

SPECIAL REPORT

Investing in the Car Wash Industry: Self Service



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I. Industry Overview

The basic types of commercial car washes are:

- Self- service
- In-bay or rollover automatic
- Conveyor exterior-only
- Conveyor full-service

Different types of washes can thrive at the same location. Consumers choose the type of car wash service they prefer and there is generally very little crossover business. There are many existing wash locations that offer two or even three of the various wash types at the same site.

A. Climactic Factors

Consumers use car washes throughout the year. In fact, winter is the best washing season in most areas of the United States. This is because vehicles require washing more frequently during the winter months. Other seasons are also profitable and monthly income usually doesn't vary more than 20% from the year-round average. California is an exception to the winter rule where summer is the best washing season.

B. Geographic Factors

Modern car washing is popular with consumers in all regions. Some areas have better income potential due to factors such as total amount of precipitation or lack of an adequate number of facilities to serve the population of a given area. Regardless, cars get dirty everywhere and people are looking for a safe quality wash.

II. Self-Service Car Washing

What is a self-service car wash?

The coin operated, self-service car wash is a facility which offers car wash cleaning services to consumers who provide their own labor. Actually, the term "car" wash is not accurate. These facilities can accommodate recreational vehicles, trucks, boats, machinery or anything else portable and washable.

Why do consumers choose self-service?

Older self-service washes once offered only mediocre service. Many consumers who tried self-service washes in the past were dissatisfied with the results, and they never returned. Others were turned-off by the appearance of the washes and never came in the first time.

It's a different story with today's self-service washes. Modern self-service washes draw a wide range of customers that include all age groups, income levels, and men and women alike. Most of these customers choose self-service because of the personal satisfaction that is gained by accomplishing the task themselves. Others choose self-service because of value. Virtually all of the customers leave the wash totally satisfied that their car is impressively clean.

Why invest in self-service washing?

To make money! Self-service washing can be very profitable. Many existing operations prove that. The profitability of a particular wash is determined by many factors. These include, but are not limited to, location, intensity of competition, structure (appearance and durability), services offered, equipment, cleanliness of the wash, merchandising and management.

Why is self-service washing so profitable?

There are many reasons:

1. Very low labor costs—part-time attendant only
2. Very low direct operating costs. The direct costs (utilities, chemicals and maintenance) average less than 25% of the gross income of modern self-service washes.
3. All cash business—no accounts receivable
4. The customer provides the labor
5. Low inventory
6. 24-hour operation
7. Flexible pricing for special promotions
8. Steady business through all seasons in all climates
9. Broadly based market
10. Minimal fixed costs (bookkeeping, insurance, etc.)
11. Relatively low initial investment

Why are so many business people investing in self-service?

1. Excellent cash flow
2. Relatively low initial investment
3. Relatively high rate of return on investment
4. True appreciation on investment
5. Relatively easy management—few labor problems, few inventory control problems and few cash flow problems
6. Excellent tax incentives—faster depreciation
7. Good roll-over potential for expansion opportunities

Is this business for you?

Only you can answer this question. The self-service car wash business requires everyday attention. Even if you should have an attendant, you must monitor his performance. Just like any other business, the owner must care and take an active interest. You must have this desire; without it the self-service car wash business is not for you.

A. Site selection

There is an old saying in the car wash industry that there are three important factors in having a successful wash: location, location and location. While that statement may be an exaggeration, it is certainly true that location is the single most important factor. Even a well-built, well-equipped and well-managed wash will not reach its full income potential if the location is not right. There are many factors to consider when you are evaluating a property that you may now have or one that you are considering to purchase or lease. Self-service car wash customers usually wash as a result of a planned activity—not impulsively.

Thus, high traffic counts or heavy exposure are not necessarily mandatory for a good location.

Self-service customers will generally use the wash facility closest to their homes, unless that wash is inferior to others in the community. Therefore, your wash should be located near a dense residential area. The majority of customers come from single-family homes, though areas with numerous multiple-family units are also excellent for self-service facilities. Good commercial backups, such as shopping centers and fast food restaurants, can also help generate good traffic—but they are not absolutely essential for the success of your business. If you are planning a combined self-service and automatic facility, the exposure of a higher traffic count is important in generating more automatic wash business.

As a general guideline, 1,500 people within the general vicinity are required to support one bay of self-service car wash. This formula assumes that all existing facilities conform with today's car wash standards. You must evaluate the existing washes in the area in which you are planning to locate your wash. If the existing washes are up-to-date and clean, careful consideration must be given as to whether there is enough consumer demand for an additional wash.

B. Evaluating existing washes

When looking at the existing wash facilities in your area, you must be very objective. Do not allow your personal preferences affect your judgment. Look at these washes as though you were a consumer who had never used a self-service wash before, then ask yourself these questions:

- Are you attracted by their appearance?
- Is the wash busy? Are the bays wet?
- Is the site well lit?
- Is there trash lying around the car wash lot?
- Are the trash containers overflowing?
- Is there excessive mud on the wash bay floors?
- Are the bay walls dirty?

The appearance of the wash is very important. New customers will very rarely come into a dirty looking wash. They will also shy away from a wash that looks unused. Even if the wash bays are empty, they should at least be wet from previous use.

Once inside the wash, you must judge the services offered. Are the following present and functioning properly?

- Vacuums with good suction
- Carpet shampooer/fragrance machines
- Trigger-type wands
- Spray wax cycle
- Floor mat hangers
- Bill changers
- Credit card payment acceptors

- Ice-free floors in winter
- Wands with high pressure
- Countdown display timers
- Pre-soak cycle
- Spot-free rinse cycle
- Tire cleaning cycle
- Foaming brushes
- Vending machines
- Warm water on soap cycle
- Sink and wringer for chamois

If the answer is "no" to any of these, then the wash is not performing to current industry standards and thus is vulnerable to competition.

The final test is to wash your vehicle using all of the services offered at the wash. After doing so, let your vehicle air dry, then ask these questions:

- Are tires clean?
- Are painted surfaces clean and film-free?
- Are chrome parts bright?
- Are windows spot-free?

Any "no" answer above means that this facility is turning out an inferior wash. New customers usually do not return to a facility that does not get their cars clean.

Even if the nearby competition offers quality washing and attractive facilities, they may be vulnerable to competition because they do not offer automatic washing for the car wash consumer who prefers this type of wash.

C. Additional site selection factors

Make certain the property you are intending to use is properly zoned. A variance or rezoning battle may discourage even the most determined investor. Some other negative factors should be avoided, if possible:

- High speed traffic which makes it difficult for customers to exit or enter the wash (over 40 MPH)
- Very heavy traffic which backs up from a traffic light at a nearby intersection and blocks the entrance to your wash
- Obstacles such as medians preventing turns in all directions in and out of the wash
- An adjacent vacant lot which may be a dumping ground or create blowing dust problems during windy weather
- Unpaved streets or alleys

D. Property costs

Certainly the cost of property is an important consideration when evaluating the profit potential of a self-service car wash. A conservative formula for calculating the cost of property is 15% of the projected monthly gross income.

EXAMPLE: If the wash is expected to gross \$8,000 monthly, \$1,100 would be an affordable monthly lease payment. If you are purchasing the property, a ten year amortization could be used. Thus, you could justify a purchase price of up to \$144,000 in this example (\$1,200 x 120 months).

You should always keep in mind that good commercial property is a finite commodity. Therefore, the property will probably appreciate faster than the wash itself. You may be justified in buying a more expensive lot, if it is perfect in all other ways.

E. Lot sizing

The following are recommended lot sizes, based on the number of bays the wash is to have. These sizes are not necessarily the smallest. Many washes have been built on lots smaller than these. These dimensions do not include any consideration for set-back requirements.

4-bays: 100' x 90'
5-bays: 100' x 106'
6-bays: 100' x 122'
7-bays: 100' x 138'
8-bays: 100' x 154'
9-bays: 100' x 170'
10-bays: 100' x 186'

F. Buy or lease?

Both methods of land acquisition are acceptable. The purchase of commercial property is usually a good investment which should appreciate in value. However, if your capital resources are limited, you may wish to lease the property. When leasing, make sure that the term of the lease is long enough so that it will not be detrimental to the resale value of the wash, should you decide to sell. A ten-year term with ten-year renewable options is preferred.

G. Placing the building on the property

The car wash structure should be placed on the property to maximize the income potential of the wash. The layout of the wash should include space on the entrance side of the wash for at least one vehicle to be lined up for each bay (vacuums may also be located in this area), adequate turning radius areas on both the entrance and exit sides of the wash, space on the exit side for a drying/vacuuming area, and an open exit lane.

Take care to position your bays so they are open to your busiest street. If you are planning to install an automatic bay(s), you should include additional space for cars waiting in line to enter the wash.

Do not be discouraged if your property doesn't have room for all of these features. Many car wash lots do not. Mark VII can assist you in planning the best possible layout for your property.

H. Planning your car wash structure

Remember, your building makes a statement about the type of services you offer. It's critical for you to present a warm, professional and inviting appearance, with proper ingress, egress and signage.

The most important design consideration is to maintain a clean wall appearance. The best wall material to accomplish this purpose is brick. Brick that is the color of local soil will camouflage the dirt that accumulates on every self-service wash bay wall. One type of brick—jumbo—requires only one course per wall. This brick is 4" x 8" x 12" and is widely available.

If brick is not available in your area, decorative concrete block is an excellent alternative. Fluted, split-faced, comb-faced or slump are examples of decorative block. These concrete blocks should be dye-colored, again to match local soil conditions. Brick or block walls should be sealed with a clear sealer prior to opening.

Ordinary concrete block is not recommended because it must be painted. The only paint currently made that will hold up against the chemicals and grime of a car wash is epoxy swimming pool paint and spray-on fiberglass. Metal walls are the least durable of all—and the most difficult to maintain.

The most commonly used roof material is galvanized steel. Some washes have aluminum roofs, which are also acceptable. The use of skylights or translucent roof panels adds light and warmth to your bays. The key here is to make sure the roof is rust-proof. Wooden roof structures supported by laminated beams or trusses are also increasingly used, but can be cost prohibitive. All car wash roof structures should include some type of decorative fascia. The decision on which type of roof to use should also be based on local codes and cost.

Concrete slabs in the bays and aprons are absolutely essential. In areas where freezing temperatures are common, all bays and aprons should have de-icing systems in the concrete. Concrete paving of the car wash lot is also recommended as it is much more durable than asphalt.

I. Car wash lighting

Good lighting is essential if you expect to generate any significant income during nighttime or even twilight hours. The most popular form of lighting in the past was fluorescent. However, this type of light source has reduced output when exposed to winds, moisture or temperatures other than 77°F.

The preferred method of lighting modern car washes is high intensity discharge (HID). This type of light source is very energy efficient and is not affected by moisture, wind or temperature. The most efficient type of HID lighting is high pressure sodium. Because this type emits a yellowish colored light, it is recommended only for use outside of the car wash bays.

In the bays, a white light source is preferred. The most energy efficient white light HID fixture is metal halide. Two 175-watt metal halide fixtures per bay are usually installed, but two 400-watt fixtures are preferable. They should be moisture resistant. White lighting is also preferred for vacuums and canopies.

J. Self-service signage

Good signage is important to the success of any car wash. In-bay instructional and promotional signage is the most important. Directional signage such as entrance and exit signs outside of the bays and signs pointing toward the bill changer are also essential.

The self-service car wash should be clearly identified as such to passersby. The most common type of sign uses two-to-three foot high lettering attached to the fascia of the car wash structure. An illuminated sign in front of the wash identifying your facility is important. The most important words are "self-service car wash."

K. Car wash values

Self-serve car washes typically are constructed on less than primary real estate. Self-service is a planned activity, and it is not necessary for you to have an impulse site. In time, many secondary sites suitable for self-serves become primary sites, with rapidly increasing values.

Being in the self-serve business is really being in the real estate business. As such, you must always remember that the rule of highest and best use prevails. There may come a time where the income is outpaced by land appreciation.

L. Building plans

Mark VII provides its customers with comprehensive installation plans. They include equipment and mechanical layouts.

Remember, requirements vary according to local codes. Therefore, plans must be reviewed by a local, licensed engineer to verify their conformance. They will, however, save you time and money during the planning phase. These plans are available from Mark VII for a nominal fee, which is fully refundable when you purchase your equipment from Mark VII.

M. Offered Services

You may have the best location possible and a beautiful facility to attract customers, but if your wash doesn't perform you will not get the steady, repeat customers that are the backbone of any business.

Performance means many things. It means offering the customers the services they want—the services necessary to get their cars clean inside and out. It means merchandising those services to maximize your wash's profit potential. Performance also means having the equipment work properly every time a customer drops money into the coin box and minimizing the workload of the operator.

The services you offer must satisfy these demands for performance. Consumers come to your wash for only one reason: to clean their cars. If they don't get the service to accomplish this task, they won't return.

Services offered vary greatly by the type and age of equipment. The general rule of thumb is that more options are better. Remember that the customer pays you for time. Providing more services and wash options results in more time spent in the bay—that's more incremental profits you make as an operator. Once you've attracted the customers onto your site, why not sell them as much as you can?

The following in-bay services should be offered:

1. Countdown display timers

Since the beginning of self-service car washes, customers have frequently been disturbed or angered because they ran out of time just before they were completely finished. This problem has been solved by countdown display timers which provide an audio/visual warning one-minute prior to the time expiring.

Although some customers react to the warning by rushing, most add more money. Customers appreciate this reference and are loyal to the washes that have this service.

2. Pre-soak

Pre-soak is relatively new to self-service car washing and is not available at all washes. The pre-soak is a concentrated detergent solution which is dispensed through the wash wand at low pressure. It is absolutely necessary for breaking down road film, prior to using high-pressure wash.

Many operators feel that having pre-soak in combination with foaming brushes is redundant, as both will remove road film. However, other operators believe that having both gives their customers the choice and either way provides a quality wash.

3. Foaming tire cleaner

Clean, bright sidewalls have always been important to self-service wash customers. A method now exists to do a good job on tires. The foam chemical clings to the tires and loosens the embedded grime. High-pressure is then used to flush the tires, leaving them clean and bright.

The foam clings to the applied surface, allowing the chemical to stay where it's needed. Operating costs are low. And nothing merchandises the product better than the foam itself.

4. Foaming brush

Introduced in the late 1970's, the foaming brush had an immediate, positive impact on customer satisfaction levels and operator income. For the first time, customers got a film-free wash from self-service—and they liked it. The Customers'

satisfaction brought them back more frequently to wash their cars and also caused them to recommend the wash to their friends.

The foaming brushes are usually used longer than the high-pressure wands—increasing gross income. At the same time, operating costs are also reduced because the foam brushes use only cold water, use less water, use less soap and do not require the operation of a high horsepower motor.

The end result is greater operator profits and recent innovations such as multiple colored foaming brushes increase these profits.

5. High-pressure soap

High-pressure soap is one of the basic services provided at self-service washes. Customers use high-pressure soap to wash all parts of their vehicles, including tires, wheel wells and undercarriages. High-pressure soap is also used to wash motorcycles, boats, lawn mowers, trailers, attic fan louvers, screens, pick-up truck beds, lawn furniture or anything else portable and washable.

High-pressure is also the best method of washing off heavy mud and loosened soil and grime.

High-pressure soap requires more backup in the equipment room than any other service. In order to provide maximum cleaning with high-pressure, you need to have hot water, chemical systems, water softener and a dependable, reliable pumping system.

6. High-pressure rinse

This other basic service is used by every customer in a self-service car wash. Soft water is required here and cold water is permissible, except in very cold weather. Cold water rinse is a significant energy saving feature, however hot water will assure the best quality rinse. Hot water also tends to make detergents more active. This makes them take longer to rinse off, which generally increases profits.

7. High-pressure wax

Wax is used by about 35% of the self-service car wash customers. Spray wax is applied with warm, soft water through the high-pressure wand.

8. Foaming conditioner

A new trend is to offer low pressure foaming conditioner, generally dispersed through a small pistol-shaped applicator. It is marketed as a foaming wash and protectant for the car's clearcoat surface. Variations on this include multiple-scented colored conditioner products. This is an excellent way to increase your customer's bay time.

9. Spot-free rinse

Many water systems have a high percentage of dissolved solids. These solids, when dry, will leave spots on the surface. An effective method of removal is reverse osmosis (RO) or dionization (DI), generally referred to as spot-free rinse (SFR). The vast majority of new washes now offer SFR.

10. Bug cleaner, glass/chrome cleaner, mag wheel cleaner

Also offered in newer systems are additional foaming products such as bug cleaner, glass/chrome cleaner and mag wheel cleaner. These are usually delivered at low-pressure through the main wand and are an excellent way to increase your offering to your customers. You'll gain new customers and keep existing ones in the bay longer for additional profits.

11. Floor mat hangers

Although seemingly unimportant, mat hangers are used by over half of a self-service car wash's customers. Mat washing adds to the time of the overall wash and to the in-bay wash income. Customers appreciate this extra convenience.

12. Vacuums

This very basic service is used by 62% of all self-service customers. Vacuums provide a very profitable source of additional revenue outside of the wash bays. Because they are outside, vacuums can generate income simultaneously with the wash bays. Good self-service facilities have at least one vacuum for every wash bay, although generally the more vacuums you have, the more money you will make. Many newer sites are offering vacuum machines that also dispense carpet shampoo or fragrance. This is an excellent way to incrementally increase profits.

13. Vending

A variety of products may be vended through coin-operated machines. The most common products sold are paper towels, window cleaner and air freshener.

14. Change making

Bill changers are an absolute must for self-service car washes. Most of the customers need change. If they can't get it, they won't spend as much money as they should—or even worse—none at all. Because of this inconvenience, they may never return.

Machines are available that change \$1, \$5, \$10 and \$20 bills. All washes should have more than one changer. Since over 90% of the money used at your site comes from the changers, you cannot afford to be without at least one in working order.

Remember, your customer base and your income will be severely reduced if you do not have adequate change-making capability.

15. Credit Card/Fleet Card Readers

Newer washes are increasingly offering their customers the option of paying with a credit card. Although the available systems differ in details, all allow customers to purchase times for wand bays and other site services like vacuums. Most allow for fleet accounts or pre-paid cards to be sold to customers as an additional method of building loyalty and increasing utilization of the wash's capacity. Suppliers of these systems claim an increase of up to 15% of bay revenues by making it easier for customers to purchase your product.

N. Merchandising your services

You may offer the finest car wash service in your area, but if your potential customers don't know about it, you can't expect them to patronize your business.

Exterior signage has already been mentioned. This is particularly helpful to the new customer who is looking for your wash on his or her first visit. The physical appearance of the wash is very important. New customers will likely turn away from an unattractive car wash.

Once inside the wash bay, the new customer should feel at ease. Simple, easy-to-understand instruction signage is important in this area. Customers, especially new ones, will read instructions, provided they are easy to read and understand.

The most frequent problem with most existing signage is that it lists a long sequence of instructions which are not easily understood. Further complicating the problem is the fact that many of these signs are badly faded and almost unreadable.

Good, easy-to-understand signs are available today. They are also designed not to fade or be vulnerable to scratching or rusting.

The coin boxes have also been a weak area of self-service car washes in the past. Many are nothing more than dull, rusted metal boxes with little or no merchandising to the customer. When looking at the coin box, the customer should be able to easily read the price of the wash cycle, the time of the cycle, and the services offered.

Coin boxes today are stainless steel with large price and time decals, and colorful switch dial plates that identify the services offered to the customer. Coin boxes are also available with touch pads instead of rotary switches. This presentation further enhances the merchandising of services to the customer.

The operator may now choose from a number of coin box configurations. These include a choice of coin mechanisms—either jam-proof electronic acceptors or electronic coin rejectors, and a choice of selection switches: either traditional rotary switches or touch pad models. You may also wish to include the countdown display on the faces of your boxes. This electronic display shows the customers how much time they have remaining and can include an audio warning for the last minute of the cycle. All coin boxes should be

controlled by accumulative timers which allow the customer to add coins anytime as long as the cycle time has not run out.

O. The reliability factor

When car wash customers put their money in the coin box, they expect the equipment to work properly every time. When it doesn't, you end up with frustrated customers. The result may be damage to your equipment or the permanent loss of a regular customer.

Examine the coin boxes of existing car washes in your area. Are the faces of these boxes beat-up? If they are, it is a good indication that the coin mechanisms in those boxes have jammed frequently in the past. Jammed coins also mean lost revenue while the bay is down. Fortunately, jam-proof coin acceptors do exist today and life for the car wash operator is much easier than it used to be.

P. Operator workload

Your selection of equipment will have a profound impact on the workloads for you and your attendants. There are great differences between brands of equipment, so shop carefully.

The first and most obvious difference is the quality of the components selected by the manufacturer to be included in the system. Unfortunately, many manufacturers only look at the short term and furnish their systems with inferior components or parts never designed for this use. These improper components will require more attention in the field—and cost you more in labor and replacement costs.

While it may be difficult for a new investor to evaluate the quality of these components, it can be done. As a general rule, the use of the same component by several manufacturers is a good indication that the part is widely accepted in the car wash industry. Conversely, if the item is not used by other manufacturers, you should be concerned.

Another good test is the system's acceptance by existing operators. Ask the supplier for references of customers currently operating self-service washes before buying that manufacturer's system. Experienced operators will not choose a system with substandard components.

Perhaps even more important than the component itself is its location on the system. It must be accessible. Operators tend to postpone the repair or replacement of parts that are hard to get to. Inaccessibility also causes excessive down-time for the bay being repaired. A job that should take only minutes may take hours if the component is not easily accessible.

The location of components on the system can also affect operator and employee morale. If the part to be repaired is only six-inches above the floor, someone is going to have to get down on the floor to fix it—a nasty chore that nobody wants to do.

Consideration should also be given to even the most routine of chores. Probably nothing is more routine than cleaning the car wash bays and picking up trash around the car wash lot.

There is machinery available to help the car wash attendant accomplish this task more easily and quickly. Be sure to ask your supplier for his/her recommendation.

A frequent task of car wash attendants is the mixing of chemicals. Automatic chemical dispensers which greatly lessen the workload of operators are now available. These dispensers improve quality control by taking the guesswork out of mixing chemicals.

Money handling is another job for the operator—though a most desirable one. There is equipment that will reduce operator workload in this area as well. High capacity, hopper-loading bill changers need refilling less often and high-capacity, high-security coin safes need to be emptied once a week instead of daily. Coin vacuum systems that suck coins from the coin acceptors into a central vault also increase efficiency and safety. You should consider having a multi-coin counter machine to simplify preparation of deposits.

Q. Attendant labor

Your car wash should be attended on a daily basis. Cleaning is the attendant's primary responsibility. The wash should be visited at least twice per day and more often on busy days.

There is an industry-wide trend toward attending self-service washes for extended hours. Usually six to ten hours per day, and many operators now have full-time attendants. In addition to keeping the wash clean, the attendant can make change for larger bills, assist customers with questions and complaints, monitor the wash functions for quality control and provide peace of mind for the customers.

Attendants are necessary for successful automatic/self-service combined facilities. There is strong evidence that attended washes do more business than unattended ones.

R. The cost of investment

The investment in a self-service car wash varies from one geographic area to another. Property costs should be looked at on a per-bay basis. The rule of thumb is approximately \$20,000 to \$25,000 per bay, plus the cost of improvements including equipment at \$35,000 to \$65,000 per bay. In order to get a clearer picture of the investment, you need to look at revenue projections and cost. Once this information is at hand, it makes it far easier to evaluate your investment. You should study existing industry standards, available through industry publications.

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