



MAILING ADDRESS: P.O. BOX 2955 \* HARRISBURG, PA 17105-2955  
SHIPPING ADDRESS: 1925 NORTH FRONT ST \* HARRISBURG, PA 17102  
717-255-8311 \* 800-242-3745

## PENNSYLVANIA AUTOMOTIVE ASSOCIATION

February 29, 2016

Federal Trade Commission  
Office of the Secretary  
600 Pennsylvania Avenue NW  
Room CC-5610 (Annex B)  
Washington, DC 20580

Dear Mr. Donald Clark,

As President of the Pennsylvania Automotive Association, I attended the FTC workshop on Automotive Distribution held on January 19, 2016. It was my hope that through discussions the FTC would garner a greater understanding of the automotive industry's methods of distribution and the continued necessity for state franchise laws which have been enacted to regulate the relationship between manufacturers and their franchised dealers. Instead, I believe the workshop's speakers provided myopic and sometimes inaccurate remarks that failed to portray the complexity of the relationship between manufacturers and their franchised dealers.

In promoting this event, the FTC stated its intent was to explore: 1.) competition in the context of state regulation; and 2.) how regulations affect businesses and consumers. Much theoretical information was provided, however, that ignored actual business marketplace conditions. For example, **many of the panelists shared the misunderstanding that the economic relationship between manufacturers and dealers is more balanced today** and that large, powerful dealerships no longer require the legal protections afforded through the franchise laws. This is a terrible misconception. In Pennsylvania, the majority of dealers have only one or two stores – small businesses in local communities that require franchise laws to attempt to level the bargaining power between manufacturers and dealers when addressing disputes.

The public policy grounds that originally supported the enactment of these laws, including the need for consumer protection, are as valid today as when these laws were first enacted. When a dealer and a manufacturer enter into a franchise agreement, the dealer invests millions of dollars to support the manufacturer's franchise and relies on the manufacturer to treat them fairly. Over the years, we have seen manufacturers act opportunistically toward their dealers, seek to transfer unreasonable costs to them, and punish businesses that do not comply with their demands. Franchise laws exist as an attempt to curtail this imbalance of power, to quell unfair incentive programs that favor one dealer over another, to prevent manufacturers forcing dealers to purchase unwanted inventory, and to limit unreasonable requests for facility changes. The laws themselves are overseen by an independent state-appointed board in front of which both manufacturers and dealers have presented and won cases.

**Another gross misconception promoted during the workshop was that if dealers were eliminated than the cost of vehicle distribution would decrease.** History, however, has proved that the franchised dealer network system is the most effective means of distribution. Without the investment of the independent owners who comprise the franchise network, the manufacturers would have to internalize the vast costs associated with creating and maintaining a retail sales and service network. Showrooms, service and parts departments, and

professionally trained individuals are all required by the manufacturer, but their cost is assumed by the franchisee. It is essential that the FTC recognize that the franchise system is not a relic from the past; it continues to be the most effective distribution system for new motor vehicles. New entrants to the largest markets – Asia, North America, and Europe – consistently choose the franchise model as their preferred method of vehicle distribution. Over the past several years, Chinese markets have grown significantly using the franchise model and Europe continues to move away from factory-owned stores. Their movement toward a franchise distribution system is not due to legislation but because manufacturers know that it is economically advantageous to franchise. The competition among franchisees in the United States can only be described as fierce, with customers as the ultimate beneficiary.

As you continue to examine the automotive industry, I would encourage you to recognize its complexity. Grandiose observations from the assembled panelists, some wholly unconnected to actual business practices, did a disservice to franchised dealers, their employees, and most important, to the consumer public.

Thank you for your consideration of these expressed views.

Sincerely,



John Devlin  
President