Crowe Horwath LLP
Independent Member Crowe Horwath International

February 19, 2016

Ms. Edith Ramirez
Chairwoman, Federal Trade Commission
600 Pennsylvania Avenue, NW
Washington, DC 20580

RE: Auto Distribution Workshop, Project No. P131202

Submitted via electronic FTC Public Comment form

Dear Ms. Ramirez:

Crowe Horwath LLP is one of the largest public accounting, consulting, and technology firms in the United States. We have over 70 professionals who serve more than 750 retail dealer clients from coast to coast. Our deep specialization provides us the opportunity to understand the industry landscape and the challenges faced by the dealers. As such, we appreciate the opportunity to offer our perspective about the state of the dealership marketplace.

The franchise system is unique because the franchisee (dealership) relies on the franchisor (manufacturer) to supply the inventory which is the "life blood" of operating their business. In our experience, the relationship between the dealership and the manufacturer has not drastically changed over the decades. In fact, over the past several years, the influence and control exercised by manufacturers has increased rather than decreased.

Manufacturers routinely retain substantial control over the auto dealers representing their brand. In many cases, auto dealers have virtually no leverage to effectively negotiate their relationships with their manufacturers. We routinely observe instances where the manufacturer uses their supply power over the proper allocation of vehicles or maximization of manufacturer incentive payments to control how the dealers run their businesses. Based on our experience in serving dealerships, a few examples of manufacturer control include the following:

- Stringent facility requirements (e.g., the height of the nap on the carpeting) which require significant capital investment by the dealer, even if the required capital investment results in virtually no return on that investment.
- Intensive sales and technician training programs and personnel requirements even in situations where the volume of sales does not justify the level of trained employees required by the manufacturer.
- Incentive programs that not only dictate how the business is run but also control product pricing and margins.
- Inventory allocation programs which require dealers to accept unwanted, slow-moving inventory of the manufacturer in order to obtain the appropriate allocation of vehicles for the dealer's particular market.

In our experience, dealerships must invest large amounts of capital to maintain their business, including facilities, equipment, and inventory in addition to operating expenditures all while working within thin margins on the auto sales. In the majority of cases, the dealer-owner has the vast majority of his or her personal net worth invested in the dealership. With virtually all of their net worth at risk, dealers are in a weak negotiating position with the manufacturer since their entire business model relies on the right supply of vehicle inventory from the manufacturer. We have observed how fluctuations or restrictions on access to new vehicles have the potential to significantly impact a dealership negatively.

Thank you for the opportunity to provide our perspective. Given our long history of serving dealerships, we would be pleased to provide additional perspective. Should you have questions, please contact Ron Sompels, Managing Partner, Retail Dealer Services, at 813-209-2401 or ron.sompels@crowehorwath.com.

Sincerely,

Crowe Horwath LLP