MICHAEL T. GAGE

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Auto Distribution; Current Issues and Future Trends

Dear Attorneys Patrick Roach and James Frost,

Having been a Franchised automobile dealer for many years, acquiring my first business in 1972, I have followed the maturation of the retail new car business for a long time. There were times I thought the Manufacturer was a bit “heavy handed” and arbitrary in the dealings with their Franchisees. Time has permitted me to put a historic view on the distribution system and allocation process.

Prior to the 1970’s the market was dominated by the Detroit “Big” three. They competed with one another for market positioning and share. Every town, big and small, had a dealership. If Ford opened a store in a market, GM and Chrysler soon followed suit. There were over 40,000 dealerships nationally. Demographic shift, market expansion (size and competition) and the ever increasing complexity of doing business has led to a consolidation that shows no sign of easing.

This allocation system was successful as most business was local with personal relationships very important to dealers repeat and satisfied clients. The success of the Japanese imports changed the landscape dramatically. Competition was greater and very aggressive. Large market shares were quickly captured by Toyota, Honda and Datsun (Nissan). This trend started on the west coast and spread east during the next decade. The initial response from “Detroit” was poor and another missed opportunity for GM, Ford and Chrysler. These Japanese brands are and have for quite a while become well entrenched in the Market. Having the insight to learn from the mistakes made by “Detroit” of too many dealers within too close proximity, they were careful about locating stores in strategic locations focusing on growth and access.

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After the bankruptcy of GM and Chrysler, over 2000 stores were closed with an emphasis on spreading the distribution network. This has allowed the remaining dealers to focus on their immediate market and compete with other manufacturers brands. This in no way has diminished the ability of a customer to shop either locally or digitally for the best price, terms and trade allowance if needed.

There have been unsuccessful direct sales efforts in the past. Fords efforts were short lived. For a major manufacturer to establish a nationwide sales and service network would be cost prohibitive. Manufacturers are focused on building competitive product, meeting governmental standards and insuring the safety of the public.

Tesla is unique as a “car” company. Its product is quite expensive and certainly a want and not a need. Having developed the car, Musk is also exploring different distribution which for the volume being sold is currently satisfactory. Also a bit of the buzz is about being a disruptive entry in the market.

No One would have predicted car-sharing or rides-on-demand (Uber-Lyft) 10 years ago but they are being used in more markets and growing significantly.

Needless to say, competition has never been more aggressive with all manufacturers driven to increase sales and market share. The recent presence of online price shopping and comparison sites make getting a “Good” deal even easier. The “Franchise” dealer distribution system provides a very competitive market place for the consumer that direct sales or a hybrid system would not.

For a distribution and pricing system that has been in existence for over 100 years, in my opinion an evolutionary progression should be allowed to happen. Technology is certainly speeding the process as is regulation on many aspects of the sales and service process. The consumer has available many tools for an educated fair decision.

Respectfully,

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