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TOP TEN MASS. INDUSTRIES RECEIVING PPP LOANS – NEW CAR DEALERS AT #6

"AGENCY" MODEL GAINS SUPPORT IN EUROPEAN CAR RETAILING

NADA SHOW 2021 REGISTRATION OPEN, FRANCHISE MEETINGS SCHEDULE SET

New Data Shows the Ten Industries in Mass. Approved for the Most PPP Funding – New Car Dealers at #6

[Courtesy of *Boston Business Journal*]

The ten industries in the Bay State approved for the most funding from the federal government's Paycheck Protection Program (PPP) this Spring and Summer received a combined $3.077 billion from the $659 billion program, according to an analysis of newly released data by the *Boston Business Journal*.

Franchised new-car dealers come in at #6 on the top ten list.

Federal officials late Tuesday released additional details on data outlining recipients of PPP loan approvals following a Freedom of Information Act request from news agencies across the U.S., including American City Business Journals, the parent company of the *Boston Business Journal*.

The Business Journal is breaking down what you need to know about this newest swath of PPP information, including the top 10 industries that received funding. The analysis is taken from examining federally provided PPP data by North American Industry Classification System (NAICS) codes, which the federal government uses to classify businesses.

Here are the top ten industries in Massachusetts that received the most PPP funding, according to data provided this week by the U.S. Small Business Administration:

1. Full Service Restaurants - $698,722,273 total
2. Electrical Contractors and Other Wiring Installers - $308,367,659
3. Plumbing, Heating, and Air Conditioning Contractors - $295,592,115
4. Physicians Offices (excl. mental health specialists) - $295,236,657
5. Lawyers Offices - $274,634,618
6. New Car Dealers - $274,506,657
7. Dentists Offices - $246,041,032
8. Nursing Care Facilities - $234,290,585
9. Commercial and Institutional Building Construction - $226,250,621

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10. Elementary and Secondary Schools - $223,416,123

European Car Retailing Poised for Shake-Up as 'Agency' Model Gains Support

[Courtesy of *Automotive News Europe*]

Dealers and consumers are keen for automakers to move to an "agency" selling model that would facilitate a shift to a more online buying process, a new study has concluded.

However, the practicalities of shifting to an entirely new business model that transfers the setting of transaction prices to automakers from dealers is causing some friction in locations where the change is being implemented.

"The current sales model is not sustainable, and an adaption is essential to stay competitive," the report from Capgemini concluded after surveying 6,000 consumers and 50 dealers in major European markets and China.

Automakers in Europe have already begun rolling out the agency model, whereby they pay dealers for each car sold, as opposed to dealers buying cars wholesale and setting transaction prices themselves.

Under an agency model, automakers take control of consumer pricing to the point where haggling could be eliminated.

Of the dealers surveyed by Capgemini, 80 percent highlighted their concern about the lack of price transparency for both dealers and consumers, while 70 percent of consumers worried that prices advertised on brand websites were higher than offered by dealers.

A majority of those customers surveyed (75 percent) expected to be able to buy their next car online, but 92 percent still considered "a personal touchpoint" with dealers to be essential, suggesting that a so-called "omni-channel" combination of online presence and a physical dealer network was still needed.

Changes underway

The process is already happening. The VW brand rolled out the agency model to its dealers in Germany and Austria for its ID3 full-electric car, while Daimler uses the system in Sweden and will extend it to Austria next year as part of a wider plan to encompass all of Europe. Elsewhere, BMW has implemented the agency model in South Africa, while both Honda and Toyota use it in New Zealand.

The customer's desire for a more online-based sales experience can't happen without an agency-style model, said Steve Young, managing director of dealer analyst firm ICDP. Manufacturers want to switch for two main reasons, "One is the need to allow customers to move flexibly between online and physical channels, and the second is a general desire to be closer to the customer," he said.

The current system gives customers one price on a brand's website, but with a bit of online researching, they can usually find the same car for much less.

"Right now, you are effectively building a deterrent to using an online channel because the online pricing has to be high," Young said. "But if you put low pricing in an online channel, you end up with a classic race to the bottom."

Removing intermediaries

Dealers cautiously welcome the idea of the agency model. Because the manufacturer would set the transaction price and pay the dealer a fee, more of the margin would be retained between the two.

"The great thing about the agency model is that intermediaries between can't take a slice," said Robert Forrester, CEO of the Vertu dealer group in the UK, where no volume brands have changed over to a full agency model yet.

Online intermediaries such as carwow.com are used by dealer groups to shift unsold stock at lower prices, meaning the sales margin gets spread even more thinly.

"They are a function of over-targeting and the need to move metal and so you get massive value destruction," Forrester said.

Dealers end up giving away margin under the wholesale system to meet volume bonus targets. "It's a bit crazy. We get a 13 percent margin but we're only able to retain 3 to 4 percent," Daksh Gupta, CEO of UK-based Marshall Motor Group, said. "In future, that margin will be retained by the automaker and will lead to a more transparent process for the customer." Gupta said that typically his margin on new cars rises to 7 percent with finance and insurance included.

The agency model adds an element of financial predictability missing from the current wholesale model, Holger B. Santel, VW's head of sales for Germany, told *Automotive News Europe* sister publication *Automobilwoche*. "Dealers have a fixed margin, the gross profit per vehicle can be planned and is at a level that [currently] not every product achieves in dealer sales."

Friction points

Implementing the agency model has caused friction at Daimler's dealers in Austria, *Automobilwoche* reported in November.

Dealers are unhappy at not being able to set transaction prices and think the maximum agreed agency fee of 5.8 percent of the transaction price isn't high enough, especially as they still need to hit volume targets to earn it.

The fee drops to 2 percent if the car is sold online and the dealer acts purely as a center for test drives and delivery, another source of friction with dealers who felt the payoff was too low. A spokesperson for Mercedes-Benz Austria told *Automobilwoche* it had received a commitment from all of the current dealers, "to implement the system in time for the second half of 2020."

Daimler's agency model in Sweden pays a fee on car sales but also pays a share of the rent of dealers' premises, recognizing that Mercedes showrooms need to offer a premium experience, ICDP's Young said.

In South Africa, BMW pays a straight commission fee, a system that has harmed bigger dealers. "Under the old system, the larger dealers used price discounts to drive volume over a larger area, stealing sales from smaller dealers," Young said. "Under the agency system, they can no longer do that, so the smaller dealers are winning back customers."

BMW declared the South African trial a success. "Today I can honestly say not one of the retailers wants to go back, they do not want to return to the old wholesale model, they love it. And the customer reaction we are getting is exemplary as well," BMW South Africa Managing Director Tim Abbott told UK motoring publication *Autocar*.

The move to direct sales – where the automaker sells the car to the customer, rather than the dealer – shifts the financial burden. "You're moving billions out of inventories, removing risk of the inventory out of dealer books on to the manufacturers," Vertu's Forrester said. "There are lots of advantages for dealers – lower capital employed, less credit and stock risk."

Whether those advantages are enough to persuade dealers to switch depends on what the agreed handling fee will be and whether that includes additional support, for example, for infrastructure, Forrester said.

"Dealers are only going to do it if the financial returns on the capital invested gives a sufficient return," he said. "And therefore it's difficult to conclude if it's good or bad for retailer until we know what the economics of the model are."

Europe's biggest dealer groups have become so integral to the manufacturers' business model that automakers will need to tread carefully to make the shift happen. ICDP's Young recounted a story from a few years back during which an unnamed manufacturer triggered a two-year notification to break ties with a dealer group for not complying with used-car standards.

"The reply came back: ‘I'm not hanging around for two years. How about next week?' It wasn't the reaction the manufacturer was expecting." he said. The two sides eventually agreed on six months.

Without the same urgency to push sales, the agency model shifts the emphasis on the manufacturer to better understand market needs, Forrester said. "The only way to do it properly is to use proper data analytics to make sure they build the car that's required by the public and it is sitting around for a long time," he said.

Price tweaks

Although an agency model will reduce the instances of discounting by offering a transparent online price, manufacturers will still be able to manipulate that price to stimulate demand. The increase in popularity of finance across Europe, usually offered by the automakers' captive finance companies, gives them the perfect cover without making price cuts that could hurt residuals.

"Manufacturers put variable marketing [discounting] into finance deals because it's not as transparent," ICDP's Young said. "If you take 5,000 euros off the list price, that's very visible, but if you put it into finance, you can't really see that."

Manufacturers, however, will likely lose money initially because of their limited experience with pricing, Capgemini said in its survey, referencing early pilot programs. "The importer/OEM lacks the direct customer contact and the pricing expertise that the dealerships have historically developed," it wrote.

Once the expertise had been gained, Capgemini estimated that the agency model "significantly" reduces the cost of retail as data gained from increased online contact with buyers should result in increased revenue.

The analysts estimate that transaction prices will increase by 2 percent and volumes will rise by the same amount. Capgemini also estimates that aftersales, traditionally the highest margin element of dealer activities, would increase as customers were fed individual offers.

Closer connection

A key element for automakers is being able to establish a closer connection with the customer, via online profiles. For example, VW ID owners are asked to set up an account on the brand's We Connect app that links with the car and with VW's own database. The customer is asked to pick a local dealer, which then gains the service work on the car but also a share of any future over-the-air upgrades ordered via the app, even if the dealer played no part in selling the car to the customer.

VW has developed a new IT system called Thunder that facilitates the process. The automaker has said that over-the-air updates will be available for its ID range starting in early 2021.

The move into software delivery directly to the car was pioneered by Tesla's successful direct sales platform, which treats the car and the software upgrades the same. It's an offer that other automakers are trying to match, with Daimler recently declaring it could deliver profits of a billion euros by 2025 from software upgrades made over the air to the car.

"That's where there is a genuine need to be closer to the customer, and the dealers wouldn't argue with that," ICDP's Young said. "They don't want to get involved in handling the connected car, the data and the volume that comes from it. There are some things that force manufacturers to get closer to the customer, and the agency model just makes that much easier."

Attend Franchise Meetings at NADA Show 2021 – Register Today

NADA has just announced the 2021 schedule of dealer franchise meetings taking place at this year’s NADA Show, Tuesday, February 9 through Thursday, February 11.

Just as with NADA’s in-person shows, this year's dealer franchise meetings will offer dealers and dealership managers the chance to learn the latest updates and changes happening with their franchises directly from their senior leadership.

This is your opportunity to not only hear from but to speak directly to automakers about your dealership's concerns during Q&A sessions and get to know other successful dealers under your brand.

Start planning your meeting schedule along with 60+ workshop sessions, insights from the Main Stage; thousands of products, live product demos, and one-on-one meetings with exhibiting companies at NADA Expo as well as networking opportunities across the entire automotive industry.

Plus, register early with no cancellation fee before January 11.

View the 2021 franchise meeting schedule and secure your spot at the Auto Industry Event of the Year.

Register today here.

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If you have any questions regarding this bulletin, please contact Robert O'Koniewski, Esq., MSADA Executive Vice President, by e-mail at rokoniewski@msada.org, or Peter Brennan, Esq., MSADA staff attorney, by e-mail at pbrennan@msada.org, or either by phone at (617) 451-1051.