

Deal or No Deal with Tesla

By Carolyn Amon

Tesla is leading the automotive industry in breaking free from the gas pump, but can Tesla also break free from the grip of dealerships?

Imagine if you could walk into a slick showroom staffed with slightly geeky reps ready to answer all your questions with the help of a touch screen. No haggling in a zero-sum, multi-hour game between your getting a great deal and the salesman making a great commission. In other words, imagine if your car shopping experience felt like a trip to the Apple store. That's the model Tesla has put forward. It may not seem controversial, anticompetitive and consumer unfriendly, but that is what the National Automobile Dealers Association would have you believe. In state legislatures across the country auto dealers are challenging Tesla's ability to bypass them and sell cars directly to consumers. They have succeeded in shutting Tesla out of direct sales in Arizona, New Jersey and Texas. In the state of Washington, and most recently Ohio, Tesla was able to keep its current stores but barred from opening any new ones. More legal battles are expected.

The reason dealerships are on the offensive is that Tesla is upending a longstanding model in which dealers mediate the relationship and information flow between automakers and customers. In fact though, it is the dealership model that is atypical and anticompetitive since manufacturers of other products do not face state laws banning direct sales. The ban hurts consumers too. A [competition advocacy paper](#) from the Department of Justice's economic analysis group argued direct sales would allow automakers to hold lower inventories and reduce distribution costs, resulting in savings for consumers. The paper goes on to cite a survey showing that almost half of respondents would prefer to make a direct purchase from automakers even if it did not yield any savings. Women and minorities would especially benefit, given that they are consistently [quoted higher prices](#) than white men. This is not to say that dealerships should be dismantled. There is a role for brick and mortar showrooms for customers to view and test-drive vehicles before purchase, and to service them afterwards. Service is where dealerships make their money anyways.

This brings us to Tesla's argument that the dealership model is particularly ill suited for EVs, because they need little servicing. In addition, dealers will naturally push what they know best (ICEs) and what brings in more profit both in terms of commission (ICEs) and servicing (ICEs). These issues may resolve over time as dealerships adapt to the EV influx. But Tesla is not in the waiting game. Tesla should not be forced to jettison a model that avoids these conflicts of interest altogether. Dealerships are lobbying for their own benefit in the guise of protecting consumers. State legislatures should not stand in the way of Tesla's innovative way of selling innovative product. It would be a raw deal for Tesla and consumers.