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## OVER THE TOP CAR CARE

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*David Shaw and Elizabeth M.A. Grasby revised this case (originally titled "Custom Car Care" and written by Anne M. Martin, under the supervision of John F. Graham) solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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It was April 2012 and Jason Lapchinski had some decisions to make that had the potential to change just about everything he did in his life. Jason had recently started a car cleaning business on the weekends that he now thought had the potential to be a full-time operation. A long-time friend and fellow high school buddy, Jim Grantham, a graduate of Western's Ivey Business School in London, Ontario, discussed the opportunity with him. Jim said, "Jason, what you need is a business plan that indicates what you want to do and how you will do it. You will need to identify the revenues you need from your business to recover your costs and give you enough income to maintain your existing lifestyle and a marketing plan that gets you those revenues." Jim went on to describe what the plan should look like and how Jason should think it through.

### JASON LAPCHINSKI

Jason, 28 years old, was a car buff who loved high-end vehicles. Since graduating from college, he had worked for an auto parts manufacturer until the company closed its London area plant in 2009. Since then, he had worked for a large grocery chain.

Jason dreamed of owning his own business, and he had always enjoyed taking care of cars. He kept his own older vehicle, a 2000 BMW 540i, in immaculate condition that constantly received compliments from others. Soon, friends, family and sometimes even strangers began to ask him to clean their cars too. He often found that his weekends were busy as he cleaned cars, averaging two cars a week. Jason was pleased with the service he gave and proud of the satisfaction of customers who were amazed at how great their vehicles looked when they picked them up. This experience, combined with his love for cars, was what gave Jason the idea to set up a car care business.

### THE BUSINESS CONCEPT

Located in the city of London, Ontario, Jason's car service business, called Over the Top Car Care (Over the Top), would offer complete interior and exterior car cleaning and maintenance. The idea was that, after having a car custom-cleaned, it would look as good as new again. Customers could specify what they would like done to their vehicles. Based on his experience, Jason determined that most people purchased what was commonly called "the works" package, which would be offered by Over the Top. This package would include the following services: thoroughly hand wash exterior, hand dry exterior, clean tires (and

white walls) and wheels, polish all chrome (if any), hand wax and polish exterior, apply rain repellent, clean windows and mirrors, clean door and trunk jambs, detail interior (i.e., clean air vents, switches, cup holders, dash, console and panel doors) and steam clean carpets, clean seats (special cleaner for leather seats and wet upholstery cleaner for the rest), apply fabric guard, clean rubber mats or vacuum mats and deodorize. As he had done when cleaning cars in his spare time, Jason would use top quality, brand name cleaning supplies and equipment.

## **LONDON, ONTARIO<sup>1</sup>**

The city of London was the sixth largest of Ontario's cities, with a population of over 366,000 in 2011. The city had experienced an 11.5 per cent increase in growth between 2001 and 2011, similar to most cities in southwestern Ontario. Population growth was expected to continue, although to a lesser extent. The percentage of people 65 years of age and older was expected to accelerate over the next 20 years as baby-boomers aged. Simultaneously, the working-age population was expected to decline as a share of the total population. In 2011, 22 per cent of London residents were 19 years old or younger, 64 per cent were 20 to 64 years of age and 14 per cent were 65 years old or more. Female residents comprised 49 per cent of London, and 51 per cent were male. Seventy-nine per cent of London's development was residential, 5.8 per cent multi-residential, 12.7 per cent commercial, 1.6 per cent industrial and 0.6 per cent farmlands.

In 2011, there were more than 195,000 private dwellings in London. The average selling price for a detached bungalow was \$241,800, and an executive detached two-storey dwelling sold for an average price of \$318,000. London's household income averaged \$77,218 in 2010 (a mid range for Ontario).

London was home to Western University (over 30,000 students), Fanshawe College (over 15,000 students) and world-class health care and medical research facilities. Other top 20 employers included TD Canada Trust, London Life Insurance Company, General Dynamics Land Systems Canada, Bell Canada, 3M Canada, Formet Industries and Kellogg Canada. Average annual unemployment had historically been 7 per cent or less; however, since 2009, London had experienced unprecedented high unemployment rates (9.9 per cent in 2009, 8.6 per cent in 2010 and 8.8 per cent in 2011) due to major cuts in manufacturing jobs resulting from the U.S. financial collapse that brought recession to North America.

## **THE CUSTOMER**

Over the Top's potential customers included commercial businesses using several cars or individuals owning one or more vehicles for personal use. Jason decided to focus on individuals initially, although he knew that at some point he would approach commercial businesses.

Jason split car owners into three groups: those who owned low to mid-priced but older cars that were in poor condition, but served their purpose as transportation for getting around; those who owned newer (under five years), mid-priced (\$25,000 to \$45,000) cars; and those who owned newer (under five years), high-priced (over \$45,000) and luxury cars.

Generally, the owners of older cars that were in poor condition were not inclined to spend a lot of money on preservation. They would make necessary repairs as needed, but apart from that, they tried to minimize

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<sup>1</sup> *Municipal Study 2010*, BMA Management Consulting Inc., [www.london.ca/Reference\\_Documents/PDFs/BMA2010.pdf](http://www.london.ca/Reference_Documents/PDFs/BMA2010.pdf), and *London Canada 2012 Facts and Figures*, London Economic Development Corporation, [www.ledc.com/\\_pdf/marketingfacts/MarketingFacts.pdf](http://www.ledc.com/_pdf/marketingfacts/MarketingFacts.pdf), accessed June 15, 2012.

the amount of money they spent on their vehicles. When these cars were dirty, the owners would either wash the cars themselves or, more commonly, take them through an inexpensive, automated car wash at the local gas station or car wash centre. Jason knew this clientele group would be the hardest to attract due to their price sensitivity. He did believe that this group could benefit greatly from Over the Top's services, however, because their cars would be considerably better and the service would slow down the rusting process common in older cars, thereby saving owners future expenses.

The owners of newer, mid-priced cars formed Over the Top's largest consumer group from which to attract customers. These owners were willing to make some investment in their cars to keep them running well and looking good and handled car cleaning in a more diverse fashion. Some washed their cars themselves, some took their cars through automated car washes regularly and some took their cars to specialized car cleaning companies similar to Over the Top. Jason believed that younger owners were those most likely to wash their own cars by hand, particularly in the summer as an almost recreational activity. The most popular method of cleaning among this group was the automated car wash. Jason knew that of those who used the specialized car cleaning services, some used them on a regular basis (i.e., every two to four weeks), while the majority had their car professionally cleaned only once or twice a year and then supplemented this cleaning with either the automated car wash or their own hand wash. This group tended to phone or drive around for price estimates before deciding on a car cleaning company. They often looked for various companies on the Internet, sought out discount offerings (through Groupon, WagJag, etc.) or consulted promotional flyers.

Owners of high-priced and luxury cars were more likely to spend money on their vehicles in order to keep their investment in top-notch condition. Generally, these owners were quite proud of their cars and wanted them to look good at all times. They had the most money to spend on their cars; however, they were the smallest of the three consumer groups. Owners of expensive cars were not likely to take their cars through an automated car wash because they were concerned about damage to the exterior or to the paint. Instead, this group either washed their own cars by hand or took them to specialized car cleaning places regularly. They concerned themselves with the quality reputation of a car care company, and they liked to know that their investment was in good hands. Recommendations from friends were a primary determinant in choosing a company. Once they found a car care company that satisfied them, they were not likely to change unless they became dissatisfied with their current company choice.

Jason concluded that there were two critical variables that affected a car owner's decision about a top quality car cleaning service: one, the initial price of the vehicle; and two, the age and condition of the vehicle. Clearly, the high-priced and luxury car owners segment — including some owners of historic and classic cars who wanted nothing but the best for their vehicles — would be Over the Top's best potential target customers.

Jason did not know the exact number of owners in each category or how to contact them. His present customers came to him through personal contacts and the enthusiastic reports about his service from other satisfied customers. Jason believed that these customers would patronize Over the Top and leave only if they were unhappy with the service.

## **THE CURRENT ECONOMY**

Four years after the U.S. financial collapse that brought recession to Western economies, Canada was still suffering (reduced or no growth, higher unemployment, deficits and swollen debt), and Ontario's manufacturing sector was still reeling from a particularly hard hit. All signs pointed to an improving but

slow recovery, but Ontario continued to suffer from above average unemployment and shrinking manufacturing operations.

Jason was unsure how the economy would affect his business. On the one hand, he thought that people would be less willing to spend money on their cars during these economic times. On the other hand, he believed that through effective advertising he might be able to convince car owners to spend the money to keep their older cars in good shape since they could not afford to buy new ones. He realized that the owners of expensive cars were probably less likely to reduce spending on their cars during these times than the other two consumer groups.

## **THE COMPETITION**

The competition could be divided into three groups as well: self-service car owners (those who washed their own cars), automated car washes and custom cleaning companies.

### **Self Service**

Self-service car owners, whom Jason called do-it-yourselfers, could be found in each of the three consumer groups, with the majority of them falling in the mid-priced car owner group. There was quite a range in the quality of the work provided by do-it-yourselfers. They were generally younger car owners. Their car was often the first or second one that they had owned (or leased), and they enjoyed taking care of it. They were especially active in the summer when the weather was nice and they enjoyed being outside. Another option for do-it-yourselfers (particularly apartment dwellers) was the self-service, coin-operated centres where, for a specified payment, the vehicle owner used a hose that sprayed water and soap and other cleaners to clean the car. Vacuums were also available. In the winter, this group often switched to either the automated car wash option or custom car cleaning services, depending on their consumer group.

### **Automated Car Washes**

Automated car washes were extremely popular and could be found at numerous locations. A car owner did not normally have to drive more than 10 or 12 blocks to find a car wash of this type. Three different types of automated drive-through car washes could usually be found at gas stations. First, there remained a few of the older, “traditional” brush automated car washes, which used soap and water and large circular brushes that moved over the car to clean it. Many of the automated car washes used the “soft-cloth” wash, which used soap and water and long strips of soft cloth that hit (and dragged across) the car to clean it. This type of car wash was less likely to cause damage to the paint (in contrast to the small circular impressions created by the traditional brush type of car wash). The third and most common car wash was generally known as the “no-touch” car wash. It used soap and water and, instead of brushes, aimed powerful jets of water at the car to blast off the dirt. The advantage of this type of car wash was that it minimized the damage to paint and exterior accessories (mirrors, hood ornaments, antennae).

Currently, there were automatic car wash centres at service stations and other locations throughout the city. Prices for the three types of car washes varied but, on average, ranged from \$6 to \$12, with the “no touch” car wash being the most expensive of the three.

## Custom Car Cleaning Companies

Custom car cleaning companies varied in number depending on geographical location and the size of the market. In the city of London, population 366,000, Jason had identified seven car care operations that provided the high-end service similar to what he intended to offer. These included Buffer Auto Clean Centre (offered a full car package for \$229.99,<sup>2</sup> which included degreasing the engine), Scotty's Shine Shop (offered a full car package for \$199.95), Arrow Auto Detailing (offered a full car package for \$199), Miami Car Wash (offered a full car package for \$249, including pick-up and delivery of vehicle) and Fine Details (offered a full car package for \$219). As well as providing various detailing packages, from basic exterior car wash packages to premium detailing and protection packages, most competitors also offered single services (such as interior cleaning only, hand car waxing only, etc.) and "add-ons" for a fee, such as pick-up and delivery, or discounts if two or more packages were purchased at one time. Some of these companies offered other lines of services, such as no drip rustproofing, oil changes, windshield glass replacement, odour removal, dent removal, new car protection (rustproof undercoating, paint protection, fabric guard), etc. When Jason visited some of the competition in March, many were booked solid with appointments into the next week.

## OVER THE TOP CAR CARE

### Starting the Business

Jason had collected information about the costs associated with the start-up of Over the Top. He knew that he needed three key pieces of equipment:

Steam cleaner for washing cars	\$ 4,500
Carpet cleaner	1,250
Industrial strength vacuum cleaner	<u>750</u>
Total	<u>\$ 6,500</u>

These items were expected to last for three years.

In addition, the monthly costs associated with running the business would be:

Rent for a garage and small office	\$ 1,500
Utilities, i.e., water, electricity and gas	275
Telephone and Internet	125
Website maintenance	45
Liability insurance	<u>145</u>
Total per month	<u>\$ 2,090</u>

Jason had contacted two local wholesalers of name brand washing and cleaning supplies and accessories. Based on their price lists, he estimated the cost of cleaning materials and other products used in every "the works" cleaning would be \$17 per vehicle.

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<sup>2</sup> Thirteen per cent HST (harmonized sales tax) was added to all services in Ontario. The retailer collected HST on behalf of the government and then submitted the HST collected less any HST incurred by the retailer on purchases. The case information does not include HST; therefore, the analysis of this case should not include HST in its calculations.

## Operations

Jason had chosen a site that he believed was an ideal location (not too close to the competition but easily accessible and visible to customers). The former mechanic's garage was capable of holding three vehicles at any time and had a small office attached to it.

Over the Top would be open six days a week, Mondays to Saturdays, from 8:00 a.m. to 5:00 p.m. Jason intended to be the business's only full-time employee until the sales volume required a second person. The first year (or more) would be difficult financially for Over the Top. Knowing the risk, Jason had reviewed his own financial situation: he needed \$700 a week from the business to "just keep my life together." If the business did become busy during the summer months, he could hire his nephew to help at close to the minimum wage of \$10 an hour.

In terms of production, Jason knew that the average cleaning job that customers ordered for their cars took between three to four and a half hours. Jason thought that the upscale clientele cars would require more time to clean to their satisfaction; therefore, if he decided to target them, he could clean only two cars per day. Since the other types of cars did not require quite the same attention, he could do three a day if he targeted either of the other two consumer groups.

In addition to the monthly costs associated with running the business as itemized earlier, Jason knew he would have to provide a "loaner" vehicle for over half of his customers so that they could get to work or back home from Over the Top. He intended to use his other vehicle, a 2007 Honda Accord, for this purpose. The additional insurance and gas would cost about \$150 per month. Based on the projected use of his car for the business, Jason believed a \$100 charge per month would cover the additional wear and tear to the vehicle.

After discussions with current car care owners, Jason learned that almost every customer would use a credit card to pay for services and that this would cost Over the Top an average of 3 per cent of the total bill (before tax).

## Marketing

The first thing Jim told Jason to decide upon as part of his marketing plan was the price for his services. Jason concluded that his price should be competitive with, but no lower than, his major competitors. He decided that \$199 (before tax) would be his target price for "the works."

The next big question was "How do you tell your potential customers about your service?"

Jason intended to establish a website. In it, he would describe all available services and provide Over the Top's address with a map, telephone number, the price of "the works" package and some pictures of vehicles before and after they had been cleaned. He hoped that a couple of his current customers would post satisfied customer references for him. In addition, the website would display available dates and times that were not booked and when the "loaner" vehicle was available. The customer would be able to book a date and time online and indicate whether a "loaner" was necessary. Jason would confirm the appointment time and services requested by telephone or by email. Jason also planned to print flyers promoting the business. Two printers quoted a price of \$75 for 1,000 flyers. He would recruit his friends and family to deliver 2,000 flyers to homes in neighbourhoods of the chosen consumer group(s).

Jason decided to try to find car owners he thought would most likely have luxury cars or at least be able to afford his services and the owners of cars that were most likely to get professional care. Once identified, Jason would contact them. He then wanted to use vouchers that offered a free “the works” package to promote the business and to develop loyal customers. With this in mind, he planned to offer vouchers as prizes to several high-end golf and curling clubs in the city. This approach would increase the awareness of his business to both the winners and those attending the competitions and should attract new paying customers (in addition to the winners of the vouchers). Jason planned to let classic car rallies and clubs know about his business by extending vouchers to these groups along with some flyers. He planned to give away 10 “the works” vouchers in the first three months of operation and, after that, two a month until revenues grew to a sustainable level.

Another option would be to advertise in the local media. The *London Free Press* was the major local newspaper in the city and southwestern Ontario. It had over 250,000 subscribers. An ad in the newspaper, one-eighth of a page, would cost \$500. As well, *London Business*, a local monthly magazine, had the potential to reach his target audience at half the cost per page. Two local radio stations would be suitable for advertising to Over the Top’s client base. A spot on either station would cost about \$250 each time. In addition to these promotions, Jason estimated that he would spend an additional \$2,000 in the next year on other marketing, regardless of the medium used.

## **DECISION**

Jason had a lot of decisions to make and a lot of work to do within the next month. He mulled over the data he had gathered and jotted down both the cost numbers and the potential customer estimates. He knew that the start-up was likely to be slow and that it would probably be close to a year before the business produced the earnings that would generate a satisfactory return for his investment, time and effort. But if he could get enough business within the next couple of years to hire a second employee, he thought that the potential was tremendous. Jason had \$13,000 in savings, and his family offered to invest up to another \$10,000 in the business. It was time to make some decisions before another business rented his ideal location for Over the Top.