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Golden and Yu: Quick Lube: Why M&A has Driven Quick Lube Industry Growth

Several factors have led to acquisitions becoming the primary growth driver for major players.

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Jiffy Lube pioneered the fast oil change industry in 1979 by establishing the first drive-through service bay. Jiffy's innovative business model enabled quick, professional vehicle maintenance and gave the customer a convenient service model that eliminated the need for appointments. Since then, the industry has expanded significantly, thereby increasing the level of competition by attracting new entrants and also interest from private equity firms who find this industry highly attractive: high industry fragmentation and non-discretionary vehicle maintenance demand. Let's explore the fundamentals of the business model and explain why acquisitions have become the primary growth driver for major players.

Unit Economics

Offering a no-appointment, 15-minute oil change that fits seamlessly into consumers' busy lives, the quick lube value proposition is based on convenience and consistency in much the same way quick service restaurant ("QSR") serves the restaurant market. Additionally, the growing complexity of vehicles in conjunction with an aging car parc further enhances the "do-it-for-me" value proposition versus "do-it-yourself."

A logical starting point in understanding unit economics is the cost to build a new location. Today, constructing a new quick lube typically costs approximately $1 million to $1.5 million, with an annual rent in the range of $100,000 to $150,000 depending on market and site quality. To manage rising build costs, operators have pursued different strategies. Take 5, for example, uses shallower service bays underneath the vehicles and built-to-suit financing as a capital efficient way to accelerate unit growth. On the other hand, Valvoline has focused on engineering down construction costs to support higher new-store volume. Other operators lean into lower-tier demographic markets where land and construction are cheaper.

Once a store is opened, the focus shifts to unit volume and store-level profitability. To achieve roughly 20% store-level margins, rent generally must remain below about 10% of sales, implying a target average unit volume ("AUV") of at least $1 million, and ideally closer to $1.5 million. While accomplishing these objectives is not easy, disciplined operators can achieve these goals by:

- Driving higher average ticket on oil changes through the promotion of premium blends and full synthetic oils;
- Further driving average ticket through the sale of ancillary, minimal repair services such as air filter and wiper blade replacements;
- Growing car count, thereby capturing market share from competitors.

Similarly, brands employ a wide range of tactics to compete at the operational level. Take 5 offers private-label oil as its core oil offering. Additionally, while Take 5 plans on expanding its menu of ancillary services, its currently offers six service items with a focus on faster turn of the bay, similarly as QSRs.

On the other hand, Valvoline leans on its branded oil (for instance, Valvoline's long-standing sponsorship of NASCAR racing teams) in order to drive higher average tickets for oil changes. Additionally, Valvoline makes more of a concerted effort to sell ancillary services and can generate as much as 20% of revenue from non-oil-change services, with management publicly stating its objective to target additional incremental revenues from this segment.

Taking the service model even further, Jiffy Lube has expanded its scope of services beyond minimal repairs to its "multi-care" model that offers such higher ticket repair services as brake repairs and wheel alignments. Though Jiffy Lube has seen an impact from offering services that can tie bays up for longer periods of time, the model is predicated on the ability of franchisees to balance 15-minute oil changes and light mechanical work that takes longer to perform. As a result, some Jiffy Lube franchisees report non-oil change revenues that account for as much of 40% of sales. Across the board, major brands are working to increase non-oil-change revenue to push more dollars through the stores and improve unit economics.

Return on Investment

Brands need a proven unit economics model that generates consistent, attractive return on investment to scale. As opposed to the restaurant industry whereby guests can re-visit more often, the nature of the auto aftermarket service model is that customers service their cars two to three times per year. Generally speaking, quick lube brands retain customers effectively, in some instances consistently more than 70%, thereby turning the business into an annuity stream. Because of the longer customer ramp period, it usually takes three to five years for a de novo store to reach maturity.

Because of the extended ramp period, older cohorts tend to show more attractive ROI profiles than newer cohorts due to lower construction costs and where they are in the maturity curve. New builds can look less compelling on a standalone basis, particularly when weighed against high construction costs and/or elevated rents.

M&A as Prime Growth Lever

There are several reasons the industry has not experienced a large wave of net new store construction. First, the total number of vehicles on the road has not grown fast enough to justify broad-based, aggressive location expansion. Second, the cost to build has increased materially, thereby acting as a constraint on returns for new sites. Within this environment, Take 5 is one of the few national brands still pursuing a robust new-build program, but even Take 5 leans heavily on built-to-suit structures to fund growth. Many other growth-oriented operators have pivoted to mergers and acquisitions as their primary expansion tool.

Acquisitions offer several advantages:

- The buyer typically achieves immediate positive cash flow at closing;
- The acquirer inherits an existing, proven customer base and avoids the three-to-five-year ramp associated with de novo builds;
- In many situations, the effective cost of owning a store through acquisition is lower than developing one from the ground up, particularly once time, risk, and construction inflation are factored in.

From an institutional capital perspective, this dynamic is especially important. Private equity investors with typical five-to-seven-year hold periods tend to view long customer ramp cycles less favorably. In practice, private equity sponsors in the quick lube space prefer to grow primarily via acquisition—buying at a reasonable multiple, generating day-one profitability, and minimizing exposure to slow, uncertain ramps.

The Big Picture: Market Favors Acquisition

Recent consolidation activity underscores this logic. Valvoline's acquisition of Oil Changers removed a sizable platform from the pool of potential targets, thereby shrinking the number of chains with 20 or more units and increasing the scarcity value of remaining sizable platforms. These larger multi-unit platforms should continue to command attractive valuation multiples as strategic buyers and financial sponsors compete for units.

Overall, the buy-vs.-build logic in quick lube clearly favors M&A over de novo construction. The combination of build costs, slower ramp up to breakeven, and a nominal growth in car park collectively translate to making acquisitions a more efficient and capital-effective path to growth. As a result, continued consolidation is the most likely trajectory for the sector.

About the Authors

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