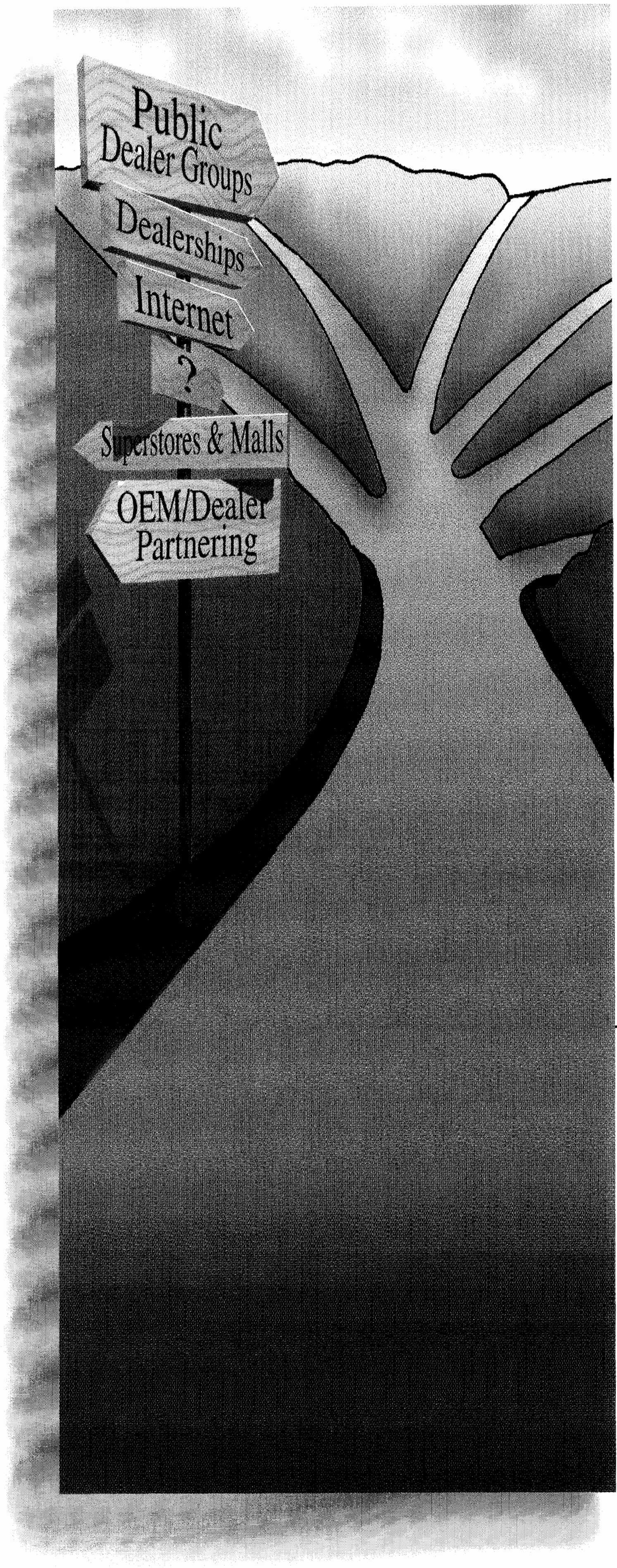
94116
2000-29



Competing for Customers

The Future of Automotive Retailing

Office for the Study of Automotive Transportation, The University of Michigan Transportation Institute

A.T. Kearney, Inc.
Global Automotive Practice

[illegible]

Competing for Customers

The Future of Automotive Retailing

Office for the Study of
Automotive Transportation

Authors: *Michael S. Flynn*
Bruce M. Belzowski
Kara F. Alkire
Richard H. Senter
Kim Hill
Jack C. Cragen

A. T. Kearney
Project Account 375338

Authors: *James A. Mateyka*
Diane K. Wujciak

August, 2000

University of Michigan Transportation Research Institute
Office for the Study of Automotive Transportation

UMTRI 2000-29

Acknowledgments

The members of the A.T. Kearney and OSAT teams would like to thank the automotive manufacturers, dealers, and analysts who participated in our study. We are especially grateful for the time and insight they volunteered in support of our efforts. We hope this report justifies their contributions.

We would also like to thank the following individuals for their important contributions to our efforts: James G. O'Brien, Jr., Jay C. Houghton, and Marty Taylor formerly of A.T. Kearney; Larry Stout, formerly of Electronic Data Systems; Eric Budnik, M. Lee Burge, Jeffrey Davis, David Graham, Gina Kang, Jeremy Meyer, Barbara Richardson, and Holly Smith of OSAT; and Elizabeth Spear and Paul Taylor of NADA's Industry Analysis Division.

Contents

Executive Summary

The Office for the Study of Automotive Transportation, with funding from A. T. Kearney, performed this study of the future of automotive retailing. The study constituted a three stage effort: first, a review of distribution systems for three big ticket consumer product industries; second, 45 interviews with thought leaders among automotive dealers, manufacturers, and analysts; and third, a mail questionnaire with responses from 775 dealers and 31 executives at manufacturers from 22 different companies or divisions, covering about 95 percent of all U.S. sales.

Automotive Distribution Today

- Costs attributed to the existing retail system are often reported to be as high as 35 percent of the total retail cost of the vehicle. While other industries have implemented more customer-oriented formats or operations, automotive retailing in general has been slower to introduce similar initiatives.

- Dealers have secured multiple franchises over the years in an effort to meet the needs of their customers across market segments and brands. However, they continue to experience thinner margins as competition intensifies, particularly on new-car sales. Dealer returns have decreased from a net profit of 2.2 percent of sales in 1985 to 1.7 percent in 1998.

- Dealer consolidation is a reality, just as it is with suppliers and manufacturers. There has been a decrease in the number of new-car dealerships and a corresponding increase in sales per dealership. Many independent dealerships are disappearing or consolidating to form larger dealerships or dealer groups with higher average sales.

- New entrants, including large, publicly-traded, retail groups, have accelerated the consolidation of the automotive retail industry. Public and private dealer groups combined represent a growing percent of total vehicle sales.

Power Shifts along the Automotive Value Chain

- The supply base has contracted, especially among the large, technically strong suppliers, while the number of manufacturers with assembly plants in North America has effectively increased three- or four-fold, shifting the power balance between the manufacturers and their suppliers. The U.S. sales base has remained relatively fixed over the past 15 years, shifting the manufacturer-customer power balance in the direction of increased consumer power.

- Manufacturers have shifted some of their strategic focus from the supply side of their business to the demand side, probably reflecting three realities. First, they are more dependent on fewer suppliers that mediate more critical functions than in the past. Second, dealers too are now less dependent on any particular assembler, as dealers have more assemblers to choose among, and are, in most cases, already multifranchise. Third, the industry's rhetoric of responding to customer desires has new meaning, since the customer now has more choices, and therefore has indeed gained market power.

Distribution: Comparative Industries

- In white goods, such as large appliances, extensive early consolidation among retailers has meant that at least some retailers became powerful enough to create their own brands. In furniture, the very large number of manufacturers has resulted in considerable power for a few large chains of retailers. Over the past decade, personal-computer retailing has employed multiple sales channels, including direct selling.

- Independent, moderate-sized appliance and computer stores have largely vanished, replaced for the most part by a smaller number of superstores which are often part of multioutlet chains. Personal computers were originally sold in small specialty stores but also migrated to the superstore model. In furniture retailing, both among furniture-exclusive retailers and among outlets that carry other products, there is a pronounced trend to superstores.

- Disintermediation, or the elimination of stages in the distribution chain, is becoming common in personal computer sales. In the last few years, major manufacturers have built computers and sold them directly to customers through telephone and Internet order. However, this practice is not very widespread in white goods or furniture retailing, possibly because of the manufacturers' reluctance to take on the cost of managing a national distribution network.

- The Internet forms the basis for the wave of electronic commerce (e-commerce) that is just beginning to make an impact on the business world. Only computer retailing, among the consumer products studied, has witnessed heavy reliance on e-commerce.

- Micro-marketing tailors the merchandise mix and marketing approach to narrowly defined customer segments. It relies on modern technologies for gathering, analyzing, and using customer data. Such data can be used to design products for particular population segments. Micro-marketing has not yet been used to any great extent in automotive retailing because of the cost of maintaining and analyzing the database of customer information. But most manufacturers have committed to using customer information to build customer relationship management (CRM) capabilities in the next five years.

The Automotive Distribution System Today

- In the dealership, service and parts sales have decreased slightly as a percentage of total sales, but have increased in total dollar value and in relative contribution to dealer revenue.

- Dealers roughly estimate the overall "cost of distribution" at 20 percent of MSRP, while manufacturers estimate it at 28 percent. Both dealers and manufacturers acknowledge the inefficiencies in the current distribution system and see the lack of common processes as a major cost driver. Both dealers and manufacturers also expect training and development costs to increase and inventory costs to decrease in the next ten years.

- Dealers and manufacturers differ in their views on particular topics, but they also differ among themselves. Their opinions differ based on their size, the country of origin of the vehicles they sell, and whether the vehicles are luxury or non-luxury. Small dealers have very different views. Luxury and European dealers' opinions tend to be more similar to the manufacturers than to other dealers.

- The higher the dealership's new vehicle sales, the higher the reported level of overall profitability. The most profitable dealerships are fairly balanced across three profit sources: new vehicle sales, used vehicle sales, and parts and service. Less profitable dealerships have a smaller share of their total net profit from new vehicle sales and a larger share from service.

- Both dealers and manufacturers rated large, publicly traded, retail chains, superstores, and alternative formats as the top threats to existing dealers.

Who is the Customer?

- By 2008, manufacturers more than dealers, especially small dealers, expect that customers will be less likely to compromise their preferences and buy from stock.

- Despite improvements in what both manufacturers and dealers believe is a good buying experience, manufacturers and dealers see customers as less loyal currently and even less loyal in the future to dealers, salespeople, and manufacturers.

- Dealers, especially small dealers, anticipate little change in customer preference for negotiating the price of the new vehicle rather than a one-price option. Manufacturers, less persuaded that customers ever preferred to negotiate, see this preference for negotiating as already fading, and expect by 2008 that customers will no longer prefer negotiating to one-price retailing.

Why Does the Customer Buy?

- Over half of the dealers think that the brand and the dealership have equal weight in the buying decision, while about one-third think that customers buy more because of the brand than the dealer. In contrast, almost three-fourths of the manufacturers think the brand is more important to the buyer than is the dealer, and less than one-quarter think the brand and the dealer are equally important in the buying decision.

- Manufacturers and dealers largely agree on the importance of product characteristics in consumers' purchase decisions, much like the interviewees. However, dealers believe that dealer reputation, the customer sales experience, service experience, and a large selection of vehicles to consider are more important to the customer than do the manufacturers.

- Manufacturers believe that the power of national advertising to generate showroom traffic has declined over the past ten years, and will continue to do so in the future. Dealers, in contrast, believe that its power to generate traffic has changed little, and will not change much in the future.

- Both the manufacturers and dealers expect that in the future, national and local advertising will be better coordinated to develop a product's brand image. However, the manufacturers' expectations anticipate much more coordination in the future than do the dealers.

- All groups believe increased use of Internet advertising will drive showroom traffic, as more people prefer to shop for vehicles electronically, and customers gather information on the Internet before visiting a dealer. However, neither manufacturers nor dealers think the Internet will make it easier to establish relationships with customers.

- Dealers and manufacturers identify four purchase factors that are especially likely to increase in importance: dealer reputation, service experience and convenience, sales experience and convenience, and brand image.

- Both groups agree on the changing importance of sales experience and convenience. The manufacturers attach less importance to dealer reputation and service, while dealers believe these factors will become much more important.

How the Customer Buys

- Dealership size, measured by the number of new vehicles sold in 1997, is positively related to the number of competitors that dealers report within their sales territory, that is, their competitive landscape. Luxury franchises report a much more densely populated competitive geography compared with non-luxury dealers. The country of origin of the lead franchise also strongly influences the competitive landscape.

- Dealers believe customers at luxury and European lead franchises take advantage of the greater density of competition to shop more, and especially to shop competitively between brands.

- The larger the dealership, and therefore the more dense the competitive landscape, the less willing are customers to wait for their preferred vehicle. Dealers believe customers are willing to wait a bit longer at dealerships with lead franchises that sell luxury vehicles than at non-luxury vehicle franchises, for European lead brands than for North American or for Japanese lead brands. OEMs believe that customers at luxury lead franchises will wait longer than do dealers. European manufacturers report a much longer willing-to-wait period than do their dealers.

- Estimated willingness to compromise is a direct function of dealer size: the larger the dealership, the more willing the customer is to compromise. For loyalty to the dealership the opposite is true: the smaller the dealership, the larger the percent of sales to returning customers.

- Both dealers and manufacturers agree that the salesperson's role will change in the future to acting more as a purchase advisor in the sales process and as a consultant for the customer. Both groups also see the future salesperson as a product expert and relationship manager.

- Both groups are uncertain that many customers will buy over the Internet by 2008, although smaller dealers see this as less likely than do other dealers, European manufacturers see it as more likely than do non-European manufacturers.

- European manufacturers more than non-European manufacturers and luxury manufacturers more than non-luxury manufacturers see the possibility of manufacturers selling directly to the public. The manufacturers generally report that vehicles will still be delivered through dealers in ten years, although they expect to help customers with their own Internet portals.

The Manufacturer-Dealer Relationship

- All groups of dealers and manufacturers, especially luxury manufacturers, believe there has been a major surge over the past decade in manufacturers bypassing dealers and directly targeting customers. Moreover, they both expect this practice to increase through 2008.

- Dealers report that manufacturers did not respond quickly to product problems in the past, do not respond quickly today, and will not respond quickly in the future. The manufacturers recognize that they were slow ten years ago, but see some improvement today and expect even more in the future.

- The manufacturer and the dealer survey respondents both think manufacturer programs for financing dealer investments have not been very effective in the past, in contrast to manufacturer finance support to vehicle customers. However, manufacturers think these efforts are now somewhat more effective than the dealers believe, and the gap between the two groups will grow by 2008.

- Manufacturers believe that communication in the past was better than the dealers feel it was. The manufacturers also expect it to improve more in the future than do the dealers, widening the perceptual communication gap between the two groups, and exacerbating an important disconnect.

Dealer Business Efforts

- Dealers and manufacturers both think that increasing customer focus is the most important dealer change effort needed to meet business goals, but manufacturers think this more than dealers. Dealer reports of their success in implementing these efforts exceed what the manufacturers believe to be the case.

The Distribution System of the Future

- Dealers and manufacturers believe that in ten years, dealer inventory levels will be much lower than today. However, many dealers continue to emphasize that there is value in having the right inventory, and that inventory and showroom traffic are prerequisites to sales.

- Manufacturers expect substantially less pushing of unpopular vehicles onto dealers over the next decade. Dealers, especially small dealers, see less improvement in this area, and believe the manufacturers will continue to push less popular vehicles on them.

- Dealers are uncertain whether manufacturers can provide an ordered vehicle in ten days or less by 2008, while manufacturers are somewhat optimistic that they can do this by building to order, and they are quite confident indeed that they can deliver from inventory.

- Manufacturers and dealers agree that there will be far fewer dealerships by 2008. However, they are uncertain whether many customers will buy their vehicles over the Internet, or whether manufacturers will sell vehicles directly to the public. By 2008, they see today's system of independent franchised stores still dominant, but they are uncertain about the possibility of a reduction in some traditional dealer formats, such as the single point and family-owned store.

- Manufacturers and dealers strongly agree that the average dealership of the future will have larger sales volume, serve a larger territory, and often have service facilities separate from the showroom. They also believe that customers will often have more information than sales people about products and prices.

Implications

- The automotive customer is changing, and manufacturers and dealers must adapt to the new business environment. As customers gain more control of the buying experience through more access to information, manufacturers and dealers will have to better understand how to serve them. Whether the issue is new vehicle negotiation, or ordering a vehicle versus purchasing off the lot, the manufacturer and dealer will most likely face a less loyal customer who will be "owned" only by the group that focuses its organization on the customer's changing desires and needs. The challenge, particularly for manufacturers, seems to be one of combining their resources with those of their dealer body to form a consistent customer promise and then deliver on that promise.

- The most successful dealers may be those with a professional sales and service staff that provides different types of customers with varied, but high-value buying and ownership experiences. These different sales models will probably include Internet sales, traditional negotiations, one-price retailing, as well as other methods. The challenge for dealers will be to build profitable strategies for all of these retail models. In particular, dealers will need to transcend the price focus of Internet sales and build personal relationships with customers who prefer to purchase this way.

- One of the major challenges for both the manufacturers and the dealers will be to improve their relationship. The number of disagreements between the two groups that our research uncovered are significant. Differences that are especially large or particularly relevant to either group can impede the ability of the manufacturers and dealers to work together, making change efforts more painful and costly than they need be. The critical issue is whether these differences lead to suboptimal behavior and amplify the problems and costs of the system.

- Relationships built on mutual understanding of each group's importance to the system, two-way communication that clearly defines what needs to be done for both sides to succeed, and shared financial success should ease the costs, time, and pain associated with any restructuring effort.

- Manufacturers should understand that not all their dealers think the same, especially small dealers, and that they need to find common ground across all types of dealerships to develop a basis for strong business relationships. If any manufacturer and its dealer body can develop a sense of shared destiny, it may find new ways to expand both manufacturer and dealer share and profitability.

Introduction

The retail distribution system is a likely "hot spot" of automotive industry change over the coming decade. Observers' expectations for change vary widely, ranging from elimination of dealerships as the Internet enables direct customer-to-manufacturer communication and perhaps even product transfer, to small, incremental changes that leave the current system relatively intact. However, change is surely underway, as the dealership count continues to shrink, the dealers' business fundamentals alter, and competition heightens. Moreover, today's dealership network faces intense pressure from the vehicle manufacturers as they look for increased sales and the next source of cost-reductions and profit.

The University of Michigan's Office for the Study of Automotive Transportation (OSAT) and A.T. Kearney have already examined changes occurring in the relationships, roles, and responsibilities among manufacturers and suppliers in the industry's production chain.[1] This current effort follows quite naturally on this earlier work as we examine changes in the remainder of the automotive value chain, the manufacturer-dealer relationship. Our earlier work may be especially useful since the strategies of the manufacturers regarding retail distribution may mimic their strategies for altering the production chain.

Our work on retail distribution constitutes a three-stage research effort. We first reviewed developments in the distribution systems of three selected "big ticket" industries[2] to identify likely production, retail, and customer drivers of change; the possible future developments suggested by these forces; and the transitions and transformations they might foreshadow for the automotive industry. Second, we interviewed 45 thought leaders, including dealers, manufacturers, and automotive analysts.[3] These interviews sharpened our understanding of the issues and challenges facing the retail automotive network, and helped frame and shape the inquiry for a large-scale survey of dealers and manufacturers. Responses from the interviews are more qualitative in that the interviewees were allowed to say exactly what they felt, and we then coded the information into categories. The third phase of our effort, a major survey of dealers and manufacturers in the fall of 1998, offers responses from some 775 dealers and 31 manufacturer responses from 22 different companies or divisions.[4] These manufacturers represent roughly 95 percent of all U.S. auto sales. Responses from the survey are more quantitative, with survey respondents most often responding with a numeric response. The combination of both qualitative responses from the interviews and quantitative responses from the survey give us a particularly rich set of results from which to detail the major issues facing manufacturers and dealers as they enter the 21st century.

---

1 Michael S. Flynn, Bruce M. Belzowski, Bram Bluestein, Michael Ger, Manfred Tuerks, and John Warniak, *The 21st Century Supply Chain, The Changing Roles, Responsibilities and Relationships in the Automotive Industry*. A. T. Kearney, Inc., 1996.

2 Furniture, personal computers, and large appliances.

3 Michael S. Flynn, Kara F. Alkire, Bruce M. Belzowski, Jack C. Cragen, Jay C. Houghton, James A. Mateyka, and James G. O'Brien, Jr. *Divergent Views on the Future of Automotive Retailing*. A. T. Kearney, Inc., 1999.

4 Throughout this report we will report the findings of the two groups of respondents by referring to the thought leader interviewees as "interviewees" and the mail survey respondents of dealers and manufacturers as "survey respondents."

Automotive Distribution Today

The automotive retail system is generally thought to be relatively high in cost and low in customer satisfaction. In our thought-leader interviews, dealers estimate the overall "cost of distribution" at 20 percent of MSRP (manufacturer's suggested retail price) and manufacturers estimate the figure at 28 percent. Automotive retailing is clearly an area facing intense pressure to change. In fact, 91 percent of the interviewees agreed that the retail/distribution system will experience more change in the next decade than it has in the past decade.

While other industries have implemented more customer-oriented formats or operations, automotive retailing has been slower to introduce similar initiatives. Still, a recent Gallup Poll reports that 42 percent of consumers feel positive about a new-vehicle buying-or-leasing experience, considerably higher than the industry media believes it to be.[5]

Indeed, the focus on the distribution system is not unique to the United States. Manufacturers throughout the world are beginning to re-think how their vehicles are distributed and sold. In a recent worldwide survey of consumers, U.S. consumers were more satisfied with their vehicle buying experience than those in any other country.[6]

Though these findings suggest a relatively satisfied customer, manufacturers may see the opportunity to improve the absolute level of satisfaction (42 percent in the Gallup Poll; 68 percent in the worldwide study) in the same way they view continuous improvement in their manufacturing operations. Improving the distribution system also affords the opportunity to strengthen their brands by improving their relationships with consumers and reducing costs.

Several developments in the last fifty years have led to fundamental changes in the automotive retailing infrastructure in the United States. Following World War II, the United States became more motorized as industrial advances led to a more affordable and available supply of vehicles. Motorization led to suburbanization, as more and more people left the confines of the cities for the wide-open, surrounding spaces. People could now commute from their homes in the suburbs to their jobs in the cities in their new cars.

Figure 1 details some of the major changes that have influenced and altered the retail and infrastructure relationships. The growth of motorization over the past fifty years has turned the U.S. market into primarily a replacement market, rather than primarily a market of first-time car buyers. Suburbanization and an increased tolerance for local travel have continued as well, allowing a smaller number of larger dealerships

---

5 While dealers think that 34 percent of consumers feel positive about a new-vehicle buying-or-leasing experience, the media thinks that only 2 percent of consumers feel this way. The Gallup Organization, "Survey of Attitudes and Perceptions Among Three Major Groups," *Automotive Retailing Today,* Fall 1998.

6 *The Future of Automotive Distribution: Evolution or Revolution,* Financial Times Automotive report written by A.T. Kearney, 1998.

to serve a more dispersed populace. Other factors have also contributed to the alterations of the retail system. The quality, cost, and timing of products in the market have proven to be essential as competition has increased among more automotive manufacturers. This has increased customer choice and directly pressured retailing. The cost pressures on vehicle manufacturers resulting from globalized competition are also altering the retail system as these costs are partially passed on to dealers, squeezing their margins.

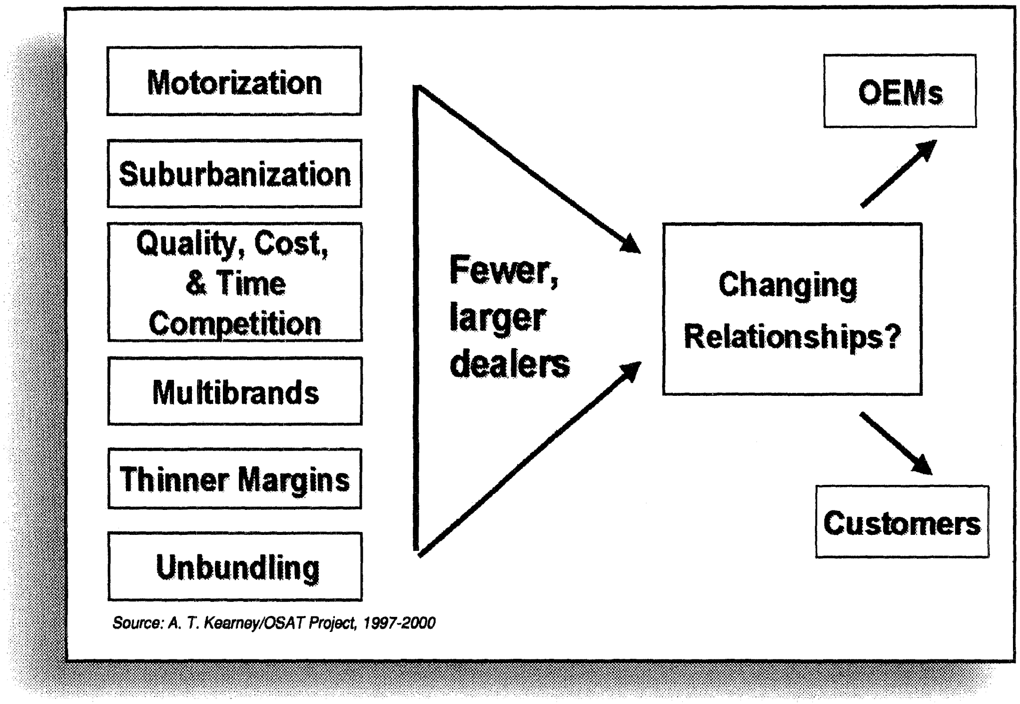


Figure 1: Retail Infrastructure Changes

The independent franchised dealer has been the industry's traditional retailer over the years. Nevertheless, changes occurring in the past few years in automotive retailing, in other segments of the automotive industry, and in retailing in general have put pressure on dealerships and the existing retail structure to change. Dealers have secured multiple franchises over the years in an effort to meet their customers' needs across market segments and brands. However, dealers continue to experience thinner margins as competition intensifies, particularly on new-car sales. Dealer returns have decreased from a net profit of 2.2 percent of sales in 1985 to 1.7 percent in 1998.[7]

Dealerships are also involved in activities other than new-vehicle sales, including used-vehicle sales, service and parts, and financing and insurance. Many dealers consider these to be more profitable than new-vehicle sales. For each of the elements of the dealer's portfolio of business, there are competing businesses that focus only on one area. These "unbundled" services can be provided independent of the dealership and function as a substitute for dealer services. Examples are the repair services provided by chains like

---

[7] NADA Industry Analysis Division

Midas or Sears, as well as the various services of finance and insurance companies. This competition for unbundled services has almost certainly restrained dealer profit levels. These challenges and the change they engender alter the relationships between dealers, vehicle manufacturers, and customers, changing the way that business is conducted.

There is little doubt that the structure of automotive retailing is shifting. Consolidation is progressing just as it is in the supplier and manufacturer segments. Figure 2 illustrates the decrease in the number of new-car dealerships and the even greater increase in sales per dealership since World War II. Many small, independent dealerships are disappearing or consolidating into larger dealerships or dealer groups. In fact, some estimates indicate that the share of total sales concentrated in the top 5 percent of dealer principals grew from 25 percent in 1988 to 33 percent in 1998 and might even reach 50 percent by 2008.[8]

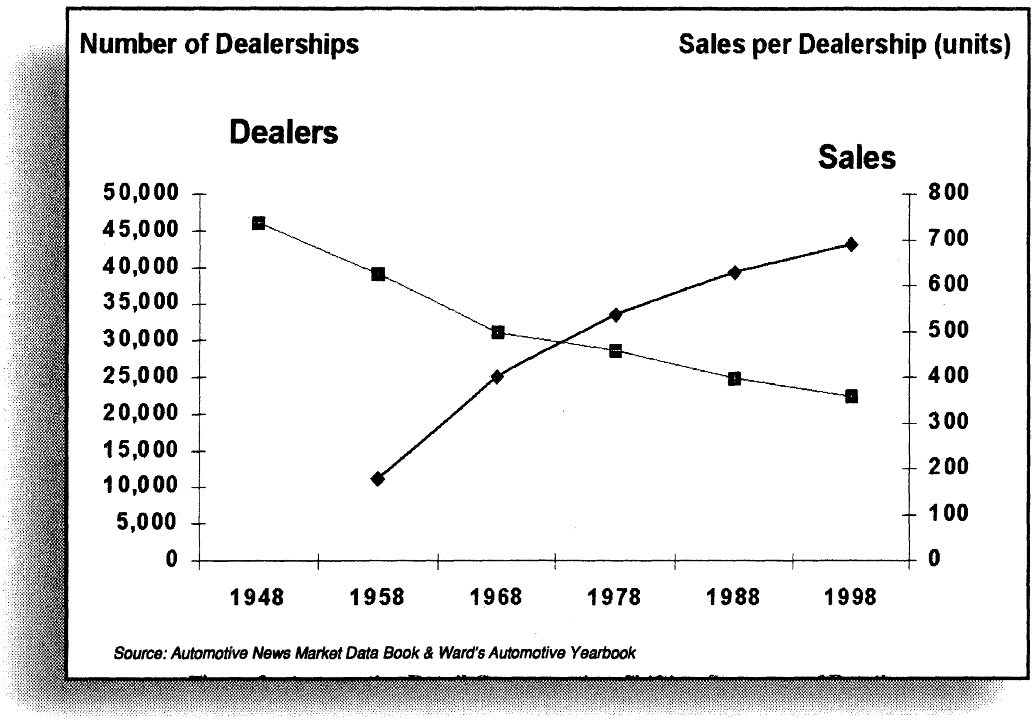


Figure 2: Automotive Retail Concentration-Shifting Structure of Retail

New entrants, including large, publicly-traded retail groups, have accelerated the consolidation of the automotive retail industry. Large dealer groups have existed for years in automotive retailing, but they lacked the scale, scope, and access to capital of today's groups. Both public and private dealer groups combined represent a growing percentage of total vehicle sales (see sidebar on following page). Of the top 100 dealer groups in 1999, there were five public dealer groups that accounted for 4.3 percent of all vehicle sales, while private groups represented 8 percent of sales. By far the largest public dealer group is AutoNation. In 1999 it had 290 dealerships and 395 franchises and 2.8 percent of all vehicle sales. The 95 private dealer groups in the top 100 groups are not dominated by any one dealer group; many other groups have similar numbers of dealerships and franchises.

---

[8] Tom Libby, "Quick Facts," *The Power Report*, January 1999: 4.

Both public and private dealer groups tend to use dealership acquisition as their main method of growth, although many of the groups have slowed their acquisition rate. AutoNation, more than any other group, has developed a number of initiatives, such as a nationwide Internet portal for all its dealerships, that show its willingness to deviate from the basic retailing principles used throughout most of the system. Initially, AutoNation was able to pay higher than market value for the dealerships it purchased by offering stock to the owners. In many cases the former owner continued to run the dealership under the AutoNation group umbrella.

Over the past two years, the stock price of the AutoNation group as well as most of the other publicly-traded groups has decreased significantly from a high of $44 in 1997 to a low of $6.13 in February 2000. The market's skepticism of dealer groups has slowed dealers' enthusiasm for going public. It may be that only much higher than expected profits will make the market view a group as different. The lack of confidence in dealer groups may also be a result of dealerships being viewed as part of an industry that currently is seen as having limited growth potential because of a saturated U. S. market and its high fixed costs in "bricks and mortar."

The Top 100 dealer groups percent of total sales continues to grow

1996:	**8.6%**
1997:	**10.2%**
1998:	**11.1%**
1999:	**12.3%**

Source: Automotive News Market Data Book

Other segments of the automotive industry have also been in flux. Cost reduction and consolidation pressures are rife in the automotive supplier industry, and a parallel might be drawn between the manufacturers' relationship with suppliers and their evolving relationship with dealers. Some manufacturers succeeded in improving supplier performance by pressuring suppliers to reduce prices and demanding higher quality and performance. On the other hand, some companies—notably Chrysler[9] and Toyota—have earned a reputation for guiding, supporting, and rewarding a job well done by suppliers. Will manufacturers use these same techniques in their relations with dealers? Indeed, while some manufacturers are demanding change, will others provide more supportive direction for their dealers?

Power Shifts Along the Automotive Value Chain

The automotive value chain comprises the activities required to design, develop, manufacture, assemble, market, distribute, and retail the vehicle to the customer. Companies typically specialize in some subset of these activities, and are called suppliers, manufacturers, distributors, and retailers. An important characteristic of the chain is the way that power or dominance is distributed among the companies, and between companies and customers. The power structure of such a system determines the ability of companies and customers to control their own fates and shape the fates of others, and also influences the system's performance, as well as its speed and efficiency in responding to change.

9 Now DaimlerChrysler. Referenced as Chrysler throughout the report because the Mercedes-Benz and Chrysler retail networks are still separate.

If shifts in relationship dependence and power pass critical thresholds, they readily convert to market power, and underlie one of the important dynamics in today's industry. Quite simply, manufacturers have experienced a loss of relative power in the value chain, both as a group and as individual companies. That this is the case is amply shown by their efforts to discourage what they call "over-consolidation" among suppliers, even to the point of encouraging new competitors in certain lines of supplier business. Similarly, the concerns of some manufacturers about the emergence of large dealer groups like AutoNation suggest that they fear that the critical threshold for a shift in power and control may become an important issue in the near future.

In the 1950s and 1960s North American automotive industry environment, the assemblers, and especially General Motors, were overwhelmingly dominant, largely controlling and shaping the behavior of participants along the entire chain. There were few assemblers and many suppliers, meaning the assemblers had many supplier options, but the suppliers had only a few potential customers. Similarly, dealers had only a few vehicle franchises to choose among, while the manufacturers had thousands of dealers and potential dealers. The same situation holds true when we compare purchasers and assemblers, or compare the number of makes of cars available in the market with the number of purchasers.

A useful way to think of the power of any player in a system vis-à-vis other players is to consider the alternatives each has to its relationship with each other. The more the net benefits (benefits less costs) of the current relationship exceed the benefits one might reasonably expect from the next best alternative relationship, the more dependent the player is on the current relationship, and the more power the other player possesses.

In evaluating the power balance of an A/B relationship, the party with more alternatives generally has more power in the relationship. If we take the ratio of one set of players to the other as approximating the power balance, then the smaller the ratio, the more power held by the first party. We can assess changes in the power balance of a relationship by examining changes in the ratio for each relationship over time. Table 1 displays the changes in the relative power for each type of relationship.

The supplier base has contracted, especially among the large, technically strong suppliers, while the number of manufacturers with assembly plants in North America has effectively increased three- or four-fold, shifting the power balance in the direction of the suppliers. The U.S. customer base has increased slightly over the past 15 years, shifting the manufacturer-customer power balance in the direction of increased consumer power. So manufacturers' relative power over both suppliers and customers declines because the number of manufacturers has increased substantially, offering suppliers and customers more choices. Because of their shrinking numbers, dealers improve their relative power position with both manufacturers and customers.

These analyses apply to the general situation across the types of players in the system, but there is an important limit to these general observations. Each player must pursue strategies to preserve its own independence and to increase its relationship partner's dependence, shifting the power balance. For example,

Table 1

Relationship	Change in Number		Relative Power Change	
A / B	A	B	A	B
Supplier/Manufacturer	↓	↑	↑	↓
Manufacturer/Dealer	↑	↓	↓	↑
Dealer/Consumer	↓	↑	↑	↓
Consumer/Manufacturer	↑	↑	↑	↓

the emergence of large automotive suppliers with significant global market share in a particular automotive system lessens their dependence on any particular automotive customer. Strategies to increase the value of the player's own offerings, to distinguish the player's offering from its competitors, and to add new value to the particular relationship are all well-established ways to increase a partner's dependence and thus the first player's power.

In a certain sense, assemblers have shifted some of their strategic focus from the supply side of their business to the demand side. This probably reflects recognition of three important realities. First, they are now more dependent on fewer suppliers that mediate more critical functions, and these suppliers have more assemblers to pursue as customers. Therefore, suppliers have gained power. Second, the dealers are now less dependent on any particular assembler, because dealers also have more assemblers to choose among, and are, in most cases, already multifranchise. Third, the industry's rhetoric of responding to customer desires has new meaning, since the customer now has more choices, and therefore more independence and heightened market power.

Distribution: Comparative Industries

As the automotive industry enters a new era of retail distribution, it is useful to compare the changes that have occurred in retail practices in three relatively expensive consumer-product sectors: white goods/home appliances, furniture, and personal computers. The practices of these industries have potential implications for automotive retailing in five areas: consolidation, superstores, disintermediation, the Internet, and micro-marketing.

Consolidation

Retail consolidation is reduction in the number of outlets in an industry. In automotive retailing, consolidation has proceeded at a deliberate pace, although the number of dealerships has been cut in half since the 1950s. In white goods, extensive early consolidation among retailers meant that at least some retailers, such as Sears, became powerful enough to create their own brands. This has not yet occurred in automotive retailing, though some manufacturers sell versions of their vehicles to other manufacturers. In furniture, the very large number of manufacturers has resulted in a few large chains of retailers having considerable power. In contrast, the much smaller number of manufacturers in the automotive industry, combined with the tradition of privately-held retail franchises, reinforced by "dealer-day-in-court" laws, has meant that retailing has remained dispersed among thousands of independent dealers. However, the growing number of dealership groups with multiple outlets or stores, including a number of public companies, is effectively concentrating administrative control of dealerships, if not reducing their number.

Will consolidation make automotive distribution more efficient and customer friendly?

Personal-computer retailing was initially conducted through manufacturer-owned outlets or dealers dedicated to a single manufacturer's products. Over the past decade, personal-computer retailing has employed multiple sales channels, including direct selling. By contrast, automotive manufacturers have for the most part avoided direct ownership of sales outlets, which is prohibited in some states, because of antitrust difficulties experienced by manufacturers in other industries. Saturn is an example of how a clean-sheet, large-scale auto manufacturer can control distribution. Saturn gives dealers large territories, thus dampening intrabrand dealer competition. Saturn, with about 380 dealers, suggests most other volume brand franchises have too many dealerships even at their higher volumes. General Motors, Ford, and Chrysler have about 2,000 to 3,000 dealers per sales division and the major Japan-based companies have about 1,000.

Both manufacturers and dealers highly agree that the market has too many dealers. General Motors, Ford, and Chrysler have implemented strategies to decrease the number of dealerships. Ford has created the Ford Retail Network, which consists of regional groups of company/dealer equity joint-ventures. Ford is the minority partner with dealers or dealer groups in select regions (e.g., with AutoNation in Rochester, New York).[10] The Ford Retail Network as well as GM's plan (fall 1999) to purchase 5 percent of its retail network attempts to consolidate over-dealered markets as well as to gain more control over the sale and distribution of vehicles. Whether or not GM has actually stepped away from this program is unclear, but Ford and GM are still hoping that their retail groups will benefit from the same economies of scale as publicly owned retail groups hope to achieve—reduced costs in advertising, inventory, purchasing, parts distribution, insurance, and information technology. Ford and GM may also want to develop a more consistent buying process across their dealers as a way of preventing customer dissatisfaction with the process. It merits mention that the manufacturers are moving away from this type of vertical integration in their supplier relations. Nevertheless, this joint ownership may reflect a new, more vertically integrated model for dealer-manufacturer relations.

10 Bradford Wenle, "Ford's Dealership Plan may Include United Kingdom," *Automotive News*, October 19, 1998: 16.

Superstores

Superstores are very large retail outlets characterized by high sales volume and low retailer costs for each transaction. They tend to locate in areas with significant population density. In theory, superstores have high sales volume because they have large inventories of most makes and brands. They typically have low costs because they purchase their products at discount rates through volume deals with manufacturers and/or they have reduced levels of sales staff. While consolidation and superstores are two distinct retailing phenomena, they tend to occur together.

> Will superstores greatly increase the number of brands they carry?

Independent, moderate-sized appliance stores have been vanishing from the American scene. In their stead, a smaller number of superstores, often part of multioutlet chains, have captured a large share of white goods retailing. The first attempt by retailers, before direct selling, to sell personal computers was in small computer specialty stores which in turn became superstores. Currently, the two methods of selling personal computers, directly and through superstores, coexist, though some companies tend to favor one method over the other. Finally, in furniture retailing, both among furniture-focused retailers and among outlets that carry other products in addition to furniture, there is a pronounced trend to superstores.

Medium-to-large retail groups have long existed in automotive retailing. Until recently they have not been publicly traded and have not reached the scale and scope of today's public retail groups. Revenues, vehicle sales, and the number of dealerships owned by today's groups are substantially larger than the groups of just a few years ago. Two notable groups, AutoNation and Circuit City (CarMax superstores), have emerged in the automotive industry distribution system. These large public groups seek a cost advantage through economies of scale in inventory, advertising, purchasing, parts distribution, and insurance that support a lower price to consumers. Such groups also seek cost savings through updated financing methods and centralized information technology and management. Some are attempting one-price selling of vehicles, believing that this option will attract customers.

These large retail groups are also less dependent on any one manufacturer than is the traditional dealer and often have immense resources, such as access to capital on terms as favorable as those of the manufacturers. However, they differ from furniture superstores in their inability to negotiate discounts from volume dealers with the manufacturers. Franchise laws prevent manufacturers from offering discounts to selected dealers.

The thought leaders in our interviews had very diverse views in late 1997 about the new entrants to automotive retailing, and their views to a certain extent depended upon their position in the business. Established volume automakers based in the United States saw new retailers as a potentially positive development. They did not expect them to become powerful enough to threaten manufacturer control of the system, and thought that the new retailers might introduce new ways to increase profit and customer satisfaction. Foreign-based manufacturers, particularly the more successful ones from Japan, were worried that large, public dealerships would disrupt their established dealer networks. Another concern is that if these new entrants fail, the manufacturers will have to buy and rebuild those dealer points.

Most dealers we interviewed remain very skeptical that new entrants will succeed. They mention the high purchase prices for dealerships and question whether these new entrants can truly improve operations or secure scale economies sufficient to justify the dealership-acquisition premiums. They also emphasize how thin the management talent base is at a dealership: If a few key people leave the administrative or sales department, the dealership is in trouble. However, the dealers' reluctance to recognize the potential threat of this new and powerful type of competitor may echo an earlier response: the manufacturers' slow recognition of the seriousness of Japanese competition in the late 1970s and early 1980s.

There is a parallel to furniture superstores in automotive used car retailing where many of the legal strictures of the new car business are absent. Many of these early automotive superstores have been costly shopping plazas with huge physical inventories, and some evidence suggests that consumers use them to pressure the prices of other dealers. AutoNation's recent exit from the used car superstore business leaves CarMax as the only large, independent, used car superstore chain, although it too sells new vehicles in many of its superstores. Some recent analyses of AutoNation's exit focused on its inability to develop economies of scale in used cars, reflecting the fact that its large inventories came from the same sources as did other dealers', but without any volume discounts.

Superstores in furniture, white goods, and personal computer retailing often "unbundle" their services, based on the customers' willingness to separate sales from other services, such as repair. However, automotive superstores probably can only slowly evolve from the multiple revenue streams and collocated activities of the traditional dealership, including parts and service, collision repair, finance and insurance, used vehicle sales and new vehicle sales. Bundling survives in automotive retailing because new car sales, alone, provide unattractive profit margins. It is clear that such bundling often is suboptimal, because customers will travel great distances to buy a car, but insist on local convenience for service and repairs. Only by developing a business model based on optimizing all of the revenue streams can dealers hope to survive in an "unbundled" world.

It is not clear what the inventory of automotive superstores will be in the future. Given the cost of floorplanning, it will be to the advantage of the dealers to have display models, but to try to deliver vehicles, when possible, from virtual inventories and from centralized, pooled distribution points. They may also choose to display all the brands in a particular segment, such as all minivans from all manufacturers. Such approaches are increasingly evident in personal computers, furniture, and white goods retailing.

Disintermediation

Disintermediation is the elimination of stages in the distribution chain. Complete disintermediation in the automotive industry would be the customer ordering a vehicle directly from the assembly plant via telephone, mailed form, Internet transaction, or personal visit, and then taking delivery of the vehicle directly from the factory. This form of retailing is becoming widespread in personal-computer sales. In the last few years, Dell and Gateway have built computers and sold them directly to customers through telephone and the Internet. However, this practice is less common in white goods retailing or furniture retailing, possibly because of the manufacturers' reluctance to incur the cost of managing a national distribution network, which includes sales and marketing personnel as well as the cost of each distribution point.

Will consumers buy directly from the manufacturer?

Disintermediation of automotive retailers would create serious contention between manufacturers and dealers. If dealers felt threatened by this possibility, in many states they could resort to legal action under state franchise laws. These laws often mandate that vehicles must be sold only through dealerships. The other major issue disintermediation raises in automotive retailing is servicing vehicles. Manufacturers need some form of service function to handle warranty claims and vehicle recalls, as well as complicated repairs. Certifying independent service providers could disintermediate dealers from the service function, but it could also distance the manufacturer further from the customer, as an independent service provider would most likely service other makes as well. Manufacturers could also set up their own dedicated service system or certify an already established national chain of service providers.

Ownership by the assembler of the retail outlet has certain parallels to disintermediation. However, in a few states it is illegal. Auto manufacturers seek to control their brand image and to increase their participation in the customer experience after the sale. Here Ford has taken the lead. Although Ford's ownership is often legally limited to a 49 percent stake in outlets, it seems that in Ford's "collections" it is exercising considerable influence. This arrangement allows Ford to gather better customer information to be used for modeling potential prospects in the area, as well as learning how to implement optimized systems in sales, parts, service, and finance and insurance within the dealership or dealer group and between the group and Ford itself. Will ownership of dealerships by manufacturers reduce costs and increase profits in the long run? Is the drive to create more direct contact with consumers so powerful in its opportunity to generate more profits that it justifies incurring the costs of buying and maintaining dealerships? Whether Ford or any manufacturer can implement these systems and learn from their experience while remaining competitive and profiting in the sales area is still an open question.

The Internet

The Internet forms the basis for the wave of electronic commerce (e-commerce) that is just beginning to reshape the business world. The last few years have seen great expectations about the potential power of the Internet in retailing, but only recently have companies begun testing the waters with this innovation. The white goods and furniture industries have not yet made major attempts to use the Internet, possibly because they have so much invested in a brick-and-mortar distribution network, much like the auto industry. However, in computer retailing, some companies such as Dell and Gateway have very little capital tied up in brick and mortar investment and rely primarily on direct sales and e-commerce. Because this technology is so new and is evolving so quickly, these companies are continually testing and changing their e-commerce processes in order to find the best way of attracting and serving customers.

The process of shopping for and buying the largest consumer big-ticket item, a house, is also undergoing dramatic change because of the Internet. Consolidation of the realty business is being driven by the rise of the Internet as large realty companies begin advertising offerings across a wide-ranging area on the Internet. These offerings often include complete full color views of the interiors and exteriors of the houses as well as financing information. In this case the Internet may be an example of how to display large inventories to potential buyers who may be local or a long distance away. Similar to the personal computer industry, the real estate business has less brick and mortar, different ways of financing inventory, and less restrictive franchise laws that may inhibit its reinvention.

The Internet is having various effects on automotive retailing. First, large and increasing numbers of customers are now using the Internet to ascertain dealer costs and MSRPs for various vehicles and options. Some dealerships also place their entire inventory and prices on their web pages. NADA has responded to this trend by publishing invoice prices on its own website.[11] Thus, customers come to the outlet armed with a wealth of data and can negotiate with salespeople more effectively than in the past. Because of the Internet, greater numbers of buyers enter dealerships already presold on a particular vehicle and set of options. This may allow smaller sales forces than in the past. In addition, the role of salespeople may change in the direction of customer service representatives.

How will manufacturers and/or dealers use the Internet to improve the buying and owning experience?

Second, some important parts of the purchasing process are already taking place via the Internet, and the traditional sales territory for a dealership is changing as some dealers use the Internet to reach customers outside their traditional sales territories. Large dealer groups, in particular, may be able to use the Internet to allow customers access to larger inventories. Though some analysts question whether a brick-and-mortar strategy can succeed in the Internet age, the fact that the majority of buyers purchase their vehicles from dealer inventory suggests that maintaining a large inventory is still a competitive advantage for dealers.

Third, some manufacturer Internet sites offer even more conveniences to the consumer than do many dealer sites. The manufacturers are increasingly designing Internet sites as marketing tools to strengthen brand identification and promote new features and models. Manufacturers are also advancing their Internet sites to function as more than mere advertising campaigns to address the competition coming from independent Internet car-buying services such as Auto-by-Tel and Microsoft's CarPoint. For example, through GM BuyPower, customers can search all dealership inventories in an area for a specific vehicle. Consumers can research and compare GM and non-GM models and features, select a vehicle, and access financing and insurance options as well as other services directly online. Ford's recent contract with CarPoint offers a model of co-opting the competition and leveraging the expertise of an Internet company that has become a major independent portal for potential vehicle shoppers. These Internet information providers are changing the way vehicle shoppers gather and use information. As manufacturers and dealers adapt and begin to provide this information themselves, the portal strategy of the buying services may be challenged.

---

[11] NADA is the National Automobile Dealers Association

Fourth, independent Internet car buying services may offer more detailed information on specific vehicles than some manufacturer Internet sites, as well as the ability to compare different makes and models. Auto-by-Tel, an Internet broker, attempts to offer another advantage to the customer by guaranteeing a price on the vehicle of choice without negotiating with a dealer, although recent research reports that customers may pay a premium for purchasing through buying services.[12] CarsDirect.com goes one step further by buying the vehicle from the dealer and delivering it directly to the buyer, while another new buying service, Priceline.com, allows the buyer to place a bid on a particular vehicle, and Priceline will search its database to locate a dealership within the buyer's driving range that will sell at that price.

Our dealer interviewees view the introduction of the Internet into automotive retailing as a positive step for both dealers and consumers. For the dealer, it offers the opportunity to attract customers to the dealership and to learn about specific consumers and their vehicle needs before they walk into the showroom, perhaps improving customer relations and the efficacy of the sales process. Through the Internet, the customer has the opportunity to develop a more focused visit to the dealership.

For various reasons, the Internet has come to automotive retailing somewhat more slowly than in certain other retailing areas, especially personal-computer sales. However, we expect the role of the Internet to expand rapidly and to have wide-ranging impacts on automotive retailing. As an example, by some estimates, as many as 40 percent of new vehicle customers already use the Internet to learn more about their purchases before they buy.[13]

Recent research on potential young customers in 2004, people now between the ages of 16 and 22, describes them as completely internalizing use of the Internet, while older customers adopt it as a way of using a new way to do old things. For these young customers, the internalization of the Internet makes them see information as ubiquitous and building trust as not requiring face-to-face interaction. Marketing to these potential customers will demand more of an electronic interface. Despite the dramatic predictions for Internet purchasing, estimates of online vehicle buying for 2004 are running at about 440,000 vehicles, or $12 billion. This represents about 3 percent of a 15 million vehicle market.[14] As the plethora of opportunities begins to develop for manufacturers, dealers, and consumers, the automotive retailing industry is only beginning to experience the Internet's potential.

Micro-marketing

Micro-marketing is tailoring the merchandise mix and marketing approach to narrowly defined customer segments. Micro-marketing is enabled by information about an individual customer's likes, dislikes, and lifestyle. With modern technology, retailers can obtain and store detailed purchasing data regarding current and potential customers. With that data, retailers cost-effectively communicate with specific customer segments. In addition, such data can support designing products for particular population categories, linking micro-marketing to product development and differentiation.

---

12 Mike McFall, *Seven Things That May or May Not Happen Next Year*, AutoNation, presentation at Auto News Retail Technology Forum, West, November 1999.

13 Chris Denove, *Automotive Internet Research*, J.D. Power and Associates, presentation at Automotive News Retail Technology Forum, West, November, 1999.

14 James L. McQuivey, *Meet the Digital Consumers*, Forrester Research, presentation at Automotive News Retail Technology Forum, West, November, 1999.

Micro-marketing has not been widely used because of the cost of maintaining and analyzing databases of customer information. Some see such information as an untapped resource while others see it as a melange of indecipherable numbers. Because of the cost of micro-marketing, it has been used primarily in the distribution of expensive products. Upper-income customers may want and be willing to pay for furniture and white goods that are distinctively designed and of superb quality. Prices of such products are likely to be high enough to cover the added expense of micro-marketing.

Will dealers or manufacturers successfully mine customer data to retain and attract customers?

However, as micro-marketing's value becomes better understood, it will be increasingly applied to an entire range of products, including automobiles. For example, having a database of customer likes and dislikes allows the manufacturer or dealer to customize the sales and service approach to each customer or group of similar customers. Micro-marketing can also be used to gain new customers. Through the use of demographic profiles of satisfied customers, manufacturers and dealers can target similar consumers who are currently not customers of either the manufacturer or the dealer. Having selected this group of potential customers, manufacturers and dealers can market to them in the same way that appeals to their current customers. In this case manufacturers and dealers are proactively choosing customers instead of customers choosing manufacturers and dealers. In fact most of the automotive manufacturers have committed to using customer information to build strong customer relationship management (CRM) capabilities in the next five years.

The issues of consolidation, superstores, disintermediation, the Internet, and micro-marketing within the personal computer, white goods, and furniture industries offer some thought-provoking scenarios for automotive distribution. Based on these observations, the key issues for both manufacturers and dealers seem to focus on the roles, responsibilities, and relationships between the two parties within the distribution system. What roles should the manufacturers and dealers play in selling vehicles to consumers? How should the responsibility for the different parts of the sales-and-marketing process be divided? How can the relationship between manufacturers and dealers be re-formed or re-invented to best serve the customer? Will service and repair be a serious differentiator between traditional dealers and new third-party brokers? To answer these questions, we must look more closely at the distribution system today to see where the disconnects lie.

The Automotive Distribution System Today

The automotive distribution system today is undergoing change on all sides. As noted in the previous section, consolidation continues at both the dealer and the manufacturer level, with public and private dealer groups accounting for an increasing percentage of total vehicle sales. Companies outside the traditional dealer network use the Internet to offer alternatives to the typical dealer experience. Micro-marketing offers the opportunity for both dealers and manufacturers to use customer data in ways new to the automotive arena. From a macro perspective, today's distribution system is shifting the sources of revenue for dealerships, changing the vehicle sales process, and focusing both dealers and manufacturers on the costs in the current system.

Evidence of change in the distribution system and internal dealership structure is apparent in the distribution of total dealership sales shown in figure 3. Service and parts sales have decreased slightly as a percentage of total sales, although they have increased in relative contribution to dealer profits. Dealerships have been investing in their service and parts operations to attract customers and to compete with service providers for post-warranty vehicle maintenance, repair services, and parts sales.

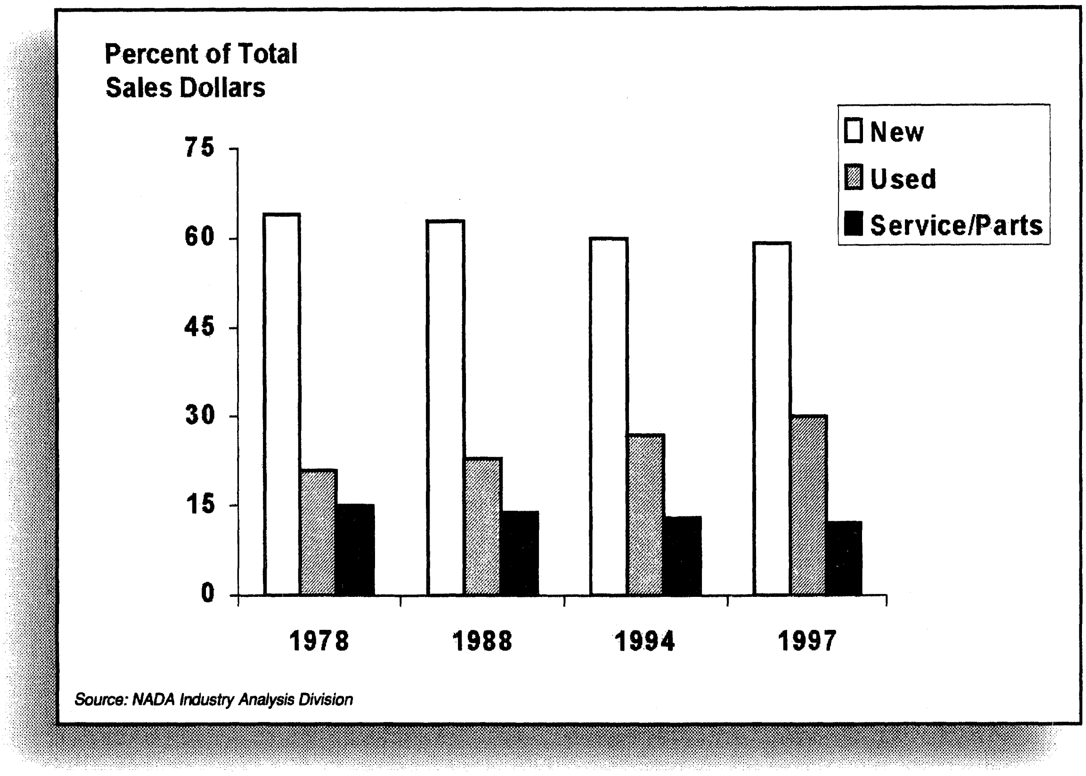


Figure 3: Automotive Retail Concentration-Shifting Sources of Revenue

In addition, figure 3 shows that the percentage of total revenue attributable to new-vehicle sales has eroded, while the percentage due to used-vehicle department sales has increased. This revenue shift from new-vehicle to used-vehicle sales is an important change in how dealerships operate. In particular, it moves the business focus of the dealer away from new vehicles to used, lessening the impact of the manufacturer on the dealer's business. The percentage of customers, both retail and fleet, leasing vehicles has also grown dramatically since 1990, returning a bountiful supply of "nearly new" vehicles to the market.

These nearly new vehicles constitute an emerging and important third category to add to the familiar new- and used-vehicle sales categories.[15] Many consumers view nearly new cars and trucks as viable alternatives or close substitutes for a new vehicle. Consumers may feel that they garner a better value with a

15 However, they are included in the used-vehicle segment and thus are partially accountable for the dealer revenue shift displayed in figure 3.

nearly new vehicle due to the improved quality, durability, and reliability of recently manufactured vehicles. Nearly new vehicles also typically offer higher margins to the retailer. The influx of nearly new, off-lease vehicles has helped to transform the used-vehicle market into a more important revenue source for the dealer and to pressure the new-vehicle market.

However, nearly new vehicles are also susceptible to the buyer's preference for buying a new vehicle. If financing rates for new vehicles are low and prices remain stable, as they have over the past few years, new vehicle sales will grow. Nearly new vehicles also provide an entry opportunity for new retailers because they do not have to apply for franchises from the manufacturers. New entries such as Circuit City, whose CarMax superstores concentrate on nearly new vehicles, offer these vehicles in an environment striving to be customer friendly and negotiation free.[16]

The traditional retailing or distribution system is high in cost because the supply chain from manufacturer to dealer to customer is not optimized. It still operates as a "push" system, with manufacturers too often building more units of a particular model than the market can absorb, and then pushing these vehicles out to individual dealers to sell to customers. Slow-selling models are moved via manufacturer direct-to-customer rebates, dealer and customer incentives, subsidized financing, and pressure sales techniques. Even for more popular models, large amounts of cash in the form of direct-to-customer rebates and incentives from the manufacturer are now common to convince the customer to buy. Therefore, it is not surprising that buying and selling is a price-focused transaction, rather than an initial event in a developing relationship between the customer and the brand or the dealer.[17]

Dealers realize the value of customer retention and are increasingly using follow-up phone calls and other techniques to generate a relationship with the customer that extends beyond the sale event and warranty service. Most of this customer information resides with the individual dealer who sees it as a competitive advantage in building his customer relationship. The tendency has been for dealers not to share this information with the manufacturers for fear of the manufacturer marketing to the customer in a way that potentially sends the customer to another nearby dealer. This conflict between the manufacturers and dealers is but one of many that suggest the need to build more effective, reliable, and trustworthy manufacturer-dealer relations.

The typical sales process is diagrammed in figure 4. This process depends heavily on the generation of showroom traffic. Reflecting the importance of the customer visit, a few dealer interviewees identified on-site inventory as important for attracting customers and motivating them to buy.

Historically this process has translated into large advertising expenditures by manufacturers and dealers aimed at inducing a customer to visit a dealership. Much advertising is centralized and controlled by the manufacturer to achieve "one-voice marketing." This type of advertising is effective for building vehicle brand image.

---

16 Manufacturers such as Ford are also attempting to sell nearly new vehicles using the Internet. In this case, they may be trying to better control the value of their brands in terms of perceived value as well as actual sale prices.

17 The issues of transforming the dealer-customer relationship are highlighted in a recent A.T. Kearney report entitled, *The Digital Dealer*.

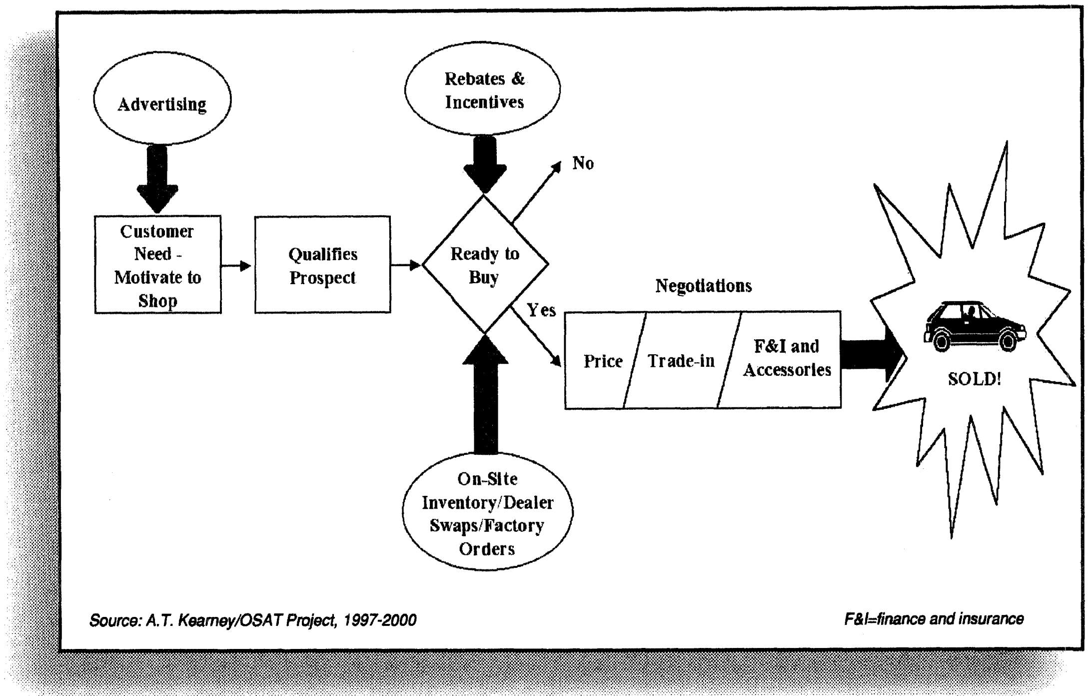


Figure 4: Vehicle Sales Process

Advertising is an important tool for dealers as well. Dealer-sponsored advertising, including Internet advertising, enables the dealership to differentiate itself from its competitors, particularly in densely-dealered markets. Indeed, many dealer interviewees believe that they can judge the needs of the vehicle customers better than can the manufacturers. A number of dealers say that the manufacturers should look upon dealers as customers and allow dealers to use advertising monies to sell within their local market. This disconnect between the manufacturer and the dealer interviewees exemplifies one of the challenges facing their relationship: who should play what role.

Even negotiating the vehicle sale is changing under the current system. Saturn and Mercedes outlets and a few large dealer groups (e.g., AutoNation) offer vehicle shopping at a fixed price. These dealers believe that by offering a set price, they can attract customers who are tired of the current system of back-and-forth price negotiations. Will one-price shopping create more satisfied customers? Recently more dealerships have begun experimenting with one-price selling, but there is resistance from many others.

Many dealers dislike one-price retailing because it undercuts potential sales and profit opportunities, especially if they are confident in their sales force's negotiating skill. Sometimes a lower price completes the sale, while a higher price on other occasions makes up for such lower price transactions and even raises average net profit. Moreover, if some nearby same-make dealers are not one-price dealers, then the possibility of being undersold is a real and serious threat. This is especially relevant as customers increasingly check prices on the Internet, expanding the competitive area. Some dealer groups practice their own form of one-price retailing by adjusting the price of a vehicle every few days based on the current selling price of the vehicle in their area. Once this price is set, it will not vary between dealerships in that group until the vehicle price is reevaluated. This form of one-price retailing allows for price adjustments for supply and demand shifts.

To be sure, negotiations occur even in most one-price stores if a trade-in, financing, insurance, and/or rebates are part of the transaction. However, these are more concealed, and consumers, should they even be aware of them, may more readily assume there are legitimate reasons for price differences for these items across diverse situations. So one-price selling may still make the buyer less negative about the buying process, even if it does not completely eliminate negotiations and the sometimes strained atmosphere accompanying them.

Currently, the manufacturer's brand dominates the dealership and dealers execute the new-vehicle selling process and support the vehicle by providing after-sales service, especially during the warranty period. However, dealers are much more attuned to customer satisfaction with the dealership experience than they were a decade ago. This is partly due to pressures and incentives from the manufacturers linked to the dealer's customer-satisfaction rating, as measured in customer surveys. It is also due to the recognition that more and more of the dealer's profits will have to come from after-sale activities such as service, parts, and body-shop operations, that require the customer to return to the dealer.

As noted above, dealer interviewees estimate the overall "cost of distribution" at 20 percent of MSRP (manufacturer's suggested retail price) and manufacturers estimate the figure at 28 percent. Both dealers and manufacturers acknowledge the inefficiencies in the current distribution system and see the lack of common processes as a major cost driver. Dealers' costs are heavily biased toward personnel (including sales department, training, and overhead), which constitute 60 percent of the costs for this group as shown in figure 5.[18] For manufacturers, the analogous personnel costs total about 22 percent of total costs.[19] Both dealers and manufacturers expect training and development costs to increase, while dealers expect sales-department costs to decrease.

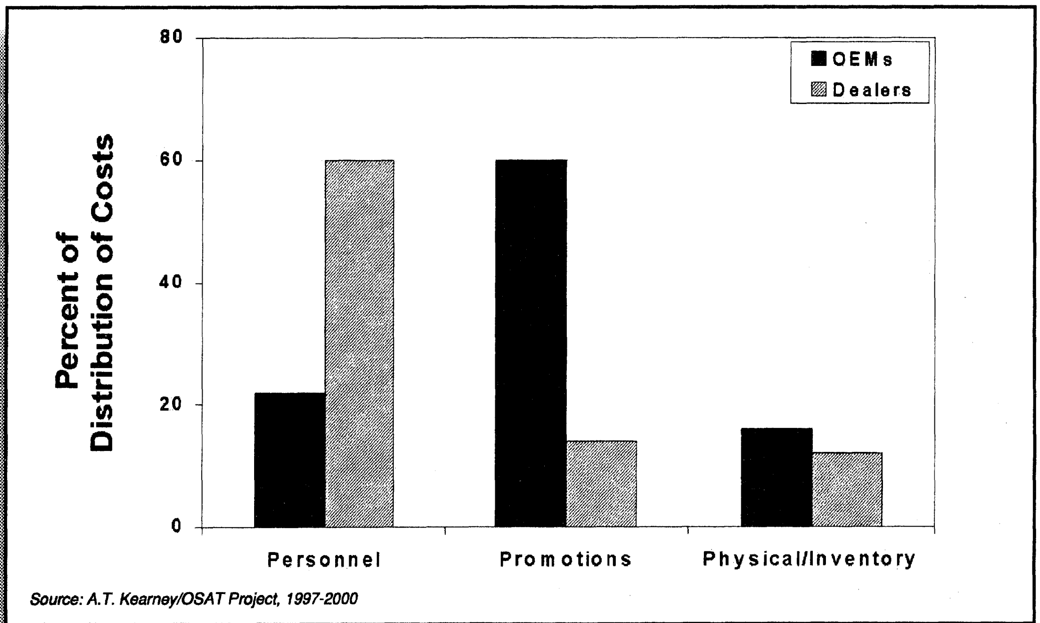


Figure 5: Distribution-OEM/Dealer Costs

[18] Answers and mentions reported in percentages typically do not total 100 percent, since answers to these open-ended questions were often varied and unique.

[19] For simplicity, the automotive manufacturers are referred to as manufacturers (original equipment manufacturers or OEMs) in the graphs.

Manufacturer distribution costs are concentrated in promotions. That is, advertising, rebates and incentives (60 percent). The analogous number for dealers is 14 percent. The cost of physical distribution and inventory totals 16 percent for manufacturers, and inventory carrying costs are 12 percent for dealers. Both manufacturers and dealers expect inventory costs to decline in the next ten years.

However, different types of manufacturers and dealers have differing views about excessive costs in the distribution system.[20] When we asked dealers and manufacturers in the mail survey phase of the project to tell us whether there are excessive costs in the distribution system, we found significant differences between luxury manufacturers and all other groups.[21] Figure 6 shows the change in the respondents' views of excessive costs from 1988 to 1998 and from 1998 to 2008; it also shows the difference between luxury manufacturers and the other groups. [22] Though all the groups reveal the same pattern over time, luxury manufacturers believe there are excessive costs in the distribution system more than do other groups. This may partly reflect the fact that the luxury segment includes more Japanese and European-sourced vehicles that incur additional shipping costs.

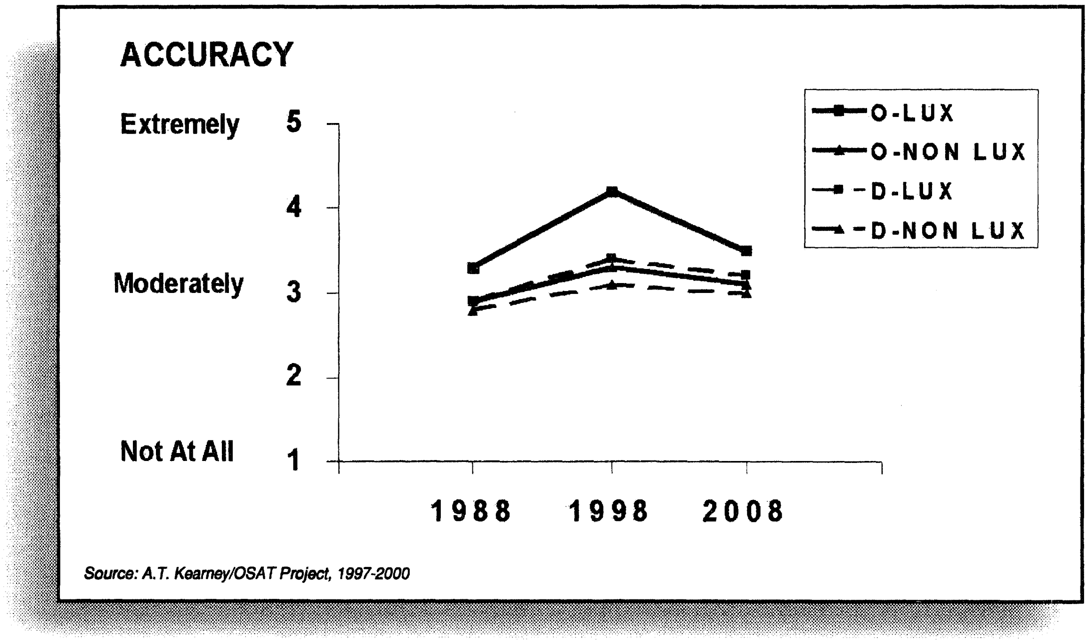


Figure 6: The Automotive Distribution System Has Excessive Costs

---

20 When reviewing these results, it is important to remember that neither manufacturers nor dealers speak with one voice. Both dealer and manufacturer groups reveal a range of responses and views, and sometimes dealers and manufacturers for a given vehicle brand agree more with each other than either group agrees with its peers. It is also the case that differences between dealers and manufacturers are sometimes especially sharp within a vehicle segment, where the particular issues might be especially germane. Nevertheless, while not every reported manufacturer and dealer comparison will hold true for all situations, these statistical trends are important.

21 Luxury manufacturers were defined for our analyses as Cadillac, BMW, Jaguar, Land Rover, Lexus, Mercedes-Benz, Porsche, Acura, Audi, Infiniti, Lincoln/Mercury, Saab, Volvo. Non-luxury manufacturers were defined as Buick, Chevrolet, Chrysler-Plymouth, Dodge, Ford, GMC Light Truck, Honda, Hyundai, Isuzu, Jeep, Kia, Mazda, Mitsubishi, Nissan, Oldsmobile, Pontiac, Saturn, Subaru, Suzuki, Toyota, Volkswagen. Dealers were assigned as luxury or non-luxury based on their self-report of the brands (franchises) they sell, and then placed in the same categories as the manufacturers. The only exceptions were Lincoln/Mercury and Cadillac, which were placed in the luxury category only if the franchise was a standalone franchise or if it was paired with another luxury franchise.

22 With a sample such as this, a difference of one-half scale point will typically be statistically very significant.

Dealerships Today

What does the average dealership of today look like? To answer this question we turn to the results of our mail survey of 775 dealer respondents from a stratified random sample of 4,000 dealers throughout the United States. These respondents offer a detailed view of dealerships today, and agree reasonably with the NADA profile of the average dealership, where such comparisons are possible.

Our average non-luxury dealership has been selling its lead franchise[23] for 22 years, while the average luxury dealer has been selling its lead franchise for 25 years. The average dealer has just under two stores, with just about two franchises per store, for an average of 3.5 franchises. Dealerships tend to be located in areas with high levels of dealer competition. The average number of new car dealerships within the sales territory is 29, though the median is 14. There are nearly four other new car dealerships within the sales territory that sell its lead franchise.

Median sales at these stores numbered about 460 new vehicles and 400 used vehicles in 1997, similar to NADA reports.[24] Seventy-seven percent of non-luxury vehicle sales come from the lead non-luxury franchise and 51 percent of luxury vehicles sales come from the lead luxury franchise. The dealership has about 157 vehicles in inventory and about 77 percent of its new vehicle sales come from that inventory, similar to reports from interviewees. The repeat sales rate for the dealership and lead franchise is 52 percent. Stores average about 45 employees, with roughly 30 percent working in sales, 50 percent in service, and 20 percent in administration.

In terms of net profit based on return on sales, about one-third of the responding dealers are below 1.5 percent and about two-thirds are at or above 1.5 percent net profit. NADA data estimates the average net profit per dealership in 1997 at 1.4 percent, and in 1998 at 1.7 percent.

When we group dealerships into the traditional NADA categories of annual new vehicle sales, we find a clear relationship between sales volumes and profitability levels, as shown in figure 7. The larger the dealership's new vehicle sales, the higher the dealer's reported level of overall profitability. To be sure, dealer profits do not come exclusively from new vehicle sales, but these sales levels generally indicate the dealer's overall scale. Larger dealers may be able to leverage economies of scale in all three major dealer-revenue sources: new vehicle sales, used vehicle sales, and parts/service.

Indeed, when we examine the relationship between dealer profit levels and the sources of those profits, we do find a relationship. Figure 8 reveals that the most profitable dealerships (net profit at or above 1.5 per-

---

23 Throughout this report the lead franchise is synonymous with the dealership's top selling nameplate.

24 Medians describe a skewed distribution better than do means. Since there are more large dealers than small dealers, the median is appropriate here. For comparison with NADA data, the means for our dealers' new and used vehicle sales are about 660 and 510, respectively.

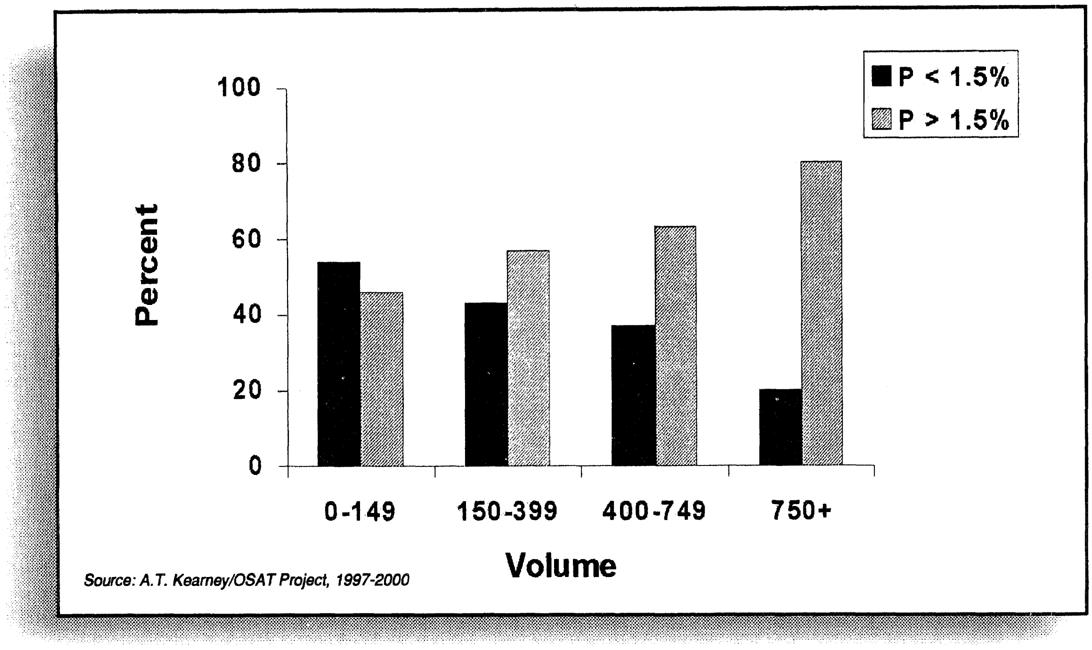


Figure 7: Net Profitability By Volume Of New Vehicle Sales

cent) are fairly balanced across the three largest sources, new vehicle sales, used vehicle sales, and parts and service. Less profitable dealerships (net profit less than 1.5 percent) have a smaller share of their total net profit from new vehicle sales and a larger share from service. Although dealers feel manufacturers have squeezed dealer margins on new vehicle sales, profitable dealers have found ways to draw profits from new vehicle sales, providing some profit balance across their three main departments. However,

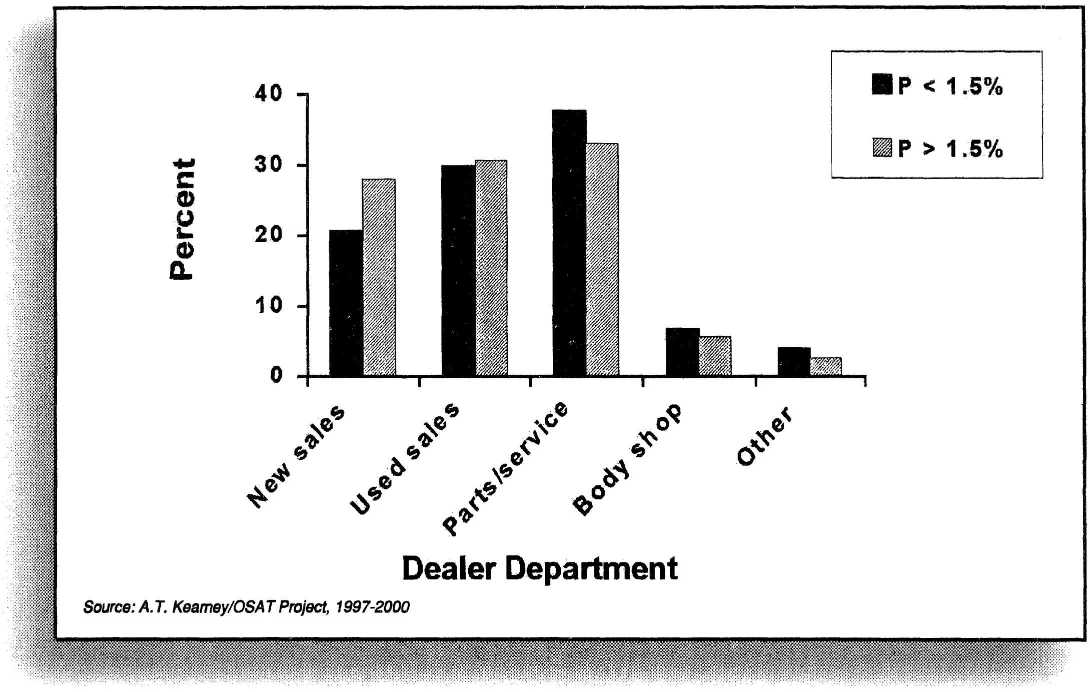


Figure 8: Sources of 1997 Net Profits by Profit Level

when we asked manufacturers and dealers in our survey about the future, both report that service will be more critical than sales to dealership success in the future, although dealers think this more than do manufacturers. In this case, North American manufacturers, relative to all dealers and Japanese and European manufacturers, think service will be less critical to dealership success than sales.[25]

Smaller dealers (those selling less than 150 vehicles a year) traditionally have received less support from the manufacturers, and our survey reveals some of the current and future concerns of these dealers, many located in remote and/or thinly populated regions. In our survey, responding small dealers agree with other dealers and manufacturers in thinking that there will be far fewer dealerships in 2008. They stand out in thinking that their dealership is less of a good investment than other dealers do, and they are also slightly more likely than other dealers to think many dealerships in their area will close by 2008. Because smaller dealers tend to be single-line dealerships, their fate may be in doubt because dealers in general think single-line dealerships are somewhat more likely to disappear by 2008.

In our interviews, we asked both manufacturers and dealers to talk about the advantages of different retail formats. Both groups agree on the advantages of the different retail formats in market competition, as displayed in figures 9 and 10. Both selected quality of relationship as the largest advantage of single-brand outlets and product selection as the greatest advantage of multibrand outlets. Note that the dealer respondents see service and relationship quality as possible advantages of multibrand outlets, while the manufacturer respondents do not.

European manufacturer survey respondents are the most emphatic in their feeling that multiline dealerships are not likely to be the most profitable in the future, while non-European manufacturers and all dealers think multiline dealerships are moderately likely to be the most profitable now and in the future. European manufacturers, who in the United States are primarily luxury manufacturers, tend to emphasize their brand value as a main selling advantage, and anything that detracts from that brand, especially another co-offered brand, is considered poor marketing and a threat to profitability.

---

[25] North American, European, and Japanese manufacturers were classified based on their home base of operations. Dealers were classified into these categories based on their lead franchise.

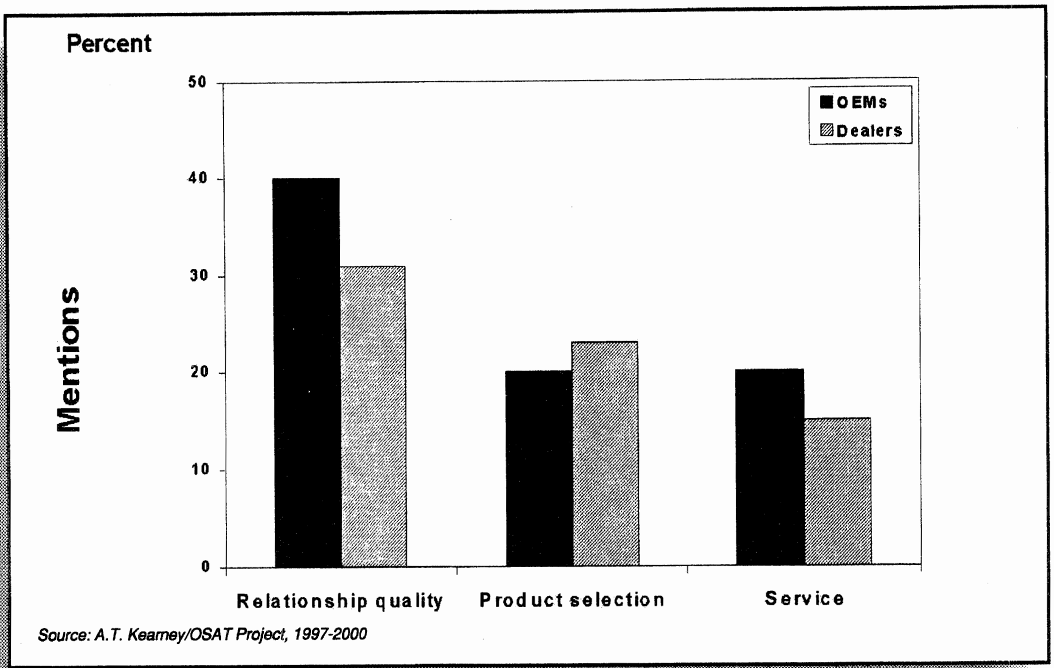


Figure 9: OEM-/Dealer Views: Advantages of Single-Brand Outlets

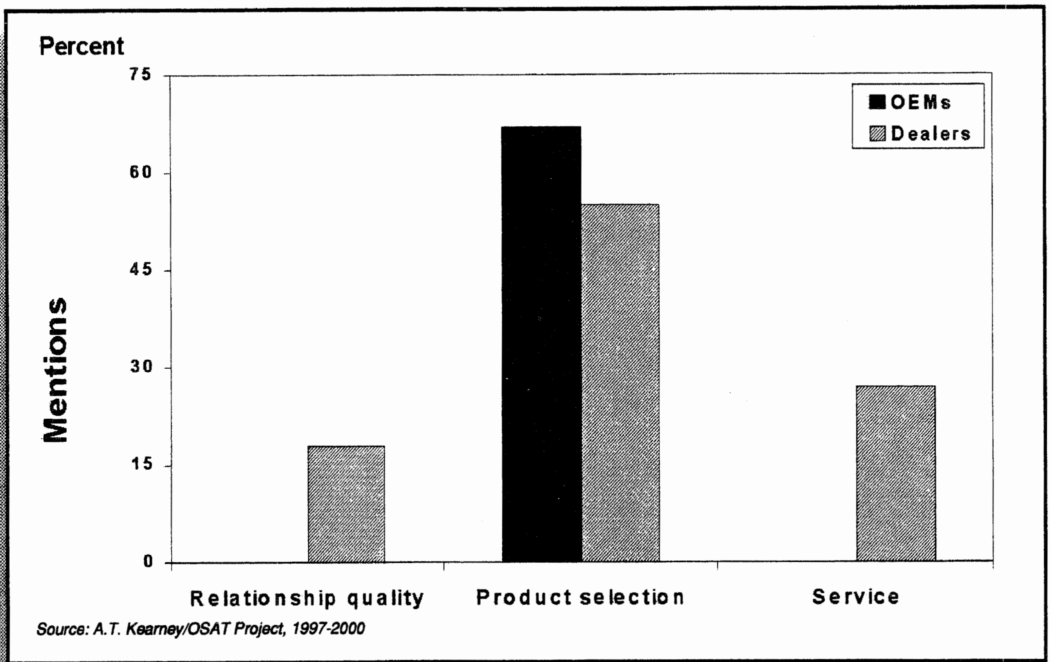


Figure 10: OEM-/Dealer Views: Advantages of Multi-Brand Outlets

As seen in figure 11, dealers report on a number of dealership goals over time from 1988 to 1998 and through to 2008. They see sales volume and profit margin decreasing as the number one dealership goal, overall profit as very high and stable, and a good customer experience increasing dramatically. Manufacturers see a similar pattern for these dealership goals, representing one of the few areas where dealers and manufacturers agree on the basic tenets of the dealer business model.

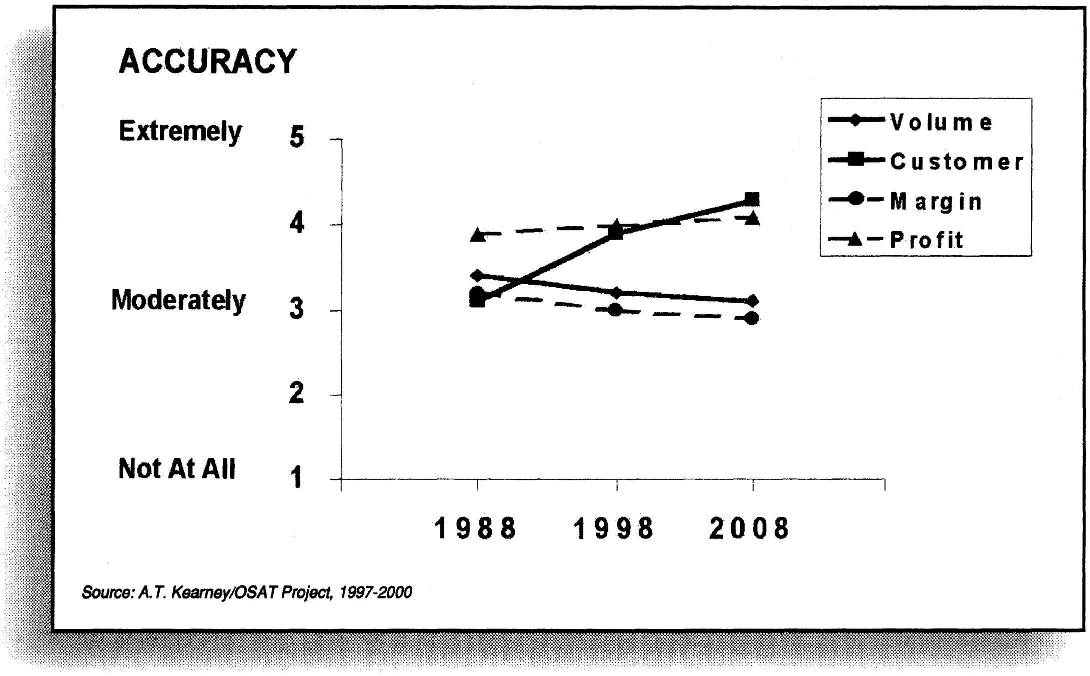


Figure 11: Dealers' Views of #1 Dealership Goals

As shown in figure 12, of all the threats to traditional dealers, both dealers (36 percent of all mentions) and manufacturers (33 percent) report alternative formats such as large publicly traded retail chains and superstores most often. Dealers and manufacturers (both 21 percent) also mention actions by the manufacturer as an important threat. In fact, dealers rate this as their second biggest threat. They give examples of manufacturers seeking to control sales and marketing, entering the retailing side of the business, or just making poor products. Manufacturers see the second biggest threat to dealers as being the dealer's inability to manage change (27 percent), but they acknowledge the fact that excessive manufacturer control or poor products are also a threat to their existing dealers (21 percent). Dealers acknowledge that their own inability to change rapidly and profitably to meet the challenge of the future (12 percent) and competition from other dealers (12 percent) are also threats. It is interesting that dealers do not see the Internet as a threat, but rather as a positive development, consistent with the discussion above.

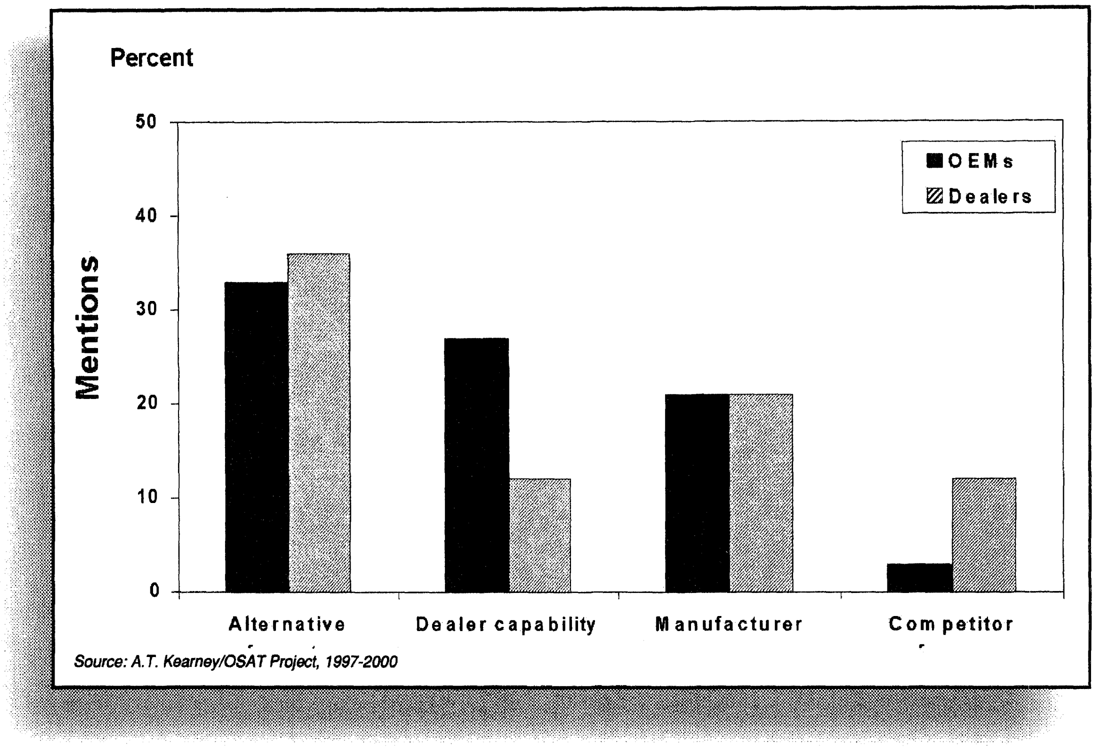


Figure 12: OEM-/Dealer Views: Most Important Threats to Traditional Dealers

Distribution and the Customer

As the geography of choice in the previous section describes general customer competitive and comparative shopping, this section focuses in more detail on manufacturer and dealer views of the customer buying experience and customer preferences.

Who Is the Customer?

Manufacturer and dealer survey respondents have quite different views about the customer's experience in buying a car. For example, the manufacturers, but not the dealers, think the issue of car buying taking too much time is important currently, though they think it will be less important in the future. While figure 13 reveals that both groups believe that the customer sales experience is becoming more positive, dealers think that experience is already much more positive than do the manufacturers, and that the bulk of the relatively little change expected over the two decades has already occurred. Manufacturers expect future improvement, somewhat narrowing the difference in views between the two groups by 2008, but a substantial gap still remains. Luxury and European manufacturer survey respondents both expect higher levels of satisfaction with the sales experience in the future than do non-luxury and non-European manufacturers. So there are important differences in how the groups view today's situation, how that situation developed, and what the future holds for customer evaluations of the sales experience.

Caution must be exercised in making any assessment of the reality of a situation based on the differing perceptions of groups of participants. It is relatively easy in such circumstances to construct arguments that either or both groups' perceptions simply reflect their own self-interested, though possibly unconscious

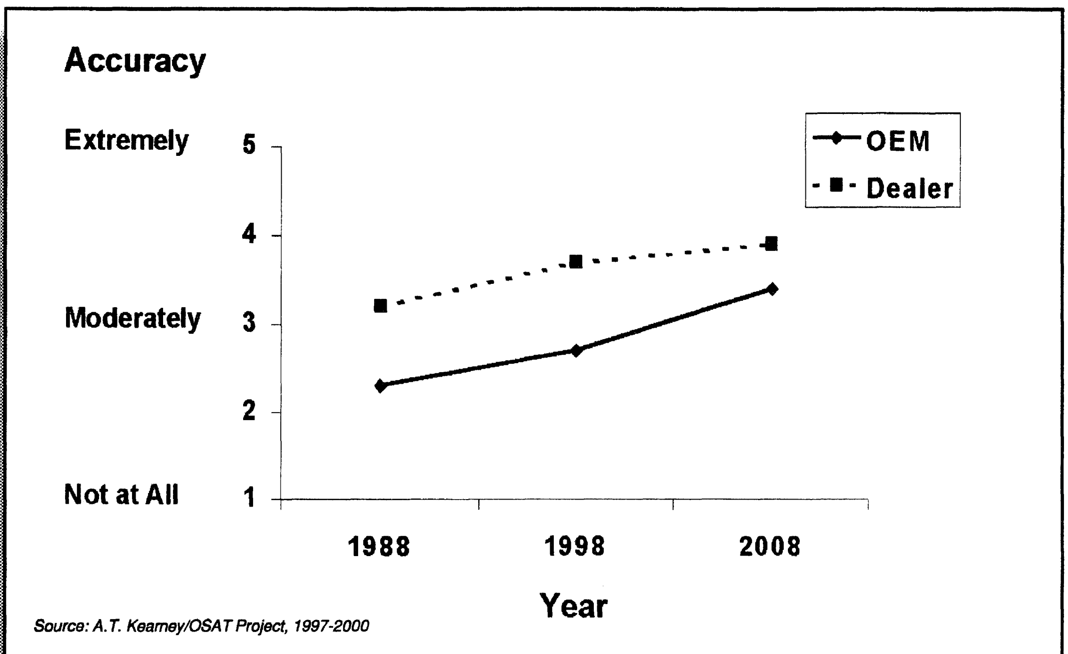


Figure 13: Many Customers Are Positive About Their Dealership Sales Experience

biases. However, the previously mentioned NADA-sponsored Gallup Poll of dealers, consumers, and the media, and the A.T. Kearney survey of car buyers worldwide show that U.S. consumers are more positive about their dealership experience than many, especially the media, think they are.

Underlying this difference in the perception of the overall buying experience are some specific differences between the manufacturers and dealers. For example, how willing are buyers to compromise their preferences and buy from the dealer's stock? Our interviewees report about 75 percent to 85 percent of buyers currently and historically buy from stock, far outnumbering those ordering a specific vehicle.[26] How often does buying from stock require customers to compromise their preferences? And do they do so willingly, or because they have little confidence in the reliability or even the timeliness of the vehicle ordering system?

As figure 14 shows, dealer survey respondents believe that many customers compromise today, but do not believe this has changed much over the past decade, nor do they expect it to change over the next decade. Manufacturer survey respondents more than dealers think that customers compromised their preferences to buy from stock in 1988, while manufacturers and dealers largely agree on the frequency of customer compromises today. However, this consensus appears to be transitory. By 2008, manufacturers more than dealers, especially small dealers, expect that customers will be rather less likely to compromise their preferences to buy from stock.

We suspect that the manufacturers and dealers are both a bit too ready to see the high proportion of stock buys as evidence of a consumer preference, rather than reflecting a possible weakness in the system.

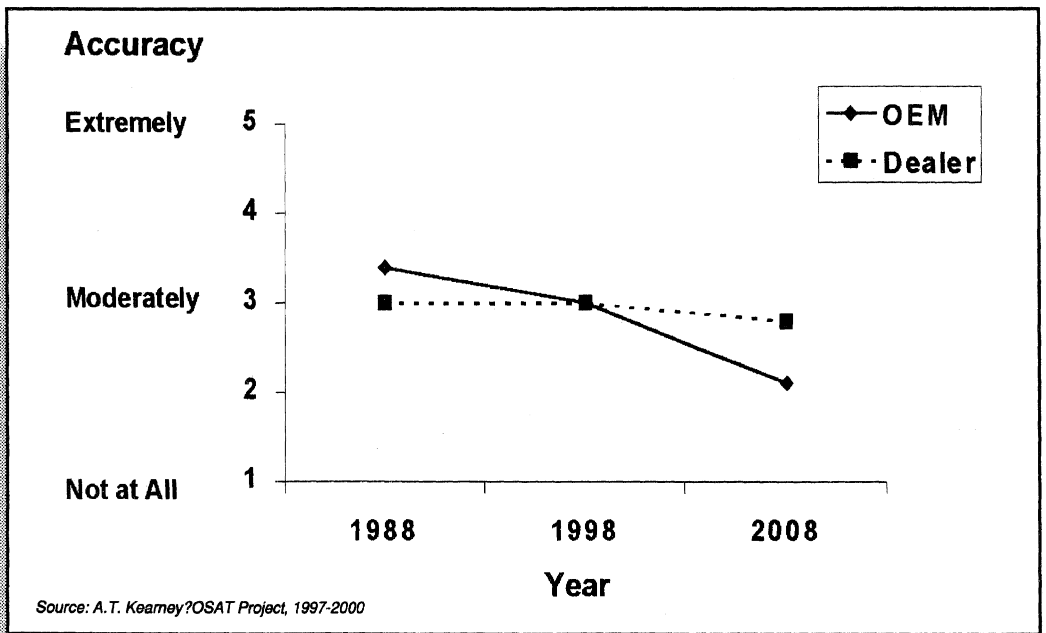


Figure 14: Many Customers Compromise Preferences To Buy From Stock

26 A dealer lacking a particular vehicle may locate it at a competing dealer using a vehicle locator program, and swap a vehicle on his lot for the one the buyer wants. This process does occur, but not very often, based on the responses of our interviewees, who report it occurs about 12 percent of the time, while direct orders from the factory occur about 8 percent of the time.

Dealer and manufacturer respondents in our survey see customers becoming less loyal to a particular dealership and salesperson. The auto industry uses the term *loyalty* to describe customers who repurchase from the same salesperson, dealership, or manufacturer. However, customer loyalty or retention should be considered as the consequence of manufacturer and/or dealer product or processes causing a customer to choose the vehicle or dealership, rather than suggesting that there is something inherently wrong with the buyer who does not purchase from them. In terms of the dealership and salesperson, in the past, present, and future, manufacturers see less loyalty than do dealers, though dealers see a steeper decline in loyalty than do manufacturers. In particular, small dealers (those selling fewer than 150 new vehicles per year) see the steepest decline from the past to the future. In terms of loyalty to the manufacturer, all dealers and manufacturers except European manufacturers see a decrease. Despite improvements in what both groups report as a good buying experience, manufacturers and dealers both see customers as less loyal, again defining loyalty as repurchasing.

Another major issue in the buying process centers on the role of negotiation. Again, dealer survey respondents, especially small dealers, anticipate little change in customer preferences, here specifically in regard to customer preference for negotiating the price of the new vehicle rather than a one-price option. As figure 15 displays, dealers believe customers prefer negotiating to one-price retailing. Manufacturers are less persuaded that this was ever the case, see this preference for negotiating as already fading, and expect by 2008 that customers will no longer prefer negotiating to one-price retailing. European manufacturers expect the most dramatic shift away from negotiating, while Japanese manufacturers anticipate somewhat smaller shifts away from negotiating relative to North American manufacturers.

Manufacturers dislike anything that detracts from a positive customer experience. Negotiating the price can be such a negative, distracting the customer's attention from the product and focusing it on the transaction and the price. In addition, one-price retailing gives the manufacturer control of the crucial term of the

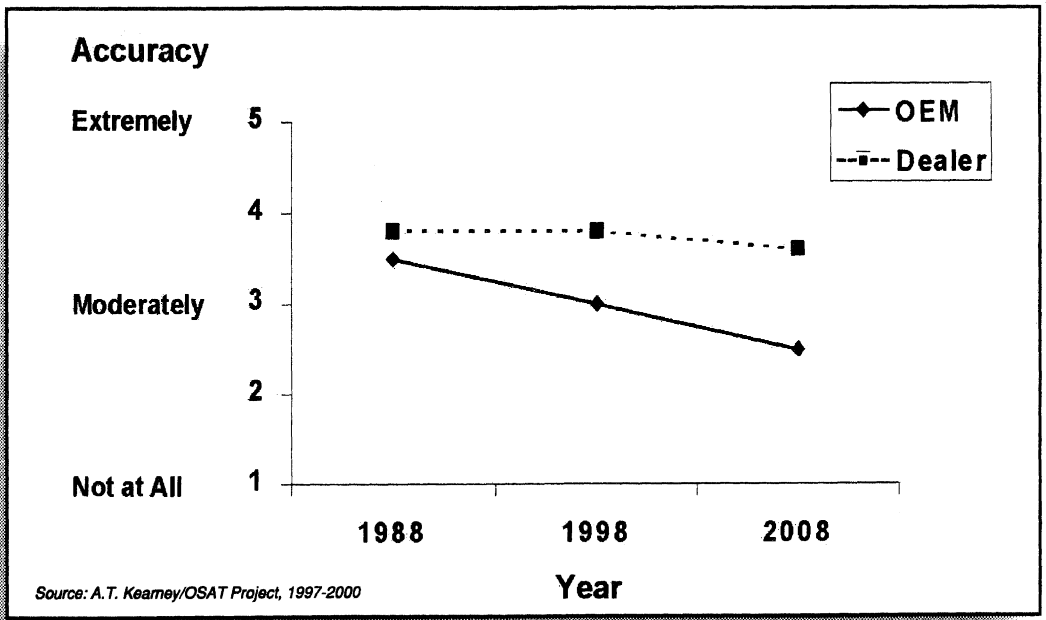


Figure 15: Customers Prefer Negotiating Rather Than One-Price Retailing

buying process–the price of the vehicle. After all, discounting by the dealer can damage a brand image strategy as much as manufacturer rebates and incentives can. These are important disconnects between the manufacturers and dealers, and highlight the importance of one's assumptions about who knows the customer better.

Why Does the Customer Buy?

Having excellent vehicles is essential, but this is no longer sufficient for differentiation in a crowded marketplace, according to some of our dealer interviewees. As manufacturers improve the speed of new-product development and stretch vehicle platforms to create more models that compete in many segments, it is becoming more difficult to create models with unique brand positions.

We asked our interviewees to identify the primary needs and desires of consumers. They identified factors or vehicle attributes for which they thought consumers would be willing to pay more. The comparison of results for the manufacturer and dealer groups is quite interesting. Manufacturers most frequently mention distinctive product features (47 percent), while this ranks second among the dealers (21 percent). Dealers most often mention sales and service convenience (29 percent), and manufacturers rate this second (24 percent). Analysts mention sales and service convenience as being important, but more often discuss durability, quality, and reliability of the vehicle. Both dealers and manufacturers mention vehicle safety as a factor that buyers would be willing to pay more for, while analysts do not.

We asked a similar question to capture interviewees' estimates of the attributes for which customers feel they already pay too much. The responses of dealers and manufacturers reveal one distinctly diverging view: Manufacturers (38 percent) more often than dealers (11 percent) mention service and parts as being a feature for which consumers feel they already overpay. This hints at increasing cost pressure on dealerships, as sales and service have increased in importance as a profit source.

Dealer and manufacturer interviewees have quite different views of whether a customer buys a vehicle more on the basis of the maker/brand or the dealership, as shown in figure 16. Over half of the dealers think that the brand and the dealership have equal weight in the buying decision, while about one-third think that customers buy more because of the brand than the dealer. In contrast, almost three-fourths of the manufacturers think the brand is more important to the buyer than is the dealer, and less than one-quarter think the brand and the dealer are equally important in the buying decision.

Manufacturer and dealer survey respondents largely agree on the importance of product characteristics in consumers' purchase decisions, much like the interviewees. In fact, of the nine vehicle factors we queried about, there are just two differences. Manufacturers and dealers agree on the greater importance of quality, styling/design, performance, brand image, purchase price, and size or space, and the lesser importance of fuel economy and operating costs. There are some small differences in their views, as manufacturers do see their own quality reputation and the vehicle's resale value as a bit more important to customers than do the dealers.

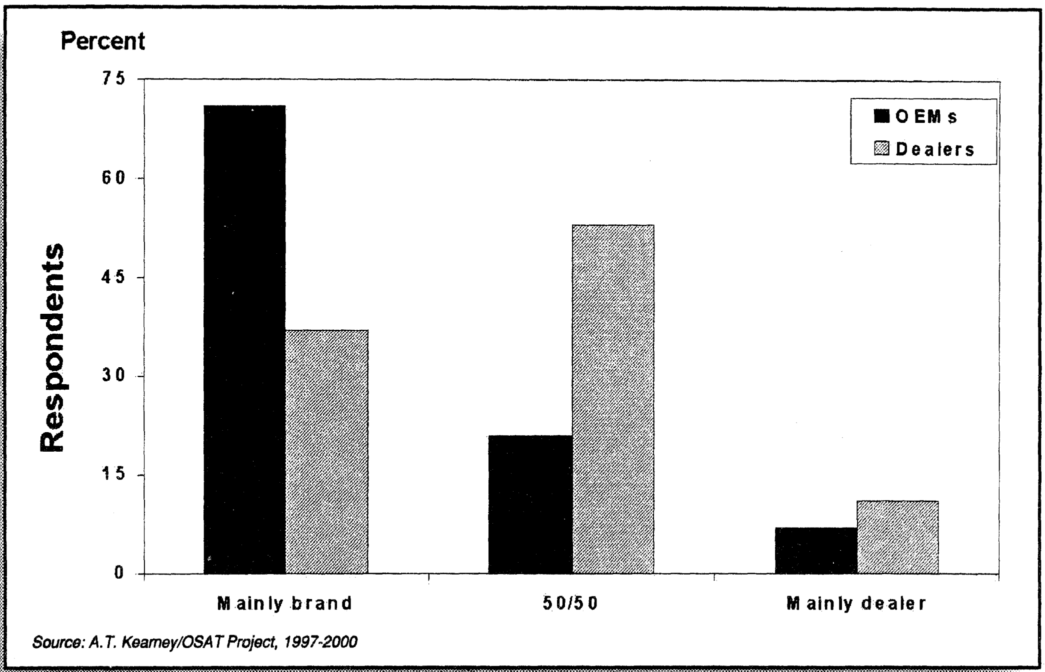


Figure 16: OEM-Dealer Disconnects-Why Does the Customer Buy?

However, there are major and significant disconnects in their views on the importance of dealer and dealership attributes in the purchase decision. Dealer survey respondents believe that dealer reputation, the customer sales experience, service experience, and a large selection of vehicles to consider are more important to the customer than do the manufacturers. So dealers and manufacturers largely agree on what customers look for in a vehicle, but they disagree on the importance of the dealer and dealership attributes in the customer's purchase decision. This fundamental difference in outlook can lead to frequent and sharp disagreement in identifying problems and effective solutions. Increasing sales, share, and customer retention are just three areas where manufacturers and dealers might well disagree in light of their differing views of the six factors in the customer purchase decision.

However, if we look more closely at the breakouts of country of origin and luxury/non-luxury respondents, we do see some instances of closer agreement between manufacturers and dealers. European manufacturers and European dealers as well as luxury manufacturers, luxury dealers and non-luxury manufacturers tend to agree with each other on the important factors in the purchase decision: brand image, manufacturer quality reputation, and vehicle quality. However, non-luxury dealers rate dealer reputation, vehicle quality, purchase price, and service experience as the most important factors. These non-luxury dealers account for the vast majority of sales, and their views need to be addressed if this disconnect is to be resolved.

Advertising

The challenge of determining who manages the customer will, we suspect, remain a source of continuing friction between the manufacturers and the dealers, and one that relates to a series of important disconnects. In this section, we focus on the effects of advertising on the customer and how that advertising impacts the relationship between all three parties: manufacturers, dealers, and customers.

As figure 17 indicates, manufacturer survey respondents believe that the power of national advertising to generate showroom traffic has declined over the past ten years, and will continue to do so in the future.

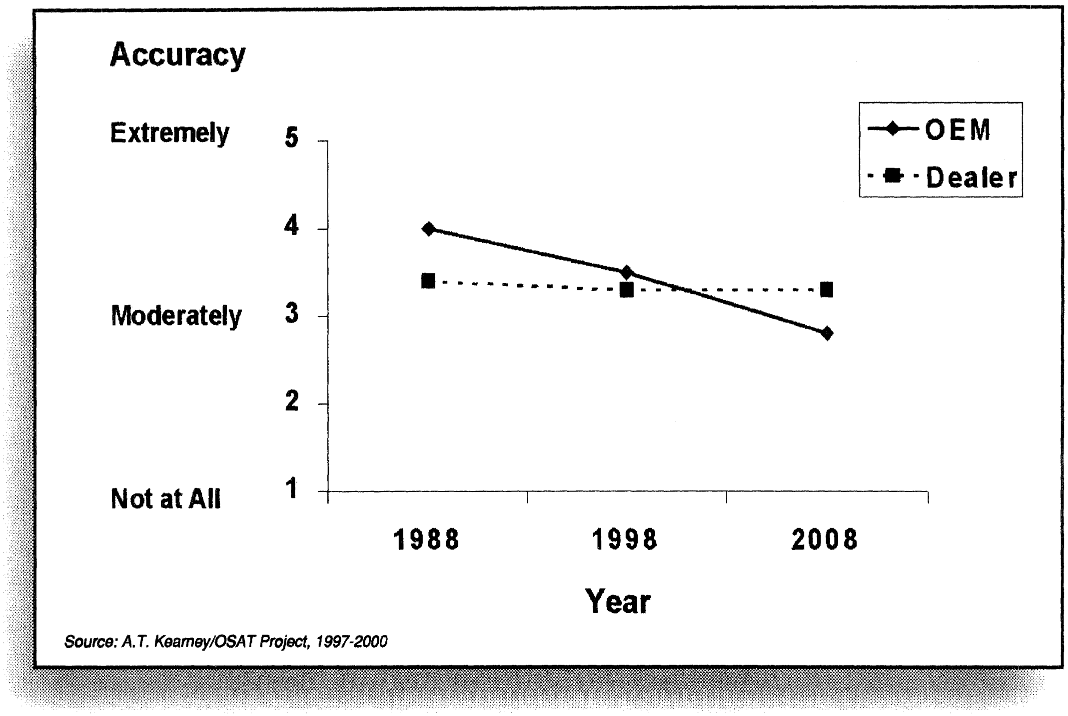


Figure 17: National Advertising Increases Showroom Traffic

Dealer survey respondents, in contrast, believe that its power to generate traffic has changed little, and will not change much in the future. Note that manufacturers believe in the past efficacy of national ads more than do dealers, but that manufacturers believe national ads will be less effective than do dealers in the future. In light of these differing views, it would not be surprising to find escalating dealer-manufacturer disagreements about the appropriate levels of national advertising.

However, both the manufacturer and dealer survey respondents expect that in the future national and local advertising will be better coordinated to develop a product's brand image, as shown in figure 18. However, here again there is a disconnect, as manufacturers anticipate much more coordination in the future than do dealers. These different views on the functions of advertising perhaps reflect a manufacturer expectation that the focus of advertising will shift from generating showroom traffic to building the brand identity.

Management of the brand has always been seen as important to the success of luxury marques, such as Mercedes and Cadillac, but the application of this approach to leveraging the qualities of non-luxury marques is more recent. This is probably driven by the need to differentiate them in an increasingly crowded, competitive marketplace. The next decade will witness all the major manufacturers testing whether this strategy will sell more vehicles.

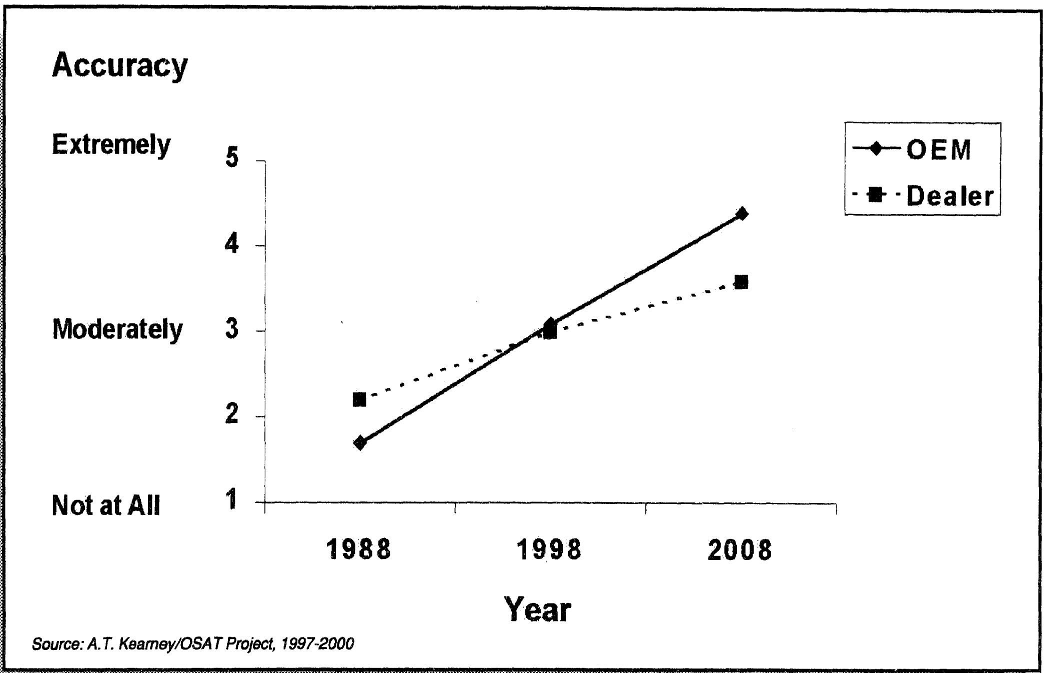


Figure 18: National And Local Advertising Art Coordinated To Reinforce Brand Image

Both groups believe that Internet advertising will be an important driver of showroom traffic in the future, as displayed in figure 19, although the manufacturers may see the Internet as offering slightly more benefits than do the dealers. Indeed, we suspect that the manufacturers see this technology replacing national advertising as a main driver of showroom traffic, while perhaps supporting more direct manufacturer contact with the customer.

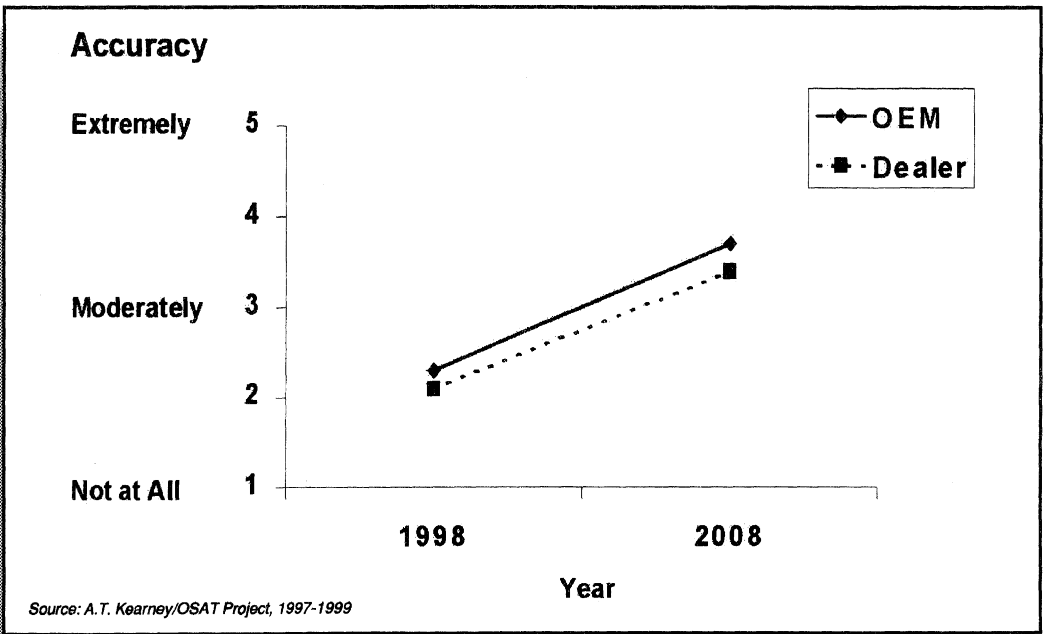


Figure 19: Internet Advertising Increases Showroom Traffic

Considering the advances that have taken place in computer and Internet usage over the past ten years, the next decade could bring dramatic change not only to the automotive industry, but to the rest of the economy as well. A recent estimate suggests about 33 million (of 110 million) U.S. households are connected to the Internet, and another 10 million people can connect outside their homes.[27] The potential for expanding the Internet customer base is huge. Effective use of the Internet for communication, sharing information, and even training in the dealership might well alter the business model for the dealer of 2008.

The manufacturers see the Internet as an opportunity to present a unified, coherent image of their products and their dealers to potential buyers. All groups of survey respondents expect the increased use of Internet advertising to drive showroom traffic, more people preferring to shop for vehicles electronically, and customers browsing the Internet gathering information before visiting a dealer. However, the different groups are not in agreement about the Internet's impact on relationships with customers. Neither manufacturers nor dealers are fully persuaded the Internet makes it, or will make it, easier to establish relationships with customers. However, manufacturers think it much more likely than do dealers. From the manufacturer side, European and luxury manufacturers see this as much more likely than non-European and non-luxury manufacturers. The manufacturers in this case may be considering the Internet as a vehicle for more direct contact with individual customers than in the past, offering two-way communication in a way never before available.

Changing Importance of Purchase Criteria

As the industry enters the next millennium, it is reasonable to ask whether any substantial shifts are likely in the market. One way to explore this possibility is to ask whether the criteria customers use in deciding to purchase a vehicle are likely to shift. We asked our survey respondents to identify the three criteria from a list of 18 that they feel are the most likely to increase in importance through 2008, and then to identify the three that are the most likely to decrease in importance over the same time period. We assigned scores to the order of choice and normalized them so that 1.0 represents the score associated with random choice.[28]

Respondents identify four factors that are especially likely to increase in importance: dealer reputation (3.4); service experience and convenience (2.4); sales experience and convenience (2.2); and brand image (1.5).[29] Dealers and manufacturers agree on the changing importance of sales experience and convenience. However, they substantially disagree on the remaining three factors.

---

27 James Niccolai, "Internet Population Continues to Grow." *PC World.* 11 December 1998: 1. Online. Available: http://www.pcworld.com/cgi-bin/pcwtoday?ID=9009. 17 August 1999

28 We assigned values based on the order of mention, giving three points for first mention, two points for second, and one for third, for a total of six points. We cumulated all responses. We assume that if there is little consensus among respondents, and none of these factors is likely to change to any great degree, the scores will indeed approximate such a random outcome. If respondents simply randomly chose factors, the factor scores would be right at 0.33. Actual scores for this combined frequency and intensity scale of increasing importance ranged from 0.02 to 1.11. We normalized the scores so that 1.00 represents the random-choice score. We discuss those factors with scores approximating 1.50, or 1.5 times the random-choice value.

29 Respondents rate all of these factors as currently quite important in purchasing a vehicle. We include brand image because, at 1.5, it is just below our selection criterion, and because of the substantial disagreement it occasions between dealers and manufacturers.

The manufacturers attach little changing importance to dealer reputation and to service, rating these at 1.0 and 1.2 respectively. For dealers, these factors will become much more important, with ratings of 3.5 and 2.5. These differences about the future parallel the contrasting views between manufacturers and dealers about the role of the dealer in today's purchase decision. The sharp disagreement over dealer reputation is perhaps particularly troubling since so much positive dealer emphasis and negative manufacturer rhetoric surrounds this dealer image factor. On the other hand, there is equally sharp disagreement over the changing importance of brand image. Manufacturers rate brand image at 4.0, while dealers rate it much lower, at 1.4. These contrasting views are displayed in table 2.

Table 2

The Increasing Importance of Product and Dealer Images In The Customer's Purchase Decision

(1.0 = no increase)

	Manufacturer	Dealer
Dealer Reputation	1.0	3.5
Brand Image	4.0	1.4

These starkly contrasting views on the changing future importance of dealer reputation and brand image in the purchase decision suggest continuing difficulty in coordinating the specifics of sales efforts targeted at customers. However appropriate it may be to work on both images, and even for dealers and manufacturers to emphasize them differently, such efforts will require coordination. Such disagreements are likely to undermine the mutual support and respect that characterize productive relationships. The bottom line is that dealers and manufacturers do not agree on how purchase decisions will change in the future, and thus on what they must do to sell more vehicles.

We again find differing views among different subgroups of manufacturer and dealer survey respondents. Here luxury and non-luxury respondents disagree on the changing importance of dealer reputation and brand image, with luxury participants expecting the importance of dealer reputation (2.8) to change somewhat less than do non-luxury respondents (3.5), while non-luxury respondents (1.3) see the importance of brand image changing less than do luxury participants (2.4). Perhaps non-luxury participants see a world of commodity products where the retail source may be a more promising basis for differentiation than the product itself.

A vehicle manufacturer's country of origin influences its U.S. marketing executives' and its dealers' views on the increasing importance of dealer reputation, service, and brand image as purchase criteria. North American vehicle manufacturers and dealers rate dealer reputation (3.6) as likely to increase more in importance than do either Japanese (2.6) or European (1.6) industry participants. This rank order reverses for the increasing importance of brand image, with a North American rating of 1.2, well below the Japanese rating of 2.4 and far below the European rating of 3.4. North American vehicle manufacturers and dealers rate customer service experience and convenience (2.6) as likely to increase more in importance than do either the Japanese (1.9) or the Europeans (1.4).

These results, displayed in table 3, suggest that these executives and primary dealers see quite distinct trends developing in their customer bases. What is becoming more important to the future customer of one franchise is increasingly different from what is important to customers of a franchise with vehicles from a different country of origin. Since so many dealers have franchises from two or even all three origins, their businesses could become quite complex indeed, as they try to balance the conflicting demands of different customers and the contrary pressures from different manufacturers.

Table 3

The Dealer's View of the Increasing Importance of Product and Dealer Image In The Customer's Purchase Decision

(1.0 = no increase)

	North American Dealers	Japanese Dealers	European Dealers
Dealer Reputation	3.6	2.6	1.6
Brand Image	1.2	2.4	3.4
Service Experience	2.6	1.9	1.3

These differences in the views of the increasing importance of purchasing criteria are not simply extensions of today's views. Thus, luxury and non-luxury participants hold similar views on the current importance of dealer reputation, so their differing views of its increasing future importance suggests these two markets will diverge. Differences by country of origin exacerbate current differences in the attributed importance of brand image as a purchase factor rather than simply extending them. Indeed, when we examine both origin and dealer/manufacturer role, the more important a group thinks brand image is today, the more the group thinks it will increase in importance over the next decade. And that means that the differing views held by these groups today will become even more divergent tomorrow. It is important to identify where differences in groups' views are useful or appropriate, perhaps reflecting market realities or strategic decisions, and where they are counterproductive, perhaps undermining cooperative efforts.

Dealers and manufacturers also identify purchasing criteria that are especially likely to decrease in importance through the year 2008. We again assigned scores to the order of choice and normalized them so that 1.0 represents the score associated with random choice.[30] The four purchase criteria that are declining the most in importance are large selection of vehicles on hand (2.9), operating costs other than fuel (1.9), fuel economy (1.9), and dealer incentives (1.8).

---

[30] We followed the procedure described in footnote 29, above, again discussing those factors with scores above 1.5, or 1.5 times the random-choice value. Actual scores for this combined frequency and intensity scale of decreasing importance, before normalizing, ranged from 0.07 to 0.97.

Here the various groups of respondents do not differ in their views of the declining importance of the final three factors: operating costs, fuel economy, and dealer incentives. In this case, these estimates seem to be straightforward extensions of today's thinking, since these are rated as the three least important criteria today. Evidently, survey participants see a continuing healthy economy, somewhat muting the importance of secondary cost factors, if not necessarily the vehicle price itself. More specifically, they apparently believe that fuel will continue to be sufficiently affordable that fuel economy will not be a differentiating factor between vehicles.[31]

However, there is some disagreement among participating groups on the decreasing importance of large vehicle inventory at dealerships, a moderately important purchasing criterion today. Manufacturers (5.2) see inventory sharply decreasing in importance, substantially more so than do the dealers (2.9). This is probably related to two issues discussed below. First, the manufacturers are more confident than are dealers that they can manufacture and/or deliver vehicles to customer orders within ten days by 2008. Second, the manufacturers see more customer use of the Internet, and that would allow customers effectively to create a virtual inventory through their own search activity.

Purchase Factor Shifts in the Growth of Light Truck Share

Respondents indicate that four factors are especially important in accounting for the shift of vehicle sales to the light truck segment: styling/design; brand image; performance, including ride and handling; and size/space.[32]

Luxury vehicle survey respondents report a steeper decline in the future importance of large dealer inventories as a purchasing criterion than do nonluxury respondents. It is especially intriguing that European participants (4.7), with their long pipelines, see a much sharper fall in large inventory's importance as a purchasing criterion than do their Japanese or North American counterparts, who are virtually tied slightly below 3.0.[33] We cannot say why this is the case, although it does raise some interesting speculations. European participants see higher internet usage, perhaps providing a virtual inventory. They may also see a future characterized by more accurate forecasts, fewer available vehicle combinations, or vehicle options added after reaching the United States.

---

31 The sudden surge in fuel prices in June 2000, if maintained, might well change these view.

32 Respondents rate the first two factors as quite important currently in purchasing a vehicle, while the other two factors are somewhat less important in the actual purchase decision.

33 The pipeline for the average Japanese vehicle is shorter because so many Japanese vehicles are assembled in North America.

How the Customer Buys

The Geography of Competition

Any business exists in a competitive landscape, usefully defined by the variety and number of competitors present to supply the customer. The more competitors a dealer faces, the more choices the customer has, and, consistent with our earlier analysis, the better the customer's power position. In a more densely populated competitive landscape, businesses challenge each other to offer more value, and customer expectations tend to be higher. Competitive density heightens competitive intensity, and business goals and strategies must reflect this fundamental reality.

Dealers report quite different competitive geographies, depending on some key characteristics of their store and its lead franchise. The primary dealership characteristic related to its competitive geography is its size, measured by the number of new vehicles sold in 1997. The primary lead franchise characteristics related to competitive geography are whether the vehicle is luxury or non-luxury, and the manufacturer's country of origin.

Competitive geography is also related to dealer reports of customers' purchasing behavior, including two important kinds of customer shopping, competitive and comparative. Competitive shopping is selecting a particular vehicle or make among a list of possibilities, while comparative shopping is choosing a specific dealer and/or deal for that vehicle or make. Finally, competitive geography influences the customers' willingness to compromise in order to buy from stock, the length of time they will wait for an ordered vehicle, and the likelihood that they are repeat customers.

To a certain extent, the dealership's competitive geography reflects its rural-urban location. Smaller dealerships, mass-market (that is, non-luxury) franchises, and the older North American vehicle distribution networks are more evenly dispersed geographically, while larger, luxury, and newer Japanese and European franchises tend to concentrate in the more densely populated urban and suburban centers.

Perhaps the most direct indicator of the dealership's competitive landscape is the number of other new vehicle dealerships located in its sales territory. Dealership size is strongly related to the number of competitors that dealers report in their sales territory. Small dealerships, with sales under 150 new vehicles a year, report about 8 other dealerships in their sales territory, while medium small dealers with 150 to 399 sales report 17 competitors. Among larger dealerships, those with 400 to 749 sales identify about 31 competitors, while the largest dealers, with 750 or more sales, estimate 50 competitors.

Lead franchise characteristics are also related to competitive density. Luxury franchises report a much denser geography, with 52 new vehicle dealerships in their territory, compared with about half as many, 24, for non-luxury dealers. Indeed, dealerships selling luxury brands are often located in highly competitive urban and suburban areas and would, therefore, have many competing new car dealerships located in their territory. The country of origin of the lead franchise also strongly influences the competitive landscape, as North American lead franchises estimate they face 23 other new vehicle retailers, Japanese leads, 43, and European leads, 80.

Smaller dealerships are located in competitively less dense territories, as are non-luxury dealerships and North American lead franchises. To be sure, these characteristics are not completely independent, as larger dealerships tend to be in urban areas and sell more luxury and/or premium brands, while smaller dealerships tend to be in less urban areas and sell more non-luxury and North American brands. The important point is that these dealers face differing levels of competition from other new car dealerships in their territories.

Customers looking for a vehicle typically must decide what vehicle to buy, and where to buy it. Purchasing decisions can involve a variety of information searches and activities, but here we look only at shopping, defined as visits to dealerships. We refer to the selection of a vehicle by visiting different brand dealers as competitive shopping, and the selection and visiting of same brand dealerships once the vehicle is chosen as comparative shopping. Our survey reveals some interesting differences in the industry's views of customer shopping behavior as a function of the dealership and lead franchise characteristics, and the related density of competition.

We turn first to look at competitive shopping, keeping in mind that here we look only at dealership visits. Competitive shopping is visiting dealerships of different makes, and is the primary focus of dealership competition from the manufacturer's point of view. And, indeed, assemblers think customers do more competitive shopping, nearly three visits, than do dealers, at somewhat over two visits. These numbers are small, suggesting that customers complete much of the activity of selecting a vehicle outside the shopping framework. Nevertheless, the difference in assembler and dealer views is substantial.

Interestingly, the size of the reporting dealership does not make a difference in dealer views of how many visits customers make to dealers of other franchises. However, the lead franchise does influence dealer views of customers' competitive shopping. Luxury dealers report that customers visit more other-make dealerships (2.6) than do non-luxury dealers (2.3), while North American lead franchises (2.3) and Japanese leads (2.5) report fewer such visits than do European leads (3.0).

When we turn to comparative shopping, or searching for a specific dealership or deal once the make is selected, dealer and assembler views diverge less, and only the Japanese assemblers (2.7) markedly differ from their dealers (1.9) when estimating the number of shopping visits. Dealership size again has little effect on customer shopping behavior, while the lead franchise does. Luxury dealers report that customers visit fewer same-make dealerships (2.0) than do non-luxury dealers (2.2), while North American lead franchises (2.2) report more than do Japanese leads and European leads (2.0).

So dealers report different customer competitive and comparative shopping patterns, depending on their lead franchise. Customers at luxury and European lead franchises take advantage of the greater density of competition to shop more, and especially to shop competitively. On the other hand, mass-market and North American franchise shoppers, in a less dense competitive landscape, visit fewer dealerships, and more closely balance their shopping between competitive and comparative visits.

The lack of differences in customer shopping by size of dealer may seem surprising because the number of other dealerships in the area is so strongly related to dealer size. It probably reflects the fact that customers select dealerships to visit, rather than visiting more dealerships, as the range of choice grows. This makes sense, especially if customers are conscious of the time required for visits. Also of note is the future effect the Internet may have on this stage of the buying process. It may change the time patterns of shoppers, especially those who are shopping for the best price on a particular vehicle.

Though the average number of competitive and comparative visits respectively is small, about two visits each, the combined average of four visits per purchase represents a major shopping experience. Whether or not these visits take place in sequence, this shows dealers think customers shop a great deal. Visiting four dealerships leads to two comments. First, if all buyers visited dealerships, they should have a very good understanding of the differences in the buying process between dealerships. Second, visiting four dealerships is time-consuming, so buyers must feel it is necessary to satisfy their need to come as close as possible to the vehicle they want and/or receive the best price on that vehicle. Further study of the buying process of the consumer could shed more light on why buyers shop as much as they do, and how an electronic interface, such as the Internet, does or will affect this behavior.

The Geography of Customer Choice

If density influences the shopping patterns of customers, it probably also influences the decisions and choices that customers are willing to make. An important business consideration for dealers is the length of time that customers are willing to wait for a preferred vehicle. Here again we find some difference between manufacturers and dealers, with manufacturers estimating the tolerable wait at 23 days, while dealers believe it to be a much shorter 16 days.

The larger the dealership, and therefore the more dense the competitive landscape, the less willing are customers to wait for their preferred vehicle. Small dealerships estimate that their customers will wait 25 days, while small-medium dealerships estimate 19 days. Medium-large dealerships report 13 days, and the very largest, 11 days. Large dealerships tend to be in highly competitive urban and suburban areas, so customers can more readily go to another store if the first one cannot fulfill their request. Dense markets are buyer's markets, more so than less dense ones.

Dealers believe customers are willing to wait a bit longer at dealerships with lead franchises that are luxury vehicles (19 days) than for lead franchises that are non-luxury vehicles (16 days), for European lead brands (20 days) than for North American (16 days) or for Japanese lead brands (12 days). The difference in manufacturer and dealer views of the customer's willingness to wait extends to these market segments as well. In particular, the OEMs believe that customers at luxury lead franchises will wait longer (33 days) than do dealers (19 days). It is especially striking that European manufacturers report a much longer willing-to-wait period (51 days) than do their dealers (20 days), since European participants typically reveal less disagreement than their Japanese or North American counterparts.

As discussed elsewhere in this report, these estimated waiting times are typically less than the actual waiting time required to order a vehicle. So it makes sense to ask how willing customers are to compromise their preferences to buy from stock. As of 1998, dealers and assemblers agree that it is moderately accurate to say that customers will usually compromise their preferences to buy from stock. However, OEMs believe that customers will be less likely to compromise in the future than do dealers.[34]

Dealer estimates of customer willingness to compromise today is a direct function of dealership size: the larger the dealership, the more willing the customer is to compromise. This probably reflects the larger inventory characteristic of larger dealers, making customer compromises smaller in degree. But it probably also suggests that customers in denser competitive environments will select dealers where the compromise will indeed be minimal.

Somewhat surprisingly, dealers' beliefs about the willingness of today's customer to compromise do not depend on whether their lead franchise is luxury or non-luxury, although mass-market (that is, non-luxury) dealers expect more willingness in the future than do luxury dealers. On the other hand, there are large differences in these views among dealers with lead franchises of differing origins. Dealerships with European lead franchises believe that customers are much more willing to compromise (3.7) than do North American leads (3.2) or Japanese leads (2.6).

Finally, how do dealerships with differing characteristics and geographies report customer tendencies to buy from them again? We asked respondents to estimate the percentage of their customers who are repeat buyers. While manufacturers and dealers show no difference in their overall estimates, size of dealership is again important. Smaller dealerships report the largest percentage of sales to returning customers (63 percent), followed by small-medium (55 percent), medium-large (52 percent), and large dealers (44 percent). This is in line with the assumptions about competitive geography—that competition is fiercest where there are many dealerships. Smaller dealerships are located in competitively less dense areas, and are thus more likely to experience repeat customers.

It is interesting to note that whether the lead franchise is luxury does not affect the likelihood that buyers are repeat purchasers. This suggests that customer satisfaction is not the only critical factor. Recall that luxury lead franchises report that customers make more competitive but fewer comparative shopping visits than non-luxury leads report. The relatively restricted lineup of vehicles within a luxury brand probably encourages some switching between dealerships by the customer, regardless of the level of customer satisfaction.

Dealers with different origin lead brands report differing repeat buyer levels. North American (53 percent) and European (53 percent) lead franchise stores estimate higher sales to returning customers than do Japanese leads (46 percent). The lower rate for Japanese brands may reflect their lower participation in the light truck market, again restricting their customers' choices.

Dealers report different shopping patterns, decisions, and repeat buying depending on characteristics of the store and the lead franchise. Many of these differences are consistent with a view that stresses that the competitive geography for the dealerships and the choice geography of the customers are indeed different.

---

[34] This question asked for estimates across three time periods, on a five-point scale, but the focus of the discussion is on the 1998 response. The general trends across time are discussed later in the report.

It may be important to establish metrics of dealership performance that reflect these differences in "geography," rather than relying on those that are assumed to be neutral, but may in fact be biased. For example, more product choice exists within both North American and non-luxury brands, so repeat buys might be expected to be higher.

The Sales Process

The sales process is an important basis of competition among dealerships. According to one interviewee, dealerships in the past competed with one another on product knowledge. But the ready availability of automotive publications and the Internet now makes it possible for the consumer to be better informed than the salesperson on a specific vehicle. A few dealer interviewees suggested that training the sales staff on product knowledge and computer competency will increase. Both dealer and manufacturer interviewees (39 percent of each group) agree that the sales agent's role will change in the future to become more a purchase advisor in the sales process and a consultant to the customer. Both groups also see the future salesperson as a product expert (dealer mentions, 23 percent; manufacturer mentions, 19 percent) and relationship manager (dealer mentions, 19 percent; manufacturer mentions, 23 percent).

Though loyalty to the salesperson is seen as declining, dealer survey respondents report lower turnover of sales personnel than do the manufacturers, although both groups expect it to decrease in the future. Manufacturers and dealers think salespeople will improve their knowledge of the product, but dealers think this is more likely than do manufacturers. European dealers and manufacturers think this is more likely than do non-European dealers and manufacturers. Manufacturers and dealers also think salespeople will improve their knowledge of the customer, with European manufacturers having the highest expectations. Small dealers, compared with all other dealers, see a slight decrease in salespeoples' knowledge of the customer, although from a high rating of past and current knowledge. Both manufacturers and dealers believe customers will have information on dealer costs, and both groups think customers will have more information than salespeople on both product and price. The dealers face major challenges in hiring, training, and retaining a highly qualified sales staff.

Finally, Internet shopping will certainly play an important role in how customers will purchase vehicles in the future. Although 40 percent of buyers used the Internet to gather information before their purchase in 1999, that number is predicted to reach 80 percent by 2003.[35] Both manufacturers and dealers in our survey see the increased use of Internet advertising to drive showroom traffic, more people preferring to shop for vehicles electronically, and more customers gathering information on the Internet before visiting a dealer. However, European and luxury manufacturers and dealers anticipate slightly more impact of the Internet than do non-European and non-luxury manufacturers and dealers. This probably reflects the higher income and education levels of purchasers of these cars and Internet users.

The Internet buyer will drive farther than the traditional buyer to purchase a vehicle, especially if purchasing a used vehicle. Over 90 percent of traditional customers buy from dealerships within 10 miles of their home. However, according to data gathered from AutoNation stores in 1999, Internet shoppers will buy

[35] Chris Denove, Ibid.

much farther from home, with fewer than 40 percent buying within 10 miles of home and 12 percent traveling over 50 miles to purchase a vehicle.[36] This has serious implications for dealerships because it suggests their competitive geography is expanding, making their task of knowing their customers more challenging.

As a medium to transact the purchase of a new vehicle, the Internet is in its infancy, with sales transactions primarily taking place at the dealership; nonetheless, one must not underestimate these early trends because both the manufacturers and the dealers are just beginning to put effort into their online ambitions. Both manufacturer and dealer survey respondents are uncertain that many customers will buy over the Internet by 2008, though smaller dealers see this as less likely than all other dealers, and European manufacturers see it as more likely than North American and Japanese manufacturers. This result is related indirectly to whether manufacturers will sell directly to the public. On this issue European manufacturers more than non-European manufacturers, and luxury manufacturers more than non-luxury manufacturers actually see the possibility of manufacturers selling directly to the public. On the other hand, in our interviews, the manufacturers generally reported that vehicles will still be delivered through dealers in ten years, although the manufacturers expected to help customers with their own Internet portals.

These results raise a question: "Where is the power of the Internet?" These dealers and manufacturers are cautious about the Internet. This may reflect the timing of the survey, or the ambivalence of groups facing major change in the automotive retail landscape. Perhaps they feel that there is something lacking in the Internet buying process that makes manufacturers and dealers uncertain about its potential, such as the need of consumers to touch and feel a vehicle before purchase.

It is likely that multiple models for vehicle retailing will exist in the future. Some buyers will still want to negotiate at the dealership; others will prefer one-price selling at the dealership or the Internet; some will use the Internet for negotiating and buying a vehicle. The art of the deal for any salesperson in the future may be, as it is now, to leave the buyer feeling well advised and fairly treated while the dealership makes a profit.

---

[36] Mike McFall, Ibid. Results based on data gathered from AutoNation stores during 1999.

The Manufacturer-Dealer Relationship

Throughout this report we have noted a number of differences in the views of manufacturers and dealers. In this section we look at two major areas of contention: manufacturers bypassing dealers to target customers directly, and the effectiveness of communication between the two parties. This section also covers the differing views of manufacturers and dealers about the dealers' business efforts.

Manufacturer-Dealer Relations

It is not surprising that dealers and manufacturers hold similar views on a number of automotive retail issues since they share many common experiences and developments. On the other hand, neither should it be surprising that their views often differ, considering their different situations, interests, and roles in the retail system. The critical issue is whether these differences lead to suboptimal behavior and amplify the problems and costs of the system.

The areas and extent of consensus and disagreement between manufacturers and dealers are important. These views condition their ability to work together to resolve challenges. To the extent that dealers and manufacturers share the same expectations and vision of the future, they can more effectively work together to accomplish the transition to that future. In a sense, shared perceptions can become a source of cooperation. If, on the other hand, there are serious differences in their expectations or hopes, then these differences can undercut common change efforts, making these transitions more painful and costly than they need be. Also, if communications are poor, it will make transitions very difficult.

Manufacturer and dealer survey respondents share a number of views about the customer's vehicle-purchase decision, as already discussed. Both groups are also moderately confident that leasing will increase and that the manufacturer's customer-financing efforts will continue to support sales effectively. Interestingly, dealers and manufacturers share uncertainty about how dominant superstores may become in the future.

All groups of dealers and manufacturers, especially luxury manufacturers, believe there has been a major surge over the past decade in manufacturers bypassing dealers and directly targeting customers, as figure 20 indicates. Moreover, they both expect this practice to increase through 2008. Of course, these results do not mean dealers endorse or approve of this development; it merely means they expect it. The consensus is more about what will be than about what should be.

These results are intriguing. An important issue underlying some of the tension between dealers and manufacturers is the disagreement about whether the dealer or the manufacturer "owns" the customer, and should therefore have primary responsibility for managing the relationship with the vehicle buyer. This

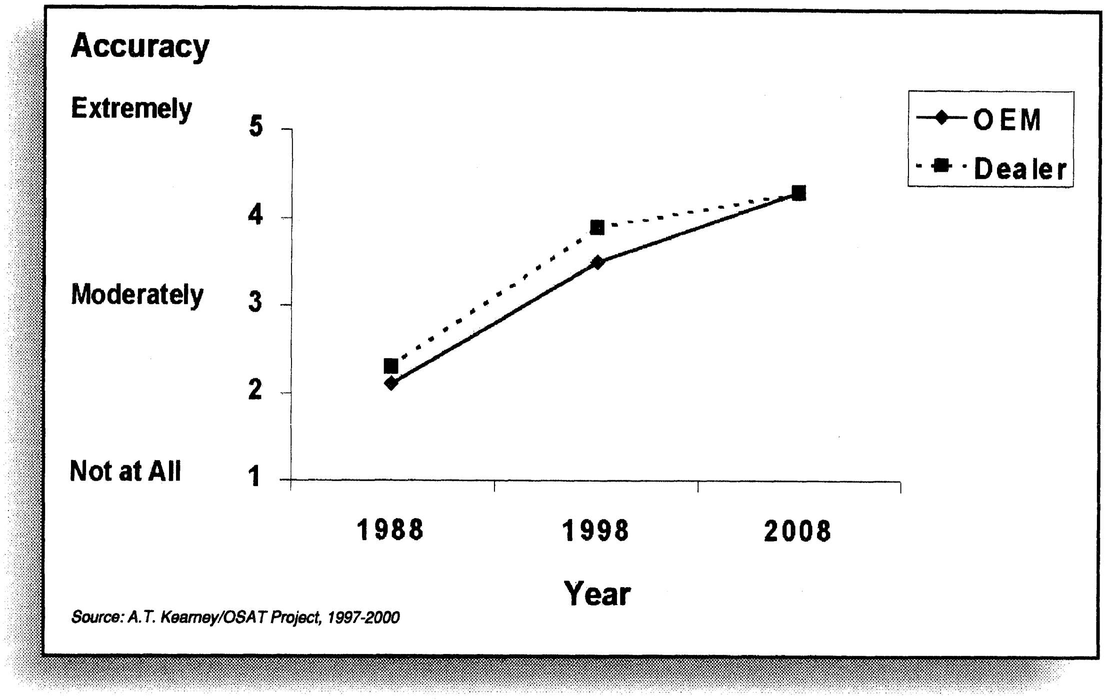


Figure 20: OEMs Bypass Dealers to Target Customers Directly

relationship should probably reflect the mix of product attributes and dealership characteristics retail customers actually "buy." As discussed earlier, the two groups sharply diverge on this point.

In stark terms, dealers often feel that the manufacturer should simply supply the products they request, leaving all customer matters in dealer hands. In fact, a number of dealer interviewees strongly argued that the manufacturers should look upon dealers as their customers, and leave the retail customers to the dealers, who know their local customers and markets better than do the manufacturers. In contrast, the traditional manufacturer view considers the dealer as one stage in the manufacturer's distribution process that delivers vehicles to the manufacturer's customer. Indeed, some manufacturer personnel feel that the dealer is more a necessary than desirable link in the value chain, sometimes becoming an impediment to the manufacturer's own relationship with the customer.

The differences between manufacturer and dealer views of the buying process are certainly fundamental to understanding current manufacturer–dealer relations and the ways they may develop in the future. However there are other, even more direct aspects of these relationships that offer their own challenges, including manufacturers' response to vehicle problems, their support for dealer investments, and manufacturer–dealer communications. Differences that are especially large or particularly relevant to either group can impede the ability of the manufacturers and dealers to work together.

From the survey respondents, dealers report that manufacturers did not respond quickly to product problems in 1988, nor do they today; in fact, dealers are not confident that the manufacturers will respond quickly, even by 2008. The manufacturers recognize that they were slow ten years ago, but see some improvement today and expect more in the future. This kind of manufacturer support is critical to dealers because they are in contact with disgruntled customers' vehicle problems. The biggest challenge for manufacturers is responding to product problems more quickly, thus allowing dealers to satisfy the customer.

The manufacturer and the dealer survey respondents both think manufacturer programs for financing dealer investments have not been very effective in the past, in contrast to manufacturer finance support to vehicle customers. However, manufacturers think these efforts are now somewhat more effective than the dealers believe, and the gap between the two groups grows by 2008. The dealers' perceptions of a lack of manufacturer financial support compounds their overall feelings of uncertainty about the changes the manufacturers are considering or making in the distribution system.

Some of this uncertainty would probably be allayed by more consistent communications with dealers. However, dealers are not optimistic about improved communications with the manufacturers. As figure 21 shows, manufacturers believe that communication in the past was better than the dealers feel it was. The manufacturers also expect it to improve more in the future than do the dealers, widening the perceptual gap, and exacerbating an important disconnect. European dealers differ from non-European dealers on this measure, expecting more improvement than non-European dealers do. Also, smaller dealers, traditionally the most neglected by the manufacturers in terms of communication, not surprisingly see only slight improvement in communication, and less than all other dealers.

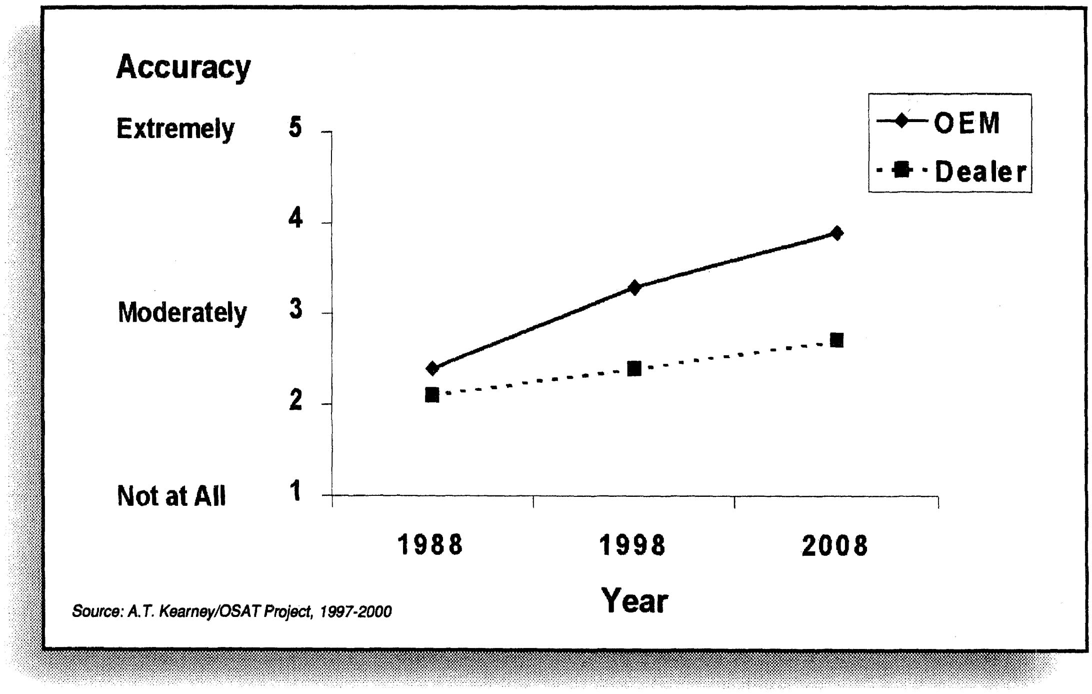


Figure 21: OEMs And Dealers Have Effective Two Way Communication

We cannot say to what, if any, degree the manufacturers are overly optimistic about the improvement or the dealers are overly pessimistic, but the gap between the two groups is substantial today and is expected to increase in the future. This communication problem may underlie many of the disconnects between the two groups, for without effective communication, the groups cannot develop the responsiveness and the sense of mutual reliance required to create a productive business relationship.

In any case, the dealers clearly are less persuaded than the manufacturers that the lines of communication are opening. In poor communication situations, change efforts can lose their focus and momentum, and there is no reason to believe that changes in the retail distribution system are immune to this threat.

Dealer Business Efforts

Continued dealership success demands that change efforts be targeted and implemented effectively. Manufacturer and dealer survey respondents are in general agreement about the most important dealer efforts for future success. About 44 percent of dealers think that increasing customer focus is the most important dealer change effort needed to meet business goals, followed by improving "done right, first time" service (18 percent), general cost reductions (18 percent), and reducing sales-staff turnover (10 percent).[37] Manufacturers agree with the rank ordering of the first two efforts, but with a strong majority endorsing developing a customer-focused culture (73 percent). All analysis groups, including different-sized dealers, luxury and non-luxury manufacturers and dealers, and European and non-European manufacturers and dealers, also strongly agree with the ranking of encouraging a customer-focused culture. Nevertheless, there is much stronger consensus among manufacturers than among dealers.

Moreover, dealers report that they are undertaking steps to implement these efforts at a level beyond what the manufacturers report, as displayed in figure 22. In fact, there are substantial differences between the manufacturers and dealers in their reports on a number of dealer steps. These include whether dealers have a coherent plan in place, whether their implementation steps are clearly prioritized, whether there is a team in place to implement changes, whether there are methods to measure progress, and whether the dealers are meeting or beating their timetable to implement the changes. Dealers report that they are making progress, but manufacturers are skeptical.

There are also large differences between what smaller dealers say they are implementing and what the rest of the dealers are implementing. The smaller dealers' responses in this case correspond with what the manufacturers think the dealer body in general is doing. However, there are no differences between luxury and non-luxury dealers on these issues. Though their views diverge on a number of other issues, it appears that these two groups agree on questions of effective auto business management.

Granted that manufacturers are probably hard pressed to know how far along each of their many dealers is in implementing such changes, they still should have an overall sense of the pace and shape of these changes. The disconnect in this instance lies in their different views and evaluations of what practices and efforts are underway more than in what those practices and efforts should be. It may be that the communications that are taking place between the dealers and manufacturers are not providing appropriate direction about what issues are most important, which can lead to working at cross purposes and wasting effort on less important issues. There is a risk that dealers may be marshalling limited resources to address the wrong issue.

---

[37] Four other dealer efforts totaled ten percent.

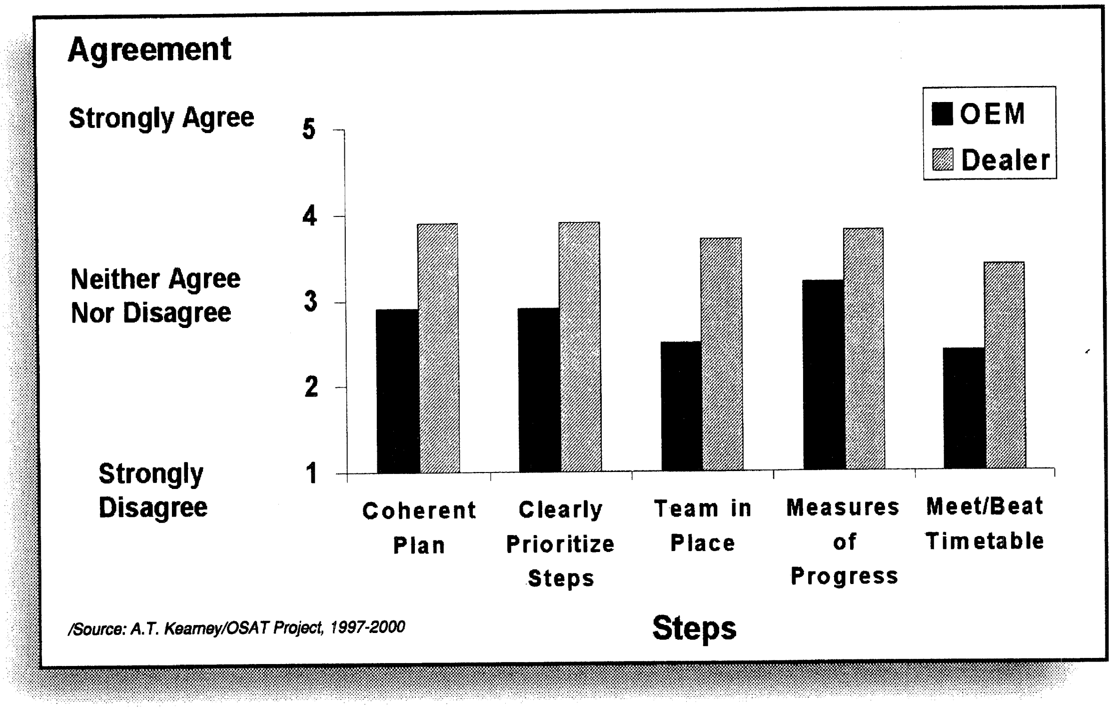


Figure 22: Steps Taken To Implement Most Important Dealer Effort

The Distribution System of the Future

There is little consensus among our interviewees and survey respondents on what the future of automotive distribution is except that the traditional approach of the full-service franchised dealer will not be the only way cars will be sold and warranties serviced in the future. It is clear that the traditional dealer is not dead, and notices to that effect are premature. However, major changes in the industry's distribution chain for dealers and customers are only beginning.

When manufacturer and dealer survey respondents were asked what main factors will drive changes in the distribution system over the next decade, both groups see similar factors, although not necessarily in the same priority. Manufacturers see the Internet and technology as the main factor or driver, followed closely by their own initiatives, the customer, cost/profitability issues, and dealer initiatives. Dealers, on the other hand, see manufacturer initiatives as the main factor, followed by the consumer, manufacturer-dealer cost issues (particularly inventory costs), and finally the Internet and technology. The reversal of the importance of the Internet and technology between the manufacturers and dealers mirrors their views of whether many vehicles will be sold online. Dealers also noted a number of issues concerning improving the order to delivery system. In particular, they mentioned the increased speed needed to deliver the right vehicle at the right time to customers, as well as the threat of the manufacturers delivering vehicles directly to consumers.

Figure 23 displays some of the divergent views held by the interviewees on exactly what shape the retail system will take in the future. Dealers most often mention consolidation of dealerships as impacting the future of retail, followed by public ownership and customer targeting. Analysts' views on future changes

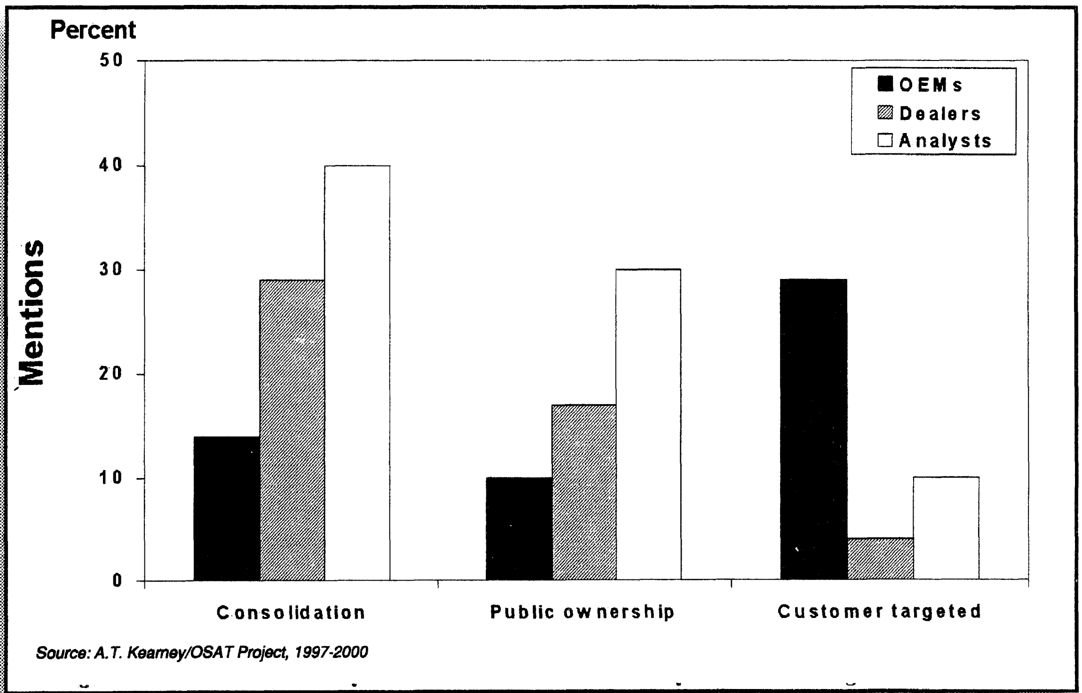


Figure 23: OEM-Dealer-Analyst Disconnects: How the Retail System Will Change in Ten Years

in the retail system also reflect this pattern. Manufacturers, on the other hand, think that the greater change in the retail system of the future will be through better customer targeting, increased responsiveness to customer demands, and improved marketing.

Looking forward to how people will be buying vehicles in ten years, manufacturer, dealer, and analyst interviewees express a range of opinions, as shown in figure 24. Analysts and manufacturers see the Internet, electronic interfaces, and the resulting information-rich customers as the most powerful force. In particular, 38 percent of the analysts' mentions suggest that the Internet will be the main way customers will purchase vehicles in ten years. Dealers, manufacturers, and analysts all believe that providing a "tailored" buying experience will be one of the most important developments. Alternative formats, such as chains, superstores, malls, and one-price selling are methods that consumers will use to shop in the future, according to the dealer and analyst interviewees. A few manufacturers think sales and service will become unbundled, and a few dealers also suggested that leasing might grow and evolve such that customers would buy "total transportation" through one monthly payment covering all their transportation needs. This might include the option to switch types of vehicles as desired, perhaps using a sports utility vehicle in winter and a convertible in summer.

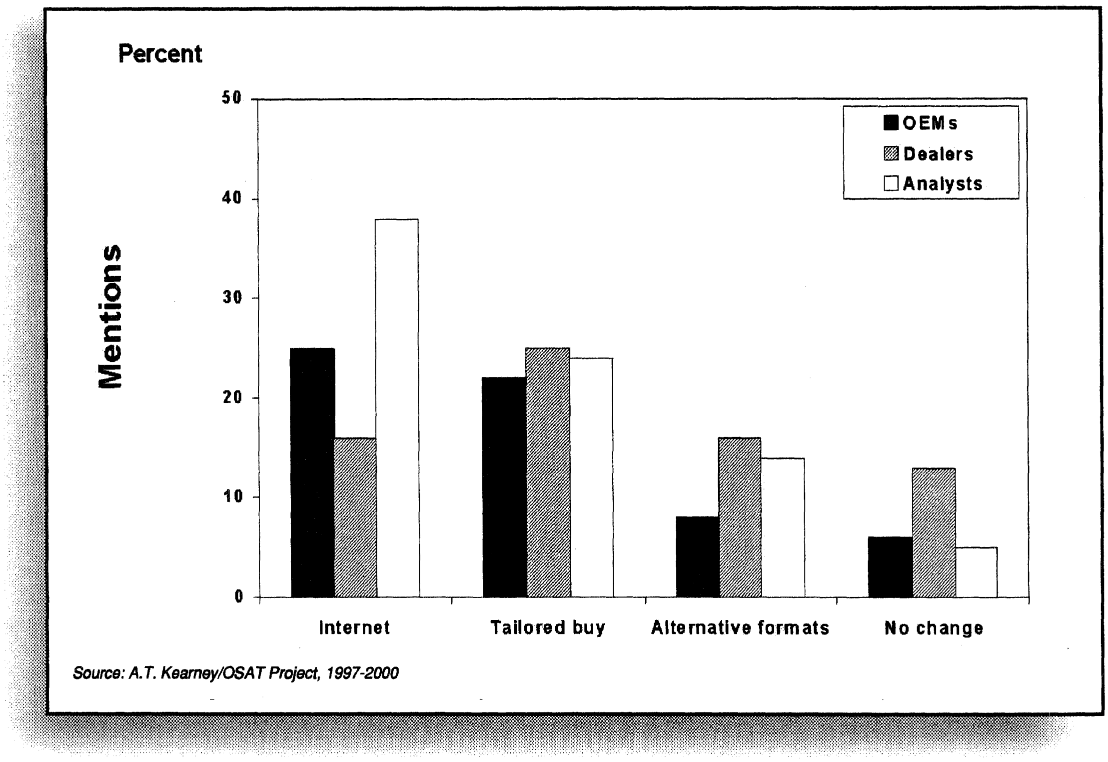


Figure 24: OEM-Dealer-Analyst Disconnects: How Customers Will Buy in Ten Years

Both manufacturers and dealers believe that the distribution system must move more toward a customer-pull rather than a manufacturer-push system in order to reduce dealer inventory, improve customer satisfaction, and reduce costs. However, our dealer and manufacturer interviewees reveal different ideas about inventory levels, perhaps reflecting their different views on the push-versus-pull system. If vehicles can be delivered within a short waiting period, then there will be less need for the dealer to carry a large inventory. The mean dealer estimate for ideal inventory levels is 38 days, while manufacturers respond with a mean of 55 days. The actual inventory level according to dealers is 59 days, and 74 days according to manufacturers. Both groups believe that ten years from now, dealer inventory levels will be much lower than today. But this is at odds with the responses of many dealers who continue to emphasize that there is value in having the right inventory, and that inventory and showroom traffic are necessary prerequisites to sales, at least in today's retail environment.

Interviewees expressed varied opinions on how fast and flexible manufacturers will become in the order-fulfillment process. Today, the vast majority of vehicles are bought from dealer inventory. Dealers report that 75 percent of their customers order out of stock, while manufacturers estimate the level at 86 percent. Since dealers frequently cannot obtain the exact vehicle the customer wants quickly, they must often persuade the customer to compromise or risk losing the sale. Dealers believe that with the proliferation of product types, the order-to-delivery process from the manufacturers is less able to meet true customer demand than it was ten years ago. Nevertheless, industry participants often point to the high percentage of vehicles bought off-lot as proof that the current method meets customer needs. Still, a special-order vehicle typically arrives in about 40 days today, as illustrated in figure 25, and probably few customers are willing to wait that long, especially if confidence that the target can be met is low.

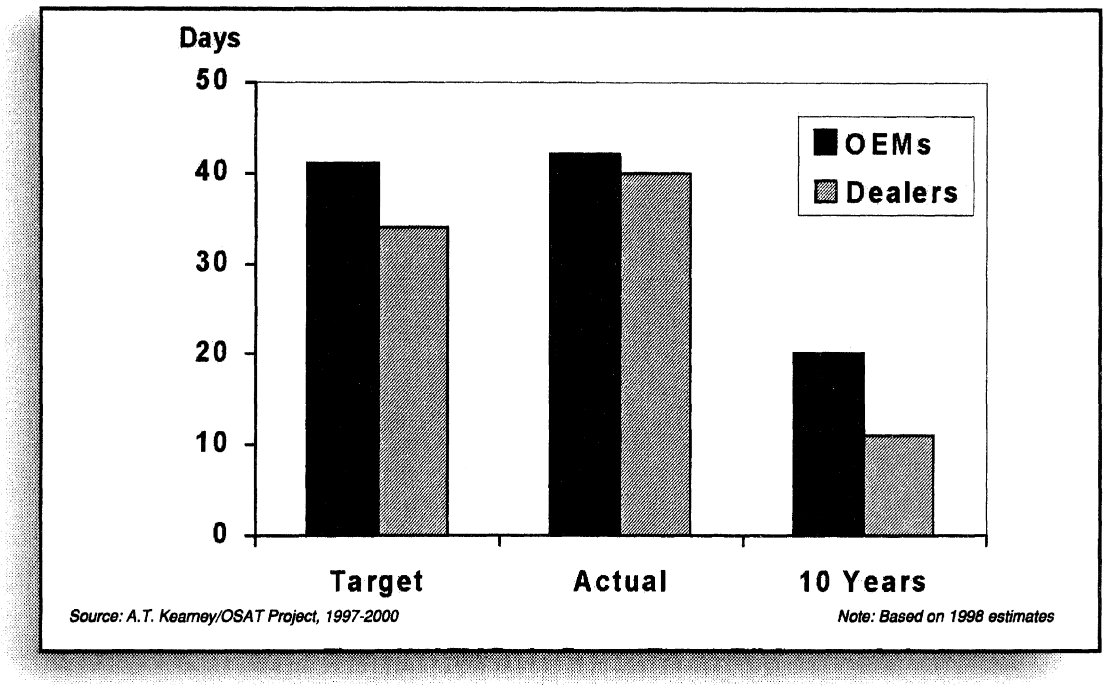


Figure 25: OEM-Dealer Reports: Time to Fill Customer Orders

Manufacturer interviewees think that ten years from now they can reduce order lead time to 20 days, but dealers believe it will be reduced to 11 days. Perhaps a decrease in inventory costs will be facilitated by this reduced factory-order-to-customer-delivery time for new vehicles. Faster order-to-delivery time implies that a smaller inventory at the dealership can satisfy customer demands. Indeed, manufacturers and some dealers believe that inventories are excessive and the distribution chain must be improved and will be. It is just a question of how much and how soon.

Why does the system force such customer compromises? Primarily because it has traditionally been a "push" distribution system, with manufacturers building vehicles based on their forecasts of light vehicle sales, and then having to dispose of excess vehicles when they overestimate sales for specific lines. As figure 26 indicates, manufacturer survey respondents expect substantially less pushing of unpopular vehicles onto dealers over the next decade. Dealer survey respondents, especially small dealers, see less improvement in this area, and expect the manufacturers will continue to push less popular vehicles on them.

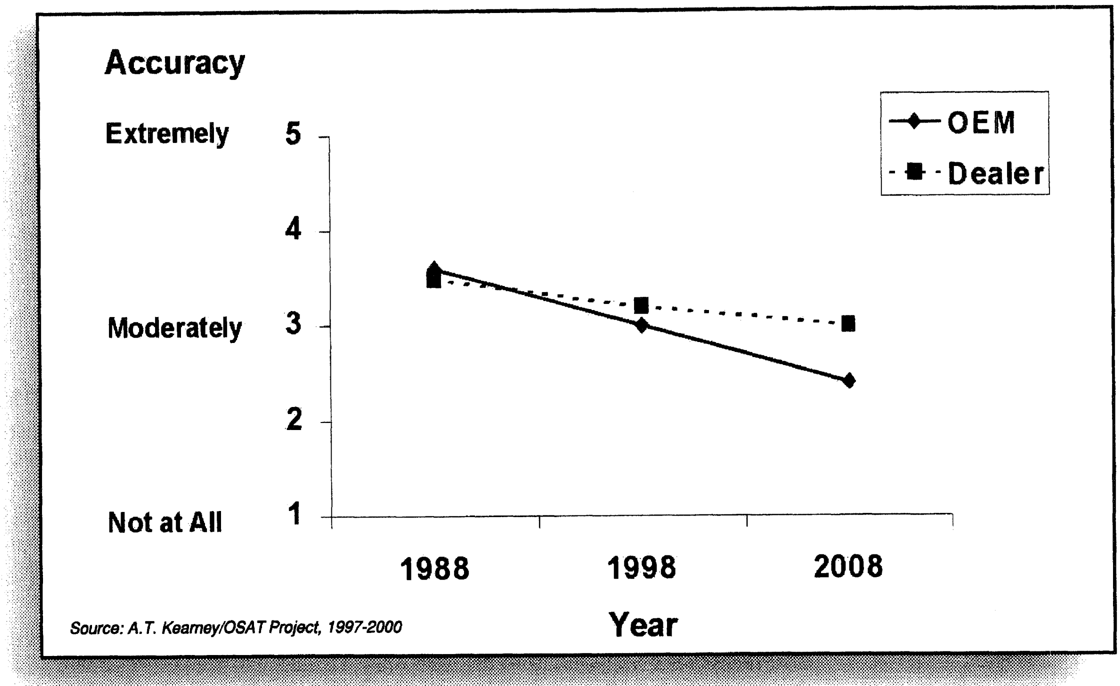


Figure 26: OEMs Push Unpopular Vehicles On Dealers

The system may be able to "pull" desirable vehicles based on customer orders if manufacturers improve their forecasts and/or make their factories and suppliers sufficiently flexible to respond quickly to shifts in consumer demand. The conflict for manufacturers is that production schedules must reflect the constraints and limits of the processes, including the important scale economies and the relatively long lead-times of the current manufacturing model. Because this model is slow to respond to changes in customer preferences, at times it produces too many units of a model whose popularity is declining.

That is why the manufacturers underwrite sales of slow-selling models through rebates and other incentives that may degrade the brand's image in the consumer's mind. These incentives "push" sales and give manufacturers an unrealistic measure of true customer preference for options as well as type of vehicle. How well manufacturers can manage their forecasts and their brands also directly affects the dealers' business operations, especially in terms of the inventory levels they must keep on hand.

To be sure, customer compromise will be less necessary if manufacturers can deliver an ordered vehicle in ten days or less, either from inventory or by actually building it to the customer's order. As figure 27 indicates, dealer survey respondents are uncertain whether manufacturers can provide a vehicle in ten days or less by 2008. On the other hand, the manufacturers are somewhat optimistic that they can do this by building to order, and quite confident indeed that they can deliver from inventory.[38] Elapsed time is important in improving the order-to-delivery system, but consumers' confidence that the vehicle they delivered will be the exact one they ordered will also be an issue. Manufacturers may be more confident than are dealers that they can truly manage their product development, production, and distribution to meet these targets.

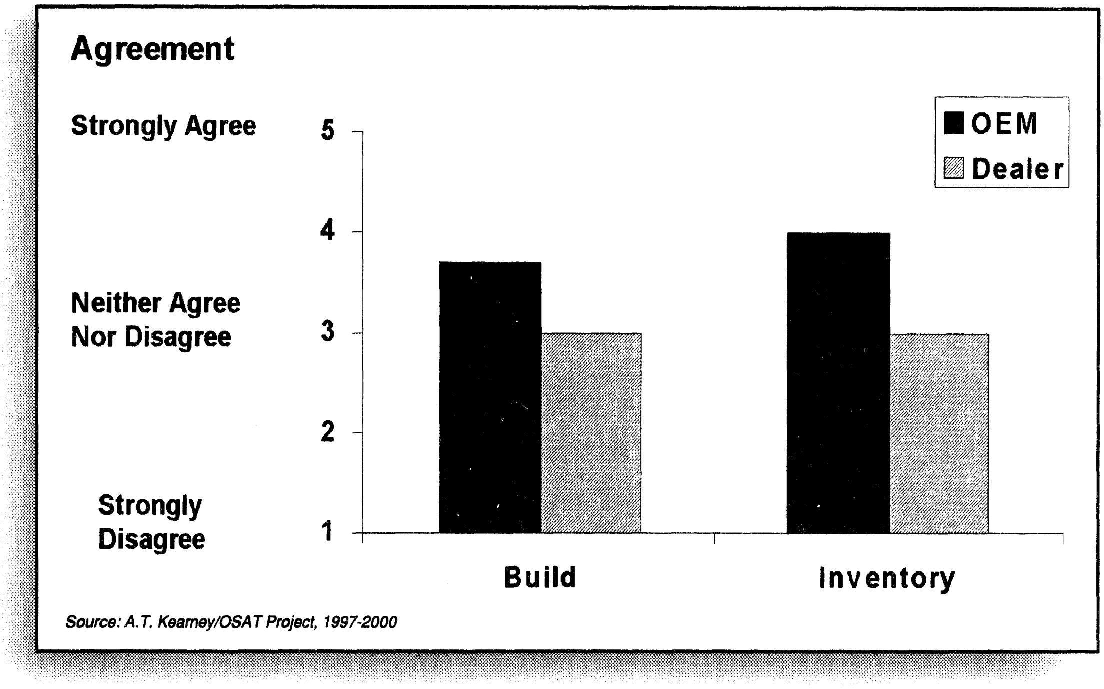


Figure 27: In 2008, OEMs Will Build To Customer Order Or Pull From Inventory And Deliver In 10 Days Or Less

If the ten-day car becomes a reality, it will have significant effects on every dealer's business and operations. If consumers are willing to wait ten days instead of purchasing off the lot, dealers will have less need of inventory. Perhaps the most enduring ten-day-car challenge manufacturers will face is the already familiar one of delivering very popular vehicles.

Decreasing dealer inventory is one of the main effects of either an Internet strategy or pull-system strategy. Manufacturer survey respondents more than dealers see dealer inventory decreasing in the future. European manufacturers more than North American and Japanese manufacturers and luxury dealers more than non-luxury dealers think dealer on-site inventory will decrease.

Dealers and manufacturers in the survey have sharply divergent expectations about changes in the buying process over the coming decade. Dealers expect less change, seeing their customer base as preferring the current price-negotiation system, continuing to compromise preferences to buy off the lot, and manufacturers continuing to push vehicles on them. They are unsure that manufacturers by 2008 can deliver exactly

[38] A Toyota executive announced in August, 1999 that Toyota intended to build, though not deliver, cars to order in 5 days. This program is an experiment, so it is quite restrictive in scope. Nevertheless, it suggests the kind of efforts the manufacturers are making to reduce order-to-delivery time.

what customers want within ten days. Given these results, it is not surprising that dealers expect larger future dealer inventories than do manufacturers.

Many interviewees expect the dealer system to undergo major change over the next ten years. Indeed, there have already been a number of warning shots across the bow of the traditional dealer system. These alerts include manufacturers taking ownership stakes in dealers, publicly-owned dealer groups accumulating large numbers of dealerships nationwide, manufacturers and public companies co-owning dealerships, and Internet information brokers expanding the car-buying services they offer.

However, there is still considerable uncertainty about the likely dimensions and extent of these changes. Indeed, when we asked our survey respondents the general question of whether the distribution system in 2008 will be largely the same as it is today, dealers were uncertain, although manufacturers strongly disagreed that it would be largely the same, with European manufacturers particularly strong in their disagreement. There is some consensus on a few change issues. Manufacturer and dealer survey respondents agree that there will be far fewer dealerships by 2008. They are less confident that many customers will buy their vehicles over the Internet or that manufacturers will sell vehicles directly to the public. By 2008, they see today's system of independent franchised stores still dominant, but they are uncertain about a reduction in some traditional dealer formats, such as the single point and family-owned store.

Dealers and manufacturers in our survey have very different views of public dealers. For the most part dealers are more apprehensive and uncertain about benefits public dealer groups will bring to the distribution system by 2008. Smaller dealers seem concerned about public dealers getting preferential treatment by the manufacturers in ordering vehicles. Both manufacturers and dealers see public groups gaining in power over the next ten years, though not to an overwhelming extent. This attitude also applies to their views of superstores or mega-dealers dominating the system. However, in terms of improving the system, manufacturers see public groups improving the system more than dealers think they will, with Japanese manufacturers and non-luxury manufacturers thinking this is especially likely. Considering the early conflicts the Japanese had with public groups, this is an interesting result.

Manufacturers and dealers in the survey strongly agree that the average dealership of the future will have larger sales volume, serve a larger territory, and often have service facilities separate from the showroom. Furthermore, they agree that sales people will take on more of an advisory role with customers, and that customers will often have more information than sales people about products and prices.

Both manufacturer and dealer survey respondents are uncertain when they are asked about the continued dominance of today's system of independent franchised stores, as well as maintenance of the status quo in franchise laws. Smaller dealers see more potential threats to the system in terms of public groups sourcing vehicles from the manufacturers that are exclusive to the group's dealerships, and changes in franchise laws that are likely to favor the dealer less. A change in state franchise laws would typically be necessary for manufacturers to sell directly to the public. Nevertheless, European manufacturers and luxury manufacturers see direct sales to the public as a possibility.

These uncertainties may be harbingers of what may happen if consumers are shown a clear financial value in purchasing vehicles other than through franchised dealers. In particular, purchasers from buying services may find a much better buying experience and/or lower prices, sparking a large movement towards this way of car buying. There might then be movement by consumer groups to advocate changing franchise laws to allow the buying services or the manufacturers to bypass dealers and sell vehicles directly to consumers.

In the final analysis, consumers should be the big winners in the retail revolution because they will have more choices of products to buy and ways to buy them, as well as the information to secure the best terms and the lowest price. Different groups of consumers will probably prefer different sales processes, just as they prefer different types of products today. The challenge for both dealers and manufacturers will be to satisfy these different groups while also being able to maintain or increase profit margins. Two important questions remain unanswered: Will power shift to new retailing entrants or remain with traditional dealers? Will a new model emerge that substantially and effectively challenges the current system?

Conclusions

There is little doubt that the retail distribution system is facing a decade of substantial turmoil and change. The automotive customer is also changing, and manufacturers and dealers must adapt to the new business environment. As customers gain more control of the buying experience through more access to information, manufacturers and dealers will have to better understand how to serve them. Whether the issue is new vehicle negotiation, or ordering a vehicle versus purchasing off the lot, the manufacturer and dealer will most likely face a less loyal customer who will be "owned" only by the group that focuses their organization on the customer's changing desires and needs. The challenge, particularly for manufacturers, seems to be one of combining their resources with those of their dealer body to form a consistent customer promise and then deliver on that promise.

In a highly competitive marketplace with declining customer loyalty, a dealer's best strategy may be to focus on securing the chance to "play again" when past customers return to the market to purchase another vehicle. And the most successful dealers may be those with a professional sales and service staff that provides different types of customers varied, but high-value, buying and ownership experiences, through Internet sales, traditional negotiations, one-price retailing, or other methods. The challenge for dealers will be to build profitable strategies for all of these retail models.

A diverse revenue stream is one of the key elements for continued success of a dealership. The most successful dealers secure profits from new vehicle sales, used vehicle sales, and parts and service. To survive in a competitive, changing, retail environment, dealers must continue to generate profits from these three sources, along with finance and insurance. As Internet use grows, dealers may have an opportunity to expand new and used vehicle sales outside their local sales territory. However, a contrary trend might also develop, as the demands for relationship marketing and service force a more geographically restricted definition of a dealer's territory. Therefore, dealers will need to transcend the price focus of Internet sales and build personal relationships with customers who prefer to purchase this way.

The industry faces an important challenge if dealer profitability is so closely tied to size. There are dealers that, by virtue of rural, low-customer-density locations will probably never reach the scale of the large dealers. While it is easy to see this as simply a business challenge for the individual dealer, in fact it is a structural challenge for the distribution system. If the business prospects of these more remote dealerships are more precarious, what happens if a downturn or specific problems lead to a large set of closings? How will the industry provide new vehicles and service to customers in these areas? Clearly, either alternative delivery systems must be devised, or business models developed that make the current system viable in these remote and/or thinly-populated regions.

One of the major challenges for both the manufacturers and the dealers may be to improve their relationships. Relationships built on mutual understanding of each group's value to the system, two-way communication that clearly defines what needs to be done for both sides to succeed, and shared financial success will probably ease the costs, time, and pain associated with any restructuring effort. Manufacturers should understand that not all their dealers think the same, especially small dealers, and that they need to find common ground across all types of dealerships to develop a basis for strong business relationships. Throughout this report there are examples of shared opinions by manufacturers and dealers on important issues that can be used as a basis for understanding between the two groups, and the disconnects can be used to identify areas where they need to address problems. As a starting point our analyses show that luxury and European dealers tend to think like the manufacturers.

An important element of such relationships is the ability to understand the viewpoint of the other party. If these survey results represent the industry's conventional wisdom about changes in the retail distribution network, then it merits mention that, to a large extent, we find two disparate views. The dealers and the manufacturers see the current and future status of the system quite differently. Overall, the dealers see a system that is less likely to change, and, where change is likely, expect it to be small. The manufacturers see a system where change is likely on many dimensions, and those changes are likely to be large.

Recognizing these different views and discovering why they both may be rooted in reality is an important first step to beginning to address the differences, and the changes, in a constructive manner. If any manufacturer and its dealer group can develop a sense of shared destiny, the manufacturer may find new ways to expand both its own and dealer share and profitability. And that would be a competitive advantage of incalculable value.

Appendix

Interviews

During the fall of 1997, the University of Michigan's Office for the Study of Automotive Transportation (OSAT) and A.T. Kearney conducted in-depth interviews with forty-five automotive industry retailing thought leaders. The objective of this effort was to capture their insights and to identify key future issues in automotive retailing. The interviewees were carefully selected to represent a broad spectrum of views. We interviewed vehicle manufacturers' senior sales and marketing executives or the executive directly responsible for building and maintaining the strength of the U.S. dealer network. In total, sixteen interviewees from thirteen different vehicle manufacturers participated. They represented manufacturers based in the United States, Europe, Japan, and Korea, all selling vehicles in the U.S. market.

From four major metropolitan areas—Atlanta, Detroit, Los Angeles, and New York—we interviewed 20 dealer principals or general managers. Leading-edge and award-winning dealerships were identified through industry news sources, manufacturer zone representatives, and the National Automobile Dealers Association (NADA). In all cases, the interviewees were identified as thought leaders in the industry. This group includes representatives from new and used dealerships; single-, dual-, and multibrand dealerships; and both independent dealerships and public dealer groups. The selection process did not attempt to assure a representative mix by size, geography or vehicle brands, since our focus was on opinions about future trends rather than a reflection of current realities.

To complement the views of dealers and manufacturer representatives, we interviewed a total of nine analysts and other industry thought leaders. The analysts include financial analysts who follow the automotive retailing industry and executives from market research firms that focus on the U.S. market. Other thought leaders include executives from companies providing logistics and auction services.

All interviews utilized the same core set of essentially open-ended questions. In addition, a few questions were included that were tailored to each executive's specific role in the industry. The interviews were conducted face-to-face and typically lasted an hour or more. Anonymity was promised to all interviewees and the companies they represent. In all cases two interviewers conducted the interview. We carefully examined and coded the answers to the open-ended questions, establishing reliability and resolving any discrepancies by using two coders. The coders quantified the responses with numerical codes, which were entered into a database to allow statistical analysis and comparisons among the thought leader groups. The results presented in this report are based on the percentage of total mentions (up to four mentions per respondent) or on the percentage of respondents (one answer per respondent). Also, note that reported percentages may not total one hundred because answers were often quite idiosyncratic and varied as a result of the open-ended interview process.

Survey Questionnaires

We conducted a major survey of dealers and manufacturers in late 1998. NADA collaborated with this stage of the project, providing especially valuable help in developing the sampling frame of dealers and manufacturers. We surveyed a randomly selected, stratified sample of some 4,000 dealerships from the NADA dealer list, and the 799 returned questionnaires yielded a 20 percent response rate.[39] We oversampled luxury and Saturn dealers to ensure enough cases for analysis. The questionnaires were eight pages long and took approximately 45 minutes to complete. For comparison purposes, both the dealer and manufacturer surveys were essentially the same.

Follow-up efforts included a postcard mailed two weeks after the first mailing, a second mailing to all non-respondents four weeks after the first mailing, and follow-up phone calls, faxes, or express mail packets to a sample of non-respondents six weeks after the first mailing. The total number of dealer questionnaires returned was 799. Of this number (799), six were returned because the dealer principal had either sold or exited the business. Also, because of missing data on some of our returned questionnaires, our final dealer analysis dataset totaled 775.

We also selected 137 sales, marketing, and dealer-relations executives from the manufacturers, drawing on databases from all three sponsoring organizations: A. T. Kearney, OSAT, and NADA. Completed questionnaires numbered 31, for a 23 percent individual response rate. However, the respondents represented 22 of the 36 companies or divisions, for a 61 percent coverage rate. These 22 units account for roughly 95 percent of all U.S. sales.

In order to protect the confidentiality of the respondents, all the results are anonymous at the individual brand level. Only groupings such as manufacturer/dealer, luxury/non-luxury, size of dealership, and country of origin are differentiated in the report.

---

39 While this response rate is low, it is not unusual for business surveys today.

Bibliography

Automotive News Market Data Book. Detroit: Crain Communications, Inc., 1979-2000.

Chappell, Lindsay. "Saturn Renovation: Dealers to Add Cozy Study, Cappuccino." *Automotive News,* October 26, 1998: 1, 53.

Denove, Chris. *Automotive Internet Research.* J.D. Power and Associates, Presentation at Automotive News Retail Technology Forum, West, Scottsdale, Arizona, November, 1999.

Libby, Tom. "Quick Facts." *The Power Report, J.D. Power and Associates Automotive Journal,* January 1999: 4.

McFall, Mike. *Seven Things That May or May Not Happen Next Year.* Presentation at Automotive News Retail Technology Forum, West, Scottsdale, Arizona, November, 1999.

McQuivey, James L. *Meet the Digital Consumers.* Presentation at Automotive News Retail Technology Forum, West, Scottsdale, Arizona, November, 1999.

NADA Data, National Automobile Dealers Association (NADA) Industry Analysis Division, 1978 to 1999.

Niccolai, James. "Internet Population Continues to Grow." *PC World.* 11 December 1998: 1. Online. Available: http://www.pcworld.com/cgi-bin/pcwtoday?ID=9009. 17 August 1999.

The Digital Dealer. Electronic Data Systems and A.T. Kearney. Chicago: 1997.

The Future of Automotive Distribution: Evolution or Revolution. Financial Times Automotive report written by A.T. Kearney. London: 1998.

The Gallup Organization. "Survey of Attitudes and Perceptions Among Three Major Groups." *Automotive Retailing Today,* Fall, 1998.

Ward's Automotive Yearbook. Detroit: Ward's Communications, 1979-1999.

Wernle, Bradford. "Ford's Dealership Plan May Include United Kingdom." *Automotive News,* October 19, 1998: 16.