

Beware of Brave New World

The latest and greatest might not live up to their promises

By Phil Villegas

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Newer, smaller and more innovative automotive companies are emerging.

The early success of many of them will fuel speculation and capital investment into current and future automotive start-ups, under the belief that the traditional retail automotive network and its manufacturers are obsolete, and that these newer, leaner, edgier companies are the way of the future.

However, similar to many dot-com companies in the late 1990s and to nearly all of the 600 manufacturers that were building cars prior to 1920, most of these new start-up automotive companies will lack the strategy, energy and management to survive more than a few years.

While a handful will endure, most will either be acquired by larger, traditional manufacturers or simply fizzle away.

The automotive industry is entering its most transformative period since the early 1900s.

Whereas 1901 it was propelled by the discovery of new oil fields in Texas, the industry today is being redefined by technological and propulsion advances that will drive the industry away from oil, the thing that originally fueled it.

Unlike a century ago, when automotive innovators were home-grown tinkers, most of the current players are well organized and capitalized. However, that still might not be enough to ensure success. Some of the companies jockeying for position in the new automotive industry are:

- Plug-in electric ventures (Tesla, V-Vehicle Co, Fisker);
- Foreign entities without a presence in the U.S. (Fiat, Mahindra, Tata Koenigsegg, Tengzhong);
- A combination of the two above categories (Dutch/

Malaysia — Detroit Electric Car Co., US/Chinese - Coda Automotive, US/Korea — Penske-Saturn).

That's just the beginning. The list undoubtedly misses another dozen or so Chinese manufacturers and countless other start-ups in the U.S. that are currently lacking publicity.

It is possible that many of these companies will experience success due to:

- Innovative technology, engineering and styling.
- A dealer network made up of retailers displaced by Chrysler and GM.
- A consumer base susceptible to the change message from new manufacturers differentiating themselves from traditional manufacturers.
- Pricing incentives powered by venture capital investment dollars that will discount model pricing to drive initial sales.

The success of many of the new car ventures will lead to additional investment dollars under the belief that the whole automotive industry is up for grabs. And while it may appear that the industry will reinvent itself, it won't.

But most of the new automotive companies that emerge over the next few years will probably not last long.

Consumer confidence levels in new automotive companies may diminish after the introductory phase due to a number of factors. Those include lack of extended model line-up, lack of extensive dealer network beyond purchase point and consumer concerns regarding resale values of vehicles by companies that have questionable viability.

The challenge to dealers in the next few years will be

the formidable task of sifting through a stream of new automotive companies selling themselves as the next great car manufacturer.

While initially many will have a low cost of acquisition for dealers (because many will not have sign-up fees or facility requirements), as dealers catch the fervor of representing the next great automotive company, the cost of acquiring speculative franchises is sure to increase with time.

Dealers should exercise caution with their financial investments in these new automotive companies. Some of these new companies will be heralded as the next Honda or Toyota, and a few of them might be. But it will take 25 years to know which ones.

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