

## Auto retailing: changing trends in jobs and business

Keith G. Keel

The automobile sales industry has been undergoing significant structural transformation in recent years. Two principal factors driving the change are the proliferation of new-car leasing arrangements and the rise of high-volume, publicly-owned automobile “superstores.” The two factors are related. New cars typically are leased for 2 or 3 years, after which they are returned to the dealer, creating a large supply of late-model used vehicles. As a result, new-car dealers currently are selling proportionally more used cars than ever before, and a formidable competitor has entered the market in the auto superstore.

Employment growth in the industry that includes establishments primarily engaged in the retail sale of new automobiles or new and used automobiles has been accelerating in recent years, especially since 1992.<sup>1</sup> At the same time, the total number of dealerships has been declining, and the occupational distribution within the industry has changed as well. This report explores employment trends and significant developments in the industry that are changing its structure and composition.

### The early years

The first car ever sold in this country, a Duryea Motor Wagon, was purchased directly from the factory in the spring of 1896. As the industry developed, a relatively small number of larger manufacturers began to concentrate in the upper Midwest, and it became evident that a

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distribution system was needed. Factories established branch offices, and independent distributors and dealers entered the market as well. Most distributors also were dealers in large urban areas, selling cars both directly to the public and to dealers in nearby towns. Typically, a distributor would charge about 30 percent over the original factory price, and the local dealer would add another 20 percent.

In the 1930s, the automobile manufacturers moved to eliminate the independent distributor-dealer by setting up franchise arrangements to sell their products. The practice cut the cost of the middleman and gave manufacturers greater control over how their cars were sold. When franchise agreements first developed, they were vague, with dealers agreeing to provide “suitable facilities” and their “best energies” to sell the cars. Dealers could carry as many other brands as they wanted, but they were restricted to an assigned selling territory and had to sell the cars at the price specified by the manufacturer.<sup>2</sup>

### Growing employment

In December of 1997, new-and-used car dealers employed 1,056,000 workers, an increase of 34 percent since December 1972. Proportionally, this was about half as much as in the total private sector over the same period (69 percent), and even further behind job expansion in the rest of retail trade (90 percent). As a result, new-and-used car dealers represented 5 percent of total retail trade employment in 1997, down from a share of 7 percent in 1972.<sup>3</sup>

Chart 1 shows that employment in the auto retailing industry is highly responsive to business cycles, dropping sharply during economic downturns, and gradually returning to prerecession levels during expansions. Over the 1972–84 period, the rate of growth was slow (0.3 percent per year), with the net increase in jobs only 33,000. Since 1984, how-

ever, employment has grown more rapidly, especially following the 1990–91 recession. To illustrate, from 1984 to 1992, employment in the industry grew at a modest rate of 0.8 percent per year, as 64,000 jobs were added over the 8-year period. Over the 1992–97 period, by contrast, the growth rate jumped to nearly 3 percent per year, as 168,000 jobs were added in just 5 years.<sup>4</sup>

The number and type of employees vary significantly among auto dealerships, depending on such characteristics as size and location of the dealership, manufacturers and models handled, and distribution of sales among departments. Based on data compiled by the National Automobile Dealers Association, in 1996, the average dealership employed 45 persons and had an annual payroll of \$1,556,000.<sup>5</sup>

The tabulation below shows the percent distribution of workers in auto dealerships by occupation in 1980 and in 1996.<sup>6</sup>

	1980	1996
Salespersons .....	20	21
Technicians .....	29	24
Service and parts personnel .....	28	28
Supervisors, other workers .....	23	27

In 1996, salespersons accounted for 21 percent of employment in the industry, while service and parts workers (excluding technicians) represented 28 percent. Both occupational groups represented about the same proportion in 1980. The technicians group, however, represented a smaller share of total dealership employment in 1996 (24 percent) than in 1980 (29 percent). Supervisors, (general office) and other workers, on the other hand, increased their share of employment from 23 percent in 1980 to 27 percent in 1996.

According to industry sources, the shrinking of the technicians’ share of auto dealership employment is partly attributable to declines in the number of

customer repair orders as vehicle quality has improved. Dealers also continue to explore the potential for satellite service operations as a way to address the convenience concerns many consumers have about dealership service. Additionally, competition from independent auto repair shops is on the rise and dealers continue to exit the body-shop business because of the prohibitive costs of the required high-tech equipment.<sup>7</sup> Partially offsetting these declines, however, has been a sharp increase in “internal” technical work related to used vehicle reconditioning and an increase in overall net profit per repair order.<sup>8</sup>

### Fewer dealerships

The number of new-car dealerships peaked at 51,000 in 1950, as car sales reached 6.5 million units, a million more than in 1929, the previous peak.

By 1996, the number of dealerships had been cut in half. Not only is the number of dealerships in long-term decline, but it also is highly cyclical. Much like employment in the industry, the number of dealerships tends to fall sharply during recessions. Over the study period, the greatest losses occurred during the recessions of 1973–75 and 1980–82; during the expansions of the 1980s and 1990s, on the other hand, the number of dealerships actually grew slightly.<sup>9</sup> (See chart 1.)

While the total number of dealerships has declined dramatically since 1950, surviving firms tend to be large. Over the past 20 years, the loss of dealerships has been concentrated among those with relatively small sales volumes. As shown in the following tabulation, in 1976, there were 13,200 dealerships with new-unit sales levels of less than 150 per year. Currently, there are only 4,664 dealerships in that

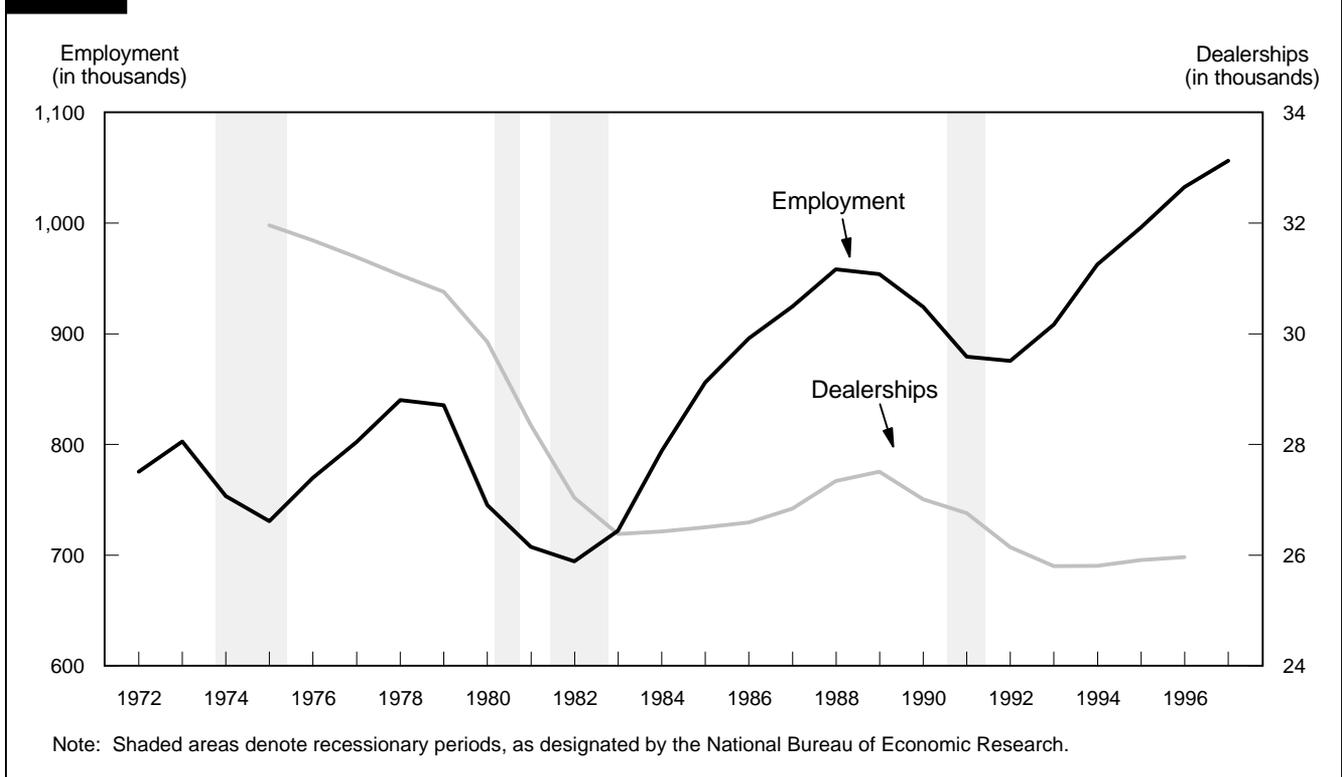
category. In contrast, there are now 5,801 dealerships that sell more than 750 new units per year, while in 1976 there were only 3,450 dealerships with that level of business.<sup>10</sup>

Units sold	1976	1996
0–149 .....	13,200	4,664
150–399 .....	9,000	7,053
400–749 .....	3,650	5,233
750 plus .....	3,450	5,801

### Rising used car sales

Salespersons at new-car dealerships are increasingly likely to sell used cars. New-car dealers sold 11.9 million used vehicles in 1996, an increase of 40 percent from the level recorded in 1985. In contrast, over the same period, the number of new vehicles sold actually *decreased* by 2 percent, totaling 15.1 million in 1996.<sup>11</sup> Reflecting these trends, used-vehicle de-

**Chart 1. New and used car dealers, employment (1972–97) and number of dealerships (1975–96)**



**Table 1. Annual sales of new vehicles and used vehicles as percent of total vehicle sales**

Year	Vehicle sales (in thousands of dollars)				
	Total	New	Percent of total	Used	Percent of total
1989 .....	\$12,510	\$7,780	62.2	\$2,900	23.2
1990 .....	12,890	7,840	60.8	3,080	23.9
1991 .....	12,630	7,570	59.9	3,090	24.5
1992 .....	14,370	8,610	59.9	3,650	25.4
1993 .....	16,470	9,880	60.0	4,350	26.4
1994 .....	18,850	11,370	60.3	5,070	26.9
1995 .....	20,130	11,810	58.7	5,840	29.0
1996 .....	21,590	12,540	58.1	6,370	29.5

Source: National Automobile Dealers Association, Industry Analysis Division

partment sales dollars as a percentage of total sales dollars increased from 23 percent to 29 percent for the average dealership between 1989 and 1996. During the same period, new-vehicle department sales as a percentage of total sales declined from 62 percent to 58 percent. (See table 1.)

The increase in used-vehicle sales dollars as a percentage of total sales dollars also may be partly attributable to the 56-percent increase in the average retail selling price of a used vehicle over the 1989–96 period. New-vehicle prices, by contrast, increased just 41 percent over the same period.<sup>12</sup> Similarly, data from the Consumer Price Index (CPI), which controls for quality and model mix, also show that used-car prices are increasing faster than new-car prices. Between 1989 and 1996, the CPI-U for new cars increased 19 percent, while the index for used cars increased 30 percent.<sup>13</sup>

Although used-vehicle prices are growing faster than new-vehicle prices, the average retail price of a used vehicle is still only a little more than half that of a new one. Nevertheless, this ratio also has been slowly increasing, as the following tabulation shows.<sup>14</sup>

	1986	1996
Used auto .....	\$5,978	\$11,500
New auto .....	12,950	21,750
Ratio .....	0.46	0.53

According to representatives from the industry, the used-vehicle department, already important to the health of today's

dealerships, will be even more so in the 21st century.<sup>15</sup> Dealers are taking an increasing interest in their used-vehicle operations because of low returns on new units. In recent years, the typical dealer's new-vehicle department has been essentially a break-even operation. Currently, the largest share of dealership profits is derived from service and parts, followed by used vehicles. The following tabulation shows that, in 1985, the used-vehicle department of the average dealership represented only 7 percent of total net profits; by 1996, that proportion had grown to 34 percent.<sup>16</sup>

	1985	1996
New vehicles .....	77	13
Used vehicles .....	7	34
Service and parts ..	16	53

### Growth in leasing arrangements

Advances in vehicle quality and the availability of low-mileage, previously-leased models are among the leading factors fueling the increase in used-vehicle sales. Currently, leasing accounts for more than 31 percent of all retail activity.<sup>17</sup> The average life span of a car manufactured in the United States is 8.5 years, more than 40 percent higher than 20 years ago, when the average vehicle lasted only about 6 years.<sup>18</sup> Due to the uniform quality of previously-leased vehicles, the used-car sales industry has changed from one dominated by unique units to one with many effectively identical vehicles. These changes have contributed to the rise of used-car super-

stores, which is helping to transform the industry.

### New competitors

During the 1980s, the focus within the automobile industry was mostly concentrated on foreign competition, supply, and product development. In recent years, however, the industry has shifted its priorities, placing more emphasis on the used-car market and how vehicles are distributed and sold.

The automobile "superstore," which was first introduced in 1993, is one of the fastest growing trends in the auto sales industry. At the very time when used-car sales were growing as a proportion of new-car dealers' total sales, a formidable competitor emerged. Superstores offer challenges to both traditional dealers and to manufacturers. Some of the auto superstores are publicly-owned national chains that offer a huge selection of vehicles and no-haggle prices. Their access to the stock markets yields them capital at significantly lower costs than those paid by traditional dealers. They also have the financial resources to acquire and implement the latest technology.

Superstore customers are greeted by "sales consultants" who are dressed casually and taught to be helpful and not confrontational. The typical superstore salesperson receives a salary rather than commission. Customers may use computer kiosks to search through the store's stock by price, make, and other variables. As late as 1980, only about half

of the country's dealerships were using even the most rudimentary computer services, and applications were usually limited to accounting and parts inventory. Traditional dealers and independent used-car dealers rarely carry more than 100 to 150 used cars. Superstores typically have separate lots with 500 to 1,200 cars on each lot.<sup>19</sup>

Because superstores tend to stock many different models, it is difficult to stock parts for all of their cars or to service them. To solve this problem, some superstore chains have their own satellite service facilities. Others have contracted with national chains of car repair shops to do their warranty work. These developments potentially could have a negative impact on employment in the industry, because fewer technicians and administrative staff will be needed with much of the work being contracted out.<sup>20</sup>

Many dealerships are being forced into volume-selling just to increase their cash flows enough to stay in business. To remain competitive, an increasing number of dealers are consolidating and forming large dealership groups. Manufacturers also are buying dealerships and consolidating them to improve operations among their retail distribution networks. Some dealers have gone public to raise the needed capital to finance the escalating costs of running a dealership. Taking competition to a new level, some manufacturers are allowing the auto superstore chains to sell new cars. This development could have a large impact on the future of auto retailing.<sup>21</sup>

THE GROWTH IN LEASING ARRANGEMENTS and the development of the auto superstore are among the principal factors in the re-

cent transformation of the retail automotive sales industry. These developments have contributed to industry consolidation and a long-term decline in the total number of dealerships.<sup>22</sup> Nevertheless, employment has been expanding, especially following the 1990–91 recession. The transformation has altered the occupational distribution of employment somewhat as well, with proportionally fewer technicians and more office workers needed in the current climate. In sum, the automotive sales industry has changed significantly in recent years, affecting not only workers in the industry (and related industries) but also anyone considering purchasing a new or late-model used car. □

## Footnotes

<sup>1</sup> The scope of this report includes Standard Industrial Classification (SIC) 551, Motor vehicle dealers (new and used) and *excludes* SIC 552, Motor vehicle dealers (used only). The latter is a much smaller industry and is quite different in character than SIC 551. In March 1997, "benchmark" employment for SIC 552—obtained from universe counts and used to produce monthly estimates from survey data—was 89,800, or less than one-tenth the level of SIC 551 (1,045,600). Also, because employment estimates for SIC 552 do not meet BLS standards for accuracy and reliability, they are not published. See *Manual on Series Available and Estimating Methods, BLS Current Employment Statistics Program, March 1997* (Bureau of Labor Statistics, June 1998).

<sup>2</sup> Most of the information in this section came from *Ward's Dealer Business*, April 1996.

<sup>3</sup> Employment data are for SIC 551, Motor vehicle dealers (new and used), and are from the Bureau of Labor Statistics Current Employment Statistics (CES) survey. For more on the CES program, see *BLS Handbook of Methods*, Bulletin 2490 (Bureau of Labor Statistics, April 1997), pp. 15–31.

<sup>4</sup> Annual rates of change are based on the compound growth method of computation, using December to December changes unless otherwise noted.

<sup>5</sup> "NADA Data," *Automotive Executive Maga-*

*zine* (National Automobile Dealers Association), August 1997, p.42.

<sup>6</sup> These data were obtained from the National Automobile Dealers Association, Industry Analysis Division.

<sup>7</sup> Lending support to this argument, employment in automotive repair shops increased by 392,000 or 166 percent over the 1972–96 period—more than 4 times as fast as in new and used car dealerships.

<sup>8</sup> "Transition to the 21st Century," *Project 2000* (National Automobile Dealers Association), May 1996, pp. 8–9.

<sup>9</sup> The data on the number of dealerships in 1950 are from the National Automobile Dealers Association, Industry Analysis Division. The data for 1975–96 are establishment counts from the Bureau of Labor Statistics Covered Employment and Wages program, commonly known as the ES-202 program. Beginning in 1991, employers reported employment and wages on an individual establishment basis. In prior years, a reporting *unit* concept was used, which sometimes included more than one establishment. Thus, the establishment counts presented for 1991–forward may not be strictly comparable with data prior to 1991.

<sup>10</sup> National Automobile Dealers Association, Industry Analysis Division.

<sup>11</sup> *Ibid.*

<sup>12</sup> *Ibid.*

<sup>13</sup> The CPI-U is the Consumer Price Index for All Urban Consumers. CPI data can be found in the monthly publication, *CPI Detailed Report* (Bureau of Labor Statistics), or at the official CPI Web site <<http://stats.bls.gov/cpihome.htm>>. For methodology and technical background on the CPI, see *BLS Handbook of Methods*, pp. 167–230.

<sup>14</sup> Data used in this tabulation are from the National Automobile Dealers Association, Industry Analysis Division

<sup>15</sup> "Transition to the 21<sup>st</sup> Century," p. 8.

<sup>16</sup> "NADA Data," p. 51.

<sup>17</sup> "Transition to the 21<sup>st</sup> Century," *Project 2000* (National Automobile Dealers Association), August 1997, p. 7.

<sup>18</sup> *The Plain Dealer*, "Average Life span of U.S. Consumers' Cars Keeps Climbing," Mar. 2, 1997.

<sup>19</sup> *Ward's Dealer Business*.

<sup>20</sup> *Franchise Times*, Aug. 1, 1997.

<sup>21</sup> On the move toward volume-selling, see *Automotive News*, Nov. 14, 1994; Feb. 12, 1996; Apr. 1, 1996; and Sept. 30, 1996. On manufacturers allowing superstores to sell new cars, see *Automotive News*, Feb. 5, 1996.

<sup>22</sup> *Standard & Poor's*, "Consolidating US Auto Industry Faces Uncertainty," July 14, 1997.