Is the Future of Car Retail Online?

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Statistics Canada reports that in 1998, 36 percent of all Canadian households were plugged into the Internet, up from 29 percent in 1997. At this rate of growth over 50 percent of households will be online by the end of the year. Without doubt, e-mail is the most widely used application with 86 percent usage. The Internet also has a wealth of information on nearly every topic imaginable.

Government agencies, universities and colleges, libraries, banks, newspapers and magazines, businesses and perhaps even your neighbours have web sites describing their products, services, programs, interests and opinions. It is little wonder, then, that searching for information and general browsing were the second and third most common uses of the Internet in Canadian households.

However, although Internet shopping is becoming more popular, only one in 10 Internet-using households made purchases via computer at home (three percent of all households). This low level of e-commerce may reflect consumer concerns about the security of credit card transactions on the Internet or perhaps the need by some consumers to see, feel or even smell goods before they decide to buy.

Despite these concerns, the Internet is exploding with car buying and/or shopping sites. New sites are entering the market at lightning speed.

The heavy wave of automotive Web sites is a result of car manufacturers, dealers and Web entrepreneurs attempting to meet car shoppers’ demands for online access to vehicle information and, of course, to grab a piece of the profits from any sales generated through the Web.

The traditional system of selling cars is experiencing its greatest upheaval since Henry Ford began marketing his Model T. Auto dealers are installing Web kiosks and hiring Internet managers. Internet companies are buying dealerships. The “old” “Big Three” automakers are joining with “new” Web enterprises.

Ideally, this mass of easy-to-access information gives a buyer the upper hand in the age-old car-buying “battle” with the dealer. Unfortunately, rather than clearing the way to simple vehicle shopping, this possible over-supply of information can overload thinking processes and cause more confusion than comprehension.

A popular response to the Internet evangelists is that the average consumer would not make a purchase of such high value without seeing and testing the product first. However, last year over 50,000 new and used vehicles were purchased in Canada through the use of popular referral services such as autoweb.ca and trader.com. The referral services put consumers in touch with a local car dealer who promises to pass substantial savings through to the consumer. This amount will increase dramatically as more customers become comfortable with online shopping. The referral services follow a simple five-step process:
1. Select a vehicle and its options. All the information to research your vehicle is online at the website.
2. Complete a simple contact information form.
3. Based on your postal code, choose one or two member dealers in your area. Your request will be sent to the dealer(s) you choose.
4. You will be contacted within 24 hours by phone or e-mail by the dealer who will give you a firm, competitive price and inform you of the vehicle’s availability.
5. If you agree with the price, you can arrange to buy or lease the vehicle right away.

With referral services most of the process can be done anonymously and you are under no obligation to buy. You also pay nothing for the service and, if necessary, a representative of the referral service company is available to help you through the process. This is also free of charge.

The actual purchase of new vehicles online is also now a reality. This year a new car dealer group launched cars4u.com where for the first time consumers can actually complete the entire purchase of a vehicle online if they wish.

Cars4u.com owns a number of dealers in the Toronto area as well as a leasing company. If the vehicle you want is not on one of their new car lots they will find it for you. They also deliver your vehicle of choice to your door, all at a lower price than going to your local car dealer. Quite a value proposition.

Buying a custom-ordered vehicle is more problematic. Part of the problem is that cars aren’t anything like computers when it comes to manufacturing. When a customer orders a personal computer online, Dell computers, for example, can pull a limited number of variations using about 30 components off the shelf, snap them together and ship the computer via two-day ground delivery. A car company, on the other hand, has to intricately choreograph the delivery and assembly of 3,000 or more parts, sometimes from hundreds of miles away. Components are too big and expensive to stockpile in warehouses, and there are too many possible combinations to anticipate. Painting cars – not an issue with PCs – consumes a huge amount of time. In addition, many parts have to be colour-coordinated.

Then there is shipping. There’s no way to FedEx a two-ton car. Most vehicles are shipped by rail, and then transferred to trucks for delivery to dealers. The process can take weeks.

Needless to say, the five-day car, where a consumer orders their vehicle online on Monday and has it delivered to their driveway on Friday is still well into the future.

But what is the future of the local car dealer in this Internet craze? If ever a retail channel was vulnerable to being marginalized by Internet innovation, it’s the car dealership — infamous for its bloated sales structures, unpredictable inventories, indifferent customer service and arbitrary pricing. If the Internet is adept at shaking up otherwise efficient, value-added channels (think computers), then it will be ruthless at stamping out automotive underachievers.

At least that’s the conventional wisdom. But underlying this thinking is a new-economy fallacy: that the Internet will replace middlemen rather than transform and improve them.

In any industry, the weakest players will be weeded out. Already, this is happening in auto retailing, not only because online buying sites are squeezing dealer profit margins, but also because other emerging
brick-and-mortar chains are standardizing pricing and service levels.

If all you’re good at is displaying merchandise and marking up prices, you won’t be of much use in any industry or market, much less Internet-driven sectors.

But not every auto dealership is doomed. Plenty are ready to leverage the Internet for their own competitive advantage rather than watch online rivals siphon off customers or commoditize their businesses. For instance, many auto dealers are looking to the Web not only to capture new customers, but as a way to keep customers after the sale. An extranet that one manufacturer is constructing with its dealers will, for example, let dealers’ customers access service records or warranty information over the Web. The extranet will also let dealers exchange sales leads and best practices data, as well as parts and inventory information. All to the benefit of the consumer.

In the end, the traditional car dealership may become an altogether different beast. As in other industries whose products are drifting toward commodity status, the money in car retailing may soon be largely in auxiliary services, such as financing, road service, repairs and extended warranties. We may see the day when dealers consider the new car sale as a loss leader to gain a customer.

Pity the auto dealer? Don’t bother. They will adapt just fine to the Internet economy. If not, the inefficient dealer has had a shake-up coming for some time.

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