

CASE 17:

AUTO SPARE PARTS



Firm Style	Interview Round
Bain	1

Case Question:

An auto spare-part retailer is facing slowing growth. They are looking to expand into distributing auto spare-parts to garages. How will you approach the problem?

Clarifying Questions & Answers

Provide the following answers only if the interviewee asks the corresponding questions.

Question	Answer
Is the Auto Co. similar to an Advanced Auto parts?	Yes, exactly!
And the primary customers would be walk-in customers who look to fix their own cars?	Yes, as opposed to professional entities like Midas, etc.
So the slowing growth has been in the walk-in customers?	Yes
Is the slowing of growth a recent trend, and is everyone in this segment experiencing the same?	A gradual trend over the past 5 years, and yes.
5. So what is Auto Co.'s target growth rate?	Say a rate of >5%

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Framework / Structure

This is a market entry case. The analysis may include, but is not limited to, the following areas:

- Primary approach to the problem (Structure)
- Market sizing
- Barriers
 - Competition
 - Development of a value proposition
 - Infrastructure/Investment
- Execution
 - How will you penetrate the market?
 - How will you sell, and the importance of sales team?

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Strong Plan

- Understand the market
 - Size the market
 - Look at current trends, \$ per sale, profit per sale
 - Current players, strengths, weaknesses, value proposition.
 - Barriers to entry
- Understand the consumer
 - What do auto-garages want?
 - How do they base their decision?
 - Your value-proposition vis-a-vis competition.
 - How do you get them to switch?
- Economics
 - Investment required
 - % of market captured (year by year)
 - Profit generated (year by year)
 - Break-even, etc.
- Execution
 - Development of expertise (systems, infrastructure)
 - Business-Consumer to Business-Business marketing switch
 - New selling mechanism – need for a sales force
 - Market penetration strategies

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Calculations

Size of market (note repairs include routine maintenance and ignores repairs due to accidents)

- 100 MM HHs in the US
 - Average auto ownership = 2
 - Therefore – 200 MM cars in the US
- Cars need no repair for newer cars, lots for older cars.
 - So average trip to garages = 5 per year (4 maintenance + 1 repair)
 - Therefore – total trips to garages = 1B (200 MM cars * 5)
- Car repairs/maintenance can go from \$30 - \$3000, so average repair (assume = \$300, 50% for parts, 50% for labor),
 - Therefore, avg parts ordered per visit = \$150 (ie 300/2)
- Size of market =
 - Number of visits * \$ parts ordered per visit
 - = 1 B trips * \$150 parts ordered per visit
 - = \$ 150 B USD annually

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Recommendation

- The keys for market entry would be offering a **superior value-proposition to garage-owners and then over-delivering**
 - Superior value-proposition
 - Higher volume discounts
 - Guaranteed 99% in stock guarantee and same day delivery
- Execution
 - Developing infrastructure and systems
 - Nationwide warehousing infrastructure (avenues exist for consolidating store inventory with B-B inventory)
 - Linking inventory IT system with garage's computers, so they can view inventory, prices, and order through their own computers
 - Developing a strong sales force
 - Hiring, training a strong sales force to get garage owners to switch
 - Developing a strong market penetration strategy
- Risks/Issues
 - Guaranteeing 99% in-stock percentage and same-day delivery (value proposition) will require higher inventory costs
 - NWC increases, cash position becomes weaker
 - Competitive response
 - Time to break even
- Next Steps
 - Assess market, consumer preferences, investment required,