The Synergy Mirage: A Case Study

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If you want to give Bruce Halle a good laugh, suggest adding wheel alignments to the service mix at his stores. Be sure to include spreadsheets with profit projections.

It makes sense on the surface, of course. Halle is chairman of Discount Tire Company, the nation's largest independent tire dealer, with more than 800 stores churning out $3 billion-plus of revenue each year. The company sells tires and wheels. Period. No oil changes. No tune-ups. And, definitely, no wheel alignments.

In a market populated by full-service competitors, Discount Tire is an outlier. The company also boasts a 10 percent national market share, despite the fact that it has stores in only half of the states. And one of the reasons behind this success is the simple refusal to offer wheel alignments.

What's the connection between such a limited product offering and Discount Tire's above-average success? As he built the company from a single outpost in Ann Arbor in 1960 to 820 stores at the start of 2012, Halle learned to recognize and escape the synergy mirage.

The synergy mirage is a perception that a brand extension or corporate expansion offers great profit potential when, in fact, the opposite is true. Often, the goal is to leverage more sales across a fixed asset base. Sometimes, the company seeks to maximize the value of a brand by adding brand value to a new line of goods.

As a C-Suite consultant for the past three decades, I've encountered far more examples of the mirage than of true synergy. Too often, the result is slower growth, higher costs and reduced brand value.

In researching *Six Tires, No Plan*, a history of Halle and his company, I was able to trace several instances of the mirage at work, along with Halle's ultimate escape from the siren song of synergy. The trap for Halle, as for many companies, is a disconnect between the physical products listed on an invoice and what the customer is actually buying.

Discount Tire does not sell tires, or wheels, despite the vast array of these products in each of its stores. Discount Tire sells tire replacement, which is much different from replacement tires.

Customers can buy tires at hundreds of locations within miles of their homes, which makes location a commodity. Customers can buy most of the tires Halle sells at hundreds of locations in the same neighborhood as a Discount Tire store and, truth be told, most consumers are not very particular about the specific tires they buy. And, while the company is aggressive in its pricing, consumers can often find a way to get similar product at a similar price, if they look hard enough.

All of these issues would be of great importance if the company was selling tires, but the significance declines greatly when one realizes that the company's product isn't the tires, but the tire replacement experience.

Early in his retailing career, Halle learned the difference. Customers don't want to buy new tires. They need to buy new tires. It's expensive and it takes time out of their day. As a competitor, Halle benefited from making the process somewhat less expensive and taking less of the customer's time. He also spent extra time cleaning up the shop, including the bathrooms, to make the customer visit a bit more comfortable. Customers appreciated the discount that came with the off-brand products Halle offered, but they also appreciated the opportunity to leave as soon as possible.

Adding wheel alignments to the mix threatened that model. First, the alignments required higher-paid mechanics, who didn't mix well with the lower-paid tire workers. Second, the margins on alignments never rose to the level anticipated when the venture began.

Third, and most important, an alignment job that tied up a bay for several hours would delay every tire buyer who came to the store on that particular day. In the interest of adding a few bucks to the coffers, Halle was jeopardizing the tire replacement experience that was becoming a competitive edge.

Halle would be seduced by the synergy mirage later in his career, when it seemed to be a natural fit to offer replacement batteries along with tires and wheels. Batteries are easy to stock and easy to replace. What could possibly go wrong? Plenty, it turns out. A dead battery is often a result of some other problem, like a faulty alternator, but Discount Tire was not in the business of fixing alternators. If the alternator was broken, the new battery wouldn't recharge and formerly happy customer now had a reason to be unhappy.

Halle has dabbled a few times with other synergy opportunities, from on-site tire replacement to an auto products megastore, and always with the same result. Inevitably, the lesson has been the same. Focus on what the customers are buying, figure out how to raise their satisfaction and then repeat the process incessantly.

Ultimately, disciplined consistency is the greatest source of synergy. Follow a different path and, quite often, you'll be chasing a mirage.

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Business consultant Michael Rosenbaum is the author of the new book "Six Tires, No Plan" (Greenleaf Book Group), the biography of Discount Tire founder Bruce Halle.