Embracing Change: The Automotive Industry Faces Consolidation

by Lynn Novelli

Five auto recyclers in New Jersey get together and create an auto recycling franchise. A privately held corporation acquires 19 automotive auto recyclers scattered across the United States. A U.S. automaker quietly buys a recycling facility in Florida.

This is the new automotive recycling industry, one in which consolidation brings new direction, new thinking and new focus to those in it.

Consolidation should come as no surprise, say many auto recyclers with long experience in the business. Among them is Ginny Whelan, incoming ARA president and chief executive officer of ARA Certified Automotive Recycler (CAR) ProAuto Recycling, Inc. Based in New Jersey, ProAuto is the first successful U.S. automotive recycling franchise. The concept is based on ARA's certification standard.

"As the industry gets more complex, there needs to be standardization of quality, delivery and warranty. We need to have greater market penetration, operate more professionally," said Whelan. "To do these things effectively is beyond what an independent, operating on his own, can accomplish."

The industry's increasing complexity also means that auto recyclers are more likely to need expertise in specialized areas such as regulatory issues or environmental concerns. Few independent operators can afford to hire specialists in these areas, but when several operators can pool their cash, expertise becomes affordable. Companies that combine their resources in this way for common goals can accomplish more than any of them could on their own.

For all of these reasons, Whelan, Joe Wittenwiler, Stephen Wiesner and Gary Wiesner, all with at least 25 years experience in the automotive recycling business, created the ProAuto franchise.

Under this arrangement, each franchisee—ARA Certified Automotive Recyclers—owns his or her own business and operates it independently but enjoys the benefits of a larger business management organization, said Gary Wiesner, co-owner of ProAuto Recyclers of Williamstown (formerly Manuel's Auto Parts) and chief operating officer of ProAuto.

"Being in business together with other auto recyclers lets you develop a coordinated effort. As a group, you can hire people to do the legwork for all of you in areas such as environment, accounting and regulatory affairs," he said.

All ProAuto locations are linked by a computer network and share a common inventory. A dedicated delivery and pick-up truck makes daily scheduled rounds among all the locations. As a result, the ProAuto group can offer customers 24-hour availability, an expansive inventory of quality parts and solid, uniform warranties.

So far, the ProAuto franchisees believe they have the best of both worlds. "The numbers are going through the roof," says Joe Wittenwiler, Jr., manager, ProAuto Recyclers of Egg Harbor and an ARA regional director. "The response has been incredible. Our combined advertising ability and the service and quality we can offer are unlike anything else in the industry."

Greater market penetration and increased sales tell only part of the story, said Whelan. "Since becoming part of ProAuto, I have gained a greater sense of personal security and career path," she said. "I feel that we can go surefootedly into the future."

Since starting with the original three franchisees, ProAuto has added several more. The founders hope to add another five or six franchises this year and keep growing slowly but surely after that to a total of about 100 franchises in key markets.

Outside Investors

Investors outside the automotive recycling industry have come to the same conclusions as the ProAuto group about the industry's need to consolidate. Operating on the premise that there is serious money to be made in the industry, they have created private, well-capitalized companies with aggressive business plans for growth through acquisition.

Chicago-based LKQ Corporation was started about 18 months ago by a group of investors who eventually plan to acquire some 100 auto recyclers in the U.S. In the first year of operation, LKQ purchased 19 automotive recycling businesses.

Founder Don Flynn knew a good opportunity when he saw one, said LKQ Chief Executive Officer Joe Holston. "The automotive recycling industry is one in which consolidation could significantly increase the level of service and customer value," he said. "The potential is there for money to be made, but overall the service level in the industry is mediocre at best."

When considering an acquisition, the company evaluates auto recyclers in selected markets based on how well the facility would fit into the organization overall.

According to LKQ Senior Vice President and CFO Thomas Raterman, the company asks itself a series of questions: Does the auto recycler's management share the same vision and core values as LKQ? Does the auto recycler have a track record of profitability, revenue and growth? Is there additional capacity for growth? And, is there a track record of environmental compliance?

By focusing on high quality, warranted parts, fast turnaround and a total customer service attitude LKQ hopes to create uniformity of service and value across all of its locations.

Filling the Void

ARA Gold Seal Certified Lakenor Auto & Truck Salvage, Santa Fe Springs, Calif., is one of LKQ's most recent acquisitions.

Lakenor opened its doors in 1952. Herb Lieberman, son and grandson of the founders, and now his son Barry, have steadily built the business. Today, 90 percent of Lakenor's customer base is the professional collision and mechanical repair industry.

Business was healthy, but the family had been observing the changing business climate with some concern for several years, said Herb Lieberman. Finally, an event last year pushed them to the decision to affiliate with a corporate recycling entity if approached by the right organization.

"We were approached by a consolidated collision repair organization who requested Lakenor to supply 100 percent of their recycled parts needs, which would mean at 15 locations. We had to say no," said Lieberman. "Even though we knew that if we could not fill their need someone else would find a way to do it, and we would lose our customer."

According to Lieberman, LKQ recognizes there are new requirements in the marketplace that independent auto recyclers would have great difficulty meeting and sees an opportunity to fill a void. He believes that means greater security for Lakenor, the Lieberman family and staff.

"The level and quality of service and the product pricing concessions being demanded by customers are not something that can be met by an independent," said Lieberman. "As part of LKQ, Lakenor can be viable and grow in the industry. We can perpetuate what we have been building for 47 years."

Attracting Attention From the Big 3

Even automotive manufacturers see the value of the automotive recycling industry and are getting involved.

U.S. automaker Ford Motor Company, Detroit, Mich., recently purchased ARA member Copher Companies, Brandon, Fla., for an undisclosed amount and is now operating the business.

"Ford is interested in looking into the automotive recycling business and saw this as a good opportunity," said Sara Tatchio, a Ford spokesperson. "We plan to improve efficiencies at the operation by combining our engineering skills with Copher's expertise."

When reached in Florida, Ron Copher, former owner, confirmed the sale of the facility but could not comment further. Copher still operates four other facilities outside Tampa, Fla.

Industry Impact

Sales figures prove that consolidation benefits those auto recyclers who become involved directly. What independent operators may not realize, says Whelan, is that consolidation and other affiliations benefit the entire industry.

"Consolidation is an exciting change for the industry," she said. "It's not something that is being regulated and forced on us. It is about doing business, and it will help all of us."

Consolidation will change the automotive recycling industry's position and perception by the consumer, repairer and insurer for the better, said Lieberman. "Consolidation and the new professionalism it brings to the industry will move the auto dismantling and parts recycling industry into a position we have never held before, one of being a true partner in the collision repair process."

Success for those operations that choose to remain independent will depend on their finding a market niche, said Lieberman. "It's like the giant home warehouse stores and the neighborhood hardware. That hardware store succeeds because he has found a way to be successful without having to compete against the big guys."

One potentially strong position for the independent recycler will be as a primary supplier to the larger corporate auto recycler. Companies like LKQ, with locations scattered across the U.S., will need a healthy network of reliable auto recyclers to satisfy their customers, Lieberman said.

"When we need a part that is not readily available from within the LKQ family, we want to go outside," he said. "There is always going to be a need for a network of independent auto recyclers who deal professionally, ethically and honestly with us."

Adds Lieberman, "If I was outside the consolidation loop and didn't have a plan, I would have serious concerns. But with a plan, I would welcome the positive changes that are taking place not only in the automotive recycling industry but in our customers' industry as well."

Lynn Novelli, Automotive Recycling, *May/June 1999.*