LOS ANGELES
Daily Journal
www.dailyjournal.com

FRIDAY, JULY 7, 2017

PERSPECTIVE

Selling Vehicles in Tomorrowland

By Jonathan Michaels

There are certain things that come around every once in a while that change life as we know it. Businesses were never the same after having been introduced to the fax machine, unlocking a world of reviewing and signing documents in an instant. Apple's iPhone engulfed us in a creed of mono-communication, leaving a generation of citizens impervious to in-person social interaction. And now there is Uber.

Heralded for providing the convenience it offers, the full impact of Uber is far from realized – particularly in the automotive industry. At the young age of six, Uber has morphed into an industry-changing juggernaut, operating in 83 countries, and determined to alter humanity's ray of existence. Taking the natural progression of this to its logical conclusion, the impact on automotive makers and distributors will be manifest.

In truth, the automotive industry is currently experiencing a false sense of euphoria. Pundits celebrated last year when the industry recorded 17.4 million new cars sales in the U.S., leaping from the drudges of the Great Recession. The rise was notable. In 2009, the U.S. logged 10.6 million new car sales – or 300,000 fewer cars than were sold in 1965 – making the recovery look herculean.

Yet while we are far removed from the depths of the downturn, we are still short of a robust industry. To put it in perspective, consider that in 2000 the U.S. experienced 17.8 million new car sales. Now consider that, on a smoothed regression analysis, from 1965 to 2000 new car sales generally matched population growth. In 1973, the U.S. sold 14.6 million cars; in 1986, 16.3 million. Sales of 17.4 million in 2016 is not brag-worthy. Adjusted for population growth, the industry should be moving 20 million units a year – an uptick of 15 percent.

The industry could still be climbing back – and 2017 could be a banner year – but there is a larger issue looming of whether, on a long term basis, the auto industry will ever be the same. While the impact is still in its infancy stages, it is nearly guaranteed that ride-share platforms will change the way the consuming public views car ownership.

Historically, save for densely populated metropolises, the industry relied on a one-car-for-one-person model. Unless there was a planned family outing, most motorists on the road have been sole commuters, driving the car they owned to the destination they chose. With ride-share platforms, however, vehicle ownership is becoming less necessary, as communities aggregate and share their resources.

So prevalent is the concept that economists have coined the term "mileage crossover point" – the point at which economists say one should avoid car ownership. Currently, the crossover point is 6,500 miles per year; drive fewer miles than that and taking Uber is a better deployment of your resources.

The break-even point for car ownership is still fairly low, which is why car sales have not fallen off the cliff; but it is not a far stretch to envision the mileage crossover point rising precipitously as ride-share technologies advance, reducing the costs for all. If, or perhaps when, the mileage crossover point reaches 13,747 miles – the average distance driven, as reported by the U.S. Department of Transportation – consumer buying behaviors will forever change.

Coupled with this is the fact that car prices have outstripped inflation year-over-year for quite some time, leading to serious affordability issues. In 1980, the average price car was $7,574. Adjusted to 2017 dollars, this average price of $22,847 dwarfs the average price currently experienced of $33,300. According to a study conducted by the financial service firm Bankrate, median-income households cannot afford the average price of a new car in 24 of the largest 25 U.S. cities.

This is not to say that car companies or dealerships will cease to exist, but the model will undoubtedly change. On the manufacturing side, expect car makers to invest heavily in autonomous driving and direct relations with consumers. State franchise laws prohibit automakers from simply doing away with franchised dealers, and selling direct to consumers, but as the industry fights for fewer sales, anticipate that manufacturers will maximize fleet sales to companies such as Uber, or attempting to service consumers directly with ride-share platforms of their own.

Dealership platforms will also change. The U.S. currently has 16,700 franchised car dealers, but as fewer cars are sold to fewer consumers, expect this number to change. Yet rather than pure abolition, the dealership model will likely convert to fewer franchises, but with stronger stakeholders and larger dealerships.

The change actually began some twenty years ago, when corporate rollups began buying single-point stores, resulting in large, publicly-traded franchise owners, such as AutoNation and Penske Automotive Group. Expect this trend to continue, as consolidated operations allow owners to combine administrative offices and negotiate better vender contracts.

The dealership models that will prove to be successful, regardless of size, will be those who embrace the change, shed non-value-adding functions and find ways to reinvent. To remain competitive, dealers will need to exude transparency and offer consumers an omni-channel, seamless experience at every pre and post-sale touch point. Redesigned infrastructures that allow for digital experiences with relationship-based sales consultants who focus on building trust relationships will be key.

Equally critical will be recognizing – and exploiting – unique partnership opportunities with emerging technologies that service the transportation industry, which go far beyond the mere sale or service of a vehicle. As consumers become less concerned with vehicle ownership and brand identity, surviving dealers will be those who recognize that customers are becoming utility-based, and will be making consuming decisions based on experience, ease of transaction and cost. Those who cater to this environment will conquer the brave new world.

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