



Cost of Distribution Study

Separating Fact from Fiction



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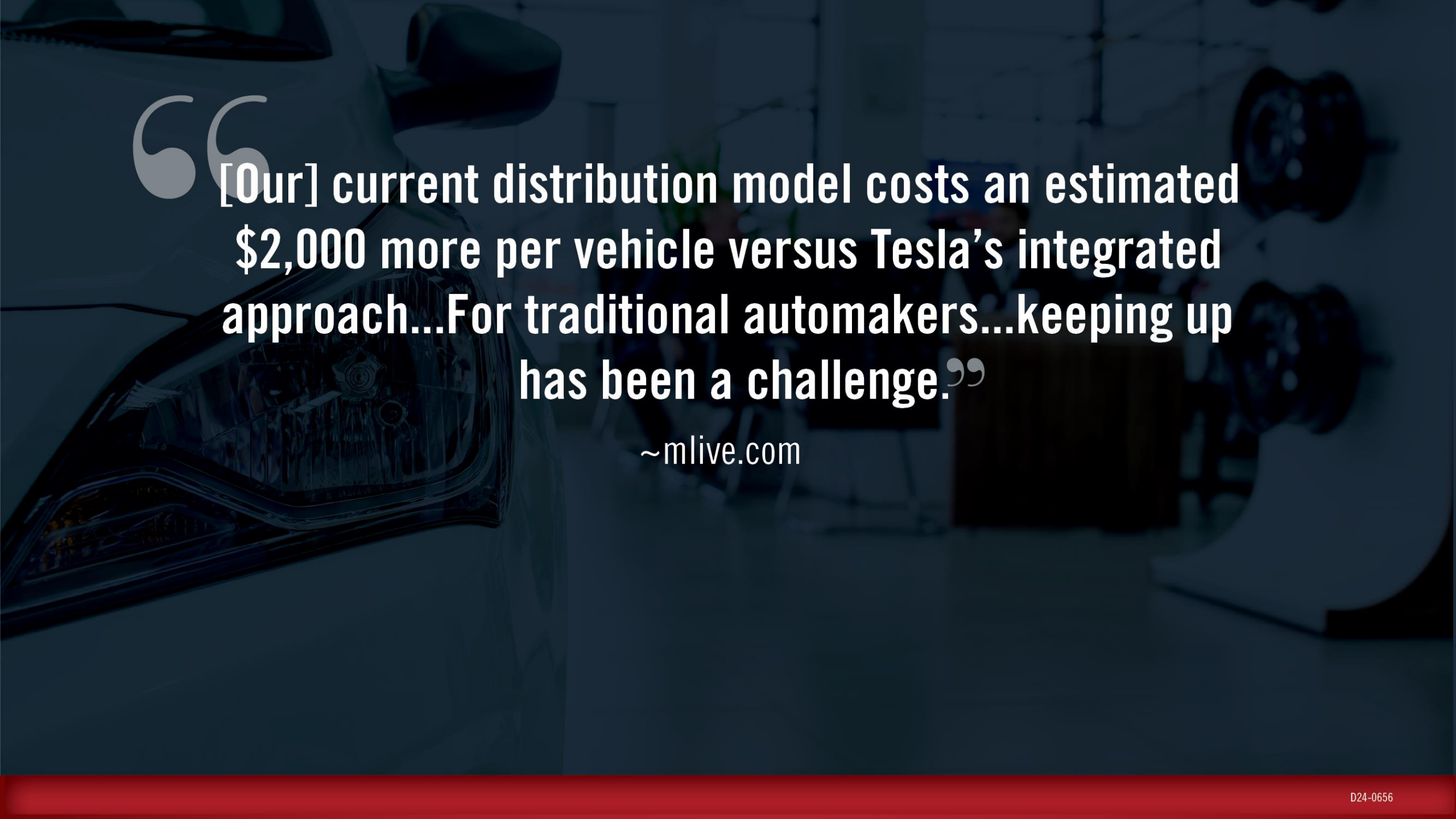


**“Auto dealerships are America’s
most powerful middlemen.”**

~Houston Chronicle

**“Economists and other critics say dealerships “add an
unnecessary middleman...and layers of markup and fees that can
range from a few hundred dollars to \$20,000 or more per vehicle
over the Manufacturer’s Suggested Retail Price.”**

~Tallahassee Democrat




“[Our] current distribution model costs an estimated \$2,000 more per vehicle versus Tesla’s integrated approach...For traditional automakers...keeping up has been a challenge.”

~mlive.com



Cost of Distribution



OliverWyman



AUTOMOTIVE COST OF DISTRIBUTION

An economic cost analysis of new vehicle distribution
channels in the United States

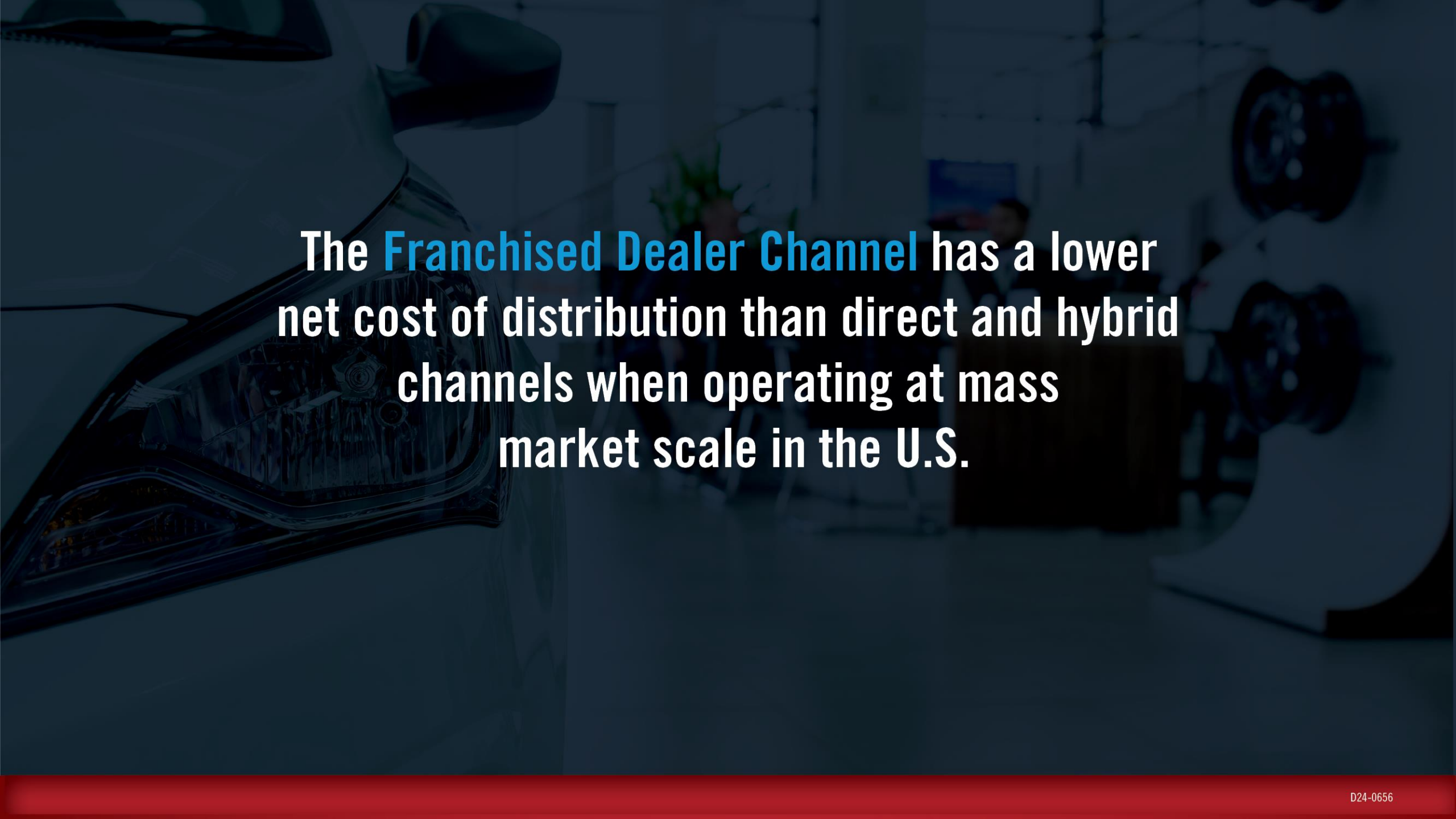
An Oliver Wyman study commissioned by NADA

Channel archetype characteristics

	Franchised dealer	Hybrid	Direct-to-consumer
Vehicle pricing	OEM publishes MSRP, dealer sets price	OEM sets narrow price bands	OEM sets price, fixed and transparent
Inventory management	Dealer manages their inventory with OEM influence	OEM has managerial control and dictates inventory strategy	OEM manages inventory
Inventory ownership	Vehicle owned by dealer	Vehicles shared by OEM and dealer	Vehicles owned by OEM
Sales and upselling	Dealer manages sale of vehicle	Dealer commissioned on sale	OEM manages sale of vehicle
Facility	Owned by the dealer, partially influenced by OEM	Owned by the dealer, greater influence by OEM	Funded and maintained by OEM
Financial and insurance (F&I)	Dealer manages F&I	Dealer keeps F&I, OEM becomes primary provider	OEM manages F&I
Order processing	Dealer processes orders	OEM/dealer processes orders (online/offline)	OEM processes orders
Vehicle delivery	Dealer manages delivery to customer	Dealer manages delivery to customer	OEM coordinates delivery to customer
Customer relationship	Dealer maintains primary relationship with customer	Dealer and OEM share customer relationships	OEM maintains direct relationship with customer
Systems and data	Dealer maintains own system and data	Central OEM systems, dealer maintains post sale systems	Centralized OEM systems for sales and post sales
Marketing	OEM handles national, dealer handles local with OEM support	OEM dictates national and greater influence on local	OEM dictates all advertising

Dealer
 Shared
 OEM

Source: Oliver Wyman analysis



The **Franchised Dealer Channel** has a lower net cost of distribution than direct and hybrid channels when operating at mass market scale in the U.S.

Keys to providing the most accurate channel comparison:

1. Remove the impact of non-channel specific factors

When these non-channel specific costs are removed (or held constant), dealers cost *about the same per car as DTC*.

2. Include the overall value the channel delivers

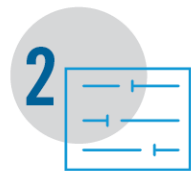
When these values are factored in, the total net distribution cost *per car in the dealer channel is lower than for DTC*.

Upstream strategies typically driven by OEMs are often positioned as channel efficiencies but are not inherent to any one distribution channel



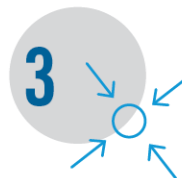
Product Line Complexity

Offer many vehicles vs. just a few



Product Options Complexity

Offer many trim levels and options on each model vs. just a few



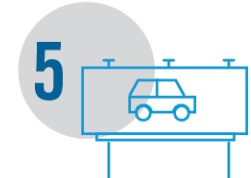
Inventory Pull vs. Push

Produce vehicles based on actual demand vs. forecasted demand



Facility Characteristics

Build and maintain fancy “Garage Mahals” vs. more basis, lower-grade options



Product Advertising

Promote product heavily through traditional marketing channels vs. low levels of marketing

Each channel adds value to the distribution process through the distinct characteristics of its operations



Customized Deal Structure

Tool and flexibility to “work the deal” to meet individual customer needs and get them sold



Upselling Goods and Services

Ability and motivation to sell more goods and services and/or generate higher revenue



Customer Loyalty

Long-term outlook exchanging goodwill and customer service today for future revenue



Intra-brand Competition

Less competition between stores prevents transaction prices from being competed down

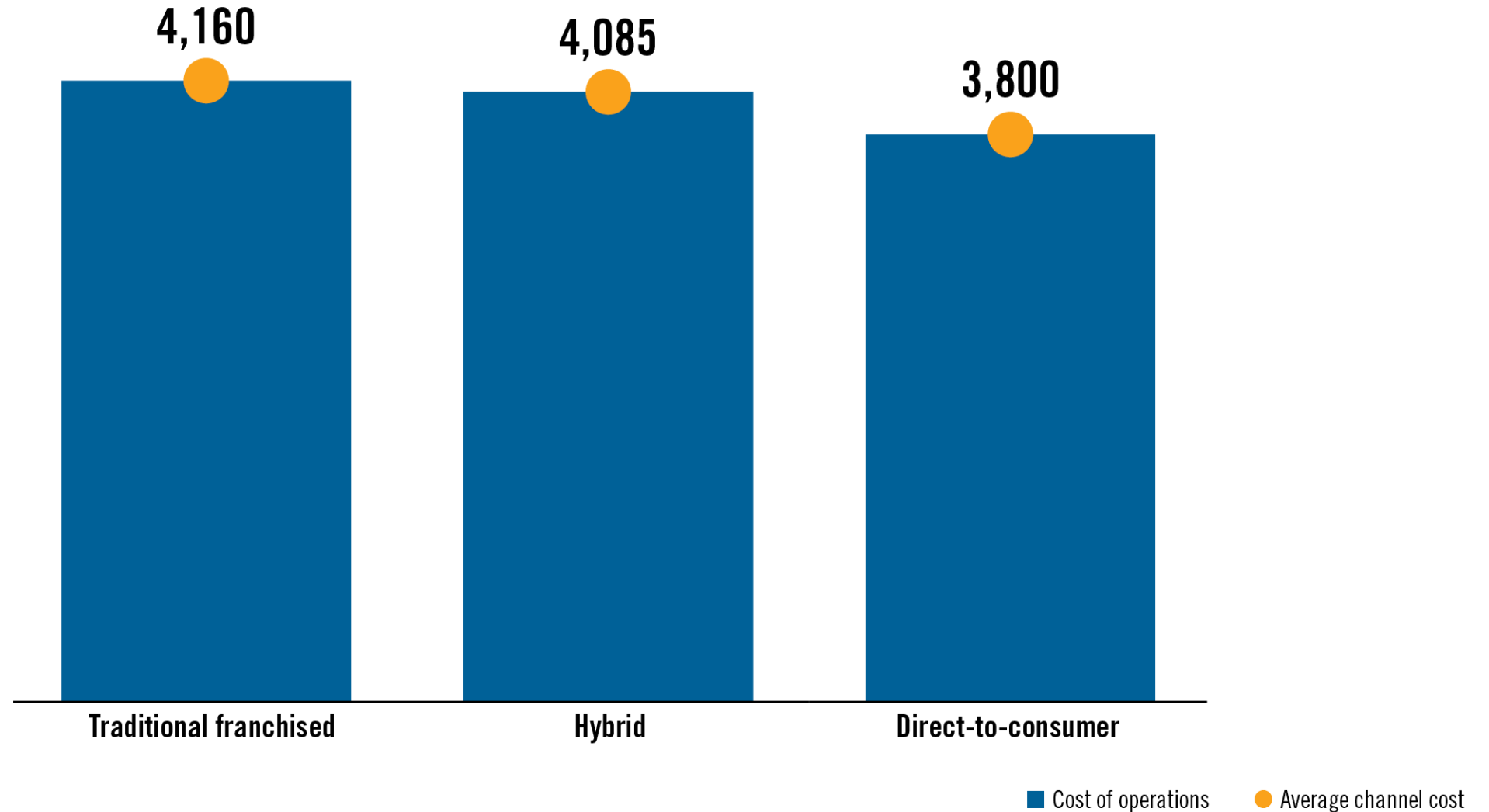


Price Optimization

Ability to maximize how much each individual customer is willing to pay

Average gross channel cost per vehicle

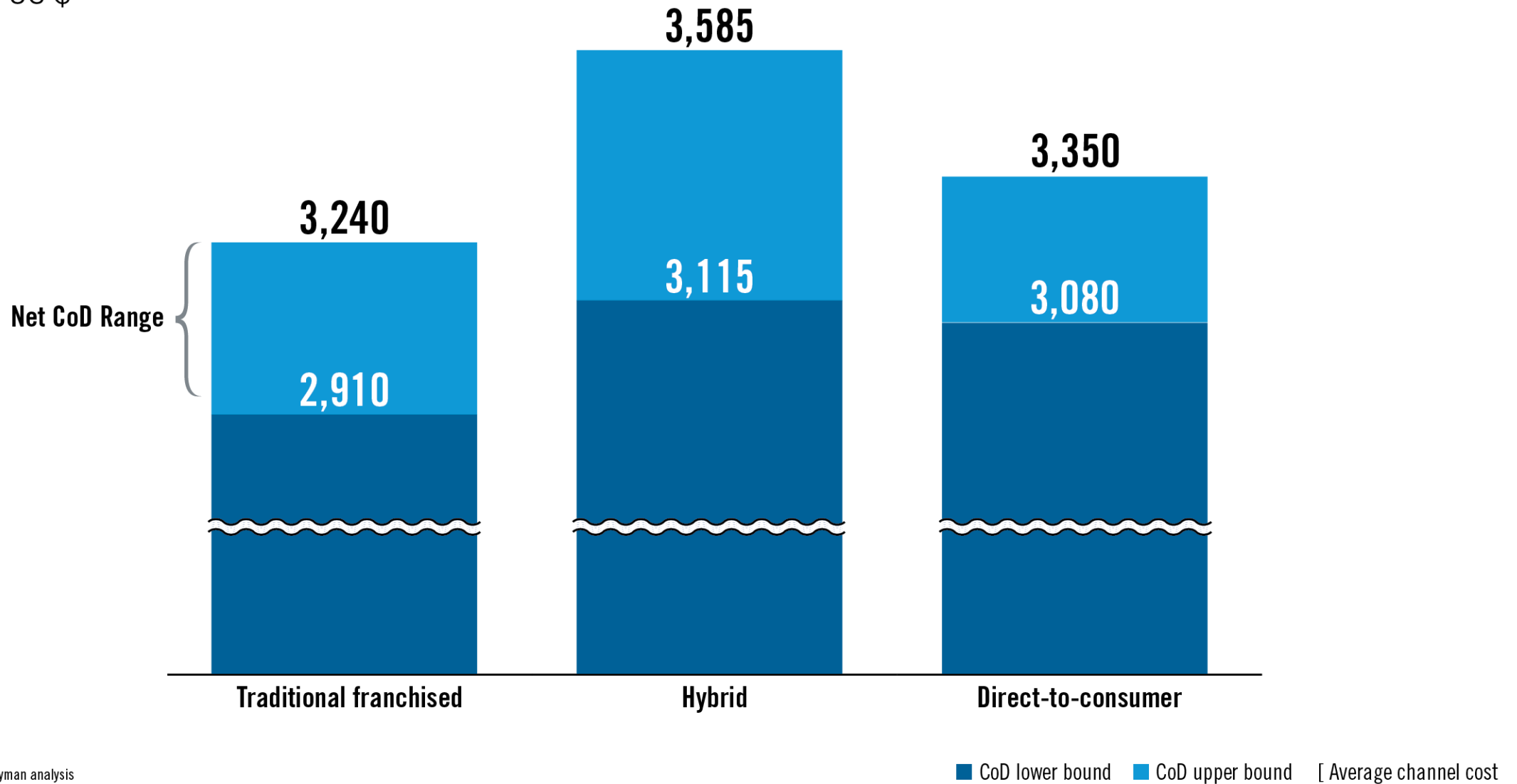
2012-2019, US \$



Source: Oliver Wyman analysis

Average net channel cost per vehicle after accounting for contribution of value

2012-2019, US \$



Source: Oliver Wyman analysis

Questions



NADA

The logo consists of the word "NADA" in a bold, white, sans-serif font. Below the text is a stylized graphic element made of two parallel white wavy lines that curve upwards at both ends, resembling a stylized underline or a wave.