

# Midwest/Southwest Regional Breakdown

Every year, we take the most recent *National Oil & Lube News Operators Survey* (published in the September 2003 issue of NOLN) and break it down by region. Last month, we took a look at the Northeast and Southeast regions of the country, listing the most critical statistical averages from those regions so that operators have a clearer picture of the fast lube market in those areas.

This month, we'll take a look at the Midwest and Southwest regions of our nation, and next month we'll wrap the regional breakdown series up with a look at the Mountain and West Coast regions of the country.

## Midwest

For our purposes, we include the states of Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin in the region we label the Midwest.

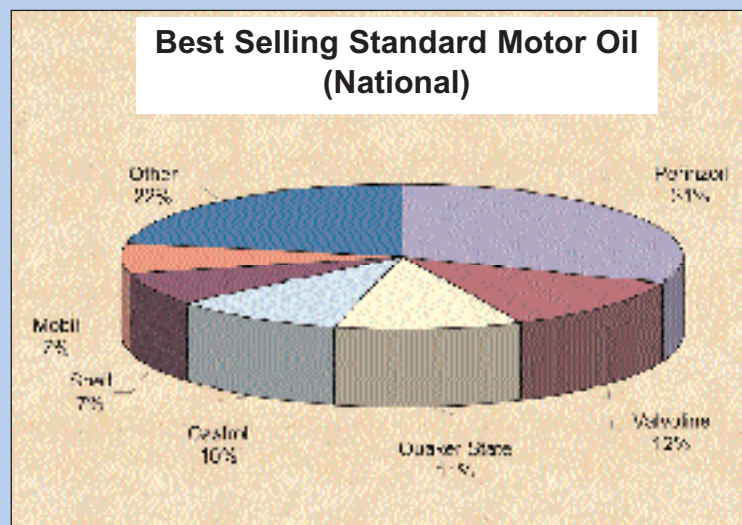
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In looking at the statistical averages for just fast lube operators doing business in this region of the country, we find that they have been in the fast lube business an average of 8.8 years, nearly six months longer than the national average.

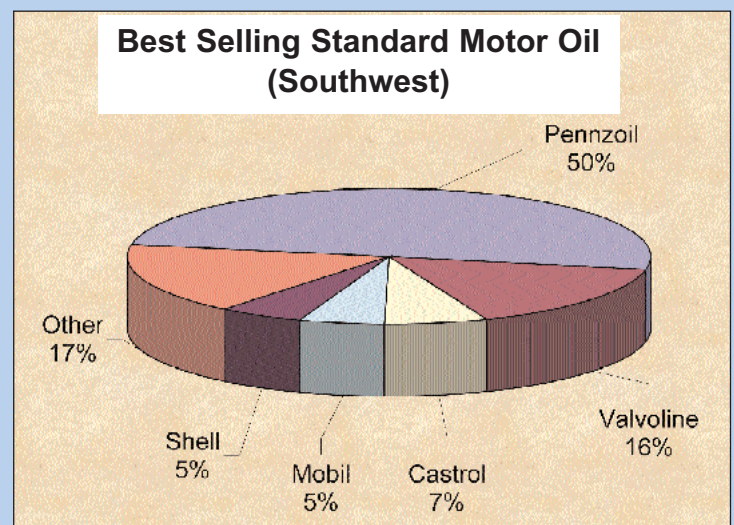
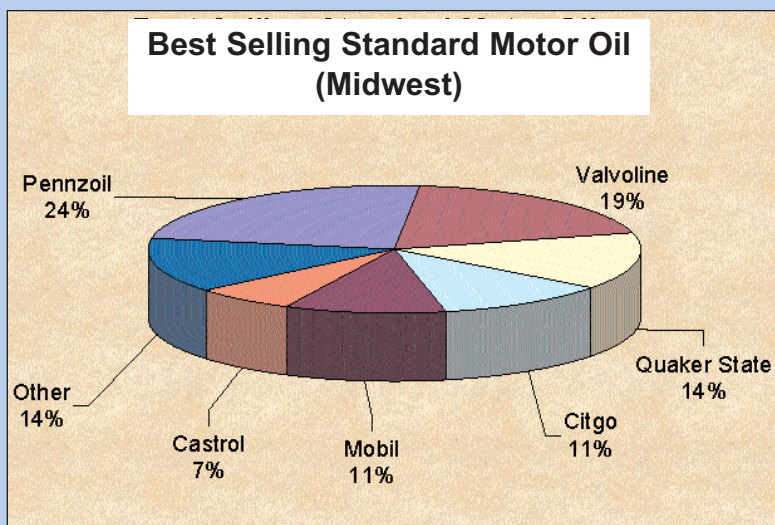
Further, Midwest lube operators tend to operate smaller facilities, as the average lube shop in the Midwest has 2.5 bays, as opposed to the national average of 3.0.

And while Midwest fast lubes do not share as much competition from other fast lubes (they report only 2.2 other fast lubes within three miles, as opposed to the national average of 2.4), they do see competition from non-fast lube oil change facilities. In that regard, Midwest lube operators report that there is an average of 6.1 other oil change facilities within three miles of their location; the national average is 5.5.

Lube operators in the Midwest charge an average of \$26.81 for a full-service oil change, a mere ten cents more than the national average. The cost of goods (COGS) for Midwest lube



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operators is likewise not much higher than the national average, \$8.96 versus \$8.73. And, Midwest lube operators report an average daily car count of 39.1, versus the national average of 37.6.

It is in the area of ticket total that Midwest lube operators generally lag behind their national counterparts. The average ticket total in the Midwest region is \$35.91, more than \$3 per car lower than the national average.

Because of lower-than-average labor costs, however, Midwest fast lubes enjoy a profit margin that is slightly lower than the national average.

Nick Vuko owns Quick Nick's Snappy Lube in Lincoln, Nebraska. The facility has been open less than a year, but in that time car counts and profits have risen.

Vuko said the economy in his area is about average, but the competition is light.

Other Midwest operators don't enjoy that luxury.

"There aren't any other fast lubes in the area, but tire and mechanical shops are all changing oil now," said Larry Tuxhorn, owner of Kwik Kar Lube & Tune in Emporia, Kansas.

"The industry is quite competitive due to other shops now changing oil, when they haven't in previous years. And the cost of supplies is going up and up and up."

Tuxhorn said that car counts have remained the same in the past year, and profits have risen slightly. This despite an economy that, in the last couple of months, has "gotten much tighter."

Richard Ziegfeld owns LubePro's in Plainfield, Illinois. Despite realizing a drop in car counts during the past year, Ziegfeld said his profits have risen.

"The economy is middling — okay, but not great," he said.

Ziegfeld said that competition is medium to heavy, but overall the state of the industry in his part of the country is stable.

## Midwest/Southwest Regional Breakdown

### Operations

	National	Midwest	Southwest
Number of facilities per response .....	1.8	1.8	1.7
Years in the fast lube business .....	8.2	8.8	7.0
Number of bays per facility .....	3.0	2.5	3.5
Fast lubes within three miles of respondent .....	2.4	2.2	3.0
Oil change facilities within three miles of respondent .....	5.5	6.1	4.1
Competitors discounting their oil changes.....	81%	84%	78%
How much      \$4.75   \$4.79   \$3.98			
Operators discounting their own oil changes .....	67%	70%	70%
How much .....	\$3.51	\$3.54	\$3.39
Population within three-mile radius of operators best store .....	33,534	29,124	32,890
Daily traffic count in front of best store .....	21,755	20,424	20,343
Number of stores operator will open in next 12 months .....	0.3	0.2	0.3
Percent of business that is repeat .....	73%	73%	73%
Percentage of business that is oil change.....	75%	78%	75%
Operators planning to sell their facilities next year .....	6%	7%	9%
Within five years .....	21%	28%	25%
Price of standard, full-service LOF & multipoint check .....	\$26.71	\$26.81	\$26.94
Cost of goods sold for standard, full-service LOF .....	\$8.73	\$8.96	\$9.34
Operators who offer basic, low-cost LOF service .....	26%	28%	32%
How much? .....	\$21.89	\$21.65	\$22.15
Operators who offer up-scale/premium LOF .....	63%	70%	69%
Price of up-scale/premium LOF, if offered .....	\$44.33	\$41.84	\$45.08
Operators increasing LOF price in the past 12 months .....	51%	42%	46%
Amount .....	\$1.47	\$1.48	\$1.63
Ticket total .....	\$39.18	\$35.91	\$40.81
Number of cars serviced per day.....	37.6	39.1	37.4
Break-even car count.....	24.8	24.0	23.9
Building cost for most recent fast lube .....	\$296,681	\$262,969	\$362,323
Land cost for most recent fast lube .....	\$162,866	\$135,884	\$144,804
Equipment cost for most recent fast lube .....	\$43,166	\$38,206	\$47,917
Customer base that is female .....	50%	52%	51%
Operators reporting customers extending o/c intervals.....	85%	85%	80%
Miles customers drive between oil changes .....	4,372	4,404	4,357

## Southwest

For our purposes, we include the states of Arizona, New Mexico, Oklahoma and Texas into the region we label the Southwest.

The average fast lube operator in the Southwest region of the country has been in business for seven years, or 1.2 years less than the national average. The average fast lube facility in the Southwest is 3.5 bays, or one-half bay larger than the national average. We attribute this to everything being bigger in Texas.

Competition is heavy in the Southwest fast lube arena. Operators there report that there are exactly three other fast lubes within three miles of their facility, nearly one more fast lube than the national average.

Conversely, Southwest operators report that there are only 4.1 oil change facilities (Wal-Mart, Midas, Firestone, etc.) within three miles, which is 1.3 facilities less than the national average.

Southwest operators charge an average of \$26.94 for a full-service oil change, or only 23 cents more than the national average. However, their COGS average of \$9.34 is 61 cents higher than the national average.

The average ticket total in the Southwest is \$40.81, or \$1.63 higher than the national average. An average car count of 37.4 cars per day is 0.2 cars per day less than the national average.

Lube operators in the Southwest report spending 26.4 percent of annual gross sales on labor, which is 1 percentage point less than the national average. However, their COGS expenditure of 30.1 percent is 1.3 percentage points higher than the national average, and contributes to an average profit margin that is 0.6 percentage points lower than the national average.

Phil Phipps owns Phipps Phast Oil Change Place in Edmond, Oklahoma. According to Phipps, car counts have fallen, but profits have remained steady during the past year.

## Sales

	National	Midwest	Southwest
% of gross sales used for:			
Payroll <sup>1</sup>	27.4%	26.9%	26.4%
Lease/Mortgage	13.0%	12.4%	12.4%
COGS <sup>2</sup>	28.8%	29.9%	30.1%
Net Profit	11.7%	11.3%	11.1%
Operations <sup>3</sup>	15.7%	15.5%	17.7%
Other <sup>4</sup>	3.5%	4.0%	2.4%

Yearly sales per store (number of employees):

\$0 - \$200,000	15% (3.4)	18% (4.1)	13% (3.5)
\$200,000 - \$400,000	37% (5.1)	43% (5.6)	38% (4.8)
\$400,000 - \$600,000	24% (6.8)	26% (7.2)	19% (7.2)
\$600,000 - \$800,000	14% (8.1)	9% (8.3)	17% (8.6)
\$800,000 - up	11% (10.4)	3% (12.0)	13% (11.0)

<sup>1</sup> Includes all payroll (taxes included), salary of owner (if "hands-on" employee), unemployment taxes, workers' compensation, health insurance, bonuses, etc.

<sup>2</sup> Includes materials and supplies necessary to perform services.

<sup>3</sup> 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.

<sup>4</sup> Dues, subscriptions, warranties, travel/entertainment, etc.

## Oil & Equipment

	National	Midwest	Southwest
Percentage of total sales represented by #1 brand of oil	81%	83%	76%
Percentage of customers committed to a specific brand of oil	42%	43%	54%
Percentage of operators who equate oil brand with success	63%	54%	76%
Operations that implement used oil for heating purposes	24%	38%	9%
Percentage of pits equipped with safety covers	73%	63%	82%
Operations that accept used oil from DIYers	76%	76%	75%
Operations that accept used oil filters from DIYers	54%	40%	57%
Operations that charge fee for accepting DIY used oil/oil filters	8%	11%	9%
Operators being paid for used oil	65%	84%	40%
How much	\$0.13	\$0.13	\$0.11
Operations that invoice customers for environmental fees	48%	39%	69%
Amount	\$1.51	\$1.41	\$1.59
Per gallon cost of highest volume bulk oil	\$4.48	\$4.61	\$4.63
Percentage of customers that buy synthetic lubricants	7%	8%	7%

# 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
Windshield wipers/blades replacement .....	99%	\$16.41	100%	\$16.13	99%	\$16.03
Air filter replacement .....	99%	\$13.36	99%	\$12.70	100%	\$13.33
Differential service .....	95%	\$26.70	87%	\$26.85	98%	\$28.38
Breather replacement.....	85%	\$5.32	88%	\$5.01	81%	\$5.13
Mechanical ATF exchange .....	85%	\$78.74	91%	\$77.43	94%	\$76.72
Serpentine belt replacement .....	84%	\$53.36	83%	\$53.03	92%	\$48.94
Additive sales .....	83%	\$12.37	76%	\$10.30	80%	\$14.13
PCV replacement .....	82%	\$6.30	87%	\$5.97	81%	\$5.93
Mechanical full-block coolant flushes.....	81%	\$55.13	77%	\$53.72	85%	\$54.96
Light replacement.....	75%	n/a	75%	n/a	89%	n/a
Fuel injector cleaning .....	74%	\$53.26	63%	\$53.30	84%	\$51.53
Fuel filter replacement .....	72%	\$32.54	57%	\$33.18	94%	\$30.50
Cabin air filter replacement .....	70%	\$34.60	69%	\$33.42	67%	\$35.67
Oil changes on RVs .....	76%	\$42.29	65%	\$37.54	78%	\$46.16
Chemical engine flush .....	68%	\$13.50	62%	\$10.35	71%	\$14.72
Tire rotation .....	58%	\$15.97	49%	\$16.12	45%	\$16.03
Maintain/replace batteries .....	45%	n/a	39%	n/a	40%	n/a
Radiator, heater, air conditioner hose replacement.....	37%	n/a	21%	n/a	29%	n/a
Air conditioner recharge .....	35%	\$74.09	22%	\$79.15	39%	\$59.99
Power steering flush.....	33%	\$52.16	21%	\$43.42	34%	\$51.04
Manual drain & refill of radiators .....	32%	\$41.09	25%	\$44.91	30%	\$38.72
Water-repellent glass treatments .....	32%	\$9.79	41%	\$10.58	22%	\$6.62
Perform tune-up service.....	27%	\$82.33	12%	\$108.57	32%	\$72.49
Windshield repair .....	14%	\$40.79	8%	\$42.13	20%	*
Portion of overall sales made up of fleet accounts .....	11%		11%		12%	
Number of vehicles per fleet.....	7.6		7.0		7.2	
Warranty work performed in last 12 months.....		\$1,350		\$951		\$2,081

\* insufficient data to calculate

n/a - not asked

# Employees

	National	Midwest	Southwest
Average length of employment for managers .....	4.7 yrs	4.7 yrs	3.9 yrs
Average length of employment for technicians .....	2.0 yrs	2.0 yrs	2.0 yrs
Average hourly rate paid to lube techs .....	\$8.00	\$7.86	\$7.63
Average annual salary paid to manager .....	\$32,850	\$30,919	\$32,718
Average annual salary paid to owner (if full-time employee).....	\$48,619	\$41,958	\$50,635

# Carwash

	National	Midwest	Southwest
Percentage of lube operations offering on-site carwashes .....	32%	31%	31%
Type of carwash:			
Full service .....	34%	10%	36%
Exterior tunnel .....	28%	45%	26%
In-bay automatic .....	34%	44%	26%
Self service .....	4%	2%	13%
Operators planning to add a carwash to an existing fast lube in the future .....	17%	13%	26%

“The economy is good in the area. Due to low interest rates, housing development is very good, and refinancing has been a boost to the area,” he said. “We see heavy competition due to all the mechanic shops that offer discounted oil changes. There are 11 oil change places within a four-mile radius. There are 13 full-service mechanical shops such as Firestone and approximately eight dealerships within seven miles from my store. When Wal-Mart completes their third store, it is expected that they’ll have an oil change shop in their parking lot. Overall, the environment is highly competitive.”

Paul Goyne owns four Texaco Xpress Lubes in the Dallas, Texas metro area. According to him, both car counts and profits are off as much as 25 percent this year.

“The economy was hit hard in North Dallas. Customers that still change their oil wait on other services. Our ticket average dropped nearly \$10 per car,” he said.

Goyne added that competition for three of his stores is heavy. Despite the downturn, Goyne is optimistic about the future.

“Our business is starting to pick back up,” he said. “I think it will take another year before we’re back in full swing.”

Others agreed.

“My car counts have risen this year; however, last year was my first year in the oil and lube business, so maybe I’m just getting ‘smarter,’” said Dale Erickson, owner of a Shell Rapid Lube in Albuquerque, New Mexico.

Erickson said that profits are up over last year, although not in relationship to his car counts. He did say that rising oil prices and insurance costs are conspiring with the rising cost of ancillary products to eat into his profits.

“Albuquerque never really experiences the boom and bust cycle of some cities,” he said. “We seem to just carry along at a softened version of the national economy’s ups and downs.”

With four other quick lubes within a mile of his facility, Erickson said competition is “keen.”

“They are competition, but on the other hand I’m a great referral source for their dissatisfied customers.”

Overall, Erickson, like Goyne, is optimistic.

“I think the lube business in Albuquerque still has a promising future. One needs to focus on service, service and more service to stand out.” ♦

