

Checkout

## Americans Return to Car Dealers, Thwarting Expected Shift Online

The retail format people love to hate bounces back, thanks in part to the industry being forced to add tech tools during virus shutdowns.

By [Gabrielle Coppola](#) and [Edward Ludlow](#)  
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Despite increased options to buy cars online, Americans are heading back to dealerships. Above, a customer peruses a Honda dealership in Southfield, Michigan, on May 26, 2020. *Photographer: Emily Elconin/Bloomberg*

In the middle of California's lockdown, Mike Sullivan sold 160 cars in a week by delivering online orders to customers' doorsteps.

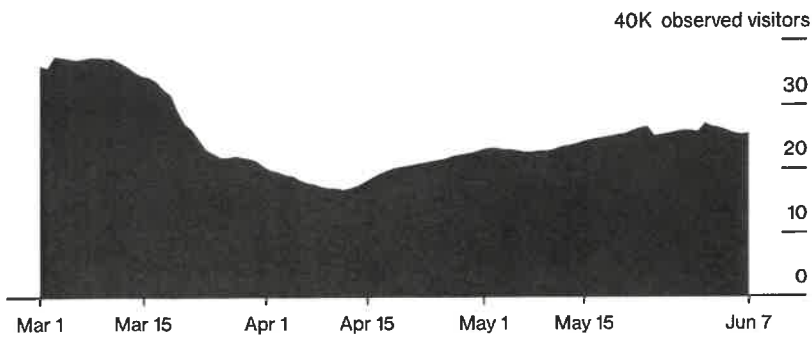
Even though that total meant sales plummeted about 75% at his 12 dealerships in the Los Angeles area, Sullivan had reasons to be encouraged. He hustled to set up e-commerce after the state ordered the closure of many retailers, including car lots, and customers liked the new model.

But since California loosened its coronavirus restrictions in May, shoppers have come back to Sullivan's showrooms. Not even recent protests over police brutality and looting, which hit three of his stores, kept them away.

"The people that did it thoroughly enjoyed it, but right after that they went to the old way of doing business," Sullivan said. "We're gonna continue, and I want to do it, but after the last week of April the story got watered down."

### **Californian Comeback**

Car dealerships in the Golden State have recovered about 50% of lost foot traffic



Source: Bloomberg analysis of SafeGraph location data  
 Methodology: Foot traffic for car dealers (NAICS code 4411) has been adjusted for daily fluctuations in number of detected devices, relative to March 1, 2020. A seven-day moving average is used to control for weekday-vs.-weekend dynamics.

Sullivan's experience raises the question: *Do Americans really hate car dealerships as much as they say the do?*

When Covid-19 hit America in March and states shut down much of the retail sector, conventional wisdom offered that it would be a boon for online shopping. The idea was that even stalwarts of brick-and-mortar retail with loyal patrons seeking touch-and-feel experiences—like test drives at auto dealerships and picking fruit in grocery stores—could be in trouble.

Initially, it played out that way. But after online car purchases surged, shoppers are returning to showrooms as the economy reopens. In another sign that the pandemic might be having less of a long-term impact on behavior than expected, the same pattern is unfolding in food, with Americans going back to neighborhood grocers after dabbling online.



Many dealerships are seeing a rebound in customer visits as the economy reopens. Above, a shopper looks at a vehicle at a Ford and Kia dealership in Clifton, New Jersey, on May 20, 2020. *Photographer: Angus Mordant/Bloomberg*

The economic shutdown pushed businesses spanning gyms to seafood suppliers to pivot to survive. These new revenue streams and capabilities may end up strengthening companies. That appears to be the case in the auto world, where online enhancements are not replacing the physical

location, but making it easier to shop. It turns out that the masses still want to test drive, walk car lots and haggle.

“It’s a slight evolution, not a revolution,” said Kevin Tynan, an analyst for Bloomberg Intelligence, who predicts online car buying will remain a niche in the market. “What the crisis did was force dealership groups to improve the process.”

The dealership has long been considered a retail dinosaur, with tactics like commissioned reps pushing pricey add-ons. In a recent Gallup poll, just 9% of Americans said car salespeople are honest and ethical, which ranked them last among a list of professions that included members of Congress and lawyers. Adding to the woes is that in 2020, people expect to buy everything with little hassle, but the cumbersome ordeal of purchasing a car has changed little in decades.



Ernie Garcia, chief executive officer of Carvana, said the coronavirus pandemic will accelerate growth of auto e-commerce. The company sells used cars online and either delivers a vehicle or offers pickup locations— what it’s dubbed vending machines—like this one in Westminster, California. *Photographer: Patrick T. Fallon/Bloomberg*

That failure to evolve left openings for the likes of Carvana, which sells used cars online with a seven-day return policy and delivers them or offers a pickup location. Tesla has disrupted the market not only with electric vehicles but with its sales process. It doesn’t use franchised dealerships and instead sells through its website and chain of service centers, which has led it to lobbying states to change laws that don’t allow customers to purchase directly from the manufacturer.

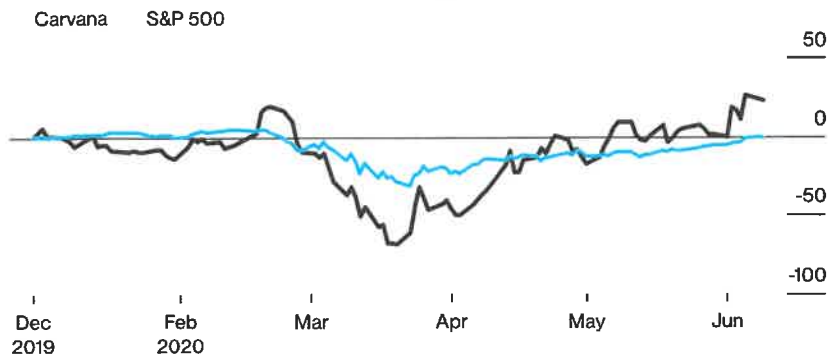
But like Sullivan in Los Angeles, dealerships across the country have pivoted during the coronavirus outbreak by upgrading online purchase and delivery options that may help stave off a reckoning for an industry that had too many locations before the pandemic. Among franchised auto retailers, 81% said they had a digital buying option in place at the end of May, up 15 percentage points from early April, according to a survey by Cox Automotive. They’re also adding online pay and scheduling for service appointments, which generate the bulk of their profits.

In April, Erin Mattes, owner of a fire-place installation company in Ponder, Texas, bought a 2019 Nissan Frontier truck through the company’s website. Three days later, a dealership 2 1/2 hours away delivered the new ride to her driveway.

“It was the easiest car purchase I have ever had,” Mattes said. “It’s a great process, if you know the vehicle and what you want.”

## Investor Love

Shares of online auto seller Carvana have surged since March



Note: Stock price and S&P 500 normalized as of Dec. 31, 2019.

Shoppers like Mattes led to a spike in auto e-commerce. J.D. Power estimates that in places with strict shutdowns, like California and Washington state, online sales jumped from 10% of total purchases to 30%.

"It's probably optimistic to see it stay at those levels, but it'll certainly be something north of what it was before," said Tyson Jominy, vice president of data and analytics for J.D. Power.

The potential for a longer-term shift online has boosted shares of Carvana. In another sign of enthusiasm, Vroom, an online car retailing platform, raised \$468 million through an initial public offering this week.

## "We're still going to have boomers who come in and want to do it in store."

Carvana Chief Executive Officer Ernie Garcia said the disruption caused by the pandemic will accelerate car buying's shift to the web. The company has lost money since going public in 2014, but its basic pitch to investors has been that profits will come as it scales. It sold about 200,000 cars in 2019 but has said it sees a path to 2 million a year.

"When you have a moment like this where all of the sudden everyone is focused on this virus, customer behavior changes dramatically," Garcia said. "A change that would have taken 10 or 15 years can happen in a couple of years."

But there are doubts about a prediction like that. Only half of franchised dealers plan to keep offering digital sales once the pandemic ends, according to Cox Automotive. Auto retailers cited not enough interest from customers as one of the main reasons for planning to abandon the practice.

Gus Briones, general manager of the Hunter Dodge Chrysler Jeep Ram store in Lancaster, California, won't be one of the dealers turning back from digital. He laid off half his staff during the shutdown, and the 14 remaining salespeople are mainly doing online sales. He's now a believer and plans to keep e-commerce when the pandemic subsides.

The virus "pushed us into where maybe we should have been," said Briones, who continues to see a role for the showroom, especially with older customers. "We're still going to have boomers who come in and want to do it in store."

Sullivan, the Los Angeles dealer, reckons that online retail could make selling cars more profitable and predictable, because he can schedule appointments rather than paying sales reps to stand around waiting for someone to stroll through the door. He just needs more customers to do it.

"I would consider doing a hybrid model—clean, simple, quick and still make a contact," he said of how online and the showroom could be intertwined. "Isn't it kinda nice to know who I'm going to be talking to when I need something for service, when I do come back?"

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# Checkout

– With assistance by Andre Tartar

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