

Advantages of Direct Vehicle Sales

Creating new retail locations

Vermont Law: State law governs where and how traditional manufacturers can add a new dealership. An existing dealer can file a protest against a manufacturer, if that manufacturer wants to create a new dealership within 10 miles of the existing dealer. If an existing dealer protests, the decision will likely find its way into the court system, where the burden of proof is on the manufacturer to show that “good cause” exists to create the new dealership. [9 §§ 4085(15) and 4097(22)]

Direct Sale Advantage: A manufacturer that did not need to comply with this law would be able to have a higher concentration of dealerships than a traditional manufacturer could have. It also would have much more flexibility to react to marketplace changes than a traditional manufacturer. A manufacturer free from this law would be able to better position itself against its competitors. It would also be able to do all of this without being exposed to the time and financial costs of court challenges.

Closing a dealership

Vermont Law: Current law makes it difficult for a manufacturer to terminate/close a franchisee. A manufacturer must prove that it has “good cause” to terminate or not renew a franchise agreement. Closing dealerships also requires several payments from the manufacturer to the dealer. If a manufacturer does succeed in closing a dealership, it must pay the dealer for its vehicle and parts inventory, and pay for relevant tools and signs. Additionally, if a manufacturer wishes to discontinue a line-make, then it must pay dealers for the value of their franchise before the discontinuation was announced. In some cases, the manufacturer may also have to pay the rental value of the property for a year. [9 §§ 4089, 4090, 4092, and 4096(4)]

Direct Sale Advantage: A manufacturer that did not need to comply with this law would avoid these considerable system costs when it needs to close a retail store, not to mention the opportunity time lost in resolution of current process.

Exclusivity

Vermont Law: Traditional manufacturers cannot prohibit dealers from selling vehicles from competing manufactures at the same locations so long as the dealer continues to comply with reasonable franchise requirements. [9 § 4096(6)]

Direct Sale Advantage: A manufacturer that does not need to comply with this law could have exclusive stores and not risk its customers being lured away to competing products, even when the customers may have been brought to the store by the first manufacturer’s advertising.

Incentives

Vermont Law: Traditional manufacturers use various forms of incentive programs to encourage dealers to do any number of things – sell vehicles, renovate a facility, achieve good customer satisfaction ratings, use manufacturer’s preferred advertising models, promote manufacturer financial services arms, etc.

Direct Sale Advantage: A company operating as both the manufacturer *and* retail outlet would not need to make such payments to incentivize behavior that was in the company’s best interests, unlike the current model.

Remodeling

Vermont Law: Traditional manufacturers cannot require dealers to expand or remodel a facility unless the manufacturer provides written assurance of a sufficient supply of vehicles to justify the change. The law also allows dealers to challenge the reasonability of alterations. [9 § 4096(8)-(9)]

Direct Sale Advantage: A manufacturer that does not need to comply with this law would have freedom from needing to justify its business strategies and branding to courts and independent dealers. Such a manufacturer would also be able to make facilities decisions without the worry that the law attaches those decisions to the manufacturer's vehicle production and allocation decisions. That would grant such a manufacturer the freedom to adjust the look of its stores, the presentation of its brand to the consumer, and make other adjustments to the purchasing experience at any time and without any fear of its decisions being second guessed by dealers or courts.

Warranty

Vermont Law: Traditional manufacturers are required to pay dealers to perform work on consumers' vehicles under the manufacturer's warranty. The law requires manufacturers to pay the dealers at the same rate that the dealer charges the public for retail service work. This occurs despite the manufacturer being a captive, high volume customer that provides this stream of work to the dealer without any investment in advertising to obtain or retain this work. That law adds additional costs for manufacturers. Yet Vermont law also prohibits manufacturers from using a surcharge to recover that added cost. [9 § 4086]

Direct Sale Advantage: A manufacturer that does not need to comply with this law would avoid this extra cost added to every warranty repair.