SPECIAL REPORT BY NICK GIBBS

Agency model brings brands and customers closer

NEXT YEAR will mark an important shift in the relationship between car makers and their dealers as the switch to the 'agency' model shifts up a gear.

Brands such as Polestar, Tesla and Genesis have already embraced direct sales, but then these relatively new brands haven't known anything else and didn't have to convince an established dealer network to move to a radical new way of doing business.

However, on 1 January Mercedes-Benz will transfer entirely to selling its cars directly to customers, meaning dealers are relegated to 'agents' who take a fee for the sale.

Polestar is an early adopter of agency sales

Mercedes has already switched to this model in some countries, including Sweden and Austria, but neither are anywhere near the size of the UK.

Also moving to the agency model next year are Stellantis premium brands Alfa Romeo and DS, as well as its vans division. This is the first wave for Stellantis, and the model will ultimately be followed by all its brands. Joining in 2024 will be Jaguar Land Rover and Mini, while BMW is slated to make the change in 2026.

Brands like Mercedes are moving to the agency model to get away from being car manufacturers who wholesale to dealers, and instead establish that same direct relationship with the customers that dealers currently have.

"We want to have more proximity [to the customer] and therefore have better control of pricing," Harold Wilhelm, Mercedes chief financial officer, told attendees of the Economics of Desire investor day in May. "That's why we need to move the current set-up from dealer to agency role, so the final contract can be made with the customer."

Being the one to set the pricing, rather than letting the dealer do it, brings important benefits.

For one thing, the price customers will pay is clear throughout the process. That can't be said for the wholesale model, in which car companies sell cars to the dealers below list price and, except in a few cases, let them set the margin. That means the dealers can discount when they've got cars to shift – to the point their margin might be zero – instead of relying on selling extras (like finance and insurance) or volume bonuses.

Consequently the customer doesn't really know what the price should be, which is a real negative when you're trying to expand online sales. "Let's be honest, customers don't really enjoy going into a dealership and haggling. You can't buy a new car entirely online under the franchise model, because there's a negotiation point in it. But the agency model is completely transparent," Tony Whitehorn, ex CEO Hyundai UK told Autocar earlier this year.

Mercedes wants to own the customer relationship

The second benefit is that more of the sales price goes back to the manufacturer, or so they hope. This year, dealers have done very well off the back of the constricted supply of new cars to increase the profits they make. For example, dealer group Vertu made £2124 gross profit per car in the six months to the end of September, a rise of 26%, while Pendragon's rose £2576 in the six months to the end of June.

Dealers traditionally discount to offload stock

The sticking point, of course, will be the fee paid by the manufacturer to the dealer for each sale, which sometimes might not happen at the dealer at all but online (the customer will nominate their nearest dealer for servicing purposes, dictating where the fee goes).

The dealer groups are, outwardly at least, happy about the arrangement. The capital cost of holding cars until they are sold transfers from dealer to manufacturer, while the dealer still makes a sum from each car without the pressure of actually having to sell it in the traditional way. "Agency is a very simple model that's very transparent. Customers like that ease and, importantly, this is very, very profitable," Duncan McPhee, COO of dealer group Lookers, told Autocar earlier this year.

The secondary cost benefit to the car maker is that it can control residuals better, rather than watching semi-helplessly as dealers destroy the used value by giving away their margins on discounts. Lotus, for example, will continue to own cars after they are traded in. "It's a clever mechanism to control the brand for a good five or six years," Nima Khandian-Nia, owner of Lotus Silverstone, told Autocar.

Dealers seem happy on the surface, but internally it's not such a popular move. The National Franchised Dealers Association has warned about possible secondary consequences, quoting one unnamed former car executive as saying: "In a one-price environment for direct-to-consumer, the manufacturer sets the RRP and there's no room for negotiation, so it will result in higher transaction prices." However, the NFDA has been unable to find any specific contravention in UK selling regulations, in direct contrast to the US where selling directly is banned in many states.

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Not all car makers are embracing it. Toyota, Hyundai, Kia, Suzuki, Renault and Nissan have all said either explicitly or implicitly that they will not make the transition. Renault points out that the agency model is not necessary to put a stop to discounting, as it has proven with its increasingly popular Dacia brand. This, of course, may change if they perceive the benefits to outweigh the opposition from their dealers.

Car makers across the board are looking for savings, and distribution costs are right in the line of fire. Ford CEO Jim Farley highlighted earlier this year that distribution costs total around $2000 (£1800) per car, "more expensive than Tesla".

"Our competitors are pure-play EVs and the Chinese that are absolutely coming. And that means we have to get this $2000 out of our distribution cost to be competitive with them," he said at an investor conference in June.

But it might be that the newly established relationship with the customer, rather than the dealer, could be the real gold mine for the car companies. When the customer buys their car through a centrally-run digital portal, whether while sat at a dealership desk or at home, they enter what will be a whole new ecosystem designed to both make their life easier but also sell them features and services long after the car has been delivered.

Much of this has still yet to manifest itself as car makers begin the laborious task of developing software enabled cars with cloud connection and downloadable options.

Depending on what's negotiated, the dealer may yet take a cut of those, but clearly the centre of gravity is moving to the car brand in terms of that relationship. A simpler world of handovers, servicing and stress-free human interaction awaits the dealer. It could be just as revolutionary as the shift to electric.

WHO'S GOING DOWN THE AGENCY ROUTE?

Lotus Emira launched with agency model

ALREADY AGENCY: Polestar, Lotus, Cupra, VW EVs, Genesis
2023: Mercedes, Alfa Romeo, DS, Stellantis LCVs
2024: Jaguar Land Rover, Mini
2026: BMW
MOVING BUT DATE TBA: Volvo, Citroen, Jeep, Fiat, Peugeot, Vauxhall, Ford, Seat, Skoda
NO PLANS AS YET: Toyota, Suzuki, Renault, Hyundai, Kia, Mazda, Nissan

Source: ICDP/AUTOCAR