NADA is aiming to disrupt potential industry disruption in auto retail

As some automakers explore distribution channels that could reshape automotive retail, the National Automobile Dealers Association is fighting back with hard data. The persistent threat of direct-to-consumer sales that seek to limit, or eliminate, interactions between consumers and franchised retailers in part prompted NADA to commission an analysis of distribution methods from consultancy Oliver Wyman.

The study's key finding: Franchised dealerships remain the most cost-effective way to distribute vehicles.

NADA is using the research piece, titled "Automotive Cost of Distribution," to push back on automakers considering alternative approaches. It's a potential that dealers are highly concerned about. More than 50 percent of dealers responding to Presidio's Year-End 2024 Dealer Direction Survey named direct sales as the biggest long-term risk for the traditional franchised model, making it their biggest disruption concern by far.

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— Mike Stanton, CEO of the National Automobile Dealers Association

They have reason for that apprehension. In addition to electric vehicle makers like Tesla, Rivian and Lucid selling directly, established automakers have explored direct sales and other alternative distribution methods like the agency model, a hybrid approach used in foreign markets. In the U.S., a move by Volkswagen AG to sell the revived Scout brand directly beginning in 2027 has put the threat on the front burner for dealers.

The flashpoints of retail disruption in the marketplace are sizeable and legitimate.

Some automaker executives and industry analysts have publicly asserted that the traditional dealer model in the U.S. costs significantly more per vehicle compared with direct sales. NADA CEO Mike Stanton is leveraging the results of the Oliver Wyman study to argue that the traditional dealer model serves consumers and the automotive industry more effectively than direct sales strategies. It boils down to this study conclusion: The franchised model has a lower net cost of distribution than the alternatives when operating at mass-market scale and when the value inherent in each channel is accounted for.

Stanton spoke with Presidio Managing Director Jason Stein about NADA's approach to protecting dealers amid these disruptive forces in the industry. Here are edited excerpts of that conversation:

NADA recently sent a strongly worded letter to Volkswagen Group CEO Oliver Blume and other key executives about Scout Motors.

We sent the letter out. The goal was to have a conversation with Dr. Blume. We had reached out eight or nine months ago [and didn't get a response]. We've had several conversations with Scott Keogh, the U.S. management at VW, Porsche and Audi. And we felt like we were getting the runaround for a couple of years.

Then Scout made the decision to go into direct sales. I wasn't surprised because we weren't getting a lot of information out of anyone but [was] very disappointed by the way it was announced and their whole process. It's not something I would characterize as a trusting relationship to get the runaround like we have had. And this situation is very different than a Tesla, a Lucid or a Rivian.

Volkswagen AG has decided to compete with their own dealer network — a dealer network that has carried them through tough times [like] the Audi acceleration issue, Dieselgate and trouble with the ID4 recently.

Dealers make massive investments in their communities, facilities, land and people. To decide to compete directly with them [on a] product that they've been looking [forward to] for decades [is] a very frustrating situation. We know there are lawsuits starting to appear in several states. NADA will support those lawsuits from a financial perspective. But we thought it made sense to try and have a meeting and see if we can get something done before going down this legal path. But unfortunately, that's where it looks like it's headed. We've yet to hear back on the letter that we sent.

So ultimately it goes to a legal process?

I think that's where it's headed, unfortunately. There are dealers that have already challenged this in Florida.

What's your read on what's coming out of Wolfsburg?

It could be arrogance. It could be that they made a decision back at a time when it looked appealing. Maybe it's a Tesla copycat. We've seen this time and time again over the years. If they would just listen, we would be saving them from themselves because manufacturers do not know how to retail cars. For Volkswagen and Scout to think they could do it better or for less money than a dealer network is just misguided. It's just not the truth. And some of the things I've been listening to them say — for example, they've had hearings down in South Carolina — they're just not telling the truth.

An Oliver Wyman study released last fall looked at direct-to-consumer and hybrid/agency sales models and determined that the traditional franchise model is the most cost-effective way to distribute vehicles. NADA commissioned that study. What was NADA's impetus for that research?

When you think about the investments that dealers make, my gut told me the entrepreneur is going to do that much better than some corporate entity. But we had some corporate entities that were talking about their distribution system being a $2,000 or $3,000 per vehicle cost disadvantage compared to a direct model. So while my gut told me that can't be the case, we thought it best to commission a study and let the facts speak for themselves.

When you compared apples to apples from a cost perspective, it was very close. But what no one talked about before this study was to quantify the value the dealer brings to the equation.

Every car purchase is unique. The dealer brings value in that they know their local market best, they know their customer best, and the dealer will put together that transaction and put the customer in the vehicle they need, in the budget they can afford.

When you factor in the value of what dealers bring, manufacturers are going to sell more cars; they're going to have happier customers. It was nice to be able to prove that with a third-party study.

How has NADA used the study results and has it been helpful in your interactions with automakers or in any

Disruption worries

Dealers responding to the Presidio Year-End 2024 Dealer Direction Survey identified the biggest long-term risks to the traditional franchised dealer model. Dealers could select up to three answers.

Direct sales model	**51.3%**
Industry shift to electric vehicles	**34.4%**
Changes to automaker margin programs	**33.1%**
Legislative changes, particularly around dealer franchise law	**27.5%**
Automaker mandates	**22.5%**
Rise of online retailers	**20.0%**
Agency model	**19.4%**
New automaker competitors	**18.8%**
Regulatory scrutiny	**18.1%**
Inventory instability	**8.1%**

The Presidio Group

Source: Presidio Year-End 2024 Dealer Direction Survey

legal or legislative efforts on behalf of franchise dealers?

Yes, it's been the most productive [when we] have a conversation with our car company partners and put the numbers down. NADA engages with every manufacturer at least twice a year. It's enabled us to have higher-level strategic discussions with our OEM partners.

Where do you see further risk to franchise dealers as established OEMs perhaps launch new brands or consider new distribution models?

I believe in controlling what you can control. The only risk is [if] franchise dealers don't continue to get better. And [dealers'] sales satisfaction scores are better than they've ever been. We just need to continue to focus on the customer, doing what we do best and having a relationship with our car companies that's one of mutual trust — where they focus on building a great car, and we focus on delivering a great customer experience. The customer, the manufacturers and dealers that are going to do best in the future are going to be the ones having a trusting relationship with a lot of conversation. There'll be disagreements, but that's healthy as long as we are focused on the customer rather than shifting costs. Experimentation, especially with direct to consumer or agency or hybrid distribution models, [is] clearly top of mind for dealers who are worried about future distribution in automotive retailing.

Are there other potential disruptive forces that you and NADA leaders worry about?

It's just the evolving consumer and the marketplace and making sure that we keep pace. Better yet, we need to be a couple of steps ahead, and many dealers are. Many dealers are doing some incredibly innovative things to take care of what is a very complex transaction. I don't tend to worry too much about [what] we can't control. We can certainly control the customer experience within the four walls of the dealership and the digital experience, as well.