

Be Prepared

By Anita Baron



Know what to do when your carwash faces a crisis

You've opened your new carwash, and it's doing well. You're happy, your customers are happy, your landlord is happy and your lender is happy. But then something goes wrong.

Usually, it's something unexpected, certainly not something in your original plans. There's a local development or zoning change. There are new traffic patterns, sometimes temporary as when road repair makes access more difficult, and sometimes permanent as when a new bypass road cuts into the traffic flow at your location. Maybe competition moves in nearby. Or perhaps a drought causes restrictions on water usage. Maybe the economy slides into a recession or the nation goes to war. A runaway car could smash into your building or into your equipment or a destructive storm could blow through town, throwing the day-to-day management of your site into confusion.

The first thing you should do is something you should have been doing all along—keeping accurate financial records. They will tell you when your business is dropping off, even when there's no obvious change in circumstances. Moreover, they will make a favorable impression on your lender if you need to ask for changes in the terms of your loan agreement.

The second thing you need to do is to create a plan for recovery. Start by making an objective decision as to whether you can recover at all. This is a tough thing to face up to, but it's a necessary step. Then develop realistic projections of the expenses you might have to incur while your business is down. Maybe your best course of action is repairs, remodeling, a new marketing strategy to bring back customers or, if all else fails, relocation. Whatever action you take, project a month-by-month estimate of how quickly your income will recover.

The third task will be to get in touch with your lender and your landlord as soon as possible. If you see a problem developing but it hasn't actually arrived yet, that's the best time to take action. If it has arrived, the best time



to act is right now. Don't wait until your recovery plan is complete to give everybody a heads up. In fact, your landlord and lender may be able to contribute useful ideas to the plan once they know what's going on.

Finally, do steps one, two and three right away. Don't, under any circumstances, allow your loan to go into default or your customer traffic to slow to a trickle. Even if you have to swallow a bit of pride and inform the people who have invested in your business, it is definitely worth it. If you wait too long, you will probably lose most if not all of your investment.

Landlords and lenders

How will your landlord and lender be able to help? Let's discuss the landlord first. Some landlords will grant their tenants temporary rent adjustments. They also might contribute to the cost of necessary repairs or improvements. After all, such improvements improve the value of the landlord's property as well as your business. The bottom line is that your landlord has a vested interest in seeing you succeed.

Similarly, your lender can do a great many things to ease the financial impact of your problem, provided you communicate as soon as you see trouble coming and have a realistic plan for recovery. If your loan payments are current, you greatly increase the likelihood that the lender will be receptive to your

request. If you wait until you're 30 or 60 days in arrears, it becomes more difficult for the lender to restructure your loan. In fact, chances are you would be turned down.

Once the basic decision to restructure a loan is made, lenders can look at which changes in the loan are most likely to get the carwash back on its feet, such as deferring or lowering payments for a set time that represents the best estimate of the duration of the problem. A variation of this strategy is to offer interest-only payments for a fixed time. In both cases, your lender could extend the term of the loan to cover the money it is foregoing now. If you know from the start that your wash is a seasonal business, the lender could structure the loan so payments are highest during your busy season and lower when business slacks off. If you are just starting a new carwash, the lender may set the initial payments at a low level then ramp up as your business increases.

Let me give you two real-life examples of carwashes that faced serious business problems. (I've changed the locations to protect the privacy of the borrowers). The first example is a carwash in Virginia. A severe drought in the area caused the county to restrict water usage, effectively closing down all carwashes in several counties. The carwash owner needed funds to bring water tankers to his site to continue washing cars. Under those circumstances, we were able to defer payments for three months until the crisis ended.

The second carwash in Florida sustained severe damage from a hurricane. In this instance, we provided an additional loan for a new sign out front and repairs inside.

People often say that success in operating a carwash depends on location, location, location. When it comes to dealing with trouble, though, a return to profitable operations depends on thinking ahead, thinking ahead, thinking ahead. ☛

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