

## TRACKING THE EVOLUTION OF THE AUTOMOBILE

# Factory Versus Franchise

Volkswagen makes an end run around its dealers as it launches the Scout EV brand.

**NO DISRESPECT TO** the proud International Scout and its admirers, who must be thrilled that the long-dead nameplate is being excavated from the grave after 45 years, but Volkswagen picking it to be the name of its new electric brand is a head-scratcher. Well, except to Volkswagen dealers, who see the ploy as an end run around dealer franchise laws and a rather vicious stab in the back by an automaker that knows exactly where to stick the knife after decades of practice.

"VW AG's decision to attempt to sell Scout vehicles direct to consumers and compete with its U.S. dealer partners is disappointing and misguided, and it will be challenged," said Mike Stanton, president and CEO of the National Automobile Dealers Association, in a statement. "Unfortunately, it's also not terribly surprising," he added, saying that Volkswagen and Scout executives had long kept dealers in the dark about their plans despite repeated requests for information.

Announced last October, Scout's plan is to follow other EV startups such as Lucid, Rivian, and Tesla with a network of "Scout Studios" in the U.S. and Canada. These factory stores will handle the sales and service of

its circa-\$60,000 Terra pickup and Traveler SUV. As with a few legacy automakers before it—such as GM and Ford, who tried and failed at direct sales—VW seems keen to cut out its franchised dealers with Scout, no doubt to better control the customer experience, streamline the buying process, and retain more of the profit.

However, franchise law, which is a patchwork quilt that varies by state, generally prohibits VW from going into competition with its own dealers. If it's a Volkswagen product—including from VW divisions such as Audi, Bentley, and Lamborghini—it can't be sold anywhere but in a franchised dealership. So how do Lucid, Rivian, and Tesla get away with factory stores? Since they are new startups and thus have no existing franchise agreements with any dealers, they have been allowed in some states to set up their own sales networks. In others, they skirt the law by having dealerships on unregulated tribal lands or by having "galleries" whose staff display cars but cannot actually sell them; the retail transactions are handled out of state.

Hence, Scout, which VW insists is a completely separate company even though it was created by VW and

financed by VW. Scouts are slated to be built in a new \$2 billion factory being erected near Columbia, South Carolina, that, it is said, will also handle contract manufacturing for other VW divisions.

The way VW dealers see it, resurrecting Scout is less about capitalizing on any goodwill surrounding the old 4x4 and more about creating a legal separation from Volkswagen. "I was very disappointed," said Gene Langan Sr., whose family dealership in Glastonbury, Connecticut, has been selling VWs for 56 years. "For years we have asked and asked and talked about pickups and they would tease us and promise us, 'Oh, we'll look into it.' That's the thing that bothered the dealers the most." Besides pickups, dealers have also been pushing VW for hybrids. Currently the brand offers none in the U.S., but one is planned for Scout.

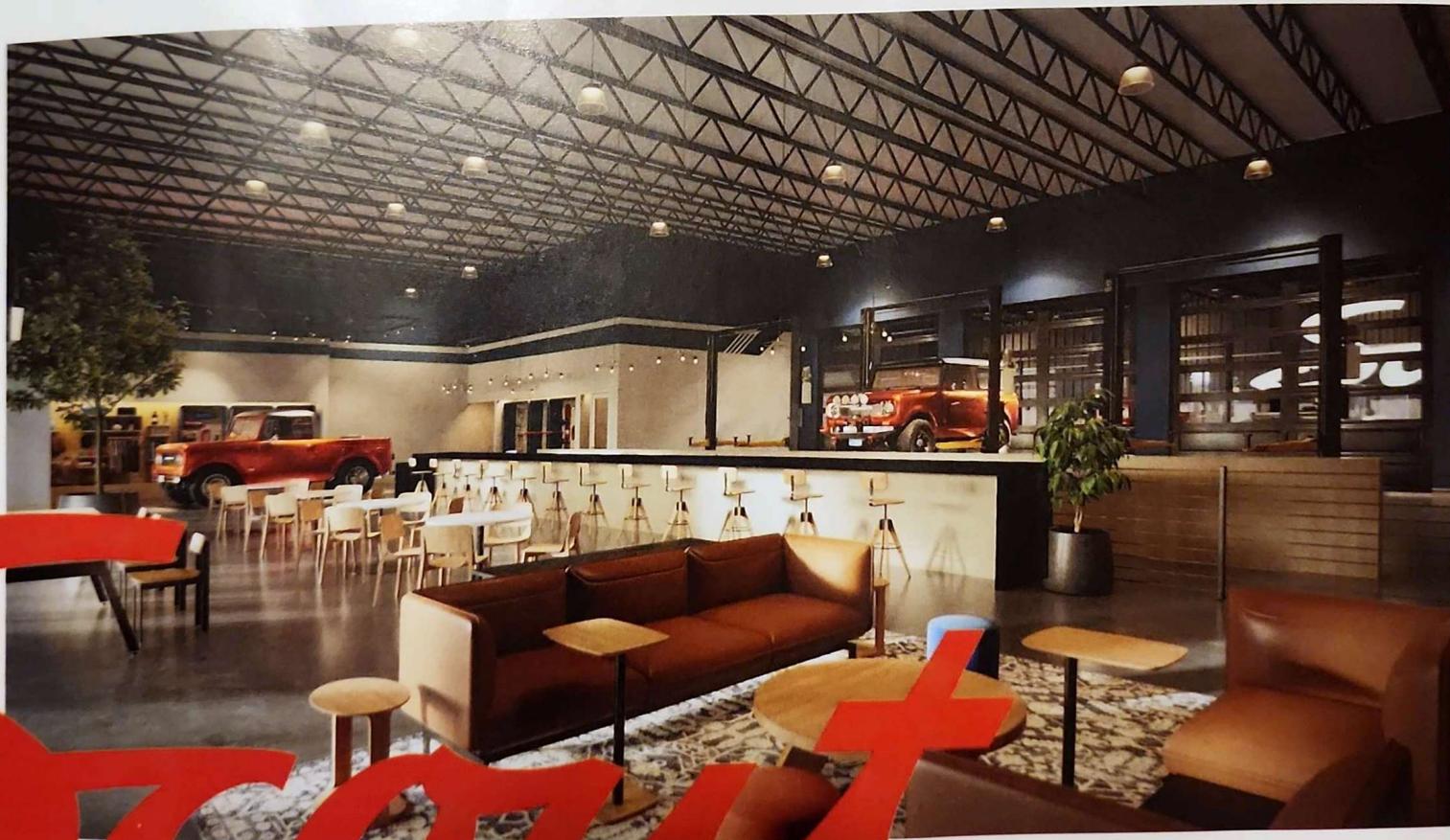
Langan says that although he loves Volkswagen and has a collection of vintage VWs, it's not the first time he's been betrayed by its dealers. "We really believed in 2015 that 2016 was going to be our big differentiator, and instead of what happened there," he said.

"Then we were promised we're gonna be early to the electric game, the ID.4 will come out and we have all kinds of product coming out after that and we're going to beat everyone outside of Tesla to the market. Which really didn't happen. We just received the Buzz, which, our first look at that type of vehicle was 2001 in Wolfsburg, so it took 24 years to get to us."

Scout could be the precursor to more "new" electric brands that could upend the traditional dealer model. VW is also exploring selling EVs in the U.S. under its Spanish performance brand, Cupra, via "a new distribution model," announced Wayne Griffiths, CEO of Cupra and SEAT, two of VW's overseas brands.

Langan sold off two VW stores after the diesel scandal. "Our brand was turned upside down; we didn't know what was going to happen. Then for this to happen, it felt like kind of a slap on the back of the head." In going electric, VW seems intent on turning its brand upside down again—along with the dealers who have stuck with it through some thick as well as an awful lot of thin. // **Aaron Robinson** [arobinson@hagerty.com](mailto:arobinson@hagerty.com)

With Scout, VW is spurning dealers and instead selling through factory "Scout Studios." Some dealers say it's another betrayal after the diesel scandal and a lack of much-needed pickups, EVs, and hybrids from VW.



# Scout