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Here to Stay: How Car Dealerships are Pivoting for Success

Automobile dealerships provide a valued service to consumers and the economy. The past few years have brought numerous challenges, but dealerships have remained on course and adapted well. Their future is stable because of their ability to adapt and meet consumer needs.

The COVID-19 pandemic shifted the car buying process for some consumers. People increased online car purchasing and exploring alternatives to the traditional car dealership experience. A semiconductor chip shortage also arose. The lack of chips left dealerships with inventory shortages. Meanwhile, electric vehicles (EV) were already creating many changes for how dealerships operate. EVs will bring changes to the automotive industry, but these changes will only enhance the power and demand of dealerships.

The average gross profit per vehicle is around 180% higher than it was in 2019.^[1] Strong service departments, reductions in inventory and advertising costs, and enhancements in the consumer experience have contributed to this success. Dealerships have learned to embrace the changes thrown their way, which has resulted in maximized profits. The adaptability of dealerships, along with consumer trust, will prove successful for them for years to come.

Dealership Success

High Profits

One of the main reasons the dealership model will remain in place is because of its large financial success. When COVID hit the U.S., dealerships were left with a choice – adapt or suffer financially. Dealerships have clearly adapted and increased their profits by around 50%.^[2] One of the main reasons this profit surge occurred was due to the high demand of cars.

The chip shortage has caused around 1.2 million cars to be cut from production. Dealers resorted to stocking 20% of what was normally stocked on the lot.^[3] As one dealer explained, when a truckload of cars arrives to the lot, 75% of the vehicles have already been purchased. The lack of cars has led to rising prices. Consumers are forced to either pay premium prices or lose the purchase. This environment has allowed car dealerships to sell vehicles for over MSRP, creating large profit margins.

Reduction in Costs

Another reason car dealerships are thriving is the amount of space needed for lots has decreased. New trends in the market have shown that consumers are coming to dealerships with knowledge about vehicles they are interested in, as they are researching vehicles online prior to arriving at the dealership. Therefore, the need to have different vehicles spanned out across large land spaces has diminished. AutoNation is noticing this trend and taking advantage of the benefits that can derive from less land space. AutoNation is “selling a portion of their \$3 million property assets to raise \$500 million to invest in a line of stand-alone used car stores.”^[4] Other dealerships can adapt to this change and substantially increase profit and investment opportunities.

Land expenses are not the only thing that car dealerships are saving money on. Since demand is so high for vehicles, car dealerships are saving on advertising costs. Dealerships do not have to pay for traditional advertising costs, because consumers are coming to the dealerships with the information they need. However, dealerships that still wish to advertise will likely begin or continue to use online advertisements. Research has shown that car dealerships who advertise online save around 90% on advertising costs.^[5] Gone are the days of expensive television commercials, billboards, and newspaper ads.

Consumer Preference

Test-Driving Cars

Most consumers prefer buying vehicles in person due to the ability to test drive cars before purchasing them. When an automobile is purchased online, consumers are not able to test drive the vehicle. Purchasing a car without test driving it is a significant risk to take, because there is always a possibility that a consumer will not like a car as much as they thought they would.

According to a recent survey, around 67% of respondents stated that test driving a new car is a “very important” part of the buying process.^[6] This shows that over half of consumers in the market for a new car will want the ability to test drive the vehicle. Dealerships are the main source for the ability to test-drive cars, allowing consumers to feel confident in their purchase before driving off the lot.

Knowledgeable Staff

Consumers also have a preference of doing business with a knowledgeable human being rather than through a computer. Car dealerships provide consumers the opportunity to interact with their trained staff. When purchasing a car online, a consumer is confined to the information provided by the website. Consumers are not able to have a conversation with a knowledgeable salesperson and are left with a very limited amount of information about the car. When a consumer purchases a car at a dealership, they can speak to multiple employees who are versed with detailed knowledge of the specific car being purchased. Dealership employees can explain the pros and cons of a car, what a consumer can expect when driving the car, past customer reviews, pricing, and answer any question the consumer may have.

Consumer Benefits

One of the most significant benefits of purchasing a vehicle through a dealership is the ability to negotiate price. When buying a vehicle online, consumers have no room to negotiate and are left to pay top dollar for the vehicle. However, a consumer commonly negotiates price when purchasing a car at a dealership. Although purchasing a car online may seem convenient, a consumer will likely pay much

higher prices than if they had the ability to negotiate a price that was more aligned with their budget.

Car dealerships also have great relationships with local Bureaus of Motor Vehicles (BMVs), which easily handle the vehicle title and registration. If a car is purchased outside of a dealership, the consumer must register their car completely on their own.^[7] This involves going to the local BMV and applying for registration which can be timely and create an unnecessary hassle for consumers.

Lastly, dealerships can sell cars online to accommodate consumers interested in this type of transaction. Dealerships can post their inventory online for consumers to search without ever having to come onto the lot. This can broaden the service area because consumers can research inventory at any online dealership, regardless of where they are located. It may be strategic for dealerships to appoint specific personnel to manage online sales, advertising, shipping, and delivery to ensure smooth transactions.

Service Departments

The service departments in car dealerships typically make the largest amount of gross profit for the dealership. For example, one dealership group reported that service and parts represented 44% of its gross profits, with new vehicle sales representing only 8 percent.^[8] Everyone who purchases a car will need to eventually service that vehicle for repairs and upkeep. Therefore, car dealerships will have a steady line of revenue flowing in from their service departments and this revenue will help dealerships thrive in the future.

Electric vehicles will likely increase the demand of service departments at dealerships because of the complex electronic systems. Auto analyst Maryann Keller explains why the advanced technologies of electric vehicles will drive up demand for service departments.^[9] Keller explains, “my guess is that (EVs) might not need as frequent routine service, but when it is needed it will cost more because of the investment dealers make and what they have to pay technicians.” A study was conducted to determine the pricing difference between service repairs on electric vehicles and

gas vehicles. After twelve months of service, electric vehicles averaged \$306 in service costs, while gas vehicles averaged \$189. [\[10\]](#) The increased service costs for electric vehicles will provide a higher return in revenue for dealerships. The technologies of electric vehicles being manufactured are so complex that people will likely fear taking their car to be serviced anywhere except for a dealership. Consumers will want auto mechanics with a large amount of knowledge to be working on their cars. Although self-owned auto mechanic stores can be a cheaper option, consumers will likely trust trained technicians at dealerships to keep their cars operating at optimum capacity. Therefore, the increasing prices of repairs and tune-ups for electric vehicles, along with the complex technological systems, will keep service departments in high demand at auto dealerships.

Service departments can also provide pick up services and the option to schedule repairs online or via text messaging. For those customers who want convenience and as little contact as possible, these are viable options for them. Being able to accommodate a wide variety of consumers' needs will establish loyal customers and a continuing demand for dealerships.

New State Laws are Being Passed

One of the last and most significant reasons that car dealerships will remain in operation is because of state automotive franchise and dealer laws. These laws were put into place decades ago to protect automobile dealerships and consumers. Dealer and franchise laws are continuing to be adopted by states to ensure automobile dealerships remain protected. West Virginia recently passed legislation that requires dealerships to be compensated when a customer seeks assistance for an "over-the-air" update on their vehicle.[\[11\]](#) An "over-the-air" update is done to a car remotely to update the electronic systems. The vehicle's electronic systems are very complex and can be confusing for consumers to navigate. Now, when consumers contact a dealership for assistance with these updates, the consumer can have peace of mind knowing their car will be properly fixed, and, in turn, the dealership will be fairly compensated. Virginia has also adopted a similar bill.

North Carolina and West Virginia have also adopted laws to protect dealerships when a vehicle is being ordered.^[12] Automobile manufacturers are able to accept customer reservations for vehicles, but the new bill requires these reservations to be sent directly to a dealership. These bills also have restrictions for automobile manufacturers, prohibiting them from interfering with price negotiations, vehicle protection product sales, and establishing trade-in values. The restrictions for auto manufacturers that multiple states have passed will continue to ensure the viability of automobile dealerships into the future.

State governments reap the benefits that car dealerships bring to the economy. It is likely that state legislatures will continue the trend of passing new franchise and dealer laws to ensure that car dealerships are protected. The new wave of electric vehicles will bring a change to the automotive industry, but dealerships have clearly shown the ability to adapt and thrive. The enforcement of original franchise and dealer laws paired with the new emerging dealer laws will only make the dealership model stronger and more impactful in the future.

Conclusion

In conclusion, automobile dealerships are here to stay. Many changes have impacted the automobile industry, but dealerships have showed resilience and a strong ability to adapt and succeed. In the words of a spokesman for the National Automobile Dealers Association, “[a]s our business model evolves, dealers will continue to innovate and adapt, just like they have always done, and embrace new and emerging technologies and tools to help further improve the customer experience.”^[13] Legislatures must continue to advocate for new laws to emerge across the states to ensure the protection of dealerships. When dealerships flourish, the economy also flourishes, and states will ensure this trend continues.

For more information, please contact any attorney with Frost Brown Todd’s [Mobility](#) industry team.

**Summer Associate Grace Kuntz contributed to this article.*

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