



Consumer Federation of America



**SB 178: Vehicle Laws - Manufacturers and Dealers-Advertisements
Position: Favorable**

The Honorable Will Smith Jr., Chair
Judicial Proceedings Committee
2 East, Miller Office Building
Annapolis, MD 21401
Cc: Members, Judicial Proceedings Committee

Chair Smith and Members of the Committee:

My name is Marceline White and I'm the Executive Director of the Maryland Consumer Rights Coalition (MCRC). As President of the Board of Directors, I'm also representing the Consumer Federation of America (CFA) testifying in favor of SB 178.

The Maryland Consumer Rights Coalition is a statewide coalition of individuals and organizations that advances financial justice and economic inclusion for Maryland consumers through research, education, direct service, and advocacy. Its 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

The Consumer Federation of America is a national organization of more than 250 nonprofit consumer groups that was founded in 1968 to advance the consumer interest through research, advocacy and education.

What problem does this bill address?

Are you surprised to learn that many car dealers will not advertise the price at which they are willing to sell a new car or truck? Or that Kelley Blue Book reports the average price of a new light vehicle (cars, SUVs and trucks) in December of 2018 was \$37,577?¹ Here's why – and why this is a serious problem that needs fixing.

In today's world, most people interested in buying a new car or truck start their search – and their research – on the internet. But when a Maryland consumer starts shopping for a new car or truck, she'll soon sense something seems off in the automotive marketplace. Let's say she lives in Baltimore and wants to buy a Toyota Camry, one of the most popular cars in America. She may visit four or five different Toyota dealership websites in and around Baltimore to see who's offering a good deal. But

¹ <https://finance.yahoo.com/news/average-car-prices-more-1-110000010.html>

judging by advertised prices, she will see that apparently there is little real competition among dealers – the listed or advertised prices are generally within a rather narrow range.

Most consumers do not know why: many manufacturers deliberately employ a strategy to restrain dealers from offering low prices on new vehicles. They do this by establishing a Minimum Advertised Price (“MAP”), also known as a Minimum Allowable Advertised Price (“MAAP”). If dealers dare to advertise a price lower than the minimum set by many auto manufacturers today (including luxury brands like Cadillac, Lexus and Mercedes, as well as brands like Toyota, Honda, Subaru, Mazda and Nissan), they lose very valuable marketing and advertising support from the manufacturer. Because of the dollar amount they would lose, it’s extremely rare for a dealer to ignore the manufacturer’s ultimatum: keep your prices up or we will pull the advertising and marketing monies that we give to every one of your competitors who fall in line with our wishes. Dealers cannot afford to give up that money. It’s a LOT of money. So dealers feel they cannot and will not advertise prices below what the manufacturer dictates. This is true even if the dealer is willing to sell at lower prices than all of his or her competitors.

Why does this hurt your constituents and all other consumers?

When all dealers dance to this tune played by the manufacturers, consumers lose. By establishing minimum advertised prices, manufacturers convey a false impression about the market for new cars and trucks and the actual market value of their products. Many dealers are willing to accept prices less than the higher ones the manufacturers induce them to advertise -- but manufacturers obscure this crucial fact by paying dealers to keep their advertised prices artificially high. How are consumers to know?

Consumers should be free to go online and see which auto dealers really want their business, which dealers normally would demonstrate by showing consumers in their online listings and through advertisements about their low prices . But dealers cannot do that, without incurring the wrath of the manufacturer (and losing the big money it uses to restrain lower price advertising and online listings).

Currently, Maryland allows manufacturers to get away with minimum advertised prices that mislead consumers. Consumers may well not even look into buying a vehicle they really want because all advertised prices on the model they would like are simply too high. This alone distorts the marketplace. Even more concerning, large numbers of Marylanders – particularly unsophisticated buyers who are most in need of protection – do not understand they can try to negotiate a price lower than the one advertised, causing them to needlessly pay more than a vehicle is really worth, doing real damage to their family budget.

Unless this bill with amendments is enacted, consumers will needlessly have to waste many precious hours of time trying to track down a good price for a new car or truck; others will lose the chance to buy a vehicle they really wanted.

How does SB 178 solve this problem?

SB 178 would prohibit auto manufacturers from penalizing dealers for listing online or advertising the actual low price at which they are willing to sell or lease a new car or truck. Manufacturers would no longer be allowed to retaliate against a dealer or deny the dealer the advertising and marketing funds they provide to their competitors who honor the minimum price the manufacturer seeks to establish. When one dealer starts to advertise low prices, below those set by the manufacturer, other dealers will

see they have to compete to attract new customers, and consumers in Maryland will have multiple dealers actually competing for their business. Competition always leads to lower prices. It is the way the marketplace is supposed to work.

Will this hurt dealers?

No. Dealers today make most of their money by selling customers products other than the basic new car or truck. For example, when a dealer has a customer ready to buy, they typically offer her products that are lucrative for the dealer, such as extended warranties or service contracts, GAP insurance, fabric protection, paint protection, pinstripes, mud guards, wheel locks, tire protection, key fob replacement, road service and a host of other goods or services that – ironically – provide greater margins for a dealer than the new car or truck. Dealers who advertise low prices will get more customers into their showroom, make more sales and make more money.

Will this hurt manufacturers?

No. Manufacturers may oppose this bill, claiming that if dealers advertise the actual low prices at which their vehicles can be purchased or leased, their “brand” will be damaged. But if – as can be expected – sales and leases go up as a result of dealers offering prices lower than the manufacturer’s minimum price, the manufacturer will be crying crocodile tears all the way to the bank. More sales will give the manufacturer even more money to advertise, promote, and protect their brands.

We recognize that manufacturers have a legitimate interest in making sure their dealers do not misrepresent the various rebates or incentives they offer consumers to jump start sales. But the amendments to SB 178 make it clear that manufacturers retain the ability to tell dealers they must present any manufacturer rebates or other incentives which they offer consumers in a non-deceptive manner.

This bill will help lower new car and truck prices for consumers, and make it considerably easier than it is now is for consumers to find a dealer prepared to sell a vehicle for a good price. The Maryland Consumer Rights Coalition and the Consumer Federation of America support SB 178 and urge a favorable report.

Best,

Marceline White
Executive Director

