Diversify AND CONQUER

Why automotive businesses are swiftly realising that traditional retail models are no longer sufficient

Technological convergence is rapidly accelerating change in the motor retail sector and is leading to a significant evolution in strategy for automotive property owners and occupiers. The inexorable rise of online retail has altered the paradigm of consumer retail and supply, while recent research has demonstrated that growing numbers of people are considering vouchsafing vehicle ownership altogether in light of the rise of ride sharing services. Even the large manufacturers such as Ford and BMW, as has been much documented in this magazine, are launching their own ride sharing operations.

Car dealers are, therefore, actively looking at ways to evolve their offering to customers – seeking to capitalise on the opportunities that digitalisation offers while efficiently managing property assets and the logistical realities of motor retail. For instance, much publicised innovations such as Hyundai's Rockar venture are seeing the 'internet of things' challenge the traditional dealership model while BMW and Kia have launched their own brand of Apple-esque product 'Geniuses'.

This adds up to a recognition by dealers that customer experience is key to future dealerships operating as 'destination' retail experiences and has partly been the driver behind the various efforts to launch dealerships within shopping centres. However, it is also seeing myriad new diversification strategies pursued.

For traditional dealerships, this generally either involves letting out surplus or additional space to a third party or operating a self-run ancillary business.

As well as facilitating and encouraging increased customer engagement and time spent onsite, diversification enables a property owner to offset changes in the market. If one business drops off the other may take up some slack, while it can also allow more income to be generated from either a site that is too large or a downsized site where additional revenue can be made from a new venture.

FRANCHISED AND NON-FRANCHISED DEALERSHIP MODELS

Franchised dealerships have, historically, had relatively limited diversification opportunities onsite. Whilst there have been some innovative schemes such as Skipton Ford's tie-up with Subway, a hairdressers in a Sytner site in Leicester, and a dealership in Coventry with its own test drive track – these have been fewer and further between. This is for two key reasons...

Firstly, manufacturers largely control the dealership format and configurations, meaning options can be limited and, in the past, the only real diversification option was adding a smaller brand to support the main dealership.

Secondly, in broad terms it is rare to find a franchised dealership with the surplus parking space an operator requires to balance the prospective additional income from a new venture with any potential logistical issues onsite.

For non-franchised dealers there is more flexibility. Surplus space can, and has been, let out to alternative users ranging from funeral homes to

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takeaways, but the best of these ventures have the added advantage of encouraging other potential customers to the site. An operation whose customers are complementary to the dealership is likely to be the optimal diversification. For instance, if you are a prestige used-car showroom there would be little point tying up with a pawnbrokers, whereas BMW's partnership with cycling specialist Trek UK at its Enfield store is a strong example of a strategic effort to further capture and cross-sell to customers.

PETROL STATIONS – THE KINGS OF DIVERSIFICATION

Petrol stations, however, are the king of additional income streams with most generating more income from sources other than the sale of petrol. Alongside the traditional shop and car wash there are a variety of additional uses.

The almost ubiquitous hand car wash, which has grown up across the country, has often replaced roll over car washes in many locations and offer more services than just an external clean. The food offer has grown in importance – from the Wild Bean Café at BP to franchised Subway sandwich bars in a forecourt shop – the range and importance of food-to-go has increased significantly.

The growth of click-and-collect and locker-type delivery systems has led to some companies, such as Asda, using vacant space on petrol station forecourts as drop-off points for home deliveries. We have also seen many more unusual additional income streams, including an automated dog washing machine on Tyneside, and a maggot vending machine in Cambridgeshire (for fishermen rather than as an I'm A Celebrity-style snack).

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In addition to bringing more people onto the forecourt there can also be some hidden diversification concepts which can be a real boost to revenue streams.

A large number of forecourts now have a completely invisible income stream, with Shell reportedly having several hundred sites with mobile phone masts hidden in their totems. Whilst some would argue this flies in the face of the warnings about using your mobile phone on a forecourt, this does seem to be an intelligent use of space. This is especially true in environmentally sensitive and rural areas where existing buildings can be used for much-needed infrastructure facilities rather than building something new.

A further usage that does not take up much space is advertising hoardings – from the branded placards on a petrol station to the giant electric display on the new Tesla dealership on the A4 in Chiswick. However, parties should note that if they are looking at advertising hoardings they need to retain some control over what is advertised; there is a risk that, without the proper arrangements and protocols in place, a competitor brand may end up advertising in front of your site.

PREPARING TO DIVERSIFY

There are a number of questions operators exploring diversification should consider before they launch a new project:

- Is there enough space and what effect could it have on the property and business?
- What consents may be required, including planning permission, landlord, manufacturer or other supplier?
- How might the project effect the rates bill? We have recently seen ATMs classed as a separate rating assessment, adding a cost to these (which can't always be charged back under the lease terms).
- Could this effect future plans and ambitions? If you let out some surplus space could it prevent a future redevelopment, or perhaps your retirement plans?

As the notion of the dealership and wider forecourt experience continues to evolve, diversification will play a central role and undoubtedly opens up a world of possibilities for additional income, new customers and less risk. However, they must be planned for and implemented strategically, with a careful eye towards the long-term management of the business and its property assets.