

Autobytel case study

Business



Problem Statement How should Tabulated adjust its product and marketing mix to achieve profitability? Alternatives Alt-1: Increase efforts on new car sales Alt-2: Increase efforts on Service & Parts Alt-3: Increase efforts on used cars Alt-4: Increase financing and insurance services Alt-5: Expend wholesale business Alt-6: Explore rural market Alt-7: Go global Alt-8: M & A Alt-9: Reposition marketing mix

Critical issues Autopilot's primary source of revenue was dealer membership. In 1999, it enrolled 3,000 dealer memberships covering every major metropolitan area.

It enjoyed the iris mover advantage and was rated as number one in Dealer Satisfaction. It also generated nearly as many new-vehicle sales as its two closest competitors combined. In spite of these progresses, Tabulated had several serious challenges.

Lack of Profitability Tabulated had been bleeding since its launch. It lost \$1.0 m in 1995, \$6.0 m in 1996, \$16.8 m in 1997, \$19.

4 m in 1998 and \$12 m in the first two quarters of 1999. Although this was common for internet companies, sustained loss would affect stock price and growth.

Product mix Tabulated had three major lines of business: sales of new cars, sales of used cars, sales of financing and insurance, each accounting for 79%, 10% and of revenue respectively. Several new products were launched recently, including Accredited Service Center and wholesale auction.

Tabulated might also have the opportunity for rural market and even global market. Tabulated and to choose its options wisely.

Excessive sales and marketing expenses Tabulated was successful in promoting its brand, albeit at a steep price. Sales and marketing represented ? 80% of operating expenses and exceeded revenue every year from 1996-1999.

Tabulated needed to control marketing expenses, and balance online vs.. Mass marketing.

Fierce competition Tabulated faced strong competition from other online buying services, manufacture Inebriates and local dealer websites. Particularly, Disconnect was a leader in used car sales; Caregivers. Com was a new entrant, but it had strong financial backing and potential of quick growth. Additionally, Automation, the largest auto retailer, was launching its own web service. Copycat Tabulated did not require exclusivity from the dealerships.

Many dealers got trained from Tabulated, and used the techniques learned from Tabulated to close sales from competitors' referrals.

It hurt the revenue stream of Tabulated. Dealer relations Tabulated devoted a major part of its marketing and sales resources to sign up new dealers and provide training/support. Nonetheless, 48% of dealers saw online services such as Tabulated as a threat. In 1998, Tabulated terminated 250 dealers due to their poor customer service. Recommendations Alt-3: Increase efforts on used cars through Superstore and Classifieds 2000 Used car sales had higher margin for dealers and great demand from customers.

Tabulated should increase efforts on used cars, raising its portion of revenue from 10% to 40% of total revenue.

It should find a way of driving traffic to Superstore web. Sale by owner did not have warranty service, Autobahn should find a way of optimizing Classifieds 2000. This could be a fast growing area. Tabulated should work through BETA to generate more loans and insurance. Alt-5: Expend wholesale auction business Tabulated currently had 600 dealers signed up for the auction system. It needed to expand its users basis.

Tabulated could offer service on a trial basis to reluctant dealers.

It should also use its field reps to promote this service. Alt-6: Explore the potential of rural market Tabulated should mine its database to understand the potential of rural market. It would use internet to target customers, and t d ' p. Mass advertising would not be effective. Use title reps to target learns Tabulated should go global to increase its customer basis.

It could use Europe as a test ground then expand to other part of the world. Tabulated should start market research, build alliance with partners and dealerships.

Alt-8: Reposition marketing efforts Current spending was excessive and not sustainable. Tabulated should tie its marketing budget with revenue. All Autopilot's customers were internet users, therefore internet advertising should be most effective. As to dealers, Tabulated would use field reps to sign them up and provide services.

In either case, mass marketing should not be used. Alt-9: M & A activities
Another way to expand customer base was through M & A. An ideal target would be another online service with strong presence in used car sales, or in a different geographic area.

Analyses of Recommendations According to 5-force analysis (Exhibit 1), the industry of online automotive buying service was not attractive, but opportunities existed in certain segments. The automobile retailing industry derived revenue sources from new car sale, used cars sale, services and parts.

There was striking disparity between revenue generation and profit generation among these activities. New cars generated 60% of revenue, but only 13% of the profit; used cars generated 29% revenue, but 27% of the profit; Inheres service and parts generated 12% revenue but 60% of the profit.

The revenue stream of Tabulated should mirror that of the automobile retailing industry. A SOOT analysis of Tabulated was shown in Exhibit 2. Alt-1 : Increase efforts on new car sales -not recommended Tabulated generated most of its revenue from referral of new car purchases.

However, the profit margin was shrinking and competition was intense, I would not commend focusing on new car sales. Alt-2: Increase efforts on Service & Parts -not recommended Service and parts had the highest profit margin, prompting Tabulated to launch Service.

Tabulated. Com, its first foray into this lucrative market. However, the hurdles Nerve significant.

First, customers would not be motivated to use an intermediary service; dealers would not be willing to pay to an intermediary; finally, Tabulated would have great difficulty to provide service. Therefore, service & part was not a viable option. Alt-3: Increase efforts on used cars-recommend Selling used car was a lucrative business for dealers. However, for customers, buying used cars was even more frustrating than buying new cars.

Customers had to deal with more aggressive, deceptive sales rep; they also faced more uncertainty. Tabulated Superstore program could offer a different used car buying experience for customers.

Dealers would be more receptive to the idea of paying the \$770-\$1,000 per month fee, since it was a small sum relative to gross margin. Tabulated had presence in customer-to-customer used car sales. Classified assets could cut dealers from the loop, providing savings for buyers and sellers. Currently used cars accounted for 10% of purchase request and subscription fees of Tabulated, there was a great opportunity.

Alt-4: Increase financing and insurance services -recommended Tabulated offered financing through its strategic alliances with major lenders and received origination fee from each deal.

Revenue from such value added services grew rapidly, from 2% in 1998 to 11% of its total revenue. Additional growth was expected. Alt-5: Expand wholesale business-recommended Manhole's market could be very lucrative

for Tabulated. Wholesale accounted for one-third to one-half of total used cars sales, and the current auction system was inefficient.

On average used cars changed hand two to three times before reaching retail at an average redistribution cost of over \$2,000.

Wholesale. Tabulated. Com could make this process far more efficient. 600 hundred dealers had signed up for this program, Tabulated should sign up more dealers. Alt-6: Explore the potential of rural market -recommended In November 1998, Tabulated Department in a rural Michigan Dealership sold 37 cars Ninth an expense of \$13,794. This performance was comparable to Tabulated department in an urban California Mega-Dealer (43 cars with an expense of \$15,530)

Exhibit 8, Tabulated Case).

This data, though limited in scope, suggested the potential in rural market. Tabulated should mine its database to understand customers in rural areas, and make efforts accordingly. Alt-7: Go global -recommended Ninth low entry barrier, little differentiation and shrinking margin in US market, Tabulated needed additional critical mass to reach profitability. Therefore, it should explore additional markets. Europe had a large automobile market and e-commerce Nas still on the rising.

Tabulated should work with a partner and make the first move.

Alt-8: Reposition marketing efforts-recommended Tabulated should cut its marketing budget to the level equivalent to 80% of revenue. Ere current spending (? 120% of revenue) was excessive and not sustainable. As to the <https://assignbuster.com/autobyte-case-study/>

marketing mix, mass marketing was expensive and inefficient. Tabulated should reach customers through internet. As to dealers, Tabulated should use field reps to provide service and training.

Alt 9' M & A activities M & A could be a quick way to expand customer basis and increase competitiveness. An ideal target would be another online service with strong presence in used car sales.

Conclusions Ninth these recommendations, Tabulated should be able to position its product and marketing mix effectively. It would become the first company to achieve profitability in its industry. Exhibit 1 Five Forces facing online automobile buying services. The inter-firm rivalry was strong.

Online buying services, such as Advantage, Corporation, Autopen, Disconnect and Caregivers had similar business model. The threat of new entrants was medium to high. It was easy for new entrants to establish business. It was easy to copy business model from existing players. The power of buyers (dealers) was medium.

Dealers viewed online buying service as threat to this margin, but they had to work with online service, otherwise they would lose a significant portion of their business. The threat of substitutes was high. Many manufacturers had their own websites though they rarely led to direct sales. Retailers such as Automation could go online. The power of suppliers (e. G.

, car buyers) was medium. Many customers were frustrated by the traditional car buying process and chose to work with online service. On the other hand, some of them got quotes and used it as bargaining chips.

Overall the industry of online automobile buying services was not attractive. However, there were growth opportunities in certain segments, including used car sales and services.

Exhibit 2. Tabulated SOOT analysis

Strength	Weaknesses
The first mover advantage	Relationship with dealers
Brand awareness	Excellent service -
Revenue derived from referral	Business model could be copied easily
Little differentiation	Not profitable
Opportunities	Threats
Used cars	Sale by owner
Wholesale auction	Global market and rural market - services
Dealer web,	manufacture web - Other online