CarsDirect.com is heating up the new car industry. The country’s first direct broker of cars on the Internet has sent automakers, online buying services, and dealer groups scrambling to control the growing number of customers going online to shortcut the traditional process of shopping for new and used vehicles. The Internet start-up sparked a flurry of copycat Web sites dedicated to the direct-to-consumer purchase of cars, like CarOrder.com, DriveOff.com, Autobytel.com, Cars.com, and Greenlight.com. But several have now gone out of business.

CarsDirect is backed by the personal investment firm of Dell Computer’s founder. The brain behind the company is Bill Gross who came up with the concept when he was frustrated with his efforts at buying an auto online. He found that current Internet options for buying cars were not created to serve customers but to generate leads for a local dealers, requiring him to close the sale of his car the old-fashioned way: haggling at the dealership with the untrustworthiest of people – a car salesperson.

CarsDirect.com sells cars entirely through the Internet, allowing consumers to bypass traditional car dealers in their negotiations. As a car broker, CarsDirect.com offers Web buyers a car at a fixed price based on recent average selling prices. Then, CarsDirect.com works through a network of existing dealers to get the car at that price. Since CarsDirect.com doesn’t hold franchise agreements with any car manufacturers, consumers enjoy impartial and unbiased shopping experience as well as an unrivalled selection. In contrast, buying cars the old-fashioned way forces consumers to travel from car dealer to car dealer looking for the models they are interested in or the best price.

Car buyers visiting CarsDirect.com can research a car by searching the site’s extensive database, which provides objective information on price, performance, and options for more than 2,500 different makes and models – virtually every production vehicle available in the United States. CarsDirect.com’s research tool let buyers compare the features of vehicles and see in seconds the manufacturer’s suggested retail price, the invoice, and most importantly, the price CarsDirect.com can get for them. If a consumer wants to buy, payment is arranged completely online to close the deal. Financing options are provided through CarsDirect.com’s financial partners. Then, the buyer can arrange for delivery of the vehicle at home or the office or pick up from a local automotive retailer.

With auto sales expected to exceed 5% of total sales soon, there are still big hurdles ahead for car brokers like CarsDirect.com. General Motors, for instance, recently warned its 7,700 dealers to cease and desist from using online car-buying sites like CarsDirect.com. The largest obstacle, however, is the myriad of state franchise laws that protect car dealers and restrict direct sales of automobiles. Car brokers have found that no two states’ franchise laws are the same, and many include rules that are arcane or impractical. Texas, the nation’s second largest automotive market, has the most restrictive dealer-protection laws in the country. There, only state-licensed dealers can sell cars. Brokering of cars to consumers by anyone other than a dealer
is strictly prohibited. As a result, car brokers have had to redesign their direct-sales model around Texas laws. CarsDirect.com, for instance, currently does not offer cars to residents of Texas. Often, instead of trying to bypass dealers, Internet car brokers are forming alliances with dealers or reworking their strategies to become more dealer-friendly to comply with state law.

**INSTRUCTIONS:**

Before answering the following questions, visit CarsDirect.com’s website at [www.carsdirect.com](http://www.carsdirect.com).

1. Compare the target price quoted by CarsDirect.com for a sedan model of a domestic car (Ford, GM, or Chrysler) and a similar sedan of foreign make (Volkswagen, Toyota, or Honda, etc). Report how much of a price discount is quoted for each make. Which car model has a bigger discount? Explain why this is so.

2. Give examples of how the CarsDirect.com website simplifies the car-buying process for consumers.

3. Explain how CarsDirect.com fits into the channel structure for car retailing to consumers.

4. How has CarsDirect.com’s selling model caused channel conflict?

5. In what other product categories can the business model pioneered by CarsDirect.com be used successfully? Suggest three product categories and indicate why CarsDirect.com’s model will work.