



# **FUTURE OF THE AUTO MARKET**

**Can the Automotive Market  
Sustain Our Business?**

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**M**any people who depend on the automotive industry for their livelihoods are asking themselves, “Can this volatile industry continue to support my business and my family? What changes should we be making to prepare for the future?”

This concern is certainly legitimate, particularly given the evolutions happening right before our eyes: the digital transformation, the pressure toward electric vehicles, the experiments with autonomous vehicles, and the recent interruptions in supply chains for everything from microchips to maintenance supplies, many of which we never dreamed might be in short supply.

These concerns are especially acute among manufacturers and distributors who SUPPORT automotive businesses, like us who supply dealerships, independent repair shops, tire centers, truck centers, car washes, detail centers, and the like. Businesses selling into this space never sell a single vehicle or a vehicle part, but their success depends directly on the size, health, and direction of the automotive industry.

In this article, we will take a layman’s look at those three key factors – size, health, and direction – of the auto vehicle markets, and we will focus on them from the perspective of the Independent Distributor – *who, by the way, just may be one of the most crucial players in the game of survival we all face!*

## SIZE: CHICKEN LITTLE & DEALERSHIP DECLINE

“The sky is falling...the sky is falling!” declared Chicken Little in the well-known nursery rhyme of our childhood. If we look no further at the automotive industry than did Mr. Little at his sky, things certainly appear to be falling apart. New car dealership growth is stagnant, vehicle supply seems easily stalled by supply chain issues, and vehicle prices are all over the place! It certainly appears the institution of the automobile dealership as we have known it is threatened.

At first glance, statistics published by popular industry sources seem to support the assertion. Everyone knows by now that growth in the number of new car dealerships in the USA has been leveling in recent years, and consolidation is prevalent as investor money supports the model of national dealership groups. It certainly LOOKS like individual dealerships are in decline, and the sky is falling.

However, a deeper look reveals a different story to us. The automotive dealership world AS WE HAVE KNOWN IT may be in some decline, but the **selling and maintaining**

**of vehicles** is destined for expansion! In other words, the model of auto dealerships as we’ve known them to operate over the last few decades has likely already peaked. What’s coming is an entirely new marketplace we can only imagine – but imagining is fun, so let’s do it! Along the way, why don’t you keep score? Perhaps you, like us, will come to realize that the SIZE of the automobile dealer market isn’t declining at all. In fact, it’s going to grow like crazy, but the growth will be in ways we can only...well, imagine.

Carvana®, CarsDirect.com®, AutoTrader<sup>SM</sup>, and many others are proving that vehicles can be shown, sold, and delivered **WITH NO TRADITIONAL SALES LOT**. People are shopping and buying cars online and taking delivery just like they accept shipments from Amazon every day. Does this portend disaster for those who sell adornments and attention-getters for car lots? Or could it be that vehicles will be so commonly available that the average number per household will *increase* (a sedan for family trips, a truck for work, and an SUV for recreation), so there could be many **more after-market sales lots** than new car lots today? We also notice some of those larger, online “dealers” experimenting with new concepts in car lots. Have you seen the CARVANA display beside a major freeway in California? CARVANA stacks vehicles in a giant, glass elevator to minimize the acreage needed for display! You can actually see the cars *better* from the freeway than you used to. Regardless how they are displayed, all those new vehicles still need window stickers, key tags, floor mats, and dozens of other “sales department” adornments and regulatory items.

As the number of existing vehicles continues to rise, who is going to service and repair all those vehicles? This might surprise you, but the market for those distributors who sell items for the sales, service, parts, shop, and office departments of today’s automotive dealerships and repair shops already totals \$270 million per year – and that’s a conservative estimate; it could be twice that or more! That’s right, YOUR business sells into a market that size. How much are you getting?

One segment of that market is certainly destined to grow! Depending on which source you believe, there are over 129,000 independent repair shops operating today (one source, counting captive and contract shops, puts the total over 162,000). What do you imagine will happen in that segment? Here’s an example: If you sell items to support automotive repair, you know that Repair Orders (ROs) drive business. Everything from dispatch tickets, rental/loaner and inspection forms, shop towels and cleaning supplies, seat and steering wheel covers, floor mats, and such, are sold based on the number of ROs expected. Well, look at the numbers: If each independent repair shop has only 3 service bays and perform only 15 ROs per day, then that calculates to 631,800,000 repairs per year across the industry or about \$82 million in sales.

What can we imagine will happen to this already enormous independent market? Is it not certain to grow as people attempt to maintain fossil fuel vehicles while

transitioning to EV and autonomous? Certainly, the types of repairs performed by this segment will change (goodbye, oil change stickers; hello, battery stickers?), but the sheer NUMBER of ROs will not decline—it will change for sure, but it will grow!

The size of our market is NOT in decline, but it is most certainly evolving. To survive, we must seek new products—indeed, we must CREATE and ADAPT products—that will be needed by tomorrow’s dealerships and service centers.

## HEALTH: YOU CAN BANK ON IT

If the size of the automotive retail markets is truly expanding (and we believe it is), what about the *health* of the market? Will the independent dealership and repair shop owner continue to prosper, or will we all be trying to get appointments with buyers at corporate centers that own hundreds of dealerships? Will LOCAL managers of Sales, Service, Parts, Office, and Shop Departments have any authority to buy our goods? Who will be healthy and prosperous, and who will not be?

Again, the current trend toward dealership consolidation might lead one to believe the future for individual dealerships and repair shops is bleak. However, history teaches us a different lesson about industry consolidation: usually consolidation means the market *shifts*; it doesn’t necessarily decline, thanks in part to good ol’ American ingenuity!

Take, for example, the banking industry. If you’re over 65 years of age, you likely remember the day when every town had its own local bank. Then, during the 1980s and ‘90s consolidation began due to regulatory changes, and today’s nationwide behemoths emerged. In the 1980s, there were just under 15,000 banks with more than 40,000 branches; today, there are under 5,000 banks—one-third the number of your or your granddad’s childhood—but with over 75,000 branches in operation, almost double. What happened? Consolidation resulted in *fewer bank owners*, but demand resulted in *more bank branches*. If you sold products for use in bank lobbies, you likely thrived, although you had to find a way to sell to big, regional or national bank buyers.

Ironically, bank consolidation is now undergoing what many believe may be its final metamorphosis: the demise of bank branches! In 2020, banks closed a record 3,324 branches nationwide and opened 1,040, for a net loss of 2,284 branches. Some experts predict we will need 40% fewer bank branches in the next 10 years; others foresee even fewer branches. Those guys selling pens and poster displays for bank lobbies are in trouble! What should they do?

Enter American ingenuity. They should help re-imagine the marketplace for personal banking relationships and adapt their products for the new way. People will always seek personal relationships for functions as important as managing their money. Most certainly, banking relationships will not end with the evolution of



online banking and fintech, but they WILL shift from bank lobbies to new venues. We are already seeing bank kiosks in airports, tourist centers, hospitals, government centers, and the like. They all need pens and posters! Yes, virtual banking is growing exponentially, but that only means bankers need **virtual** bank posters instead of **printed** bank posters...but they *still* need posters!

Are you getting the point yet? Market transformation in the automotive industry is likely to mean the health of some buyers and items in your product line may be at risk, but true transformation always results in *healthy, new demand*. What we must do is *identify that demand and prepare to meet it!*

Your role is to be the eyes and ears for your wholesale manufacturer. First, make sure you are aligned with a manufacturer that has the **ability** and the **willingness** to develop and adapt transformational products. Then, when you call on that new electric vehicle dealer, try to identify items he needs that may not be used by traditional dealerships. Similarly, when you visit the shipping department of that entrepreneur who is selling vehicles online (yes, there is someone near you who is trying it), ask what he needs for preparing that vehicle for shipping (floor mats, plastic wrap, tags?). You are likely to discover a new product or item that may be similar to something you sell today, but perhaps it needs to be redesigned or updated in some way. *Let your wholesaler know!* A good *wholesale manufacturer* will appreciate the tip and will usually find a way to make that item for you!

Who will be the healthiest prospects for our products and supplies in the coming years? We imagine it will still be those businesses who provide the *touch points when a buyer or potential meets his/her vehicle for the first time*. That may not be the “traditional dealership” you know today, but it most certainly could be a new version of it. Be sure to watch the dealer who is getting involved with electric vehicles today; he is more likely to be a healthy prospect for you tomorrow.

Also, as in our example above of how the banking industry transformed, if you want to find opportunity, then follow the technology. For example, imagine for a moment what dealers and service centers for electric vehicles will be like.

Could it be that the battery dealers of today will become the service centers for EVs in the future? Imagine the companies that provide online operational platforms for urban scooters today; could they become important for managing autonomous vehicles in the future?

The point is: The healthiest prospects for you tomorrow will be the entrepreneurs and innovators who adapt to the changes coming while continuing to serve the current market we all know and love. Find them. Support them. Nurture them. And strive to be one of them!

## **DIRECTION: EV AND AUTONOMOUS SUPPORT**

We have already touched on the new direction the automotive markets are taking, but it may be useful to elaborate further, if only to emphasize the point.

The world seems determined to reduce—if not eliminate—dependence on fossil fuels as a source of energy, including the elimination of gasoline as the power source for our transportation. Emission control and ultimately elimination is the goal. We can argue all day how far this transformation may go, but current federal guidelines and infrastructure investments are definitely pushing us to electric vehicles in the near term, while the digital transformation is ushering us toward autonomous vehicles in the long term.

What does this mean? In the near term, many of us will drive electric vehicles. Imagine if half or more of all vehicles on the roads today were electric. How will that impact service stations? How will that impact demand on the electric grid? Imagine all those charging stations. How will that impact repair centers? What will happen to the traditional oil change we all experienced as a ritual throughout our lives? What will happen to engine mechanics and parts stores?

In the long term, what will autonomous vehicles be like? Is it even possible that our children and grandchildren will not even *want* to own a car? Many of them don't want to own a house today; why is it difficult to imagine they may not want to own a car? Is it so hard to imagine ordering a vehicle on your phone just like you order a pizza today? You check the weather and say to yourself, "Aha, it will be sunny today; I think I'll order a convertible!" or "I think I'll take the whole family to the beach today; order a van!" A few clicks on the app, and bam, your vehicle-for-the-day drives itself to your front door (or the door you're renting).

Sound far-fetched? People are already living like that in parts of our country today, and if you don't believe it, spend a day in any metro area in California! Folks, it's already here. Can you even imagine where all those autonomous vehicles will go at night? Will there be vast, underground garages where lonely cars go to be recharged and cleaned every night? Imagine getting

the contract to provide window cleaner and sanitizer to one of those places!

So how do we sum up the *direction* our industry is taking? The direction is clear: the automotive market of tomorrow will be cleaner, more automated, and somewhat less personal, meaning the traditional love affair between a driver and his/her dream car is on the wane. The next generation will see automobiles as means to an end, simply an impersonal mode of transportation, but they *will* expect the vehicle to be clean, efficient, and fully connected and automated. Yes, there will certainly be die-hards, those who will hang onto gas-eaters just like some people today prefer a beautiful '55 Chevy, but most will opt for the future approach...and this brings us to our final imagining.

Our cars and trucks are already connected to GPS and the Internet. Imagine them also connected to the road, to all pedestrians, to every business, to every traffic light, to all emergency services, and to each other. Then, imagine the sales and training centers, the maintenance, cleaning, and charging sites, the repair centers, the storage yards, and the recycling centers that will need to exist to support such an industry. Now, image the sales channels, the sales knowledge, and the astonishing number of sales professionals that will be needed to support this type of enterprise.

The current direction of our industry will mean **MORE** opportunity for all of us!

## **CONCLUSION**

We have established that the size of the automotive market is actually still growing, and we have determined the **health** of the market will certainly remain strong, although the healthiest players tomorrow may be today's entrepreneurs. And finally, we have seen that the **direction** of the market will lead us to countless new opportunities we can only imagine.

Thus, we've learned that the question with which we began — Can the **Automotive Market** Sustain our Business? — *really* isn't the question at all. The REAL question is, "Can we keep up?"

A wise Greek philosopher said, "change is the only constant in life". We must not only be willing to change, but we must also embrace change while dealing with the present. Our role is to be the artery through which support products — the crucial life blood supplies needed by automotive businesses — flow. They will tell us what they need, and we must provide it. If we don't, someone else will. It really is that simple.

Be willing to change and adapt just as your dealership customer must also change and adapt. Be willing to innovate. Be willing to find new opportunity. Be willing to survive and prosper — and you will!