ED WALLACE

# Changes

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It's always enjoyable, if not downright humorous, to read so-called intellectual discussions on how the automobile industry will change in the future. I remember when, in the early 1980s, the Fort Worth New Car Dealers Association hosted a salespersons' kick-off breakfast for our auto show's opening; they invited a futurist to explain how car sales would change one day soon. In his vision, cars would arrive at the dealership with minimum equipment and unpainted. There, a customer could choose exactly the options they wanted and the color, and the vehicle would be finished out exactly to the customer's specifications. Well, you didn't need to work in a body shop to immediately understand that there was no way a local dealer could copy a factory paint job, no matter how skilled their painters were. At least, not without charging more money than cars cost at the time.

Second, our prognosticator of future events added, there would be no discounting — and therefore, car salespeople wouldn't be needed anymore. What a great way to motivate people about to have to deal with the public at an auto show. For the record, almost 40 years later little of that has happened. But that doesn't mean that General Motors didn't try to make at least some of it happen.

For example, one of our Dallas dealers was on GM's Saturn advisory council during the run-up to launching that franchise, and he came back from one meeting shaking his head about what GM was planning. First, Saturn stores would not carry inventory, just a small number of demonstration vehicles. Customers would be greeted by a hostess who would hand them the keys to a Saturn for a self-demonstration; if interested, they would be seated at a computer screen to hear explanations of the features and the benefits of Saturn ownership. Then, again with no discounting, they could order their Saturn right there on the spot and it would arrive at the dealership a week later.

In the end, that dealer would not apply for a Saturn franchise because he was convinced it was doomed to failure. And as the record shows, other than not discounting the cars off the MSRP, none of the rest of GM's plans for Saturn went beyond their original pipedream stage.

**BUT WAIT, THERE'S LESS!**



That doesn't mean the manufacturers were done trying to change how automobiles are sold. No, Rick Wagoner, then CEO of General Motors, launched Zero Percent Financing the month after the 9/11 attack. Something needed to happen, because that event cleared showrooms across America more completely than the 2008 Financial Crisis or even the more recent pandemic in its earliest days. Once that financing was offered, October 2001 became the biggest month for new car sales in our history — and the record still stands today. More important, it revived our entire consumer economy; and GM never got enough credit for that.

Within a year or two, though, the business media was asking why it was necessary to continue offering ultra-high, financially suicidal factory rebates and incentives. Usually they compared constant and ever higher rebates to a drug addict's problem of always wanting a bigger blast. Moreover, those rebates, then and now, were so large that they distorted the process of simply offering discount off the window sticker price and negotiating until the dealer made a few bucks and the customer felt they were treated fairly.

Chrysler announced that it had a better way of doing this in late 2003 while introducing the second generation of the Dodge Durango. Instead of offering huge rebates to motivate buyers, Chrysler said it was lowering the window sticker price closer to the vehicles' actual transaction prices. Instead of negotiating and subtracting a factory rebate, the new Dodge Durango's price with equipment was already at the lowest figure based on previous sales. That went over like a lead balloon; ads for the Durango showed the base price and no rebates, but the higher-priced GM and Ford competition all advertised factory rebates — large ones. Turned out the public responded to big discounts instead of lower prices. Chrysler reversed course, raised the Durango's price and got back into the rebate game.

In spite of that very public failure, other car manufacturers also said they were rolling back window sticker prices to levels closer to known transaction pricing. But what they were really doing was cutting out much of the dealers' mark-up in their vehicles, not really lowering the net pricing of the vehicle. The problem? Customers say they hate negotiating for a car, but in reality they demand it when they are ready to purchase. Because customers want to know that they've "gotten a great deal."

Then everyone said the Internet was going to change everything. Yet 45 years ago customers used to walk into dealerships armed with the Car & Driver review of the vehicle they wanted to buy, a page their credit union faxed out of the NADA Used Car Guide showing the value of their trade-in, and a vehicle invoice book that at the time was sold at any 7-11. How is that any different from what the Internet provides now? The only difference is how fast one can get that information and what it costs.



The Internet did destroy the Yellow Pages™, once were used to get phone number and addresses for dealerships, and it did flatten publishing profits for car magazines and invoice books. But, regardless of how one gets that data now, it's still necessary to find the exact vehicle one wants, drive it to make sure it's everything you hoped for, and finish the negotiation.

Now, it's true that with the right information, one can purchase a car over the phone or by email. But other than email, sorry, that's not new either. For years with both Honda and Mercedes, we sold as many cars on the phone as in person and simply had everything ready for the customer to pick up. That also happens when popular vehicles are in short supply. We saw that again during the early months of the pandemic; huge volumes of cars were sold without customers' ever visiting the dealership until they picked up their vehicles.

**BUSHWAH!**

Last week McKinsey & Company interviewed Matthew Gold, the former chief strategy officer at cars.com and former head of strategy at Google over YouTube partnerships. The discussion covered the car-buying experience in 2030.

McKinsey's Inga Maurer in her first question made the statement, "Surveys show that people generally don't enjoy the car buying experience." FactCheck: Untrue. There's never been a survey that shows anything like that. From the first JD Power survey in the early Eighties to today, it shows that right around 85 percent of all new car buyers say their last transaction was handled in a "satisfactory or very satisfactory" manner. The same is true for NADA and other surveys.

Gold answered that's what is going to change, as there will be more options for where and how we buy cars in the U.S. He then points out that Tesla and Carvana bypass the dealer franchise system; what he failed to mention is there were large independent used car retailers not affiliated with any franchise system in the past, so that's not new, either. He also failed to mention that Tesla has never turned an annual profit, although we're hoping it can in the future, or that Carvana in its last quarterly filing with the SEC lost $1,924 per car— on each of their 55,098 sales. Bummer.

The discussion went on like this for the entire column; one day, Gold predicted, you'll simply type into a search engine, "Find me a new car," and magical algorithms will quickly find the perfect new or used car for you — and that may not be out of the question. The amount of data being compiled on everyone in America is so vast that, if the public knew what was really transpiring in the background of our smartphones, Google searches and Facebook pages, we'd demand regulation. It may be that with enough data, computers can indeed predict what type of vehicle a person is likely to want.

But then Gold delivered a sentence that calls into question everything else he has said: "Dealers will need to get much smarter about understanding their customers." The arrogance in that line is unbelievable. Because it is not car dealers, it's Gold who doesn't understand the car buying public. True, many customers know exactly what they want when they go to a dealership. While others think they know, but end up buying something entirely different, in a color they first claimed they hated. More important, people love choices and often walk the lot with their salesperson asking about every model, edition, what equipment it has, demonstrations of equipment and so on. Even if a computer kicked out a vehicle you might want, you'd still want to see it, drive it, and make sure the pricing really works for you.

Left out of this story or any similar articles is this: It's not about finding you a better buying experience, it's about diverting automotive revenues out of the dealers' or traditional media's pockets and into their corporate pockets. The more things change …

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