



# TADA

Texas Automobile Dealers Association

## Direct auto sales could raise car prices

Lawrence Spiwak

Buying a new car is a major financial investment.

Fortunately, not only do consumers have a wide choice of makes and models from which to choose (what economists call “inter-brand” competition), but once they settle on a make and model, consumers can then aggressively shop for the best price from a variety of same-brand dealers (or what economists refer to as “intra-brand” competition). Indeed, in Metro Detroit alone, consumers can shop at 12 Toyota dealers to buy a Camry.

One way state legislatures have sought to encourage intra-brand price competition is by requiring auto manufacturers to sell their cars through independently owned local dealerships. These franchise rules have been a fundamental cornerstone of automobile retailing in America for years.

Yet, despite the clear benefits of this aggressive intra-brand competition for new cars, there is growing political pressure in several states - including Texas, Arizona and Connecticut - to pass legislation that could severely curtail American consumers’ ability to price shop among competing independent dealers by allowing automotive manufacturers to sell directly to the public.

Allowing manufacturers to bypass local dealers would radically change the way cars are sold today from a model where multiple non-affiliated dealers are forced to compete against another to woo consumers to a model where the auto manufacturer sells cars at a fixed price both online and across the region (think Apple stores).

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This reduction of independent dealers has consequences, because a fall in new car dealer counts could reduce both inter-brand competition (Toyota versus Ford) and intra-brand competition (Toyota dealer versus a nearby Toyota dealer), thus putting upward pressure on car prices. Intra-brand competition is especially beneficial to consumers since it's mostly about price.

Competition for new cars is intense, and the auto dealer franchise system has a significant part in making it so. Whether or not it's time to modify state laws on auto retailing is a complex issue deserving in-depth analysis to identify and quantify the consequences of legislative changes.

What are the effects of allowing direct manufacturer sales on consumer prices for cars?

If the law lowered the number of dealerships, would that in fact be good for consumers?

Michigan recently conducted such an analysis, and rejected calls to allow manufacturer-direct sales. The big question is whether other states will follow Michigan's example.

Source: The Detroit News, April 2, 2015

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