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Business Reference Guide Online

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Towing Companies

SIC: 7549**NAICS:** 488410**Number of Businesses / Units:** 50,000

This industry comprises establishments primarily engaged in towing light or heavy motor vehicles, both local and long distance. These establishments may provide incidental services, such as storage and emergency road repair services.

Rules of Thumb

70 percent of annual revenues plus inventory

2.75 times EBITDA

General Information

"Many towing operators are AAA contractors. This is, in most cases, a loss leader. It is a high volume of business at a very low revenue rate, that for all but the most efficient operators is less than the cost of doing the business. Its 'value' is in its ability to convert other business that does have a significant profit margin. For valuation, AAA costs and revenues should be looked at almost as an advertising activity rather than as a business in and of itself. Also, an AAA relationship is often unsaleable due to contractual relationships on change of ownerships, and a sale can be expected to trigger a renegotiation or a cancellation."

Expert Comments

"These businesses vary widely. Hands-on management is almost always a critical element. Control of operating real estate is usually a major element in profitability."

Seller Financing

"5 years"

Pricing Tips

"Extreme care with adding back depreciation, and/or allowance to replace trucks. Define which segment of industry, and check to see if the insurance premium is fair market value. Small companies and those in non-consent business are hard to sell."

"The last of the consolidators has liquidated its acquisitions at a loss. The implication is that there are negative economies of scale at both ends of the scale; large and small, i.e., above some size these businesses based on revenue etc. have a declining value, and that optimal values are found within the span of control of one person. Ease of entry has been increasing, so going-concern values have been declining."

Expenses as a Percentage of Sales

▶ Cost Of Goods	30%
▶ Payroll/Labor Costs	30%
▶ Occupancy Costs	08%
▶ Profit (pretax)	20%

Industry Trend

"Trend is positive, but competition is fierce. Many companies come and go."

Advantages

- ▶ "Can be very profitable with minimal skills"

Disadvantages

Additional Resources

Additional Resources

Trade Publications

- ▶ [Tow Times Magazine](#)

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