

Welcome to IF Consulting's e-newsletter

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Our regular email tackles the topical issues that surround all marketing channels and their underlying strategies.

The Showroom Flaw

"Exclusive" car dealers, who sell the one make in their showrooms, have been regarded by some as the best type of dealers. Unlike 'dual' or 'multiple' dealers, the exclusive is able to concentrate all his sales and customer service efforts on that one make.

Around fifty years ago, America's independent manufacturers, Studebaker, Packard, Hudson and Nash, started to disappear when the "Big Three" refused to let their dealers share showroom space with other makes. Although too late for the independents, the resultant antitrust legislation encouraged foreign makers to flock into the market in the mid 1960s. By sharing showroom space, the newcomers were able to achieve good distribution at a minimum cost. However, although it proved to be an expensive strategy, the ultimate aim for the foreign automakers was the establishment of 'exclusive' dealerships. This strategy enabled makes such as Toyota, Nissan and Honda to promote premium brand images for Lexus, Infiniti and Acura.

Why then are American manufacturers moving away from exclusive dealerships and pushing franchise owners towards selling many brands out of their showrooms? American Chrysler, for example, is combining its Chrysler, Jeep and Dodge dealers, so that one dealer in a large community will sell all three brands. This does happen with foreign makes, such as BMW dealers selling Minis, but these cars are very different from the core brands, sell in smaller numbers and are kept distinctly separate within the showrooms. Consolidated dealerships may be the way for manufacturers to build volume and retain their dealers in the face of declining sales, but the strategy has many flaws.

http://www.forbes.com/home/columnists/2005/05/03/cz_jf_0503flint.html

IF Comment

Network planning, particularly when a company, like several of the car companies mentioned in the article, has more than one brand, is often more of an art than a science. There are many factors that need to be considered in making the decision of where to locate retail points, how many to open and if they should be stand-alone (single brand) or be combined with one or more brands of the same manufacturer.

The level of exclusivity is certainly one of the criteria to consider. To draw a parallel, fashion designer and retailer Armani runs separate retail operations for each of its retail brands: Giorgio Armani (most exclusive), Armani Collezioni, Emporio Armani, Armani Jeans, Armani Exchange (least exclusive), Armani Casa (furniture and furnishings) and Armani Junior. Each brand and product line targets a different market segment with unique products at different price points. Armani would never place two or more of its brands under the same roof, avoiding the risk of diluting the value of its brands and of turning-off customers.



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Another critical aspect to consider is the relationship between volumes, margins, investment and operating costs of the retail business. Often, economies of scale can be achieved by sharing back-office and other administrative costs among retail outlets belonging to, or having an affiliation with, the same manufacturer. The key question is whether, to achieve economies of scale in everything that is not part of the customer facing operation, they also need to share the same retail space. In most cases, provided there is a good back-office management system, this is no longer a requirement.

If the need to share premises is such a strong requirement even when this is not clearly in the interest of preserving the integrity of the brand, then we should ask the simple question if smaller premises are required to make the business viable. As every successful retailer will tell us, sales per square meter is the critical measure of the success of any retail space. How many car, and other, manufacturers that are struggling to become retailers use this benchmark in measuring the success of their retail businesses and in determining their best format?

Snippets

A franchise town is being built in Malaysia to encourage entrepreneurs to take up franchising. The town, being built by the Perbadanan Nasional Berhad (PNS), will involve 42 business premises and completion is expected by the end of this year. A spokesperson said, "This town will be the model for the development of the franchise business before being expanded throughout the country."

http://www.bernama.com.my/bernama/state_news/news.php?id=136686&cat=st

Next month, a trial testing the viability of mobile phones as payment tools on gas station forecourts will commence in Taiwan. With evidence that mobiles are a fire hazard appearing increasingly unfounded, this payment method could increase site efficiency and customer convenience.

<http://www.datamonitor.com/~f87c933de5b54675bb1c9eaf61fc4507~/industries/news/article/?pid=60C7D759-D15E-438D-9EC6-E6FBF253391A&type=CommentWire> (Due to the size of this URL, you may need to cut and paste it into your browser's address bar)

Low-technology franchises like Dunkin' Donuts and gas stations seem to be attracting an increasing number of business school graduates and corporate executives. The format allows them to run their own show, just like fully-fledged entrepreneurs, while providing a corporate security blanket that keeps the risk of failure low.

<http://www.nytimes.com/2005/06/02/business/02sbiz.html> (free registration required)

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