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THE MOTOR DEALER REPORT FROM AUSWILD & CO
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THE DEALERSHIP OF TOMORROW – 2018 UPDATE

In 2016, the National Automobile Dealers Association commissioned automotive industry analyst, **Glenn Mercer**, to conduct a study into how automotive retailing would change by 2025. The intent of the project was to provide NADA member dealers with insights into the developments that will likely alter the vehicle-retailing business over the next decade. The project cast a wide net to garner input from dealers (public and private), OEMs, attorneys, vendors, investors and other stakeholders to assemble a picture of what the dealership of 2025 might look like.

Glenn Mercer, who has three decades of experience, including over 20 years at McKinsey & Co, where as a leader of the automotive practice, he participated in hundreds of client studies, presented his original findings at the 2017 NADA Convention. At this year's NADA Show in Las Vegas, he presented an update on his findings.

2016 FINDINGS SUMMARISED

Over the next decade, the average USA franchised new car dealer will see many changes to the store, but no significant disruption to the underlying business model. Specifically –

- There will be much change by 2025, but it will be an evolution and NOT a revolution
- The single biggest risk to the system is if Mobility Services (MS) and Autonomous Vehicles (AV) combine, reducing the need to own a car
- Dealers will continue to evolve from the entrepreneurial, unique traders to factory-controlled, standardised dealers

SPECIFIC 2016 PREDICTIONS

- A rate of sales similar to today's 17m units, but with a shift in mix to more expensive cars
- The physical dealership still exists, even if much of its activity is online
- The independent franchised dealership model will remain very dominant through 2025
- There will be a slow consolidation (in rooftops), from ~18,000 today to perhaps ~16500 or so
- Similarly, there will be a consolidation in owners from ~8,000 today to ~6,500; private ownership will dominate as public dealership chains have not proven that they are better managers or that their larger scale is strength; and, public chains are sometimes not favoured by OEMs
- P&L profitability will be somewhat lower; balance sheet ratios (eg ROE) may do better
- By 2025 the shift from margin to volume will be complete. The transition away from negotiated prices continues, service will be the primary source of profit growth, OEM payments will become a new "shop" for dealers to manage
- We do not yet see entirely new business models emerging (eg dealers as Mobility Services providers)

- We expect only a slight increase in build-to-order (BTO), such that inventory levels will remain high as customers overwhelmingly prefer to buy from stock
- As for the digital store, (IT will) drive increasing OEM control of the store, cyber security risks, and power struggles with both vendors and customers

CLOSING THOUGHTS – UPDATE ON 2016 PREDICTIONS

So far, the project is mostly on track with the forecasts –

- The franchised dealership system remains intact as there is no credible economic research to show any other superior model
- Many challenges exist – but they can be managed (as before)
- Profits are probably heading somewhat lower and will be highly dependent on service
- OEM control increases further: By 2025 the dealership is a privately owned “Company Store”.....a retailer NOT a dealer
- Electric Vehicles is a minor negative, Autonomous Vehicles & Connected Cars are probably positive (increase in sales as the elderly and disabled can “get back on the road”; and increase in service as these vehicles will be used for more miles)

BUT a massive threat looms – the single biggest risk to the dealership system within the next decade will be the convergence of mobility services with autonomous vehicles. If that happens, it would change things dramatically by breaking the “age-old bond between Americans and their cars and trucks.” Whilst Mercer says that scenario is unlikely to happen, he urged dealers to keep tabs on ride-hailing services like Uber & Lyft, noting that their ability to build autonomous fleets and successfully gain mass appeal for that type of service is worth following.

For additional information, please contact your
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