INTRODUCTION
The COVID-19 pandemic has accelerated the use of technology by customers and automotive dealerships. This has led to a more simplified online sales process and greater customer willingness to use digital sales channels. However, as the vehicle market shifts from the sale of internal combustion engines (ICE) to alternative fuel vehicles (AFV), dealerships are embracing the opportunity to sell into a growing segment of the market. With a steadily increasing range and type of AFVs becoming available, the dealership remains a key element in the sales process through informing and reassuring buyers.

OBJECTIVE
This research outlines how dealerships are adapting their premises to enhance the customer experience and drive sales growth, higher productivity levels and increased profits. The report covers the key areas of:

• the importance of the dealership
• how the use of the showroom and workshop space might change as customers switch from ICE to EV
• any changes to workshop requirements
• the type of customer facilities currently required
• views on dealership rationalisation
• views on the “agency model”.

METHODOLOGY
The research is based on a questionnaire survey and structured interview responses from 53 industry professionals, predominantly from owners and operators in the dealership network, with a more limited input from manufacturers (OEMs).

REPORT STRUCTURE
The report is divided into three sections. Firstly, a brief summary of factors impacting on current industry dynamics. The second section reports on our August 2021 survey of industry experts and the third element highlights how current market disruption is impacting on dealership real estate.
THE RISE OF DIGITAL

1. The dealership

There are a number of unstoppable macro trends impacting the automotive industry that have been described by Atos (a global digital solutions and consulting business) as the perfect storm:

• urbanisation
• climate change, and
• digitalisation

These trends are disrupting the current ecosystem and challenging OEMs and dealerships to adopt new practices to retain and build competitive advantage in the face of new digital market entrants and global supply chain issues following the Covid-19 pandemic. Feedback from the APC survey suggests that technology adoption has advanced 12 years in the past 12 months. As a direct result of full and partial Covid lockdown periods consumers and dealerships were forced to embrace technology to maintain sales. As the pandemic forced many services to shift from physical to online, the consumer response to purchasing cars either partially or fully through online processes has been largely positive. While a number of the larger dealer groups have been developing their digital interface for some years, the pandemic acted as a catalyst across the industry for further investment in appropriate technology and rapid adoption.

It is generally recognised that close to 90 per cent of the purchase journey for both new and used vehicles is now undertaken online. The next step is to provide customers with the option of completing the process fully online should they wish. However, there are always going to be customers who require an element of physical interaction before committing to such a major purchase, so the importance of developing a seamless omni-channel approach is critical to ongoing success.

“The dealership helps with education, relationship and trust building, and helping the customer through the science.”

2. New online entrants

We assume that the readership is familiar with the major new online entrants in the used car sales space, so this section will be kept brief.

CAZOO

Cazoo launched in December 2019 as a pureplay online used car retailer. Set up by serial entrepreneur, Alex Chesterman, it became the fastest UK company to achieve a £1 billion valuation. Customers can buy, finance and part-exchange all online. Deliveries can be in as little as 72 hours – or there is the option of collecting from a Cazoo Customer Centre. Stock was originally sourced through British Car Auctions (BCA). With BCA launching its own online platform, cinch, sourcing of stock has been flagged up as a potential area of concern going forwards.

CINCH

CINCH is backed by Constellation Automotive Group, and is BCA’s used car sales platform. It launched in October 2020 as a direct competitor to Cazoo. Again, the website allows consumers to purchase and finance used cars, with direct home delivery. Its mission is to “remove the faff from buying and changing cars”.

CARMZAM

Carzam is the privately funded brainchild of Big Motoring World’s CEO Peter Waddell and former Cox Automotive International president John Bailey. The business launched in December 2020. In addition to the user-friendly website to buy used cars they have invested £40 million in a hub and preparation centre in Peterborough alongside collection hubs in Stratford (London) and Corby. It offers a part-exchange service backed up by Manheim.

All the above require some form of real estate for vehicle preparation and aftersales interaction with customers. What should not be forgotten, though, is that existing used car dealerships have not been standing still during lockdown. Businesses such as Carshop (Sytner), Carstore (Pendragon) and Motorpoint have invested heavily in improving their respective online offers.

For example, Motorpoint can demonstrate significant growth in its online sales, with 37 per cent of customers buying online since branches re-opened post lockdown. Online sales represented 69 per cent of sales in their 2021 financial year compared with 54 per cent in 2020. 57 per cent of online sales were fulfilled by home delivery in the January to March 2021 quarter. These impressive figures look set to continue as conversion of online traffic, at 4 per cent, is reported to be stronger than ever.
SUPPLY CHAIN ISSUES

The overriding issue for the UK automotive sector currently is the serious supply shortage of both new and used cars being caused by an acute shortage of semi-conductors being imported from Asia. The shortage is caused by several factors, including strong demand from multiple industry sectors and a March fire at the Renesas Electronics Corporation plant in Naka, Japan. With vehicles using between 50 and 1,000 semi-conductors, you can see why a supply shortage is having an impact. With waiting lists closed for new cars, in many cases, delivery dates cannot be promised inside the next 12 months. This has a consequent impact on used car demand and prices. The best-case scenario is that this will ease by Q2 2022 but, privately, dealers are expressing concern that new car supply shortages could be a medium-term problem. This, in turn, impacts on used car sales and vehicle repairs (if parts are unavailable). It also impacts on the switch to EVs as customer options are limited.

THE SWITCH FROM ICE TO EV

The UK Government’s commitment to banning the sale of ICE vehicles by 2030 has brought a new urgency to persuading the public to consider an EV as their next choice of new car. While the SMMT data shows an encouraging positive trend in the sale of battery electric vehicles (BEVs), plug-in hybrids (PHEVs) and hybrid electric vehicles (HEVs) throughout 2020 and 2021, there remain some serious concerns around investment in the necessary public charging infrastructure. This is of particular concern to those households who do not have off-street parking – as high as 60 per cent of households in some major towns and cities. Re-charging at the office, supermarket or gym may seem the obvious solution, but how many of those sites offer 50 plus chargers?

Range anxiety is another huge concern for the consumer and, while this is improving with new models and enhanced battery technology, anecdotally there are reports of customers trading in BEVs for hybrids. The presence of a petrol engine in a hybrid removes range anxiety. This is supported by SMMT figures (Tables 1 and 2 opposite). For the year to date (August), sales of PHEVs increased by 144 per cent, doubling market share to 6.6 per cent. BEV sales increased by 107 per cent and grew market share to 8.4 per cent. For August alone, year-on-year sales of PHEVs (+72 per cent) and HEVs (+46 per cent) year-on-year sales outpaced BEV (+32 per cent) by some margin. In fact, demand for PHEVs has outpaced BEVs in five of the last six months aligned with changes to the Plug-in Car Grant, affecting BEVs, that were introduced in March. Currently, there are 130 PHEV hybrid models available, with the range offered continuing to expand.

Challenges remain in increasing the take-up of BEVs and whether the growth trajectory continues without some form of government incentive package to encourage ownership remains to be seen.

The other area to watch will be emissions-based road tax. Currently, EV owners benefit from zero road tax. As the volume of EVs increases, so the government tax take declines. This is not sustainable, so expect some form of road pricing to be introduced in the not-too-distant future.

With the switch to EVs, there is an anticipation that aftersales and sales of consumables will decline and impact dealer profitability. However, maintenance will still be required, and repairs will likely be of higher value. There will be the opportunity for dealers to position themselves as EV experts offering technical knowledge, skills and specialist servicing. And let’s not forget, ICE vehicles are going to be around for many years yet.

THE AGENCY MODEL

During APC’s survey interviews and regular discussions with dealers there has been much talk about the introduction of an agency model to replace the traditional franchise model. But, at the moment, that’s what it seems to be – all talk and little action. The agency model is not new to dealers and is already used by some in the Fleet and Parts operations.

The agency model removes the dealer’s flexibility in applying a margin to stock. Instead, dealers become a fulfilment centre, acting as an agent between consumers and manufacturers and collecting a percentage fee on each sale. Typically, prices are set by the OEM and are standardised across both online and physical platforms.

<table>
<thead>
<tr>
<th></th>
<th>YTD 2021</th>
<th>YTD 2020</th>
<th>% change</th>
<th>Market share 2021</th>
<th>Market share 2020</th>
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<tr>
<td>BEV</td>
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<td>10.9%</td>
<td>6.4%</td>
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<td>PHEV</td>
<td>5,049</td>
<td>2,933</td>
<td>72.1%</td>
<td>7.4%</td>
<td>3.4%</td>
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<td>HEV</td>
<td>8,061</td>
<td>5,531</td>
<td>45.7%</td>
<td>11.8%</td>
<td>6.3%</td>
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TABLE 1: YEAR TO DATE SALES
SOURCE: SMMT

<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>% change</th>
<th>Market share 2021</th>
<th>Market share 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>BEV</td>
<td>92,420</td>
<td>44,708</td>
<td>106.7%</td>
<td>8.4%</td>
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<td>PHEV</td>
<td>73,156</td>
<td>30,029</td>
<td>143.6%</td>
<td>6.6%</td>
<td>3.3%</td>
</tr>
<tr>
<td>HEV</td>
<td>95,322</td>
<td>57,497</td>
<td>65.8%</td>
<td>8.7%</td>
<td>6.3%</td>
</tr>
</tbody>
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TABLE 2: AUGUST SALES
SOURCE: SMMT
1. How important is the dealership in the sales process?
Respondents were asked to provide a view for both 2021 and 2025. Figure 1 shows how views are quite similar for both years, with the key take-away here being that respondents broadly consider the dealership to be “very important” or “essential” in the sales process - 90 per cent in 2021 and 77 per cent in 2025.

2. How valuable is your showroom space for demonstrating the increasing levels of technology and connectivity, and educating customers about vehicle type, e.g., ICE vs MHEV vs PHEV vs BEV?
Again, the value of the dealership scores highly, with 89% of respondents considering the dealership “valuable” or “extremely valuable” – figure 2.

There is more on the agency model in Q9 of the Survey Results section, where comments were mixed. It may be the appropriate approach for weaker brands or for specific EV models, but the level of adoption across OEMs and dealers will vary. Some seem supportive, but others fear that the OEMs will take control of the best and most profitable elements of direct selling and leave the dealers with the less attractive opportunities while they carry the high-cost burden of premises and showroom fit-out. In fact, this hybrid approach may fall foul of EU-fair trade regulations.

The National Franchised Dealers Association (NFDA), on behalf of its members, has instructed its legal advisers to investigate the concept of “agency” insofar as it applies to the automotive sector. The NFDA is engaging with the European Commission and the UK’s Competition and Markets Authority (CMA) on this important issue against the backdrop of block exemption / retained block exemption review. The implementation of a distribution model that fails to meet the complex and strict legal criteria could result in heavy fines (10 per cent of group turnover) and director disqualification (up to 15 years) for senior management.

There are concerns that transition to a sales model that reduces or even removes intra-brand price competition will attract regulator interest, notably from the CMA, which has a growing consumer protection agenda and ambitions to stress its independence post-Brexit.

Any transition to an agency model will require detailed consideration on the part of the OEM and the dealer before implementation. It is fair to assume that if the agency approach is adopted in the UK, it will take time to evolve as both parties establish how it will work best for them.

The dealer is central to everything that we do. While customers do lots of research online, the physical dealership gives a degree of comfort.
3. Will you require more or less showroom space?

In the context of the introduction of new EV ranges alongside ICE models it is, perhaps, surprising that 57% of respondents stated that they would require less showroom space, with 37% predicting no change – Figure 3. What is more interesting is the insight provided into how use of showroom space might change. For some, this would be determined by the OEM and its requirements.

**FIGURE 3: MORE OR LESS SHOWROOM SPACE**

![Pie chart showing percentage of respondents requiring more, same, or less showroom space.]

The most common response was that the dealer will take on dual or multi-franchising (15 per cent of the sample).

There will be less cars and more interactive experience, less salesman and more computers.

The showroom will continue to show off products, provide a space for both self-service and expert advice, support, inspiration and handovers.

This question also prompted responses on the size and range of dealerships, with mixed messaging. While some believed there would be fewer dealerships, but of a larger scale, others thought that the typical size of a dealership would reduce. There are also a limited number of OEMs looking to expand their presence in the UK.

4. Is the introduction of EVs demanding a different use of your overall dealership site?

Responses were evenly split in response to this question – 50/50 yes and no. Some stated that they were not selling enough EVs to warrant any change. This can be related to the brand franchise and / or the geography – EV demand in more rural areas currently being more limited because of range anxiety and lack of infrastructure. However, there is a recognition that change is coming:

**Multi-franchising will become more prevalent, with smaller showrooms.**

More high value used cars on display and dual franchise.

More multi-franchising in showrooms. People will research online and then 90 percent will visit the dealer.

With more EV products coming, it will impact.

It’s the tip of the iceberg at the moment.

Of those that gave a written response to this question, 55% mentioned charging infrastructure in the form of EV chargers and power supply and the possible need for sub-stations. This requires both capital expenditure and space, although as a counter to this, it was suggested that the need for oil tanks will be reduced.

It is not economic to upgrade the electricity supply at some sites.

Investment is required now, but there is not enough EV throughput to make a return yet.

There was concern expressed over the impact of reduced servicing time on external parking. Questions were raised over the use of chargers on site. Are these to be used by staff and / or customers? Or, to minimise capital outlay on chargers, install them only for use by sales stock? There was
some apprehension about customer vehicles hogging scarce parking for long periods while charging.

> It will take longer to charge a car than service it!“

There was reference to both smaller and larger workshops (see Q5), the changing use of space for aftersales and one suggestion of the need for a customer experience centre to build trust and customer relationships – to walk the customer through the science and technology.

> Different technologies, different buyers, different customer behaviour. Dealers will need to be technical experts when selling cars in future.

5. With the growth in AFVs/EVs, will you require larger workshop facilities?

The resounding answer to this question was “No”, by 84% of respondents. There may be an initial spike in demand for workshop space, but this is expected to settle down. Rather than requiring additional workshop space and facilities, there were suggestions of running additional shifts to cater for demand and creating more space around EV servicing areas. Comments were mixed, but many mentioned that EVs will require less maintenance, less frequent servicing, fewer replacement parts and that software upgrades can be undertaken offsite, on forecourts or the roadside.

6. What onsite facilities / services are customers demanding?

It was pointed out that many of these facilities are a requirement of the OEM rather than the customer. Wi-fi, servicing and finance options were the top three scoring offerings, with technology options scoring somewhat lower. The view was expressed that customers have often undertaken research at home and use their own devices. Although it was also reported that one dealership had invested £1 million in large screens and digital presentation. The one requirement referenced, that was not included in the survey options, was the need for EV charging points.

7. Are you anticipating a rationalisation of the dealership network and, if so, by what percentage decline?

The overwhelming was response was “yes” to anticipated rationalisation (figure 7 overleaf), but perhaps not to the degree that is commonly perceived. Figure 8 (overleaf) indicates that 47 per cent of respondents thought that
dealership numbers would decline by 11 to 25 per cent, but evidence gathered from interview discussions suggests that the majority of respondents who opted for this range gave a figure at the lower end of the spectrum of between 11 and 15 per cent. This would suggest that about two thirds of respondents would place estimated dealer number reduction at between 6 and 15 per cent through to 2025, but the rate of change will vary by franchise (figure 8), with some, for example, Kia, still in expansion mode.

There will be less OEM partners; there will be bigger groups. OEMs want to deal with fewer people.

There will be an increase in satellite locations for customers to drop and collect.

FIGURE 7: ARE YOU EXPECTING DEALER NETWORK RATIONALISATION?

FIGURE 8: WHAT PERCENTAGE DECLINE?

FIGURE 9: “AGENCY MODEL” APPROACH – YES, OR NO?

8. Are you considering (or being asked to consider) an “agency model” approach?

While the majority answer to this question was “yes” and that some dealers responding positively could see cost benefits related to stock holding, the comments received confirm mixed opinions.

Some OEMs intend to roll out an agency model over the next two years. However, it is also clear that the agency approach may not be applied to all brands within an OEM portfolio or even all models within a brand – perhaps being applied to new EV models only. It may be best suited to franchises that lack a comprehensive dealership network, for example, Jeep and Alfa Romeo within Stellantis. Some OEMs may introduce the agency model in phases or look at some form of hybrid approach although, as previously stated, the Retail Motor Industry Federation (RMI) is seeking legal advice against the imposition of such a model.

This will be rolled out in the next two years. We are very happy with this. It reduces our costs.

We prefer it as there is a cost associated with holding stock in compounds.

We are watching the space as we are not convinced of the benefits.
The survey results support the fact that the dealership network is and will remain “very important” or “essential” in the sales process – 90 per cent in 2021 and 77 per cent in 2025. Even if a full agency model is adopted, the dealer network is required as a customer fulfilment and aftersales centre.

In terms of customer facilities, there is no doubt that showrooms, in particular, will continue to become more digital and that manufacturers will be looking to the dealers and the dealer network to deliver the “wow” factor to promote customer engagement and inspiration across digital and physical platforms. Capital investment may be required. Staff will have to become technical experts to take full advantage of both in-house technology and demonstrate vehicle tech sophistication. Dealers will be expected to offer extended services, including such things as winter check-ups and tyre hotels, whereby customers change to winter tyres and their summer tyres are stored at the dealership. This follows a trend set in Norway, where EV take-up has been substantial (BEVs represented 56 per cent of sales in March 2021) aided by generous government incentives.

On site, externally, the growth in EVs will require charging infrastructure. The survey highlighted that for some dealerships the capex involved in uprating the power supply for new chargers is simply not economically viable. For others, the challenge is around parking and who has access to the chargers. Some survey respondents made it clear that chargers would not be for use by staff or customers simply looking for a full charge. Shortage of space vs charging time is an issue on many forecourts.

Our discussions suggest that there is distinct first mover advantage for dealers to secure the necessary power upgrades/supply. Our recommendation would be to upgrade now because demand will only increase, forcing up prices and possibly incurring significant time delays for installation.

We expect to see sharp differences between metro dealer sites and more rural locations as metro areas take the lead in EV engagement. In the medium to long term this should balance out as vehicle ranges increase and charging infrastructure is normalised.

Regarding dealer rationalisation, the most significant decline in the number of dealerships has already happened, over the last 30 years. The consensus from the survey was that we may see a further decline of less than 15 per cent through to 2025 through consolidation and OEMs targeting larger territories to sustain profitability. This will become more prevalent as manufacturers seek more direct contact with customers themselves, whilst providing the means for dealer profitability to remain at a consistent and viable level. Closure of some obsolete premises will be compensated for by the introduction of more satellite sites and a further move towards the “hub and spoke” model whereby one major hub dealership is complemented by several smaller operations that do not offer the full range of services. This is unlikely to impact upon brand appearance or, indeed, customer awareness of a more restricted offer.

While there will be pressure on site space for increased parking at dealerships, we also see an extended lease of life for smaller dealership premises as the use of a digital platform effectively expands their customer reach and potential market. This is supported by the low two per cent vacancy rates throughout car dealership property.

One further factor limiting dealership numbers is the cost of land and building materials needed for new builds which is becoming prohibitive on a viability basis, especially when business expansion can be more cheaply provided through digital and internet engagement.
Disclaimer: The property details contained within our database have been sourced from particulars in general circulation and our own records and whilst the information is believed to be correct Automotive Property Consultancy Ltd do not accept responsibility for the accuracy of the information provided. Whilst we endeavour to keep this information regularly updated we recommend that the information provided is independently verified if contemplating relying on it. October 2021.