

Triple threat to dealer franchise model?

Dealers worry that electrification, legislative risks around franchise laws and automaker interest in moving to an agency-style distribution model present the greatest long-term threats to the traditional franchised dealership business.

That was the consensus among more than 100 dealers recently surveyed by The Presidio Group when it comes to future risk and disruptive forces in the industry. Their concerns mirror many others in the industry looking at disruption.

Headwinds emerging around the transition to electric vehicles dominated the feedback from respondents to the Presidio survey.

There are “unreasonable and unattainable electrification demands on dealers,” one respondent wrote.

Disruption on the horizon	
<i>Dealers responding to a Presidio survey identified the biggest long-term risks to the traditional franchised dealer model. Dealers could select up to three answers.</i>	
Industry shift to electric vehicles	50.0%
Legislative changes, particularly around dealer franchise laws	50.0%
Agency model	49.0%
New automaker competitors	21.6%
Regulatory scrutiny	18.6%
Inventory instability	17.7%
Rise of online retailers	15.7%
Autonomous vehicle technology	6.9%
Other	4.9%

Source: Presidio Q3 2023 Dealer Direction Survey

Another expressed concern about demand keeping pace with industry and governmental goals. “Regulation: How do we sell electric when demand dies off? It’s one thing to sell 10-to-20% of the market on electric. 70% [is a] hard sell,” the dealer wrote.



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— Rita Case, CEO of Rick Case Automotive

Others indicated concerns about EVs being rejected by consumers.

Their sentiment is echoed by many across the industry who believe there’s been an overreach on EV regulation and point out that consumer interest in EVs hasn’t kept up with increasing production levels, particularly as transaction prices soared.

That has some dealers willing to draw a line on what they’ll stock.

“If there’s a demand for EVs, there’s going to be products out there to buy from all the manufacturers. If there isn’t demand in our market, then we’re not going to be inventorying it,” said Rita Case, CEO of Rick Case Automotive, on a recent episode of Full Throttle, Presidio’s biweekly podcast. “The people are going to inventory where they can sell the cars. And, so far, we have not seen enough momentum going towards the EV.”



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In anticipation of new regulatory standards, automakers have aggressively introduced new EV models and ramped up production of existing ones.

The number of available EV nameplates in the U.S. is expected to double by 2027, according to Cox Automotive, which estimates that 33 new EVs launched in 2023 alone and that more than 50 new or updated EVs will debut next year.

But inventory levels, incentives and EV sales growth are not tracking at the pace some had estimated just a year ago.

At the same time, prices of EVs are still higher than internal-combustion engine vehicles – but so are incentives on new EV models.

Cox Automotive reported that the average price paid for a new electric vehicle in November was \$52,345, up from a revised \$51,715 in October and supported by incentive levels well above the industry average. In November, EV incentives reached their highest point of 2023 at 8.9 percent of average transaction prices. A year ago, EV incentives were less than 2% of the average price. Thanks in part to discounts and above-average inventory levels, EV transaction prices last month were only 8.5% higher than the industry average price of \$48,247.

“In recent months, price parity between EVs and ICE has almost seemed possible,” Stephanie Valdez-Streaty, director of strategic planning at Cox, wrote in a Dec. 11 report. “It is a complicated measure with plenty of variables, but newer products and higher discounts have brought down average EV prices, even before potential tax incentives. A year ago, the EV premium was more than 30%. Today, it’s less than 10%.”

While EV sales have been growing, gasoline-powered vehicles are still king overall, accounting for nearly four-fifths of U.S. vehicles sold this year, according to Cox. That share is on the decline as some consumers turn to hybrid vehicles and others to pure EVs.

Dealers are getting pessimistic about the EV future, according to the most recent Cox Automotive Dealer Sentiment Index released in early December. Index scores for EV sales expectations were at their lowest points since the topic was added to Cox’s dealer survey in mid-2021, with the score for franchised dealers tumbling by nine points compared with the previous quarter and by 17 points compared with the previous year.

“The excitement that existed a year ago around EVs has definitely faded,” wrote Jonathan Smoke, Cox Automotive chief economic advisor, in the Dec. 7 report. “Although EV sales are growing, supply is growing faster. The EV transition is requiring more effort from dealers than before, so it makes sense that enthusiasm has declined.”

EV days’ supply has swelled in 2023, according to Cox Automotive and Motor Intelligence, more than doubling from year-earlier levels. Several models – the Cadillac Lyriq, Mustang Mach-E, Audi E-Tron, Mercedes-Benz EQB and Jaguar I-Pace – have seen their supply levels top 100 days this fall.

Clearly, EVs have a long way to go to become mainstream. With EV inventory levels on the rise and doubts about whether consumer demand will support the number of coming EVs, automakers are starting to tap the brakes on EV projects and investment.

That is happening as other disruptive forces take shape for dealers.

Other concerns for retailers include competition from new entrants, automakers’ interest in direct sales or a move to an agency model. Such developments naturally invite questions about the long-term viability of the dealer franchise model.

So what will the future model of the dealership look like?

Daryl Kenningham, CEO of Group 1 Automotive, shared some insights about that public dealership group’s experience operating under the agency model at a Mercedes-Benz store in the United Kingdom since early this year.

“There are different variations on agency,” Kenningham told Presidio on the Full Throttle podcast. “And all of the OEMs are taking a little bit different view of it in the U.K. But it remains to be seen how successful it will be if it’s a pure agency model where basically we just deliver the car and the OEM does all the marketing and the price is fixed and [the dealer] will participate in the used car, trade (and) F&I if there’s a need for a customer to do that.”

Still, Group 1 is “leaning into” the agency model to try to learn as much as it can, he said.

“What I’ve learned from OEMs is that — and I was on the OEM side for 20 years — they want to do what’s best for



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— Mark McLarty,
CEO of McLarty Automotive Group

customers too and they need healthy happy dealers to be successful, because healthy happy dealers invest in their brand and hire great people and invest in their franchises and things like that,” Kenningham said. “So they can’t do agency at the expense of dealers. And I think the good OEMs realize that. And I believe that, certainly, Mercedes-Benz in the U.K. realizes that. They’ve really worked closely with the dealers to get to this point.”

Mark McLarty, a dealer who analyzes change repeatedly, sees a mixed outlook when it comes to disruptive activity — EVs, technology and an unsettled world.

“The fact they’re all happening at once is quite notable,” McLarty said on the Full Throttle podcast. “It’s a higher degree of humility than usual. ... If anything, these last years have taught us all to have a lot of respect for the unexpected and not having a crystal ball.”

Kenningham said there are areas in its business where Group 1 can make it easier for customers to do business.

“And we want to be really easy to do business with us. We want customers to do business on their terms — when and how they want to do business with us. And a lot of times using technology is the way to do that,” he said. “And whether they’re scheduling with us, or whether they’re paying for service with us, or whether we’re paying them for a trade, or whether they’re shopping and buying a car online, there’s an infinite number of ways we can leverage technology to improve our business and take cost out of our business.”

The dealership business is in transition as progressive operators work to tap that technology.

Group 1, for instance, is using robotic process automation in credit applications, invoicing and inventory to increase efficiency — among many innovative measures, Kenningham said.

“We’re using artificial intelligence to drive our marketing decisions and touch customers in a way that’s relevant for them and relevant for how they want to do business,” he said. “There’s all sorts of opportunity to leverage technology in our business to be able to try to drive a better customer experience.”

Looking into the future, how will the buying process change? Or where will it most radically change?

Said Kenningham: “We just want to make it as easy as possible to do it, integrate as many steps as we possibly can, take steps out of the process. That’s really what our focus is.”

The bottom line: Facilities will change, dealer requirements will change and EV sales will continue to grow but likely at a slower pace than anticipated. That slower-than-anticipated EV adoption will translate to demand for internal-combustion engines being sustained throughout the current decade.

And dealers should plan to maintain a portfolio mix of both types of products while balancing the reality of consumer EV adoption against automakers’ demands for EV investment that continue to increase in size and scope.