



International Carwash Association™
Your Partner for Success

2009 Leadership Summit

Final Report

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INTRODUCTION

Dear Reader,

At Car Care World Expo™ 2009, International Carwash Association™ President Lisa Lyons announced a new Association sponsored event for the benefit of the professional car wash industry – the Leadership Summit. The primary goals of the Summit were to 1) facilitate a dynamic exchange of opinions and viewpoints on the status of, and trends affecting, the professional car wash industry and 2) provoke thinking and innovation within the industry by publishing an executive summary of the meeting discussions.

On June 15th and 16th, twenty leaders from the supply and operator segments of the industry were invited by the Association's Committee on Market Strategy to participate in this inaugural event at International Carwash Association headquarters in Chicago, Illinois. While the participants' backgrounds were varied, their interest in learning and sharing was passionately shared. I thank them because without their commitment this report would not be possible.

This account of the day's conversations is broken into three major topic areas: consumers, suppliers and opportunities. The goal of this event was not to reach conclusions, and you'll therefore find few in the pages that follow. But, it is my hope that sharing this information will encourage you to reevaluate your business and perhaps even reconsider some of your assumptions. In a challenging macro-economic environment and within a dynamically changing industry, one certainty is that car wash professionals must not resist change but evolve to succeed.

International Carwash Association's mission is to serve and advance the global car wash community. This inaugural Leadership Summit is another example of how we put those words to action.

Sincerely,

A handwritten signature in black ink, appearing to read 'EPW', with a stylized flourish extending to the right.

Eric P. Wulf, CAE
Executive Director & CEO

MEETING SUMMARY

The Leadership Summit was called to order on June 16th, 2009 by International Carwash Association President Lisa Lyons. Introductory comments were provided by Executive Director & CEO Eric Wulf and an overview of anti-trust considerations and related conversational boundaries was provided by General Counsel Bruce Kramer. The day's program was facilitated by David Schmahl of SmithBucklin Corporation.

Topic Area One: Consumers

Participants observed that evaluating and responding to the needs and behaviors of customers was paramount for the industry. Some of the key areas of discussion included:

Value Perceptions and Expectations

Much interest surrounded what the participants assessed to be an increased focus on value by the consumer. While this could be expected in today's economic environment, the group considered whether or not a "sea change" was occurring whereby consumers would increasingly perceive car washes to be a lower priced product or service. A comment was made by a car wash operator that the apparent growth and popularity of exterior only car washes could be creating the effect of a consistent, national expectation for wash cost and service level. It was also recognized, however, that operators who emphasized value, even at higher price points or, for example, through the use of flat-fee unlimited use "wash clubs" seemed to be experiencing strong customer response. The consensus was that almost all customers have increased their focus on the value they receive from purchasing a car wash, and more was being done to compare competitor and wash type offerings.

Environmental Awareness and Affinity

It was noted that even with the economic downturn, consumers' interest in "green" products and services seemed to remain strong. The Association's *2008 Study of Consumer Car Washing Attitudes and Habits* confirms that while consumers are increasingly drawn to environmentally friendly businesses, car wash customers do not yet fully appreciate the industry's positive environmental attributes. Those within the industry (and increasingly, those within the water supply and conservation professions) know that professional car washes use less fresh water than ever before, draw upon a small percentage of water in a city or region, and serve the valuable role of properly treating and/or routing effluents picked up from roadways and used during the wash process to treatment facilities prior to release into the environment.

Particularly strong discussion centered on the Association's *WaterSavers™* program: how it had begun to provide a truly national (and international) foundation for carrying

this message to the public, and how the program deserved additional support from the Association, its members and the professional car wash industry. Initiatives such as this, or other options for carrying a consistent, professional and accurate consumer message, were deemed to be of particular importance.

Driving Habits and Demographics

An area of great interest was the citing of a recent study reporting that the total miles driven in the United States dropped in 2008 (and the first quarter of 2009) for the first time in nearly a generation. Even a single digit percentage decline in driving equates to *billions* less miles traveled, and presumably less vehicle exposure to road grime and nature's elements. The "wash club" concept was cited as one way operators could respond to potential decreased demand by providing their customers with greater flexibility and their businesses with greater revenue consistency. A remark was made that if wash frequencies decreased, another way operators could respond would be by targeting new customers (e.g. at-home car washers) with new or improved messages concerning the environmental benefits of professional car washing.

Several participants wondered how an apparent decline in the number of leased vehicles on the road would affect consumer behavior, particularly if the assumption were true that owners of newer vehicles placed more emphasis on appearance. Another asked if car rentals were increasing, specifically citing the advent of the new shared car businesses that are becoming prevalent in urban areas, and how those trends could affect wash frequency and demand.

Finally, the participants also engaged in an evaluation of how the aging of the typical car wash customer could affect the industry. Examples from other industries were cited where customer interfacing processes (whether automated point-of-sale terminals or human greeters) were modified to accommodate older customers, such as larger signage fonts or less technical jargon. It was also noted that car wash models in which the customer loads their own vehicle into the bay or onto the conveyor could be modified to provide a more suitable process for older customers.

Topic Area Two: Suppliers

Much of the day's discussion centered on changes to the supplier segment, whether that be in manufacturing, marketing or distribution.

Changes in Distribution

It was noted there is greater pressure than ever before for distributors to compete on service, rather than price and product alone. Car wash operators are increasingly demanding that distributors carry various (including competing) lines of car wash equipment and supplies, and be able and willing to service equipment purchased elsewhere.

A participant noted that many distributor companies were able to fulfill the needs of their customers by sourcing non-original parts, or original parts from manufacturers even without a distribution agreement. For an industry that has traditionally functioned with somewhat exclusive distribution agreements, this creates challenges and opportunities.

Some noted that new entrants to the car wash industry were much less apt to service or install their own equipment and therefore service quality and consistency was more important to these operators than simply the price of parts (particularly because pricing information is more readily available and comparable than ever before). Some distributors have seized upon this opportunity by building large organizations to handle the demands of corporate/category car wash owners with multiple sites and little interest in building an internal service capability.

Manufacturer Evolution

Summit participants' observed that while there has been rumbling in the industry about potential supplier consolidations, very few had actually occurred. Most believed this to be more a function of the restricted capital markets than the true opportunities (and likelihood) for mergers or acquisitions. Several commented that consolidation has been, and would continue, to affect not just manufacturers, but also distributors.

As pricing information becomes more readily available to car wash operators and distributors, manufacturers are finding it increasingly necessary to emphasize product attributes (e.g. quality, reliability, lifetime cost of ownership, etc.) and service capability. One participant shared a concern about the sustainability of the service and distribution channel. Consistent with earlier observations, he remarked that distributors who weren't embracing the new service-focused model were disappearing – making it challenging for some manufacturers to ensure their products stayed available in those markets.

Nearly all the participants agreed that capital expenditure budgets and schedules were being pushed to their limits, particularly in the petroleum retailing segment of the industry. It was noted that because of this there could be tremendous opportunity once the lending environment improves and as the ownership of those sites evolves.

Marketing Channels

Several questions were raised about how suppliers could better measure return on their marketing channel investments. A specific example was in the trade show space. With more than a dozen state, regional and national car wash trade shows in the United States (not to mention trade shows that feature car wash supplies as an ancillary category), some participants felt that opportunity existed for exhibitors to better define their objectives and, perhaps, more tightly focus their spending. Further, some observations were made that similar types of return on investment evaluations were difficult to make in print and online advertising. Overall, there appeared to be greater interest today in measuring value, much like as was noted previously with car wash customers.

Topic Area Three: Opportunities

Several Summit participants confessed to entering the day with more doubts than confidence about the current condition of the industry. By the end of the day, it was apparent the day's conversations focused more on opportunities than challenges. Some specific additional points of optimism:

Weather trumps all. While there is no cure yet for bad weather, the belief behind this comment is that when the weather is good, professional car washing is still a profitable business. It is not insulated from external economic factors, but it is perhaps more resilient than some realized.

“Resets” create opportunity. Compressed valuation multiples and depressed real estate prices, while unwelcomed by most, create growth opportunities for others.

Image is everything. Professional car washing is increasingly being viewed as a “good partner” for developers and municipalities. Our industry's environmental practices and performance are particularly gaining the attention of water regulators, many of whom are now promoting our services on our behalf.

Finally, the day ended with a deep discussion about the need for the professional car wash industry – led by International Carwash Association – to gather meaningful data for the benefit of suppliers, operators and investors. Several concepts were considered, and the Association committed to providing the leadership necessary to advance this cause.

PARTICIPANTS

Bruce Arnett, Jr., Chief Operating Officer
Carnett's Car Washes
Agile Pursuits/Mr. Clean Car Wash

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Integrated Services, Inc.

Ken Brott, Vice President
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Stephen Wade, President
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International Carwash Association Representatives:

Megan Clark, Director of Operations
Bruce Kramer, General Counsel
Lisa Lyons, President
Eric Wulf, Executive Director & CEO

ADDITIONAL RESOURCES

Study of Consumer Car Washing Attitudes and Habits

This study has been conducted every three years since 1996. The 2008 edition is available to members without charge and to non-members for \$75.

Environmental reports

The Association has conducted and collected a variety of studies on the environmental impact of car washing. These are available publicly at www.carwash.org.

WaterSavers™ Program

International Carwash Association members can join the WaterSavers program to market their businesses as environmentally sensitive, subject to their adoption of certain processes. For more information, visit www.carwash.org.

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