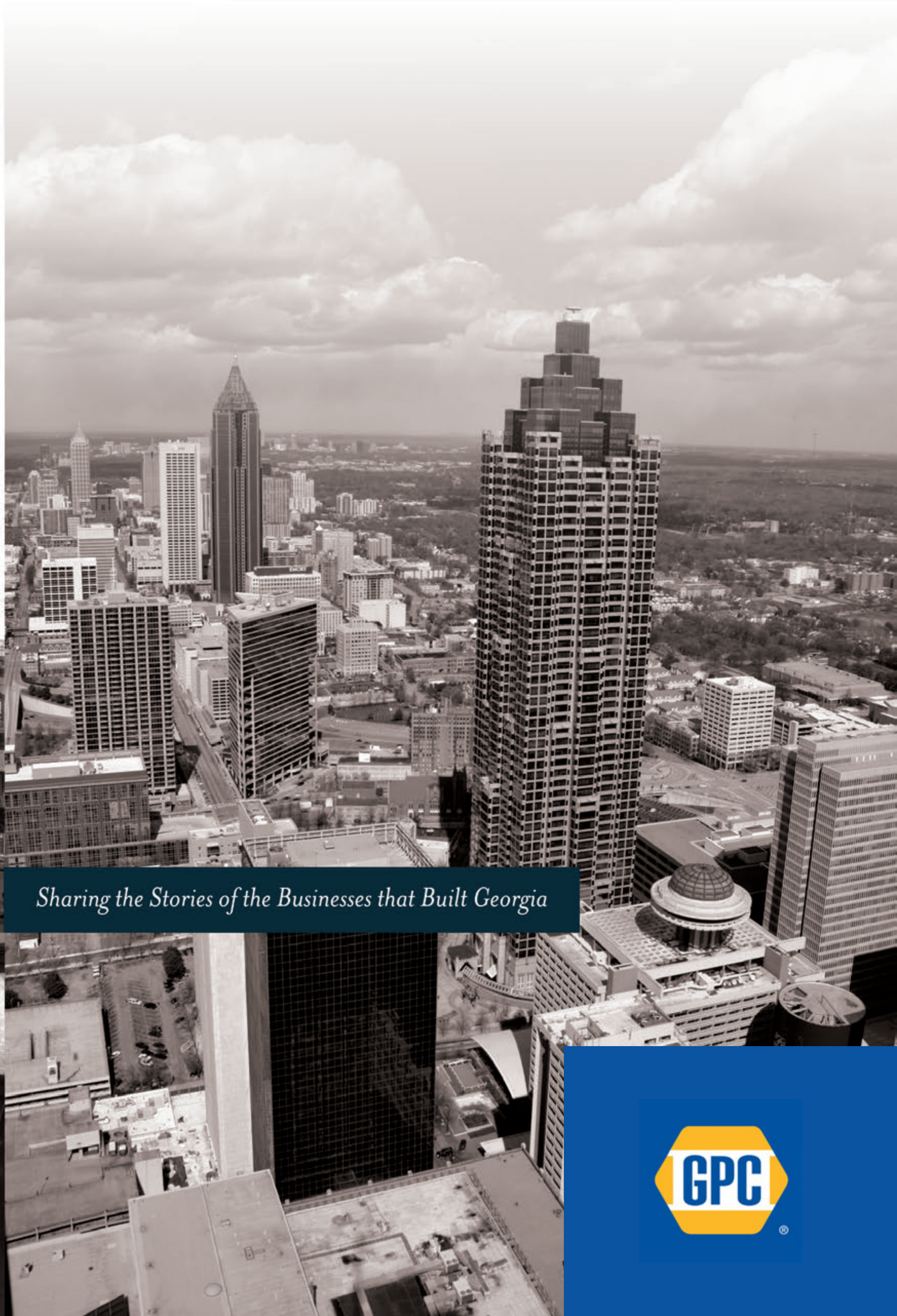
GEORGIA
HISTORICAL SOCIETY

GEORGIA BUSINESS HISTORY INITIATIVE

Each year the Georgia Historical Society selects iconic companies in our state to be honored through the Georgia Business History Initiative. By showcasing these companies, GHS seeks to teach Georgia students, citizens and tourists alike about the pivotal role of Georgia's leading businesses in the economic, cultural and social development of Georgia and the United States.



Sharing the Stories of the Businesses that Built Georgia

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GENUINE PARTS COMPANY

A PROFILE IN
GEORGIA'S BUSINESS HISTORY

Headquartered in Atlanta, Genuine Parts Company (GPC) is a global service organization with approximately 48,000 employees and hundreds of thousands of customers. Every day, GPC is engaged in the distribution of automotive replacement parts, industrial parts and materials, and business products. GPC's story of growing from a single auto parts store with six employees to a successful global enterprise is an exciting chapter in Georgia's business history.

Carlyle Fraser

Foundations

In 1928 Carlyle Fraser and his business partner William "Bill" Martin purchased Motor Parts Depot in Atlanta for $40,000. The previous store owner warned Fraser against owning a parts store, saying "The automobile business has reached its peak." Fraser was not discouraged by these words. He renamed the business Genuine Parts Company (GPC) and got to work building the foundations for all of GPC's future successes.

In its first year, GPC made $75,000 in sales but overall lost $2,500 because of start-up costs. Some may have been discouraged by these results, but Fraser was determined to keep pushing forward. His hard work eventually paid off.

One way Fraser helped grow his business was by becoming involved in the National Automotive Parts Association (NAPA). Founded in 1925, NAPA was created to help build a system of auto parts distribution. Partnerships made through NAPA helped Fraser take his single auto parts store and turn GPC into a network of distribution centers that bought auto parts from manufacturers and sold those parts to auto parts stores.

The services GPC provided were in great demand because of the growing number of independent garages that needed quick, reliable access to auto parts. The stock market crash of 1929 and economic instability of the Great Depression also increased demand for auto parts because more

Above: 1950s brochure for delivery service. Right: Historic NAPA store. Below: 1950s NAPA desktop sign

people and businesses were repairing older vehicles rather than buying new ones. In 1931, GPC started refurbishing used parts to help customers in need of quality products at affordable rates.

When the United States entered World War II the country shifted its efforts and material goods towards the war effort. This meant that more and more Americans were keeping vehicles longer. Once again, GPC offered exactly what the customer needed—reliable access to auto parts.

Economic prosperity in the post-war years meant more and more Americans owned cars, with many families owning two. An increased number of cars on the roads meant a growing demand for auto parts. Once again, GPC was able to meet these demands by having an efficient distribution system in place to deliver auto parts in a timely manner. In 1948, twenty years after GPC's founding, sales hit $20 million and the company became publicly traded for the first time. The public could purchase common stock for $11 a share.

GPC LEADERSHIP

In the 90 year history of GPC, there have been only five CEOs. That is a pretty unusual statistic. Most studies of Fortune 500 companies show that a typical CEO will stay in the job 9 years or less.

Carlyle Fraser *(1928-1961)*

Wilton Looney *(1961-1988)*

Larry Prince *(1988-2004)*

Tom Gallagher *(2004 –2016)*

Paul Donahue *(2016-Present)*

Growing Strong

In 1961, GPC founder Carlyle Fraser died and Wilton Looney took over as CEO. His leadership can be best summed up by a phrase known at GPC as Looney's Law: "We are not interested in making a sale. We're interested in making our customers profitable and happy."

In the 1960s and 1970s the company focused on growing its automotive parts business. GPC expanded the number and kinds of remanufactured parts it offered and also acquired other companies. It also strengthened its ability to distribute replacement parts when Balkamp, Inc. became a majority-owned subsidiary of GPC.

Further growth came in 1972 when GPC acquired Corbett's, Ltd., a Canadian auto parts distributor. This was just the first step in making GPC a global brand. Today, GPC's distribution network reaches the US, Canada, Mexico, the Caribbean, Australia, New Zealand, and Europe.

GPC did not limit itself to distributing parts for cars. At the end of the 1960s, GPC was distributing parts for trucks, tractors, power boats, and off road equipment all across the nation. It was also around this time that GPC introduced the NAPA brand of auto parts, named after the National Automotive Parts Association because of the important role it played in GPC's success.

Historic events once again contributed to GPC's growth in 1973 when the Organization of Petroleum Exporting Countries (OPEC) enacted on oil embargo. The recession brought on by high gasoline prices once again led to an increased demand for parts to repair vehicles, with many consumers doing their own repairs. That same year, company sales reached $500 million.

VOCABULARY

acquired – when a company buys most, if not all, of another firm's ownership stakes so it can assume control.

distribution center – often called a warehouse. Distribution centers are the buildings where products are stocked and sorted before they are redistributed to retailers, wholesalers, or directly to consumers.

majority-owned subsidiary – a company whose common stock is completely owned by a parent company.

publicly traded – when a company decides to go public and offer shares to investors on the open market.

remanufactured parts – parts that have been rebuilt to meet the standards of the original new part. The remanufactured part may be a combination of reused, repaired, and new parts.

reseller – a company or individual that purchases goods or services to sell them to consumers for a profit. Retailers are traditionally resellers.

startup costs – the money spent in the process of starting a new business.

wholesale – the selling of goods in large amounts. Wholesalers are involved in the sale and distribution of goods to users other than end customers. Usually, wholesalers sell to a reseller.

Diversifying for the Future

With its automotive business going strong, GPC started looking for other areas to expand. Diversifying is always a risk for businesses. Entering an unfamiliar market can be rewarding, but it also brings a potential for failure. What if the new business is overvalued? How much will it cost to restructure the new business?

GPC's leadership understood that its strengths were in distributing parts, marketing products, and managing inventory. To take advantage of those strengths, GPC started acquiring companies outside the automotive industry that focused on distribution. GPC could offer financial backing to help these companies grow and in return the companies offered GPC a chance to expand and diversify.

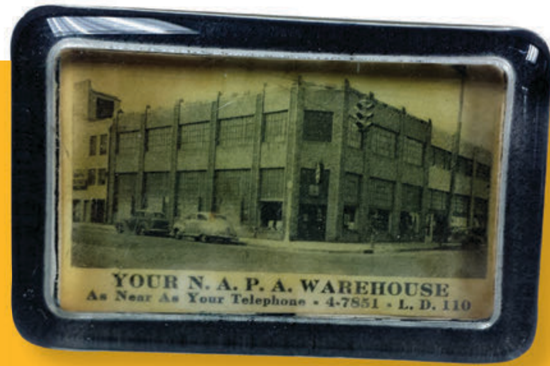
In 1975, GPC acquired a business with a long history in Georgia. S.P. Richards Company (SPR), founded in 1848, is a wholesale office supplies distributor. The deal came about through a man named Justus Martin who was a mutual friend of Wilton Looney and Phil Rhodes, the President of SPR. In 2017, SPR accounted for 12 percent of total GPC net sales and distributed more than 98,000 items to over 9,700 resellers.

In 1976, GPC entered the industrial distribution business with the acquisition of Motion Industries, Inc. (MI), a distributor of industrial parts and services. After returning from World War II, Bill Spencer and Caldwell Marks started MI as a small bearing distributor in Birmingham, Alabama. In 2017, GPC's Industrial businesses accounted for about 35 percent of GPC total net sales and offers access to more than 7.1 million replacement parts and related supplies. MI serves many industries, including food and beverage, forest products, primary metals, pulp and paper, mining, automotive, oil and gas, petrochemical, and pharmaceutical.

In 1998, GPC further expanded its industrial business with the acquisition of EIS, an Atlanta-based company distributor of over 100,000 electrical/electronic items to more than 20,000 customers.

In addition to these three major acquisitions, GPC continues to grow and diversify through acquisitions inside each of its segments: Automotive, Industrial, and Business Products. In 2017, GPC entered the European market with the acquisition of Alliance Automotive Group. With every change GPC remains true to its reputation for "just-in-time service" and commitment to making its customers successful.

Some examples of NAPA displays and advertising from the 1940s through the 1970s.

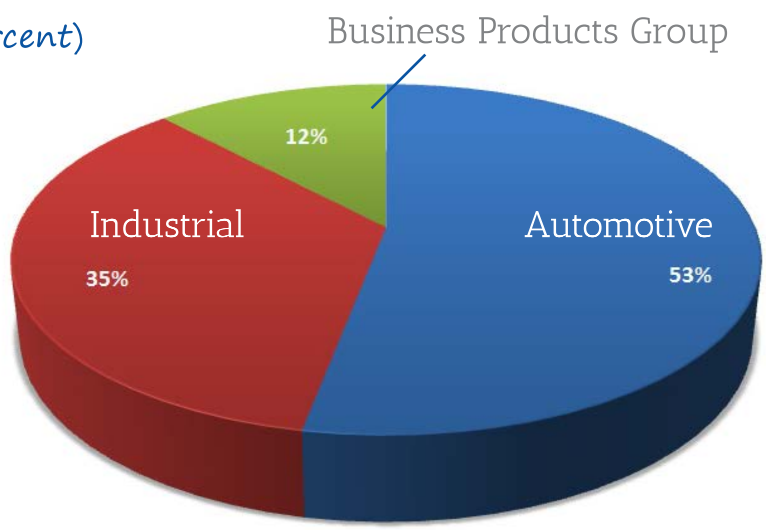


GPC's Decision to Diversify

A Case Study in Georgia's Business History

Genuine Parts Company is most well known for its success in the automotive parts industry. This is especially true because of the approximately 6,600 NAPA AUTO PARTS retail stores in the United States and Canada. The distribution and sale of automotive parts does account for approximately 53 percent of GPC's Net Sales, but it is one of three distinctive segments that make up GPC:

- *Automotive (53 percent of total GPC Net Sales)*
- *Industrial (35 percent)*
- *Business Products Group (12 percent)*



In 1969, GPC bought Beck & Gregg Hardware Co., a 103-year-old distributor of hardware, home appliances, building goods, and sporting products. This was the first time GPC diversified outside of the auto parts business. In the end, the business was not a good fit and GPC sold it in 1985, but it was an important first step in GPC's road to diversification.

In 1975, GPC acquired a wholesale office supplies distributor. This time the experiment to diversify succeeded. GPC successfully acquired two more companies outside the automotive industry: a distributor of industrial parts and services and a distributor of electrical and electronic materials.

What exactly is diversification, and what makes companies like GPC decide to risk entering new industries? What makes the difference between success and failure when companies choose to diversify?

What is Diversification?

When a company chooses to participate in new markets or sell different kinds of products it is called diversification.

Companies can choose different strategies to diversify. One option is to diversify within your chosen industry. For example, Coca-Cola is most famous for selling carbonated beverages. Recently, Coca-Cola has rebranded itself as a "total beverage" company by offering beverages in five categories: sparkling, energy, dairy/juice/plant-based, water/enhanced water/sports drinks, and ready-to-drink coffee and teas.

GPC had a culture of innovation and diversification within the automotive parts business before making its first acquisition outside the industry. For example, in 1931 GPC added a small rebuilding shop in the basement of its Atlanta Distribution Center. By the early 1960s, remanufactured parts brought in around 15 percent of sales. GPC also acquired other parts distributors to expand the types of products it offered and the geographic regions where it operated.

Sometimes companies diversify by getting involved in related industries. For example, the Walt Disney Company started by making animated films. Today, the Walt Disney Company still focuses on family entertainment and media, but it also has a diverse set of businesses ranging from media networks, to production studios, to theme parks and cruise lines.

Acquiring businesses outside of your own industry is a popular strategy for diversification. It is usually a safer strategy than trying to launch a completely new product from scratch. GPC's purchase of S.P. Richards Company (SPR), a wholesale business products distributor, is a good example of diversifying by acquisition. While GPC did not have in-depth knowledge about business products, it did have a strong understanding of distribution and could offer capital to grow SPR.

The logos of several subsidiaries of GPC.

Why Diversify?

Companies choose to diversify for a variety of reasons. Diversification may be a solution to slow or stalled growth. If a business does not see increases each year it might be time for a new strategy. There may be external pressures to diversify. For example, anti-trust laws may keep

Today, through its network of subsidiaries, GPC sells and distributes much more than just auto parts.

a corporation from acquiring more businesses within a single industry. Companies may also diversify as a form of protection from the ups and downs of a single industry.

Coca-Cola decided to diversify outside of carbonated beverages largely because of changing consumer tastes. The demand for sugary soda has gone down while the demand for teas, fruit drinks, and other "healthier" beverages has increased. Coca-Cola knows it must adapt to the consumer or fall behind.

Pressure from the government sometimes contributes to diversification. In 1967, the Federal Trade Commission (FTC) launched an industry-wide investigation into the aftermarket auto parts industry (the market for replacement parts and accessories for automobiles). The FTC was investigating to see if there were any violations of the nation's anti-trust laws. Ultimately the investigation was dropped without any action, but it did give added incentive to diversify outside the automotive industry.

What makes Diversification Successful?

Entering an unfamiliar market can be rewarding, but it also comes with a lot of risk. What if you spend too much on acquiring a new business? What if it takes longer than you planned to understand the new market?

It is important for a company to have a good understanding of its strengths before entering a new market. GPC was strong in its ability to distribute parts, market products, and manage inventory. With this in mind, GPC started looking for businesses outside of automotive that would benefit from those strengths.

The next challenge is selecting a good fit. GPC seeks organizations with strong management teams and potential for growth. In 1975, GPC found a good fit in S.P. Richards Company (SPR). GPC's strengths in distribution fit well with SPR's model of providing wholesale business products to resellers around the country. SPR experienced growth after the acquisition and is now one of the leading business products wholesalers in North America.

GPC found success again in 1976 with the acquisition of Motion Industries, Inc. (MI), a distributor of industrial parts and services across North America. Similar to the situation with SPR, Motion Industries had a lot of potential for growth but lacked the cash to make it happen. MI was doing about $95 million in sales when it was acquired by GPC. In 2017, MI has annual sales of $5.0 billion. Knowing its own strengths and waiting for the right fit resulted in another successful attempt at diversification by GPC.

In the 1990s, GPC's leadership decided to further diversify its industrial offering because of slowed growth in its established businesses. In 1998, GPC added to its list of businesses by acquiring EIS, Inc. EIS, Inc. is a leading distributor of electrical/electronic material and service solutions for original equipment manufacturers, motor repair shops and a variety of other industrial markets in North America. It specializes in electrical and electronic materials, cable and connectivity, and fabrication and coating.

Through these successful acquisitions, GPC expanded outside the automotive industry to become a global service organization engaged in the distribution of automotive replacement parts, industrial replacement parts, office products, and electrical/electronic materials. Having a diverse set of markets offers GPC protection against the ups and downs of a single industry. This diversity also allows for more opportunities to grow and expand.

QUESTIONS TO CONSIDER

Georgia Standards of Excellence, SS8H8, SS8H9, SS8H10, SS8E2, L-6-8RH1, L6-8WHST1

How did major historical events impact GPC's business success? Explain how major historical events such as the Great Depression, World War II, and the OPEC oil embargo had an impact on the business success of Genuine Parts Company.

How did GPC grow its distribution network? GPC quickly grew from a single automotive parts store to a network of distribution centers. How did the company's founder Carlyle Fraser work to make this transformation?

RESEARCH AND REPORT

Georgia Standards of Excellence, SS8E2, L-6-8RH1, L6-8WHST1, L6-8WHST7, L6-8WHST8, L6-8WHST9

Research Question: Why do companies like GPC choose to diversify?

Directions: Now that you have learned a little bit about GPC's decision to diversify outside the automotive parts industry, it is time to dig deeper. There is so much more to learn about diversification in business. Select two or more Georgia businesses and research what ways they have or have not diversified. Use the resources in the bibliography to get started on your research.

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