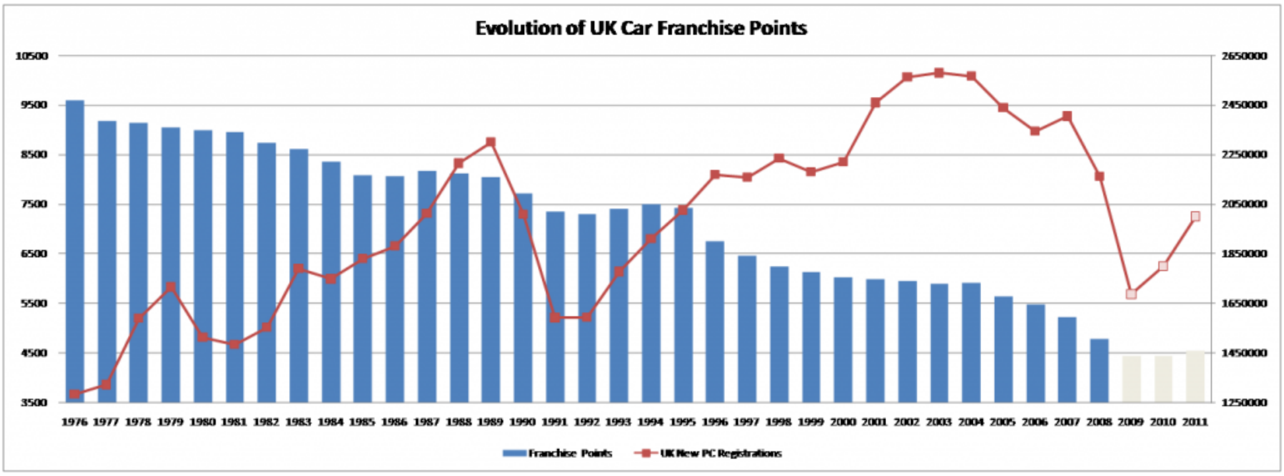
Should smaller brands try a new dealer business model?

IKEA now have 17 stores in the UK. In 2002 they had 11 and said that back then 70% of the UK population was within 60 minutes drive of a site. So what's the minimum number of dealers a franchise needs to service the UK? Probably a lot fewer than exist at present.

The average customers per employee per week at Tesco was 21,600 in 2008. The UK average car sales executive sells 159 cars a year.
Given these striking discrepancies, is there the potential to create a more cost effective and productive car dealership model for the 21st Century?

There are two enduring trends in car retailing in the last forty years. The first has been the almost annual decline in the number of franchised dealers. In the UK alone the number of independent franchise points is almost half what it was in 1976. Estimates for the close of 2009 suggest around 4,500. One striking feature is that the number falls – whatever is happening to the car market: dealer numbers reduce relentlessly.



One of the enduring retailing trends across Europe in the last thirty years has been the drive towards exclusive dealerships. Vehicle manufacturers watched the emergence of brands like BMW and Mercedes-Benz with envious eyes and concluded that, even from humble beginnings, you could emerge with a network of distinctive outlets. So much so that exclusive dealerships are the dominant model in Europe and in the UK in particular.
But are they profitable? Undoubtedly not for small volume brands. But their chosen alternative – multi-franchising – isn't much better either, because the basic cost structure of the dealership is kep the same. Its just that the costs are shared two, three or even four ways.
The fundamental difficulty is that both exclusive and multi-franchsed dealerships are too expensive to operate, which is why so many have ceased to trade. Since Block Exemption costs became worse as manufacturers added on the costs of franchise standards in order to

build barriers to entry against unwanted newcomers. Sadly, nothing was put in place to ensure that the dealers behind the barrier could make the extra income to pay for the standards.

This is not to imply that car makers have been cavalier in their attitude. Impoverished dealers have to be financially supported by them or they will cease trading. The costs of support may be lower than the costs of refranchising. Franchising managers are often faced with second generation offspring who would prefer to liquidate the assets and invest them elsewhere for a better return.

In any case, other factors are lowering dealer's incomes. UK demographics are changing and a higher age profile of buyers is emerging. These are often more affluent and most have less need for retail finance, which cuts off an important dealer income stream. The Internet is an increasingly used research tool, so buyers arrive informed about the prices available, the value of their trade-in and the best way to finance their purchase. The room for negotiation is narrower, so margins are thinner.

Most dealer groups have been experimenting with a solution for this problem for some years, more efficient and productive 'back office' operations, but with mixed success. One reason is that some car makers are still wedded to the notion of exclusivity insisting on separate workshops, technicians, parts distribution and so on. Another is that staff and managers may find the transition challenging. For example, some managers prefer to have their own specialist service receptionstaff, even if they are not adequately productive, rather than use a centralized booking service.

What is also true is that few franchises have set up efficient central services themselves.The emphasis is on'efficient'. There are plenty of examples of franchises setting up parts ordering with built-in prameters designed to transfer stock from wholesaler to retailer. So, dealers simply learnt to keep their local parts manager employed rather than risk high levels of stock obsolescence.

But it doesn't have to be this way. Smaller franchises could invest it central services that were designed to enhance efficiency rather than transfer business risks down the supply chain. Dealers could be encouraged to reduce their staff levels and their operating costs rather than the opposite.

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