

## Impact of E-commerce on Auto Dealers

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### Purpose

The purpose of this study is to understand the effect electronic commerce has on auto dealers and to focus on how well auto dealers are adapting to an e-commerce environment. The automobile retail sector has experienced some consolidation over the last two decades, partly resulting from mergers and acquisitions of publicly owned dealerships, which further complicates the issue. This study can assist understanding of how current state and federal franchise laws affect auto dealers, and what additional e-commerce policies, if any, are needed.

### Scope and Methodology

Data utilized in this report come from a variety of sources. The researchers used private and public data from the U.S. Census Bureau, the Transportation Research Institute, associations, academia, and other sources. The study covers three areas: literature review, analyses, and relevant policy issues.

### Highlights

- There has been a steady decline in the number of new-car dealerships, from 28,500 in 1979 to an estimated 22,250 in 2000.
- In 2000, over 80 percent of the franchised new car dealers in the United States were small businesses.
- New-vehicle dealer sales revenue rose to \$654.1 billion in 2000. These sales constituted approximately 19 percent of total U.S. retail sales.
- For the typical auto dealer, used vehicle sales increased from 22.8 percent of sales in 1989 to 28.9 percent in 1999; service and parts sales declined

from 13.8 percent of sales in 1989 to 11.2 percent in 1999; and new vehicle sales dropped from 63.4 percent in 1989 to 60 percent in 1999.

- In 2000, 83 percent of dealerships had a website, up from 47.1 percent in 1997; about 97 percent of dealers with websites had staff dedicated to monitoring and maintaining the website.

- On average, dealers completed 6.2 percent of sales exclusively over the Internet, while roughly 12 percent of dealers used their site for business-to-business communication with suppliers. Most dealerships also used the web for communication with suppliers or to sell other products.

- Dealerships who have had websites since 1995 average 13 new-vehicle sales a month through their sites whereas those who have had websites for less than two years average only five vehicle sales per month.

- State franchise laws also significantly affect Internet commerce by acting as a barrier to entry for online retailers. Only two states had laws that restricted new franchise licenses in 1970; this number increased to 36 in 1983 and 41 in 2000.

- Among a number of policies that can have disproportionate impacts on the small business auto industry are the Robinson-Patman Act and the Gramm-Leach-Bliley Act.

### Conclusions

The internet has had a major impact on the automobile wholesale and retail sectors of the U.S. economy. It has enhanced the efficiencies of markets by expanding the market area from which dealers can draw customers and by increasing the number of potential competitors for each dealer.

While electronic commerce has had important impacts on the auto retail industry, state and federal franchise laws and other policies have played an important role in mediating and structuring this marketplace.

## **Ordering Information**

The full text of this report and summaries of other studies performed under contract with the U.S. Small Business Administration's Office of Advocacy are available on the Internet at [www.sba.gov/advo/research](http://www.sba.gov/advo/research).

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