

Welcome to IF Consulting's e-Newsletter

October 20, 2005

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

Aggressive acquisitions looking good

Continuing its aggressive acquisition strategy, UK multi-franchise motor retail group Lookers' has purchased APEC, a wholesale distributor of high-quality brake parts. The acquisition reflects a growing trend among UK motor vehicle dealer groups to build the size of the operation rather than embarking on strategic or geographical partnerships.

Lookers' expansion strategy has seen the group invest in the used car and parts aftermarket over the last two years. The group, investing over £21 million on acquisitions, entered the parts aftermarket for the first time in 2004 with its purchase of FPS. At the beginning of this year, the group purchased both the Bristol Trade Centre and Ian Shipton Cars, reflecting the company's focus on the development of its franchise and used car portfolio. Currently, aftersales and parts contribute 53% to the group's gross profits.

Lookers' aggressive acquisition strategy seems to be paying off. Flying in the face of an increasingly competitive market, the group has improved its overall operating profit margin from 2.0% to 2.3% during the first half of this financial year.

<http://www.datamonitor.com/~70c9377238134895bf7771ec89314fb~/industries/news/article/?pid=90470996-CC76-4C05-AE0D-9896F9853A10&type=CommentWire> (Because of the length of the URL you may need to cut and paste it into your browser's address bar)

IF Comment

Lookers' acquisition of APEC, a parts manufacturer, supports the anecdotal view that motor vehicle franchisees don't make profit from new vehicle sales. According to this view, new vehicle sales are used as a channel to generate used car stocks and service and spare parts sales. Further evidence that franchised dealers need much more than new car sales to survive can be seen in the low profit margin; with Lookers' profit increasing from just 2.0 to 2.3% after the acquisition.

Considering how poorly most automobile manufacturers are performing (GM and Ford are both losing money), it's not surprising that profits aren't generated from new car sales. There is little extra margin poorly performing car companies can give their dealers and dealers struggling for sales tend to cut their margins to the bone simply to get a sale. In addition, while there are few efficiencies that can be introduced in selling vehicles, there are many in vehicle service and parts sales.

Look for the industry to continue aggregating parts and service businesses.



Marketing Channel
Strategy Consultants
Maximizing shareholder value
through creating the best route
to market

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Snippets

Cendant Corporation announced this week that it has completed the acquisition of the management and franchise business of the Wyndham hotel chain for US\$101 million in cash. The deal includes 82 franchise agreements, 27 management contracts and the worldwide rights to the Wyndham brand for hotel and timeshare development.

<http://www.prnewswire.com/cgi-bin/stories.pl?ACCT=104&STORY=/www/story/10-12-2005/0004166515&EDATE=/>

Nintendo Co. Ltd. Has signed a deal with the largest provider of high-speed Wi-Fi wireless access for mobile broadband customers in the US to provide game access at nearly 6,000 McDonald's restaurants.

http://www.bizjournals.com/austin/stories/2005/10/17/daily14.html?from_rss=1

The Indian government's ever-changing attitude towards allowing foreign direct investment in retail has not discouraged foreign franchises from entering the market. A number of major retailers have their sights set on setting up shop in India via franchising.

http://www.financialexpress.com/fe_full_story.php?content_id=105786

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