



Tesla Prepared to Fight Long Battle against Car Dealers

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Tesla Motors has already begun to revolutionize the automotive world with its innovative electric vehicles, explains Daniel A. Crane of the Cato Institute, but it is facing challenges from the car dealers' lobby.

Indeed, Tesla is unusual in that it does not utilize car dealer networks but instead sells its cars directly to consumers, through its own showrooms and over the Internet. Car dealers are using old laws, and seeking new ones, that limit direct distribution sales to fight the company. So far, the lobby has been successful in Texas, South Carolina and New Jersey.

Why are there laws restricting direct distribution in the first place?

- From the 1930s to the 1950s, car dealers claimed that the few large car companies that existed were imposing harsh contract terms on dealers.
- They sought legislative fixes in all 50 states, including passing some laws prohibiting direct distribution -- the concern being that car dealers might begin distributing their own vehicles, competing with dealers and slashing their prices.

The Internet has the potential to change the car distribution business:

- A 2009 report from an economist in the Justice Department suggests consumers could save up to 8.6 percent of a car's cost through direct distribution.
- In Brazil, where online car purchases are allowed, customers can easily customize their purchases and often receive their cars in a single week.

When Ford Motor Company tried to sell used cars over the Internet, Texas lawmakers forbade the practice, passing a 1999 law that made serving as an automobile dealer without a license illegal and made it illegal for manufacturers to obtain licenses.

Dealers claim to be fighting Tesla to protect consumers from manufacturer price gouging, to ensure that customers are served adequately and to make sure that consumers are safe. However:

- A manufacturer with market power will extract a profit regardless of whether it sells to dealers or directly to consumers. In fact, outsourcing distribution to dealers, writes Crane, could actually increase prices.
- The idea that local dealers are more likely to be committed to satisfying customers ignores the fact that Tesla, and other manufacturers, have just as strong an interest in satisfying their consumers, as they invest billions of dollars in their technologies.
- Dealers point to recent GM recalls to support dealer distribution models. Yet, the failure of GM to issue a recall took place while GM was distributing to dealer networks, says Crane. Furthermore, both dealers and manufacturers can service recalls -- it is not the case that recalls produce only income for dealers but costs to manufacturers.

Direct distribution is efficient, and manufacturers should be allowed the choice to distribute their vehicles directly to their consumers. Car dealers can protect their own interests through contract negotiations -- not through protectionist legislation, writes Crane.

Source: Daniel A. Crane, "Tesla And The Car Dealers' Lobby," Cato Institute, Summer 2014