



**Consumer Federation of America**



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## **MASSACHUSETTS CONSUMERS OPPOSE LAWS THAT RESTRICT CHOICE IN BUYING AND SERVICING NEW CARS**

### **Lawmakers Urged to Reject New Restrictions and Dismantle Old Laws that Cost Mass. Consumers \$1,500 per New Car**

Boston, MA – The Massachusetts Consumer Coalition and the Consumer Federation of America (CFA) today released the results of a survey of Massachusetts residents that found that consumers strongly oppose state restrictions on new car sales or warranty work and strongly desire the ability to purchase new cars through the Internet directly from manufacturers or other third parties. Mass. State Representative Paul C. Demakis joined with MCC and CFA in releasing the survey results at a statehouse press conference.

"The survey shows that consumers do not support legislative proposals that would put more restrictions on car buyers," Paul Schlaver, Executive Director of the Massachusetts Consumers Coalition, said. Schlaver has testified against pending legislation that he said "would dramatically reduce the potential for competition in new auto sales and service, reduce cost savings and inhibit quality improvements by:

- Increasing the size of exclusive car dealer territories;
- Preventing manufacturers from selling or providing any service directly to the public including new or used parts, warranty or non-warranty service, and even non-vehicle products and services such as financing, extended service plans, insurance;
- Restricting warranty repairs to dealers only; and,
- Expanding the franchise to cover not just the basic agreement but any written or oral relationship between dealers and manufacturers, prohibiting

manufacturers from rewarding dealers who have higher customer satisfaction ratings, lower prices or more sales.”

“Our analysis shows that consumers have good reason to oppose these laws,” Dr. Mark Cooper, CFA’s Director of Research, said. “We have conservatively estimated that the consumer would save at least \$1,500 per car if these anticompetitive, anti-consumer laws were repealed,” Cooper added.

"Now that consumers are comfortable with shopping for a variety of products over the Internet, they now want the ability to purchase new cars online," said Jack Gillis, CFA’s Director of Public Affairs and longtime author of *The Car Book*, an annual car buying guide and other car-related publications.

### **Consumers Voice Strong Opposition to Restrictions on New Auto Sales or Warranty Work and Want the Ability to Make Online Car Purchases from a Variety of Sources**

The survey of 500 representative Massachusetts adults found that Bay State consumers strongly oppose restrictions on new car sales and strongly favor the ability to purchase cars directly from nondealers, like manufacturers.

- 62 percent said they disagree (33 percent "strongly" so) with "laws that require all car sales to go through car dealerships." 37 percent agree with these laws (11 percent "strongly" so).

When presented with the option to purchase cars from nondealers over the Internet, consumer opposition to laws that restrict choices increases significantly.

- 69 percent said they disagree (59 percent "strongly" so) with "laws that require all car sales to go through car dealerships." Only 32 percent agree with these laws (11 percent "strongly" so).

Massachusetts consumers are even more overwhelmingly opposed to laws “that allow car dealers to prevent the establishment of new dealerships or satellite service centers.”

- 72 percent (44 percent strongly) opposed such laws, compared to 28 percent who support them (10 percent strongly).

The survey also found that consumers strongly support being offered a choice in repair facilities to do warranty work.

- 79 percent think, "consumers should be permitted to have certified, independent repairs shops" (59 percent "strongly" so); 21 percent disagree (13 percent strongly so).
- And, they overwhelmingly oppose laws (73 percent) that restrict their ability to choose where to have warranty work done.

Interestingly, the survey shows that what consumers really want is choice, since 54 percent say they would still have their work done at the dealership.

“The automobile is the second largest purchase that consumers typically make and consumer advocates devote a great deal of effort to helping consumers make smart choices,” said Schlaver, whose group publishes the award winning *Car Smart 2001*. “These laws that restrict consumer choice harm consumers.”

### **Economic Analysis Shows Massachusetts Consumers Could Save Millions by Repealing Laws that Restrict Consumer Choice**

Cooper explained that CFA’s research and recommendations focus on three specific restrictions on consumer choice: 1. Relevant marketing areas (RMAS) that allow dealers to block new sellers and repairers; 2. Restrictions the ability of consumers to purchase cars over the Internet by requiring that new cars be sold by dealers; and, 3. Requiring that warranty work to be performed by dealers. CFA’s review of the econometric studies and industry analyses shows that these restrictions harm consumers in a number of ways, including;

- State sanctioned restrictions on entry and distribution channels reduce the number of dealers, enabling the protected dealers to obtain higher profit margins by changing consumers’ higher prices in the range of 6-8 percent per car.
- The longer the laws are in effect and the faster the market changes, the greater the impact. Time and growth are important because as car sales

increase and the number of dealerships decreases, the market power of dealers is enhanced.

The advent of the Internet magnifies the costs that these restrictions impose on consumers in a number of ways.

- The ability of consumers to gather information online facilitates comparison shopping, however, without true competition for car sales on the Internet, consumers lose the benefit of this comparative ability.
- Higher quality visual and video images that can be modified by consumers promise a quantum leap in the quality of marketing and consumer information gathering. Without the ability to buy vehicles from a variety of vendors, this type of information does not enable consumers to take full advantage of Internet technology.

On the other hand, increasing purchase options over the Internet will integrate production with consumer preferences (personalized selling). Such online transactions, combined with flexible production, can dramatically reduce marketing costs, inventory, and transit times for the delivery of vehicles.

“Our first goal is to convince the legislature to not make things worse,” said Schlaver, who testified against the pending legislation during the current legislative session. “However, in the long term, our goal is to repeal these laws and bring the sale of new automobiles into the 21<sup>st</sup> century.”

“To take advantage of the potential of the Internet to reduce car buying costs, Massachusetts consumers need choices. Tragically, for Bay Staters, current laws restrict car buying choices, which only increases the amount we pay for our cars,” said Gillis.

*The Massachusetts Consumers' Coalition (MCC) is an association of public and private agencies, affiliated to promote consumer interests and ensuring fairness in the marketplace since 1976.*

*CFA is a non-profit association of more than 285 groups, which, since 1968,*

*has sought to advance the consumer interest through advocacy and education.*

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