

# Midwest, Southwest Regional Breakdown

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Last month, we began the first in a four-part series analyzing the fast lube industry by various regions. We take, as the basis for this analysis, *National Oil & Lube News'* annual Fast Lube Operators Survey, published this year in our August issue.

However, the national aspect of the survey often leaves fast lube operators

scratching their heads, especially when their own averages do not match up very well with the national averages in the survey. That is why we take the time to break the survey down by region.

Rather than reproduce the entire Operators Survey, though, we attempt to grasp the data most pertinent to fast lube operators. In doing so, we have eliminated topics like computers, advertising, keys to success and most

profitable services. We have also cut questions from areas like add-on services, oil and equipment, employees and insurance. This leaves us with a concise yet thorough picture of the lube industry from various regions.

This year, we decided to publish two regions per month. Last month, we discussed the Northeast and Southeast regions. This month, we will cover the Midwest and Southwest. Next month, we will cover the Mountain and West

Coast regions. Finally, in December, we will compare results from all the regions.

We hope that you find the results of the following survey breakdowns useful.

## Midwest Region

The region we have designated Midwest includes the states of: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin.

A glaring fact jumps out of a study of results from Midwest fast lubes almost immediately. Nationally, 16 percent of fast lubes are franchised facilities. In the Midwest, however, 20 percent of fast lubes are franchised, according to the operators who responded to our survey.

Midwest fast lube operators have been in the business for an average of 8.5 years, slightly higher than the national average of 8.1 years. They own an average of 1.9 facilities each, and have 2.2 other fast lubes within three miles of their best store. Additionally, they have 5.8 oil change facilities located within three miles of their best facility, above the national average of 5.4.

Midwest lube operators reported that 90 percent of their competitors discount their oil changes, slightly higher than the national average of 83 percent of competitors who do so. In the Midwest region, operators told us that of those competitors who do discount their oil changes, they do so by an average of \$4.89, five cents less than the national average.

Only 59 percent of Midwest fast lube operators told us they discounted their own oil changes, and they do so by an average of \$3.74, which is 15 cents higher than the national average.

Despite the presence of large, industrialized cities in Midwestern states, many towns still remain smaller and agriculturally oriented. This is born out through the fact that Midwest lube operators reported that the population within a three-mile radius of their best store is, on average, 21,474 people, almost 7,000 individuals less than the national average and indicative of the fact that more and more Midwestern fast lubes are doing business in smaller towns.

Lube operators in the region reported that fully 90 percent of their customers fall in the average-income bracket, but only 7 percent fell in the high-income bracket compared to 14 percent of lube customers who do so nationally.

A somewhat surprising statistic is the fact that more than one in four

## Regional Breakdowns

### of Fourteenth Annual Fast Lube Operator's Survey

**Midwest Regional Breakdown:**  
Illinois, Indiana, Iowa, Kansas,  
Michigan, Minnesota, Missouri,  
Nebraska, North Dakota, Ohio,  
South Dakota, Wisconsin

**Southwest Regional Breakdown:**  
Arizona, New Mexico,  
Oklahoma, Texas

## Operations

	National	Midwest	Southwest
Number of facilities per response	2.0	1.9	1.9
Independent/company-owned facilities	84%	80%	86%
Franchised facilities	16%	20%	14%
Member of fast lube trade association	66%	61%	63%
Years in the fast lube business	8.1 yrs	8.5 yrs	8.9 yrs
Number of bays per facility	2.8	2.5	2.8
Time required to perform a lube, oil & filter (LOF)	11 min	11 min	12 min
Fast lubes within three miles of respondent	2.4	2.2	2.9
Oil change facilities within three miles of respondent	5.4	5.8	5.4
Competitors discounting their oil changes	83%	90%	69%
How much	\$4.94	\$4.89	\$4.50
Operators discounting their own oil changes	62%	59%	59%
How much	\$3.59	\$3.74	\$3.45
Population within three-mile radius of operator's best store	28,324	21,474	30,225
Customer base:			
low income	5%	3%	11%
average income	81%	90%	81%
high income	14%	7%	8%
Number of stores operator will open in next 12 months	0.4	0.3	0.4
Percent of business that is repeat	70%	72%	72%
Operators planning to sell their facilities next year	8%	9%	11%
within five years	21%	28%	21%
Price of basic lube, oil & filter	\$25.35	\$24.30	\$26.04
Cost of goods sold for LOF	\$8.54	\$8.79	\$8.92
Operators who offer up-scale/premium LOF	70%	72%	74%
Price of up-scale/premium LOF, if offered	\$38.03	\$35.35	\$40.26
Operators increasing LOF price in the past 12 months	66%	79%	53%
Amount	\$1.46	\$1.47	\$1.61
Ticket total	\$36.66	\$32.87	\$38.29
Number of cars serviced per day	41.4	42.5	42.8
Break-even car count	26.7	28.9	26.3
Hours open each week	59	59	58
Days open each year	320	322	318
Building cost for most recent fast lube	\$273,857	\$263,829	\$311,885
Land cost for most recent fast lube	\$145,177	\$130,968	\$148,489
Customer base that is female	51%	52%	51%
Operators reporting customers extending o/c intervals	88%	83%	84%
Miles customers drive between oil changes	4,409	4,510	4,299
Mention 3,000-mile intervals in advertising	86%	84%	82%

Midwestern lube operators responded that they plan to sell their store(s) within five years, 7 percent more than the number of lube operators from across the country who plan to do so.

Midwest fast lubes charge an average of \$24.30 per oil change, \$1.05 less than the national average. The cost of goods sold (COGS) for Midwest fast lubes is \$8.79, a quarter more than the national average. And, just as oil changes in the Midwest cost less-than-average, premium oil changes do so as well. In the region, premium oil changes cost an average of \$35.35, nearly \$3 less than the national average.

Though Midwest lube operators charge less than many of their nationwide counterparts, they are taking steps to boost their ticket averages. Fully 79 percent of the lube operators from the Midwest who responded to our survey indicated they raised their basic oil change price during the previous 12 months, doing so by an average of \$1.47.

That helped to boost ticket averages in the Midwest to \$32.87, respectable but still almost \$4 less than the national average. The good news, though, is that lube operators in the Midwest reported servicing an average of 42.5 cars per day, more than one car per day higher than the national average. And, 83 percent of lube operators reported that their customers were extending their oil change intervals.

Lube operators in the Midwest reported that 29.2 percent of their gross sales is used for payroll, 1.5 percent more than the national average. However, by keeping their lease/mortgage costs and miscellaneous expenses below average, Midwest operators reported averaging 13.9 percent in net profit, almost 1 percent higher than the national average.

In the oil and equipment category of our survey, it was interesting to note that only 53 percent of responding Midwest fast lube operators told us they accept used oil from do-it-yourself (DIY) oil changers. Nationally, 71 percent of lube operators do so. Further, only 31 percent of Midwest operators accept DIY used oil filters, compared to 52 percent of lube operators who do so nationally.

That is even more surprising considering the fact that three in four Midwest lube operators are being paid for their used oil, 12 cents per gallon on average.

Of course, not accepting DIY used oil and filters allows Midwest lube operators, as a whole, to charge less for environmental fees. According to our survey, only one in three Midwest operators charges their customers an environmental fee, compared to nearly half of lube operators nationwide who do

so. The charge is less, too, \$1.17 on average in the Midwest compared to \$1.32 nationally.

Midwest lube operators pay an average of \$4.15 per gallon for their best-selling bulk motor oil, 5 cents per gallon less than average.

In the Midwest region, Pennzoil rules the motor oil market. Nearly 42 percent of fast lubes from the Midwest that responded to our survey told us that Pennzoil is their house motor oil, followed by Valvoline (17.4 percent use it as their house motor oil), Quaker

State (11.2 percent), Citgo (9.9 percent) and Castrol (6.8 percent).

Another interesting fact about lube operations in the Midwest is that 40 percent of the ones that responded to our survey indicated they also have an on-site carwash, much higher than the one-third of fast lubes that do nationally. And, 26 percent of those that did not report having a carwash on-site planned to add one in the future.

Despite a few interesting exceptions, fewer lube operators in the Midwest offer the wide-ranging add-on services

so many fast lubes across the country do. Take additive sales, for instance. Nationwide, 84 percent of lube operators offer additives to their customers, compared with only 77 percent of Midwest lube operators who do. Likewise, 75 percent of lube operators nationwide offer fuel injector cleaning as an add-on, while only 58 percent of lube operators in the Midwest do.

The most glaring exception to these examples is in the case of water-repellant glass treatments. Fully 61 percent of Midwest lube operators offer this

service to their customers, compared to only 45 percent of operators nationwide who do so.

Wayne Franzen owns four Super Lube centers in Wisconsin, opening his first shop in 1986. He told NOLN that car counts have fallen during the last year, as have profits, though not as much as car counts.

"The economy is stable, but competition is heavy," Franzen said. "When we opened our first store, it averaged 100 cars per day, with a 148 cars per day record for a two-day period. Today, we're averaging about 65 cars per day."

Franzen said he sees the lube industry

stabilizing and leveling off.

"There are fewer opportunities for people to enter the industry and make a profit," he said. "Lube centers are moving to smaller towns just like car-washes and convenience stores did, but it's a much bigger struggle for lubes. People will stop at a place for gas, ice tea or a burger, but they won't stop to get their oil changed."

Franzen said one way his stores have been maintaining profitability is by offering more services, but even that comes with risks.

"As an industry, we flirt very dangerously with getting away from what

made the lube business successful," he said. "We're becoming not just fluid experts, but a full-service shop."

And the inconvenience of full-service shops, he added, is what pushed consumers to fast lubes in the first place.

### Southwest Region

The region we termed the Southwest covers the massive geographical area of Arizona, New Mexico, Oklahoma and Texas. Lube operators in these areas who answered our survey have been in business an average of 8.9 years, or almost a full year more than the national average. They own 1.9 facilities each,

and each facility has an average of 2.8 bays.

Southwest lube operators report an average of 2.9 other fast lubes within three miles of their best store, higher than the national average of 2.4. However, those competitors are not discounting as much as competition elsewhere. Only 69 percent of lube operators in these four states told us that their competitors are discounting their oil changes, while nationally, 83 percent of operators made that claim. Of those competitors who are discounting, they are doing so by an average of \$4.50, nearly 50 cents less than the national discounting average.

Only 59 percent of lube operators in the Southwest told us they were discounting their own oil changes, and doing so by an average of \$3.45, or 14 cents less than the national average.

Somewhat surprising is the fact that Southwest lube operators reported an average of 30,225 people living within a three-mile radius of their best facility, nearly 2,000 people more than the national average.

However, of those people, fully 11 percent fall into the low-income customer base, while 81 percent reportedly fall into the average-income customer base.

While less than one in four Southwest lube operators plan to sell their store(s) within the next five years, more than one in 10 plan to sell their store(s) within the next year, well above the national average of 8 percent.

In the Southwest, lube operators told us they charge an average of \$26.04 for a basic oil and filter change, almost \$1 higher than the national average. Of course, that higher price has to offset a COGS expense that averages \$8.92, almost 40 cents higher than the national average.

The three-quarters of Southwest lube operators who offer a premium oil change charge an average of \$40.26 for it, more than \$2 higher than the national average for a premium oil change. And that comes with only about half of operators from the region raising their oil change prices during the previous 12 months.

Southwestern lube operators indicated that their average ticket total is \$38.29, \$1.63 higher than the national average ticket total. And, Southwest lube operators indicated their average daily car count is 42.8, one car per day above the national average.

In addition to that good news, lube operators in the region enjoy a payroll expense that is lower than average. Southwestern lube operators spend, on average, 24.8 percent of their gross sales on payroll. Because of a higher-than-average COGS expense and slightly elevated miscellaneous expenses, lube

## Sales

	National	Midwest	Southwest
% of gross sales used for:			
Payroll .....	27.7%	29.2%	24.8%
Lease/Mortgage .....	11.1%	9.9%	10.8%
COGS .....	27.5%	27.7%	29.9%
Net Profit .....	13.1%	13.9%	13.3%
Operations .....	16.3%	16.6%	16.4%
Other .....	4.3%	2.8%	4.9%
Yearly sales per store (number of employees):			
\$0 - \$200,000 .....	10% (3.9)	12% (4.4)	4% (2.8)
\$200,000 - \$400,000 .....	26% (5.7)	32% (5.8)	20% (4.8)
\$400,000 - \$600,000 .....	32% (7.3)	29% (7.8)	26% (7.5)
\$600,000 - up .....	31% (9.9)	27% (11.2)	50% (10.1)

## Oil & Equipment

	National	Midwest	Southwest
Percentage of total sales represented by #1 brand of oil .....	81%	81%	75%
Percentage of customers committed to a specific brand of oil .....	46%	40%	50%
Operations that implement used oil for heating purposes .....	28%	29%	19%
Percentage of pits equipped with safety covers .....	70%	60%	85%
Facilities using a filter crusher .....	52%	40%	39%
Operations that accept used oil from DIYers .....	71%	53%	66%
Operations that accept used oil filters from DIYers .....	52%	31%	46%
Operations that charge fee for accepting DIY used oil/oil filters .....	4%	4%	6%
Operators being paid for used oil .....	57%	75%	19%
.....How much .....	\$0.12	\$0.12	\$0.08
Operations that have had gov't tank inspections .....	39%	32%	28%
Type(s) of tank(s) used: .....			
.....Underground .....	11%	12%	10%
.....Aboveground .....	89%	88%	90%
Operations that invoice customers for environmental fees .....	44%	32%	57%
.....Amount .....	\$1.32	\$1.17	\$1.63
Per gallon cost of highest volume bulk oil .....	\$4.20	\$4.15	\$4.34
Percentage of customers that buy synthetic lubricants .....	7%	7%	7%
Portion of overall sales made up of fleet accounts .....	11%	9%	12%

### Motor Oil Market Share

	National	Midwest	Southwest
Pennzoil .....	25.4%	41.6%	34.4%
Valvoline .....	18.9%	17.4%	22.9%
Havoline .....	15.6%	11.2%	19.8%
Mobile .....	10.9%	9.9%	12.5%
Castrol .....	10.7%	6.8%	6.3%
Quaker State .....	9.6%	5.6%	4.1%
Others .....	8.9%	7.5%	

## Insurance

	National	Midwest	Southwest
Workers' Comp rate (per \$100 of payroll):			
for techs .....	\$3.98	\$3.99	\$3.69
for clerks .....	\$1.59	\$1.61	\$0.98
Annual cost of insuring a fast lube facility .....	\$4,361	\$4,086	\$4,236

operators in the region enjoy a net profit of 13.3 percent, better than the national average by only 0.2 percent.

Lube operators in the region do play it safe, however, covering 85 percent of their pits with safety covers. In addition, two-thirds of Southwestern lube operators accept DIY used oil, and 46 percent accept DIY used oil filters.

Remarkably, only 19 percent of lube operators in the Southwest are being reimbursed for their used oil, and the few who are being paid are receiving an average of only 8 cents per gallon, 33 percent less than the national average.

Southwest lube operators make that up, perhaps, by charging environmental fees. More than half of operators in the region (57 percent) charge environmental fees, compared with only 44 percent of lube operators who do so nationwide. Further, lube operators in

the region charge an average of \$1.63 for this fee, compared to the national average fee of \$1.32.

Lube operators in the region pay an average of \$4.34 per gallon for their best-selling bulk oil. Pennzoil was reportedly the most popular motor oil in the region. Fully 34.4 percent of lube operators who responded to our survey told us that Pennzoil was their 'house' motor oil. That was followed by Havoline (22.9 percent of operators said it was their 'house' oil), Valvoline (19.8 percent), Castrol (12.5 percent) and Chevron (6.3 percent).

The semi-arid and arid climate prevalent throughout so much of the Southwest does not often give drivers cause to have to wash their vehicles. That's perhaps why only 28 percent of lube operators from the Southwest who responded to our survey indicated they

also have an on-site carwash. However, of those who did not, 28 percent said they plan to eventually add a carwash to their lube facility.

In the area of services, Southwestern lube operators appear to be very particular. Some services are offered more widely in the Southwest than nationally. Take, not surprisingly, air conditioner recharges. Forty-one percent of lube operators in the Southwest offer A/C recharges, compared with 39 percent of lube operators nationwide who offer the same service.

Terry Celentano owns a Texaco Xpress Lube in Benson, Arizona. He said that both car counts and profits have fallen during the last year, even though competition in his area is light.

Overall, he said, business is a struggle, with more and more people watching their pennies and taking their busi-

ness to low-ball competition.

Jan Daub operates six Jiffy Lube locations in south Texas. In five of Daub's stores, car counts are down by an average of 3.5 percent, while the remaining store's car count rose 6 percent compared with the same period the previous year. Daub told NOLN that profits are down, due mainly to five bulk oil price increases since January 2000, electric bills that have doubled, an insurance jump of 50 percent and falling car counts.

"Profits are now losses," Daub said. "Our economy is flat and has been for five years. We never enjoyed the boom the rest of the country did."

Daub said the number of competitors in the lube industry is rising, though not because of new construction.

"The auto dealerships are now putting on a big push in the fast lube business in order to build up their service departments with other work," Daub said. "I tried to do a joint promotion with a radio station and a Ford dealership last year. Ford said 'No' as they considered me a direct competitor. They said Ford Motor Company told them that they had better make their service department a profit center, as new car sales profits are being taken by Internet sales.

"Another gorilla competitor is the carwashes, which are adding oil change bays and giving away free carwashes. I had to counter this by adding in-bay carwashes where I could and giving away free carwashes."

Daub said the industry is bleak in the South Texas area, with no new expansion and existing lubes fighting to hold on to market share.

"I fear a price war may occur when a desperate fast lube owner lashes out with one last attempt to save his business," Daub said. "With costs rising and a flat marketplace, we will all lose in that scenario. Even the survivors will be financially weak and may not survive."

The losses experienced by Daub's stores are despite a \$48 ticket average and a base price of \$26.99, one of the highest in the area.

"Check back with me in a year and I'll tell you what worked and what didn't," said Daub.

All is not gloom and doom in the entire Southwest, however. J.R. Corbett owns Easy Street Lube in Page, Arizona. He said car counts have risen slightly, and profits have remained steady during the last year.

This has occurred despite a worsening local economy, said Corbett, adding that competition in the area is light.

Overall, said Corbett, the lube business in his area is improving. ♦

## Services

	National		Midwest		Southwest	
	Percentage of Operators who Offer	Avg. Price of Service	Percentage who offer	Avg. Price of Service	Percentage who offer	Avg. Price of Service
Offer service package	63%		66%		61%	
Mechanical full-block coolant flushes	81%	\$52.28	78%	\$50.12	71%	\$54.97
Windshield wipers/blades replacement	97%	\$12.57	100%	\$13.27	88%	\$9.83
Water-repellent glass treatments	45%	\$9.34	61%	\$8.86	28%	\$11.60
Differential service	96%	\$22.89	95%	\$21.13	92%	\$23.79
Breather replacement	93%	\$5.27	92%	\$5.42	90%	\$4.82
PCV replacement	88%	\$5.67†	83%	\$5.40	93%	\$5.41
Windshield repair	10%	\$38.51	4%	*	14%	*
Additive sales	84%	\$12.37	77%	\$11.85	94%	\$14.29
Air conditioner recharge	39%	\$91.48	33%	\$116.23	41%	\$52.76
Tire rotation	59%	\$15.55	40%	\$15.23	47%	\$16.53
Wheel balancing	19%	\$30.17	9%	\$31.75	30%	\$29.64
Light replacement	79%	\$10.43	80%	\$11.77	80%	\$8.57
Fuel injector cleaning	75%	\$48.24	58%	\$45.44	73%	\$49.70
Fuel filter replacement	66%	\$28.10	41%	\$26.20	86%	\$27.81
Serpentine belt replacement	87%	\$49.78	85%	\$49.67	90%	\$46.59
Chemical engine flush	62%	\$15.07	69%	\$12.12	71%	\$17.04
Mechanized engine cleaning system	12%	\$75.11†	6%	*	18%	*
Power steering flush	30%	\$43.89	19%	\$41.54	38%	\$42.35
Mechanical ATF exchange	91%	\$76.50	93%	\$74.48	92%	\$74.18
Cabin air filter replacement	44%	\$29.90	28%	\$26.39	43%	\$39.86
Radiator, heater, air conditioner hose replacement	26%	\$38.38	14%	*	32%	*
Air filter replacement	100%	\$11.69	100%	\$11.14	100%	\$11.72

\* insufficient data to calculate

† figures obtained from response rate of less than 5%

## Employees

	National	Midwest	Southwest
Average age of lube technicians	25 yrs	25 yrs	26 yrs
Average length of employment for managers	4.9 yrs	5.1 yrs	5.3 yrs
Average length of employment for technicians	2.1 yrs	1.9 yrs	1.9 yrs
Average hourly rate paid to lube techs	\$7.75	\$7.67	\$7.70
Average hourly salary paid to manager	\$32,416	\$31,359	\$32,226

## Carwash

	National	Midwest	Southwest
Percentage of lube operations offering on-site carwashes	33%	40%	28%
Type of carwash:			
Full service	31%	33%	25%
Exterior tunnel	21%	18%	50%
In-bay automatic	44%	47%	11%
Self service	4%	2%	14%
Percentage that offer free carwash with lube service	42%	41%	59%
Operators planning to add a carwash to an existing fast lube in the future	22%	26%	28%