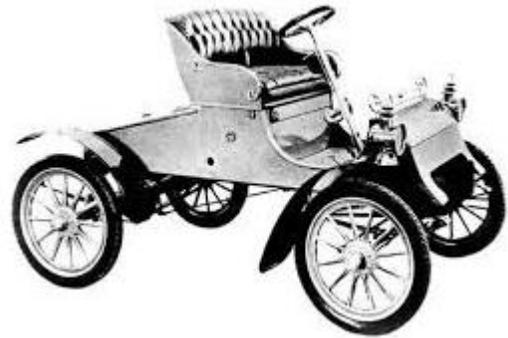


The Evolution of Auto Sales in America

There is no argument that automobiles have changed drastically in the last 125+ years – from motorized horse-carriages that needed to be cranked to start, to the battery and electric fueled cars of today, and driverless cars of tomorrow.



During that span of time, auto sales and auto ownership have changed drastically as well.

In the Beginning

From the 1920's, when the first "affordable" American automobile was built (Ford's Model T), through the 1940's, an automobile was considered a luxury item. Most people walked or took mass transportation (buses and trains) to get around; women often didn't learn to drive. Families, who were lucky enough to own a car, owned just one.

1970's

In the 1970's America's auto manufacturers were in their heyday; this was a period of peak production as it became more common for women to be in the workforce and households needed two cars to accommodate two working spouses. Auto manufacturing was generally confined to the "Big Three:" Ford, Chrysler and General Motors – who had a combined market share of nearly 90%.

Automobile sales dealerships were in their heyday at this time as well because the only place to buy a car was from a dealership and dealerships specialized in one type of car. If you wanted a Ford – you went to the Ford dealership; likewise if you wanted a Chevy or a Chrysler. It was uncommon for the owner of a dealership to represent more than one brand, but when he did – those brands were on separate lots and often in separate parts of town or neighboring towns. During this time nearly all vehicles were made in America and were US-brands (no imports – as we call them today).



Beginning in the late 1970's "foreign" cars began to have more of a presence in the US – starting with Volkswagen, Datsun (which later became Nissan) and Toyota.

Imported cars became popular because they were generally smaller in size and therefore more fuel efficient (which was important during the 1973 oil crisis / embargo and the 1979 energy crisis).

As can be imagined, no dealership of US automakers simultaneously represented a foreign manufacturer. People who purchased a foreign-made car were considered almost radical.

During this same period, used car dealerships were non-existent. Generally, a used car was purchased in one of two ways: 1) from a dealership, which had taken it in on trade (and only a Ford was traded-in at a Ford dealership, of course) or 2) from a local garage which had done the work on the car and sold it via consignment for the owner. More often than not, when new cars were purchased, older cars were simply handed down to family members.

1990's

The United States suffered a significant economic recession in the early 1990's and auto sales suffered their first-ever slump. In order to revitalize sales, the concept of a lease was introduced. A lease allowed one to get a new car without having to buy it – the payments were lower than if the car had been purchased and, at the end of three years, one could simply turn the car back in at the dealership. New-car “sales” surged for a time, but then a glut of used cars came on the market not long after, as people turned their cars back in at dealerships.

Another tactic used to increase sales during this decade was for US auto manufacturers to purchase “foreign” brands, which allowed them to appeal to a wider audience. Auto-malls were soon the norm, with multiple brands represented at the same location because they were all owned by the same parent company (see sidebar ➔).

General Motors:

- Saab
- Daewoo
- Subaru
- Fiat

Ford:

- Volvo
- Land Rover
- Jaguar

Chrysler:

- Jeep
- Daimler-Benz (merger)

2000's

The 2000's also began with a recession, following the September 11, 2001 attack on the World Trade Center. Once the economy turned however, a never-before seen resurgence in car buying began. Many middle class families began to buy third and even fourth cars for teenagers in their homes who had school, activities, and jobs they needed to get themselves to.

Due to the steady expiration of leases, there was now a glut of used cars on the market – which was perfect for teenage drivers. No longer were used cars found only on the dealership lot. Now, retailers that specialized solely in used cars appeared (and flourished), and one could find any brand and style on the used car lot.

No longer a luxury, by the 2000's cars had become just another commodity; with families owning multiple vehicles and buyers purchasing new cars before their prior ones were paid off. Mom-and-pop local used car lots quickly morphed in to mega-malls of used cars, which carried any make and model one could want, and soon those types of dealerships becoming “brands” of their own.

As of 2015 there were 127,940 used car dealerships in America, as compared with 3,300 Ford dealerships 2,328 Chrysler dealerships, and approximately 3,600 GM dealers



Sales Shift

Between 2015 and 2017, the used-car industry eclipsed new auto sales (approximately 44 million used cars vs. 17 million new cars).

In the first-half of 2017 new car sales began a steady decline, with sedans taking the hardest hit; due to low gas prices, it seemed affordable to own a bigger SUV or crossover (SUV-type vehicle built on a sedan chassis). It was reported that auto makers paid (on average) \$3,800 in incentives, just to move cars off of new-car lots in the first-half of 2017 (while the profit margin on a new vehicle was about \$2,000).

Additionally, thanks to the wide-spread use of technology and a mobile population, by 2015 both new and used cars no longer needed to be viewed, evaluated, or purchased at a point-of-sale.

- Most major auto manufacturers now had interactive websites that allowed the customer to “custom design” a vehicle – surround sound? sunroof? V6 engine? metallic black paint? All could be “ordered” in advance of going to the dealership.
- Used-car mega malls offered the ability to see their entire inventory on line, choose 2 or 3 cars to compare their features side by side, and whittle down one’s choice before going to see the car in person.
- Still other options enabled buyers to find their ideal vehicle anywhere in the US and have it shipped to a local dealer for inspection or directly to one’s home, if the vehicle was purchased online.



Summary

In less than a century (since Ford’s Model T was considered the affordable car for “every man” in the early 1920’s) the way that autos are purchased in America – *by whom and from whom* – where – and how - has changed drastically. As evidenced in this analysis of *The Evolution of Auto Sales in America*, manufacturers have adapted and forged ahead despite mounting competition for sales. What is the next evolution?

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Discussion Questions:

- ✓ How many stakeholders are in this 'space?' What are their interests?
- ✓ Is adding more and better (new brands) the right strategy? Should the industry consolidate?
- ✓ Is a dealership network the only way to sell new cars?
- ✓ Price margins for dealerships are horrible – what's the rationale for continuing this model?
 - Consider the need for: physical space, staff, inventory (cars and parts), warranty work, buildings, lighting,
- ✓ What's the next evolution of how to buy a car?
 - Think about the whole infrastructure – What can be eliminated? What can be morphed? What can be capitalized on?

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- ✓ Can you timeline your own industry similarly?
- ✓ What opportunities do you see next in your own industry?