



# Will this be the end of car dealerships as we know them?

**Online shopping, ride-sharing services, collision avoidance technology, and self-driving cars will lead to a sharp drop in dealers' sales and profits.**

**Automakers and their dealer partners need to rethink the future of retail.**

# No love lost

## It's long been said that Americans have a love affair with the car, but the same isn't true about the car dealer.

While some buyers may relish haggling over price and financing, most approach the prospect with anxiety, if not dread.

Nevertheless, consumers have had no choice but to visit the showroom to make a car purchase. Most states prohibit automakers from selling their products directly to the public. And that arrangement has obviously worked out well for car dealers.

But a number of technological, economic, and cultural changes are beginning to challenge the car monopoly and directly threaten dealers' profitability.

Consumers can now shop for literally anything online, comparing prices among retailers and often completing the purchase on their mobile device. While online car buying isn't quite here yet, today, a number of online sites can give car buyers important information about car features, quality, and pricing, arming them to approach the bargaining process with greater confidence. That's good for the car buyer, but margins on new cars have suffered since consumers are now able to negotiate better deals.

Another challenge that dealerships are just beginning to face is the rise of ride-sharing services such as Uber, Lyft, and others. The convenience of hailing a ride by tapping on a smartphone app and paying the fare electronically is prompting some consumers in dense urban areas to question whether they even need to own a car. And because Mobility as a Service (MaaS) vehicles carry many riders and make multiple trips, it will take fewer MaaS vehicles to replace these personally owned cars.

As the MaaS industry continues to evolve, it is expected to present another challenge to dealers when it begins to offer self-driving cars as "driverless taxis." The development of autonomous vehicles (AV) is happening much faster than most people predicted, and they are expected to become a commercial reality in the next five years. Carmakers see MaaS providers as a potential rich market for their AVs and will likely bypass the dealer channel all together—both for sales and service, contributing to a rapid decline in new-car sales to consumers over the next 10 to 15 years.

Of course, car dealerships offer more than just new cars, namely used-car sales, repair and maintenance services, and replacement parts. As the profitability of new-car sales has declined, dealers have been leveraging these other revenue sources to stay ahead.

Here again, the self-driving car will pose a threat. As we stated in our white paper, *Will autonomous vehicles put the brakes on the collision parts business?*, the growing use of advanced driver assisted systems (ADAS) and eventually full automation will reduce the number of vehicle accidents and consequently cut into dealers' profitable collision-repair business.

Given the combination of all these market trends, the current dealership revenue and profit model is coming under severe stress. In a do-nothing scenario, many dealers will go out of business, and among those that survive, customer experience will suffer due to increasingly desperate attempts to find incremental margin.

We believe car dealerships have several options that can help them protect their profitability, as the auto market undergoes this transformation. In this paper, we will explore the following scenarios that we have modeled and how they can protect dealership's profits.



Dealerships can consolidate to maintain the current levels of profitability.



Dealerships can cut their costs to adjust to lower the sales levels. The number of dealerships stays the same as today.



The original equipment manufacturers (OEMs) may bail out the dealers by increasing incentives, holdbacks, etc.



A combination of two or more of these scenarios, which will vary by OEM and geography, could be an attractive solution.

---

Before we explore these scenarios in detail, it will be helpful to take a brief look at the overall economic health of U.S. auto dealerships to better understand where their profitability stands today and just how it will be affected by this transformation in the auto sector.



# Current dealer economics

## Despite successive years of slow economic growth, U.S. car dealerships have fared relatively well.

The number of dealerships has been generally stable over the past few years, and sales have inched up year over year.

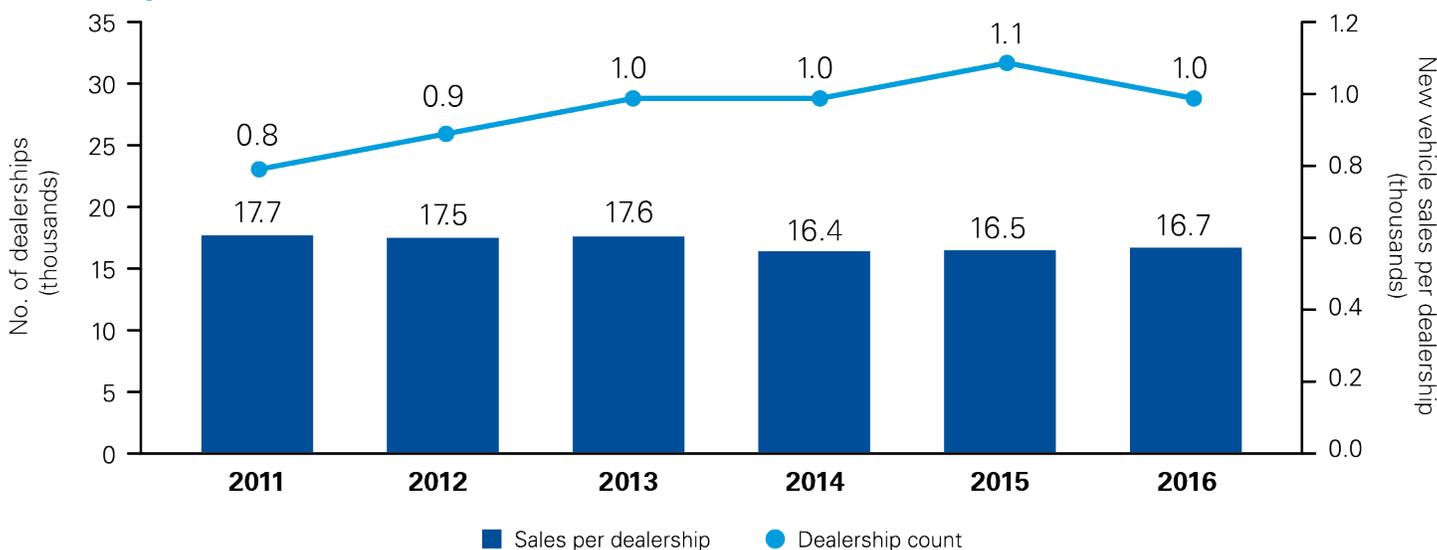
Since 2011, the number of dealerships has declined marginally by about 6 percent, pushing the average new vehicle sales per dealership to about 1,000 from 800 per year.<sup>1</sup>

Although these figures suggest a relatively stable trend, dealers are facing some headwinds. One area of weakness

is that even though new-vehicles sales have been trending up over the last six years, dealers are making less on each car.

Take luxury dealers. From 2011 to 2016, new-car sales accounted for between 55 percent and 57 percent of overall average dealership revenue (which includes used-car sales, service, parts, and body shop). But for that same period, new-vehicle gross margin as a percentage of selling price dropped to 5.1 percent from 6.3 percent, while average net profit before tax, slipped to 2.7 percent from 2.9 percent.<sup>2</sup>

### Dealership Count<sup>3</sup>, thousands, 2011-2016



Note: (a) Includes sales of vehicles under the respective brand

<sup>1</sup> Source: National Automotive Dealers Association (NADA)

<sup>2</sup> Source: NADA

<sup>3</sup> Source: NADA

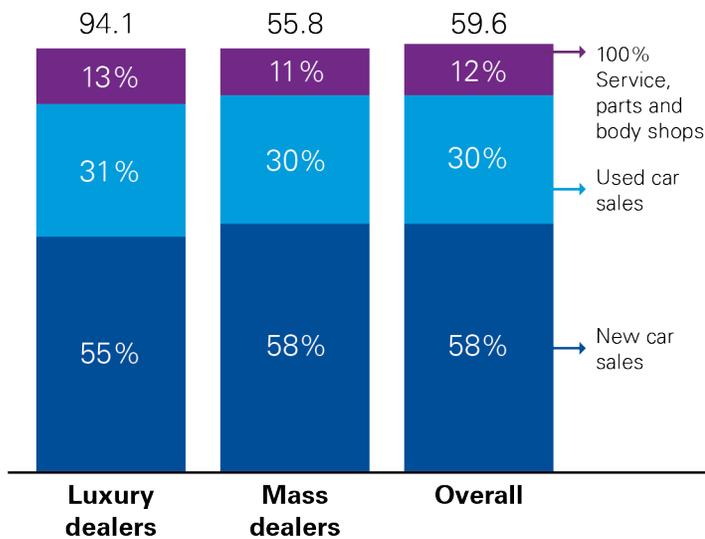
The picture is somewhat the same for mass-market dealers. For the same period, mass-market new-car sales accounted for between 56 percent and 58 percent of overall sales, while gross margins on these sales fell to 6.2 percent from 7.1 percent.<sup>4</sup>

However, new-vehicles sales are only part of the story when dealer profits are concerned. In actuality, other parts of the dealers' business provide the bulk of their net income. For example, service and parts represents 13 percent of average dealer revenue, but 42 percent of gross profit. Finance and insurance is currently another profitable

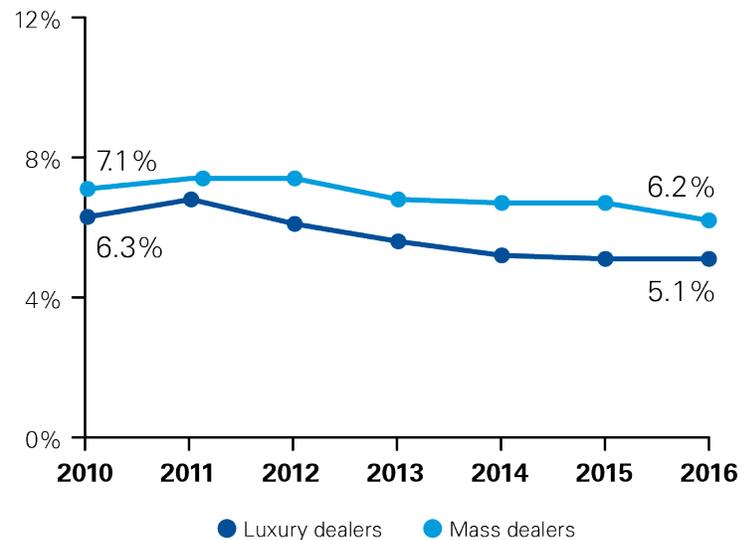
business line for dealers, representing only 4 percent of dealer revenues but a significant 24 percent of profit.<sup>5</sup> Faced with the inevitability of lower margins on their new cars, dealers have recognized the need to focus on these more lucrative aspects of their business.

As we'll explore next, when it comes to economic health, there are new bumps in the road ahead for car dealers, as Internet-savvy consumers, collision avoidance technologies, riding-sharing services, and self-driving cars combine to put further pressure on their bottom line.

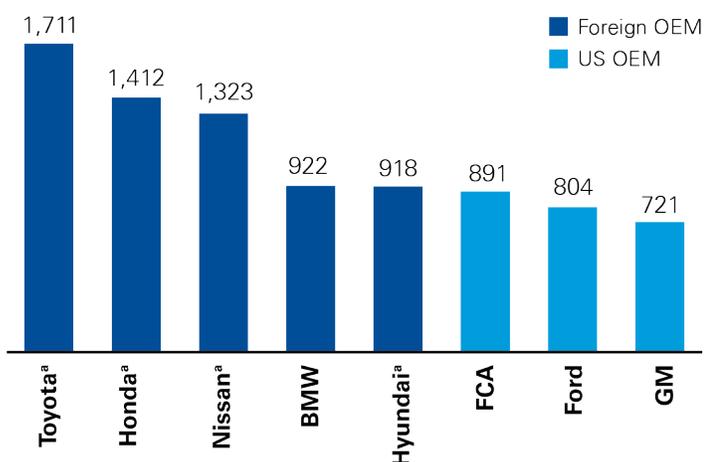
### Average dealership sales by type, \$m, 2016



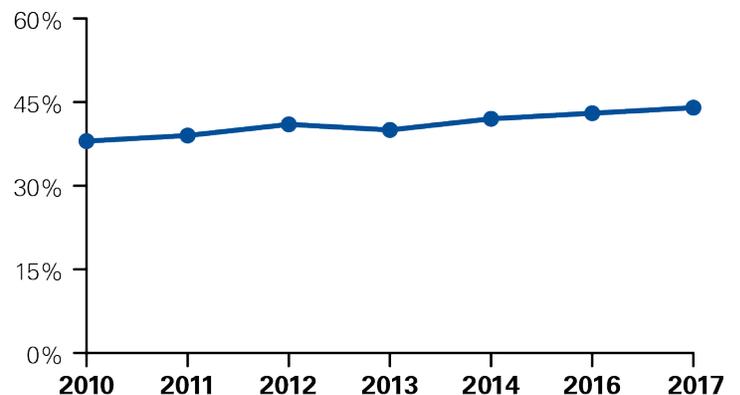
### New vehicle gross margin as % of selling price, 2010-2016



### Sales per dealership, 2016



### Service contract penetration – % of new vehicles sold (2010–2016)



Note: (a) Includes sales of vehicles under the respective brand

Sources: All charts created from KPMG analysis of data from: NADA; Automotive News; LMCA

<sup>4</sup>Source: NADA

<sup>5</sup>Source: Susquehanna Financial Group, "Initiating Coverage of Auto Dealers" (February 2017)

# U.S. car buyers loathe the dealer experience

**In the realm of customer experience—as most anyone who has purchased a car can tell you—car dealerships, in general, have a way to go.**

Surveys show that consumers view buying a car at a dealership to be an unpleasant, anxiety-producing experience, involving aggressive sales tactics, questionable business ethics, and the inevitable haggling over price. (See nearby sidebar)

Despite the unpleasantness, U.S. consumers have had no choice but to go to car dealer franchises for the purchase of new vehicles. The strong car-dealer lobby has been able to influence state franchise laws, creating a virtual monopoly for car dealers and prohibiting online sales

for new cars in many states (Europe is ahead in the game here, with some car makers already beginning to offer on-line new-car shopping to consumers.)

Nevertheless, car buyers aren't completely at the dealer's mercy in the car-buying process and have found ways to help level the playing field. In years past, smart consumers relied on print publications like Consumer Reports and Edmunds Bluebook for reviews and price information for help in getting the best deal. But with the Internet, these sources went online, allowing them to provide more extensive and timely vehicle data. Adding to these are a number of car-information Web sites, like online car market TrueCar and Autotrader. Using these resources, consumers have become even-more discerning buyers.

Moreover, being able to view a wealth of information and comparison shop online, consumers feel they don't need to visit the dealership quite as often as in the past. According to JD Power, the average dealership visits by a consumer before buying a car declined from 3.5 in 2012 to 2.8 in 2016, while Evercore ISI estimates a reduction from four to five visits 10 years ago to one-to-two visits today in some geographies.

## Consumers dislike car shopping

### 2016 car buying experience study<sup>6</sup>

**Nearly 65 percent** of consumers believe that U.S. car dealerships' business practices are not ethical

**Nearly 80 percent** of consumers believe aggressive car sales are avoidable

**Over half** of consumers surveyed believe unrealistic sales goals set by OEMs cause car dealerships to conduct aggressive sales tactics

### 2016 Beepi poll<sup>7</sup>

**87 percent of Americans** dislike something about car shopping at dealerships and 61% feel they're taken advantage of while there

**52 percent of shoppers** feel anxious or uncomfortable at dealerships

Other challenges include the lack of transparency, being pressured into buying right away, being tricked into purchasing features that they don't need

<sup>6</sup> Source: Total Dealership Compliance, auto dealership survey (July 2016)

<sup>7</sup> Source: Beepi, 2016 Consumer Automotive Index (July 2016)

While it's true that most car dealerships operate in the traditional manner, many others have become quite sophisticated when it comes to their online presence. Dealers are now using their websites to make it easier to shop for car by listing their inventory, option choices, financing deals, allowing the consumer to get an idea of the look, feel, and purchase price for the car of their dreams before entering the showroom.

Some new-car dealers have even started to adopt an omni-channel strategy, setting up online stores or collaborating with online third parties. For example, Toyota Marin is selling about 40 vehicles per month through an online shopping portal called Express Storefront (in partnership with Roadster). Financing can be arranged online as well, reducing paperwork and visits to the dealership to apply for loans. One trailblazer was TrueCar, which in 2015 collaborated with LendKey, an online lending platform to launch an integrated auto buying and lending platform. The platform allows consumers to get a pre-approved financing certificate in minutes online versus hours in person at the dealership.

Interested in trading in your current car? Online portals can help with that as well. Carvana's car value calculator—Cardian Angel—uses the Vehicle Identification Number and other proprietary algorithms to verify information and estimate the vehicle's value.

To be sure, dealers see these online platforms as potential sources for new customers and enhancing the customer experience. However, the significant downside of their web presence has been that the increased price transparency and competition has allowed buyers to cut better deals, leading to reduced margins (or Gross Profit per Unit) for dealerships.



## Competing with the dealer franchise model

OEMs have tried to compete with the dealer franchise model, but their efforts have failed.

In 1997, Ford created Ford Retail Network (renamed to Ford Auto Collection) in five cities—Salt Lake City, San Diego, Rochester, Oklahoma City, and Tulsa with the intentions to consolidate dealerships to increase its margins. Dealers who participated in this experiment got an 80 percent equity stake in local entity and Ford owned a 20 percent stake.

A year later, Ford tried to set up factory-owned stores in Texas. However, due to stringent legislation

the Ford Retail Network failed in the state. By April 2002, Ford Retail Network stopped operating in most of the states by selling their stores to the existing dealers at that time.

In 1999, the company decided to sell off-lease and program rental vehicles online in specific markets with an objective to make profits by selling cars between wholesale and retail price. This experiment faced legal challenges in states such as Texas where direct sales were prohibited. In addition, the online traffic was low and Ford still has to pay its dealers for services such as paperwork to complete the transaction.





## Tesla challenges the dealer monopoly

Luxury all-electric car innovator Tesla has tried to challenge the car dealerships' monopoly on customer vehicle sales. Tesla has obtained permission to operate stores (where the purchase of a car is possible) in 23 U.S. states.

Tesla believes that traditional dealerships would have a conflict of interest in promoting the benefits of electric vehicles (EVs), as these would be based on comparisons against gasoline vehicles, which are the main source of revenue for dealers—both from new car sales and services and parts.

Tesla is using its stores to provide an improved experience while educating potential customers on the advantages of EVs. For example, staff at their stores are assessed based on the quality of their interactions with customers rather than sales.

The company has also said that it would consider working with franchise dealers once annual sales volumes reach levels of hundreds of thousands.

Source: The Verge Web site, "In major reversal, New Jersey allows Tesla to sell its cars directly, without dealerships" (March 18, 2015)

Source: Bloomberg Web site, "Tesla Cranks Up Pressure to End Ban on Direct Auto Sales" (September 22, 2016)

Source: Fortune Web site, "Lessons Learned Standing in the Tesla Model 3 Reservation Line" (April 1, 2016)

Source: The Verge Web site, "Tesla sales banned by West Virginia, whose Senate president is also an auto dealer" (April 3, 2015)

Source: Popular Mechanics Web site, "Do We Really Need Car Dealerships Anymore?" (July 30, 2013)

Source: Tesla company Web site

Source: BBVA Research, "Auto Dealerships Destined for Disruption" (February 2016)

Source: Cowen & Co., Tesla Motors report (September 2015)



Online retailing is also coming to the used-car market, which has witnessed penetration from start-ups that are facilitating online purchase process, including car selection, financing, purchase, delivery, and return (if required). One example is Carvana, an online used-car seller that allows customers to buy, sell, or trade cars on its online platform, as well as providing financing options (see below). The company also offers delivery services to purchasers and has even set up "vending machines" where customers can pick up their cars from giant kiosks. And if the customer isn't happy with the vehicle, Carvana allows for a return within seven days of purchase.

Since few buyers pay cash for their vehicles, financing is an essential component of the car-buying process. Here, too, online sources for car loans are becoming more popular.

In 2015, TrueCar partnered with LendKey, an online lender, to launch an integrated auto buying and lending platform. The platform allows consumers to get a preapproved financing certificate online in minutes compared to waiting hours at the dealership. TrueCar's co-founder stated that LendKey has established relationships with hundreds of credit unions and banks to develop an online loan process that is designed to be simple and transparent.

As alluded to above, Carvana partnered with Northwest Federal Credit Union (NWFCU) in 2017 to provide a completely online vehicle financing and purchasing solution to more than 200,000 NWFCU members. Members can shop, finance, and purchase a vehicle and have it delivered to their doorstep as soon as the next day, all from the comfort of their home.

# Mobility as a service and declining car ownership

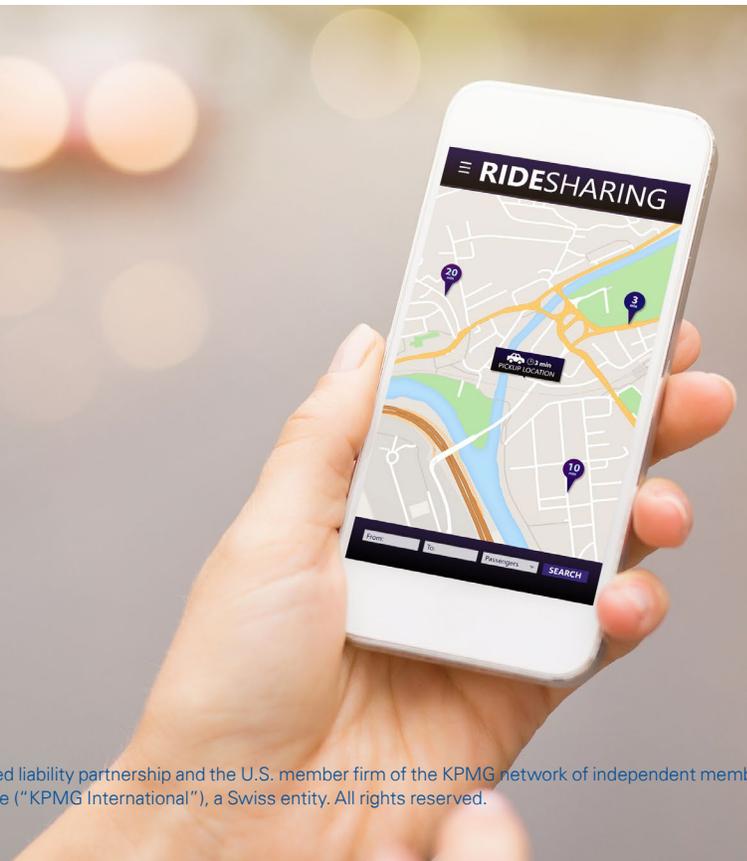
**In addition to better-informed buyers enabled by the Internet, other cultural developments, fueled by mobile technologies, are posing additional challenges to car dealers.**

In just a few years, booking a ride-sharing service on your smart phone has become commonplace for many people, particularly for urban dwellers. Using the service is easy, quick, relatively inexpensive—and hip. And it wasn't long before competitors, such as Lyft and Via, showed up on

the street. These ride-sharing companies have ushered in MaaS by combining transportation with technology—the smartphone app.

For urbanites in particular, these ride-share services can eliminate the headaches of driving in traffic and finding a parking spot—and

consequently the need for owning a car all together. The higher utilization of MaaS will also play a factor in pushing down car sales. Since a single MaaS car will transport many riders, fewer MaaS vehicles will be needed to replace individually owned cars.



# Autonomous vehicles and MaaS

## MaaS is expected to threaten dealers' new-car sales in another way. Think driverless taxis (AV-MaaS).

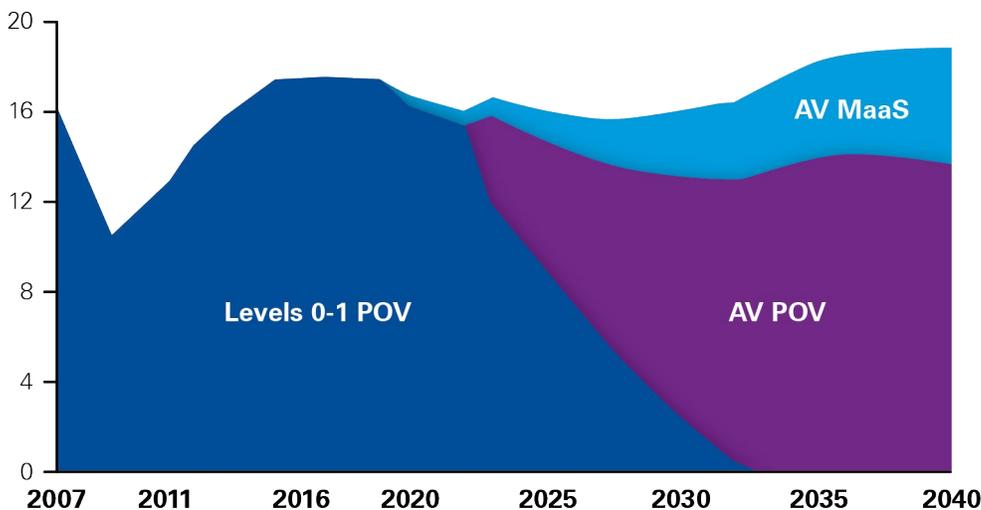
Self-driving cars, or AVs, are being developed rapidly and will be making their appearance on the country's highways sooner than many people realize. Although AVs will be sold to the individual consumer, carmakers are also seeing a market for AVs in the MaaS sector. Already, some automakers have announced plans to introduce mobility services using autonomous vehicles. For example,

GM has partnered with Lyft to supply AV Chevrolet Bolts for field test by 2018.<sup>8</sup> Ford has also announced plans to introduce self-driving taxis by 2021. And Nissan-Renault-Mitsubishi has announced its intention to become a leader in driverless taxis by 2022.<sup>9</sup>

These efforts around AVs and MaaS will result in an uptick in OEM new-vehicle sales directly to fleets and a decline in sales of personally owned

vehicles. In fact, KPMG's analysis (described in our *Islands of Autonomy* whitepaper) shows that MaaS and AVs could potentially lower the sales of personal cars to 50 percent of today's levels in certain high-population density markets by 2035 and have a significant impact on the dealer network with more dealers going offline.

### New passenger vehicle sales, million units 2007-40E



POV = Personally owned vehicles  
 AV POV= Autonomous personally owned vehicles  
 AV MaaS = Autonomous mobility as a service vehicles

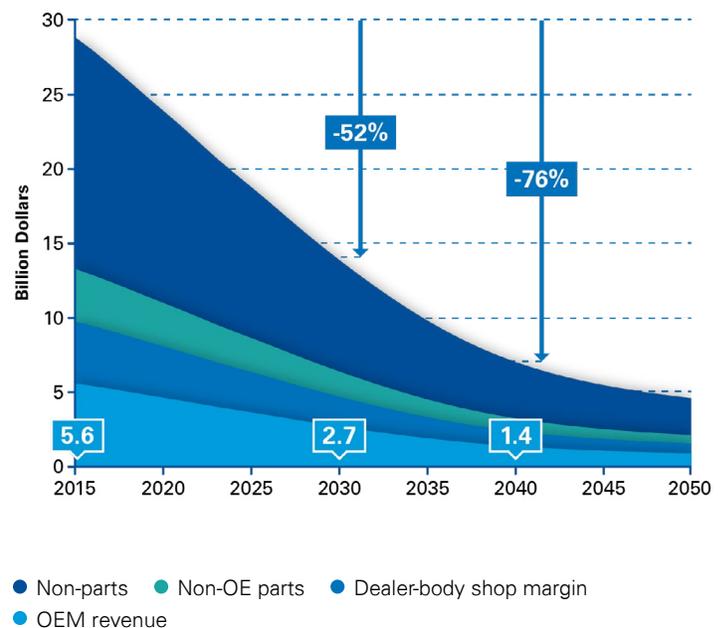
<sup>8</sup>Source: WCCFTech, "GM Will Launch Thousands of Self-Driving Bolt EVs in 2018 through Strategic Partnership with Lyft," (February 2017)  
<sup>9</sup>Source: CNN Web site, "Renault, Nissan and Mitsubishi team up on self-driving and electric cars," Tech section, September 15, 2017

# Self-driving cars and dealers' collision-repair businesses

**Outside of MaaS, AVs are also expected to threaten car dealerships' lucrative collision-repair and parts business, which they have been using as a hedge against declining new-car profits.**

By necessity, AVs will be outfitted with the latest sensors and safe-driving technology and consequently are expected to be involved in much fewer crashes than human-piloted vehicles. In our recent white paper, *Will autonomous vehicles put the brakes on the collision parts business?*, we concluded that this decline in crashes will directly impact the lucrative high-margin collision repair business of dealers as service and parts account for over 55 percent of dealers' gross profits.

**Total collision repair retail market (billions), 2015–2050**



# Effect on dealerships

## We should point out that not all future trends will work against the dealer.

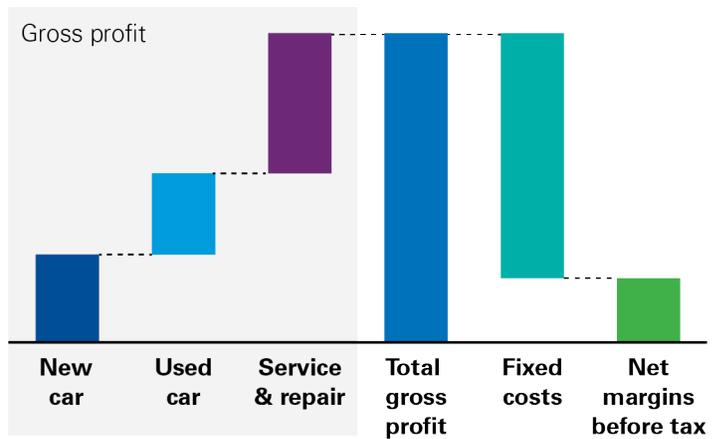
For example, as the number of sensors and electronics on vehicles continue to grow, car owners will have no choice but to take their vehicles to the dealers to maintain. This fact will be especially true for personally owned automated vehicles. The current trend of increasing maintenance income and margins is likely to continue for dealers. Also, car-part complexity and features will also mean when the inevitable collision does occur, dealers can command higher repair prices and hence gain greater margins per repair. For these reasons, car dealers need to continue to support and nurture these parts of their business.

However, these supplementary business, even if they remain successful and profitable, will not be enough. We believe the combine threat of declining car sales due to MaaS in urban areas<sup>10</sup>, AV-MaaS fleets bypassing the dealers for sales and service, and crash-avoiding automated vehicles will cause severe stress on the dealer.

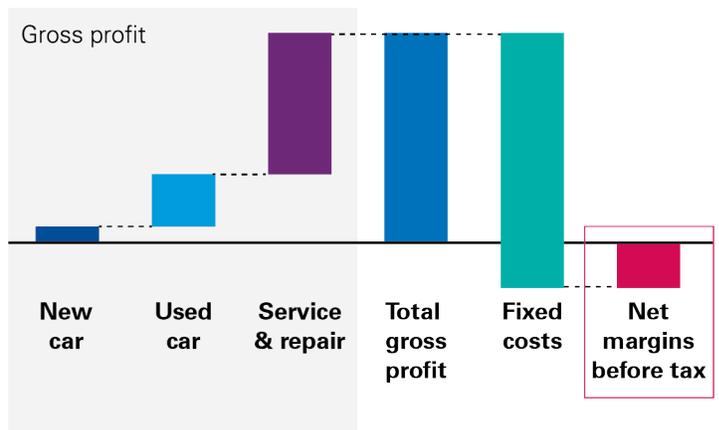
Taking all the factors into consideration, KPMG’s analysis finds that the current business model is unsustainable for most dealerships, and especially those in urban areas. This includes both luxury and mass-market brands. There are just far too many dealers and too much in fixed costs at dealerships to weather the declining sales. And for the dealers that do survive, the finances are likely to be severely strained that customer experience could take a beating.

It is imperative that dealers and OEMs start taking pre-emptive action to head off this situation.

**Average mass dealer profile: current state (2016)**



**Average mass dealer profile: future state (2040)**



<sup>10</sup>Source: Municipalities with populations of greater than 1,000 persons per square mile

# Crafting automotive retail of the future

**We see three potential scenarios that dealers can follow that would help stave off this calamitous future, although the reality will likely be a combination of elements from each.**

## **1 Consolidate the network**

Since declining car sales will result in fewer sales per dealer, one potential solution is to consolidate the dealer network and consolidate the sales among the remaining dealers. This process is already underway in a small way across the United States, but the pace will need to pick up quite dramatically. KPMG's analysis shows that up to a third of dealers in urban areas may need to close in order for the remaining dealers to retain sustainable levels of profitability.

Dealership consolidation may be an option for all OEMs since the declines in sales will impact every one of them. However, it may be a survival imperative for GM, Ford, and FCA given that their dealerships tend to be smaller (see chart on sales per dealership) and hence more vulnerable to declining volumes.

AV-MaaS may not impact rural areas to the same extent as urban areas, but consolidation to a lesser extent may be warranted in these regions as well. Opportunities to consolidate in rural areas may be fewer since that would mean customer will have to travel much greater distances to obtain service for their vehicles.

## **2 Rationalize fixed cost**

In this scenario, dealers maintain their net profit margin by rationalizing fixed costs.

To maintain current profitability levels, luxury dealers would have to slash costs by up to 42 percent by 2040. For mass-market dealers, the cuts would have to be deeper—45 percent—given thinner margins on sales.

These would be sharp cuts and would have to be made across operations, including rental costs, net floor plan interest, employee, and other costs.

The upshot of these cuts may be local car dealerships that look very different from the ones consumers are used to today, which are located in suburban and rural areas and have a large physical footprint. Cutting costs alone could work, but as the next section shows, simultaneously redefining the customer experience may be the key to doing so.

## **3 OEMs compensate key dealers to make them profitable**

OEMs could provide higher incentives to dealers in the high-density regions in the form of compensation/holdback per car to maintain net profit margins. While OEMs have no obligation to prop up their dealer network, financially depressed dealers are likely to cut back on customer service, thus creating risk to the brand. This scenario will likely be a short-term solution as it is unsustainable to the OEM in the long haul.

While each of these scenarios is a possibility, the most likely outcome is a combination of all three, where dealers consolidate, reduce a portion of their fixed costs, and get higher holdback from OEMs.

# A vision for the future of automotive retailing

**Dealerships (and OEMs' management of dealerships) will need to evolve in order to survive. They will need to deal with a generation that not only is comfortable with using technology but also demands complete information that is accessible by smart-phones, sufficient choice, and convenience. This is the generation that the big online retailers of the world have cultivated.**

Our proposed model of automotive retailing proposes to split today's integrated dealership into four distinct parts that work in tandem to service the customer:

- 1** A Web portal that goes beyond today's "leave your phone number for a dealer to call you" setup. Dealers will need to rely more on their online presence, providing customers with complete vehicle information and potentially offering virtual reality to help them choose colors and other options. Customers should be able to arrange for financing and insurance (F&I) using the portal, schedule services, and sell off a used vehicle using the portal.
- 2** Taking a test drive will continue to be an essential part of buying a car. After all, in a world of MaaS and autonomous driving, car buyers will likely be driving enthusiasts. These drivers are likely not going to be content with taking the vehicle for a short drive on the streets around the dealership. Instead, test drives could be carried out at a centralized test tracks, with one track serving multiple dealers.
- 3** Showrooms will likely be smaller and sales staff will focus on the customer experience. Genius Bar stores offer a preview into the retail experience of the future. Lack of high-pressure sales tactics, well-informed representatives, and the ability to try out various models make the Genius Bar a popular "destination," while driving sales. The showroom is essentially the place to hand over the keys to the customer and in the process entice him or her to sign up for additional services.
- 4** Instead of each dealership having its own service bays, repair and parts operations, along with used cars and trade-in services, would be relocated to service-only centers, located in areas with lower rental costs. Self-driving cars will drive themselves to these locations for servicing, calibration, etc., and return to the owner once work is complete. Multiple dealerships of an OEM could share one service center. This would also allow the OEM to better manage vehicle servicing.

**Current state**

**Traditional dealership**  
 Located in suburban/rural locations with large footprint

Traditional dealership activities	Vehicle information
	Test drive
	Vehicle selection from large inventory
	Negotiation/transaction
	F&I
	Upsell service packages
	Maintenance/service
	Parts
	Car wash
	Trade-in, used cars

**Future state**

<b>Online portals</b>	Vehicle information
	Color and interior selection using VR
	F&I
<b>Experience centers</b> Consolidated test track per metropolitan area	Test track for POVs
	Negotiation/transaction
<b>Small showrooms</b> Re-scope to valuable core akin to Apple's Genius Bar experience	F&I
	Upsell service packages
	Maintenance/service
<b>Service centers</b> Located in low-cost locations; consolidated service centers in an area/city	Parts
	Car wash
	Trade-in, used cars
	Trade-in, used cars

Some of these signs are starting to appear in other parts of world even within the automotive industry. For example, in Europe, OEMs have started setting up stores in new arrangements to complement the existing dealership network. Some examples of these include:

-  **Digital showrooms:** Showrooms that use digital tools to enhance the brand image and purchase experience. These typically have limited on floor physical inventory.
-  **Lifestyle stores:** Stores at prime locations offering a strong brand experience through lifestyle-related concepts such as art and food.
-  **Pop-up stores:** Temporary digital stores located at high-traffic locations, which are used to bring the public's attention to newly launched models.<sup>11</sup>

Some auto manufacturers have plans to integrate existing dealerships into the digital showroom network. However, in the coming years, traditional dealerships might be forced to limit their offerings to repairs and services.

**Maruti: Suzuki's dealer network<sup>12</sup>**

In 2015, Maruti Suzuki, a leading auto manufacturer in India, began setting up a new format of high-end showrooms, named NEXA, in partnership with existing dealers.

These showrooms sell the company's premium vehicle models and are focused on providing a better car buying experience for the customer. Service centers weren't set up at these showrooms, with customers' cars being serviced by workshops in the existing dealership network

As of April 2017, the OEM's dealer network (including non-NEXA showrooms) consists of 2,020 sales points and 3,200 dealer workshops.

Source: Business Line, "Maruti's Nexa customers to get exclusive service facilities soon." April 2016

<sup>11</sup>Source: Frost & Sullivan, "Future of Car Retailing in Europe and Benchmarking of OEM Strategies" (November 2016)

# Alternatives to traditional car ownership

**Buy or lease? That's been the perennial question consumers need to answer when shopping for a car. Today, there is a third option: subscription.**

For a monthly fee, you can have a car to drive when you need it—for a couple of days or a few weeks. With some subscriptions, when you get tired with one model, you can flip to another. So, it can be an SUV during the week, a sports convertible on the weekend.

With a subscription, you don't own the car, but you can use it whenever you want. The monthly fee can include insurance, roadside assistance, and maintenance. Some subscription services are comparably priced to monthly lease or loan payments. Others featuring high-end brands can have fees that soar to thousands of dollars a month, making them more suited for the luxury market.

A number of companies using several business models have entered the market with car-subscription services. They pose another potential threat to automotive OEMs.



## Multi brand subscription services

These big multi-brand dealers allow subscribers to switch between different models depending on their requirements. They also manage other aspects of car ownership such as maintenance, insurance, and roadside assistance.

**Potential impact on OEMs:** Greater penetration of this multi-brand model could result in dealers having more power to influence consumers' preference for one brand over another

**Example:** Park Place Select



## Emerging technology platforms

Several companies are offering turnkey technology platforms that can assist dealers and other players set up a vehicle subscription service and the software to help them manage the various aspects of operations, including customer engagement and fleet utilization.

**Potential impact on OEMs:** The development of these technology platforms gives dealers an easier path to offering vehicle subscription services and could accelerate the shift towards alternative car-ownership models.

**Example:** Clutch



## Dealer-consumer intermediaries

These companies work in partnership with dealers to provide multiple car brands for subscription by consumer. One feature they offer is alternative financial options, such as personalized monthly payment range based on the user's finances. These organizations are also looking to expand their reach by targeting fleet customers, such as ride-sharing company drivers.

**Potential impact on OEMs:** These dealer-consumer intermediaries pose a threat to finance and insurance (F&I) income and dealer/OEMs income and margins.

**Example:** Fair

# What OEMs need to do

**Changing customer preferences and evolving technologies around MaaS and AV will bring about dramatic market changes that have the potential to push dealerships towards the financial brink. Dealerships, especially in urban areas, that evolve their sales model and consolidate volumes are likely to emerge winners.**

At the same time, OEMs may need to help their dealers manage their transition in order to ensure optimum customer experience and dealer financial health. Here are some steps OEMs can start taking now to help with this transition:

- 1** Assess likely volume and timing of declines in personal vehicle demand by geographies as AV-MaaS is introduced.

---

- 2** Consider the impact on customer service levels as financially weak dealers go out of business. Proactively work to avoid these situations.

---

- 3** Assist dealerships in preparing for the future by transitioning their models to lower cost and higher service levels. Specifically, help dealers to:
  - Embrace and invest in online sales channels
  - Refocus on the most critical aspects of customer service at the dealer for new car sales
  - Downsize footprint and inventory, especially in expensive real-estate geographies
  - Consolidate to fewer service centers in low-cost locations.

---

- 4** Consider pros and cons of dealer consolidation: Large, financially stable dealers that can invest in technology, infrastructure, etc., versus powerful multibrand dealers who put their interests before the OEMs.

# How KPMG can help

**KPMG Strategy combines rapid analytical capabilities, leading-edge tools, and deep industry knowledge to produce value-based insights for our clients. Our strong operating model and business transformation capabilities help turn strategy into a reality.**

Our distinct perspectives on the future of mobility and underlying market dynamics can help clients identify and prioritize emerging opportunities centered on value and

innovation. We are currently assisting several OEMs and suppliers in addressing the disruption from autonomous vehicle technologies:

- 1 Quantifying the impact to dealer bottom line from emerging opportunities**
- 2 Understanding consumer response to new offerings and the likely progression of the market**
- 3 Developing and supporting implantation of transformation programs**
- 4 Defining technology investment and development road maps**
- 5 Identifying forward-looking metrics to incubate and develop future businesses.**

Learn more at [kpmg.com/us/strategy](https://kpmg.com/us/strategy)



# About the authors



## Tom Mayor

Tom is the national strategy leader for KPMG's Industrial Manufacturing practice. With 25 years of consulting experience, he focuses on supply and manufacturing strategy, operations turnaround, purchasing, and supply base management, with a focus on automotive, aerospace, and industrials.



## Bala Lakshman

Bala is a managing director in KPMG Strategy Consulting practice with more than 17 years of experience working in the automotive and industrial-manufacturing sectors. He specializes in growth strategies for automotive clients. His work has heavily focused on helping clients plan for the inevitable disruptions in the automotive sector, including vehicle autonomy, mobility on demand, connected vehicles, and electrification.



## Todd Dubner

Todd is a principal in KPMG's Strategy practice. He has more than 25 years of experience in strategy and corporate. He currently primarily serves the automotive industry, consulting to passenger and commercial vehicle OEMs, Tier 1 suppliers, and emerging players in the industry.



## Yatin Agarwal

Yatin is a manager in KPMG's Global Strategy practice. He has more than eight years of consulting experience working in industrial manufacturing. He specializes in growth strategy and pricing strategy in the industrial markets, with a focus on automotive clients.

# Contact us

## United States

### Tom Mayor

Principal, Corporate Strategy  
+1 216 875 8061  
tmayor@kpmg.com

### Gary Silberg

Partner and National Automotive  
Leader  
+1 312 665 1916  
gsilberg@kpmg.com

### Jono M Anderson

Principal, Corporate Strategy  
+1 858 750 7330  
jonoanderson@kpmg.com

### Katherine Black

Principal, Corporate Strategy  
+1 212 954 1978  
kblack@kpmg.com

## United Kingdom

### Charlie Simpson

Partner, Corporate Strategy  
+44 20 7311 3671  
charlie.simpson@KPMG.co.uk

## Germany

### Tobias Naujoks

Partner, Global Strategy Group  
+49 89 9282 1336  
tnaujoks@kpmg.com

## Sweden

### John Klint

Director, Global Strategy Group  
+46 8 723 9634  
john.klint@kpmg.se

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities..

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

© 2018 KPMG LLP, a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.  
Printed in the U.S.A. NDPPS 787066. DAS-2018-2069