

**Client:** National Automobile Dealers Association (NADA)

## Background

Faced with pressure from a growing chorus of government agencies (e.g. Federal Trade Commission, Department of Justice), certain economic academics, some consumer advocates, and one highly visible automaker all suggesting that the dealer franchise system was a relic from the past and only added costs to the distribution and sales of new vehicles, NADA determined that it needed a “White Paper” to demonstrate the consumer benefits of the franchise retail system. In 2013, we were asked by NADA to produce such a document which was published in early 2014.

Although the dealer system (and its precursors) had been existence for nearly 100 years, going through periodic cycles of expansion and more recently significant downsizing, the existence of franchised dealers largely remained anchored as the distribution/sales/service model despite constant attempts to undermine or discredit the dealer system. The advent of the Internet which created new pathways for sales of many products, yet new vehicle sales remained within the province of the dealers in all 50 states and to some degree protected from manufacturer competition by various state laws. (The laws were mostly designed to protect local dealer businesses from unfair or predatory practices of their much larger and financial capable OEMs.) Various groups now sought to eliminate or modify dealer franchise laws to allow direct manufacturer sales everywhere.

## Benefits to the Client

The report was widely disseminated by NADA and remains available on the NADA website today ([www.nada.org](http://www.nada.org)).

## Services Provided to the Client

Over the course of six months, we produced a document for NADA which was incorporated into their “Get the Facts” campaign to educate the public in general and others more specifically (primarily state legislators, academics, and government regulators) about the benefits of the franchise dealer system.

Frankly, this was a topic area that had not been well researched to date. In fact, most prior research done was by consulting organizations and/or academics that suggested the dealer system itself was inefficient and that a direct model could result in costs savings to consumers. Wall Street also promoted such findings during the early days of the Internet at a time when a large number of start-up companies sought funding to disrupt the traditional dealer retailing model.

Our report did find that there were significant advantages to a dealer network – and mostly it was consumers that benefited as a result. Among these were the following key findings: 1) locally available new vehicle inventory; 2) price competition among dealers leads to best pricing; 3) warranty support and consumer advocacy; and 4) full-services including trade-ins and on-the-spot financing. The report also demonstrated that prior factory attempts at retailing were generally not successful, that there were no savings realized in direct-sales experiments; and that the business is somewhat unique relative the product which requires a vast physical distribution format which is different from other online retailing categories.