

West Coast/Mountain Regional Breakdown

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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. In October, 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. Last month, we examined the Midwest and Southwest regions of the country.

This month, we wrap up our regional breakdown series with a look at the Mountain and West Coast regions of the country.

West Coast

For purposes of this breakdown, we include the states of Alaska, California, Hawaii, Oregon and Washington into that region of the country we term the West Coast.

Lube operators from this region have been in the business an average of 7.6 years, and own an average of 2.5 facilities each. Operators report an average of 3.0 other fast lubes within three miles of their facilities, and an average of 7.5 other 'oil change' places within three miles. Both figures are substantially above the national average, meaning competition in this arena is stiff.

West Coast lube operators report charging an average of \$27.95 for a full-service oil change (or \$1.24 more than the national average). The COGS for each oil change amounts to an average of \$8.35, though, which is nearly 40 cents less than the national average.

Likely owing to the fierce competition in the West Coast region, lube operators from these states reported an average daily car count of 35.3, more than two cars per day less than the national average. Fortunately, the average ticket total of \$44.75 is more than \$5.50 higher than the national average, offsetting some of the car count difference.

Still, profit margins for West Coast fast lubes are at 11.0 percent, or 0.7 percentage points less than the national average, and this despite a COGS percentage that is nearly three points lower than the national average.

In the motor oil market share, Pennzoil leads the way, being listed as the 'house' motor oil by 29 percent of West Coast lube operators. Quaker State was a close second, with 22 percent of

operators listing the brand as their 'house' oil.

Bill Carbonel owns Sundance Car Care Center in Woodland, California. According to him, car counts are flat when compared with last year, but profits are up due to a rising ticket average.

"Our economic environment in California is dismal at best. However, we are placing a lot of hope in our new governor-elect," he said. "Our competition is heavy, with five quick lubes in a population of 50,000."

Carbonel said that his carwash business helps the fast lube considerably.

"The state of the lube business in our area is not very promising. Fortunately, we have a full-service carwash and our lube volume is in direct proportion to our wash volume. And we still wash a lot of cars."

Jack Anthony owns the 7 Flags Car Wash & Lube Center in Vallejo, California. According to him, the West Coast lube business is in good shape.

"Car counts are down because of management issues on our part, but profits are up slightly for the year," he said. "The economy here in northern California is soft, but competition in the area is only moderate. Overall, the lube industry would appear to be in good shape in this area."

Mountain

For our purposes, we include the states of Colorado, Idaho, Montana, Nevada, Utah and Wyoming in the region we label the Mountain states.

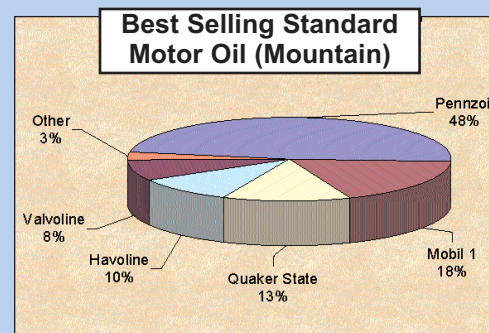
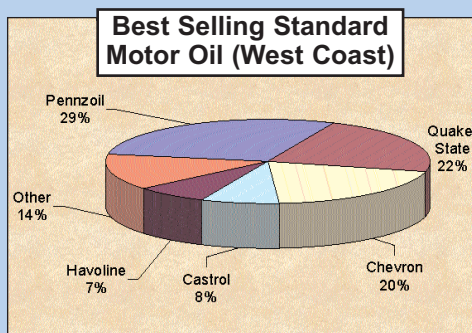
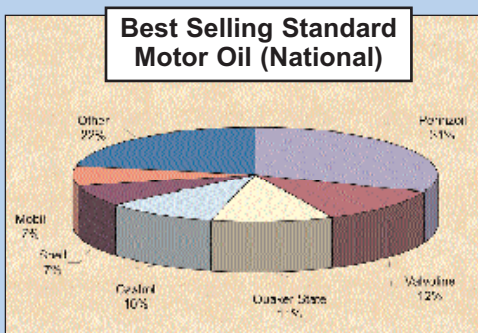
In examining the vital statistics for this region, we find that the average lube operator in these states has been in business for 7.9 years, slightly less than the national average. Each owner operates an average of 1.7 facilities, and each facility has an average of 2.9 bays.

Mountain region lube operators report that there is an average of 2.3 other fast lubes within three miles of their business(es), and an average of 4.9 other 'oil change' places within three miles.

The average daily traffic count in front of stores in this region is 16,877.

Operators in the Mountain region indicated they charge an average of \$29.31 for a full-service oil change. Their cost of goods (COGS) for said oil change was an average of \$8.50.

Mountain region lube operators reported an average daily car



count of 40.5 cars serviced, which is nearly three cars per day higher than the national average. Further, their average ticket total of \$44.30 is more than \$5 per car higher than the national average.

This helps to explain the fact that Mountain lube operators reported an average profit margin of 13.7 percent, or 2 percentage points higher than the national average. This is despite a higher-than-average payroll percentage and a slightly higher-than-average COGS percentage.

With a market share of nearly 50 percent, Pennzoil is by far the most popular motor oil among lube operators in the Mountain region. The next-most frequently cited 'house' motor oil was Mobil, which was listed as the top-selling motor oil by 18 percent of lube operators.

So how are lube operators in the Mountain states really doing?

Gil Grosso owns Rapid Lube in Woodland Park, Colorado. According to him, the lube business is difficult right now. His car counts are down and his cost of goods is up, which has reduced profits.

"Two new lube businesses have opened within a three-mile radius in the last six months," he said. "Customers seem to be waiting longer between oil changes, averaging between 4,000 and 5,000 miles. The economy is down, unemployment is up, many people are being laid off and good jobs are hard to find."

According to Grosso, his business is down about 25 percent for the year.

Other lube operators in the region haven't seen quite the problems faced by Grosso.

"We have experienced a decrease in both car counts and profits, but I don't know how much is due to the manager that we had," said Gene Peppin, owner of Finish Line Express Lube in Denver, Colorado. "Recently, I replaced the entire staff at this location, and even though we haven't seen an increase in car counts at this point — it's been three weeks now — we have seen a major increase in our average sales per car, which leads me to believe that the new personnel, additional services and cleaning the place up is starting to show some results."

Peppin said that the economy in the Denver area is fair, though

West Coast/Mountain Regional Breakdown

Operations

| | National | West Coast | Mountain |
|---|-----------|------------|-----------|
| Number of facilities per response | 1.8 | 2.5 | 1.7 |
| Years in the fast lube business | 8.2 | 7.6 | 7.9 |
| Number of bays per facility | 3.0 | 3.0 | 2.9 |
| Fast lubes within three miles of respondent | 2.4 | 3.0 | 2.3 |
| Oil change facilities within three miles of respondent | 5.5 | 7.5 | 4.9 |
| Competitors discounting their oil changes..... | 81% | 88% | 80% |
| How much? | \$4.75 | \$5.72 | \$4.00 |
| Operators discounting their own oil changes | 67% | 78% | 75% |
| How much? | \$3.51 | \$3.95 | \$3.31 |
| Population within three-mile radius of operators best store | 33,534 | 34,946 | 35,389 |
| Daily traffic count in front of best store | 21,755 | 20,964 | 16,877 |
| Number of operators who will open new stores in next 12 months..... | 0.3 | 0.4 | 0.2 |
| Percent of business that is repeat | 73% | 74% | 65% |
| Percentage of business that is oil change..... | 75% | 66% | 75% |
| Operators planning to sell their facilities next year | 6% | 3% | 5% |
| Within five years | 21% | 17% | 15% |
| Price of standard, full-service LOF & multipoint check | \$26.71 | \$27.95 | \$29.31 |
| Cost of goods sold for standard, full-service LOF | \$8.73 | \$8.35 | \$8.50 |
| Operators who offer basic, low-cost LOF service | 26% | 22% | 40% |
| How much? | \$21.89 | \$22.32 | \$24.18 |
| Operators who offer up-scale/premium LOF | 63% | 54% | 75% |
| Price of up-scale/premium LOF, if offered | \$44.33 | \$48.37 | \$49.73 |
| Operators increasing LOF price in the past 12 months | 51% | 68% | 35% |
| How much? | \$1.47 | \$1.52 | \$1.29 |
| Ticket total | \$39.18 | \$44.75 | \$44.30 |
| Number of cars serviced per day..... | 37.6 | 35.3 | 40.5 |
| Break-even car count..... | 24.8 | 23.8 | 26.4 |
| Building cost for most recent fast lube | \$296,681 | \$335,353 | \$316,500 |
| Land cost for most recent fast lube | \$162,866 | \$181,938 | \$199,364 |
| Equipment cost for most recent fast lube | \$43,166 | \$58,208 | \$49,750 |
| Customer base that is female | 50% | 49% | 49% |
| Operators reporting customers extending o/c intervals..... | 85% | 75% | 80% |
| Miles customers drive between oil changes | 4,372 | 4,382 | 4,054 |

unemployment is still fairly high in the market.

"We also own a number of Shell stations, and are seeing flat sales at these locations also," Peppin said.

Competition in Peppin's area is light, with only two other locations within four miles of Finish Line Express Lube, plus one Firestone tire store that occasionally runs oil change specials.

"I feel pretty good about the fast lube business in Denver," Peppin said. "I really believe that a lot of our problems have been our own doing, and that we are now on the right course. The business is strong enough where I would consider purchasing another unit if the right opportunity presented itself." ♦

Sales

| | National | West Coast | Mountain |
|----------------------------|----------|------------|----------|
| % of gross sales used for: | | | |
| Payroll ¹ | 27.4% | 26.2% | 29.6% |
| Lease/Mortgage | 13.0% | 11.4% | 10.9% |
| COGS ² | 28.8% | 26.1% | 29.1% |
| Net Profit | 11.7% | 11.0% | 13.7% |
| Operations ³ | 15.7% | 19.7% | 13.9% |
| Other ⁴ | 3.5% | 5.5% | 2.8% |

Yearly sales per store (number of employees):

| | | | |
|-----------------------|------------|-----------|------------|
| \$0 - \$200,000 | 15% (3.4) | 9% (2.3) | 4% (2.0) |
| \$200,000 - \$400,000 | 37% (5.1) | 19% (4.3) | 21% (7.0) |
| \$400,000 - \$600,000 | 24% (6.8) | 30% (6.9) | 42% (6.6) |
| \$600,000 - \$800,000 | 14% (8.1) | 21% (8.9) | 21% (6.5) |
| \$800,000 - up | 11% (10.4) | 21% (9.8) | 13% (10.5) |

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

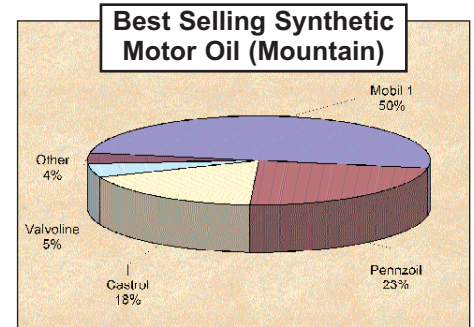
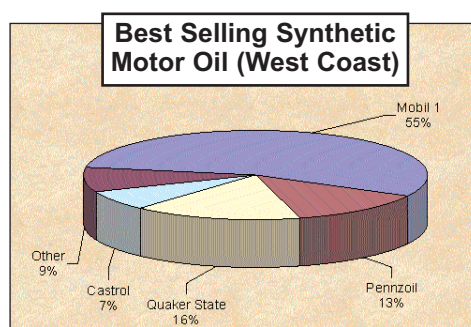
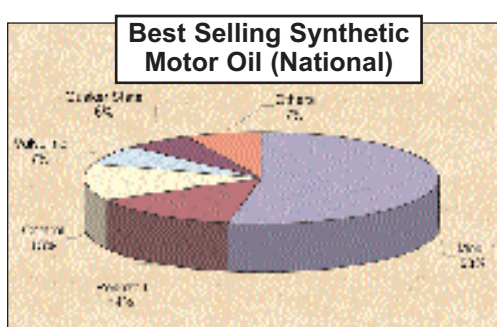
² Includes materials and supplies necessary to perform services.

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 | West Coast | Mountain |
|---|----------|------------|----------|
| Percentage of total sales represented by #1 brand of oil | 81% | 85% | 76% |
| Percentage of customers committed to a specific brand of oil | 42% | 29% | 33% |
| Percentage of operators who equate oil brand with success | 63% | 56% | 59% |
| Operations that implement used oil for heating purposes | 24% | 6% | 55% |
| Percentage of pits equipped with safety covers | 73% | 82% | 72% |
| Operations that accept used oil from DIYers | 76% | 72% | 50% |
| Operations that accept used oil filters from DIYers | 54% | 52% | 28% |
| Operations that charge fee for accepting DIY used oil/oil filters | 8% | 3% | 34% |
| Operators being paid for used oil | 65% | 59% | 45% |
| How much? | \$0.13 | \$0.12 | \$0.12 |
| Operations that invoice customers for environmental fees | 48% | 62% | 48% |
| How much? | \$1.51 | \$1.63 | \$1.40 |
| Per gallon cost of highest volume bulk oil | \$4.48 | \$4.18 | \$4.19 |
| Percentage of customers that buy synthetic lubricants | 7% | 7% | 9% |



Services

| | National | | West Coast | | Mountain | |
|--|-----------------------------------|-----------------------|----------------------|-----------------------|----------------------|-----------------------|
| | 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 | 99% | \$17.80 | 100% | \$16.68 |
| Air filter replacement..... | 99% | \$13.36 | 100% | \$14.28 | 100% | \$11.93 |
| Differential service | 95% | \$26.70 | 98% | \$26.31 | 100% | \$26.87 |
| Breather replacement..... | 85% | \$5.32 | 88% | \$4.86 | 95% | \$5.01 |
| Mechanical ATF exchange | 85% | \$78.74 | 75% | \$85.19 | 98% | \$83.04 |
| Serpentine belt replacement | 84% | \$53.36 | 72% | \$55.33 | 93% | \$54.52 |
| Additive sales | 83% | \$12.37 | 85% | \$14.85 | 80% | \$13.86 |
| PCV replacement..... | 82% | \$6.30 | 83% | \$6.98 | 68% | \$6.32 |
| Mechanical full-block coolant flushes..... | 81% | \$55.13 | 94% | \$57.67 | 85% | \$63.91 |
| Light/bulb replacement..... | 75% | n/a | 60% | n/a | 85% | n/a |
| Fuel injector cleaning | 74% | \$53.26 | 62% | \$59.98 | 70% | \$47.79 |
| Fuel filter replacement | 72% | \$32.54 | 63% | \$36.14 | 85% | \$31.99 |
| Cabin air filter replacement | 70% | \$34.60 | 86% | \$39.52 | 73% | \$32.09 |
| Oil changes on RVs | 76% | \$42.29 | 84% | \$44.12 | 100% | \$41.17 |
| Chemical engine flush | 68% | \$13.50 | 88% | \$13.81 | 73% | \$18.74 |
| Tire rotation | 58% | \$15.97 | 49% | \$15.45 | 35% | \$17.18 |
| Maintain/replace batteries | 45% | n/a | 51% | n/a | 28% | n/a |
| Radiator, heater, air conditioner hose replacement..... | 37% | n/a | 36% | n/a | 35% | n/a |
| Air conditioner recharge..... | 35% | \$74.09 | 39% | \$79.15 | 20% | * |
| Power steering flush..... | 33% | \$52.16 | 34% | \$46.33 | 35% | \$62.49 |
| Manual drain & refill of radiators | 32% | \$41.09 | 19% | \$36.00 | 50% | \$50.49 |
| Water-repellent glass treatments | 32% | \$9.79 | 24% | \$8.72 | 33% | \$8.00 |
| Perform tune-up service..... | 27% | \$82.33 | 32% | \$77.85 | 18% | \$64.00 |
| Windshield repair | 14% | \$40.79 | 7% | \$49.98 | 33% | * |
| Portion of overall sales made up of fleet accounts | 11% | | 12% | | 12% | |
| Number of vehicles per fleet..... | 7.6 | | 7.1 | | 5.2 | |
| Warranty work performed in last 12 months..... | | \$1,350 | | \$2,265 | | \$2,178 |

* insufficient data to calculate

n/a - not asked

Employees

| | National | West Coast | Mountain |
|--|----------|------------|----------|
| Average length of employment for managers | 4.7 yrs | 4.4 yrs | 5.2 yrs |
| Average length of employment for technicians | 2.0 yrs | 2.0 yrs | 1.9 yrs |
| Average hourly rate paid to lube techs | \$8.00 | \$8.60 | \$8.05 |
| Average annual salary paid to manager | \$32,850 | \$37,729 | \$34,445 |
| Average annual salary paid to owner (if full-time employee)..... | \$48,619 | \$41,922 | \$49,750 |

Carwash

| | National | West Coast | Mountain |
|--|----------|------------|----------|
| Percentage of lube operations offering on-site carwashes | 32% | 48% | 31% |
| Type of carwash: | | | |
| Full service | 34% | 56% | 17% |
| Exterior tunnel | 28% | 42% | 50% |
| In-bay automatic | 34% | 0% | 33% |
| Self service | 4% | 2% | 0% |
| Operators planning to add a carwash to an existing fast lube in the future | 17% | 29% | 4% |