

Dealers weigh future distribution channels

How automakers distribute vehicles to the market is top of mind for car dealers as they look to their long-term futures.

And while dealers have quashed past efforts by legacy automakers to sell directly to consumers, the specter of such a model eventually becoming dominant in the industry is their greatest fear, according to The Presidio Group’s latest Dealer Direction Survey.

Nearly two-thirds of dealers responding to a survey question on the biggest long-term risk factors for traditional franchised dealerships selected a direct sales model — making it their central concern by a wide margin.

“Consolidation to big players will force the manufacturers to go to a direct-to-consumer model,” one survey respondent wrote. Another expressed unease about the “uncertainty of the distribution model.”

Dealers’ worries about direct sales comes even as efforts to sell direct by newcomer automakers in the U.S. have taken some hits of late.



VinFast last fall turned to dealers to sell its EVs in the U.S.

Troubled electric vehicle startup Fisker Inc. in January said it would pivot to franchised dealers to distribute its vehicles and abandon the direct sales approach with which it had launched.

Fisker CEO Henrik Fisker told the Wall Street Journal that selling directly was costing more than the company anticipated to the tune of “thousands of dollars a vehicle.”

When “I saw that number, I realized, shoot, we can actually afford to give somebody else a margin and take care of all that,” Fisker told the newspaper.

Fisker used the National Automobile Dealers Association Show in February to recruit dealers. The company, however, now faces mounting financial pressure including the possibility of bankruptcy.

Before Fisker’s strategy shift, Vietnamese EV startup VinFast Auto made a similar turnabout, turning last fall to a franchised dealer model in most of the U.S. while sticking with direct sales in California.

“The dealership model will allow us to access all the states in the U.S. right away and to leverage the experience that the dealers have already built” in their communities, VinFast Chair Le Thi Thu Thuy told Automotive News in January.

Glenn Mercer, a longtime industry analyst and consultant, has a theory on why the urge to pursue direct sales or agency models may be receding, and it’s directly related to inventories rebuilding.

Disruption on the horizon

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.

Direct sales model	63.6%
Legislative changes, particularly around dealer franchise laws	40.1%
Industry shift to electric vehicles	39.7%
Regulatory scrutiny	31.6%
Agency model	28.3%
Rise of online retailers	17.8%
Inventory instability	16.6%
New automaker competitors	7.7%
Autonomous vehicle technology	3.6%

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— Auto industry analyst and consultant Glenn Mercer

“When you’ve got a few hundred thousand cars on boats that are on your books, your view on dealers changes,” Mercer said at the NADA Show in February.

He expanded on those thoughts to Presidio, pinpointing supply-demand balance as the key factor in determining the success of a direct sales vs. dealer model. While Mercer has consulted for NADA in the past, he noted he is speaking independently, not for NADA.

When supply exceeds demand as it historically has in the auto industry, dealers, who take on responsibility for that inventory and are experts at selling, become optimal, Mercer said.

Direct-to-consumer “is a threat to the dealer system only if some mass-market OEM can come along and magically ensure it never produces a dud and never produces too many cars,” Mercer said. “So I see this as a minimal risk.”

Other concerns

Factors adjacent to direct sales also were top concerns in the Presidio survey. Respondents, who could select up to three long-term risk factors, indicated they are clearly worried about automaker control and weakening of the franchise system.

The second biggest worry identified was legislative changes, especially around dealer franchise laws, an option selected by just more than 40 percent of respondents.

Tensions between dealers and automakers over such laws, often involving direct sales and distribution, have been high in recent years. State dealer association executives shared concerns about shifting sales models and automakers’ actions around franchise laws in a panel discussion at the recent NADA Show.

“What good does it do to work really hard to pass franchise laws and to have all of your dealers involved in that and putting assets into that, and then you can’t enforce the very laws that have been passed?” Ted Smith, president of the Florida Automobile Dealers Association, said, according to an Automotive News story about the discussion.

The Florida association has advocated for stronger state laws with clear language prohibiting automakers from owning dealerships, according to Automotive News.

The effectiveness of legislation is clearly a hot-button item for dealers. “State laws don’t work. They just take incentives away,” one Presidio survey respondent wrote.

Survey respondents selected the industry shift to electric vehicles as their third biggest concern, chosen by just less than 40 percent of participants.

The agency model, while not a top-three concern, came in at No. 5, chosen by 28 percent of dealers. Several respondents wrote of their distress about automakers pushing for more control of the business model. An agency model, in which an automaker sets pricing and dealers deliver vehicles to customers for a fee, would mean less control for dealers.

Virginia dealer Liza Borches, CEO of Carter Myers Automotive, worries about the long-term sustainability of the franchise system but doesn’t think direct sales will take it out. The franchise system benefits traditional automakers, dealers and consumers – and while most automakers would like more control over the system, they don’t want to take on the role of selling and delivering vehicles, Borches said late last year on Presidio’s Full Throttle podcast.

Instead, Borches is more concerned that the franchise system could be damaged by the negative narrative on dealers that often appears in news coverage and discussion of the industry.

“What I worry about is that the franchise system is going to go away before people understand the benefit that it brings to consumers,” Borches said. “And it’s going to be too late when they realize, ‘Wait a second, I now no longer have an advocate for me, that is going to pay attention to my needs, wants and expectations in a car buying and servicing and leasing experience.’”