

How one aspiring carmaker sustains footprint in some of the most expensive real estate in the country

By Jim Meredith

The challenge

As the American auto manufacturing market began to collapse with the economy, a major OEM we were working with became very concerned about its ability to maintain a retail footprint in areas of very high cost real estate. These stores were important both for access to the high disposable income markets in these location, and also to gain cache for the brand through its visibility amidst other high-end lifestyle brands.

Losing presence in those locations would certainly hurt sales. But more importantly, its diminished status association could resonate throughout its markets, cause the collapse of its objective of being perceived as equal with legendary European and emerging Asian premium brands, and permanently affect its markets and margins.

Dealers in these critical locations, highly important but also highly anxious, were already signaling their intentions to sell their properties to established high-end brands, and consolidate their operations in their other stores in less expensive locations and in showrooms with other lower cost and lower quality brands. Economic incentives from the OEM were at their limit and still not sufficient to support and sustain operations for these dealers.

The condition was critical and urgent, and this matter needed resolution so the corporate execs could focus on other matters of company strategy. Our assignment was to generate new space guides – allocations of functional areas trimmed to reduce the footprint, and therefore capital and operational costs for stores in ultra high cost retail locations. Our approach started a long way upstream from that very tactical engagement.

Strategy design

My team were all already immersed in the history, culture and business of the industry, and were very familiar with the challenges to it that had been affecting it for a generation. We knew that this was an industry of incremental change, but the accelerating negative conditions of the general economy suggested that incrementalism meant death.

We felt we had to move up from designing to design thinking, and from design strategy to strategy design as a more appropriate and essential first step. We had to find new models rather than merely scale down the conventional business and customer experience.

Association/disassociation

After initial research and reflection, and describing and defining the broad strategic context, we moved to get past our own perception of the brand, its advertising, and its long-standing social and economic associations. Our purge moved in two directions, two simultaneous deep dives. We explored the history, stature and status of the benchmark premium and luxury brands, and we looked off into the future with the brand's designers.

Some key findings –

European brands are seen as extensions of the national character and part of the cultural, technical and social history and development of the country. Brand architecture, an important expression of the essence of the brand, has moved from the corporation to its retail presentation. The retail presentation is a collaborative venture with complementary moves by both corporation and dealership, scaled to location, and directly related to the nature and character of the brand.

The designers of our client brand's products were working in a continuum of separation of this product from the other brands in the corporate portfolio. Their work was very thoughtful of product-based associations, and premium and luxury connotations. They were, significantly and surprisingly, also thoughtful of the entire lifestyle experience of the product and had engaged in design thinking also about every aspect of the ownership experience outside of the vehicle itself.

These findings illustrated to us that the increasingly ineffective retail strategies being pursued by the company were faulted because of oblique and inauthentic associations, putting product over experience, and approaching its image

programs as fashion rather than substance, as style rather than a commitment to a set of defining principles. These insights affected our strategy development, and will become very influential in our design phases.

Dissecting the business

Most tend to look at an automobile dealership as a single, integrated business. We, however, saw a dealership as six or more separate businesses – new car sales, used car sales, finance and insurance, parts, service, and business management.

Separate exploration of these businesses illustrated that we could redesign the experience of each, align them more effectively with premium brand associations, and redefine the conventions of function and the space allocations associated with them.

But the real breakthrough was the concept that we could, in fact, dis-integrate them. That is, we could develop a dealership business design that would keep in high cost real estate the portions of the business that were essential to the associations and experience the brand aspired to, and move to less expensive real estate the functions that fell into the background of the premium customer's priorities and perception.

Another key influence was our assumptions about, and the company's own research into, automobile buying patterns and the impact of internet research and shopping. It is surprising to see the data on the amount of time people spend in identifying options and narrowing choice, and where they do it. It is almost shocking to see the data revealing how much the dealership is avoided in the shopping and information gathering process.

In essence, the dealership becomes relevant only in the last day or two, and only important to the transaction. Almost all other customer interaction with an automotive brand has moved out of the showroom and onto the internet. The implications for our thinking on what a dealer is, whether accepting the trend or in attempt to reverse it, were profound.

Generating new models and exploring other alignments

We then generated and internally tested about a dozen alternative business models. We defined the nature and features of the business in each case, the perception to the customer, the implications on space amount and quality, and indicators of the real estate, construction and operations costs associated with each.

In an earlier micro-study, we had looked at alternative real estate strategies for the automotive brands, in general. The collapse of real estate values in many places, the progressive abandonment of malls, the accelerating relocations of retail operations to lower cost areas in major cities, and many other conditions of economic changes for retail operations presented new potentials of place for dealerships, as well as alternative opportunities for brand association and alignment. These explorations and ideas also entered our strategy design development.

We then held a strategy design charrette. Executives, program managers, regional sales managers, financial staff and others joined us to explore each model, offer observations, develop evaluation criteria, evolve and develop the model characteristics and measures, and select key strategies to develop further.

Design strategy

We then applied the business models we had tested and selected to real conditions in select locations across the country. These explorations led to key insights that further refined our design thinking and design strategy, and prepared the ground for recommendation of the new space guides we had initially been engaged to develop.

What were the key findings and attributes of the design strategy?

“Premium” is not “luxury” – As we began this study, the financial meltdown had created associations with wealth and excess that were turning negative and already were affecting customer choice. Nobody wanted to appear ostentatious or frivolous. There was, however, an association of authenticity and therefore acceptance of the well design and built functional object.

New models for dealerships are possible – We found that while state franchise laws were one framer of our strategies, a more significant barrier was lexicon, the legacy of past implementation failures that was associated with certain design strategy terms and embedded corporate mindsets. As in other work we've done, changing the formal lexicon was important and effective in eliminating barriers and gaining acceptance of new business, planning and design models.

The program for a dealership is dynamic – Ongoing changes with the customer are well established, but concepts for reinvention of the contents and operation of the dealership have only been marginally responsive. The emerging and significant shifts in automotive technology and design, and the ongoing dynamics of customer engagement provide clues to what matters and what should enter the dealership environment.

Place matters – Our evaluation of the application of our new models in high cost real estate locations across the country revealed that local characteristics of customer behaviors and regionally differential patterns of operations meant that one size, so to speak, does not fit all. For example, patterns and influences of density affected supply chain design as well as location-specific operational modes.

At this point in our work, the client is in the process of redefining its brand mix, reorganizing the company's operations, and realigning its corporate portfolio. Its dealership body is also redefining its approaches to markets and geographies. I expect that our work will be influential in these broader corporate moves and I look forward to the opportunity to develop design specifics as the landscape for the new generation of American auto manufacturing gets underway.