

AutoNation's CEO on the Future of Car Dealerships



Sales have reached a plateau. Margins are shrinking on new cars. The potential disruption is rising from ride sharing, which could drive down sales, and autonomous and electric vehicles, which could give dealerships an entirely new purpose as a place for charging and housing vehicles during off hours. And there's the longstanding threat that the dealership model will vanish in favor of online sales.

But Mr. Jackson says he isn't worried. Since joining the company in 1999, he has guided it through a number of other challenges, including the Chrysler and General Motors bankruptcy filings, as well as the broader threat from the recession and financial crisis.

"As a matter of fact, the more disruption, the more change, I've always felt myself of more value," he says. "I'm attracted to dramatic, massive change because I think the opportunity to make a difference is great."

He spoke to The Wall Street Journal about the road ahead for his business. Here are edited excerpts of the talk.

WSJ: *What challenges do dealers face today?*

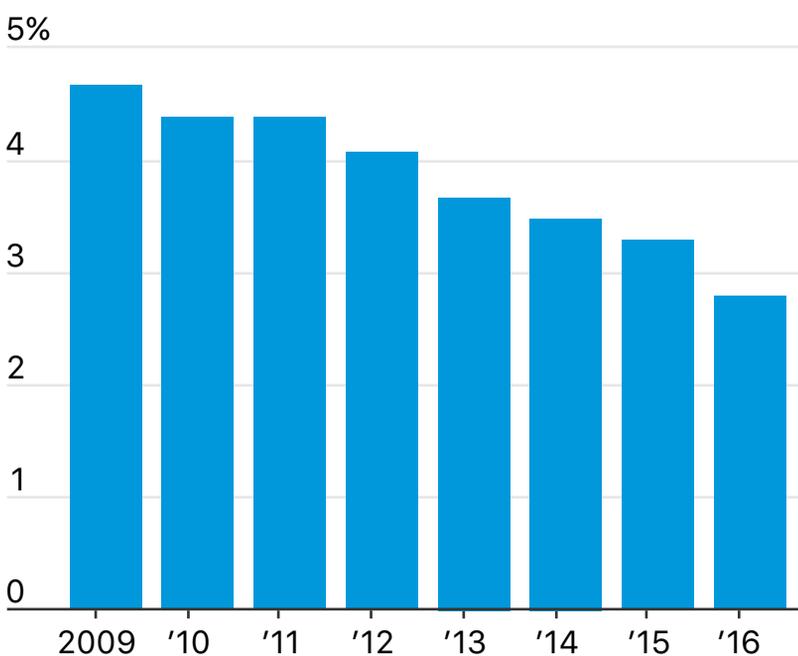
MR. JACKSON: We are in another period of massive, disruptive change. I think the

near-term change retail is grappling with is that the selling of new vehicles has finally become a commodity business at retail, with low margins and tough competition. We are a pass-through mechanism for the manufacturers on new vehicles instead of being seen as a partner. That's a fundamental change from a decade ago, where we made money selling new vehicles. The challenge is, then, how do you grow your business profitably coming to grips with that new reality?

New-Car Squeeze

U.S. car dealers' average gross profit margin on new vehicles as a percentage of selling price

Source: Source: National Automobile Dealers Association
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buy a car online instead?

MR. JACKSON: We changed a lot of the brand names of the dealerships we own in local markets, some of which were 100 years old and had a lot of presence in their

WSJ: *How have you changed your business model to adapt to these changes?*

MR. JACKSON: About three years ago, we said we're going to build a coast-to-coast brand. We have a scale in the U.S. that no competitor can match, and we're going to leverage that scale to our advantage to invest in used cars; parts, service and collision operations; and branded precision parts and automotive accessories. We're going to develop proprietary digital capabilities such as a website that allows customers to start the car-shopping process at whatever point they want, and offers them the ability to search inventory and hold a car.

We had to go through a considerable period of risk, disruption and investment to build all that out, but now we've opened the door to the possibility of brand extension, and really no other competitor can match that. That has set the stage for a period where we can grow profitably despite the headwinds.

WSJ: *How important is the brand now that some consumers avoid going into a physical dealership and may choose to*

markets, to AutoNation. But we had to win the customer with a transactional, digital website. The idea that we can do that with 25 differently named websites branded for each individual dealership is folly. So you need a unified brand umbrella with digital capabilities all under the AutoNation name, under which 100,000 vehicles are available for you to select, get pricing on and reserve. They're interlinked and interdependent.

WSJ: *Do you see a day when there aren't AutoNation storefronts, just digital orders?*

MR. JACKSON: No, absolutely not. Customers—and I'm talking about 90% of customers—want a brand they can trust, they want a great price, of course, and they want to be in control. But it is a big purchase. They want the ability to come in, test-drive, compare and confirm they made the right decision. That happens at a physical location.

Now, the equation is changing somewhat, and what happens within the brick-and-mortar storefront is changing dramatically. Consumers come into stores with more information and expect help, not a hard sell, from salespeople. But brick and mortar still has a role. I think in automotive retail with a price point on new vehicles of \$35,000 and preowned vehicles of \$20,000, I don't see that changing.

The next generation

WSJ: *What is AutoNation's role when consumers may not own cars, they share them, and vehicles are electric and autonomous?*

MR. JACKSON: Are you talking 100 years from now? Seriously, I think autonomous will arrive in the sharing marketplace. If I look at the marketplace out there, already today it is 70% personal use and 30% a shared market, which includes rental cars, taxis, buses, etc. Autonomous will be very disruptive to the 30% that's shared in the relatively near future, in a five- to 10-year horizon.

A true autonomous car, with all the computers, equipment, etc., costs about \$200,000 a vehicle. The only way you can justify that level of expense per vehicle is to eliminate a professional driver.

So if you're taking a taxi driver out of the vehicle or a truck driver out of the vehicle, you can justify the cost of a truly, fully autonomous vehicle. I think it arrives in the existing, shared marketplace first.

WSJ: *When do you see autonomous vehicles affecting the personal-use market?*

MR. JACKSON: In the personal-use market, it will come in more like a guardian angel where it has some benefit, like it will interfere if you're about to do something stupid. But the dilemma in the personal-use market is to get something that's affordable. The

only way you can do that is, you have a semiautonomous vehicle, and you tell the driver, “Look, you have this vehicle with limited self-driving capabilities that you have to monitor 100% of the time.” This is almost inhuman, where you say to somebody, “Look, trust this system but you’ve got to watch it like a hawk. Be ready to intervene at any moment.”

I’ve tried all the systems, and after five minutes I’m like, it is easier if I just drive the car myself than monitor the system. I think it will take much longer in the personal-use market for it to be truly autonomous, fighting that dilemma the whole way.

I think there is a limit on sharing, and there’s still a joy of driving. In a 10- to 20-year horizon, there will gradually be more capabilities in personal use, but it will still be a long, hard journey. I’m not a believer in this moment where you wake up and one paradigm is obsolete and the new paradigm has taken over, as you have seen in some low-price tech issues.

WSJ: *Has anything surprised you in your 45-year career in the automotive business?*

MR. JACKSON: What I love about automotive is it is constantly changing. That’s one of the things that attracted me to the business. Step one, I loved the product. I love driving cars and I love the sense of freedom of going wherever I want, whenever I want. You have all these different choices to fit your needs and your personality. I have an emotional attachment to my car. They’re not an appliance for me. I really like the product.

The personalities in this industry, they’re larger than life and they have to create these phenomenal products. They’re making huge, multimillion-dollar bets and are very fascinating to interact with. It’s a fascinating business, and it doesn’t stand still, and that’s what pops me out of bed in the morning—the excitement of rubbing my hands together and saying, let’s see what today brings. If you can figure out how the cards are going to fall better than anyone else, it gives you the possibility for a competitive advantage. I like that.

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