

## COLIN'S CAR DETAILING

*Cole Finnbogason wrote this case under the supervision of Elizabeth M. A. Grasby 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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In early May, Colin Ford was contemplating the future of his small auto-detailing<sup>1</sup> business, Colin's Car Detailing, located in West Vancouver, British Columbia. A busy summer season was approaching, and the company stood at a crossroads as Ford contemplated several opportunities to change the company's operations. These opportunities included expanding the business's services, purchasing a truck and becoming a mobile auto detailer, establishing a partnership with a local golf course, or franchising the business. Additionally, Ford was also considering selling the business and pursuing other work for the summer.

Ford was eager to grow his young company, but he was also set to begin studying commerce at the University of British Columbia in Vancouver, British Columbia, in September. Consequently, his top priority was ensuring that he had enough funds to pay tuition and cover his other personal expenses for the first year.

### THE CANADIAN CAR-DETAILING INDUSTRY

The Canadian car-detailing industry was affected by several external factors but was currently influenced most profoundly by economic trends. The industry's success was highly susceptible to economic fluctuations since the general public considered detailing services to be non-essential and expensive. Consequently, Canada's economic volatility had negatively affected the industry in recent years. However, since Canada's economic growth was improving – a trend that was expected to continue in the near future – demand for car detailing was likely to strengthen in the coming months. Demand for car-detailing services was also influenced by weather conditions, and, as a result, the industry experienced disproportionately high demand in summer months and disproportionately low demand in winter months.

Canadians' growing environmental awareness also affected the car-detailing industry. While public pressure to use more environmentally friendly products had increased costs for many detailers, the industry had benefitted from an increased focus on homeowners by municipalities to minimize their home water use

<sup>1</sup> Car detailing is the process of performing an extremely thorough cleaning of an automobile's exterior and interior, returning the automobile's appearance to showroom quality.

and drainage. More-effective processes, specialized equipment and water recycling systems allowed professional detailers to be highly efficient with their water usage. In fact, vehicle owners who cleaned their car(s) at home themselves typically used triple the water used per wash at commercial detailers.<sup>2</sup> Many municipalities had bylaws in place that prevented residents from washing their own vehicles during periods of low rainfall or high heat (both caused water shortages). Water usage was becoming an increasingly important issue, and some municipalities were considering banning home car washing altogether.

Additionally, the regulation of private homeowners' use of storm sewer drains<sup>3</sup> was likely to increase. While current bylaws placed restrictions on what could flow down storm sewer drains, these restrictions were vague and rarely enforced. Municipalities had begun to regulate these bylaws more rigidly due to growing concerns about pollution. If these trends continued, vehicle owners who chose to wash their cars themselves could potentially be forced to collect all the water used during the washing process. This water would then need to be disposed of through their home's sanitary sewer system.

## COLIN'S CAR DETAILING

### History

Ford founded Colin's Car Detailing (CCD) four years ago in West Vancouver, British Columbia. (See Exhibit 1 for West Vancouver statistics.) Only 14 years old at the time, Ford had no prior work experience and had started his own business when he found himself unable to secure a job due to his young age. Ford was passionate about cars and believed his attention to detail, combined with his solid work ethic, would be critical to his company's success.

Ford's first customers resulted from the flyers he had distributed throughout his neighbourhood. The flyers described CCD's services, which, at the time, consisted of vehicle washing, vacuuming and waxing. Customers left their vehicles in Ford's driveway and then picked up their vehicles when the services were complete. To break into the market, Ford believed his services needed to be competitively priced, and he decided to charge 85 per cent less than other car-detailing companies in the area. For \$15, CCD customers could have their vehicle washed, vacuumed and waxed — a service that cost approximately \$100 at other car-detailing establishments.

Ford began booking appointments for vehicle washes soon after the first flyers were distributed, but his customers rarely selected the higher priced waxing option. As Ford performed more washes, he soon discovered why. Ford's lack of experience in the industry had led him to significantly underestimate the difficulty of the detailing process and the time it took to properly complete it. As a result, customers remained hesitant to take his services seriously at such low prices.

In response to this finding, Ford conducted some more research in order to identify ways to improve his service offerings and, consequently, raised his prices to a more reasonable level several months after he launched the business. Following the price increase, a greater proportion of customers elected to have their vehicle detailed instead of only washed and vacuumed.

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<sup>2</sup> Radia Amari, "Car Wash & Auto Detailing in the US," Rep. IbisWorld US, May 2013, <http://clients1.ibisworld.com/reports/us/industry/default.aspx?entid=1695>, accessed June 12, 2013.

<sup>3</sup> Storm sewer drains were typically found at the lowest point of a private residence's driveway. The water individuals used to wash their vehicles typically ran into these drains, which then channeled the water into nearby streams, lakes or oceans.

As Ford's skills improved and his reputation for performing quality work grew, more customers sought out CCD for its detailing services, and the company grew consistently over the next three years. During this time, Ford discovered that he really enjoyed running his own business. As he listened to his friends complain about the strict schedules and unreasonable supervisors at their own workplaces, Ford increasingly appreciated the benefits of being his own boss.

Thankfully, the seasonal nature of the car-detailing industry aligned well with Ford's school commitments. During the school year (Canada's fall, winter and spring), Ford was able to meet the decreased demand for his services by working on the weekends only, while in the summer, Ford had enough business to work full time when demand picked up. In fact, Ford hired some of his friends on a part-time basis to help him handle the increased volume of appointments. These friends were paid an hourly wage plus any tips from their customers. They were paid a nominal bonus if work was completed ahead of schedule. While this working arrangement made the job of running CCD more enjoyable, Ford struggled sometimes with the transition from friend to employer.

In addition to distributing flyers regularly, Ford also made use of several one-time promotional activities to advertise his business. Examples of these activities included buying advertising in his high school yearbook, sponsoring local charity car washes, and donating CCD gift certificates to silent auctions that supported local causes. While these initiatives were moderately successful, word-of-mouth promotion remained by far the most effective form of promoting CCD's services. By the end of its fourth year, CCD had a client list of 150 customers and had earned annual profits of approximately \$5,000.<sup>4</sup>

### Current Operations

Although Ford had tweaked his service offerings slightly over the years in order to keep current with the industry's best practices, the detailing process had largely remained the same. (See Exhibit 2 for a summary of the detailing process.) Between one and three vehicles could be detailed each day, but this number also depended on the size of the vehicles and the number of employees scheduled. A full detailing generally took one person between three and five hours to complete. CCD's customers were charged between \$80 and \$120 for the service, and CCD's profit margin was approximately 35 per cent.<sup>5</sup> CCD's margins were significantly higher than those of a typical car-detailing business for two reasons: since the business was run out of Ford's family home, there was no overhead; and due to a family connection who worked with a local auto parts distributor, CCD had access to discounted pricing on detailing materials (cleaners, polishes and waxes). These margins could be even better if Ford were to use industrial-grade instead of consumer-grade detailing products, but doing so would have three significant drawbacks: industrial-grade products had to be purchased in much larger quantities, thus requiring larger cash outlays; these industrial purchases required storage space that CCD did not have; and industrial-grade products were less environmentally friendly. Ford was committed to using only biodegradable products, and he had installed removable filters at the end of the driveway to catch unwanted debris that might otherwise drain into the storm sewer.

While Ford believed he had developed an efficient detailing process, it still took several hours to detail a vehicle. Some customers found it inconvenient to be without their vehicles and to arrange for pick-up and drop-off at CCD's location. Ford also believed other areas of the business, such as customer relationship management, needed improving. To accommodate their own schedules, customers were encouraged to make an appointment approximately two weeks in advance. Usually, this much notice was sufficient, but a

<sup>4</sup> Profits were in addition to the \$15 per hour Ford paid himself to perform vehicle detailing services.

<sup>5</sup> The variable costs for detailing a vehicle consisted of labour and materials.

recent surge in demand had filled all of Ford's timeslots for the next month. While some customers were willing to wait four weeks to have their vehicle detailed, others wanted service sooner, so CCD had to turn them away. This backlog would improve when the school year finished and Ford could work more often, but he was worried that the current lack of timeslots would result in the permanent loss of customers. Coincidentally, CCD had just been named one of the top three detailing establishments in the lower mainland<sup>6</sup> by the *The Outlook*, a local weekly newspaper. This news would be in next week's edition of the paper.

## THE COMPETITION

There were three major competitors in the area:

### Rod's Exotic Auto Spa

With more than 14 years' experience operating in the lower mainland, Rod's Exotic Auto Spa (Rod's) had built a strong reputation for providing excellent quality detailing services. These services were augmented by additional services and conveniences that made the car-detailing experience as expedient as possible for customers; for example, Rod's offered free vehicle pick-up and delivery for local customers or the option of a courtesy car. Overall, the premium service offered by Rod's resulted in a price to customers significantly higher than other detailing companies, with full detail packages priced between \$350 and \$450. For customers who wanted services beyond a typical full detailing, Rod's offered a variety of other services to improve the appearance of its customer's vehicles. These services included: dent removal, engine shampoo, paint touch-ups, window tinting, wheel repair and cut polishing. Rod's had recently moved from its first location near Park Royal, a large shopping mall in West Vancouver, to a new location in North Vancouver. The distance between the two locations was approximately a 10-minute drive.

### Blitz Auto Spa

Like Rod's, Blitz Auto Spa (Blitz) had been in business for more than a decade but had only recently opened a second location in West Vancouver in addition to its first location in North Vancouver. While also providing high-quality detail services, Blitz's pricing was more affordable than Rod's, offering full detail prices ranging from \$295 to \$395. The company had also been known to offer coupons for discounts of up to 25 per cent off its regular prices. Blitz also offered cut polishing, odour removal and engine shampooing services, but it did not offer pick-up and delivery services or a courtesy car.

### Park Royal Hand Wash

The Park Royal Hand Wash (Park), located on the roof of Park Royal Mall in West Vancouver, offered convenient and good quality exterior and interior cleaning, but it did not include interior shampooing or exterior polishing and waxing. Priced at \$29.95, Park's services were not meant to be an alternative to full detailing services; instead, Park provided a quick and convenient service for customers to maintain their vehicle's appearance. Consequently, the vehicle cleaners needed minimal skill, and the cleaning did not

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<sup>6</sup> The lower mainland consisted primarily of West Vancouver and North Vancouver (a nearby city with about twice the population of West Vancouver).

take long. In fact, since Park's services took only 20 to 30 minutes to complete; customers did not need to make appointments, and they were willing to wait while their vehicle was being cleaned.

## CONSUMERS

Typical car-detailing customers could be divided into two subsets: affluent owners of expensive vehicles and vehicle owners preparing their vehicles for resale.

The affluent owners of expensive vehicles took pride in their vehicle's appearance, and most were willing to spend a large amount of money on quality detailing services. Most affluent owners had their vehicles detailed several times a year, while maintaining their vehicle's appearance between detailing with regular hand washes. Their expectations regarding their vehicle's appearance were significantly higher than those of a typical vehicle owner. For most, their vehicle not only had to look clean at the completion of a detail, but it also had to look as if it had just left the showroom. Convenience was critical to this segment; most had very busy schedules and wanted to have their vehicle detailed with minimal interruption to the rest of their day. As service quality stood out as the top priority for these customers, once they found a reliable detailing company, they were unlikely to switch to another one, even if the price was much lower.

Vehicle owners who were preparing their vehicles for resale could be price sensitive and had lower expectations regarding their vehicle's appearance. These consumers were less concerned about their vehicle looking perfect and more concerned about noticeably improving their car's appearance to increase its resale value. Most did not have their vehicles detailed regularly, so often the difference in their vehicle's appearance after being detailed was drastic. When the time came to choose a company to detail their vehicle, these consumers were often influenced by recommendations within their social circle or by traditional advertising. Since these customers typically wanted to sell their vehicle as quickly as possible, many wanted to schedule a detailing appointment within a week.

### A New Consumer

While CCD had achieved some success attracting customers who wanted to prepare their vehicles for resale, the company's extremely low pricing had enticed a new category of detailing customers. Many vehicle owners understood the value of having their vehicle detailed but could not justify spending several hundred dollars for the service. When presented with CCD's services at a fraction of the cost, these vehicle owners were attracted to rejuvenating their vehicle's interior and exterior appearance at a reasonable price. Like those customers who wanted to prepare their vehicles for resale, the detailing process improved the appearance of these customers' vehicles considerably. These vehicle owners were more likely to return to CCD two or three times a year. Typically, these customers found out about CCD through word of mouth or by receiving one of CCD's flyers. Although CCD's success with these customers had enabled Ford to build a loyal customer base, he was open to more aggressive marketing to the other two consumer segments.

## ALTERNATIVES

### Cut Polishing Service

To increase his sales, Ford was considering expanding his services to include cut polishing. Cut polishing involved using a rotary buffer to apply a polishing compound to areas of a vehicle's paintwork that were

scratched or deeply oxidized. Cut polishing worked by removing a small layer of a vehicle's clear coat, which, in the process, removed or minimized the appearance of paint imperfections. Currently, CCD only hand polished vehicles, which performed the same function as cut polishing but was less effective overall. Like other car-detailing companies, CCD's cut polishing services would be offered in addition to the company's existing full detail package. If cut polishing was included in the detail package, it would cost CCD's customers 25 per cent more than a regular full detailing. Cut polishing required significantly more skill than hand polishing. Ford had learned how to cut polish during an internship at a local BMW dealership, but he was unsure whether he was ready to start cut polishing his customers' vehicles. Unlike hand polishing, making a mistake when cut polishing could damage a vehicle's finish. Consequently, introducing cut polishing would require CCD to purchase supplementary liability insurance coverage costing \$1,500 annually in addition to a \$250 rotary buffer.

### **Go Mobile**

Ford was also considering the option of converting CCD into a mobile detailing company as a convenience for customers, with CCD performing vehicle detailing at its customers' homes or offices. Ford hoped this added convenience would increase the demand for CCD services, but he also knew he would have to charge 30 per cent more for his services to make this alternative feasible.

Mobile detailing would also involve significant upfront investments. CCD would have to purchase a pre-owned truck and equip it with a water tank, pressure washer, generator, tent and a water reclamation system. Ford projected that purchasing the truck and all necessary equipment would require \$10,000. He planned to fund this investment with \$6,000 from his personal savings and a \$4,000 from a loan from his parents.

Going mobile would also present logistical challenges. Performing mobile detailing would force Ford to consider factors like travel, set-up and take-down time, for which he had no experience. If he decided to go mobile, Ford would no longer detail cars out of his home.

### **Golf Course Partnership**

CCD could partner with a public nine-hole golf course that was located approximately a five-minute drive from Ford's home. The green fees at the course were affordable relative to other courses in the area, and the course primarily attracted patrons from within the community. Ford believed advertising through the golf course could be an effective method to attract additional customers. Customers could book appointments through the golf course's pro shop to have their vehicle detailed while they played a round of golf. When the customers showed up for their tee time, Ford would pick up their vehicle, drive back to CCD's current location (Ford's home) for detailing and then return the vehicle to the golf course by the end of the customer's round (the average round at the course took two hours and 20 minutes to complete). To entice customers to use the service, Ford planned on leaving flyers and business cards in the pro shop and a sign advertising CCD outside the pro shop's front door. The sign would cost approximately \$150.

To establish the partnership, Ford would need approval from the management company contracted to operate the golf course, as well as from the golf course's owner, the municipality of West Vancouver. The golf course would receive 10 per cent of the sale price of each detailing appointment booked in exchange for CCD's advertising on the premises. Ford planned on raising his prices to offset the commission he would be paying to the golf course.

The golf course partnership would pose some new operational challenges for Ford. For instance, to avoid double booking, Ford would have to synchronize his regular appointment bookings with those made by the golf course. Additionally, he would have to establish a system to handle payments from the golf course clients that also allowed the golf course to track CCD's revenues from golf members.

### **Franchise**

Ford was intrigued by the opportunity to develop a franchising program for CCD. He believed the CCD concept and business model could be easily taught to enterprising teenagers. Ideally, he envisioned a model where he would sell the rights to use CCD's name and detailing processes for a monthly royalty, based on a percentage of the franchisee's monthly sales. If he pursued this alternative, Ford believed that North Vancouver, with a population of approximately 130,000, would be the most logical area to set up the first franchise. To recruit his first franchisee, Ford planned to contact the career services departments of North Vancouver's seven secondary schools.

### **Sell or Wind Down**

While Ford had enjoyed running CCD, he wondered whether he should gain more varied work experience before going to university. Ford had recently been offered a summer internship at one of his clients' workplaces, a local financial services firm, paying around the same amount of money as he had earned running CCD last summer; however, the hours would be much less flexible, and the work could be potentially more tedious. The job would require Ford to perform ad-hoc administrative duties and complete several data analysis and research projects. If he chose to take this internship, Ford wondered how best to exit the car-detailing business. He was intrigued by the opportunity to sell CCD, but he wondered who would buy it and whether it would perhaps be simpler to wind it down instead. To do so, Ford would send a letter to his customers, thanking them for their business, explaining the reason for his decision, and then he would liquidate his detailing equipment.

### **CONCLUSION**

Ford knew the decisions that lay ahead of him would not be easy to make. While altering CCD's service offerings would provide enticing avenues for growth, pursuing any one or more of them would undoubtedly present a challenge. The options to franchise or sell also represented a couple of interesting opportunities that needed some thought. With his busy season approaching, Ford knew that he would have to make his decision soon. He sat down to weigh the pros and cons of the options and to devise a course of action for CCD for the upcoming summer.

**EXHIBIT 1: WEST VANCOUVER STATISTICS**

|                                                    |           |
|----------------------------------------------------|-----------|
| Population                                         | 42,694    |
| # of Households                                    | 17,074    |
| Average Family Income                              | \$155,071 |
| Median Age                                         | 49.9      |
| % of Households with Income Greater than \$100,000 | 40%       |

Sources: "Census Subdivision of West Vancouver, 2011," Statistics Canada. Statistics Canada, October 24, 2012, [www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-csd-eng.cfm?LANG=Eng](http://www12.statcan.gc.ca/census-recensement/2011/as-sa/fogs-spg/Facts-csd-eng.cfm?LANG=Eng), accessed June 17, 2013.

Facts and Stats: Income. Rep. West Vancouver Planning Department, June 2011, [http://westvancouver.ca/uploadedFiles/Community\\_Planning/Facts\\_and\\_Stats/Income.pdf](http://westvancouver.ca/uploadedFiles/Community_Planning/Facts_and_Stats/Income.pdf), accessed June 12, 2013.

**EXHIBIT 2: SUMMARY OF THE VEHICLE DETAILING PROCESS**

1. Vacuum vehicle interior
2. Shampoo floor mats
3. Clean and dress interior surfaces
4. Clean and condition leather upholstery (if applicable)
5. Wipe down door jambs
6. Wash wheels and tires
7. Wash vehicle exterior
8. Clay paintwork
9. Polish paintwork
10. Wax paintwork
11. Dress plastic and rubber exterior molding
12. Dress tires
13. Clean windows

Source: Company Files