

# Finish Line

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*Expo & Bus Tour*  
JUNE 19 - 21 | DETROIT

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# FROM THE PRESIDENT



By Paul Coffman, Breton Auto Wash

## SUMMER IS ALMOST HERE, GRAB YOUR TOOLS!

First, I am really looking forward to seeing all of you at the Expo at the new location for 2017, Motor City Casino in Detroit, in a couple of weeks and the bus tour of washes in the area. We had tremendous success with the bus tour on the west side of Michigan and anticipate equal, if not better attendance for the east side of Michigan tour.

The more the merrier, hope to see you at these events. We would really like to have you attend!

Summer is almost officially here and we see improvements and updates occurring all around us. Road work, landscaping, home improvements and other businesses around us are getting new looks. Some operators may overlook the little things or put them off for later. I have come to learn that if you put off the little things that should be fixed now, they turn into big problems later down the road. Better to spend a little money, than a lot of money if you can. What are you doing to improve or update your car wash for the people that count the most, your customers?

When car counts are lower, that is when I do as many of my improvements on my building as possible. The top two reasons I chose the summer months are the nicer weather for outside projects and keeping staff busy. Winter can be harsh on the exterior of buildings, and the exterior of your wash is the first thing a customer is going to see. Peeling paint, rust, cracks in the concrete, dirty siding, worn signage and dirty windows are all things customers draw their impressions on the type of service they will receive.

Through the years, I've found that getting an outside opinion about what needs "fixing" in my wash is a great tool every summer. You can't always see the little things that can be improved, that will help your business look fresh and new. Don't forget about your employees! Uniforms can become faded, ripped, or just generally nasty over the winter.

A good business owner takes a real good look at their wash. A great business owner does the improvements.

~Paul



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# FINANCING YOUR CARWASH CONVERSION TO AN EXPRESS MODEL

By Jeff Rauth

**H**ello fellow Midwest Carwash Association members!

A lot of the owners I talk to want to convert their existing tunnel wash into an Express. The desire to do so is based on a couple of factors - to reduce employee headaches, to promote monthly memberships, update tired equipment, refresh/modernize the appearance of their car wash and of course to make more money with less work!

The unlimited wash/monthly membership strategy is appealing to both the owner and banks as it helps reduce the inherit cash flow lumpiness of the car wash business. I have owners joke around with me how they love to look at their accounts on the first of the month when all their members get auto billed.

But how do you finance these renovations? How can you do so without tying up a ton of cash into your wash? And how do you do it if you currently have an existing mortgage? These and other related questions is what I'll attempt to answer below. These are real world solutions that I personally have done on closed car wash loans here in MI and around the US.

## COSTS

First of all I'm seeing new equipment costs in the \$300,000 to \$600,000 range on a typical 120' tunnel. New construction is also typically the same at around \$300,000 to \$600,000. With an average cost of \$800,000 total we're talking about a lot of money which most operators can't self finance so they need a loan. Which also means the deal will have to have an appraisal.

## SOLUTION

The best solution is to use the existing equity in your wash as your "down payment" to finance the costs discussed above. A key point here is that you do NOT need to have enough equity to cover all the costs, you just need enough to cover the typical "injection", which is normally 15% of the total project cost. Said in

another way your max loan to value on a renovation project will likely be 85% of the Total Project Costs.

Here is an example:

*\$1,000,000 Current "As Is Value"*

*\$600,000 Existing Loan Balance*

*\$800,000 New Construction and New Equipment*

There is \$400,000 of equity in the above example which can be used to finance the \$800,000 of improvements without you coming in with any more cash. The "As Completed Value" would be \$1,800,000 (\$1,000,000 "As Is Value" + the \$800,000 of improvements) and your total loan balance, after refinancing the existing loan, would be \$1,400,000 (\$800,000 new construction and equipment + existing balance of \$600,000). The Loan to Value (LTV) would be 77%. Again, in this example you would NOT need to bring any cash to the closing table since your LTV is less then 85%.

What if you don't have that much existing equity? Say your existing LTV is 80% not the 60% used above. Here you can still use your existing equity but you will likely need to add some cash to make it work, probably around 4% of the Total Project Costs.

Here's another example:

*\$1,000,000 Current "As Is Value"*

*\$800,000 Existing Loan Balance*

*\$800,000 New Construction and New Equipment*

There's \$200,000 of equity. "As Complete Value" is \$1,800,000. Max loan amount would likely be 85% of the "As Complete Value" so approximately \$1,530,000. So you would have to bring to close approximately \$70,000 to complete the project or 4% of the Total Project Costs.

## ESTABLISHING EXISTING "AS IS VALUE"

More details. Unfortunately there is a lot that goes into valuing a car wash and establishing the current "As Is Value". It seems like each appraiser tweaks

their method a bit so it can be tricky to predict how a value will come out. One way to cross reference and get a feel for what your wash might appraise for is the Capitalization Rate Approach (Cap Rate). This is one of the methods used in the Income Approach. Here in the Detroit market we continue to see Cap Rates around 12% for stabilized car washes. Western Michigan should also be about the same and up north will likely be a little higher. So look at your tax returns to see what you reported as your Earnings before interest, tax, depreciation and amortization (EBITDA). Take your EBITDA and divide that number by 12% to get a feel for what your wash should appraise at.

For example, if your EBITDA was \$120,000 then your wash will likely appraise for approximately \$1,000,000. Again, its not quite this simple but this should give you an idea.

## PROJECTED "AS COMPLETE VALUE"

Surprisingly, predicting the "As Complete Value" is easier then establishing the "As Is Value". Here it is primarily a function of adding up all of the construction and equipment costs. Most appraiser then backed up these costs with a projected Income Approach.

So most appraisers will also do a Proforma of the future income then apply a Cap Rate to the projected EBITDA to back up the Cost Approach. They create their projections off of a couple of factors - traffic count, days open per year, capture rate, average ticket, then average margin off of gross sales.

Here's another example:

30,000 cars per day

260 open days per year

1% capture rate

\$8 average ticket per wash

38% cash flow margin of gross sales

So 30,000 cars drive by the wash per day. It's open 260 days per year. When its open for business 1% of the cars that drive by will get a wash which means the owner should wash 78,000 cars per year. At an average ticket of \$8 that means the gross sales should be \$624,000. With a 38% margin the wash should produce about \$237,000 of cash flow. With the 12% Cap Rate mentioned above the projected

value should be \$1,976,000 (again from an income approach).

## CONCLUSION

Bottom line – if you own an existing wash, you can likely use your existing equity in it to either get 100% financing to complete your Express conversion or at least reduce your cash injection. You do NOT need enough equity to cover all the costs, just a fraction of it. Having the right traffic count to justify the projected sales and projected cash flow is critical. Competition continues to increase and the Express model with unlimited wash/monthly memberships is a great way to take out the cash flow ups and downs inherent in the business and build some customer loyalty. This is a real world solution that has worked for a lot of owners here in Michigan and throughout the country. Best of luck and hope you got something out of this!

*Jeff Rauth is a commercial loan officer at a bank that funds car washes nationally. Conversions, purchase, refinances, renovations and full ground up construction financing is available. Loan amounts up to \$5,000,000 with financing up to 90% loan to value. You can contact Jeff at 248 885-8797, [jrauth@cfa-commercial.com](mailto:jrauth@cfa-commercial.com) or visit his blog at <http://www.cfa-commercial.com/car-wash-loans/>.*

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# Expo & Bus Tour

JUNE 19 - 21  
MOTORCITY CASINO HOTEL

You will not want to miss our 2017 combined Expo and Bus Tour! In 2017 we move to the Motor City and specifically the state of the art MotorCity Casino Hotel in the heart of Detroit's revamped downtown.

Plan to attend and experience everything MCA has to offer: exhibits, educational sessions, networking, and a chance to visit four state-of-the-art washes in the metro region. All of this centered in Detroit's premier casino featuring over 2,800 slots, 59 table games, and much more.

## SCHEDULE

### MONDAY, JUNE 19<sup>TH</sup>

1:00 PM - 7:00 PM Exhibitor Set-Up

### TUESDAY, JUNE 20<sup>TH</sup>

9:00 AM - 10:00 AM Registration

10:00 AM - 5:00 PM Trade Show Expo Open

5:00 PM - 9:00 PM Exhibitor Tear Down

6:00 PM - 8:00 PM MCA Annual Dinner

### WEDNESDAY, JUNE 21<sup>ST</sup>

7:00 AM - 12:00 PM Exhibitor Tear Down

9:00 AM - 10:00 AM Continental Breakfast

10:30 AM - 2:00 PM Carwash Tour

*\*This schedule is subject to change, check our website for the most up to date schedule.*

## TOUR LOCATIONS

- Canton City Car Wash (Canton)
- Jax Kar Wash (Southfield)
- Paul's Auto Wash (Clawson)
- Pro Car Wash (Troy)

## MCA ANNUAL DINNER

Join us for dinner, awards and networking on **June 20th** following the show. Dinner, including a hosted bar, is \$55 per person. Bring your staff, co-workers and customers for a fabulous meal and networking. Each registered exhibitor can receive one complimentary ticket, see details on registration form.

**FOR MORE INFORMATION AND TO REGISTER VISIT**

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Names of Attendees (attach list of names to this form if more space is needed) \_\_\_\_\_

EVENT	MEMBER	NON-MEMBER	NUMBER ATTENDING	SUB-TOTAL
Expo Show Floor & Fast Talks Tuesday, June 20th	\$10	\$20		
Carwash Bus Tour (non-member rate includes membership) Wednesday, June 21st	\$59	\$110		
Awards Reception & Dinner Tuesday, June 20th (must RSVP by June 13th)	\$55			
2017 Midwest Carwash Association Membership <b>SHOW SPECIAL</b>		<del>\$150</del> <b>\$110</b>		
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# GOING BEYOND THE CATALOG APPROACH FOR CARWASH EQUIPMENT

*Brush manufacturer willingness to customize a range of options is helping operators adapt to market changes and optimize their process*

By Dan Pecora, Erie Brush and Manufacturing Corporation

In the conveyor car wash industry everyone wins when car wash owner-operators can thrive by offering customers a better wash while still maintaining a healthy profit margin.

Yet as vehicle dimensions change and people further customize their cars and wheels, the standard catalog options are often not enough to get vehicles clean without taking additional time, labor, and resources. While modifications to standard catalog equipment options can accommodate these changes, traditionally most manufacturers – particularly those overseas – are not willing to do this.

However, some North American brush manufacturers are aiming for a more collaborative approach with operators. This includes customizing a wide number of options, such as special colors that correspond with your logo, foam taper and length, cloth taper and length, or filament taper, length, width, height, longevity, and even mounting capability. These allow an owner to accommodate market changes and provide a superior wash while enhancing the bottom line.

## CLEANER WHEELS FOR LESS

For Earl Weiss, owner of four conveyor car wash locations in Chicago, IL, one of the biggest challenges is cleaning wheels when dirt and brake dust gets into the nooks and crannies and typical cloth or foam material does not sufficiently get it out.

“If you run a low price exterior wash, it really hurts your profit margin to spend an extra 20-30 cents a car for high pressure water and cleaning solutions, plus the cost of electricity and equipment, just for the wheels,” says Weiss.

Weiss believes he has found a better, less costly approach to clean wheels that uses his existing equipment with some modification from his supplier.

He has customized his rocker panel, side, and wrap around brushes, substituting filament for cloth in a number of areas, such as on the bottom 10” for lower details, and on the bottom 20” for van high side brushes.

“Using equipment rotating in opposite directions, I clean the wheel about four times with filament,” says Weiss. “I get a nice clean wheel at a much lower cost than using high pressure water and cleaning solutions.”

The key to this, says Weiss, is how his supplier figured out a way that allows filaments to easily slide into the c-channel core that secures cloth and foam to his rocker panel, side, and wrap around brushes.

“The filament pieces slide in and out so I don’t have to change brush cores,” says Weiss. “I just tell my equipment supplier the length and height of filaments I want, and I get them. I’m experimenting to find the best combination of filament and cloth.”

Weiss encourages other car wash owner operators to think “out of the box” by going beyond standard brush options.

“Car wash equipment manufacturers may think they have the latest and greatest, but until it is put into operation they don’t really know what the issues will be,” says Weiss. “I’ve found that customizing my brushes and filaments gives me the flexibility I need to optimize my wash process.”

## CUSTOM CLEANING COVERAGE

As maintenance manager for the Boise, Idaho region of Mister Carwash, the largest full-service car wash chain in the United States, Tim Biagi is always looking to improve operations.

To optimize cleaning for a variety of challenging vehicle types, Biagi experiments with the taper of certain brushes and with cloth and foam lengths. Instead of the stepped brush filaments common in the industry, which resemble “stair steps” and leave a coverage gap between each “step”, he prefers tapered brushes from his brush manufacturer, which he feels provide better cleaning coverage over vehicle surfaces.

“We may change the taper on the upper part of a wrap around or van brush, so the brush taper better fits the contours of the vehicles we clean, which have become more aerodynamic and less boxy over the years,” says Biagi. “We change cloth or foam length to better clean the tops of taller vehicles like vans, trucks, or SUVs. Our supplier will modify brush taper as well as cloth and foam length to our specifications.”

To reach higher on tall vehicles, which have grown taller in the market, he also requested a taller rocker panel brush. This required a longer custom brush core and an adapter plate. “Our original rocker panel brush was 21” high, and the ones we use now are 26” high,” says Biagi.

When he noted that his high volume operation was wearing out rocker panel brush cores too quickly, he contacted his brush manufacturer to see what could be done to lengthen life.

“They created a core with a special coating that has extended our brush core life by at least 50%, and we haven’t changed it yet,” says Biagi.

He again sought the help of his brush manufacturer to handle the faster wear at the bottom of his wrap around foam brush cores, due to the many vehicles with trailer hitches going through his washes.

“The bottom part of the brush core was wearing out twice as fast as the top, so they made us a two piece core,” says Biagi. “This makes it easy to replace the bottom part separately to further lengthen core life.”

## GETTING INTO TIGHT SPOTS

When Doug Seniw, co-owner of Prairie State Express Car Wash, an exterior express car wash in Chicago, IL, sought a better way to clean vehicle nooks and crannies, which have become more common with modern styling, he turned to his brush manufacturer.

“On automated equipment, the wider cloth and foam slits just don’t clean well because they don’t get into tight spots, such as car styling grooves or under and around side mirrors,” says Seniw. “There are a lot of missed spots.”

Seniw requested custom narrow cloth and foam slits for his tall side cloths, lower detail cloths, and wrap around brushes.

“With the thinner slitted strips our brush supplier provided, we’re cleaning nooks and crannies much better,” says Seniw. “Our mirrors, bumpers, and license plates are cleaner. We clean it once, we clean it right, and we get no customer comebacks or touch ups.”

As operators work with manufacturers that customize brush and filament options to suit these changes, they will not only wash vehicles better and more efficiently, but also more profitably.

Pecora is the owner of Erie Brush & Manufacturing (eriebrush.com). In business since 1948, Erie Brush provides car wash owners with brushes and auto detailing supplies made in the United States. Pecora has over 50 years of experience in the industry and he and his father Carlo opened the first exterior car wash in Wisconsin in 1962.

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