

Midwest/Southwest Regional Breakdown

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Last month, we began our series of articles examining results from the 2002 Fast Lube Operators Survey on a regional basis, examining the

Northeast and Southeast regions, respectively. This month, we'll take a look at the Midwest and Southwest regions of the country. Next month, we'll look at the Mountain and West Coast regions.

Following are the results for the Midwest and Southwest regions.

Midwest

For the purposes of our survey breakdown, we decided to include the states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin in this region.

In examining this region, we find that the average operator owns two facilities, has been in business nearly nine years, and has an average of 2.4 other fast lubes competing for his business within three miles of his location.

Interesting findings include the fact that 70 percent of Midwest lube operators discount their oil changes, doing so by an average of \$3.54. Both figures are well above the national average.

Midwest fast lubes charge an average of \$26.36 for a full-service oil change, 50 cents less than the national average. Nearly three-quarters of Midwest lubes offer a premium or upscale oil change service, charging an average of \$44.67. Given these numbers, it's not surprising to find that 15 percent of customers at Midwest fast lubes are members of high-income families.

Ticket averages at Midwest lubes are below average, however; these facilities average \$36.05 per vehicle, while the national average is more than \$2 higher. They make up for that in car counts. Car counts at Midwest lubes are averaging 41.6 cars per day, more than one extra car daily.

More than one in 10 Midwest lube operators plans to sell his or her facility during the next year. This is especially surprising when one considers that these lubes have an average profit margin of more than 13 percent, 1.5 percent higher than the national average.

This extra profit seems to come from payroll. Midwest lube operators reported spending an average of 26.8 percent of their gross sales on payroll, 1.5 percent less than the national average.

On average, lube techs at Midwest fast lubes are paid \$7.63 per hour, 12 cents less than the national average. Managers earn \$31,166, nearly \$1,400 per year less than the national average.

An interesting fact, however, is that Midwest lube operators who work at their own facilities pay themselves an average of \$70,300 per year, more than \$15,000 per year above the national average.

Nearly half of Midwest fast lubes burn their used oil for heating purposes. Of the 88 percent that are paid for their used oil, the average reimbursement is 13 cents per gallon. Midwest

Regional Breakdown

of Fifteenth Annual Fast Lube Operators 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	1.9	2.0	1.6
Have attended a fast lube industry tradeshow	60%	71%	54%
Member of fast lube trade association	66%	77%	68%
Years in the fast lube business	8.9 yrs	8.9 yrs	7.4 yrs
Number of bays per facility	2.7	2.5	2.9
Time required to perform a lube, oil & filter (LOF)	11 min	11 min	12 min
Fast lubes within three miles of respondent	2.5	2.4	3.7
Oil change facilities within three miles of respondent	6.3	6.5	6.0
Competitors discounting their oil changes	88%	87%	85%
How much	\$4.88	\$4.71	\$4.94
Operators discounting their own oil changes	58%	70%	46%
How much	\$3.31	\$3.54	\$3.39
Population within three-mile radius of operators best store	33,775	24,340	42,357
Customer base:			
low income	6%	3%	15%
average income	82%	82%	72%
high income	12%	15%	13%
Number of stores operator will open in next 12 months	0.3	0.3	0.3
Percent of business that is repeat	72%	75%	73%
Operators planning to sell their facilities next year	8%	12%	12%
within five years	25%	22%	34%
Price of standard, full-service LOF & multipoint check	\$26.86	\$26.36	\$27.15
Cost of goods sold for standard, full-service LOF	\$8.40	\$8.44	\$8.74
Operators who offer basic, low-cost LOF service	37%	36%	44%
How much?	\$22.51	\$21.88	\$22.53
Operators who offer up-scale/premium LOF	63%	72%	59%
Price of up-scale/premium LOF, if offered	\$43.82	\$44.67	\$44.32
Operators increasing LOF price in the past 12 months	34%	18%	39%
Amount	\$1.49	\$1.33	\$1.78
Ticket total	\$38.51	\$36.05	\$41.05
Number of cars serviced per day	40.3	41.6	37.9
Break-even car count	25.8	25.4	25.3
Hours open each week	59	60	59
Building cost for most recent fast lube	\$293,853	\$288,030	\$329,160
Land cost for most recent fast lube	\$152,088	\$140,258	\$157,970
Equipment cost for most recent fast lube	\$55,822	\$62,586	\$53,840
Customer base that is female	50%	53%	51%
Operators reporting customers extending o/c intervals	80%	90%	77%
Miles customers drive between oil changes	4,317	4,367	4,352
Mention 3,000-mile intervals in advertising	81%	77%	71%

operators spend an average of \$4.21 per gallon for their highest volume bulk oil, eight cents per gallon more than the national average.

Of that motor oil, Pennzoil heads the class in popularity.

Nearly one in three Midwest lube operators (29.1 percent) told us that Pennzoil is their 'house' or standard motor oil; that was followed by Castrol (19.1 percent), Valvoline (18.2 percent), Citgo (15.5 percent), Quaker State (8.2 percent), Mobil (4.5 percent) and Chevron (2.7 percent).

No doubt due in large part to the cold Midwest winters, operators in this region report that 12 percent of their customers purchase synthetic lubricants, five percentage points higher than the national average.

One interesting tidbit about Midwest lubes is that they reported spending an average of \$2,333 per store in warranty work last year, nearly \$700 more than the national average.

Jim Hockemeyer owns Boncosky Oil Company in Elgin, Illinois. The company has one fast lube center.

"Car counts continue to rise," Hockemeyer said, "but not as fast as we would like. But they're not going down."

Hockemeyer said that his facility has added more profit centers and additional services, helping to raise profits. He reports that the economy in his part of the country is stable, but that competition is heavy.

"I think for the most part, (the lube business) is not bad, but it could always be better," he said.

Other operators agreed.

Nick Vuko owns Walker Tire and Quick Nick's Snappy Lube in Lincoln, Nebraska. Vuko said that car counts have risen in the past year, but profits have remained the same.

He said the economy in his part of the country is soft due to many factors, one being the drought that has plagued Midwestern farmers during the past year. Vuko said the competition in his area is heavy, but that the lube business is going good.

Alan Tandy owns Valvoline Express Care in Wichita, Kansas.

"With this being only our third year of operation, we have continued to grow," Tandy said, adding that growth in car counts has slowed somewhat. He said that during the store's second year, car counts grew by 32 percent. This year, they've grown by 12 per-

cent.

Tandy said that profits have increased because his facility is offering more add-on sales.

"The economy in Wichita right now is very unstable," he said. "With Wichita being an airline town — Boeing, Raytheon, Cessna and Lear have plants here — people do not know whether they will have a job

next month."

Tandy also said that competition in his area is fierce, with nine other oil change facilities within two miles of his store. Despite that, he is optimistic.

"The lube business is becoming saturated with below-standard operators," he said, "which helps me keep growing."

Southwest Region

Lube operators in the Southwest region — which includes the states of Arizona, New Mexico, Oklahoma and Texas — own an average of 1.6 facilities and have been in business 7.4 years. They report heavy competition (an average of 3.7 other fast lubes within three miles of their facility), but they don't tend to discount their

Sales

	National	Midwest	Southwest
% of gross sales used for:			
Payroll ¹	28.3%	26.8%	29.9%
Lease/Mortgage	12.5%	12.8%	12.3%
COGS ²	28.9%	29.0%	29.0%
Net Profit	11.8%	13.3%	10.0%
Operations ³	15.6%	15.3%	15.8%
Other ⁴	2.9%	2.8%	3.0%
Yearly sales per store (number of employees):			
\$0 - \$200,000	10% (3.9)	4% (2.5)	11% (3.0)
\$200,000 - \$400,000	42% (5.3)	56% (6.0)	34% (5.5)
\$400,000 - \$600,000	27% (7.5)	17% (8.2)	29% (7.2)
\$600,000 - \$800,000	9% (8.7)	6% (11.3)	13% (8.4)
\$800,000 - up	12% (10.7)	17% (10.5)	13% (9.8)

¹ Includes all payroll (taxes included), salary of owner (if "hands-on" employee), unemployment taxes, workers' compensation, health insurance, bonuses, etc.
² Includes materials and supplies necessary to perform services.
³ Includes utilities, maintenance, company insurance, advertising, franchise fees, uniforms, freight, postage, administrative costs, office supplies, taxes (other than income), etc. used to operate business on a day-to-day basis.
⁴ Dues, subscriptions, warranties, travel/entertainment, etc.

Oil & Equipment

	National	Midwest	Southwest
Percentage of total sales represented by #1 brand of oil	81%	81%	76%
Percentage of customers committed to a specific brand of oil	45%	44%	53%
Operations that implement used oil for heating purposes	29%	49%	5%
Percentage of pits equipped with safety covers	72%	60%	85%
Operations that accept used oil from DIYers	75%	67%	76%
Operations that accept used oil filters from DIYers	52%	33%	59%
Operations that charge fee for accepting DIY used oil/oil filters	7%	4%	13%
Operators being paid for used oil	65%	88%	37%
How much	\$0.12	\$0.13	\$0.10
Operations that invoice customers for environmental fees	42%	39%	65%
Amount	\$1.30	\$1.20	\$1.40
Per gallon cost of highest volume bulk oil	\$4.13	\$4.21	\$4.47
Percentage of customers that buy synthetic lubricants	7%	12%	7%

Motor Oil Market Share (among fast lubes respondents)

	National	Midwest	Southwest
Pennzoil	34.2%	29.1%	48.5%
Valvoline	12.5%	19.1%	17.6%
Castrol	12.1%	18.2%	16.2%
Quaker State	8.3%	15.5%	5.9%
Havoline	7.8%	8.2%	4.4%
Mobil	6.0%	4.5%	4.4%
Shell	5.8%	2.7%	3.0%
Others	13.3%	2.7%	

Insurance

	National	Midwest	Southwest
Annual cost of insuring a fast lube facility	\$5,497	\$5,865	\$6,137
Warranty work	\$1,649	\$2,333	\$1,846

* small response rate

oil changes as much as lube operators in other parts of the country. In fact, less than half of Southwest lube operators (46 percent) reported that they discount their oil changes, and those who did, reported discounting by an average of only \$3.39.

Southwest lube operators tend to have more low-income customers (15 percent of customers are from low-income families). Further, it seems that many lube operators in this

region are seeking exit strategies. More than one in 10 (12 percent) reported that they plan to sell their facility within the next year, and more than one in three (34 percent) reported that they plan to sell within the next five years.

The price of a standard oil change service in the Southwest is \$27.15, nearly 30 cents higher than the national average. And, because they tend to cater to more low-income cus-

tomers, more Southwest lube operators have basic or low-cost oil changes. Forty-four percent offer a basic oil change service, selling the service for an average of \$22.53; on the other hand, only 59 percent offer an upscale or premium oil change service, selling it for an average of \$44.32.

Despite this, lube operators in the Southwest report a ticket average of \$41.05, more than \$2.50 higher than the national average. Unfortunately,

car counts in the Southwest are not as established; lube operators in this region report an average car count of 37.9 cars per day, 2.4 cars below the national average.

Lube operators in the Southwest report spending an average of 29.9 percent of annual gross sales on payroll. This results in their net profit being only 10 percent, or 1.8 percent lower than the national average.

Despite this, 35 percent of Southwest lube operators report earning annual gross sales of more than \$400,000.

Southwest lube operators reported spending an average of \$4.47 for their highest volume bulk motor oil. The brands they chose were Pennzoil (listed as the 'house' brand by 48.5 percent of Southwest fast lubes), Valvoline (listed by 17.6 percent), Shell (16.2 percent), Quaker State (5.9 percent), Castrol (4.4 percent) and Havoline (4.4 percent).

Lube operators in this region reported paying their lube techs an average of \$7.56 per hour, nearly 20 cents per hour below the national average. Conversely, lube managers in this region earn an average of \$33,955, nearly \$1,500 more than the national average.

Vicki Hofert owns a Kwik Kar Lube & Tune in Dallas, Texas.

"Overall, our business is down here — both in car counts and in sales/profits," she said. "However, our ticket average has risen. Our location seems to be challenged by construction and the mass exodus of the Telecom Corridor in Richardson. We have a lot of new customers that have lost their jobs recently. Our location is situated in a lower income area, with higher income areas on the fringes of our market."

Hofert said the competition in her area is average, but that a new service center is opening up about half a mile from her location.

"The lube business, along with a lot of business in general from what I'm being told by other business owners in the area, is just odd right now," she said. "What used to be busy days are now slow, while typically slow days tend to be busier. We'll have a good stretch of business for several weeks, followed by extremely slow weeks. The consistency of the business seems to be affected the most."

Lyndon Harper owns Hauptstrasse Lube in Boerne, Texas. He reports rising car counts, and slightly rising

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	54%		58%		45%	
Mechanical full-block coolant flushes.....	79%	\$54.31	78%	\$52.59	88%	\$56.06
Windshield wipers/blades replacement	99%	\$15.56	100%	\$18.30	97%	\$13.46
Water-repellent glass treatments	34%	\$9.69	43%	\$9.54	18%	\$9.63
Differential service	96%	\$24.26	99%	\$23.48	97%	\$27.58
Breather replacement.....	90%	\$5.47	91%	\$5.66	92%	\$5.65
PCV replacement.....	84%	\$6.42	85%	\$7.63	93%	\$5.29
Windshield repair	8%	\$41.92†	5%	**	9%	\$45.05
Additive sales	89%	\$12.48	91%	\$11.63	82%	\$13.06
Air conditioner recharge.....	32%	\$73.39	34%	\$74.74	46%	\$56.49
Tire rotation	53%	\$16.38	52%	\$16.58	50%	\$17.41
Light replacement.....	72%	n/a	79%	n/a	89%	n/a
Fuel injector cleaning	75%	\$48.71	54%	\$46.50	75%	\$50.55
Fuel filter replacement	63%	\$30.70	47%	\$31.18	96%	\$32.77
Serpentine belt replacement	80%	\$50.91	74%	\$51.51	92%	\$48.40
Chemical engine flush	68%	\$12.24	64%	\$12.26	82%	\$9.31
Mechanized engine cleaning system	15%	\$62.27†	18%	**	11%	**
Power steering flush.....	26%	\$45.76	20%	\$46.10	40%	\$46.75
Mechanical ATF exchange.....	86%	\$77.93	89%	\$76.69	91%	\$76.18
Cabin air filter replacement	42%	\$31.99	38%	\$27.13	50%	\$38.10
Radiator, heater, air conditioner hose replacement.....	28%	n/a	22%	n/a	34%	n/a
Air filter replacement.....	100%	\$12.40	100%	\$11.17	100%	\$13.13
Manual transmission service	70%	\$44.64	63%	\$47.78	59%	\$38.31
Transmission filter replacement.....	77%	\$58.64	81%	\$58.96	81%	\$57.60
Perform tune-up service.....	25%	\$88.63	17%	\$86.79	27%	\$77.63
Smog checks/emission testing	13%	\$32.70	3%	**	27%	\$36.84
Portion of overall sales made up of fleet accounts ..	10.2%		12%		12%	
Number of vehicles per fleet.....	6.5		5.9		6.4	

** insufficient data to calculate

† figures obtained from response rate of less than 5%

Employees

	National	Midwest	Southwest
Average length of employment for managers	4.6 yrs.	4.7 yrs	4.2 yrs
Average length of employment for technicians	2.0 yrs.	1.8 yrs	2.0 yrs
Average hourly rate paid to lube techs	\$7.75	\$7.63	\$7.56
Average annual salary paid to manager	\$32,519	\$31,166	\$33,955
Average annual salary paid to owner (if full-time employee).....	\$54,835	\$70,300	\$52,912

Carwash

	National	Midwest	Southwest
Percentage of lube operations offering on-site carwashes	26%	27%	18%
Type of carwash:			
Full service	19%	13%	**
Exterior tunnel	18%	28%	**
In-bay automatic	49%	56%	**
Self service	14%	3%	**
Percentage that offer free carwash with lube service	34%	47%	64%
Operators planning to add a carwash to an existing fast lube in the future	25%	30%	34%

** insufficient data to calculate

profits.

"The economy here is growing steadily," Harper said. "We are in a small, white-collar town within 30 miles of a major metroplex in San Antonio. Competition is heavy, but we are doing well and growing. Our county, Kendall, is one of the fastest growing counties in the nation."

Others agreed that the lube business is going well. William Neff operates Palm Valley Auto Wash & Fast Lube in Litchfield Park, Arizona. He reports that car counts have risen by about 25 percent during the last year, and that net sales have risen by more than 42 percent.

The economy in Neff's area is average, with a high population growth in surrounding residential areas.

"Competition is light," Neff said. "We have two stand-alone lube shops within four miles of our location, and there are also four car dealerships that offer fast lubes within five miles of our location."

Overall, Neff said his lube business is doing "very good."

Some operators, however, are seeing their fair share of unsettling occurrences.

Lonnie Hays operates LOJO

Express Lube & Tune in Channelview, Texas, a business that has been in operation for seven years.

"I am a totally independent lube center, and now the big boys want some of the action," he said. "A Wal-Mart opened about six miles away from me, and Kwik Kar is building a million-dollar store down the road."

Because of the increased competition, Hays said his profits have not increased as fast as they have in past years.

"My sales increased about 10 to 15 percent each year until this one," he said. "I expect to hold my own, but I am sure it will take as much effort as it did when I first opened."

Hays said extended oil changes have also had an impact on his business.

"Customers are not going longer between oil changes, but most go almost 5,000 miles in this part of Texas, anyway," he said. "Profits have taken a beating because oil prices go up and never down — unlike gas prices, which do go up and down with the price of crude."

Hays said the economy in his area is doing well, but he does see some troubling signs.

"Everyone wants to make a deal. This makes me think things are head-

ed downward," he said.

Other operators have seen similar difficulties.

"I own two oil changes in the Corpus Christi (Texas) area, in one I have had a partner since 1994," said Larry Teeter, president of Pit Stop Car Wash & Oil Change.

"The other, which was opened in June of 2000, I own by myself. The first location, on the northwest side of the city, is very old. Since there have been several new oil changes opened in that area over the past couple of years, I could say that competition is heavy."

Teeter said that the increasing competition, along with the fact that car counts have not risen or fallen at his facilities during the past two years, means that more oil changes are being performed, but they are being divided among more oil change facilities.

"We have had to increase our sale prices to keep up with the cost of goods and wage increases," he said. "Utilities, taxes and insurance have all had significant increases. If we had not raised our prices, we would have had less profits. The older oil change location has seen its ups and downs, but it seems more closely related to the manager and crew than competition or

economic conditions."

Teeter said his new facility is doing much better.

"My new location has seen a major increase in car count over the past two years, but considering it was opened just over two years ago I would assume this is part of the growth of a new business."

He said that the new store does two to three times the volume of the older store, partially because competition near the newer store is not as heavy as around his older facility.

"Overall, Corpus has been slower than other major cities in Texas to see any economic growth, but recently this has begun to change," Teeter said. "As this begins to happen, I expect to see more oil changes popping up in some of the new-growth areas."

Teeter said he hoped to add at least five new facilities himself, if building costs do not climb too high.

"The lube business in this area suffers from low prices as compared to other major cities in Texas. Part of this comes from the slower economy and do-it-yourself oil changers," he said, adding that he is optimistic about the future of his business. "I could be wrong, but I believe this will change." ♦

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