

Automobile Service and Repair, Underhood

Industry Overview

Several different types of automotive service shops operate in the U.S. They range from independently owned general repair shops to large national franchises (such as Meineke, Midas, Precision Tune, Aamco and National Tire and Batteries). Speciality shops might service only European or Japanese-built cars, while national players, like Sears Auto Care and Pep Boys, offer a general range of services.

Underhood repair shops (also known as “undercar,” and “mechanical repair” shops) tend to specialize in general auto repair. They compete with other repair shops (which range from general “one-stop-shops” to specialized repair shops), as well as with gas and service stations (such as BP and Shell), repair facilities at car dealerships and wholesalers, and mass merchandisers (which appeal to the do-it-yourself auto repair segment).

Below is a snapshot of a typical mechanical repair shop:

Mechanical Shop Business Snapshot

- ◆ **Average days open: 5**
- ◆ **Average number of bays: 7**
- ◆ **Average years in business: 23**
- ◆ **Average size: 5,877 square feet**
- ◆ **Average advertising budget: \$17,170**

Source: Automotive Aftermarket Industry Association, “2003/2004 Aftermarket Factbook.”

The services that repair shops offer vary widely. What follows is a list of the top services offered at underhood service shops. Some offer all of these services and more, while others offer only one or a few of those listed:

Top Ten Services Offered

- ◆ **Brake repair**
- ◆ **CV-joint repair and replacement**
- ◆ **Oil, filter and lube**
- ◆ **Shock and strut installation**
- ◆ **Battery installation**
- ◆ **Belt and hose installation/replacement**
- ◆ **Starter/alternator replacement**
- ◆ **Coil-spring installation**
- ◆ **Fuel pump replacement**
- ◆ **Water pump replacement**

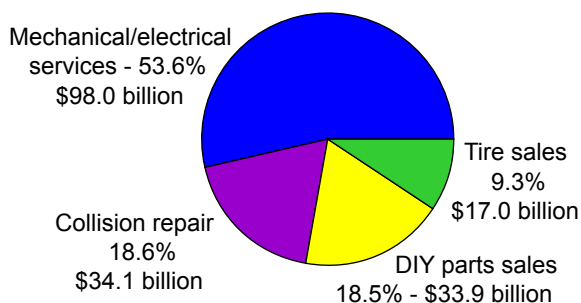
Source: *Undercar Digest*, “2004 Shop Survey,” January 2004.

Issues and Trends

The automotive aftermarket generates approximately \$183 billion in revenue, fueled by increases in the number of licensed drivers, registered vehicles and miles traveled (Automotive Aftermarket Industry Association, “2003/2004 Aftermarket Factbook”).

General mechanical repair shops alone bring in \$34 billion in sales (*AutoInc.*, “2003/2004 How’s Your Business? Survey”). When combined with all mechanical and electrical services performed at underhood shops, that number jumps to over \$98 billion. As illustrated by the chart that follows on Page 2, mechanical and electrical service shops account for over half of all automotive aftermarket industry revenue.

Automotive Aftermarket Industry 2003 Revenue By Type of Product or Service*

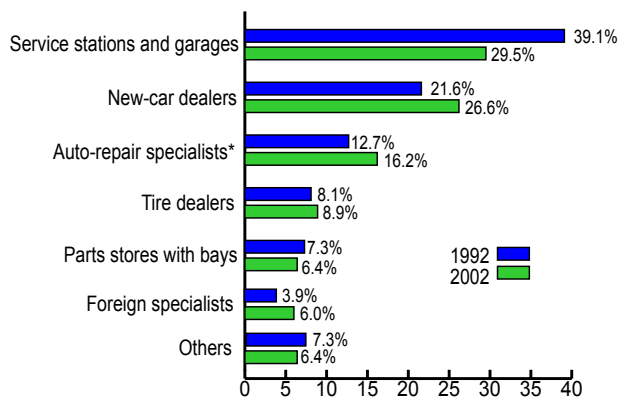


*Estimated for 2003.
Source: AAIA, "2003/2004 Aftermarket Factbook."

Independent repair shops and service stations have been hampered in their efforts to work on newer-model autos and light trucks. In the past, auto makers have withheld important technical information about electronic systems in their cars. That has helped new-car dealers' service departments (which have always had access to scanners and manuals), but has spelled shrinking revenue for independent garages. That may change, now that manufacturers have agreed to give independents access to repair manuals and diagnostic scanners. However, access comes at a high price: scanners and repair information are very expensive.

It is a good news/bad news situation. Independents can work on more cars, but they have to pass on the cost of new technology to consumers. The shops that invest in scanners and access to repair data should promote their new capabilities, but should also be prepared to "educate" consumers about why repair prices are higher.

Share of Auto/Light Truck Repair Market % of Market, by Type of Repair Outlet, 1992, 2002



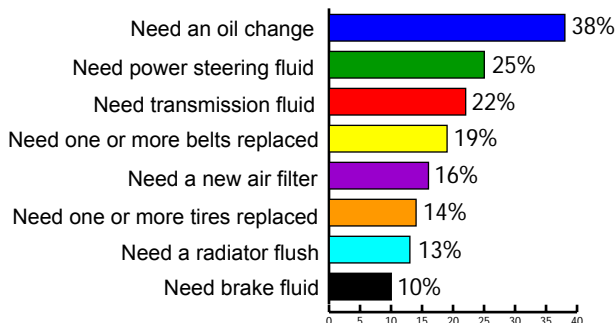
Source: Lang Marketing; *The Wall Street Journal*, June 3, 2003.
* Brakes, transmissions, and muffler repair and oil change/lube shops.

Despite the appeal of having warranty repairs done at auto dealerships, many consumers prefer independent

shops, according to *Aftermarket Business* (February 2004). The top reason for preferring to do business with independents was "great mechanics," cited by 73% of those surveyed, followed by "proximity to home," which was cited by 66%. Other reasons included referrals and warranties on parts, cited by 52% and 35%, respectively.

During a weak economy, consumers are more likely to put off needed automotive repairs and maintenance. (AAIA, "2003/2004 Aftermarket Factbook"). In fact, an estimated \$60 million in unperformed maintenance is riding around U.S. highways at any given time. A recent survey found that nearly 40% need an oil change and 25% need power steering fluid. Educating consumers about the importance of routine maintenance is critical to keeping drivers safe and their cars operating efficiently.

\$60 Million in Unperformed Maintenance



Source: *Aftermarket Business*, March 2004; *Caldeonia Record*, February 23, 2004.

Top Auto Repair/Maintenance Franchises

Chain	Headquarters	# Of Loc.
Midas Auto Service Experts	Itasca, Ill.	2,614
Meineke Car Care Centers	Charlotte, N.C.	896
Tuffy Associates Corp.	Toledo, Ohio	249
Car-X Auto Services	Toledo, Ohio	179
Merlin's Franchise Inc.	Geneva, Ill.	70
All Tune and Lube	Millersville, Md.	252
Tilden Car Care Centers	Garden City, N.Y.	53
Tunex Automotive Specialists	Salt Lake City, Utah	28
Milex Tune-Up & Brakes	Midlothian, Ill.	12
Precision Tune Auto Care	Leesburg, Va.	432

Entrepreneur magazine's 25th Annual "Franchise 500," January 2004. Stores that offer some repair and routine service, but tend to specialize in one area (such as brakes, transmissions, tires, oil and lube, etc.), were not included.

Factors mentioned in advertising placed by auto service shops are intended to make consumers comfortable with the advertiser. "Confidence factors" and "convenience factors" are designed to appeal to consumers' desire for reliable products and services. Examples of each follow:

Confidence Factors Mentioned In Ads

Years in Business	Computer System Experts
Guarantees/Warranties	ASE-Certified Techs/NIAE
Dealership Reputation	Emphasis On Fair Rates
Specialization(s)	Estimates Up Front
Computerized Records	Licensed/Certified
State-of-the-Art Equipment	Factory-Trained Mechanics

Source: 2003 Comparative Ad Analysis Survey, Norbert J. Kuk & Associates.

Convenience Factors Mentioned In Ads

Same-Day Service	Multiple Locations
Website/E-mail Address	Renter/Loaner Car Available
Location Data/Map	No Appointment Necessary
Free Written Estimates	24-Hour Towing
Toll Free/Fax Number	Credit Cards/Checks/ATM
Free/Local Pick-Up and Delivery	Days/Hours (7 Days/ Evenings)

Source: 2003 Comparative Ad Analysis Survey, Norbert J. Kuk & Associates.

Value of Products and Services in the Industry

The average maintenance cost of a vehicle varies depending on the type of car a consumer drives, the age of the car and how often it is driven. Automobile and light truck owners spend about \$500 a year for maintenance on their vehicles (*Underhood Service*, January 2004). Below is a chart that lists the average cost of a few routine maintenance services, provided through interviews with auto repair retailers. The cost of maintenance varies depending on the repair shop.

Service	Average Cost
Diagnostic test	\$48.33
Oil change	\$21.88
Replace fuel pump (labor only)	\$183.75
Change a battery (labor only)	\$11.66

Critical Success Factors

- ◆ **Consider offering air conditioning services, at least through the summer months.** A/C work is very seasonal. Few consumers use it during the dead of winter. However, if any staffers have A/C service training, taking advantage of their skills could lead to more revenue during the summer.
- ◆ **Be willing to go the extra mile for female customers.** Women customers tend to want more in-depth clarification about repairs. Charts, graphs and diagrams may help female customers better visualize necessary repairs. A large window in the waiting room that allows customers to watch as their cars are repaired may also help to attract women.
- ◆ **Use customer satisfaction surveys.** Surveys are a good way to use an outside set of eyes to improve the business and encourage customers to return for another service visit.
- ◆ **Customers value honesty.** Complete the job correctly and honestly the first time and it could translate into repeat business, word-of-mouth referrals and increased revenue. But cheating or lying to a customer could mean loss of their business and negative recommendations.
- ◆ **Make sure the equipment and staff are up-to-date.** Make sure the staff is trained to perform the services they claim they can. And when the opportunity arises, make sure they train on the newest technology, so that they will be ready when new equipment is introduced into the shop.
- ◆ **Appeal to a niche market.** If consumers in the area consistently need services not offered by competitors (such as service by a technician who understands European cars), develop the staff to handle those needs.

Source: *Underhood Service*, February 2004; *Underhood Service*, December 2003; *AutoInc.*, "2003/2004 How's Your Business? Survey."

Industry Resources

Automotive Service Association P.O. Box 929 Bedford, TX 76095 817-283-6205 www.asashop.org	Underhood Service 3550 Embassy Parkway Akron, OH 44333 330-670-1234 www.underhoodservice.com
Undercar Digest P.O. Box 2210 Springfield, MO 65801 416-866-3917 www.mdpublications.com	Automotive Aftermarket Industry Association 4600 East-West Hwy, Ste. 300 Bethesda, MD 20814 301-654-6664 www.aftermarket.org