



# Retailing in America, Part 3 Critical Mass

## Megastores: Boon or Bust?

By Steve Cole

When the concept of the supermarket hit the American retailing scene in the late 1950s and early '60s, it started a trend that has redefined the way products get into the hands of the consumer. It wasn't long before the automotive marketplace felt its impact, and stores targeting do-it-yourselfers began to slowly work their way across the automotive retail landscape.

Some companies, such as the Western Auto Store franchises, were nationwide operations and precursors to today's giant automotive retail chains.

As with other forms of retailing, the evolution of the automotive superstore paralleled the development of suburbia. The theme of all retailing in the latter quarter of this century has been go to where the people are. While it took a little longer to establish the automotive superstore in the retailing environment, once the formula for a successful store was established, the outlets began to appear rapidly.

Retailers built their stores in high-traffic areas, rarely in but often near shopping malls. Almost without exception, these have been new construction, freestanding buildings. The storefronts feature modern design, plenty of parking, the interiors are well lighted and use the most current store design philosophies. In fact, some view these chains as leaders in some aspects of store design. A far cry from the old converted garages filled with peg boards, the stores are designed to make the shopping experience pleasant for the

DIY automotive customer, the enthusiast and nonenthusiast alike.

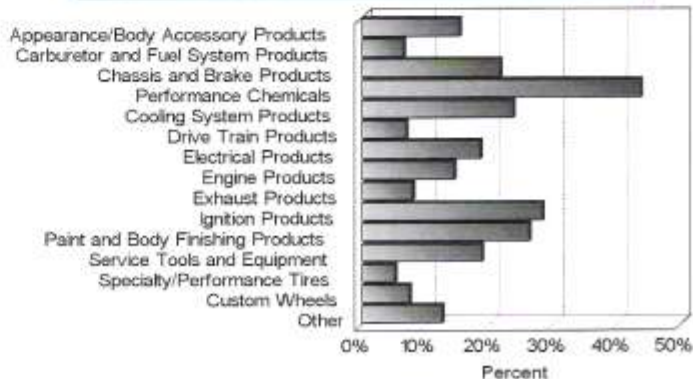
Aside from shopping convenience, there is another factor that marks the automotive chains: competitive pricing. For many in the traditional side of the automotive market, the automotive chains have become the 800-pound gorilla driving the entire marketplace. The size and purchasing power of the chains has been a factor in determining price structures for a host of products. For many in the specialty automotive aftermarket, gaining access to the automotive superstore chains has become a necessity.

### What Does It All Mean?

One area that has experienced the impact of the mass merchandiser has been the independent jobber, and to some extent, the jobber aligned with a programmed distribution group. As a group, neither of these entities has had the financial wherewithal to move the business to the strip malls and retailing centers. Most have been located within their communities for many years and have a loyal customer base. The presence of the chains has been felt along with the loss of some DIY customers. It may be a matter of price, on-the-way-to-the-mall convenience or both.

For performance/specialty jobbers, there may have also been some lost business, especially for common items such as oil, filters, car-care chemicals, etc. However, accessory and some performance manufacturers are now

### Automotive Chains' Share of Product Group Sales



relying on the chains to expand their reach, especially to the DIY customer who regularly visits the performance jobber or retailer but could be lured to a superstore. For manufacturers in the performance market, the draw of the volume generated by the retail chains is exactly the same as for manufacturers in the traditional parts after-market. Lower prices can be offset with additional sales and turns.

Despite the growth of the regional and national automotive parts retailers in the past decade, they have not escaped the current trend of industry consolidation. It seems that every week another chain has merged with or been purchased by a competing retailing chain.

Why is consolidation taking place when it seems that these retail chains are the hot thing in the market? It is fair to say there are some underlying factors driving the phenomenon. First is a changed automotive market. For years the automobile was capable of being serviced by almost anyone who wanted to change oil and filters, change the plugs and do other routine items. A basic set of hand tools allowed a car owner to do these tasks. The advent of electronic control systems, front-wheel drive and emissions controls, plus an aging and more affluent DIY customer base, has shown that the automotive market itself has undergone a significant change, and is still in the process of redefining itself.

Second, to be profitable, companies must grow. Growth can be generated internally by entering new markets or expanding in markets where there is already a presence by building new stores. Then there is the alternative, growth by acquisition.

Internal growth is relatively slow and expensive when compared to acquisition. It takes time to acquire real estate, obtain the necessary permits, build, equip, staff and stock a store, and then build the customer base in a market that is probably competitive to start with. Acquisition provides facilities already in place, an on-site staff and an established customer base.

#### DIFM—The Next Generation

The issue of the change from DIY to DIFM (do-it-for-me) has been a much

more difficult challenge for automotive retail chains. The either stagnancy or slow decline of the DIY market (depending upon who's offering the opinion) has left the retail chains trying to cope with an automotive market in which owners would rather take the car or truck to a service center. The guy

who changed his own oil and plugs a few years ago is older, and his income level has risen while his time has become more precious. It's easier for him to drop the car off at a quick-lube franchise than it is to do it himself. An additional factor is the underhood complexity of today's computer-

The screenshot shows a web browser window with the URL [www.smittybiltinc.com](http://www.smittybiltinc.com) and the time 1:32 PM. The page features a navigation menu with 'PROFIT' highlighted. The main content area is titled 'FRONT GUARDS' and includes the slogan 'Feel The Steel'. The primary headline reads 'Pump up your sales and profits. Offer your customers the best in tubular steel products ...Smittybilt!'. Below this, there are two product categories: 'One-Piece Front Guard' and 'Modular Front Guard', each with a list of features. A 'TAIL LIGHT GUARD' is also advertised. A 'SIDE BARS' section features the 'SURE STEP' product. At the bottom, there are two warranty banners: 'Limited Lifetime Warranty on Stainless Steel Products' and 'Limited 5 Year Warranty on all painted products'. The Smittybilt logo is prominently displayed, followed by contact information: 395 Smitty Way, Corona, CA 91719 • (909) 272-3176 • FAX (909) 272-3998. A footer contains a grid of buttons for various products: FRONT BUMPERS, GRILLE GUARDS, REAR BUMPERS, BED BARS, PRE RUNNER, WRAP AROUNDS, ULTRA BARS, and NERF BARS. A 'MADE IN THE USA' logo is also present.

Circle 148 on Service Card

## Feature

controlled vehicles, to say nothing of the tight engine compartments that require specialized tools to perform previously straightforward tasks.

To adapt, chain stores are either offering in-house service centers or are attempting to take on functions formerly handled by a redistributing jobber—supplying needed components to the

service centers or garages. To date these efforts have met with mixed success, particularly in attempting to establish relationships with the installer market. While the expense of adding service bays would appear to be a drawback on the surface, it may pay off in the long run, because many consumers seem to prefer a one-stop

approach. The attempt at servicing the installer market (in competition with the jobber) has faced some larger problems. Some retailers attempted pilot programs, and then withdrew when it was discovered that margins and stocking levels had to be changed. Others have not withdrawn, but are making adjustments to their installer-service programs to improve their competitive positions.

### How Will the Megastores Fit into the Performance/Specialty Aftermarket?

The smart bet seems to be with easy-to-display accessory products for both cars and trucks. Additionally, products are boxed and can be placed on shelving behind the counter (in a compact fashion). However, there must be colorful, self-merchandising packaging, there must be demand for the product, it must be competitively priced and have some brand-name awareness. The competition for tight shelf space may limit some products to special-order status, and that may entail 2- or 3-day delivery as well as a surcharge. Large and bulky items such as tubular steel products, running boards, etc., will be carried by the megastores, but most likely only as a special-order item or as part of a special promotion.

But even the automotive megastores are facing increased competition from mail order and the giant general consumer mass merchandisers such as KMart, Wal-Mart and others. The mass merchandisers may have a limited amount of automotive items, but they are certainly price competitive, and many offer installation services.

There is no question that the automotive megastore chains will be a part of the aftermarket in the future. It does appear there will be fewer chains, bigger stores and that these retailers, including specialty stores (import performance, etc.), will become a more important part of the auto parts and accessories landscape. ■

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