

## New Car Dealers and Retail Innovation in California’s Plug-in Vehicle Market

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### Issue

Plug-in Electric Vehicles (PEVs) represent a substantial leap forward in technology that entail not only new engineering capabilities by firms, but also new strategies and competencies to market and sell them [2]. This is especially true where substantial shifts in consumer behavior are required [3].

While automakers shoulder the burden of compliance with California’s Zero Emission Vehicle (ZEV) Program, franchise laws require the state’s 1,292 independently owned and operated dealers sell vehicles to end customers [4, 5]. Dealers individually decide which vehicles they sell and how they are retailed to customers. In contrast, Tesla is pursuing a direct-to-consumer model. An April 2014 *Consumer Reports* investigation found many dealers knew little about the PEVs they sold, and in some cases outright discouraged PEV purchases [6]. The California Governor’s Office called on state agencies to “encourage and support auto dealers to increase sales and leases of ZEVs” [7], yet policymakers have little understanding of how to affect PEV sales vis-à-vis dealers.

### Policy Implications

PEV buyers rated the dealer purchase experience much lower than conventional vehicle buyers (Figure 1), but ranked Tesla much more favorably, suggesting new approaches could improve the PEV retail experience. Poor purchase experience may adversely impact PEV sales and market growth through missed opportunities to attract and retain customers to the technology. PEVs entail higher burdens for dealers such as new sales training approaches, a longer sales cycle, and new support services for buyers. Marginally higher dealer profits, a low proportion of total sales volume, and insufficient compensation for sales staff inadequately compel dealers to adjust standard practice for PEVs.

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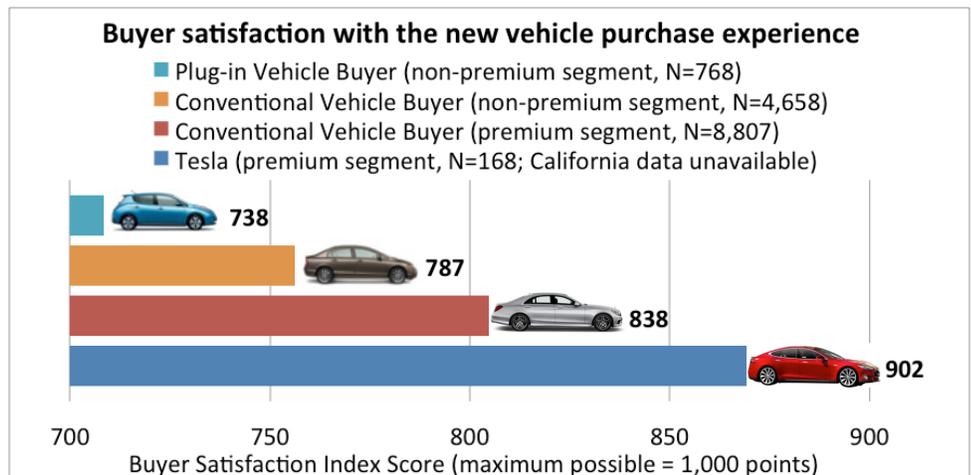


Figure 1. Overall buyer satisfaction with the new vehicle purchase experience derived from J.D. Power Sales Satisfaction Index (SSI) Study data [1].

Government incentives could better align with retail sales practices. To avoid running afoul of consumer protection laws, some dealers eschew marketing public incentives to customers due to uncertainty around ongoing availability and customer eligibility. Shifting public incentives to the point of purchase could reduce uncertainty and increase program effectiveness. Lastly, dealers likely take up new technologies in stages with ‘dealer innovators’ blazing the trail. Pursuing buy-in from dealer principals and sharing PEV “success stories” and best practices could speed dealer uptake and improve service quality to PEV buyers.

### Research Findings

We conducted 43 interviews with six automakers and 20 new car dealers in California’s major metro markets for PEVs. The study revealed that retailers serve a number of key functions important for PEV sales: (1) ensuring the product matches the customer’s driving profile, (2) articulating the unique value and relative advantage of PEVs, and (3) enabling the customer to realize the promised value proposition through ongoing post-purchase support.

We analyzed national and state-level data from the J.D. Power 2013 Sales Satisfaction Index (SSI) study. The survey assesses customer satisfaction with the four phases of the car buying process and assigns a weighted

overall score on a one thousand point scale (See Fig. 1). PEV buyers rated dealers much lower in sales satisfaction than conventional vehicle buyers, whereas Tesla earned industry-high scores. These disparities are extraordinary by industry standards, suggesting the problem is systemic. Within each phase, the data reveal large across-the-board deficits on every facet of the purchase experience, notably salesperson knowledge and expertise about the vehicle. Tesla's elimination of steps that add less value at the retail facility (e.g. price negotiations, paperwork, and waiting) shifts efforts toward more PEV-specific support that would likely bolster customer satisfaction scores.

Dealers suggested better alignment of public incentives with sales practices. Consumer protection laws ensure dealers stand behind assurances to customers. Uncertainty over the continuing availability of public

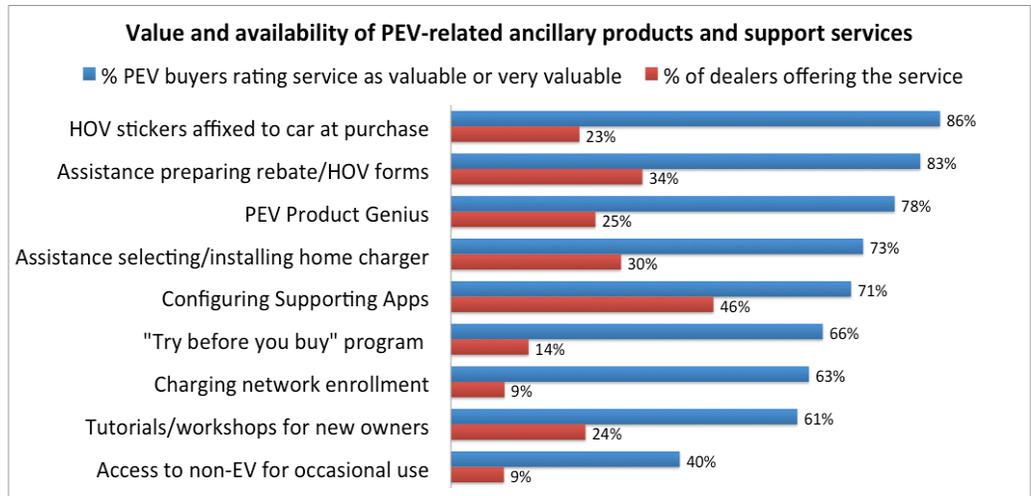


Figure 2. Value and availability of PEV-related support services for PEV buyers.

We also examined 2013 Power Information Network (PIN) data on dealer gross profits. These vary widely by PEV make/model and in most cases (7 out of 10 models over the study period) proved higher for PEVs than equivalent compact and midsize conventional vehicle categories [1]. Exploratory data from questions co-developed with the Center for Sustainable Energy and incorporated in the state's Clean Vehicle Rebate Program (CVRP) survey of rebate applicants revealed 83 percent of California PEV buyers were dissatisfied with the dealership purchase experience. Figure 2 suggests inadequate provision and/or support for complementary products and services for PEV buyers may contribute to the lower ratings.

Like consumers, evidence suggests dealers take up new technologies in progressive stages corresponding with the distinct social and demographic profiles of segments within the dealer community. Amongst these, 'dealer innovators' augment traditional training and certification methods with new approaches that more adequately equip sales staff to sell more complex PEV technologies. As an example, dealer innovators often designated seasoned, PEV product specialists, many of whom drive a PEV regularly. This aided knowledge development and retention, affording sales staff the opportunity to hone a sales pitch that more effectively addresses matters of import to PEV buyers. The approach also allows dealers to scale salesforce competence with local demand.

incentives such as the federal tax credit, state rebate, and HOV lane access programs, and differences in eligibility for these programs from customer to customer, deters some dealers from marketing these benefits to customers. Many proposed shifting incentives to the point of purchase to improve program effectiveness.

### Further Reading

<http://phev.ucdavis.edu/project/dealer-study/>

1. *2013 Sales Satisfaction Index (SSI) Study*. November, 2013, J.D. Power: McGraw Hill Financial.
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3. Moore, G.A., *Crossing the Chasm: Marketing and Selling High-Tech Products to Mainstream Customers*. 1999, New York, NY: HarperCollins.
4. *2014 Economic Impact Report*. 2014, California New Car Dealers Association.
5. *California Auto Outlook*. 2014, California New Car Dealers Association.
6. Everts, E., *Dealers not always plugged in about electric cars*. 2014, ConsumerReports.org.
7. *ZEV Action Plan: A roadmap toward 1.5 million zero-emission vehicles on California roadways by 2025*. February, 2013, Office of Gov. Edmund G. Brown Jr.

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