

# THE AGENCY MODEL

After a highly successful career on both the OEM and retail sides of the automotive industry, **Andy Goss**, a renowned and experienced Automotive Executive, has a unique perspective on the new agency model being rolled out to replace the traditional franchise dealer system. In a conversation with **Lynda Ennis**, Andy discusses the core ingredients that are required for the model to be successful.



**LYNDA ENNIS:** At the start of January 2023, Mercedes-Benz became the first car brand in the UK to switch to the agency model, with Volvo expected to follow the same path by the middle of the year. They join Polestar, Genesis and Tesla in offering a direct-to-consumer approach with the aim of delivering efficiencies in the sales process, increasing customer satisfaction and reducing distribution costs.

The switch to agency has implications for both the brand owner and the retailer, and so who better to provide insight than someone who has worked for both vehicle manufacturers and a leading plc retailer? Andy, it's a hot topic this year, with a lot of discussion and comment, not all of which is positive.

**ANDY GOSS:** Yes, that's true, but now is not the time to be overly negative or destructive about it. Time will tell whether this radical move is in the interest of consumers and retailers and I know substantial doubts remain across the industry. However, the situation is that with Mercedes-Benz having already pressed the button and some other brands waiting in the wings, agency is now a reality that needs to work as well as it can.



In a market that is already very tough with significant headwinds, the alternative will be significant disruption that nobody can afford.

Having worked for OEMs for 38 years and a retail group for the last five years, I can see the key issues from both sides of the fence and will try to provide a balanced and constructive insight into how things will unfold.

With that in mind I have identified five 'fundamentals' that need to be resolved if the model is to prove workable and successful. There are more challenges than these five admittedly, but these are, for sure, key to success.

## CULTURE:

OEMs have always prided themselves on long-term planning – not just for the next budget year but through business plans that look three years and five years ahead. For many this a core strength.

Why is this so necessary? Because it takes three years to develop a car, which is then in the marketplace for seven years. With around £800million CapEx to develop a product, you need to be sure you get the forecast numbers right.

The planning culture is built around trying to eliminate mistakes on a long-term timescale and achieving the assumed volumes which were laid down in each product programme and committed to. Consequently, the decision-making process is thorough but at times lengthy.

The world of retailing is the opposite of this. Selling vehicles is all about immediacy because you are facing the consumer directly.

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If you do not resolve a problem straight away, the problem can grow legs and run all over the place, creating a dissatisfied customer unless you act promptly and with care.

Under the agency model, the OEM, or its national sales company (NSC), takes over the retailer's responsibility for not just demand creation but also key aspects of the fulfilment of that demand – certainly, price – and yet I see little evidence that brands really appreciate the immediacy that this requires. A huge cultural shift needs to take place to understand what is happening hour by hour rather than, at best, month by month or quarter by quarter. The cultural shift to achieve this simply cannot be underestimated. It will test both people and processes significantly.

## SKILL SETS:

The NSCs have always been responsible for positioning and controlling the brand. They employ brand marketers to deliver long-term campaigns that stimulate demand at the very top of the sales funnel. It's a key role, creating intrigue and desire.

However, in retailing, you also need operational marketers who understand in detail the customer journey and who are skilled in marketing interventions at all stages of the sales funnel.

If you are not selling enough of a certain product in a certain week, you need people who understand why you are not achieving the sale rate and have processes in place to make quick decisions to put things right.

The challenge facing NSCs is that even under the franchise system, the sales funnel has never been a totally joined-up process, with a disconnect between the NSCs' high-level brand and product marketing and the operational marketing and enquiry management process taking place in the retailers. True transparency of the sales funnel has seldom been achieved.

Worryingly, I am not aware of brands taking sufficient steps to plug this key skills gap in their organisation by recruiting operational marketers from both outside and inside the industry. If some brands are at least aware of the skills requirement, then they need to accelerate because these people need to be in place well before they go live with agency.

They really need to understand the total customer journey, in practice and in terms of the important nuances that retailers face when facing prospective buyers. Resolving this will be critical. It will be a key success factor.

## ORGANISATIONAL STRUCTURE:

Hand in hand with the new skills requirements is the need for a new organisational structure within the OEMs/NSCs to deal with their changing roles and responsibilities under agency. In the new world, OEMs and their NSCs will be responsible not just for brand management but for actual sales and hitting targets, which will require an organisational structure that is fit for purpose.

Over the past six or seven years, I have observed a culture of command and control in terms of the relationships between OEM headquarters and their NSC, with the NSCs working as implementation bodies rather than having the necessary latitude to make their own decisions. This has to change.

With the focus now on customers and demand fulfilment, OEMs will need to empower their NSCs to increasingly look downstream at the consumer rather than upstream at the OEM decision-making process if they are going to get this right.

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Under agency, the OEMs will effectively need to turn themselves upside down because suddenly they are going to be B2C businesses, not just B2B – or at least a hybrid of the two.

Of course, while new structures and skills will be required, other traditional OEM functions will become somewhat obsolete. There will, for example, no longer be any need for the historic field teams, and the old audit mentality will have to be jettisoned. If you are responsible for brand management, demand creation, stock and the transaction price, you simply have to think differently.

## STOCK PLANNING:

Under the franchise system, the retailers have been the buffer between manufacturing and the consumer in terms of stock planning. Put simply, if a customer wanted a blue Ford Focus with certain specifications and the retailer sees that the required model will not be available for four months, they could show the customer cars with a shorter lead time that could be similarly appealing which were in their actual pipeline.

The retailer could massage the sale so that the customer is still happy with a car that is going to be built, but that supply buffer disappears in the current format under the agency model.

The buffer is especially important in the premium segment, with a Range Rover, for example, offering as many as 200 different options, all of which were material to the business case for the product being developed in the first place because the margins are so significant. Without a retailer helping to negotiate the sale price of those options, keeping a strong penetration level of them, the manufacturer is likely to be left with a disconnect.



In terms of stock planning, yes there are artificial intelligence tools and machine learning to help the OEMs predict what the supply should be but, believe me, it is not easy. Without the negotiating skill of the retailers to consult and steer customers in a certain direction, OEMs will need super flexible production processes to build the cars customers want, which means getting their people in manufacturing, engineering, the unions and the supply chain to accept such flexibility. From experience, that is incredibly difficult. Nobody enjoys telling the manufacturing team to alter the line rate, which, in any case, is never simple to achieve.

The importance of the retailer as the buffer has been camouflaged recently by COVID, while the semiconductor problem has led to huge lead times. But in 2024, supply will once again be bigger than demand in all likelihood, which means OEMs will have to be very canny in terms of stock planning.

As an OEM, you will not want to be left with excess stock because you can no longer push it out to a retailer under agency in the traditional manner. You will be carrying it in your own inventory, so the challenge will be to match your production with the market. Believe me, the internal pressure from finance departments and manufacturing colleagues will be immense.

### PROFITABILITY:

In any industry, unless your partners are making profits, the customer experience is going to suffer. As a general rule, there is no taste in nothing, as one of my old bosses was always keen to point out to me.

Under the franchise system, premium brands and their retailers have been able to offer premium customer service

because there has been enough profitability to allow the overheads to rise to look after the consumer and go the extra mile. It has worked for all concerned.

In the agency world, retailers will be on radically reduced margins and are no longer responsible for targets in reality. If you are not responsible for demand creation, stock, pipeline and, importantly, transaction price, then your ability to influence the sale has reduced dramatically, which does not bode well for customers. If your profit pool is smaller, you have to search for cost cuts, and your second biggest cost is probably labour.

Unless the move from franchise to agency model is profit neutral for retailers (and I cannot see that happening at the moment), then the quality of the customer experience is bound to be affected. The comments from many of the brands, so far, has been to commit to a strategy where retailer profitability is not existentially diminished. I sincerely hope this is how it plays out.

If all this sounds like the kind of negative criticism that I said was inappropriate at the start of my comments, it is offered in the spirit of constructive debate. All five of my fundamentals are intended to signpost the way forward for OEMs and their NSCs if the agency model is to have a viable and long-term future.

The bottom line is that to ensure success things will need to change, and they need to change quickly. It is important for all concerned.

**LYNDA ENNIS:** Two of the five fundamentals you talked about, Andy, are 'skill sets' and 'organisational structure'. It is quite remarkable that in the conversations going on around agency within the industry, there is so little

discussion about the people needed to deliver this change.

As we highlighted last year in our '[Skills Evolution: Roadmap 2025](#)' report there is already a major skills shortage in the current structure, with a projected global shortfall of 2.3 million people by 2025.

As you say, the transition to agency will require a shift of knowledge and expertise from retailer to OEM, not just in marketing, but also IT, customer service and operational sales management, yet there is little evidence that this is happening at the scale or pace which would be expected for the brands who have signalled their intention to switch.

In a passive market, where 80% of employees say they are happy to stay in their current roles, OEMs will need to move quickly and decisively to offer opportunities that are attractive to the talented individuals needed to make agency work.

The next few months will be critical for brands and retailers making the transition to agency. Thank you for sharing your thoughts on the road ahead.

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