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iMotors: New Competition in Used Cars (B)

This case was written by Ron Adner, Assistant Professor of Strategy and Management at INSEAD and Charles Nunn, INSEAD MBA'99. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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By February of 2001, iMotors seemed well on the road to success. Simms and Halliwell had managed to attract Lloyd Ward, former Chairman and CEO of Maytag, and Kiran Patel, former CFO of Cummins Engines, to take those same positions at iMotors. With delivery centers active in 46 major markets in 19 states (including San Francisco, Los Angeles, New York, Miami, Chicago, Cleveland, and Atlanta) iMotors was moving closer to achieving the national car reseller status that would energize a successful IPO. With net margins of close to 10% per car,¹ iMotors was operating at three to four times industry margins and, while profitability would require greater scale over which to spread fixed costs, the fundamentals of the business model had been proven.

The severe stock market downturn of March 2001 had forced the firm to reassess its growth priorities. Given the new challenges of raising capital, iMotors refocused its efforts to concentrate on achieving profitability. To this end, and to conserve cash, on March 23, 2001 iMotors laid off 30% of its workforce of 900+ employees and decided to focus on serving the West Coast market, shutting down 28 of its delivery centers and mothballing one of its VCCs. Still, with over 18,000 requests for quotes per week, an April sales volume of one thousand cars per month, and an average purchase price of \$20,000 per car, hopes for success were high.

The company had achieved legitimacy within the industry – B2B customers had accepted the value of outsourcing vehicle reconditioning, and iMotors had no problem selling excess capacity at the VCCs; market surveys and consumer responses showed that iMotors was succeeding in creating a reputation and brand image that were associated with value and reliability. Even industry participants that had originally shunned the company for fear of upsetting traditional dealers (e.g., Ford, which would not sell off-lease vehicles to iMotors, and banks which would not finance loans) had come around.

Despite all this, on April 25, 2001, iMotors shut down all operations.

The shutdown was prompted by a last minute pullout from a \$20 million financing round by Vulcan Ventures, one of iMotors's biggest investors. The other existing investors were not willing to increase their contribution to the round, and new investors would be hard to find in the bearish investment climate. Even if a new investor could be found, given the time required for due diligence, search and negotiations, the management team felt that iMotors would be likely to run out of money before the deal could close.

Rather than run the risk of bankruptcy, the executive team decided on a clean shutdown while the company had positive cash and asset balances.

¹ This figure is based on variable costs (cost of the vehicle, all transportation, and refurbishing costs), not total costs.

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