

Automotive Industry Analysis

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The Internet, faster communication, lower trade barriers, and rising incomes in many parts of the world have changed the face of the international automotive market. Competition, which once came primarily from local sources, can now come from or go to virtually anywhere on the planet. The resulting globalization of the auto industry has led to improved product quality and lower costs and has spurred companies to reposition themselves through mergers. 3

OEMs (Original Equipment Manufacturers)

High new car prices, stagnating wages, and a supply of inexpensive, good-quality used cars have throttled back demand. At the same time, new entrants to the market, new regulations, too much capacity, and insatiable demand for fresh and differentiated products have eroded profit margins for many OEMs. 5

Given competitors' increased capability, the accelerating pace of change, and customers' sophistication, a car maker grows in a world of flat demand only by taking a holistic approach to improving the perceived value of a vehicle at the time of sale, and by increasing the total revenues generated throughout its lifetime. 5

"Automotive managers have come to view all vehicle-related services as their domain. Almost every major original-equipment manufacturer (OEM) is experimenting with downstream participation in one form or another – whether it is taking equity positions in dealer networks, acquiring parts-and-service companies, or offering car buyers telematics products ranging from active-navigation systems to emergency call services such as OnStar (General Motors) and Rescu (Ford).

Downstream activities

Vehicle Insurance

- Toyota · Investment in insurance company to develop Toyota-only car insurance in Japan
- BMW · Alliance with Chubb Group Insurance in the US

Vehicle use activities

- Honda, Jeep, Nissan, Toyota · High-speed and off-road test tracks; camps open to owners

Jupiter forecasts that growth in assets under management in online trading accounts will grow from \$415 billion in 1998 to more than \$3 trillion by 2003.

Vehicle communication and emergency services

- BMW · ASSIST Plus telematics service
- DaimlerChrysler · Tegarom Telematics joint venture with Deutsche Telekom
- General Motors · GM OnStar telematics services
- Volkswagen · Gedas telematics services (offered in Europe)

Vehicle repair activities

- Renault · Joint venture with Autobacs Seven to set up an automotive accessories retail chain in Europe

Dealership investment

- General Motors · Subsidiary to begin investing in dealers in the US market

Certified used-car programs

- Acura, BMW, Honda, General Motors, Lexus, Toyota · OEM-certified used cars sold through dealers; some OEMs experiment with selling used cars directly over the internet

OEM Offerings

Almost all OEMs have dealer locators on their websites, including Ford, Chrysler, GM, Honda, Toyota, and Saturn. Acura's site offers special leasing and financing information online. Ford's online "Dealer Locator" allows the user to research vehicles, check new and used inventory, build a vehicle to the specs, request a quote and apply for credit, and view selected dealer's services, hours, and special promotions. Ford's comparison module, a feature created by Autoweb.com Inc., allows consumers to accurately compare Ford vehicles to vehicles from other manufacturers. 4 GM's site allows the user to get the best price for a variety of dealers in your area, based on the user's zip code.

Toyota's "Shop@Toyota" section is prefaced with the text, "Shopping means different things to different people. For some it's just browsing. For others, it's signing on the dotted line" acknowledging that their price quoting service is

being used for comparison shopping as much as for finalizing a deal. After selecting the model, packages, and options, you are given a price quote, asked for contact information, and can expect to be contacted by a local dealer.

Saturn provides the most functionality out of all OEMs, bringing the customer part way through the sales process, and finally directing the user to the closest retailer. Saturn allows the consumer to build their Saturn online. The user can compare the desired Saturn with other cars, a service provided by AutoSite.com, start the GMAC financing process and find the nearest Saturn retailer, who will help locate the car.

On the high-end side, most OEMs are not offering much more than an Internet presence.

Mercedes has begun to offer more functionality with an Online Portfolio which provides a customized online experience and direct access to many practical features at MBUSA.com.

For starters, you'll gain immediate access to your Online Portfolio, featuring a number of convenient tools built to enhance your experiences in purchasing and owning a Mercedes-Benz. Your Online Portfolio offers you the ability to save your vehicle configurations and comparisons, to select and contact your preferred MB Retail Center, to request more information or obtain assistance, and much more.

User's are able to "Design Your Volvo" on Volvo's site, but have to wait to be contacted by a local dealer for the quote.

Existing Dealers

CarMax Group purchases, reconditions and sells used vehicles. In addition, CarMax sells new vehicles under sales and service agreements with DaimlerChrysler, Nissan, Mitsubishi, Toyota, Ford, General Motors and BMW. As of 5/00, the Company operated 40 store locations. For the six months ended 8/31/00, revenues rose 27% to \$1.3 billion. Net income totaled \$7.7 million, up from \$1.4 million. Results reflect higher comparable store sales, especially in used vehicles. Net income reflects increased gross margin due to continued improvements in inventory management.

AutoNation.com (from 10-Q - 11/14/2000) does not expect to complete acquisitions of franchised automotive dealerships at the same pace as in prior years. Acquisitions completed in 2000 have been and will continue to be single dealerships or small dealership groups focused in key existing markets, or strategic acquisitions to enhance the Company's

e-commerce business.

AutoNation.com's CEO, Michael J. Jackson, claims that automotive manufacturers and large "e-dealers" are replacing online referral and broker services as the dominant players in online automotive retailing. 9

- "It's clear that the online automotive lead provider and broker models are not sustainable. The question is not if there will be a consolidation among these players, but when that will happen.
- National e- dealers who fulfill customer orders from their own inventory, and manufacturers whose web sites feature direct access to their best dealers and special factory incentives, will be the dominant online automotive players."
- Referral and broker services have failed to offer a seamless buying experience. "No matter how you cut it, the referral and broker services are middlemen. They come between the customer and the dealer, and that's not efficient.
- These services also disappear after the sale, leaving the customer without a service relationship with a local dealer."
- "e-dealers" have several important advantages when compared to referral and broker services. "Large e-dealers, like AutoNation, offer Internet shoppers access to real vehicles at real prices because we own the inventory at dealer cost. We can conduct the entire transaction online, without a middleman, and we have the bricks-and mortar facilities necessary to provide long-term service."
- "Research shows that customers spend an average of 19 days researching and buying a new automobile.
- On the other hand, they own the vehicle for an average of 39 months.
- Good e-dealers, like AutoNation, are positioned to meet the needs of customers during the entire ownership experience.
- The referral and broker services seldom see beyond those first 19 days."

Misconceptions related to shopping for vehicles online:

- The referral and broker sites give consumers access to hidden cost savings that they wouldn't get if they went directly to the dealer. The truth is, these services have to buy the vehicle from a dealer
- "direct" versus "indirect" retailing-- "Perhaps the greatest myth is that the referral and broker services offer consumers direct access to

vehicle inventory. Nothing could be more misleading. It might be more appropriate to call these services 'indirect.' And now, with some manufacturers warning their dealers not to sell to Internet brokers, even the word 'indirect' might be a stretch."

What are traditional dealerships doing to utilize the Internet?

One example is the Buddy Hutchinson dealership in Jacksonville, Florida. They have been online for over a year. Their site carries descriptions of every new and used car available at the dealership with links to Honda's corporate website so potential buyers can see all makes, models, options, and the price tags each carries. Some other sites have chat rooms, links to other sites where shoppers can buy add-ons, online service reservation systems, and even personal pages for owners to keep all the information on their cars, accessible from anywhere to avoid lost warranties or service records.

Online Sellers

Most of the existing auto-buying Web sites work on a referral basis, asking consumers to choose the car they want to buy, then passing information about them to the closest dealership in the site's dealer network. The dealer contacts the customer with a nonnegotiable price quote.

Types of services

Dealer referral services

Dealers sign up for the service and pay a fee for every customer referral provided. The customer still must go to the dealer to make the purchase. 7

- AOL's Auto Finder receives data from Autoweb.com for new & used cars. Autoweb's website allows dealers to join their Dealer Network. They provide online research: New and Pre-Owned vehicles, Financing, Warranties, Insurance, as well as Kelley Blue Book pre-owned vehicle valuations. Also they provide the only real-time, online service for scheduling car care appointments on the Web. Currently they only cater to Atlanta, Minneapolis/ St. Paul, and Seattle areas right now, but other areas are following.
- CarSmart.com – Aggregates an extensive collection of rich automotive content to assist consumers in researching, buying, selling, leasing, financing and insuring new and pre-owned vehicles. CarSmart.com offers the consumer an Accredited Dealer Network of

nearly 1,500 nationwide. Dealers can sign up to become member dealers.

- Microsoft Carpoint – Offers expert information to help consumers find the right car. More than 6 million people visit Carpoint each month, making Carpoint the most popular car-buying site on the Web. Carpoint also partners with more than 5,000 dealers and multiple manufacturers to provide DealerPoint, the industry's leading customer-management technology, which is used by more than 40 percent of U.S. dealers.
- AutoVantage.com – Web service for great deals on New Car Purchases, 24-Hour Emergency Roadside Assistance, Car Care Services, Car Rentals, Hotel Reservations, and much, much more. With more than 2 million members, AutoVantage can negotiate deep discounts for its members that are not available to the general public.
- Cars.com – Administers local new and used car shopping on the Internet. With inventory in 26 of the top 30 U.S. markets, cars.com is the only automotive Web site to provide daily updates of dealer inventories. Allows consumers to search vehicle listings by zip code, vehicle make, model and year and easily submit a quote request to a car dealer by e-mail, fax or telephone. Also provides consumers with automotive information, including rich editorial content pertaining to real-life issues such as how to purchase a vehicle and tips for parents of young drivers. Also provides consumers with tools such as an auto loan calculator, news and reports on new and used vehicles, more than 3,500 independent vehicle reviews (from 1983 to the present), vehicle performance data and vehicle recall information.
- GreenLight.com - A new entrant to the market, GreenLight.com, allows a customer to go online, price, compare and ultimately purchase a new car entirely over the Internet. Greenlight is focused on selectively building a strong network of dealers in order to fulfill customer orders. They have a partnership with Amazon.com, and a business model built by dealers for dealers. 12

GreenLight's Dealer Partners:

- Provided for customers to get their cars serviced or for customers to trade in a car. In addition, dealers have requested to be included in our sourcing network in order to sell incremental cars.
- GreenLight.com provides their Dealer Partner's with the potential for incremental sales and service payments.

Local Presence:

- National company, but they recognize that car-buyers often want to know they can contact someone locally.
- Work closely with local dealerships both to source our cars, and to provide help and service assistance. High volume, internet-based model allows them to secure the lowest prices by working with the best dealers in the country.

Direct dealers

They allow customers to buy over the Internet from the dealer without having to go to the dealership. The entire sale is handled online. In many cases the dealership will even deliver the vehicle to the buyer's home. 7

- CarsDirect.com comes closer to selling directly to Internet customers, by quoting its own price and striking a deal. The buyer goes to a dealership only to sign the final papers and pick up the car. 8
- Autobytel.com provides direct online purchasing. Allows both buying and selling of vehicles, shopping for insurance, as well as virtually any auto-related product.

Autobytel.com and its wholly-owned subsidiary, CarSmart.com, North American Accredited Dealer Network consists of over 5,000 dealers.

Autobytel.com is the market leader in online car sales, generating nearly twice as many car sales as its nearest competitor.

In 1999, Autobytel.com generated in excess of \$13 billion in car sales through and by its Accredited Dealer Network.

Reverse Auctions

Some companies are offering reverse auctions in which dealers compete to offer the best price. Two of the first of these sites are CarPrices.com and InvoiceDealers.com. They say that their approach lets consumers take advantage of information -- like sales incentives, manufacturers' rebates and discount financing -- that dealers can factor into their price quotes. In essence, says Adam Weiner of Gomez Advisors, a firm that advises e-commerce

companies, competitive bidding forces dealerships to act on the most current pricing information to come up with the most attractive bid. 8

- On CarPrices' site, shoppers choose the car they want, the color and options they desire, and submit a request for bids, along with an indication of how far they are willing to travel to a dealer.

CarPrices sends the customer's request to participating dealerships within that geographic area. The dealerships send back to the Web site, by e-mail, a nonnegotiable quote for a drive-it-away price that includes registration, delivery and taxes. CarPrices compiles the quotes from various dealers, adds additional background information on the bidders -- customer satisfaction ratings and perks like free car washes -- and sends the entire package by e-mail to the customer, who can accept a bid or reject them all. Customers cannot make counteroffers. The process usually takes less than one business day, CarPrices says.

- InvoiceDealers.com offers multiple, instant, immediate price estimates. Not a broker involved in the actual sales but an advertising entity to be utilized by dealerships. 7

Their approach differs from most auto-shopping Web sites, by forming partnerships with the "virtual dealerships" planned for cyberspace. One of the first to stake out this ground, CarOrder.com of Austin, Tex., plans eventually to buy up existing small dealerships around the country so that it can gain access to manufacturers' product pipelines. It would then compete over the Web against traditional bricks-and-mortar retailers. 8

How do these online sites make money?

If the online referral sites are pretty much losing the customer after a sale, and the online direct sale sites are trying to undercut each other with price, how can these online sites be profitable?

For InvoiceDealers.com, dealerships provide information about their products and buyers go to the InvoiceDealers site to get the price of the models offered. The dealers then pay InvoiceDealers \$25 for every customer referral that comes from the site. At last count, some 1,050 dealers were hooked into the online buyer's site. "We facilitate an average of \$15 million in new car deals per month," says InvoiceDealers CEO Jon Christensen. 7

Can their profitability last?

In October 2000, InvoiceDealers reported September 2000 as its fourth consecutive month of profitable operation. But can their profitability last?

Brian Dinquel, Internet Department Manager for Buddy Hutchinson Toyota in Jacksonville, Florida is not worried about competition from on-line dealers. He guesses that about 60-70% of his customers have done some online research before arriving at his dealership. Still he feels that most of the online sites are helpful to his business and hopes to further utilize the Internet's reach. Brian is interested in exploiting AOL's broad customer base by joining the AutoWeb.com dealer network. This would cost his dealership a substantial fee, usually charged per lead, but he would be able to exclusively claim AutoWeb from all other dealers in a certain mile range. 11

CarClub.com is essentially a broker. CarClub.com purchases vehicles from dealerships and broker them to potential customers. User selects one of three sellers: CarPrices.com, DriveOff.com, or InvoiceDealers.com, for a price quote. The selected option appears in a pop-up window.

DriveOff.com- All vehicles leased or purchased through this site are made available through and delivered solely by authorized, participating new vehicle dealers. A \$250 deposit is required before the deal is completed. It is refundable if they are unable to find the desired vehicle.

CarPrices.com- Select desired model and options. Enter contact information. Wait for an email with Dealer name, address, and telephone number, name of the contact at the dealership, the CarPrices.com price, any manufacturer customer rebates the users is entitled to, and any manufacturer to dealer incentives that can help lower the cost even further.

Online brokers - These sites, which include CarClub.com, purchase vehicles from dealerships and broker them to potential customers. 7

While the majority of services are primarily aimed at the new-car market, there are also online used-car services. The dealer referral services handle both new and used cars, enabling dealerships to list all their products on the same site. But there are also online classified services that provide the same function as used-car classified ads in the newspaper. Autoweb.com Auctions and Yahoo! Auctions allow sellers to auction their vehicles on

the Internet. 7

Information Providers

Kelley Blue Book has been on the Internet since late 1995, and generates millions of pricing reports for new and used cars every month.

In 1994, Edmunds took advantage of the advent of the Internet by posting its vehicle data in a gopher site. The next year, Edmunds became the first company to establish a site on the World Wide Web on which consumers could obtain vehicle information at no cost, and in 2000, Edmunds became the first source for vehicle pricing information for users of wireless web-enabled devices.

Brian Dinquel, of Buddy Hutchinson Toyota, feels that Kelley Blue Book and Edmunds.com can cause confusion with consumers. He has seen many customers get an invoice price quote from one of these informational sites. Often, these customers do not understand why they cannot get their quoted price, which may be based on a standard model of the vehicle, at their local dealership. They do not expect the price to increase for such add-ons as, a CD player, air conditioning, leather seats, sunroof, etc.

Legal Issues

Last year, the Texas' dealers convinced lawmakers to bar manufacturers and Internet startups from selling cars in the state, although they can refer customers to local dealerships. Manufacturers "were mad at the Texas dealers for passing these laws," says Carol Kent, state Motor Vehicle Division enforcement director for Texas's Department of Transportation,. Then Ford "threw down a federal suit on us." Two years ago, Ford launched its own e-commerce Web site called Fordpreowned.com, to sell cars that were returned to Ford after their leases expired. In this way, Ford sold cars in San Francisco, New York City, and Houston.

Less than a year after the site's launch, Texas's politically influential car dealers lobbied for new laws that explicitly banned Fordpreowned.com from selling in Texas. Last November, Ms. Kent demanded that Ford shut down the operation. Ford counter-sued, claiming the Texas laws are unconstitutional. If Ford wins its fight against Texas, similar laws in other states will be at risk. But it's been a tough battle for Ford. In July, a federal judge in Austin sided with Ms. Kent and tossed Ford's case out of court. 10

Harley-Davidson - Blue Martini case study (11/23/99) –

- Launched the their online catalog featuring the company's motorcycle accessories and apparel products.
- Actual online sales will be piloted next year through a group of Harley-Davidson's independent dealers.

According to Jim McCaslin, HD's VP of dealer services:

- "HD dealerships are 'experience centers' that must be personally visited to be fully appreciated.
- Our dealers are the envy of the recreational products industry and they are our primary channel of distribution.."

Ken Ostermann, HD's manager of electronic communication:

- "... We hope to use features such as dynamic merchandising, targeted selling, personalization, and content management, to allow us to build and maintain a leading E-Commerce site for our dealers."
- "...We are deploying our on-line buying process in cooperation with our established dealer channel.
- Blue Martini's software allows our dealers to leverage their knowledge of their local market

area with the needs and preferences of their customers. **Local feel for online channels.

- HD's role is to provide a consistent look and feel for the site and provide the framework to present and manage the merchandise that our dealers sell."

Monte Zweben, CEO of Blue Martini Software:

- "Blue Martini software will let Harley-Davidson combine their customer and merchandise expertise without having to assemble and maintain a custom webstore software solution. Faster time-to-benefit and lower cost of ownership are key benefits."
- The Harley Davidson site clarifies how to reach any of the dealers. You check the dealer locator for the dealer contact information, driving directions, maps. Then, you select an E-dealer (local real life dealer) with whom you can follow up by phone, email, in person...
"Shopping at the H-D RoadStore may be convenient, but it can't replace the sights and sounds of the real thing. That's why we encourage you to visit your nearest dealer, whether you do your shopping online or not. The H-D RoadStore is a great stop along the information superhighway, but the real journey begins on the real highway and at a Genuine Harley-Davidson dealer."

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