



**FEDERAL TRADE COMMISSION**  
PROTECTING AMERICA'S CONSUMERS

# The FTC opens the hood on automobile distribution

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**TAGS:** [Automobiles](#) | [Bureau of Competition](#) | [Office of Policy Planning](#) | [Competition](#)

For many of us, the holiday season involves at least one loooong automobile ride. We travel over the river and through the woods in our beloved cars, our trunks stuffed with presents for family and friends. Today, the way we buy those presents and the way we buy the car that carries them look very different. While the retail landscape has changed dramatically in the last 50 years, the system of automobile sales in the United States has stayed mostly the same. Are consumers benefitting from the current distribution system for automobiles or are changes needed? In [an upcoming public workshop](#), FTC staff will explore this question and related issues, with a focus on the regulatory environment governing automobile distribution.

What did the broader retail marketplace look like in 1965? There were no big box stores, the suburban shopping mall was a novelty, and consumers ordered from paper catalogs to purchase goods not available at their local retailer. A timetraveling shopper from 1965 would be shocked at how easily one can now browse an almost unlimited selection of merchandise online, purchase it instantly, and arrange for it to be giftwrapped and shipped virtually anywhere in the world – all without even getting off the couch.

In contrast, purchasing a new automobile today works pretty much the same way it did in 1965. Most consumers still buy new cars through franchised, independent automobile dealers. During an in-person transaction, they haggle over the price of the car, the value of a trade-in, and other terms of sale.

Few people entering a new car showroom realize that their state government plays a major role in determining how all this works. In every state in the union, the relationship between the dealer who sells the car and the manufacturer who made it is extensively regulated. State legislators and regulators determine whether a manufacturer can add new dealers or terminate underperforming dealers, and even whether a dealer can move to a new location. In many states, only independent, franchised dealers are legally allowed to sell new vehicles.

Some of these state regulations have been in place for decades and reflect the long history of the American automobile industry. As far back as the 1930s, dealers were concerned that once they made major investments in buildings, inventory, parts and the like, they would be effectively at the mercy of the manufacturer with which they were affiliated. Historically, manufacturers exploited this bargaining asymmetry in a variety of ways. These abuses led dealers to appeal to their state legislatures to seek protection. For the most part, these protections persist in every state, as does the heavily dealer-oriented automobile distribution system.

Some industry stakeholders maintain that the traditional distribution model benefits not just incumbent dealers, but ultimately the car buying public as well. They note the benefits of placing inventory close to the consuming public and the ability to obtain high-quality warranty service as key benefits of the existing distribution model. Other stakeholders, however, urge greater scrutiny of potentially outdated regulations that may, over time, make it more difficult for car manufacturers to experiment with alternative distribution methods that do not rely entirely

on dealers. Many economists argue that it is inefficient and unnecessary for states to tightly regulate private distribution arrangements, rather than allowing market forces to determine the mix of distribution models.

On January 19, 2016, the FTC will convene a one-day workshop where a large group of seasoned experts will discuss these issues in greater detail. Workshop participants will explore how state-based laws and regulations governing automobile distribution may affect consumers and competition, whether and to what extent the policy justifications that motivated these laws continue to be of concern, and whether less restrictive alternatives to the current system of extensive state regulation might satisfy legitimate policy goals while promoting greater competition and innovation.

In addition, to place this discussion in a larger context, the workshop also will examine some of the future trends in the use of automobiles such as the sharing economy and autonomous vehicles. These trends may significantly impact the demand for and sale of new vehicles, which may very well raise additional questions about the “fit” between the current regulatory framework and the automobile marketplace of the future.

It has been many years since the FTC took a deep dive into the business dynamics and regulatory framework of this industry. The time has come for us to kick the tires again in this critical sector of the U.S. economy. Mark your calendars to join us at the Constitution Center on January 19, 2016, or tune in to the live webcast on that day starting at 9 a.m. You can also file a comment online any time before March 4, 2016.



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