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Could the Amazon of auto retail be Amazon itself?

Dealerships represent prime target for disruption

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Auto dealerships could be the next steppingstone in Amazon's path to dominance.

From its perch in the northwest corner of the U.S., Amazon has been steadily spreading its physical presence across the country.

In the past three months, the e-commerce giant has doubled down on its distribution efforts, acquiring grocery store chain Whole Foods and announcing its intention to open a second headquarters outside its 40,000-employee complex in Seattle. As Amazon continues its massive expansion, auto dealerships could be the next steppingstone in Amazon's path to dominance.

Amazon already has a presence in the automotive industry. The e-retailer sells aftermarket parts online and launched Amazon Vehicles, a car buying research site, in August 2016. It sells Seat vehicles in France and Fiat cars in Italy through partnerships with the automakers. It's also working with automakers to offer its Alexa voice assistant for in-car services.

But these are just a slice of Amazon's overall business. The thing Amazon does better than anyone else is to get things to people, fast.

And a dealership network, with buildings scattered around a region, could be a key part of that strategy. "The idea is provocative, and it could make sense," said

Cooper Smith, head of Amazon research at L2, a research firm that tracks the digital presence of consumer brands. "They're blurring the lines between e-commerce and brick-and-mortar storefronts."

An Amazon spokeswoman said the e-retailer does not sell vehicles on its U.S. website, though the Amazon Vehicles page has become a research destination for car buyers. She made no additional comment on whether the company was considering dealerships as a distribution network.

Distribution needs

Sales conducted through Amazon accounted for 43 percent of all online sales in the U.S. in 2016, according to a report from Slice Intelligence, a research firm covering e-commerce. However, store-based retail sales are still much larger than online, with brick-and-mortar chains accounting for nine of the top 10 retailers by sales, according to the National Retail Federation.

Amazon is breaking into in-person sales with its acquisition of Whole Foods and physical bookstores. However, quick and free delivery could also help eat away at the traditional brick-and-mortar model.

The online retailer already offers Prime Now, a service that delivers household items within two hours with no shipping charge, but it is available only in select markets. This type of on-demand ordering needs to be universally available to be truly successful, Smith said.

"Only half of Americans today live within an hour of an Amazon distribution center," he said. "Amazon still has a far way to go to jump into brick-and-mortar. They need to go to where the consumers are."

With their variety of locations and relatively large real estate, dealerships could help speed up the delivery process. In 2016, according to the Automotive News Data Center, there were 18,251 dealerships in the U.S. that sold a total of 17.5 million new vehicles. These stores have the capability to move cars and parts, with sprawling lots to store and maintain vehicles.

Dealerships also have fairly steady foot traffic, with car buyers visiting an average 1.5 storefronts before purchasing a vehicle, said Inga Maurer, a partner at consultancy McKinsey specializing in automotive operations. Customer data and traffic patterns could be valuable assets as Amazon works to refine its distribution operations.

Digital advantage

A company that owns a dealership network would also have access to dedicated service and maintenance centers. That could make it an attractive partner to ride-hailing and car-sharing fleets that don't have the warehouses or buildings to wash and maintain those fleets, Maurer said.

On the flip side, she added, Amazon could add value to the dealerships they operate on the digital advertising side, leveraging its online presence to generate new sales leads. "Amazon's competency in that space could help dealers leapfrog into the digital space," Maurer said, adding that dealerships could offer special incentives through Amazon's Prime service.

Dealerships are also expensive to operate, and a decline in new-car sales — especially if there is a permanent downturn in sales caused by new mobility services, as some analysts predict — could force a rethinking of store and distribution operations.

"This model of having huge amounts of land and huge showrooms, if we're selling a third as many, or two-thirds as many cars, dealerships can't afford that kind of infrastructure for people who want to buy cars," said Erik Gordon, a business professor at the University of Michigan. By repurposing the facilities for other fulfillment operations, "Amazon could take some expense out of that distribution system."

Companies are already taking advantage of dealership space as an alternate form of distribution center. Volvo Cars sells its V90 wagon to U.S. customers only online, allowing them to customize each vehicle on its site, then pick it up from a physical dealership nearby. Online car retailing platforms such as [Fair](#) offer a similar model, letting customers buy the car on a mobile app and pick up at the dealership.

Antiquated model

While dealerships offer a number of advantages for advancing distribution capabilities, they also have unique challenges compared with other retailers. The franchise model, in which automakers enter into contracts with stores to sell and distribute their vehicles, could be tricky for Amazon to navigate. The online retailer would have to meet the specific standards set by each manufacturer and honor demanding contractual agreements. If Amazon attempted to renegotiate those contracts, it could anger other dealership owners.

"To make this connect to what Amazon is good at and avoid what Amazon has no experience in, you'd have to get manufacturers like Toyota and Chevy to agree to a new franchise model," Gordon said. "Don't you think traditional dealers would riot?"

Dealership networks are also relatively fragmented compared with chains such as Whole Foods. Just 3,500 dealerships are owned by large groups, Maurer said, and only three major retailers own more than 200 storefronts each.

"The number of partners you'd have to engage with to get critical mass would have to be more than one player," she said.

Additionally, each state has its own laws governing how franchised dealerships operate — an issue Tesla Inc. has [continued to run into](#) with its direct-to-consumer sales model.

State regulations have already been a major headache for Amazon, as it deals with sales tax compliance in each state. Taking on another patchwork of regulations may be too much for the company, L2's Smith said.

"People don't realize how challenging it can be for a multinational corporation to deal with state governments, and the investment that requires," he said.

Still, Amazon has bucked the trend of typical corporate expansion before, defying naysayers by expanding out of online book sales, and successfully breaking into media streaming and production services. The rise of disruption in the current dealership and retail models could create an opportunity for Amazon, Gordon said. "One disruption pushes another disruption," he said. "When we get to the highest level of what Amazon does, Amazon disrupts."

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