



AN ALBATROSS AROUND THE NECK OF THE DEALER

Centuries ago, when someone had a message, they had to stand on a box in the middle of the town square or pass the message along to the designated town crier. When farmers and merchants had something to sell, they also had to congregate in open markets. Newspapers, mail and eventually telephones diffused the need for central physical locality to move the message or the commerce. These communication mediums diminished the need for the physical realm.

Recently, Queen Elizabeth created a Facebook page. Royal officials are predicting a reduction

in the number of visitors to Windsor Castle because people can see images and learn facts about the Queen and her doings online. There is no question that the Internet's first major transformation had to do with commerce, and its current evolution has to do with social relationships. In reality, commerce and social relationships are very much intertwined. While I don't believe that social media presently has a strong influence on vehicle sales, I believe that it will in the years to come. As the Internet now enables commerce and social connections, I believe that dealer real estate will ultimately become an albatross around the neck of the dealer.

Under the present and future margin-compressed environment of the automobile business, I don't believe that dealers can justify the amount of expense they have tied up in the land, building, taxes and insurance. I believe that small is the new big. Dealerships that have much less and much lower cost physical real estate will have the opportunity to sell cars at a higher profit than that of their high-overhead competitors.

This is a particularly difficult and early message to dealers. This is so because dealers have derived a lot of ego and identity from their physical presence. Moreover, the manufacturers are requiring dealers to invest even more in their facilities. In my opinion, this is not the time for a dealer to get more vested in real estate, but rather less.

I can imagine a scenario where a new car showroom looks like a small square-footage boutique in an upscale, high-traffic shopping plaza and/or office complex. The model in my mind for the look and feel of such showrooms is a Volkswagen and Audi display on the ground floor of their North American corporate office in Herndon, Virginia. I think the service departments should be located in clean and conveniently accessible low-cost, square footage property. The used car operation is the only part of the enterprise that, in my opinion, may still require high-traffic visibility. I think that the separation and consequential concentration of these three businesses will lead to greater productivity and lower costs.

While I'm not sure that I'm completely correct on the above configuration, I am sure that the present and future retail automotive business will not support the rental factors that I see being constructed or upgraded at these new dealerships. I think that the manufacturer should be incentivizing the dealer right now to reconfigure their real estate for the purpose of getting to a much lower per square foot cost factor. As the importance of the Internet increases, the value of their real estate decreases.

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