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Auto Repair (Auto Service Centers)

SIC: 7538**NAICS:** 811111**Number of Businesses / Units:** 184,000

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This U.S. industry comprises establishments primarily engaged in providing (1) a wide range of mechanical and electrical repair and maintenance services for automotive vehicles, such as passenger cars, trucks, and vans, and all trailers or (2) engine repair and replacement.

Rules of Thumb

25% to 30% of annual sales

1.5 to 2 times SDE plus inventory

4 times EBIT

4 times EBITDA

General Information

"Most auto repair shop owners focus too much on offering the lowest prices rather than providing excellent customer service. If you provide excellent customer service, customers are willing to pay for it. Most people think the number of bays is important. The number of parking spaces is a lot more important than the number of bays."

"Eighty-eight percent of my automotive purchasers are buyers with no prior experience. The multiple on this type of business has dropped from previous years. Why? Lack of skilled technicians, overabundance of service centers, low unemployment. Most buyers in today's market are not looking for a business that falls under the heading of a low-paying job. Rule of thumb is applicable for Franchise or Non-Franchise Centers."

"Demand for this service business has gradually decreased over the last four years. The smaller (Mom & Pop operations of \$35,000 gross/month or less) are becoming non-existent in many larger cities."

Pricing Tips

Auto Service Centers (minimum 4 bays), most service centers need minimum 8 bays to show higher revenues.

Index	Owner's Cash Flow (SDE)
1.0-1.25x	to \$50K + SDE (approx \$400K annual sales)
2.0-2.25x	to \$100K + SDE (approx \$600K annual sales)
2.25-2.5x	to \$200K + SDE (approx \$1M+ annual sales)

"It's important to note that there should be a manager in place for the higher multiples."

"The above multiples take into account the FF&E (approx. \$75K for most auto service centers). Manager in place is critical for buyers with no prior experience."

"Rent can be added to the SDE if the seller also owns the building and is selling the building with the business. If the seller hires too many employees, it is sometimes possible to show the buyer why the business can be run with fewer employees, and add the soon-to-be-terminated employee's salary to the SDE."

"Sometimes I will use 2.5 times SDE. This depends on if the business is located on a prime corner, how much equipment the business has, and how new the equipment is. A shop that has a very low SDE, or possibly is losing money, is able to sell for between \$100K to \$135K just for its location, built out, and equipment."

"Smaller auto centers can be the most difficult to sell due to the very personal nature of the business. It is very helpful if the owner stays for 1 to 2 months to ease the buyer into the business especially creating a comfort level with the customers."

"Most auto repair businesses carry very little inventory, so it's

"Factors to look for: the gross profit of the business pre-wages, equipment leased vs. free and clear, management & certification of techs, percentage of wages, the length of lease and terms. The business should do a minimum of \$30K per month in sales revenue (excluding smog Certs). Any special licenses required? Does the owner work as a mechanic? Things to add to value: volume exceeds \$50K per month, the owner works only in administrative capacity, number of bays (minimum 6 bays), all equipment is free and clear, all mechanics have at least two years' experience, rent is eight percent of sales or less, strong manager in place, gross profit exceeds 60 percent. Things to subtract from value: owner is active as mechanic, monthly sales under \$25K per month, appearance, location, most equipment on lease, the age of the equipment, lack of professional management, inexperience of mechanics, unable to expand in capacity or sales, rent high, short term lease."

Expert Ratings

▶ Competition	2.8	(1=Lot of : 4= Not Much)
▶ Amount of Risk	2.2	(1=Very : 4= Not Much)
▶ Historical Profit Trend	2.4	(1=Down : 4= Up)
▶ Location & Facilities	2	(1=Poor : 4= Excellent)
▶ Marketability	3.6	(1=Low : 4= High)
▶ Industry Trend	2	(1=Declining : 4= Growing)
▶ Ease of Replication	2	(1=Easy : 4= Difficult)

Expert Comments

"As long as the owner is running the business right, this type of industry can be run absentee profitably. It is easy to take over a shop even with little automotive experience. There is never a lack of work in this industry since all cars break down and need maintenance."

"This industry is very appealing to buyers, and it is not hard for someone without the technical background to purchase and run a shop. The key is that management stays on for the buyer."

Seller Financing

"3 to 5 years, average 7 percent interest per annum"

Questions

- ▶ "1. What is the average Repair Order (RO)? 2. What is the weekly car count? 3. What is the cost of parts as a percentage of revenues? (Should be 20%) 4. What is the cost of labor as a percentage of revenues? (Should be 20%) 5. What are the profits as a percentage of revenues? (Should be 20%)"
- ▶ "Sales and parts invoices"

included in the selling price; however, if the business does carry a large inventory it is very often in addition to the selling price."

"1. Owner's participation (tech or administrative). 2. Family members. 3. Equipment age. 4. Client core base. 5. Computer & software in place."

"It is a labor-intensive business, the labor being specialized mechanics who have to be managed well, as mechanics can be lured away by car dealerships for a better wage."

"It's important to note that there should be a manager in place for the higher multiples. "

"A very good automotive repair business is difficult to replicate because of the time necessary to build a customer base. Today's automotive technicians are very skilled people and very difficult to replace."

Benchmarks

"Margin on parts and labor should be 60% (which is a 2.5 markup). Average RO of a good shop should be between \$350 to \$450. Auto technicians should be paid on a flat rate system, not hourly. There should be a lot of marketing efforts geared towards making repeat sales from existing customers."

"Gross sales per year \$300K-\$400K is needed to at least survive and break even."

"Average work order of \$400 with a car count of at least 30 per week"

"\$98,000 annual sales per employee (technician). Typical garage has two employees + the owner-operator, who may or may not work the bays."

Expenses as a Percentage of Sales

▶ Cost Of Goods	25% to 30%
▶ Payroll/Labor Costs	20%
▶ Occupancy Costs	9% to 15%
▶ Profit (pretax)	15% to 20%

Industry Trend

"The turnover for mom and pops is high."

Updates in the Auto Service Center Market—2007

"Over the last several years, I've seen some pretty dramatic changes in the market place in regards to auto service centers. More business owners are calling to list, and hopefully exit, their current business. Some business owners have been in their business 15 to 25 years and are calling it quits.

"Many auto service centers that show \$450K in sales revenues or less are more than likely to close their doors. The margin vs. the expense ratio has narrowed to such a degree that it is no longer equitable for these owners to open their doors if they're doing less than \$450K per year, unless they own the building, even then the business profits are minimal in most cases.

"Why the sudden change? From my personal observation there has been a major influx of new vehicles on the roads. From SUVs, sedans to coupes, all makes and models. In addition the dealerships and auto makers are providing free services on oil changes, tune-ups, etc. for the first 40,000 miles.

"What does this all mean for the average auto center? Fewer older models on the road and less opportunity to service late-model vehicles. Most of my core auto center business owners are down from 5% to 30% in sales over the last couple of years.

"My final observation will show that for at least 3 to 5 more years and/or until the market place has a slowdown on new-vehicle sales, the demand and multiples will be down for this type of business.

"How does this affect the multiples? With less demand for this type of business and more auto centers on the market the multiples will normally go down from their past levels.

"I've reduced the rule of thumb above from 2.3 x SDE to 1.8 x SDE."

"Good growth due to the amount of vehicles on the road. As interest rates rise less people purchase new cars, but rather repair them."

"Specializing in the type of service and types of cars, vans, etc."

"The smaller shops are having a very difficult time keeping mechanics and often are a training program for dealers. Dealerships are trying every way they can to keep the service business, and technology is getting more complex. Specialty shops seem to be doing well. Drugs and alcohol are a very serious problem. There are a lot of old cars, and the need will always be there. I think the trend is for shops to become larger; smaller ones, especially where the owner is a mechanic, are fading fast, and difficult to sell to a non-experienced buyer. Mechanics in general do not have money to buy, and many [of these smaller shops] will end up as asset sales or for FF&E value."

Advantages

- ▶ "This is not a luxury industry. Consumers will always need a repair shop and the number of vehicles on the road is increasing."
- ▶ "Always lots of business with great margins"
- ▶ "High profit and normal day hours"
- ▶ "There are millions of cars on the road, so there is always a demand. Being a business in the service industry means that customers cannot compare prices as easily as shopping for products in the retail industry. By providing excellent customer service, auto repair shops can charge 60% margin on parts and labor."

Disadvantages

- ▶ "Dependent on technicians"
- ▶ "Customers have a belief that auto repair shops are taking advantage of them. When you recommend services to customers, they can sometimes be skeptical. With enough trust building, this challenge can be overcome."
- ▶ "Finding good technicians and the constant change in technology makes it expensive to keep up."
- ▶ "Annual investment in diagnostic equipment; and in some areas, it may be difficult to get qualified technicians. Hazardous waste issues, EPA and other environmental factors are becoming more predominate in this industry. Make sure your buyer does their Phase inspection prior to taking possession."
- ▶ "Difficult employees and risk of liability for shoddy workmanship"

Additional Resources

Associations

- ▶ [AutoServices Association -- an excellent site for both auto services/collision businesses](#)

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