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THE BIG STORY / MAY 2017

TIME TRAVELING TO

dealership OF THE future

BY STEVE FINLAY

Opinions vary when it comes to predicting what U.S. dealerships of the future will look like and how they will operate.

Some envision high-tech stores with product offerings shown on big-screen TVs, kiosks and VR goggles customers strap on to view anything in the auto-maker's lineup, but not neces-



sarily in the dealer's inventory at the moment. Build-to-order talk once again is resurfacing.

Conversely, some people say dealerships will become no-frill "distribution centers" where customers take delivery of their vehicles after using the Internet to shop and buy A-to-Z. Why maintain a Taj Mahal store when consumers are doing everything online except getting their purchase?

In the late 1990s, when online car shopping was just getting started, many dealers feared the Internet would cut them out of the action as middlemen and make them an endangered species. Today, just about everyone agrees dealers are not going away, regardless of how their operations may transform.

"Over the next decade, the average American franchised new-car dealership will see many changes to how the store is set up and run, but no significant disruption to the underlying business model," says Glenn Mercer, a researcher

whom the National Automobile Dealers Assn. commissioned for a study on what the automotive retailing world will look like in a decade or so.

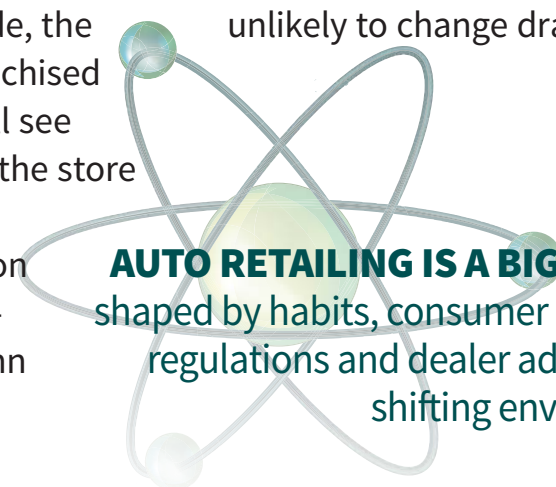
The study's aim is to stimulate long-term thinking and planning among dealers who, by virtue of the nature of the immediacy of their business, often are short-term oriented.

The study is based on three months of research, about 50 interviews and two surveys. Mercer predicts dealerships will evolve over the next 10 years, but he doesn't anticipate a revolution.

Auto retailing is a big industry shaped by habits, consumer preferences, regulations and dealer adaptations to shifting environments, he says. "But the industry's century-long trajectory is unlikely to change dramatically."



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AUTO RETAILING IS A BIG INDUSTRY shaped by habits, consumer preferences, regulations and dealer adaptations to shifting environments."

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Getting close to click to buy, Lind says.

In a sense, the auto-retailing revolution already has happened. It didn't occur all of a sudden. No shot was heard around the world. It was more the sound of millions of personal computers booting up. Consequently, in a relatively short time, how people research, shop and buy cars fundamentally changed.

In pre-Internet antiquity, the car-buying process began at the dealership. People traveled from store to store, gleaning available information and comparison shopping before finally landing on a car and doing a deal.

Today, car consumers essentially go to the dealership to wrap things up, not start things off. It's possible to do virtually the entire deal online, if it is simple and straightforward enough. However, most people aren't all-in buying a car online. Not yet anyway. But they certainly use the Internet to comparison shop and get third-party information on pricing.

"We're getting close," says Steve Lind, general manager of Autotrader, an online automotive marketplace, referring to the

click-to-buy prospects of doing an entire deal online. "Big parts of it are going on right now."

Nearly all consumers (98%) want the ability to do at least some car shopping and buying online, according to an Autotrader survey. That includes taking a virtual 360-degree tour of the vehicle (85.9%), reserving a vehicle for a test drive (58.6%), negotiating (57%), using chat to talk with a salesperson (55.5%), applying for financing (51.6%) and learning about finance and insurance products (52.3%).



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Dealers don't sell cars like before, says 41-year dealer Lutz.

IT advances mutually benefit customers and retailers alike. “They allow dealers closer connections with customers, but at lower costs,” says Mercer who predicts digital car sales will “become common, but not dominant” by 2027.

“In the future, customers will want multiple ways to buy their vehicles,” Lind says. “But they will want to be in control, as far as how much they want to do online and how much they want to experience things at the dealership. That’s where the change will be.”

He adds: “Dealers want a better experience in their stores. They want happier employees and happier customers. Consumers want to buy with confidence and feel great about it. Both parties want this, and are bringing it forth.”

Dealers don't sell cars like before, says Wes Lutz, owner of Extreme Dodge, Chrysler Jeep and Ram in Jackson, MI, and NADA's chairman-designate for 2018. “So much of it is Internet-driven with the customer doing a lot online, and we'll see that accelerate,” he says. “A sales pro-

cess that used to take hours at the dealership now can take 45 minutes.”

That consumer-in-control condition markedly contrasts to the dark days when customer experiences could cross over into dreadfulness.

That's when the so-called “system” or “drill” was the standard operating procedure at many dealerships in America, much to the detriment of consumers and something that would besmirch dealers for decades.

The auto industry had switched to strictly war-material production during World War II. No new cars were made from 1942 to 1945. When the war ended, the public's pent-up demand for vehicles was enormous.

“

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The high-pressure selling technique maximized profits, but ran roughshod over consumers.



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It was a seller's market, and at the Hull-Dobbs Ford Agency in Memphis, TN, partners Horace Hull and Jimmy Dobbs developed a high-pressure selling technique. It maximized profits, but ran roughshod over consumers.

The system typically consisted of getting the keys to a customer's current car (on the pretense of doing a trade-in evaluation) and then virtually holding the customer captive in the dealership, applying pressure and hitting pain points at various times until the worked-over customer gave in.

That caustic selling technique spread throughout the country. It gave dealers a bad reputation

that lingers today despite remarkable advances in customer-friendliness. In modern polls, many people say they disdain dealers. Yet ironically, dealers tend to score high individually in customer online reviews. Translation: Consumers dislike dealers in general, but love theirs.

In 1960, when the customer-unfriendly system was still around, there were 36,000 dealerships in the U.S. Today, there are about 18,000. Mercer foresees continued consolidation with about 16,500 stores and 6,500 owners by 2025, down from 8,000 owners today.

He says private ownership will



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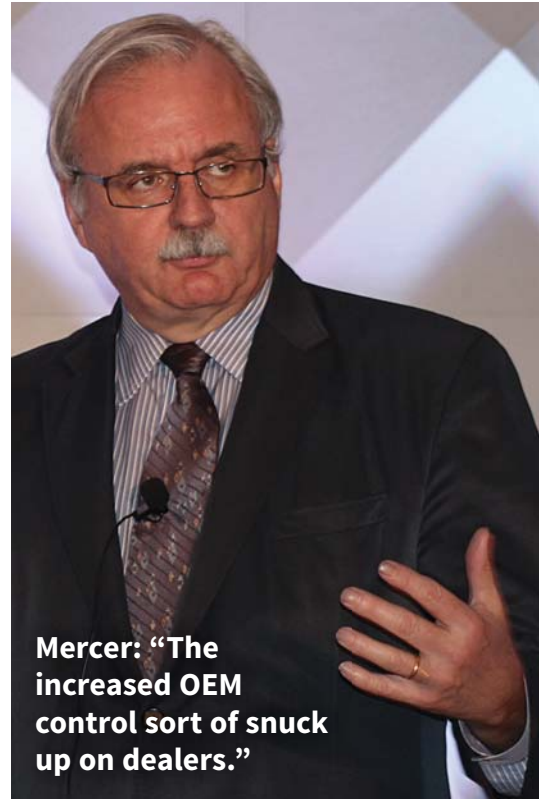
continue to dominate the business, but notes superstar investor Warren Buffett two years ago purchased the Van Tuyl dealership group, a move that bodes well for the industry.

“When one of the world’s smartest investors sees a future in dealerships, it bodes well for the auto-retailing industry,” Mercer tells *WardsAuto*.

In the old days, dealers could do whatever it took to move the metal. But that’s changed dramatically, as automakers in recent years have shown an acute interest in brand equity, and consequently how their retailers represent them.

It has led to increased OEM control of dealership networks. For instance, Cadillac, General Motors’ luxury brand, in April launched Project Pinnacle, which, in distributing financial incentives to dealers, has increased the emphasis to measure customer satisfaction rather than merely sales.

“The increased OEM control sort of snuck up on dealers,” Mercer says. “They are more bound to the OEM system.”



Mercer: “The increased OEM control sort of snuck up on dealers.”

That ranges from factory-image programs that bring a brand architectural look to dealerships to dealer websites that conform with automakers’ standards in both appearance and functionality.

OEMs also play a big role in how much money dealers make. Unlike the maximum-profit days, dealer profits today average 2%-3% on the sale of a new vehicle. Beyond that, much dealer revenue comes from automakers’ bonus programs for meeting sales and customer-satisfaction goals.



“The markup on a Jeep Grand Cherokee Laredo is about \$100,” which is significantly less than the factory’s bonus paid to a dealer for selling it,” Lutz says.

“You end up relying on what the factory wants to move.”

BACK-END OPERATIONS WILL TAKE FRONT ROW SEAT

The back-end service department will emerge as a dominate source of profit, Mercer says. He predicts “sooner or later” dealers will build more satellite service facilities.

Those allow dealers to offer spots that are geographically close to where their customers live. Car owners typically opt for convenient locations to get their cars repaired and maintained. “Satellite service locations will proliferate,” Mercer says.

Autonomous vehicles and mobility on demand could present special service-department opportunities for dealers.

“Those cars will travel so many miles, and things on them will wear out faster, such as brakes and exhaust systems,” says Tim

Jackson, president of the Colorado Automobile Dealers Assn.

He anticipates dealership service departments working around the clock fixing and maintaining self-driving vehicles. He likens it to airlines aiming to fully utilize their fleets. “If a plane is sitting at the gate and not flying, it’s not making money.”

To pull off the impending self-driving system of transportation, the autonomous vehicles must work perfectly and therefore undergo rigorous and regular maintenance, says Steven Szakaly, NADA’s chief economist.

He sees that as a boon for dealership back shops. He predicts the possibility of government regulations calling for meticulous maintenance of self-driving vehicles to avoid potentially catastrophic system failures.

Mercer’s study indicates tomorrow’s dealership will earn much of its profit from the service department as vehicle-sales margins narrow. He suggests auto dealerships emulate heavy-duty truck franchised dealers. The latter don’t sell high volumes of



Szakaly sees the impending self-driving system as a boon for dealership back shops.



Some envision kiosks becoming fixtures at future dealerships, others don't.



vehicles but maintain profitability through service and satellite operations.

Adds Lutz: “Dealers with the best service will be the winners.”

HOW FUTURE DEALERSHIPS WILL LOOK

NADA and some automakers in recent years have clashed over facility-improvement programs that require substantial dealer investments. The trade group argues extravagant facilities aren't necessary if the lion's share of car buying is done online.

But for customers who want to spend at least some shopping time at a dealership of the future,

they may enter a high-tech world. It might not be as elaborate as some people predict when they envision kiosks and big screens showing product, but it's expected to be fully connected.

“My vision is customers (primarily) will access information at their homes,” says Bill Carmichael, CEO of the Colorado-based Summit Automotive Partners dealership group. “There may be some of that (digital visual equipment at dealerships) but I don't envision a movie theater.

“However, when it comes to finishing the transaction, there will be a lot of automation to speed it up and let the customers enjoy



Accenture demonstrates virtual-reality technology that lets shoppers visualize and configure vehicles.

their vehicles.”

Lutz doubts product-presenting video screens and kiosks will fill up dealerships like ubiquitous TV sets at a sports bar.

“They’ve been trying to sell us on kiosks for years,” says the 41-year veteran of auto retailing. “At the dealership, the only screen my customers are interested in is their cell-phone screen. If the information’s not there, they’re not interested.”

At a March event, Accenture demonstrated virtual-reality tech-

nology that will give shoppers, particularly Millennials, the chance to visualize and configure a car of their choice at home. That includes first-of-its kind augmented reality enabled by a Google Tango device.

“Millennials are looking for a seamless online-offline buying experience that includes enhancing their ability to initiate and complete parts

of the sales transactions at home, as well as receive personalized service at the dealership,” says Anant Kamat, managing director of Accenture’s automotive unit.

Augmented- and virtual-reality technology “reflects the future of auto retailing and will contribute to the seamless, integrated car-buying experience Millennials want,” he says.

IT provider Reynolds & Reynolds built a mock dealership of the future at its headquarters near Dayton, OH. It is intended to



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Reynolds & Reynolds created mock dealership of future at its headquarters in Dayton, OH.

show visitors how various products that make up the company's Retail Management System work in concert and how potential new software might fit in. It's called the Reynolds Innovation Center.

"We do not know exactly what dealers will need in 15 years, but we have this unified platform, so we asked ourselves, 'What else can we do on that platform?'" says Reynolds spokesman Tom Schwartz. "That's what created the dealership of the future."

Architects spent several days at two metro Cincinnati dealerships to get a feel for their daily flow and observe what worked right, Schwartz says. "That then

became reflected in the layout and traffic flow throughout the Innovation Center."

It has become a popular place. Visitors include dealers, automaker representatives and Reynolds employees. "It is booked virtually year-round," Schwartz says.

BUILD TO ORDER

A particular vision of the future is one that's been around for a while now: build to order. At this point, a cynic could say it is the vision of the future – and always will be.

Customers today can configure a vehicle digitally to exacting specifications, put in an order for it and get it – if they are willing to wait



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Customers today can explore a vehicle digitally to exacting specifications. (Shown: A BMW on Google's Tango.)



weeks. That works in Europe and other places, but most American car shoppers aren't that patient. They want their new vehicle now.

But tomorrow's potential build-to-order manufacturing system would work much faster. Done speedily, it would allow dealers to maintain much leaner inventories than now.

Cadillac foresees a sped-up BTO system as particularly aiding its rural dealers who would rely on VR and manufacturing advancements to both virtually demonstrate product and then deliver the real thing quickly.

“The thinking is that we would move to a BTO world, dealers would have a virtual showroom and there wouldn't be a pile of inventory on the premises,” Mercer says. “It's an attractive prediction. The reality is that it's been predicted for decades and has failed to meet forecasts.”

The prospects of BTO going prime time in the U.S. “is up against an irrepressible force, an unmovable object that is instant gratification,” Mercer says. “People are not going to wait four weeks for a \$50,000 vehicle.”

“Build to order has always been



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held out as a dream to reduce inventory to a tenth of what it is,” Lutz says. “But right now, it takes three weeks for a car built in Mexico to get to me. That’s a long wait for my customers.”

Adds Malcolm Thorne, chief strategy officer for dealership information technology provider CDK: “Some parts of auto retailing will change but some fundamentals won’t. American consumers want instant gratification. They get it in most retail areas. Car availability is a requirement of auto retailing. That drives a lot of behavior.”

Calling it a “blended experience,” he predicts car shoppers in the next decade will do more online, while the dealer “manages the relationship and does the delivery.”

SURE BET ON WHAT WON’T HAPPEN

Predicting the future is risky business. In 1975, an automotive magazine said Americans would stop buying big vehicles and start driving small ones. Wrong. Last year, Chevy sold nearly 250,000 extra-large Suburban and Tahoe SUVs alone.

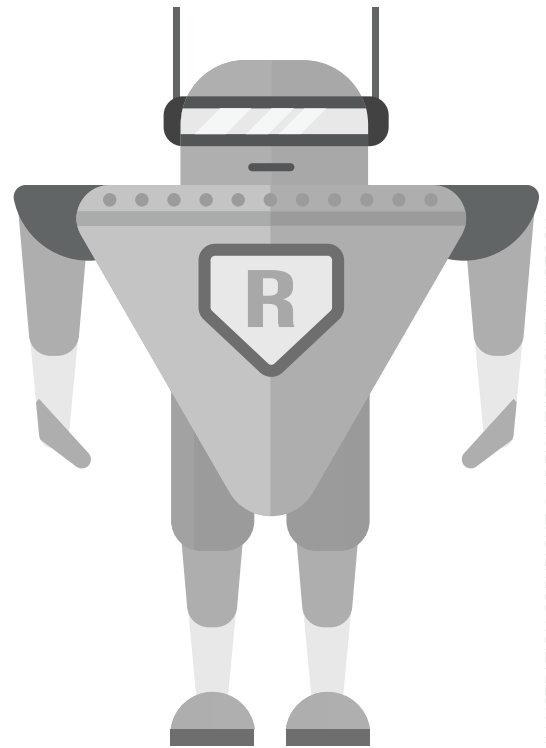


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In 1958, *Popular Science* predicted robots would take over driving duties. We’re heading to the world of self-driving cars, but robots won’t join us on the journey.

And from time to time, a soothsayer postulates the big-box theory. It goes like this: Eventually, car consumers will shop at Wal-Mart-like dealerships that will carry assorted brands under one roof. There would be sections for segment groupings. For instance, the SUV section with vehicles of different makes and models would be here, sports cars of all brands there, and so on.

A newspaper columnist recently decried the fact that if you



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Reynold's docuPAD does car deals digitally, including a presentation of F&I products and e-contract signing.



want, say, a Ford, you can't head to a general car store to get one while also checking out Ford's competition.

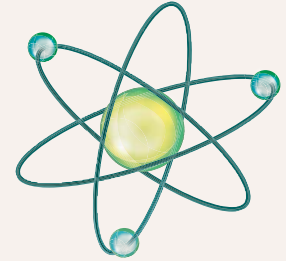
But that's because auto makers don't want big-box auto stores selling different brands, side by side. That hard stance is not expected to soften.

"This one is up to the OEMs," Mercer says. "From a dealer's point of view, the question is, 'Why not?'"

"Manufacturers don't want a setup like that," Lutz says. "They want stand-alone stores selling their brands."

But he thinks the market will see more auto malls in which dealerships are clustered together. "Consumers like auto malls and so do dealers, because it increases traffic for everyone. So you'll see more dealers grouped together, but not in big-box stores."

Asked whether there was any one point of consensus he heard during his interviews with various people for his NADA report on the dealership of tomorrow, Mercer replies: "No one is complacent, but they are confident in the industry's ability to handle change." **WA**



Founding Father of Automotive Retail Revolution on **DEALERSHIP OF TOMORROW**

As a founding father of the auto-retail revolution, Mark O'Neil helped create CarMax, a dealership chain that took dealership customer-friendliness and use of technology to new levels.

He now is Cox Automotive's chief operating officer. He holds a bachelor's degree in industrial engineering from Worcester Polytechnic Institute and an MBA from Harvard.

O'Neil talks about how he envisions the dealership of tomorrow.

WardsAuto: Can you get your crystal ball out and predict what the dealership of the future will be?

O'Neil: It will be enormously connected and use data to make informed decisions about pricing and stocking to turn inventory quickly. The whole eco-system will be tied together. I'll quote Steve Jobs who said, "Creativity is nothing more than connecting things."

WardsAuto: Some industry insiders worry the Internet will cause the lost art of salesmanship. They fear salespeople could



“Dealers are extremely relevant, if they are willing to change,” O’Neil says.



see themselves as just order takers. In the brave new world of tomorrow, will you still need to sell the car?

O’Neil: You need to sell. A lot of salesmanship is giving information, building a relationship and then asking for the sale. It’s not the typical closer trying to maximize gross. You find someone who understands selling principles in a consumer-friendly way, presents options and asks for the sale. They will also be tech-savvy.

WardsAuto: A lot of modern selling focusing on confirming customer decisions that are pretty much made beforehand online.

O’Neil: Yes, it is reinforcing that they’ve made a good decision. It’s different selling than historically, but it is selling.

WardsAuto: When will the dealership of tomorrow as you described it happen?

O’Neil: There won’t be a big bang and everyone adopts it. But once it gets going, it’s exponential growth.

WardsAuto: What role will Millennials play, not as customers, but as dealer principals? The oldest Millennials are about 37. Many of them are at a point of taking over the family dealership. Will they be driving the connected dealership movement?

O’Neil: Yes. It is a super tech-savvy generation. Everything around them is digital. They need to adapt it to their dealership environment. That takes learning, but they are ready for it and understand the power of it more than previous generations.

WardsAuto: Some people envi-



PHOTO COPYRIGHT © RAW PIXEL/ISTOCK/THINKSTOCK

sion the dealership of the future having screens, kiosks and virtual reality equipment. Do you think that's in the cards?

O'Neil: No question. No one knows how it will look exactly. You can create a rich experience by having touchscreens that help people understand how to use features on cars and how to compare and figure out options.

WardsAuto: In the 1990s, a lot of dealers were worried the Internet was going to put them out of business, eliminating their middleman role as vehicle retail-

ers. That obviously didn't happen.

O'Neil: Dealers are extremely relevant, if they are willing to change. Otherwise, they will become susceptible to disruptors.

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This story was written by Steve Finlay, a senior editor at WardsAuto. He can be reached

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