

To determine if an additional business location is a good financial move, an astute tow manager understands the basics of the P&L statement of the company's original location.

## Thinking Bigger Territory Tactics That Work

By George Metos



George Metos has been brokering businesses from his office in Utah since 2012. He founded Tow Broker to focus on the towing industry throughout the U.S. and Canada. <https://www.businessbroker-george.com/> George can be reached at 801-440-3176 or [GeorgeMetos@aol.com](mailto:GeorgeMetos@aol.com)

Expanding the territory of a towing operation can be financially rewarding—but only with some careful planning. Solo tow operators across the country do this all the time, and the national chains have been ramping up lately. The vast majority of towing operations in North America operate from a single location, while the most profitable operations have multiple locations. In nearly every state, a few operators have expanded successfully by taking a chance on growth and demonstrating strong management skills. Understanding how they achieve this is key.

### WHY BUILD THE TERRITORY?

The reasons for expansion are simple: increased sales and profits. Towers maintaining multiple locations have increased business simply because more locations generate more paying customers and ultimately, more profits. Even so, it's not only about volume, but also precise target marketing. Savvy business managers understand which of their services yield the best margins, and continuously look for ways to leverage those services to a larger customer pool.

### CUSTOMERS REACTIONS

With additional dispatch locations, a tow company can provide shorter ETAs on scene, which is obviously valuable to customers. They appreciate towers who arrive when they promise, come equipped with the right tools, and most importantly, are trained to handle their vehicles with care. Also, courteous and customer service oriented operators who readily make a difficult situation bearable is always appreciated. Not to be forgotten, is a fair towing charge. Customer will recognize

expansion as a sign of superior towing service.

After all, customers traditionally prefer relying on a few trusted operators who consistently meet their needs, rather than risking inconsistent service from multiple towers. This is especially true for national fleets that may require service or a recovery in hundreds of locations across North America. Rather than juggling multiple towing relationships, they prefer partnering with a dependable network of tow operators whenever possible.

## TYPES OF TOWING NETWORKS

Towers with a local network have determined that a good customer base is well-served by two to six facilities located within about a one hundred mile radius. Upon determining the location of the customer, they are able to respond quickly and accordingly.

Most local networks grow either inorganically, by acquiring a retiring operator's business, or organically by launching new locations from the ground up. This is commonly referred to as "green fielding". There is no need for a greenfield location to be costly. It can be as simple as an operator or two running a tow truck in an inexpensive rental facility. In some rural areas, it is perfectly legal for a towing location to operate from the owner's home. As cashflow increases, more resources can be committed to this new location, and eventually moved to a commercial facility.

Regional towing networks operate on a broader scale, serving as expanded versions of local towing operations. They typically crossover into adjacent states, usually along the interstate, and cover a radius of 200 to 300 miles, or more. This type of network characteristically consists of a combination of both organic and inorganic towing operations.

There are currently ten or so national towing networks operating in several states. These operations favor focus on heavy-duty recovery work to support customers traveling the interstates that corporate customers use every day. The bulk of these national networks are comprised of large, fairly successful towing operations, primarily acquired inorganically by an investment group.

## GROWTH STRATEGIES

Operators who analyze their business in detail and identify their highest margins areas are best positioned to replicate that success as they expand. Using financial data as evidence of what is truly working, rather than relying on intuition, reduces the risk of a failed expansion. A tow manager must recognize when their operation is ready to expand into a new location.

Sometimes it's strategic to establish a new location in a key area to maintain control of the market before a competitor moves in. This may require acquisition of an existing competitor ("inorganic"), rather than starting a new operation.

Researching highway traffic patterns and the routes most used by key customers is crucial in determining where a strong towing network should be established. This proactive approach enables an enterprising tower the ability to seize opportunities swiftly and deliberately, expanding their business territory through intelligent deal-making. There are several websites that offer traffic count data, such as the Federal Highway Administration ([fhwa.dot.gov/policyinformation/tables/tmasdata/](http://fhwa.dot.gov/policyinformation/tables/tmasdata/)).

Identifying the strengths and weaknesses of the towing competition is critical in areas that are being considered for expansion. Evaluate rates, equipment, and reputation through calls, research, or customer feedback. Being well informed about a strong competitor can greatly influence expansion decisions.

Buying out a competing company is certainly one approach, yet can be difficult and costly, and may even prompt consideration from other locations. When a tower clearly understands the competition in their ▶

**SAFETY  
MADE  
SIMPLE**

MEET INSURANCE EXPECTATIONS  
PROTECT YOURSELF FROM LAWSUITS  
REDUCE UNSAFE DRIVING BEHAVIOR  
MANAGE COMPLIANCE EFFECTIVELY  
[WWW.SYNERGY-SOLUTIONSLLC.COM](http://WWW.SYNERGY-SOLUTIONSLLC.COM)

 **FIND THE HIDDEN RISKS  
THAT WILL CAUSE YOU  
TO LOSE YOUR BUSINESS**  
**303-594-6990**  
Free Audit

+ SYNERGY - SOLUTIONS +



Smaller networks usually consolidate financial statements among all locations, but a tow company's accountant can still isolate the financials for each location.

operational area, they can identify nearby locations with little or no competition, and can be ready to expand as opportunities arise.

## EMPLOYEE CONSIDERATIONS

Depending on whether a new location is acquired or built from scratch, personnel may or may not come with this growth. A tow boss needs to plan for the appropriate number of operators and dispatchers. Finding experienced tow operators is particularly challenging in North America, and there's virtually no staffing pool of proven managers either. Most tow managers will promote managers from within. Also, a manager that rewards strong employee performance fosters loyalty within the business.

As a company expands, owners will eventually need to delegate more responsibility to managers and assistant managers. This shift in mindset will be new for owners to adopt, and often an internal HR manager or external consultant can provide valuable support to both owners and managers during the transition. There are also several beneficial courses offered throughout towing industry trade shows and industry publications.

As previously noted, consistent delivery of towing services is essential for success in the towing industry, and is readily accomplished by establishing training programs. The process may begin with an orientation covering company policies, procedures, and safety practices, followed by hands-on training combined with online or in-person courses to facilitate comprehensive learning. Some companies pair new operators with experienced ones, beginning with light-duty equipment, and progressing to heavy-duty equipment as appropriate.

Documenting the training process in a company manual, and adhering to it strictly, will help to minimize inconsistencies among staff, reduce damage to customer vehicles, and provides evidence of diligent efforts in the event of legal action. In addition, observing company policies can lead to lower insurance premiums, as it often results in fewer accident claims.

## SHOW ME THE MONEY

Sellers usually won't offer financing due to the risk of non-payment. Yet, with a reasonable down payment, and some legal protection for the buyer in the

purchase agreement, a seller may agree to a promissory note with the buyer. There is typically a reasonable interest rate charged for their risk, such as five to seven percent. Conversely, a tower selling their business that is strong enough to attract several buyers probably won't discuss any type of seller financing.

As an alternative, bankers may be able to provide capital through the Small Business Administration (SBA) loan program. There are more than 800 SBA approved lenders, which include a mix of banks and credit unions, and over 1,400 certified Community Development Financial Institutions (CDFIs) across the United States that offer SBA-backed loans. The process of applying for an SBA loan is similar to applying for a home loan. The bank requires the tow company's financial statement, tax returns and bank records, along with those of the target business, plus P&L statements, balance sheets, equipment lists with current values, and a comprehensive description of the business.

The SBA, which is a thriving business all on its own, was set up to encourage citizens to open businesses by providing loans. Overall, the SBA sustains its operations financially without losing money. Their sound business practice consists of only lending to citizens whom are believed to understand the business they're buying, are financially qualified, and are buying a business that can generate enough cashflow to service the debt of the new loan, in order to ensure its long term stability.

The maximum SBA loan is about \$5M, and dependent upon the type of business being purchased. As of the writing of this article, interest rates are currently in the 9 to 9.5% range, and fluctuate frequently. More information can be found at [sba.gov/funding-programs/loans](http://sba.gov/funding-programs/loans).

## FINANCIAL REALITY CHECK

A tow company's cashflow is not necessarily the amount of net income reported to the government for tax purposes. Business owners are motivated to reduce net income to save taxes. So, how does a tow manager and a potential lender determine the true profit of the company?

The two most common metrics utilized by professional financial advisors in this analysis are cashflow and EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization).

A CPA or financial advisor should be able to calculate both of these items. Essentially, their task is to determine how net income would look if the owners did not try to reduce it by acquiring equipment instead of paying taxes, and there were no equipment loans, no perks were paid to the owners, and salaries were not inflated, etc. This does not imply amending a tax return, but instead modeling it on paper to let the buyer and the lender know how much cashflow or EBITDA could potentially be generated.

## MEASURE THE RESULTS

To determine if an additional location is a good financial move, an astute tow manager understands the basics of the P&L statement of their original location, and relies upon financial advisors to fill in the gaps. With this knowledge, they can review the performance of additional locations.

A multi-location towing operation does not necessarily require a separate P&L statement for each location. National networks typically separate each location, and may even have a different LLC or corporation for each. But smaller networks usually consolidate financials among all locations. This does not stop a tow company's accountant from isolating

the financials for each location. But smart tow bosses want to know how the business is doing on a consolidated (combined locations) basis, and also how the individual locations are doing. This requires that the accounting systems are setup properly.

If an operator is able to track revenue and expenses by location, they can develop a model to analyze the financial performance of each location. Data can be entered based on the tow truck(s) used for the job, the dispatch location, or the operator.

There may be some overlap and even some exceptions, but using a consistent method to enter data will yield reliable results. Many towers complain about data being entered improperly, although with some diligence, the errors can be minimized and the results will be very valuable.


Employee salaries, fuel, rent, and some other expenses can certainly be tracked by location. An accountant may advise on allocation of general overhead, dividing it among all locations on a consistent basis, possibly based on revenue. In the end, a good accountant can track the cashflow and EBITDA of the consolidated group of locations, as well as provide a reasonable estimate of the financial performance of each location.


## DETAILED REVENUE DATA

The most profitable towing operations have several line items in their P&L for revenue. More than just towing sales, statements will indicate revenue from light-duty, heavy-duty, recoveries, roadside assistance, salvage vehicles sold at auction, hazmat cleanup, etc. Having the ability to examine these numbers over a period of years provides valuable data that may enable a tower to fine tune their operation. If this level of detail is available for each location,

it becomes a powerful tool for the owners and managers to understand if their expansion into a location for a particular type of towing is paying off. Or, if eliminating a certain type of towing with lower margins is worth considering.

Skilled and proficient tow bosses typically perform these calculations frequently, either independently or with the assistance of professionals. Analyzing the trends will provide the tow manager with insights into what drives value in their business, allowing them to prioritize and build upon these strengths. Similarly, a competent accountant will understand a tow company's objectives and recommend systems to facilitate them.

Success in expansion comes not from size alone, but from the strength and vision behind the wheel. 

 **MOTOROLA SOLUTIONS**  
Channel Partner

**TWO WAY RADIO  
NATIONWIDE  
COMMUNICATIONS**

- Private/Group Calling
- High Quality Audio
- Location Reporting
- Low Monthly Rates



**METROCOM**  
250 West 40<sup>th</sup> Street  
New York, NY 10018  
**212-532-7400**  
[www.metrocomradio.com](http://www.metrocomradio.com)