

THE WEEK

How Tesla's direct sales model is roiling the car dealership industry

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Americans can be savvy consumers, but they are not, traditionally, hagglers. Supermarket prices are nonnegotiable. You don't bargain with the cashier at Target or Walmart about the price of a television or smartphone. If you want a better price on a mattress or refrigerator, you search for a coupon, shop around for a deal, or wait for a sale.

Cars are different. There is a sticker price at the auto dealership, but it's just the starting point for high-level, often protracted negotiations. Americans don't like this very much, according to polls. Many economists aren't fans of the car dealership model, either.

But it isn't going anywhere soon, thanks to state dealership franchise laws dating back decades. Under these laws, automakers can't sell you one of their cars or trucks or service them. The vehicles can only be sold through car dealerships. There is one big exception, though, in many states: Tesla. Tesla's direct-to-consumer model is shaping the car-buying experience, and the powerful car dealership industry is fighting back.

Why can't you custom-order a new Ford online?

Starting in the 1930s, car dealerships convinced states to enact franchise laws, stipulating that automakers have to sell and service their vehicles through franchised dealers — a Ford dealer sells new Fords, a GM dealer sells new Cadillacs and Chevys, and a Chrysler dealer sells you a new Chrysler. This arrangement gave the automakers a steady cash flow to make new cars while the dealers, who bought the cars upfront, worked to sell the finished ones at a profit.

From the 1930s to 1950s, when these laws were put on the books, the Big Three automakers — GM, Chrysler, and Ford — "dominated car sales and dealers were mostly 'mom-and-pop' local businesses," University of Michigan antitrust law professor Daniel Crane wrote at the [Cato Institute](#). "The dealers complained that the Big Three took unfair advantage of their unequal bargaining power to impose draconian contractual terms on the dealers" or undersold them at company-owned stores.

Many car dealerships are now very wealthy corporate behemoths and the Big Three are no longer an oligopoly with the market to themselves. "The top 10 dealership groups in America have annual revenues around \$100 billion — more than any car company," Crane noted.

With great power came great incentive to lock in that power. And auto dealerships — through their national lobbying group National Automobile Dealer Association (NADA) and its state affiliates — have been very successful at keeping the franchise laws on the books.

Is this good for consumers?

The car dealership industry claims it is.

"The new car dealer is the customer's advocate when it comes to warranty work and service on a manufacturer's product," Florida Automobile Dealers Association (FADA) lobbyist Dave Rambo told [Florida Politics](#). Dealerships compete with each other on price, let customers test-drive cars, and simplify the buying and registration process, he argued. "The attempt by auto manufacturers to cut out the dealer would only result in higher prices and less customer service to the public." Dealers also point out that automakers like Tesla operate on a monthly subscription model that has its own consumer costs.

Economists and other critics say dealerships "add an unnecessary middleman, pressuring sales tactics and layers of markup and fees that can range from a few hundred dollars to \$20,000 or more per vehicle over the Manufacturer's Suggested Retail Price (MSRP)," [the Tallahassee Democrat](#) reported. Consumers say they don't like the surprise costs and hard sell from sales representatives who get paid on commission. The competition argument is blunted by state laws

that give dealers a territorial fiefdom inside which they have exclusive rights to sell certain brands of automobile.

"All up and down the line, the dealers are getting protected in a variety of ways," Roger Blair, an economics professor at the University of Florida, told Florida journalist Jason Garcia. "Part of the reason is that it looks appealing — that we're protecting businesses from these big, bad manufacturers in Detroit or in Japan or in Germany. ... But, of course, it comes at the expense of the consumer. The consumer is charged more as a result."

What about Tesla?

Tesla has sold directly to consumers and serviced its own cars since entering the market in 2013, and it showed this model works. Buyers can "check out the cars in showrooms at malls and then buy online," Alexander Sammon wrote at Slate. "Online sales minimized interactions with oleaginous salesmen and added price transparency, which did away with the haggling. Tesla, meanwhile, ended up making more money by not having to sell its cars to dealers, who would then mark them up."

Unsurprisingly, "Tesla's decision to sell direct and bypass dealers was not well-received by the car dealers," Crane wrote at Cato. "Beginning in 2014, the dealers launched a state-by-state battle to block Tesla's entry, arguing that direct sales and service were prohibited by existing law." Those battles are still playing out in courts and state legislatures, but "today, almost half of the states have eased their direct sales restrictions for EVs."

Texas, which hosts an enormous Tesla gigafactory outside Austin, is not one of them. "Teslas made in Texas have to be shipped out of the state and then reimported across state lines to any buyers in Texas who purchase them online, one of many ridiculous workarounds born of dealer-protection laws," Slate's Sammon wrote in a dispatch from NADA's 2023 national convention in Dallas. The convention was celebratory and awash in free booze, free cash, and Republican politics, he added. And "the first lesson of NADA? Don't mention Tesla."

"Car dealers are one of the most important secular forces in American conservatism," far outspending the NRA in federal and state lobbying, but Fox News comedian Greg Gutfeld elicited audience grumbling when he praised Tesla chief Elon Musk during his set at the NADA convention, Sammon reported. Musk, "even as he becomes a right-wing hero in some circles, was so villainous 'round these parts I'd barely heard his name whispered all weekend."

Is anyone following Tesla's lead?

Yes, other EV makers — Rivian, Lucid, Polestar — have adopted their own direct-sales model, and legacy automakers have started eyeing sidelining dealerships for their new fleets of electric cars, too.

Volkswagen's plan to resurrect its Scout brand as a standalone EV company has sent the dealership industry atwitter, Justin Fischer wrote at [CarEdge](#). And Ford tiptoed toward selling its electric cars differently than its internal combustion vehicles, announcing last year that dealers who want to sell its EVs must commit to transparent, no-haggle pricing. Mercedes-Benz and BMW are moving toward this "agency" model — buy from the automaker online, pick up at the dealer — in Europe.

In the U.S., "lobbyists for the car dealers are trying to cut plans like Ford's off at the pass," Jason Garcia wrote at his ["Seeking Rents" Substack](#). Florida Gov. Ron DeSantis (R) signed a law in June that strengthens Florida's ban on direct-to-consumer vehicle sales for legacy automakers, like Ford, that already have franchised dealerships. But it also created an exception for Tesla and other EV startups that have never used third-party sellers.

There has been speculation that the EV carveout is linked to DeSantis' ties to Musk, who ([arguably helped](#)) the Florida governor launch his presidential campaign. But DeSantis has also raised more than \$2 million in campaign contributions from Florida auto dealers over the past two years, Garcia noted, and Florida isn't unique in codifying this two-path system of auto sales: dealerships versus direct-to-customer.

What happens next?

Car dealerships ultimately "fear they would eventually be driven out of business if manufacturers were permitted to sell to consumers themselves," Garcia wrote. And they won't take this existential threat sitting down. That means keeping legacy automakers in the franchise dealership model as the country transitions to electric vehicles.

Customers may dislike that model, but so far, dealers have "secured such an astounding array of political protections via their lobbying outfit that no countervailing force — economists, car manufacturers, civil rights groups, environmentalists or the Koch brothers — has been able to thwart them," Slate's Sammon reported. Along with their federal lobbying, "dealers mainline money to state- and local-level GOPs," and they "often play an outsize role in communities, buying up local ad space, sponsoring local sports teams, and strengthening a social network that can be very useful to political campaigns."

Still, you can't hold back the tide of market forces forever, Crane wrote at Cato. "Residents of every state are buying EVs directly and having them serviced directly. The question is not whether that happens — it has, does and will — but whether customers have the freedom and convenience of having that direct relationship with a manufacturer occur locally or whether they have to drive to another state. A critical mass of states — with the numbers growing every year — has decided to allow local sales and service."