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Stranded in the 20th Century: Why Dealer Franchise Laws Fail Today's Auto Market

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Executive Summary

America's vehicle retail system is built on Dealer franchise laws created nearly a century ago to protect small retailers from coercive automakers. The laws made sense in the 1930s, but not today. The modern auto market is larger, more diverse, more digital, and more technologically advanced than anything the original statutes contemplated, yet the regulatory structure remains frozen in time.

Franchise laws now function as protectionist barriers for dealers that raise prices, restrict competition, and impede innovation. Territorial exclusivity rules alone inflate new car prices, costing consumers \$61.7 billion annually and reducing vehicle sales by nearly 1.8 million. A comprehensive 2026 analysis from the International Center for Law & Economics finds that the mandated dealer model adds a "middleman tax" of roughly \$5,000 to the price of the average new vehicle, which is nearly 10 percent of the total cost.

Dealerships also impose additional hidden fees, inflated warranty-related labor rates, and structural inefficiencies from maintaining large inventories and costly physical networks. Enforcement actions by states and the Federal Trade Commission (FTC) underscore widespread deceptive pricing practices across the industry.

At the same time, the traditional dealer model is increasingly incompatible with how Americans buy and use cars. Digital retailing has shifted consumer research and purchasing online, but franchise laws legally prevent manufacturers from offering seamless online sales. Software-defined vehicles and over-the-air updates further weaken the rationale for dealer-centric service networks. Population shifts have left legacy dealership footprints misaligned with today's markets, yet franchise laws make integration nearly impossible.

Tesla's success (after hard-fought legal battles to conduct business) as well as the emergence of Rivian, Lucid, and agency-style models from legacy automakers demonstrates that direct-to-consumer sales are viable, popular, and pro-competitive. But dealer franchise laws continue to block or restrict these models in many states, denying consumers the ability to choose how they purchase a vehicle.

The evidence is clear: Dealer franchise laws no longer protect consumers; they protect dealers. The regulations raise prices, limit choice, slow innovation, and prevent manufacturers from modernizing the retail experience. Updating these laws to allow direct sales, agency models, or hybrid approaches would restore competition and consumer sovereignty, reduce costs for millions of Americans, enable industry innovation, and align the vehicle market with 21st-century consumer expectations.

Background

Cars are integral and essential components of American life, and in most cases, an absolute necessity. Consumers use them to get to work, drive children to activities, run basic errands, visit friends and relatives near and far, and travel to new destinations.

But ownership does not come cheap. Buying and maintaining a car is one of the largest categories of consumer expenditures; the average American buys 9.4 cars over their lifetime.¹ The average person also spends roughly 13.5 hours on the purchase, from start to finish.² It is a major decision.

The way consumers purchase vehicles was established decades ago, as automakers and dealerships worked through challenges and disputes. Manufacturers would terminate franchises without cause, force dealers to accept unwanted cars, or undercut them by competing directly in the same territory. States intervened to stabilize the relationship, protect local economies, and ensure consumer access to service and competition. Customers generally walk into a car dealership and work with staff to learn about certain vehicles, test drive models, and purchase and finance a car that suits their needs.

It is becoming increasingly apparent, though, that the existence of dealerships adds substantially to a car's final price tag, while their relevance is diminishing. Significantly more car brands have emerged and the digital marketplace has completely transformed consumer behavior, rendering the archaic dealership model irrelevant or obsolete.

State franchise laws should be updated to reflect the needs of buyers, not dealerships. New entrants, like electric vehicles (EV), should have the opportunity to sell their cars in a manner that works for the companies and their customers. Modernizing the current sales apparatus will foster a more competitive environment which benefits both car manufacturers and consumers.

Origins of Franchise Dealer Laws

As the internal combustion engine came on the scene in the early 1900s, vehicles were sold through factory stores, mail order and consignment arrangements, retail department stores, traveling salesmen, wholesale distributors, and dealer franchising. The sales model gravitated toward dealer franchises and eventually tens of thousands of them popped up all over the country. The "Big Three" auto manufacturers dominated the market: General Motors (GM), Ford, and Chrysler.

Dealer franchise laws emerged in the early–mid 20th century as a political and legal response to escalating conflict between automakers and their independent retailers. They were created because early manufacturers held overwhelming economic power over small "mom-and-pop" dealers.

¹ Theresa Bennett, "How Often Do People Buy Cars?" Chaiz, May 19, 2025, <https://www.chaiz.com/blog/how-often-do-people-buy-cars>.

² Cox Automotive, "2023 Cox Automotive Car Buyer Journey Study: Summary," January 2024, <https://www.coxautoinc.com/wp-content/uploads/2024/01/2023-Car-Buyer-Journey-Study-Summary.pdf>.

Ford began forcing its dealers to purchase cars that nobody wanted. When the Great Depression hit and automobile sales plummeted, Ford continued its strategy and threatened to close dealers (with significant loss to them) if they did not purchase unsellable cars. And when Model T sales started to wane, Ford set up new dealers near the existing ones in efforts to stimulate sales through competition.

A Chrysler-Plymouth dealer also faced a similar experience. An FTC report recounts a particular dealership was forced to purchase hard-to-sell Chrysler Imperials because the manufacturer threatened they “would not play ball with us when the new cars come out.”³ The cars were sold at a loss.

In addition to forced inventory, franchise agreements were one-sided and easily terminable by the manufacturer. Because of investing massive amounts of capital into the facilities, dealers were extremely vulnerable to the coercion. Dealers were also susceptible to non-renewals of short-term contracts, leaving them vulnerable to factory demands and little autonomy. And manufacturers were free to open competing dealerships directly next door to an existing dealer's geographic area or unfairly distribute popular vehicle models to favored retailers, crushing the dealer's sales.

After numerous failed lawsuits and getting nowhere with the courts, dealer associations turned to Congress and the FTC. In response to dealer pressure, the FTC in 1938 opened a sweeping investigation into the manufacturer and dealer relationship.⁴ Concluding that “inequities exist in the terms of dealer agreements, and in certain manufacturers’ treatment of some dealers,” the FTC suggested implementing legislation to provide dealers more control over their franchises. Inventory and shipments as well as equitable terms in the event of contract termination were front and center.

In 1937, Wisconsin became the first state to enact an automobile franchise dealer law. The state legislature recognized the “gross disparity of bargaining power between the manufacturer of automobiles and the local retailer,” and provided legislation to “furnish the dealer with some protection against unfair treatment by the manufacturer.”⁵

State by state followed by enacting their own set of dealer protection laws over the following two decades; every single state has such laws on their books today. These laws typically restrict manufacturers from terminating dealers without “good cause,” limit the establishment of new competing dealerships nearby, and regulate warranty reimbursement and allocation practices. Legacy automakers largely accommodated franchise laws because the laws protected the nationwide dealer networks from intra-brand competition by selling single brands and dealers became essential partners in sales and service.

³ Daniel Crane, “The Birth of the Franchised Dealer Model,” University of Michigan Law School Scholarship Repository, 2025, https://repository.law.umich.edu/cgi/viewcontent.cgi?article=1573&context=book_chapters.

⁴ U.S. Federal Trade Commission, “Report on Motor Vehicle Industry,” June 5, 1939, <https://www.ftc.gov/system/files/documents/reports/report-mobile-vehicle-industry/390605motorvehicleindustry.pdf>.

⁵ Crane, 2025.



Territorial Exclusivity Laws

In 2018, the American Consumer Institute (ACI) published a report finding that state automobile dealership franchise laws function as protectionist regulations that raise new car prices, reduce competition, and transfer roughly \$47.5 billion annually from consumers to dealerships.⁶

The report focuses on territorial exclusivity laws which establish monopoly market areas that work to reduce intra-brand rivalry. These laws keep inefficient dealers in business and prevent market forces from determining optimal dealership numbers or scale. Restrictions on dealership locations—the volume and their proximity to each other—increase new vehicle prices, constrict industry output, and decrease consumer welfare.

The report notes that removing these regulations would lower new vehicle prices and stimulate consumer demand. More affordable cars equate to a modest, proportionate shift in sales, creating a short-run price elasticity of vehicle demand.

In 1978 the FTC produced a study examining restrictions on territorial and market entry finding that such regulations reduced competition and pushed up consumer prices by 7.63 percent.⁷ Using the “decades old....modest” 7.63 percent effect as a conservative estimate, a price elasticity of -1.35 , the number of light vehicles sold in 2017 (17.2 million), and the average price at the time (\$36,270), ACI concluded that territorial franchise regulations cost consumers an additional \$47.5 billion annually.⁸

The real burden is likely higher—even by the FTC’s own admission—since the FTC’s estimated price effect does not consider other dealer-friendly laws, population growth, or rent-seeking costs of dealerships expending political resources to manipulate public policy to increase their economic gain.⁹

Fast forward to today, where the average price of a light vehicle or truck in December 2025 dramatically increased to \$50,326.¹⁰ Applying the same formula with the number of cars sold for 2025 (16.4 million)¹¹ and an elasticity of -1.3 ,¹² approximately 1.8 million more cars would have been sold and consumers would collectively save \$61.7 billion a year if territorial restrictions were lifted.

Territorial exclusivity laws are costing car buyers significantly more money and manufacturers additional sales.

⁶ Steve Pociask, “Corporate Welfare: How Automobile Dealership Franchise Regulations Cost Consumers an Additional \$48 Billion Annually,” The American Consumer Institute, March 2018. <https://www.theamericanconsumer.org/wp-content/uploads/2018/03/ConsumerGram-2018-FINAL-1.pdf>.

⁷ Robert Rogers, “The Effect of State Entry Regulation on Retail Automobile Markets,” Federal Trade Commission, Bureau of Economics Staff Report, January 1986, <https://www.ftc.gov/reports/effect-state-entry-regulation-retail-automobile-markets>.

⁸ Steve Pociask, 2018.

⁹ Robert Rogers, 1986.

¹⁰ Sean Tucker, “Average New Car Price Topped \$50,000 in December,” *Kelley Blue Book*, January 13, 2026, <https://www.kbb.com/car-news/average-new-car-price-topped-50000-in-december/>.

¹¹ Gabriel Cohen, “Ranked: America’s Best-Selling Car Companies in 2025,” *Visual Capitalist*, June 25, 2026, <https://www.visualcapitalist.com/every-car-sold-in-the-us-in-2025/>.

¹² David Berger, et. al, “Stimulating Auto Markets,” December 2025, <https://www.ericzwick.com/ctc/autostim.pdf>.

International Center for Law & Economics Study

While the \$61.7 billion in consumer costs focuses only on territorial limitations, a recent study focused more broadly on all dealer-friendly laws in general estimates that the average consumer cost for maintaining these regulations adds \$4,000–\$5,000 per vehicle.

Published in March, the International Center for Law & Economics (ICLE) updated a 2000 Goldman Sachs study and subsequent 2009 U.S. Department of Justice analysis with current car prices, interest rates, and other relevant data.¹³ The “Middleman Tax,” referred to as the expense of the mandated manufacturer–dealer–consumer relationship, on vehicle purchases is astounding. Eliminating the dealer framework to enable a manufacturer–consumer relationship instead would save the average car buyer anywhere from \$3,934 to \$4,992, or an “efficiency gain” of 7.87 percent to 9.87 percent.

Costs attributed to maintaining the franchise dealer framework stack up and derive from multiple sources. Dealerships must maintain inventories on their lots, which tie up capital and slow turnover. Sales commissions and other related transactional overhead add costs. The thousands of retail locations duplicate associated dealership costs that could be avoided by a centralized distribution system. Since dealerships receive cars with predetermined components, consumers also incur make-to-stock model costs which force them to pay for unwanted or undesirable automobile features.

ICLE found that nearly ten percent of the vehicle’s purchasing price is going towards the extraneous costs associated with the franchise dealer apparatus.¹⁴ With the average car currently costing roughly \$50,000, consumers are paying up to \$4,992 on expenses that would not exist with a direct manufacturer to customer experience. A car worth \$80,000 would have \$7,987 embedded in the final retail cost.

The study additionally concludes these figures are likely conservative. More than just the average price of a car has changed since 2000, which at that time was \$26,000. The physical infrastructure of dealership networks is more expensive to maintain. Present-day brick-and-mortar dealerships face steeper costs than 25 years ago with higher commercial interest rates and real-estate costs. Vehicles are also much more complex, requiring more specialized equipment and training.

Additionally, dealership inventories remain in the 60-day range (sometimes up to 90 days), suggesting that inefficiencies persist and add costs of mismatched inventory. High stockpiles increase carrying costs, aging risk, and margin pressure. Dealers recover these costs by raising prices and/or reducing discounts across the entire lot.

ICLE suggests a “fresh bottom-up reconstruction using current dealer financial data would likely produce equal or larger estimates” for the components in the calculations. Thus, the costs that the dealership apparatus adds to vehicles are likely greater than this study conveys.

¹³ Kristian Stout & Subi Ramakrishnan, “The Middleman Tax on Car Buyers: How Dealer Franchise Laws Raise Vehicle Prices,” International Center for Law & Economics, March 30, 2026, <https://laweconcenter.org/resources/the-middleman-tax-on-car-buyers-how-dealer-franchise-laws-raise-vehicle-prices/>.

¹⁴ Ibid.

Other Hidden Costs Embedded in Car Prices and / or Services

In addition to inflationary measures that the franchised dealer model imposes on the Manufacturer Suggested Retail Price (MSRP), some dealerships boost and/or include fees, which only serve to line their pockets while consumers pay more.

Hidden fees are defined as excessive or illegitimate charges that are added to the final purchase price of a car, without being clearly communicated to the customer. Improper fees—which the customer did not request—are commonly anti-theft mechanisms, paint protection, or vehicle prep and reconditioning. Excessive fees are standard fees for legitimate services but tend to be more than what is typical and generally include title, documentation/paperwork, licensing, transportation/shipping, and plates.

These non-transparent and often deceptive practices result in hundreds and sometimes thousands of dollars extra added onto car purchases. States have been securing settlements and/or penalty payments from car dealers implementing illegal or deceitful practices: \$3.1 million in Maryland, \$20 million in Illinois, and \$1.5 million in Connecticut,¹⁵ and more than \$5 million in New York.¹⁶

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In March, the FTC sent warning letters to 97 auto dealership groups (representing over 200 locations) to warn them about illegal and deceptive pricing practices.¹⁷ The agency aims to ensure that advertised car prices reflect the total price consumers actually pay, rather than baiting them with low prices only to add hidden fees later.

The FTC flagged six deceptive advertising and sales practices: advertising a price that doesn't include all required fees, advertising a price that reflects rebates not available to every buyer, advertising a price without accounting for an additional required down payment, conditioning an advertised price on the customer using dealer financing, requiring add-on purchases that aren't reflected in the advertised price, and advertising vehicles that don't actually exist or aren't available.

While not implicating specific establishments, the letters warned dealers to review and adjust their pricing policies to avoid federal enforcement actions or civil penalties under the FTC Act. The FTC "will continue to monitor the marketplace," taking "additional action as warranted to ensure compliance."¹⁸ Vehicle pricing misconduct will be scrutinized, and guilty parties could face legal consequences.

¹⁵ Crowell Insights, "Auto Dealers: The FTC Is Back in the Driver's Seat — Warning Letters Signal Renewed Federal Scrutiny," June 12, 2026, <https://www.crowell.com/en/insights/client-alerts/auto-dealers-the-ftc-is-back-in-the-drivers-seatwarning-letters-signal-renewed-federal-scrutiny>.

¹⁶ New York Attorney General Letitia James, "Attorney General James Secures Refunds for All New Yorkers Cheated by Nissan Dealerships' Lease Overcharge Schemes," Press Release, June 3, 2026, <https://ag.ny.gov/press-release/2026/attorney-general-james-secures-refunds-all-new-yorkers-cheated-nissan>.

¹⁷ Federal Trade Commission, "FTC Warns 97 Auto Dealership Groups About Deceptive Pricing," Press Release, March 13, 2026, <https://www.ftc.gov/news-events/news/press-releases/2026/03/ftc-warns-97-auto-dealership-groups-about-deceptive-pricing>.

¹⁸ Ibid.

State franchise laws also require manufacturers to reimburse dealers for warranty work at the same rate dealers charge retail customers. Dealers therefore have incentives to raise their retail labor rates, part markups, and menu-pricing for common services.¹⁹ Franchise laws prevent manufacturers from opening service centers which could offer repair options, therefore legally protecting dealers to operate monopolistically without competitive pressure. Dealers are guaranteed the work, regardless of their efficiency, and manufacturers cannot terminate or replace underperforming dealers.

Service departments are a significant portion of a dealership's gross profits. Estimates account for it representing close to half.²⁰

Tesla Bucks the System

The dealer-franchise model has been the norm for decades, until a new company came to town. When Tesla began operations in 2012, it announced it would open its own showrooms and sell directly to consumers and service their cars in aftermarkets. Tesla argues it is not subject to franchise laws because it has never had franchised dealers.

State franchise statutes were originally written to prevent manufacturer coercion of existing dealers, not to regulate companies with no dealers. But because the laws prohibit manufacturers from negotiating directly with consumers, owning new vehicles until the moment of sale, or designating dealers as mere "delivery agents," states now apply these provisions to any manufacturer.

Tesla founder Elon Musk explained that "[e]xisting franchise dealers have a fundamental conflict of interest between selling gasoline cars, which constitute the vast majority of their business, and selling the new technology of electric cars."²¹ Tesla wanted to ensure the acceptance of EVs. Traditional dealers would not be able to adequately explain the technology nor its advantages, thus undermining Tesla's potential success.

Tesla also recognized that franchise dealers lacked economic incentives to prioritize EVs since they generated lower service revenue than internal combustion vehicles due to reduced maintenance requirements. The service department at conventional dealerships is generally the central profitability lever.²²

¹⁹ Leonard Bellavia, "Get What's Yours: Don't Be Afraid to Seek Higher Factory Repayment for Warranty Parts," *Automotive News*, June 19, 2017.

²⁰ Patrick Manzi, "2025 Annual Financial Profile of America's Franchised New-Car Dealerships," National Automobile Dealers Association, Accessed July 2026, <https://www.nada.org/media/4695/download?inline>.

²¹ Daniel Crane, "Tesla, Dealer Franchise Laws, and the Politics of Crony Capitalism," University of Michigan Law School Scholarship Repository, 2016, <https://repository.law.umich.edu/cgi/viewcontent.cgi?article=2720&context=facarticles>.

²² Car Dealership Guy, "Service Profits Soar to Record Highs, but Dealer Pricing Power Has its Limits," August 19, 2025, <https://news.dealershipguy.com/p/service-profits-soar-to-record-highs-but-dealer-pricing-power-has-its-limit-report-2025-08-19>.

Branded as “Tesla Stores” and “Tesla Galleries,” the company’s first locations were more like education showrooms, often in malls and retail districts.²³ The shopping experience featured just a few display models, interactive computer screens, and highly trained staff. Interested customers could then build and order vehicles online.

Dealership associations in multiple states filed lawsuits against Tesla to prevent the company from selling cars directly to customers, attempting to force the automaker to sell its vehicles through franchised dealerships. The associations argue dealers invest millions to comply with franchise agreements with manufacturers while Tesla ignores the law.²⁴ Tesla accused dealerships of trying to protect their monopoly over car sales.²⁵

The patchwork of regulations varying by state forced Tesla to navigate a complicated legal landscape, engaging in litigation and advocating for legislative change. By 2021 the automaker had different sales apparatuses across the U.S.: Tesla could not conduct direct sales in 12 states, could operate with restrictions in at least 20 states, and was relatively unrestricted in the remaining states.²⁶

Consumers in states with direct sales bans must purchase online and have the vehicle shipped directly to their home or travel to neighboring states to take delivery. Regions with some restrictions might have physical Tesla galleries where staff can educate and demo cars, but customers must officially order the vehicle online and take delivery locally or out-of-state; other state-level restrictions include limited direct-sale Tesla locations. And unrestricted states allow buyers to test drive vehicles, arrange financing, and take delivery of purchased cars locally.

Despite countless barriers, Tesla has demonstrated how a direct-to-consumer business model can be successful. As of May, Tesla has sold 9.24 million vehicles and is annually bringing in roughly \$95 billion in revenue.²⁷ The rapid year-over-year growth and solid sales have given the company a nearly 60 percent market share for EV sales in the U.S.²⁸

Other electric vehicle manufacturers, like Rivian and Lucid, have adopted full Tesla-style direct sales by also bypassing franchise dealers entirely. And just like Tesla they have faced dealer-association pushback and state-level legal challenges.

²³ MarkHub24, “Tesla’s Direct-to-Consumer Sales Model as Brand Innovation,” January 29, 2026, <https://www.markhub24.com/post/tesla-s-direct-to-consumer-sales-model-as-brand-innovation>.

²⁴ Stan Alcorn, “Car Dealers Sue Tesla, Citing State Franchise Laws,” Texas Public Radio, November 9, 2012, <https://www.tpr.org/2012-11-09/car-dealers-sue-tesla-citing-state-franchise-laws>.

²⁵ Jeff Morganteen, “Ohio Car Dealers Challenge Tesla’s Business Model,” *CNBC*, December 23, 2013, <https://www.cnn.com/2013/12/23/ohio-car-dealers-challenge-teslas-business-model.html>.

²⁶ MarkHub24, January 2026.

²⁷ Backlinko, “Tesla Sales, Revenue & Production Statistics,” May 19, 2026, <https://backlinko.com/tesla-stats>.

²⁸ Alistair Barr, “Tesla’s EV Market Share Soars in the U.S. as Rivals Struggle without Government Help,” *Business Insider*, January 13, 2026.

Legacy car companies with dealership networks are expanding digital retail and exploring agency-style models like Tesla's. They are creating spinoff companies with the intention of selling directly to customers. Volkswagen relaunched Scout Motors, aiming to sell electric SUVs and trucks; Honda joined forces with Sony to create Sony Honda Mobility, which builds entertainment-focused luxury electric cars.²⁹ These endeavors would be bolstered by legislative change.

The Case for Updating Franchise Law

Buying cars is not the same as it was over a hundred years ago, nor does it resemble anything close to half a century ago. A lot has changed. Consumer and societal shifts warrant restructuring the laws that maintain the status quo of how vehicles are marketed and sold.

LIVING IN A DIGITAL WORLD

The internet has transformed the car-buying experience by shifting power, information, and even aspects of the transaction away from the dealership and into the hands of the consumer. Buyers now do most of the shopping, comparison, and decision-making online long before they ever meet a salesperson.

A recent Harris Poll indicates that 44 percent of auto buyers spend more time researching before contacting a dealer, and 25 percent are more likely to buy entirely online.³⁰ The most recent Cox Automotive Car Buyer Journey Study found that 7 percent of buyers purchased entirely online with 28 percent wanting to buy all online.³¹ And a previous Cox study indicated that 80 percent of car buyers visit third-party automotive sites to compare vehicles.³²

With sophisticated online tools and information right at their fingertips, buyers can conduct extensive research and either find or design the car they want within the comfort of their home. Digital retailing demands a single, continuous workflow. Designed to prevent manufacturers from controlling the retail transaction, franchise laws force a split workflow with a hard legal boundary between the Original Equipment Manufacturer (OEM) and dealer. As more consumers want to do most or all of their car buying online, the current dealer franchise model creates structural barriers and often completely impedes that option. These laws are forcing a 1950s retail structure into a 2020s digital environment.

Certainly not all customers prefer a direct-to-consumer model. Fifty-three percent bought a vehicle completing all required steps in person at the dealership and currently 63 percent agree that the ideal retail experience combines online and in-person activities.³³

²⁹ Sean Tucker, "Some Automakers, Dealers Fight Over Who Can Sell You a Car," *Kelly Blue Book*, February 5, 2025, <https://www.kbb.com/car-news/some-automakers-dealers-fight-over-who-can-sell-you-a-car/>.

³⁰ Urban Science, "Urban Science Harris Poll Study: U.S. Auto Buying More Fragmented, Digital in 2026," May 13, 2026, https://www.urbanscience.com/resources/urban-science-harris-poll-2026-auto-buying-digital-fragmented/?utm_source=copilot.com.

³¹ Cox Automotive, "2025 Cox Automotive Car Buyer Journey Study: Report Summary," January 2026, <https://www.coxautoinc.com/wp-content/uploads/2026/03/2025-Cox-Automotive-Car-Buyer-Journey-Study-Summary.pdf>.

³² Cox Automotive, January 2024.

³³ Cox Automotive, January 2026.

But data demonstrates that the car buying experience is shifting. Franchise laws are proving to restrict free market principles and competition among a growing number of automobile manufacturers. When these laws were enacted approximately 75 years ago, the car market consisted almost exclusively of the “Big Three” auto makers: Ford, General Motors, and Chrysler. Today, there are dozens.³⁴ Consumers have significant options on makes and models, which make the regulations developed to protect dealers and consumers in a concentrated market no longer practical.

THE ADVENT OF SOFTWARE-BASED VEHICLE UPDATES

Digital activity is expanding beyond the retail stage of car buying. Vehicles are now coming equipped with sophisticated wireless capabilities.

The legacy franchise model is structurally incompatible with modern software-defined vehicles that rely heavily on over-the-air (OTA) updates, which are subscription-based programs that wirelessly upgrade a vehicle’s systems. Directly from the manufacturer, these downloads can fix problems, improve performance, and even make some safety recall repairs, effectively eliminating the need to visit a dealership for follow-up maintenance after a purchase. The customer’s relationship with the manufacturer is strengthened while the relationship with a dealer is weakened.

More than 8 million cars on U.S. roads are equipped with OTA functionality, and over 35 million vehicles globally.³⁵ The market has seen a 20 percent year-on-year increase in software deployment frequency per vehicle, with manufacturers performing over 150 software updates per vehicle annually. The increased interest and demand for software-enabled vehicles further diminishes dealership relevancy.

POPULATION CHANGES

Population and geographic dynamics have dramatically shifted as well, further altering automotive landscapes in various communities. Some regions have experienced significant growth while others have dwindled. Car buying populations also continuously expand and shrink within different locales. The inability of dealerships to adjust to shifts in population and market share creates inefficiencies.

Imported vehicle dealerships, which arrived after most protectionist laws were passed, have a distinct advantage.³⁶ They can design their networks in response to state laws and locate where car-buying populations exist today, with fewer but larger dealerships; the legacy brands already established networks prior to most laws and operate many smaller facilities optimally located for populations of the 1960s. Since franchise laws make closing and consolidating dealerships nearly impossible, U.S. automobile dealerships are not as efficient. U.S. manufacturers could drastically reduce the number of their dealerships and remain competitive with import-based manufacturers.

³⁴ Cody Trotten and Ryan Maxin, “All the Car Brands Available in America in 2026,” *U.S. News & World Report*, March 6, 2026, <https://cars.usnews.com/cars-trucks/advice/car-brands-available-in-america>.

³⁵ Industry Research, “Automotive Over-the-air Updates Market Size, Share, Growth, and Industry Analysis,” April 16, 2026, <https://www.industryresearch.biz/market-reports/automotive-over-the-air-ota-updates-market-111227>.

³⁶ Francine Lafontaine and Fiona Scott Morton, “State Franchise Laws, Dealer Terminations, and the Auto Crisis,” *Journal of Economic Perspectives*, Vol 24 No 3, pg 233–250, Summer 2010.

IMPROVED MANUFACTURER-CONSUMER RELATIONSHIP

Restructuring franchise laws would enhance connections between manufacturers and car buyers. Direct OEM transactions facilitate transparency: Manufacturers set firm prices that buyers see upfront rather than dealers negotiating adjustments. Selling directly to customers would allow manufacturers to market directly, collect consumer data for future engagements, and keep tight control over quality of sales and post-sales support.

Customers gain more control over the vehicle purchase process since they can customize vehicle specs and options on manufacturer websites instead of relying on dealer-bought inventory. This expands access to personalized configurations beyond what lots may stock, and buyers are empowered to choose desired trim levels, features, and colors.

Most importantly, eliminating franchise laws would save consumers money. As previously illustrated, the franchise dealer framework adds \$5,000 to the cost of a car, constituting roughly 10 percent of the purchase price. Collectively, consumers are annually paying an extra \$61.7 billion. Tesla believes that eliminating dealer profit margins could enable lower prices while maintaining profitability.³⁷ Getting rid of that “middleman tax” is beneficial to both the manufacturer and the consumer.

BOTTOM LINE

Franchise laws are outdated, built for an environment that no longer exists. They assume a 1950s retail structure rather than a modern-day digital marketplace. It does not make sense to maintain a 20th-century regulatory framework in a 21st-century world.

The dealer franchise laws were passed to protect dealers, not consumers. There is no consumer-protection reason to ban direct sales and every reason to allow consumers to decide how they buy cars. Manufacturers ought to be permitted to experiment with new sales methods rather than rely on restrictive and uncompetitive arrangements.

Franchise laws insulate dealerships from competition and only serve the dealers’ economic interests. They deny car buyers the right to purchase vehicles on their terms, and as evidence has shown, cost them more money through markups and the expense of maintaining the dealership. As the ICLE report suggests, “Allowing manufacturers to compete through different models would better align the law with the realities of the modern automobile market.”³⁸

³⁷ MarkHub24, January 2026.

³⁸ Kristian Stout & Subi Ramakrishnan, 2026.

Conclusion

America's dealer franchise laws no longer serve the consumers they were designed to protect. What began as a necessary intervention to shield small retailers from coercive manufacturers has calcified into a protectionist system that inflates prices, suppresses competition, and obstructs innovation. Today's car market bears no resemblance to the 1930s landscape that produced these statutes. Yet the regulatory framework remains outdated, imposing a costly "middleman tax" that adds approximately \$5,000 to the price of the average new vehicle, costs consumers \$61.7 billion a year, and forces buyers into a retail structure that is fundamentally incompatible with modern commerce.

Digital retailing, software-defined vehicles, shifting population patterns, and the rise of EV-only manufacturers all underscore how dramatically the industry has evolved and how rigid franchise laws prevent it from adapting. These laws now function less as consumer safeguards and more as barriers to entry, insulating incumbent dealers from competition while denying buyers the ability to purchase vehicles on their own terms. The result is a system that raises prices, limits choice, and slows technological progress.

Modernizing franchise statutes is not a radical departure; it is a long-overdue correction. Allowing direct sales, agency models, or hybrid approaches would restore market dynamism, reduce costs, and align the retail experience with consumer expectations.

A 21st-century sales apparatus should focus on the manufacturer-consumer relationship with rules that protect car buyers rather than franchises. It would allow multiple retail channels and regulate conduct in lieu of shielding current business models. All manufacturers should be granted permission to conduct direct sales, with technology-neutral measures for EVs, hybrids, and ICE vehicles. Rather than serving as mandatory middlemen legally protected by laws, dealerships become optional market participants who compete for sales. And instead of banning direct sales, states should focus on unfair dealer termination, predatory pricing, discriminatory practices, and warranty reimbursement fairness.

Updating these laws is ultimately about restoring consumer sovereignty. Buyers, not legacy dealers nor outdated statutes, should decide how they purchase a car. A regulatory framework that reflects today's marketplace will foster competition, accelerate innovation, and deliver meaningful savings to millions of Americans. The path forward is clear: It is time to retire the 20th-century dealer-franchise model and replace it with a system built for the modern automotive economy.

