CFA
Consumer Federation of America

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ANTI-COMPETITIVE STATE LAWS COST NEW CAR BUYERS MORE THAN $20 BILLION PER YEAR

Consumers Surveyed Strongly Oppose These Laws

Washington, D.C. -- At a press conference this morning, the Consumer Federation of America (CFA) released a study concluding that, if anti-competitive state laws were repealed, new car buyers would eventually save at least $20 billion a year -- an average of $1,500 per vehicle. Of particular concern to CFA, and to consumers surveyed, are new and threatened state restrictions on Internet car sales.

"All credible research has found that anti-competitive state laws restricting new car sales not only cost consumers billions of dollars annually right now, but also severely limit the ability of the auto industry to realize Internet-driven efficiency gains in the future," said CFA Research Director Dr. Mark Cooper, author of the study, "A Roadblock on the Information Superhighway: Anti-Competitive Restrictions on Automotive Markets."

A related survey conducted for CFA by Opinion Research Corporation International (ORCI) found that consumers strongly oppose state restrictions on new car sales and strongly desire the ability to purchase new cars through the Internet directly from manufacturers or third parties.

"Consumers who have gotten used to shopping for many products through the Internet now want a similar ability to purchase new cars online," said CFA Public Information Director Jack Gillis, longtime author of "The Car Book" and other car-related publications.

Existing and Proposed State Laws Restrict Competition in Auto Sales and Service

While most states restrict competition in auto sales and service in some fashion, several have enacted or are considering legislation that would particularly harm the consumer interest. In these states: Relevant marketing area (RMA) laws allow dealers to block new seller and repair entrants. Other laws require warranty work to be performed by dealers. Still other laws restrict the ability of consumers to purchase cars on the Internet by requiring that new cars be sold by dealers.

In Arizona: "State laws limit consumer purchase and financing of new motor vehicles to car dealers," said Phyllis Rowe, President of the Arizona Consumer Council. "These statutes severely restrict consumer purchase options in the age of the Internet," she added.

In Texas: "The Department of Transportation has been suing or threatening to sue not only auto manufacturers and dot.coms, but also consumer groups, to prevent them from offering new car shopping methods to consumers," said Robert Krughoff, President of the Center for the Study of Services, publisher of Checkbook magazines. "This state enforcement of anti-competitive laws severely restricts consumer access to critically important information about car prices," he added.

In Florida: "State laws discourage competition for warranty work by limiting these repairs and maintenance to dealers and by limiting dealer expansion of service facilities," said Walter Dartland, Executive Director of the Florida-based Consumer Fraud Watch. "These anti-competitive restrictions increase costs and reduce convenience," he added.

In Virginia: "New legislative proposals would limit the ability of manufacturers to reward pro-consumer dealers who charge low prices and offer good service," said Irene Leech, President of the Virginia Citizens Consumer Council. "These bills would further restrict consumer competition among auto dealers," she added.

Economic Analysis Uses Past Research to Estimate Consumer Costs

The CFA study examines three types of evidence to assess the impact of vertical restraints on automobile dealer markets -- econometric studies of restrictive state laws, economic analysis of potential efficiency gains from streamlining marketing and distribution of new motor vehicles, and studies of price savings from Internet purchases of consumer products.

The study also reveals that the number of states with restrictive laws increased from only two in 1970 to 41 today. Recently, as the potential for Internet sales has increased, dealers have urged state legislatures to pass even greater restrictions on direct sales to the public and to insist on more aggressive enforcement of existing restrictions.

The study reviews over one dozen empirical studies and regulatory reviews of territorial restraints on distribution. It finds that empirical econometric evidence shows how consumers are harmed.

- Restrictions on entry and distribution channels reduce the number of dealers, creating local market power for the protected dealers and resulting in higher margins for dealers, and higher prices for consumers 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 so important because it is the reduction of dealerships relative to the market that enhances market power.

The study shows how the Internet can dramatically increase efficiencies, thus lowering consumer costs, in automobile markets.

- The ability of consumers to gather information online facilitates comparison shopping.

- Higher quality visual and video images that can be modified at the direction of consumers promise a quantum leap in the quality of marketing and consumer information gathering.

- o Increasing integration of production with consumer preferences (personalized selling) identified through online transactions, combined with flexible production, can dramatically reduce marketing, inventory, and transit times for the delivery of goods.

Analysis of efficiency gains from rationalizing marketing and distribution of new vehicles is projected at 10 percent per vehicle. Econometric studies of price savings resulting from Internet purchases of consumer products have consistently estimated these savings in range of 10 to 15 percent. However, in this study, to be conservative, we are utilizing the estimate of only a 6 percent cost savings per vehicle. With these vehicles presently averaging $25,000 in price, and about 14 million sold, this 6 percent saving would amount to $1,500 per vehicle which results in a total consumer savings of more than $20 billion annually.

Consumers Voice Strong Opposition to Sales Restrictions and Support for the Opportunity to Make Online Purchases

In their CARAVAN survey of 1,029 representative adult Americans, ORCI found that consumers strongly oppose restrictions on new car sales and strongly favor the ability to purchase cars online.

- o 78 percent said they disagree (59 percent "strongly" so) with "laws that require all car sales to go through car dealerships." Only 19 percent agree with these laws (just 6 percent "strongly" so).

- o Respondents said these laws "unjustifiably limit consumer choice" (by 58 to 37 percent), "tend to raise car prices" (by 60 to 36 percent), and "limit consumer ability to purchase cars conveniently" (by 64 to 32 percent). Only 43 percent think that these laws would "prevent manufacturers from taking advantage of consumers."

- o Similarly, 78 percent think "consumers should have the ability to purchase cars directly from manufacturers or third parties using the Internet (51 percent "strongly" so). Only 16 percent disagree.

The survey also found that consumers strongly support consumer choice of shops to do warranty work. 71 percent think "car owners should be permitted to have manufacturer-paid warranty work performed by independent repair shops" (47 percent "strongly" so); 25 percent disagree.

Not surprisingly, the 59 percent of respondents who say they "have regular access to the Internet for personal use" are the most strongly opposed to restrictions and supportive of consumer choice. Eighty-nine percent of those with access agree that consumers should have the ability to buy cars directly from manufacturers through the Internet while only 64 percent of those without access agree.

Also, those who most frequently purchase cars tend to oppose restrictions and support choice. Of the 58 percent of respondents who had purchased a car from a dealer in the past five years, 82 percent agree that consumers should be able to buy cars from manufacturers through the Internet compared to 73 percent of non-buyers who agree.

ORCI conducted the survey during the period January 5-8, 2001. The margin of error is plus or minus three percentage points.

Study Addresses Concerns About Manufacturer Discrimination Against Dealers

The Cooper report also examines potential unintended negative effects that have been invoked by dealers to defend or extend laws restraining direct sales of motor vehicles. It concludes that there is little likelihood these consequences would materialize, for several reasons: First, increased competition would make it difficult for any party to gain market power. Second, warranties would remain in force. And third, when the most popular dealerships expanded, quality repair and maintenance services would be more available. Fourth, general consumer protection laws would remain in force.

However, the report also recommends the establishment of new protections. While new distribution channels should be open, the report supports imposition of reasonable licensing requirements for new sellers of automobiles. In addition, protections for dealers should be created to ensure that, when manufacturers are allowed to sell vehicles and service directly, they not discriminate against competing dealers. It proposes new state laws to give dealers a private right of action to pursue claims of discrimination under contract law.

A copy of the report is available at: www.consumerfed.org/internetautosales.pdf.

CFA is a non-profit association of 270 pro-consumer groups that, since 1968, has sought to advance the consumer interest through advocacy and education.

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