percent or 20 percent, while still remaining below previous peaks. Instead, we find the capture rate at 0.76 percent during a year when most parts of the country noted a distinct improvement in performance. The implication is that the capture rate will probably rebound very little over

the next couple of years.

Capture Rate's Indications

What else does the capture rate indicate? If it remains relatively stable in spite of an improving economy, it makes a statement about stabilized supply and demand characteristics.

In Southern California, we have observed a substantial increase in the number of new carwashes over the past five or six years. A number of developers who previously were involved in other commercial, industrial, or residential development turned to carwashes as an alternative. Consequently, the balance between supply and demand has changed.

Furthermore, the development of higher capacity equipment has increased the potential performance of existing facilities. It would appear that this is a national phenomenon, although perhaps more prominent in Southern California.

The 1995 survey indicates that wash volume and pricing have increased in most parts of the country. But with a capture rate that has remained virtually unchanged and an average daily traffic volume that declined from 28,100 vehicles in the 1994 survey to 27,200 vehicles in the recent survey, it would appear that total wash volume should actually have declined somewhat. The discrepancy is again probably due to the survey being just a sample.

If the total reported average yearly wash volume of 66,500 cars is multiplied by the average gross revenues for full-service conveyor washes at $9.48 per car, we arrive at a total potential gross revenue of $630,000. That is a substantial increase over the results of the 1994 survey, in which an average of 58,100 vehicles were washed, with a total revenue of $9.10 per car. The resulting potential gross revenue would be around $529,000. The 1995 numbers are 19 percent higher than those of 1994.

Reported Costs in Survey

Category	1994	1995	Total Change ($)	Total Change (%)
Soaps, Cleaners, Waxes, etc.	$20,100	$26,800	$6,700	33%
Clerical Salaries	$19,500	$25,800	$6,300	32%
On-Line Labor	$152,500	$179,500	$27,000	18%
Taxes	$30,900	$25,400	–$5,500	–18%

Expenses Are Up

Another interesting conclusion from the latest survey is that expenses have gone up dramatically.

The reported average total annual operating costs of $551,800 apparently include some insurance and depreciation costs; for the purposes of estimating value, interest or depreciation are not included as a true operating expense. For consistency, the owner is assumed to have paid cash for the property, and mortgage interest does not enter into the analysis. Depreciation is a tax matter that would also cloud the issue from the perspective of estimating value.

Rather than trying to eliminate interest and depreciation from the $551,800 survey average, a more useful analysis is to consider the typical annual expenses for various categories (see table).

A notable change in these expense categories is the decline in taxes. The most likely explanation for this is that a substantial number of owners have successfully appealed their tax assessments as property values have declined during the recession. Each state handles property taxes differently. In some, a great many residential and commercial property owners have lowered their taxes by availing themselves of the appeal process.

The other three categories summarized have increased much higher than inflation, even allowing for the uncertainty that comes from analyzing averaged survey data. This income would be easily understood if the "extra services" revenue had increased in 1995, indicating that customers were ordering significantly more extras, such as sealer wax, polish wax, wheel treatment, etc. However, this is not the case.

Salaries Increasing

Both clerical salaries and on-line labor wages have increased significantly since the 1994 survey. Part of this, as well as the increases in other categories, would be attributable to higher wash volumes achieved during the year. That, along with inflation, accounts for only a portion of the increase ranging from 18 percent to 32 percent.

It would appear that customers are getting a higher level of service, which translates into the need for larger and/or better-paid staff. Operators who sense that competition is forcing them into providing their customers with more value for the price are in good company; this appears to be a widespread trend.

Finally, if we consider total wash revenue, average gross revenues per car and expenses as summarized in the two surveys, we find that net operating income should have increased significantly in most areas in spite of growing expenses.

That should translate into improving real estate and business value.

.Overall, the survey results are encouraging and suggest that the reported economic recovery is beginning to find its way into the carwash industry. One would hope that the 1996 survey (reflecting 1995 performance) will show that the recovery is spreading to all parts of the country. We will watch for that in the months ahead. ❑

—S.S.H., J.M.K.