

Northern Michigan University

CASE: SUPERIOR AUTOMOTIVE HOIST, INC.

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1. Superior Automotive Hoist's Market Profile

Current Position in North America

Superior Automotive Hoist Inc. is under the leadership of Alfie Ziesmer. Ziesmer was a design engineer for a Canadian automotive hoist manufacturer company. He left that company in 2010 to pursue his own business, where he designed, manufactured, and marketed his own hoist called the Superior Lift. Ziesmer concentrated on continuously improving the Superior Lift, specifically in the safety features, as safety is a significant factor in the automotive hoist market. The Superior Lift is considered a leader in automotive lift safety in North America. In addition, Superior Lift has a reputation in the automotive hoist industry as being the “Mercedes” of hoists. The company pursued quality and engineering excellence. Key success factors that have contributed to Superior Lift's reputation include the product's design, the quality of the workmanship, safety features, the five-year warranty, and the ease of installation. Additionally, another key factor was the alignment of turn plates, an integral part of the scissor lift, which allowed mechanics the ability to accurately and easily perform wheel alignment jobs. Figure 1.1 depicts Superior Automotive Hoist's market position in North America. It takes into account Superior Automotive's unit sales, dollar sales, number of scissor lifts sold, the number of registered vehicles, and the channels of distribution.

Superior Automotive Hoist currently has only one type of hoist, the scissor lift. In North America, the Superior Lift has a market share of 2.139%, for all lifts. In contrast, their market share for only scissor lifts in North America was 45.509%, as seen in Figure 1.2. The automotive hoist market has 16 competitors that compete in North America. The two dominating firms in this industry include AHV Lifts and Berne Manufacturing. Superior Automotive Hoist had two competitors, AHV Lift and Mete Lift, that manufactured scissor lifts. These scissor lift competitors sell their products 5-20% less than Superior Automotive, however, their products have different lifting mechanisms and lack some safety features.

Characteristics of the Lift Market in North America

The automotive hoist market in general regards safety as an important factor. Hoists rarely malfunction, however, in instances of malfunctioning, serious accidents can be a result. Each year, North America sells approximately 49,000 hoists. The automobile aftermarket industry is involved in purchasing these automotive hoists. Companies in this industry have varying needs and use for these lifts, such as using lifts for servicing new and used cars, general mechanical repairs, or wheel alignments. Consumers in the lift market also have varying degrees of knowledge of automotive hoists, specifically in the purchasing stage. The type of hoist required, the brand, the availability, and recommendations are factors that consumers consider. It is important to note, the typical hoist's product life ranges from 10-13 years.

Market Position of Superior Auto-Hoists by Market and Submarkets			
	North America	United States	Canada
Unit Sales	1054	632	422
Dollar Sales	\$ 9,708,000.00	\$ 5,824,800.00	\$ 3,883,200.00
Registered Vehicles	164,000,000	150,000,000	14,000,000
Total Market Unit Sales	49,272	-	-
Scissor Lifts Sold (Submarket Estimates)	2,316	2,118	198
Channel of Distribution	Wholesale (60%), Salesforce (25%), & Distributors	Wholesaler	Salesforce & Distributors

Figure 1.1 Shows general information about the performance of Superior Automotive Hoist, Inc. within the North American market and United States/Canada submarkets. The information included in this figure is used for the basis of finding the market shares of Superior Automotive Hoist in Figure 1.2.

Marketshare of Superior Auto-Hoists by Market and Submarket			
	North America	United States	Canada
Market Share of NA (All Lifts)	2.14%	1.28%	0.86%
Market Share of NA (Scissor Lifts)	45.51%	27.29%	18.22%
Estimated Market Share of Sub-Market (Scissor Lifts)	45.51%	29.84%	213.13%

Figure 1.2 shows the market position of Superior Automotive Hoist Inc. within North America and its submarkets. The table shows the market and submarket shares by all lifts and only scissor lifts. The submarkets estimate from Figure 1.1 is used to estimate the market share of scissor lifts within the submarkets (the United States and Canada).

DISCLAIMER: The Market Shares of each submarket are based on an estimate of the overall market unit sales. The overall market unit sales were split into submarkets (the United States and Canada) based on the registered number of vehicles within each submarket. The dichotomy is as follows: 91.46% United States (150 Million Registered Vehicles) / 8.54% Canada (14 Million Registered Vehicles).

Another assumption made in Figure 1.1 was the dollar sales in each submarket. The results were surmised by reducing the retail price per unit by the commission percentage received per distribution channel (revenue per unit). The revenue per unit was then multiplied by the units sold in the distribution channel. See Figure 2.1 for revenue results in each channel.

2. Sell and Distribute 1 lift unit in each of the 3 Channels

For the Direct Channel, it would cost Superior \$1,808.71 to sell and distribute one unit. It costs the Canadian Distributors \$2,264.46. to sell and distribute one unit, while the U.S. Wholesaler has a cost of \$2,484.26 to sell and distribute one unit.

Distribution Costs by Channel					
Channel	Total Costs	Units Sold	Commission & Expenses	Revenue	Revenue Per Unit
Salesforce	\$ 477,500.00	264	\$ 1,808.71	\$ 2,901,328.13	\$ 10,990.00
Canadian Distributors	\$ 357,784.00	158	\$ 2,264.46	\$ 1,389,116.88	\$ 8,792.00
U.S. Wholesaler	\$ 1,570,049.60	632	\$ 2,484.26	\$ 5,417,555.00	\$ 8,572.20

Figure 2.1 shows the distribution costs (Commission & Expenses) per unit sold in each of the distribution channels.

DISCLAIMER: Discrepancies between Revenue Per Unit and Revenue can be attributed to the rounding of Units Sold. Each channel had a partial unit sale when taking total units sold and breaking them into categories based on the distribution channel.

The Total Costs column was found by including commission costs per unit (commission for each unit sold + share of advertising expense).

The dollar sales assumption in Figure 1.1 can be extended to explain the Revenue assumption per distribution channel in Figure 2.1.

3. Channel Strategy

Channel Descriptions

Sales Company Force

The Sales Company force consists of four people and Pigot. Their main task is to service direct accounts. They sell directly to individual dealers of a number of large accounts including GM, Ford, Metro Canada, Firestone, and Goodyear. They have generated **25%** of the unit sales each year.

Canadian distributor

The Canadian Distributor is a turnkey operator who sells, installs, and services units across Canada. They focused on smaller chains and independent service stations and garages. About 40% of sales are from the Canadian market however only **15%** is from the Canadian Distributor alone.

U.S. Wholesaler

The U.S. Wholesaler generates **60%** of the unit sales each year. The wholesaler was responsible for selling a complete product line to service stations and some manufacturing equipment. The wholesaler sells five different types of lifts, the Superior Lift was one of the five. The Superior lift was a minor product in the wholesaler's product line. The Superior Lift was estimated to account for less than 20% of the U.S. Wholesalers' total lift sales.

Ratio Analysis

When asking what distributor is the most efficient we need to ask the following questions...

What has the highest profit margin ratio?

The highest profit margin is the **Salesforce** with **23.2%**

Who has the highest Contribution Margin?

With the highest contribution margin of about **40%** is the **salesforce**.

Who has the best Vehicle Registration in Submarkets per unit sold (per capita)?

The best unit sales per vehicle per capita is **Salesforce**. For every **53,030** registered vehicles in the submarket, they sold **1** hoist.

What has the largest part of the North American market share?

The largest part of the North American market share is the **U.S Wholesaler**- in the scissor lift market- with **27.288%**

What has the most unit sales?

The most unit sales are the **U.S. Wholesaler** with **632**.

Ratio Analysis Across Distribution Channels (2019)			
	Salesforce	CA Distributor	Wholesaler
Profit Margin Ratio	23.20%	19.05%	17.05%
Revenue Per Unit	\$ 10,990.00	\$ 8,792.00	\$ 8,572.20
Contribution Margin Ratio	39.66%	24.57%	23%
Vehicle Registrations in Submarket Per Unit Sold	53,030	88,608	568,182
Costs of Revenue Ratio	16.46%	25.76%	28.98%
North American Scissor Lift Market Share	11.40%	6.82%	27.29%
Percentage of Total Unit Sales	25%	15%	60%

Figure 3.1 demonstrates a variety of ratio analyses across the three distribution channels for Superior Automotive.

The Level of Sales Productivity

The salesforce has the lowest costs of revenue ratio (16.46%), therefore they have the highest level of sales productivity.

Efficiency Conclusion

In conclusion, the ratio analysis exhibits the characteristics of profit margin, ratio, and unit sales per vehicle registered (per capita) that the **salesforce** is the most efficient channel. These characteristics were very influential in the overall success of Superior Automotive Hoist. In comparison, Wholesaler distributor is also a prominent force. The Wholesaler leads in total unit sales and the North American Market Share, but when comparing the market size difference between the U.S. and Canada, the analysis shows that the wholesaler is vastly underperforming. Knowing the number of car registrations in the U.S. (150 Million) and Canada (14 Million), the U.S. wholesaler should be selling roughly 10x the Canadian sales.

4. 10 Most Important Facts/Data

- 1) **In 2019, the marketing expenses included advertising expenses of \$70,000, expenses of \$240,000 for four salespeople, and an expense of \$220,000 for the marketing manager and three sales support staff.**
 - a) This fact is important in this case because the marketing expenses in 2019 included the advertising expenses which were used in the calculation of finding the advertising budget across the three channels. In addition, this was critical in figuring out the cost for one unit (specifically the sales force distribution channel) and it was also used to figure out the estimate of the first-year expenses and investment for the European expansion.
- 2) **Company Sales force 25% of the unit sales each year.**
 - a) A foundation fact that was used to figure out how many sales were attributed to the distribution channel. It was then used to calculate the percentage to figure out the cost per 1 unit in each distribution channel. Overall it was used to help determine the performance of all of the distribution channels.
- 3) **The average retail price for Superior Lifts is \$10,990, and the company receives an average of \$9,210 for each unit sold.**
 - a) This fact was vital in determining/calculating the price per unit within the three different channels
- 4) **There were a total of 2,316 unit sales of scissors lifts in North America in 2019.**
 - a) The number of scissor lift sales in the U.S. was used to calculate the predicted number of sales in the European market for scissor lift units. To calculate this take the number of vehicles in the U.S. (163 million) divided by the number of vehicles sold in Europe (169.3 million) which is 1.03865. Take that percentage and multiply it by the unit sales of scissor lifts in the U.S. (2,316) which equals the estimated number of units sold in the European market which is 2406 units of scissor lifts.
- 5) **On average, the Direct Channel received 100% of the selling price, the Canadian distributors received 80% of the selling price, and the U.S. wholesaler received 78% of the selling price.**
 - a) This is important because this establishes the average percentage of each Superior Lift sold for each channel, meaning the Direct Channel received \$10,990, Canadian \$8,720, and the Wholesaler \$8,502. This was used for calculating the distribution costs per channel, which plays a role in the total costs and commission & expenses calculations.
- 6) **Jared Pigot felt the company had three potential options for expansion into the European market including licensing, joint venture, or direct investment.**
 - a) This is important because it shows the company's options for entering the European market, a market that has a lot of promise and potential. Each option has their own risks, growth opportunities, and expenses. In addition, these options will have varying impacts on the company's control of operations and reputation.
- 7) **In 2019, the company sold 1,054 hoists and had sales of \$9.708,000, where 60% of sales were to the U.S. and 40% of sales to the Canadian market.**
 - a) This is important for calculating the United States and Canada unit sales, which was later used to calculate the market share, and dollar sales, and contributes to determining distribution costs by channel.

- 8) **As of 2019, there was only one firm in Germany that manufactured a scissor-type lift.**
 - a) This fact was important in determining the placement for the recommended strategy of expanding into the European market.
- 9) **With a population of over 330 million people and more than 150 registered vehicles, the U.S. Market was almost 10 times the size of the Canadian Market, which has a population of 37 million and approximately 14 million vehicles.**
 - a) This shows 293 million differences in the number of people and a 136 million difference in the number of registered vehicles. This supports Ziesmer and Pigot's belief in the idea that the U.S. market had unrealized potential. These numbers were important for calculating and estimating the unit sales of scissor lifts in Canada vs the United States, as well as the unit sales of scissor lifts in Europe.
- 10) **Costs involved in setting up a plant in Europe: \$250,000 in capital equipment, \$200,000, in caring costs of \$1,000,000 in inventory and accounts receivable, \$80,000 annual building rent including heat, light, and insurance, and \$530,000 for the marketing budget.**
 - a) These numbers were crucial in calculating the break-even sales for expanding the company into the European market via direct investment in the future.

5. Recommendations & Explanations

Strategic Opportunities:

- 1) Increase Unit Sales in the U.S.
 - a) Incentivize Wholesaler to "Push" Superior Automotive Hoist's Scissor Lift
 - b) Launch a Superior Automotive Hoist U.S. branch
 - c) Work closer with Wholesalers and expand the branch into the US under certain conditions.
- 2) Expand into Europe Through:
 - a) Licensing
 - b) Joint Venture
 - c) Direct Investment
 - d) Distribution Partnership with Bar Maisse Or Other Distributors

Pros and Cons For:

All United States Expansion Strategies

❖ Pros

- **Unrealized Market Potential:** The number of registered vehicles is a good indicator of the demand for automotive hoists. In Figure 1.1, the number of registered vehicles is shown. Using this information, it can be assumed that the demand for automotive hoists should be 10.71x greater.
- **Close to Headquarters:** New York State is only about an hour's drive from Lachine, Quebec. The short commute allows Superior Automotive to have greater control over the operations of the United States branch.
- **Similar Marketing Practices to Canada:** Although there are many cultural and legal differences between Canada and the United States it's a much more similar marketplace than Europe. The similarities should make expansion/marketing more palatable.

- **Established Customer Base and Brand Recognition:** Already have the approval of many large chains. Never been rejected
- **Canadian Market Saturation:** Superior Automotive's market share of scissor lifts in Canada is nearly expanded. Figure 1.2 shows the estimated market share of the Canadian scissor lift market. The results are over 100%, signifying fantastic market dominance.

❖ **Cons**

- **Large-Sized Competition:** There are 12 firms competing in the United States automotive lift market with two firms collectively holding 60% of the market share. Both companies manufacture scissor lifts but primarily focus on other types of lifts.
- **North American Market Saturation:** In 2019 Superior Automotive Hoist sold 1,054 units of scissor lifts, which is 45.5% of all scissor lift sales in North America. The high market share creates concern about whether the market is unrealized.
- **Extensive Wait for Approval:** Superior Automotive Hoist Inc. has never been rejected for approval from a major account, but approval can take up to 4 years.

A) United States Expansion: "Push" Wholesaler Strategy

Strategy: One method of increasing United States unit sales is to "push" or incentivize the U.S.

Wholesaler to sell more units of Superior Automobile scissor lifts. The strategy will have the lowest risk of all the strategic opportunities.

❖ **Pros**

- **Increased Revenue:** More units sold will increase sales and profits.
- **Risk-Free:** Pushing the wholesaler wouldn't require any direct investments; mitigating the risk incurred. Even though the strategy doesn't require any investments, financial or other incentives will be required.
- **Majority of Unit Sales:** The U.S. Wholesaler accounts for 60% of Superior Automotive's unit sales (see figure 1.1). Pushing the wholesaler could increase Superior Automotive's unit sales by 10-15%.
- **Customer Loyalty:** Customers of the Wholesaler would respect the Wholesaler's opinion and view them as a reliable source of information. If the Wholesaler recommends Superior Automotive's lift the customer is likely to purchase.

❖ **Cons**

- **Wholesaler Maybe Unwilling:** The Wholesaler may not care to work closely with Superior Automotive. Without the necessary incentives, the strategy may not be possible.
 - No significant increase in revenue
- **Costs of Incentives:** Depending on the resources available to Superior Automotive curated incentives may be necessary. Incentives may include increasing the commission for each unit sold (already 22%) or negative incentives like threatening to change distribution methods.
 - Negative incentives would hurt relations

B) United States Expansion: Expand Salesforce

Strategy: Expand salesforce into the North Eastern United States. There are 12 states in the region within a day's drive of the headquarters of Superior Automotive. With a population of 85 million people (330 million in America) an estimated 25% of the market is available within a relatively short distance. The main concern with this strategy is the loss of the U.S. Wholesaler.

❖ Pros

- **Reduced Distribution Costs:** According to Figure 2.1, the U.S. Wholesaler distribution channel has the highest distribution cost per unit sold (Commission & Expenses). Expanding Superior Automotive's salesforce would have initial startup costs, but is expected to settle at a similar expense level as the Salesforce channel.
- **Increased Unit Sales:** Personal selling has been key to Superior Automotive's marketing strategy. When referencing Figure 3.1, the unit sales per capita or registered vehicles is much more efficient for the salesforce than the wholesaler.
- **Loyalty to Superior Automotive Lifts:** Unlike the U.S. Wholesaler, Superior Automotives salesforce will only sell lifts made by Superior Automotive.
- **Pre-Approved by Large Chains:** Since Superior Automotive's inception, the hoist manufacturer has never been rejected by any major accounts. The pre-approval of large accounts will be advantageous for Superior Automotive's quick growth.

❖ Cons

- **Investment Needed:** Expanding into the U.S. will require initial investments in establishing the U.S. branch in New York State.
- **End Wholesaler Relationship:** Unfortunately, the U.S. Wholesaler will most likely be unwilling to relinquish territory and continue working with Superior Automotive. Once expansion begins unit sales will drop 60% overnight.
 - **Customers Never Returning:** Wholesale customers are large direct accounts. The customers may only be loyal to the wholesaler relationship.
- **Small Scissor Lift Market:** Figure 1.2 shows Superior Automotive's scissor lift market share in North America (45.51%). Assuming the market's total scissor lift unit sales in Canada were all Superior Automotive lifts, that would leave 1,894 scissor lifts sold in the United States. If true, Superior Automotive's current United States market share is already 33.37%.
 - Increased sales may be negligible when conducting a break-even analysis.
- **Time Consuming:** Regaining lost sales would be a timely process taking multiple years to regain the ability to sell 632 units in the United States in a year.
- **Financial Risk:** Large investments and opportunity costs make the salesforce expansion strategy prone to financial loss.

Pros and Cons For:

All European Expansion Strategies

❖ Pros

- **Low Barriers to Entry:** By the year 1990, the European Union had made a trade agreement between the member countries to remove internal barriers. The removal

allowed companies within the European Union free movement of goods, persons, services, and capital.

- **Attractive Market Potential:** The top five most populated European countries (Germany, France, United Kingdom, Italy, and Spain) have 158.6 million registered passengers and small commercial vehicles in use. The United States, by comparison, has 150 million registered vehicles. There are 250 million registered vehicles in Europe)
- **Small-Sized Competition:** Although the number of firms is unknown, there are no firms within the European market that have become the dominant manufacturer.
 - Only one firm in Germany produces a scissor-type lift.

❖ Cons

- **Potentially Large Number of Manufacturers:** In Italy alone there are twenty-two (22) firms manufacturing vehicle lifts. Without more information, it's impossible to identify the true number of manufacturers across Europe.
- **Reputational Risk:** Every option to expand into Europe has some level of risk to Superior Automotive Hoist's reputation if the expansion fails. Namely with the Licensing and Joint-Venture opportunities since another firm is involved and subsequently relied upon.
- **Exchange Rate Fluctuations:** The U.S. and Europe use different currencies. Global and domestic economic pressures cause one or the other currency to fluctuate in value causing variation in Superior Automotive Hoist's profit margin.
- **Unknown Market:** The best marketing practices in the U.S. may not be as effective in Europe. The lack of knowledge of a new market will cause challenges for Superior Automotive.
 - Far from Superior Automotive headquarters in Canada.

A) European Expansion: Licensing Strategy

Strategy: Bar Maisse approached Superior Automotive Hoist with a licensing proposal to manufacture, sell, and distribute Superior Automotive's scissor lift in exchange for a 5% gross sales royalty. The license would last 3 years.

❖ Pros

- **No Capital Investments Needed:** Bar Maisse will be responsible for all capital investments for manufacturing and marketing costs associated with Superior Automotive Hoist within the European market.
- **Additional Revenue:** A royalty fee of 5% will be applied to gross sales.
- **Retain Assets for Other Opportunities:** The minimal human and capital investment needed allows Superior Automotive to endeavor other opportunities. Namely financial resources and Pigot.
- **European Market Expertise*:** Bar Maisse is a French manufacturer with extensive experience in marketing within Europe. Their experience will help guide the marketing strategy in ways unfamiliar to Superior Automotive's salesforce.

- **Target Market Overlap*:** Bar Maise is a wheel alignment equipment manufacturer. The majority (85%) of Superior Automotive's unit sales were to the wheel alignment market.
- **French Firm with a Good Reputation*:** France is a great country to headquarters in as the country has the 3rd most registered vehicles in Europe with 32.9 Million.
 - Located on the borders of other high-potential countries.
 - In addition to location, Pigot's acquaintances familiar with Bar Maise praised the french manufacturer for its high-quality and good management.

❖ Cons

- **Royalty Less Than Historical Profit Margins:** Superior Automotive Hoist had a profit margin (before taxes) of 13.9% in North America in 2019. The royalty offered by Bar Maise is only 5% (but no investment is needed).
- **Product/Service Quality Risk:** Bar Maise may not manufacture or service customers as well as Superior Automotive Hoist. The control of quality is relinquished to the licensee and is out of the control of Superior Automotive. The drop in quality would hurt Superior Automotive's reputation for high-quality.
- **Extended Lack of European Market Knowledge:** The approach prevents Pigot and the salesforce of Superior Automotive from engaging in the European market firsthand. After the three-year contract expires Superior Automotive will be reliant on further marketing help from Bar Maise.
- **Conflict Between Product Offerings*:** Bar Maise manufactures a variety of wheel alignment equipment across Europe. Potential conflict of interest between product lines.

B) European Expansion: Joint Venture Strategy

Strategy: Counterproposal to Bar Maise. Rather than license the manufacturing and selling rights to Bar Maise, create a joint venture between the two firms. The joint venture would be a 50/50 partnership where investments and profits are equally shared. Bar Maise will focus on selling and distribution while Superior Automotive focuses on production.

❖ Pros

- **Potential for Higher Profit Margins:** If successful, profit margins should be comparable to U.S. margins of 13.9%.
 - About 40% more revenue per unit sold than licensing option.
 - Superior Automotive will own 50% of the company.
- **Retain Quality Control**:** Superior Automotive has a luxury status that must be preserved. Providing technical experience and having partnership status will allow Superior Automotive more influence in manufacturing and service.
- **Retain Market Knowledge**:** Unlike in the licensing option, the European market knowledge will be experienced first-hand by Pigot and transferred to the Superior Automotive marketing department.
- **European Market Expertise*:** Bar Maise is a French manufacturer with extensive experience in marketing within Europe. Their experience will help guide the marketing strategy in ways unfamiliar to Superior Automotive's salesforce.

- **Target Market Overlap*:** Bar Maise is a wheel alignment equipment manufacturer. The majority (85%) of Superior Automotive's unit sales were to the wheel alignment market.
- **French Firm with a Good Reputation*:** France is a great country to headquarters in as the country has the 3rd most registered vehicles in Europe with 32.9 Million.
 - Located on the borders of other high-potential countries.
 - In addition to location, Pigot's acquaintances familiar with Bar Maise praised the french manufacturer for its high-quality and good management.

❖ Cons

- **Higher Risk:** Superior Automotive will have to contribute 50% of the start-up costs. If expansion is unsuccessful, Superior Automotive could lose the investment.
 - Could cost between \$500,000 and \$850,000 (German business acquaintance discussion).
- **Potential for Conflict Between Firms:** More involvement between these two firms has the potential to create conflict. Disagreements about production, service, or marketing are possible since each firm has its own strategies.
- **No Contractual Expiration:** Unlike in the licensing agreement, there is no 3-year expiration. In order to recoup the 50% stake owned by Bar Maise, Superior Automotive will have to buy Bar Matisse's share.
- **Less Profit per Unit:** The Joint Venture requires Bar Maise to pay for half of the investment and cost of sales, but in return, they receive 50% of gross profits. In order to match the profitability of North American double, the units need to be sold.
- **Conflict Between Product Offerings*:** Bar Maise manufactures a variety of wheel alignment equipment across Europe. Potential conflict of interest between product lines.
- **Human Capital Opportunity Cost**:** Pigot is an essential part of the success factors for Superior Automotive's marketing. To better ensure success in Europe and to gain market knowledge, Pigot must spend considerable time working with Bar Maise in Europe.

C) European Expansion: Direct Investment Strategy

Strategy: Establish a manufacturing plant and management agency in Europe without support from Bar Maise. Superior Automotive will have complete ownership and control, as well as all of the risks associated with the expansion.

❖ Pros

- **Retain Ownership****:** Superior Automotive will retain 100% ownership of the European branch. Profit margins will most likely be higher, but unit sales may be much lower.
- **Complete Control****:** Unlike in the joint venture option, Superior Automotive will have complete authority over all decisions. Minimized risk to reputation from lack of quality control.
 - Free reign to choose the country where headquarters will be located.

- **Retain Quality Control**:** Superior Automotive has a luxury status that must be preserved. Providing technical experience and having partnership status will allow Superior Automotive more influence in manufacturing and service.
- **Retain Market Knowledge**:** Unlike in the licensing option, the European market knowledge will be experienced first-hand by Pigot and the European salesforce.

❖ **Cons**

- **Lack of European Market Knowledge:** Unlike in the licensing and joint venture options, Superior Automotive won't have an experienced firm spearheading marketing efforts.
 - Marketing mistakes in Europe could be detrimental to the strategy.
- **High Investment Costs****:** According to a German business acquaintance, initial costs will be between \$1.16 - \$1.74 million. Costs depend on the specific market.
 - Initial costs include equipment, incremental costs to set up the plant, carrying costs, building rent/utilities, and insurance.
 - Includes \pm 20% of estimated costs.
- **Highest Risk:** Superior Automotive will back 100% of the investment.
 - In addition to costs, direct investment has the least reliance on European marketing experience.
- **Human Capital Opportunity Cost**:** Pigot is an essential part of the success factors for Superior Automotive's marketing. To better ensure success in Europe and to gain market knowledge, Pigot must spend considerable time working with Bar Maise in Europe.

D) European Expansion: Distribution Partnership Strategy (Recommendation)

Strategy: Similarly to the Direct Investment strategy, Superior Automotive will be responsible for investments and risk. Ownership of the European branch will remain with Superior Automotive. The difference is a selling and distribution practice similar to the Canadian Distributors. Turnkey operators will be beneficial, but not required. Could be another counterproposal to Bar Maise. Essentially a hybridization between the Joint Venture and Direct Investment strategies.

❖ **Pros**

- **Higher Profit per Unit:** When compared to the Joint Venture strategy.
- **European Market Expertise:** Distributors (Bar Maise or others) have extensive knowledge of the European market. Their experience will help guide the marketing strategy in ways unfamiliar to Superior Automotive's salesforce.
- **Retain Market Knowledge**:** Unlike in the licensing option, the European market knowledge will be experienced first-hand by Pigot and transferred to the Superior Automotive marketing department.
- **Retain Ownership****:** Superior Automotive will retain 100% ownership of the European branch. Profit margins will most likely be higher, but unit sales may be much lower.
- **Complete Control****:** Unlike in the joint venture option, Superior Automotive will have complete authority over all decisions. Minimized risk to reputation from lack of quality control.

- Free reign to choose the country where headquarters will be located.
- Includes control over quality**.

❖ **Cons**

- **Commission Fees:** Similarly to the North American market commission fees ranging from 20-25% should be expected from distributors.
 - Lower profit margin than in Joint Venture or Direct Investment
- **Riskier than Joint Venture:** Similarly to the Direct Investment option, Superior Automotive will back 100% of the investment. Increased capital will surely increase risk, but unlike Direct Investment European distributors will guide the marketing strategy.
- **Less Secure:** Bar Maisse is ready to make a deal, but no distributors have made the same offer. Must secure distributors to make the strategy accessible.
- **Human Capital Opportunity Cost**:** Pigot is an essential part of the success factors for Superior Automotive's marketing. To better ensure success in Europe and to gain market knowledge, Pigot must spend considerable time working with Bar Maisse in Europe.
- **High Investment Costs****:** According to a German business acquaintance, initial costs will be between \$1.16 - \$1.74 million. Costs depend on the specific market.
 - Initial costs include equipment, incremental costs to set up the plant, carrying costs, building rent/utilities, and insurance.
 - Includes ± 20% of estimated costs.

* = Shared characteristic between Licensing and Joint Venture

** = Shared characteristic between Joint Venture, Direct Investment, and Distribution Partnership

*** = Shared characteristic between Distribution Partnership and Joint Venture

**** = Shared characteristic between Distribution Partnership and Direct Investment

Why We Chose Our Recommendation

- **Expended Market:** The North American scissor lift market is nearly expended with Superior Automotive capturing 45.5% of the scissor lift market. Even if Superior Automotive obtained 100% market share, units sold for the company will only slightly increase.
- **The Attractiveness of the European market:** The European market is the second largest automotive hoist market. The five largest European countries have a vehicle registration population of 141.4 million.
- **Smaller Competitors:** The level of competition in the North American market is much more difficult to compete in than in the European market. According to the case, there was no dominant manufacturer in the Automotive Lift Market. Unlike in Europe, the North American market has two large competitors with a combined market share of about 60%.
- **Opportunity Cost of Decisions:** The expansions into new markets had opportunity costs associated. Superior Automotive does not have the resources available to expand into Europe and the United States. A compromise of growth was found by "pushing" the wholesaler with minimal investment while focusing efforts on Europe.
- **Preservation of Company and Quality:** A major concern of the Licensing and Joint Venture strategies was the risk of damage to Superior Automotive's high-quality reputation. The main reason for rejecting the Joint Venture was the 50/50 partnership; it wasn't feasible to sell 50% of the European branch for distribution and sales.

- **Marketing Guidance:** Another major concern with the European expansion was the unknown marketing approaches best suited for the European market. The Distribution Partnership strategy addresses this concern by partnering with distributors and/or Bar Maise.

Quantitative Analysis

Recommendation Investment Needed	
Costs	Amount
Capital Costs	\$ 250,000.00
Incremental Costs	\$ 200,000.00
Inventory Costs	\$ 1,000,000.00
Margin of Error (\pm)	20%
Estimated Cost	\$1.16 - 1.74M
Annual Costs	\$ 80,000.00
Marketing Costs	\$ 530,000.00
Total Costs	\$1.77 - 2.35M

Figure 4.1 shows the estimated startup investments as well as annual costs such as: rent, utilities, insurance, and marketing expenses. The estimates for a startup are from a German acquaintance's best guesses with a 20% margin or error. The total costs required are between \$1.77 and \$2.35 million.

Break-Even Analysis (Recommendation)			
	Optimistic	Neutral	Pessimistic
Total Costs	\$ 1,770,000.00	\$ 2,060,000.00	\$ 2,350,000.00
Variable Costs	\$ 6,631.88	\$ 6,631.88	\$ 6,631.88
Retail Price	\$ 10,990.00	\$ 10,990.00	\$ 10,990.00
Break-Even Point in Units	406	473	539

Figure 4.2 shows the optimistic, neutral, and pessimistic investment levels based on Figure 4.1 Total Costs with a margin of error of 20%. The break-even point in units for each level of investment is as presented.

North America Growth Rate (2017-2019)		
Year	Sales	Percent Change
2017	723	-
2018	847	17.151%
2019	1054	24.439%
Average Growth Rate		20.795%

Figure 4.3 shows the growth rate of Superior Automotive from 2017-2019. The growth is then averaged out to determine an estimated growth rate in Europe.

Estimated Scissor Lift Market	
	Vehicle Registrations (2019 & 2020)
North America	163,000,000
Germany	41,400,000
France	28,000,000
Italy	33,200,000
UK	23,500,000
Spain	15,300,000
Aggregated European Countries	141,400,000
Size Difference Between Europe and North America	86.748%
Size of NA Scissor Lift Market	2,316
Estimated Scissor Lift Market of Aggregated Countries	2,009

Figure 4.4 shows the projected size of the scissor lift market in the five largest European countries. The projection is based on the number of registered vehicles in North America versus Aggregated European Countries (85.748%). The proportion is then used to estimate the scissor lift unit sales in the European market in 2019.

Projected Growth and Sales			
	Pessimistic	Neutral	Optimistic
Market Share of Launch Year	5%	7.5%	10%
Estimated Scissor Lift Market of Aggregated Countries	2009	2009	2009
Growth Rate	20.795%	20.795%	20.795%
Estimated 2020 Units Sold	100	151	201
Estimated 2021 Units Sold	121	182	243
Estimated 2022 Units Sold	146	220	294
Estimated 2023 Units Sold	176	266	355
Estimated 2024 Units Sold	213	321	429
Estimated 2025 Units Sold	257	388	518
Estimated 2026 Units Sold	310	469	626

Figure 4.5 shows the estimated unit sales based on a pessimistic, neutral, and optimistic market share of the scissor lifts sold in the Aggregated European Countries. The predicted scissor lift market was drawn from Figure 4.4. Based on the market share of the launch year and the growth rate, the estimated units sold each year was conducted.

The 4 P's

a) Placement/Distribution: Germany

Germany would be a great place to expand the Superior Automotive Hoist company for several reasons.

- Germany has been favored in both market potential and investment site opportunities.
- Germany has the largest domestic fleet of 44 million vehicles. This is important because the more vehicles there are, the more hoists are needed.
- Germany has the highest number of new cars registered in 2017 with 82,100 which is twice as many as Spain in 2017 with 39,200.
- As of 2019, there was only one firm in Germany that manufactured a scissor-type lift so there would be little to no competition.

b) Price

The price of the Superior Automotive Scissor lifts will remain the same as the price that has been charged in North America, the price being \$10,990. Converted into Euros (Germany's currency) the price is €11,080.40. Since Superior lift is a quality automotive hoist company therefore there will be no issues with the running price competition in Germany.

c) Promotion:

The budget for marketing expenses of \$530,000 will cover three main areas of promotion, these include

- Catalogs
- Trade publications
- Trade shows

The marketing expenses cover the same expenses as it did in Canada.

d) Product:

- Impressive **design**
- Quality **workmanship**
- **Safety** features
- Five-year **warranty**
- **Ease** of installation
- **Alignment** of turn plates
- **An integral** part of the scissor lift

Measurable Goals

1. Germany Distributors

By the end of the first year, post-expansion, Superior Lift should aim to have at least three Germany-based post-expansion

2. Future Sales

By the end of the first year, post-expansion, Superior Lift will have sold at least 151 units equalling a 7.5 market share within Europe.

3. U.S. Wholesaler

Last goal is intended for the U.S. Wholesalers, in the future they should increase unit sales by 10%. They are currently at 632 unit sales, therefore within the first year of expansion they should reach 695 units. Whether this requires higher payment or other incentives, Superior Lift will be open to those options. This should result in a higher market share of the U.S.

Appendix

The Appendix has the same Figures that were used earlier in the case. The purpose of this section is to show how the calculations were conducted earlier in the study.

Market Position of Superior Auto-Hoists by Market and Submarkets			
	North America	United States	Canada
Unit Sales	1054	1054*60%	1054*40%
Dollar Sales	9708000	9,708,000*60%	9,708,000*40%
Registered Vehicles	150,000,000+14,000,000	150000000	14000000
Total Market Unit Sales	49272	-	-
Scissor Lifts Sold (Submarket Estimates)	2316	(150,000,000/164000000)*2316	(14,000,000/164000000)*2316
Channel of Distribution	Wholesale (60%), Salesforce (25%), & Distributors (15%)	Wholesaler	Salesforce & Distributors

Marketshare of Superior Auto-Hoists by Market and Submarket			
	North America	United States	Canada
Market Share of NA (All Lifts)	1054/49272	632/49272	422/49272
Market Share of NA (Scissor Lifts)	1054/2316	632/2316	422/2316
Estimated Market Share of Sub-Market (Scissor Lifts)	1054/2316	632/2118	422/198

Distribution Costs by Channel (2019)					
Channel	Total Costs	Units Sold	Commission & Expenses	Revenue	Revenue Per Unit
Salesforce	460000+(70000*25%)	25%*1054	477500/264	10990*264-31.875	10990.00
Canadian Distributors	(20%*10990)*158)+(70000*15%)	15%*1054	357,784/158	((10990*80%)*158)-19.125	10990*80%
U.S. Wholesaler	(22%*10990)*632)+(60%*70000)	60%*1054	1570049.6/632	((10990*78%)*632)-75.4	10990*78%

Ratio Analysis Across Distribution Channels (2019)			
	Salesforce	CA Distributor	Wholesaler
Profit Margin Ratio	$(10990 - (6990000/1054) - (4775000/264))/10990$	$(10990 - (6990000/1054) - (357784/158))/10990$	$(10990 - (6990000/1054) - (1570049.6/632))/10990$
Revenue Per Unit	10990	10990*80%	10990*78%
Contribution Margin Ratio	$(10990 - 6990000/1054)/10990$	$(10990*80\% - 6990000/1054)/(10990*80\%)$	$(10990*78\% - 6990000/1054)/(10990*78\%)$
Vehicle Registrations in Submarket Per Unit Sold	14000000/264	14000000/158	150000000/632
Costs of Revenue Ratio (Sales Productivity)	1808.71/10990	2264.46/(10990*80%)	2484.26/(10990*78%)
North American Scissor Lift Market Share	264/2316	158/2316	632/2316
Percentage of Total Unit Sales	25%	0.15	0.6

Recommendation Investment Needed	
Costs	Amount
Capital Costs	250000
Incremental Costs	200000
Inventory Costs	1000000
Margin of Error (±)	0.2
Estimated Cost	\$1.16 - 1.74M
Annual Costs	80000
Marketing Costs	530000
Total Costs	\$1.77 - 2.35M

Break-Even Analysis (Recommendation)			
	Optimistic	Neutral	Pessimistic
Total Costs	1770000	2060000	2350000
Variable Costs	6631.88	6631.88	6631.88
Retail Price	10990	10990	10990
Break-Even Point in Units	$1770000/(10990-6631.88)$	$2060000/(10990-6631.88)$	$2350000/(10990-6631.88)$

North America Growth Rate (2017-2019)		
Year	Sales	Percent Change
2017	723	-
2018	847	$1 - (847 / 723)$
2019	1054	$1 - (1054 / 847)$
Average Growth Rate	$(0.17151 + 0.24439) / 2$	

Estimated Scissor Lift Market	
	Vehicle Registrations (2019 & 2020)
North America	163,000,000
Germany	41,400,000
France	28,000,000
Italy	33,200,000
UK	23,500,000
Spain	15,300,000
Aggregated European Countries	41,400,000 + 28,000,000 + 33,200,000 + 23,500,000 + 15,300,000
Size Difference Between Europe and North America	141,400,000 / 163,000,000
Size of NA Scissor Lift Market	2,316
Estimated Scissor Lift Market of Aggregated Countries	2316*(141,400,000 / 163,000,000)

Projected Growth and Sales			
	Pessimistic	Neutral	Optimistic
Market Share of Launch Year	5%	7.5%	10%
Estimated Scissor Lift Market of Aggregated Countries	2009	2009	2009
Growth Rate	20.795%	20.795%	20.795%
Estimated 2020 Units Sold	0.05 * 2009	0.075 * 2009	0.1 * 2009
Estimated 2021 Units Sold	(0.05 * 2009) * 1.20795	(0.075 * 2009) * 1.20795	(0.1 * 2009) * 1.20795
Estimated 2022 Units Sold	(0.05 * 2009) * 1.20795^2	(0.075 * 2009) * 1.20795^2	(0.1 * 2009) * 1.20795^2
Estimated 2023 Units Sold	(0.05 * 2009) * 1.20795^3	(0.075 * 2009) * 1.20795^3	(0.1 * 2009) * 1.20795^3
Estimated 2024 Units Sold	(0.05 * 2009) * 1.20795^4	(0.075 * 2009) * 1.20795^4	(0.1 * 2009) * 1.20795^4
Estimated 2025 Units Sold	(0.05 * 2009) * 1.20795^5	(0.075 * 2009) * 1.20795^5	(0.1 * 2009) * 1.20795^5
Estimated 2026 Units Sold	(0.05 * 2009) * 1.20795^6	(0.075 * 2009) * 1.20795^6	(0.1 * 2009) * 1.20795^6