

# **Stand alone In-Bays, Trend or Fad?**

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## **History:**

In the late 80's and early 90's a major shift occurred in the car wash industry. That shift was the introduction of "the touch free" rollover/ in bay automatic. By definition a rollover is a machine that washes a stationary car by moving back and forth or "rolling" over the vehicle. Rollovers weren't new, the concept had been around since the 50's but what was new was the movement away from friction to "touch free".

For most investors are interest was stand alone car washes, self serve and tunnels (conveyor systems). Rollover car washes were found primarily in petroleum sites. A few made their way to the private sector but all in all rollovers were looked upon as being suitable for gasoline operators, not "professional", higher volume, quality car wash operators.

The odd thing about this perception is that it was really only an American phenomenon. In other parts of the world "rollovers" were considered the accepted way in which to wash a vehicle. The "tunnel", a relatively new comer, was looked upon as being inferior.

Of course in any generalization there needs to be some points of clarification. America was a place of open spaces with huge opportunity to acquire adequate space to wash lots of vehicles. Land was relatively inexpensive, zoning and planning regulations were few or not existent. Available space and the number of automobiles per capita throughout the rest of the world is far less than America. America loves their automobiles and keeping them clean is an American passion.

The car wash industry in North America has had an interesting history. To understand our current direction regarding the question "are stand alone rollovers/in bays" a trend or fad we need to look back and follow the historical progression to today, with a glimpse to the future.

In the 50's and 60's North America saw their first rollovers in any volume. Europe by comparison had been using these systems for years. Much of the current equipment being available here and abroad had their roots in Europe. Many European manufacturers attempted to export their technology to the USA. Some meet with success others weren't as lucky. Never the less the awareness and growth of this segment of the industry was underway. Americans prefer American products, as such what was available in other parts of the world needed to be re-thought and re-branded with "American" roots. California Car Wash, Bernardi Bros., Sherman and countless others began producing their version of the in bay. The petroleum industry jumped on the bandwagon and the "in bay" (named because these early systems could be installed

in an existing gas station service bay) took off. Unfortunately many of these early petroleum systems wound up in the hands of people not interested in the car wash. As a result maintenance, choice of chemicals, and house keeping took a back seat to the sale of gas and Twinkies. Car wash volumes were being driven not by quality but by quantity, the “free with fill up” was born. Gasoline operators saw the wash as a tool to drive gas. The thought you could make money washing cars was pretty far from any ones mind.

In the 70's America saw our first oil crisis. This event sent lasting shock waves throughout the car wash industry. Chemical prices and replacement brush costs skyrocketed. Operators bought less expensive chemicals or stopped buying them at all, brush replacement was unheard of. As a result wash quality in the in bays decreased. Motorists were washing less frequently. The perception that you were getting exactly what you paid for, “free”, prevailed and car wash volumes shrank. Operators in the petroleum segment gave up or took little interest in their car washes. Minimal revenue, lots of expense, liability for damage and loss of customer base turned a lot of people away from the in bay / rollover wash.

While the use of plastic bristle brushes in forms automatic car washes was going through troubling times there were some bright spots. The introduction of cloth as an option to plastic bristles was a success for the tunnel operator, volumes and motorist interest began to increase, there was a light at the end of the tunnel. The development of “touch free” technology began to make its way to the forefront. Firms like Robo Wash, Mark VII, Bernardi, Southern Pride, and others embraced the idea. Touch free became a viable industry option. Technology improved. Chemical companies began to recognize the need for better more complex formulations. A move away from lubricating chemicals used for friction systems to soil penetrating products evolved. Companies like Mark VII and PDQ began introducing to the petroleum operator a wash system that was safe, efficient and very acceptable to the motorist. A paradigm shift in the petroleum industry from “free” to paid washing occurred and eventually car washing became profitable as well as a key part of the overall business offering.

Touch free was instrumental in regaining the trust of the motorist. This is clearly evident through the ICA statistics that show the car wash industry in the last 10 year period has gone from washing less than 40% of motorist vehicles in a professional car wash to approximately 60%. A 50% improvement in less than 10 years!

This change in the industry didn't go un- noticed by the independent operator and investor. The “self serve”, “coin operated” owners began adding in bays and the number of new operators began to grow.

Demand on the manufacturers increased for faster more efficient wash systems. Touch free improved radically, an increased awareness of what it took to clean quickly and economically prevailed. Friction systems made the switch from bristle to cloth and eventually to new closed cell materials that polish the vehicle while not retaining dirt. In bay rollovers either friction and or touch free have become reliable high wash quality

cleaning machines. Currently the wash pendulum, which had favored touch free, has swung towards friction. New investor sites are considering two bays, one touch free and one friction.

So today what has happened to cause such great interest in car washing and more specifically the “in bay”/ rollover?

Primarily vehicles and their drivers have changed; we no longer have the time to wash in our driveway. Vehicle shapes are more complex. SUV, pickup trucks and vans litter the road ways and parking lots. Vehicle finishes are softer and more expensive. New car washes are gentle and thorough, as a result the volumes of vehicles being washed has increased. Investors see this and are attracted to a business that on the surface seems simple, undemanding, and very profitable. The interest by the investment community is great and money is plentiful, unfortunately, permitted, suitable sites are very limited.

**Car Wash Economics:**

It used to be that a self serve car wash was the entrance point for new investors. But land costs have risen dramatically and as a result very few are really profitable without a rollover. The following example will illustrate the new investor why!

Let’s assume for a moment that you are getting ready to build a self serve, your land cost is \$5 per square foot. You analyze industry performance for your area of the country and you calculate that per bay you will gross \$1500 a month. The site you are looking at is 20,000 square feet or \$100,000. You also know that with 100 feet of frontage, the bays open to the street, leaving enough room for an emergency lane, set backs and other requirements you can build a 5 bay (90X26). So here are the numbers;

Land cost	\$100,000	
Building cost	\$150,000	
Equipment cost	\$125,000	
Misc. Development cost	<u>\$ 50,000</u>	
Total	\$425,000	
Operations;		
Monthly Revenue	\$ 7,500	Debt calculated at 80% of \$425,000
Estimated Mo.Var. Exp	\$ - 2,250	\$340,000 at 7.5% for 15 years
Estimated Fixed cost		
Debt	\$ -3,151	
Est. Taxes & INS	<u>\$ -1,000</u>	
Balance	\$ 1,098 X 12 = 13,177	annually

In this example the return on cash would calculate to be 15%. Slightly under the normal return required of 20%. This assumes everything is going perfectly but what happens if

you had several weeks of rain or some other event such as increased insurance or tax consequences?

Let's take the same example except instead of building a 5 bay self serve we build a two bay stand alone automatic.

Land cost	\$100,000
Building cost	\$200,000
Equipment cost	\$300,000
Misc. Development Cost	<u>\$ 50,000</u>
Total	\$650,000

Operations:

Monthly revenue	\$15,000	Debt calculated at 80% of \$650,000
Variable costs	\$ - 4,500	or \$520,000 at 7.5% for 15 years
Estimated Fixed costs		
Debt	\$ - 4,820.	
Est. Taxes % Ins.	<u>\$ -2,000.</u>	
Balance	\$ 3,680. X 12 = \$44.160	

The return on cash is over 34 %, more than twice what the return would have been with a 5 bay self serve on the same property.

**B to A sites Require an automatic:**

Car washes generally fall into two types of locations. Impulse purchase or **A** sites or no-impulse **B** sites. **A** sites are those chosen by fast food, petroleum, and or any other business that relies on pulling customers out of the existing traffic flow.

Self serve unattended sites are B sites. Automatic car washes are **A** sites. For a **B** site we look at population, approximately 1 bay per 1500 population. The minute the site transitions from a B to an automatic **A** site we look at traffic. An industry capture rate for automatic car washes is considered to be between .5 and 1.5% of 24 hour traffic. An example of this would be a site that has 8,000 cars per day traveling past it. Our rule of thumb would say that we (using 1% as an average) would capture 80 cars per day (cpd). Looking at number of washing days per year, let's assume 300, we would plan on a capacity of 24,000 cars per year. As most in bay automatics are capable of 10-15 cars per hour, a 10-12 hour day would produce 100 +- cpd, well within the capacity of a single automatic.

**Benefits of In Bays**

An added benefit of a one, two or three bay automatic is space. One automatic is the equivalent of 4 bays of self serve. For a typical four bay self serve the building would be 1950 square feet. If you were to average \$1500 per bay per month or \$6,000 a month you would average \$3.07 per square foot. If you were to convert that to a single automatic your revenue per square foot, assuming a building 40x16=640 square feet would be \$9.37.

So the goal is to match land and improvement costs with the corresponding revenue capability by type of car wash. If the site has gone from a B to an A, the question is what is my capture opportunity? If the answer can support the investment in an automatic car wash then your decision is which type and how many!

### **In Bay Technology:**

Today's technology allows cash un-attended car wash sites new security. We benefited from the dot com boom in that many super smart people started looking at the car wash industry. They figured out that we could benefit from sophisticated web based systems. As a result it has become common place to provide the benefits of credit cards, web based diagnostics, security cameras, real time management and the ability to capture uptime and profitability, all at the click of a mouse. Sales are done through point of sale entrance stations which accept credit cards, money or codes, speak to the customer, and assist you in marketing to private groups and fleets. And all you have to do is buy the system, provide a high speed line, go on the web and see how you are doing, anywhere in the world!

### **Why In Bay Automatics:**

In bay rollovers have come a long way. In general they are fast, efficient and provide great quality and value for the motorist. As we have seen the certain site economics favor the automatic. Automatics in general offer the benefit of being customer friendly. Most every motorist has used or is familiar with a rollover. Most are not intimidating and can be operated with minimal labor and the perceived value is high.

Will the trend continue to see more and more stand alones? Absolutely, as long as the space is sufficient and the cost benefit ratio favors the in bay. A word of caution, you may find as you do your site analysis that the number of automatics, the space required, cost and revenue doesn't justify the use of stand alones. If the revenue is to little you need more production. If this were to occur the obvious answer is to consider the installation of a tunnel. Rather than go into a lengthy discussion here we will cover this in a later article.

So if you look at all the aspects of a stand alone in bay the opportunities are very exciting. Less space, good returns, good revenue per square foot, great access to technology for control and operations. Good luck and good car washing.