

READING EAGLE

Fact Checker: Outdated report on online car sales in Brazil

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"Since 2000, customers in Brazil can order the Celta over the Internet from a site that links them with GM's assembly plant and 470 dealers nationwide."

-Gerald R. Bodisch, "Economic Effects of State Bans on Direct Manufacturer Sales to Car Buyers," May 2009

This may seem like an old quote but it's one that continues to resonate, as this paper (written by a one-time economist at the Justice Department) is frequently cited by advocates of direct sales of automobiles to consumers.

Currently, more than half of the states, including Maryland and Virginia, prohibit direct sales of cars by manufacturers and instead mandate auto purchases through franchised dealerships. California-based Tesla Motors has been waging a long battle, state by state, in an effort to get the laws changed.

The Fact Checker takes no position on the issue but we are interested in the facts. How accurate is it that cars in Brazil are sold directly to consumers?

In recent months, the Justice Department paper has been cited in a news story about the state bans, in a Cato Institute report and in an open letter by a coalition of groups that include the Consumer Federation of America, Americans for Prosperity and the Sierra Club.

The paper was issued in 2009 as part of a Justice Department series known as the Economic Analysis Group Consumer Advocacy Papers, which are infrequently published. They are intended to stimulate discussion but do not really have a Justice Department imprimatur. "The analysis and conclusions expressed in the papers are solely those of the authors and do not represent the views of the Department of Justice," the Justice Department website notes.

Bodisch, an economist who stopped working at Justice in 2011 and is now a consultant, notes on his Linked-In page that the paper "is a primary reference in the debate in state legislatures on Tesla Motors' attempt to sell electric cars directly to consumers."

The centerpiece of the report is the example of General Motors selling the Chevrolet Celta directly to consumers, who purportedly order the car on Web and then have it delivered to them.

"GM built five distribution centers throughout Brazil to reduce transportation time from its assembly plant and buyers can track location of their car online on its way to delivery at a dealer of their choice," Bodisch wrote glowingly. "The Celta was designed by GM in collaboration with suppliers who deliver just-in-time pre-assembled modules to the factory. GM estimates that collaboration in design and manufacturing enabled it to use 60 percent fewer suppliers and 50 percent fewer parts than in a traditional assembly operation."

By 2006, "700,000 Celtas had been produced and the car continues to be one of Brazil's best sellers," Bodisch wrote in the report, which as we noted was published in 2009. A full paragraph of the Bodisch report was reprinted in the Cato Institute report, which was published in 2014.

But there's one big problem: GM discontinued the Web experiment in 2006 — three years before Bodisch published his findings.

"I guess I was not aware of that at the time," Bodisch said in an interview. He said he based his information on the news reports when the Celta was first launched on the Internet in 2000, but had not researched further.

The reports were certainly enthusiastic at the start. CNET in a 2000 report said that 56 percent of the sales were made directly through the Internet and the company was considering introducing the concept to other countries. A 2001 GM news release said that 80 percent of the cars were sold over the Internet. And the "Milestones 2000-2008" Web page (cited in Bodisch's report) of GM's Brazil subsidiary, GM do Brasil, shows 700,000 Celtas were produced by May 2006.

Unfortunately, 2006 is also when GM killed the direct-sale project. Automakers apparently do not like to put their flops on their milestone pages.

"We ran the Celta online sales program in Brazil from 2000 to 2006," GM spokesman Patrick Morrissey said. "Under this program, Chevrolet in Brazil sold approximately 100,000 units per year." But he said that "the online sales model no longer made sense for customers," for a variety of reasons, including "federal and state tax changes in the country" and "the infrastructure costs to maintain distribution centers."

(Brazil's tax system is wildly complicated, as each of the 26 states and the Brasilia Federal District set their own indirect tax rates — and there are at least five different tax regimes. A 2014 ruling by the Brazilian Supreme Court decreed that when consumers purchase items through e-commerce, they need to pay the rate of Brazil's equivalent of a valued-added tax on the location of the merchant, not the consumer — which is different from most other industrialized countries.)

"I guess it worked for a while, and then it didn't," Bodisch said.

This is yet another good example of why people need to check their facts. It's a bit astonishing that a paper published by the Justice Department cited as a success story a

product launch that had already failed three years earlier — and that six years after the paper was written, the same tired story of the supposedly successful Celta Web program continues to be touted. There may be many reasons why direct cars sales are preferable, but GM's experience in Brazil is not one of them.