

April 2018

FEATURE

Clean-Up Hitters

Convenience stores add car washing capabilities to boost traffic and sales.

BY JERRY SOVERINSKY

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For less than 10 bucks, drivers in Stuttgart, Germany, can treat their cars—and themselves—to first-class pampering at the massive Mr. Wash car wash. Cars glide efficiently through more than 200 feet of precision cleaning equipment, while their owners saunter through an adjacent viewing center, sipping gratis coffee or mineral water while classical music plays in the background.

“Sauberes auto, gute laune”—clean car, good mood—is the Mr. Wash tagline, an aspirational promise that attracts up to 400 cars an hour and more than 500,000 cars annually at the \$40 million, two-story facility. Sure, Mr. Wash also sells gasoline; but it’s a perfect shine, along with peerless service, that attracts and retains customers.

“A high-class hotel also thinks about the architecture,” said Mr. Wash Chief Executive Richard Enning to the *Wall Street Journal* in explaining his over-the-top investment, which employs up to 40 people a day.

While the Mr. Wash approach would have been considered a singular curiosity to Americans just a few years ago, U.S. convenience stores have been adding increasingly impressive car washing capabilities of late, many incorporating elements that originated in Germany, a notable trend setter in car wash circles (a German company was first to patent an automatic car-washing machine, in 1962; the use of free vacuums began in Germany, too).

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If we identified the 500 best car wash sites in this country, regardless of what’s on the land today, of the 500, 400 of them would be owned by c-stores. They own the best corners.

While historically considered too expensive to produce a favorable ROI, car washes have evolved to a high degree of automation, which has tilted the investment proposition in the owner’s favor—increasingly so as gas margins and tobacco sales continue to thin.

“In a [very] competitive [c-store] business ... [with a] rising labor cost, a car wash is something retailers can add to an existing business to add pure profit to the bottom line, especially when there’s very little labor involved with this, if any,” said former NACS Chairman Jack Kofdarali, who currently owns four stores with car washes and is building 22 new stores—all with car washes—by 2020.

Where do consumers wash their cars most often?

LOCATION	2008	2014
At-home	34%	28%
Exterior/express	14%	20%
Full-serve	20%	20%
In-bay/automatic	18%	16%
Self-serve	14%	12%
Hand	--	5%

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Source: ICA 2008/2014 Studies

ADDED CONVENIENCE

It’s perhaps little surprise, then, that car wash construction is on the rise, according to data from Sonny’s, a leading car wash equipment manufacturer. From 2011 to 2014, U.S. sales on manufacturer car wash equipment jumped more than 43%, from \$66 million to \$95 million, with the biggest increase realized by express systems (those that incorporate a conveyor system),

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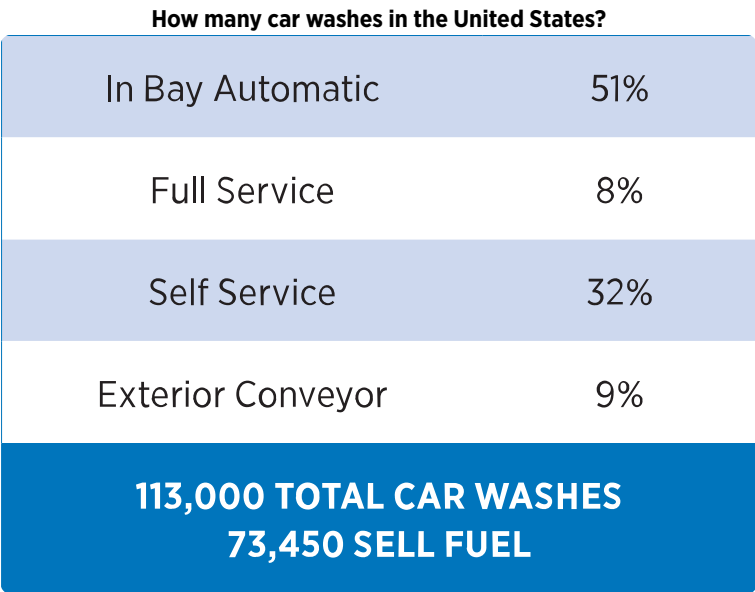
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which can clean a car in five minutes or less, as opposed to automatics (those that incorporate a bay with equipment that rolls over one car at a time). Two other popular models include full-service and self-service.

“The express model has turned our industry upside down, and it has brought car washing to the average person,” said Kevin Collette, vice president of automotive/petroleum sales for Sonny’s, one of the world’s largest conveyorized car wash equipment manufacturers. The approach includes allowing customers to use vacuums for free, something that was unheard of just a few years ago but came about by economic necessity.

“When the economy fell apart in 2008, the traditional car wash model didn’t work,” Collette explained. “Most people didn’t have money to wash a car. The express model starts at just \$3 or \$4 a wash with free vacuums, which is a lot more affordable.” It’s an approach that is resonating with core convenience store customers.



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Source: Statistics Brain/U.S. Census, September 2016

“A convenience store is in the business of providing fast, reliable products and services to customers; in many respects, today’s car washes are also selling a similar convenient service that focuses on creating positive and memorable customer experiences,” said Rich Dipaolo, editor in chief of *Professional Car Washing & Detailing*.

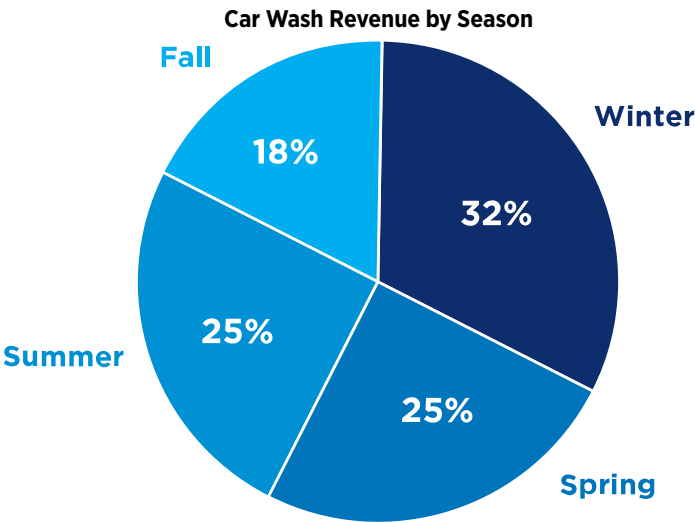
But it’s not a matter of simply “if you build it, customers will come.” (Or if you modify it, customers will come.) A successful car wash operation depends on a number of factors.

THE CASE FOR SPACE

A logical primary consideration is one of space—not just for the car wash footprint, but for fuel and convenience operations. “If space isn’t available or not ample, adding a car wash may end up hurting business inside the c-

store,” Kofdarali said. “C-stores do best with plenty of parking, so if adding a car wash will take away parking spaces or get in the way of the customer experience, then it’s best not to [add one].”

The two most common types are the rollover/automatic type, housed in a 40- to 45-foot tunnel, and an express wash, contained in roughly an 80- to 120-foot tunnel. The former can wash 10 to 12 cars per hour, while the latter can accommodate five times as much traffic. “The rollover was fine in 1990 when gas margins were good, but margins are down now,” Collette said. “And with a good property, you want to wash 400 cars a day, not 80. The express can wash far more cars than the automatic wash.”



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Source: Statistics Brain/U.S. Census, September 2016

In addition to space considerations, a retailer adding a car wash must consider its impact on nearby traffic. “A retailer will want to ensure it has the appropriate space for a car to exit without causing any traffic issues on or off the site,” added Claire Moore, chief operating officer of the International Carwash Association.

CORNERING THE MARKET

Once you determine that your store can accommodate a car wash, evaluate the surrounding area to determine whether there will be sufficient demand. “Location, location, location is key,” Collette said, adding that convenience stores generally are well positioned to take advantage of a car wash. “If we identified the 500 best car wash sites in this country, regardless of what’s on the land today, of the 500, 400 of them would be owned by c-stores. They own the best corners.”

That’s a promising assessment, which may or may not apply to your store. The area’s demographics and the level of car wash competition in the area are two additional considerations, DiPaolo said. “Are there plenty of rooftops in the area? Malls, retail chains and other busy outlets can only help build and sustain a car wash business ... According to our magazine’s *Professional Carwashing Industry Report*, participants recorded that at least 96% of car

washes compete with at least one type of car wash. It's important to get to know all of the local businesses that currently operate a car wash prior to looking to add a car wash to your existing business."

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A c-store is in the business of providing fast, reliable products and services to customers; today's car washes are also selling a similar convenient service that focuses on creating positive and memorable customer experiences.

To maximize your opportunities for success, DiPaolo recommends seeking professional consultation before committing to a build or renovation. "These pros can help determine practical site design and layout, make sure details like egress and ingress are practical on an existing site, as well as assist in determining prices for the area and effective signage—just to name a few ways they can help."

H-2 WHOA

As a fuel marketer, your experience wading through regulations is considerable, a hurdle that will only increase by adding a car wash. "Most states will require some form of reclaim or water recycling in any new builds of a car wash," Moore said, something that has grown easier over the past several years.

"Water regulations have affected our industry, and while hurdles did exist in the past—and in recent years did impact certain pockets of the U.S. during periods of drought—this awareness has challenged our industry, and we're better for it today," DiPaolo said. "Many car washes reuse water, and manufacturers are designing

equipment and products to maximize water usage ... A 72% of conveyor operators reclaim at least 10% of their used water."

The phenomenon will be appreciated by consumers seeking a more modest environmental footprint, as hand washing at home consumes 80% more water than when washing at a professional car wash, Moore said. "This issue will continue to grow and when building a car wash, regardless of type and location, it is recommended to have a reclaim system with the tanks installed, whether or not it is required."

REFINING YOUR OFFER

You've assessed your store's location and the neighborhood demographic, determining that a car wash would be a profitable addition to your store. Once constructed, you still need to consider the impact on fuel and store

sales, to optimize returns for all.

FUEL DISCOUNTS THAT MAKE CENTS

Strategic pricing for fuel and car wash sales can boost sales for both, said former NACS Chairman Jack Kofdarali, who offers his customers up to 30 cents per gallon discounts with a car wash purchase. “You can actually do this, and still be profitable,” he said, laying out the math:

- Three-tier car wash prices: \$6.99 / \$7.99 / \$8.99
- Customer purchases \$6.99 wash
- Fuel purchase: 10 gallons
- Fuel discount earned by customer: \$3.00
- Profit: \$6.99 wash - \$3.00 fuel discount: \$3.19 in gross profit

“This is a huge gross profit percentage, as car washes typically clear about 80% of the sale,” he said. “So, basically, you brought in more customers to fill gas because you’re 30 cents cheaper than anyone else, but they purchase a car wash that they needed, leaving you with an additional \$3.19 in net profit, per customer.”

“An obvious choice would be to take payment within the store only, driving the customer into the store with each purchase of a wash,” Moore said, conceding that such a scenario could inconvenience the customer. To counter that, “you could offer additional car care products inside the store that customers using the wash would be interested in. [Or] offer discounts on purchases inside the store with a wash (or vice versa: a discount on wash with purchase inside the store).”

It’s a matter of simple cross-selling—a fuel marketer’s strength—that will keep traffic flowing inside and outside your store. “If the car wash and the c-store are doing what they are supposed to be doing, they’ll quickly become destination locations,” DiPaolo said.

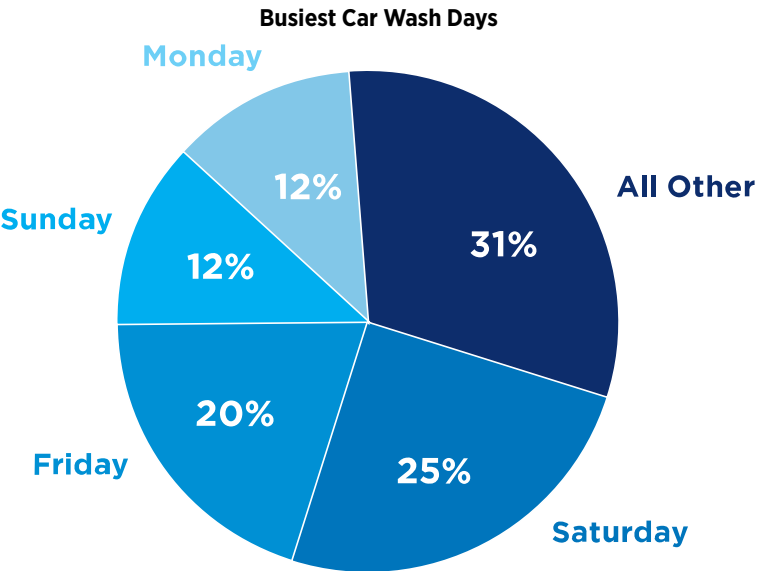
To maximize sales from that traffic, consider implementing a subscription program, an increasingly popular strategy that delivers more predictable revenue streams. “Almost four out of five (79%) conveyor operators currently offer loyalty programs,” DiPaolo said, many offering advanced RFID tags and readers that speed the procession of cars through wash tunnels. “Many of the experts in the car washing industry attribute loyalty programs as one of the biggest and most impactful trends to move our industry forward ... provid[ing] consistent, predictable income for car wash operators, which has been an industry challenge for decades.”

Most operators offer a range of pricing—\$5, \$10, \$20 and so on—with a monthly subscription price equaling three or four visits. “If the price is less than \$25, the customer won’t even look twice,” Collette said, “and as the average monthly subscriber comes just 2.1 times, it’s a strong win for the retailer.”

THE BOTTOM LINE ON THE BOTTOM LINE

Even after due diligence and a refined offering, your most pressing question remains: What are realistic profit expectations?

Those who have followed best practices say the opportunities are strong. “From an ROI point of view, this is the best money one can spend,” Kofdarali said. With direct experience in the rollover wash, which costs about \$500,000 inclusive of permits, construction and equipment, he said net profit can vary “from \$50,000 annually to about \$150,000 annually”—returns that far outstrip those inside the store. He states that for the same profits to be true inside the store, one has to sell about \$150,000 in additional sales (at a 30% gross margin) to earn the minimum \$50,000 (earned from a car wash).



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Source: Statistics Brain/U.S. Census, September 2016

Breaking the process down further, Collette said margins are far higher with a car wash than anything available inside a c-store. “If the average wash sold is \$10, the retailer is going to have a gross profit of at least \$8 (or 80% gross margin), after subtracting hard costs.”

All of this stems from a sharply reduced labor component compared to the traditional car wash model, where teams of employees offered hands-on buffing and drying. “The rapid proliferation of the express carwash business model is in part due to the minimal amount of labor required to staff a high volume express wash,” Collette said. “Typically, we see one manager, an assistant manager and a handful of full- and part-time staff capable of running an express, washing more than 10,000 cars per month ... [with total] labor [costs] ranging from 10% - 15% of gross revenues.”

With relentless competition on your fuel and convenience store business, along with labor costs that continue to climb, a car wash offers significant opportunities for success. “As more customers leave driveway washing behind and opt for professional car wash services instead, they’re looking to

protect their potential second most valuable asset—their vehicles,” DiPaolo said. “A convenience store that is looking to provide one-stop shopping and effectively serve customers with a positive experience would be wise to explore the interesting synergies between a car wash business and a c-store.”

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BY CHRIS BLASINSKY

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