

## Direct Sales of Electric Vehicles

Powering EV innovation with consumer choice and economic freedom

A debate is unfolding in states across the country on an issue that should not be controversial—of whether automakers should be able to sell electric vehicles (EVs) directly to customers, or be required to operate through third-party franchise dealerships.

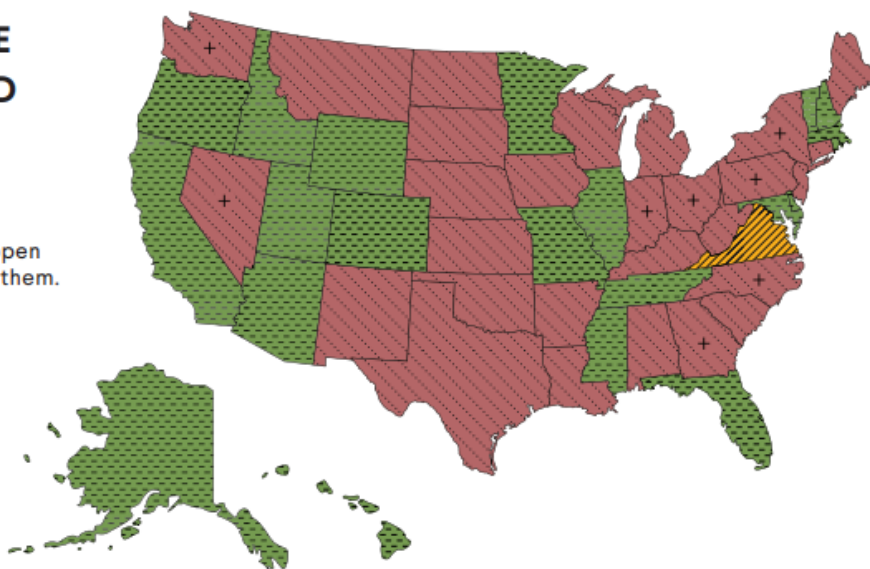
Allowing direct sale of electric vehicles supports consumer interests, free-market competition, and green-job growth. This policy not only enables a new generation of automakers to invest in local economies and succeed—it is one of the easiest ways to accelerate electric vehicle adoption at no cost to the taxpayer.

### ELECTRIC VEHICLE DIRECT SALES AND SERVICE IN THE UNITED STATES

The current market trend is to open states to direct sales, not close them.

States that allow direct EV sales have shown:

- No harm to existing business models, and
- A friendlier marketplace for consumers and businesses alike.



Nearly half of US states currently allow EV-dedicated manufacturers to sell directly, and 7 more have a single-manufacturer exemption to dealer protection laws.

In states that are closed to direct sales, car buyers must navigate considerable logistical and bureaucratic hurdles to purchase or take delivery of an electric vehicle. While buyers can still make the transaction online, they will be unable to test drive the vehicle or speak to a product specialist in their home state before making their purchase, and may need to travel across state lines to take delivery of the vehicle, or transfer the title of the vehicle from another state.

### Why Direct Sales?

**Essential for EV Adoption:** In 2020, 80% of electric vehicles were sold through direct sales—even with prohibitions in 17 US states. The nation’s 16,682 franchise dealerships sold 44,902 plug-in vehicles in 2020, fewer than 3 per dealership.

- [A 2019 study by](#) the Sierra Club found that “74% of auto dealerships nationwide do not have a single EV on their lot for sale,” and even when they did, “consumers were still not being given important information about charging, battery range, and financial incentives.”
- State EV sales data shows that direct sales is often more significant than other EV incentives: Florida (a direct sales state) EV sales are nearly double that of New York, a ZEV state with similar population.
- In 2020, New York’s nearly 1,000 franchised dealerships collectively sold 1,896 EVs totaling 0.2% of total cars sales and less than 2 EVs sold per dealership in an entire year. By comparison, Tesla alone sold 9,433 vehicles—almost 5x the amount of all franchised dealers combined, from just 5 locations.

**A Common-Sense, Free-Market Policy:** Direct sales already exists in every other part of the economy—*laws requiring products to be sold through a third-party are unique to the new-car market.*

- Free-market think tank [R-Street argues](#) that banning direct sales is a “quintessential example of how cronyism and lobbying are corrupting the free market and destroying innovation, growth, and jobs across the country.”
- The libertarian Cato Institute has [described](#) dealer protections as “inhibit[ing] innovation and free-market competition by using regulatory schemes designed for entirely different contexts and different eras.”
- The [Federal Trade Commission](#) has also held the opinion that there is no policy justification for requiring cars to be sold through a third-party.

**Improving the Customer Experience:** Direct sales offers customers greater flexibility for their vehicle purchase.

- [A study by Cox Automotive](#) showed that only 1 in 3 consumers are “very satisfied” with the current dealership model, demonstrating an opportunity and need for improvements—7 out of 10 would prefer a “brand experience center” without a high-pressure sales environment.
- In states that are closed to direct sales, customers are often unable to test drive or interact with the vehicle or speak to a product specialist without crossing state lines. [93 percent](#) of customers considering buying an electric car say a test drive is “very” or “somewhat” important to their purchase decision.

**Protecting Consumer Interests:** With direct sales, state governments enable manufacturers to be regulated by the same consumer protection laws regarding bankruptcy, warranty, and lemon laws that apply to dealerships.

**Advancing Racial Equity:** A vehicle is the second most expensive purchase in many households after a home, thus the price paid for a car has a significant impact on household budgets. The franchise dealer sales model involves negotiations over price and financing terms and often disadvantages buyers of color.

- Research from the [National Consumer Law Center](#), reporting on data from the Consumer Financial Protection Bureau and Department of Justice, show that this pattern has persisted for [decades](#) across buyers with equal credit scores and incomes.
- In one study, the financing terms offered to minority buyers resulted in an average of \$2,662 higher total payments than white buyers, even when the buyers of color had superior credit scores.
- Direct sales, with transparent pricing and financing terms and zero negotiations, may remove these opportunities for discrimination.

## Dealerships have Thrived Alongside Direct Sales

Dealer associations argue that opening for direct sales will jeopardize jobs and harm existing businesses. On the contrary, data from the NADA from [2012](#) and [2019](#) shows that quite the opposite is true.

- Traditional automobile sales and dealer revenue has increased nationwide since 2012 when Tesla began pioneering the direct sales model—with sales increasing by 52% and employment growth of 18%.
- **States that are partially or fully open to direct sales outperformed the national average**, with sales growth of 58% and employment growth of 21%.
- Closed states underperformed the national average, with 29% sales growth and 12% employment growth.
- Of the top 20 states for franchised dealer job growth since 2012, 17 allow direct sales, with 57 Tesla stores between them.

## Why EV-Only Manufacturers are Choosing Direct Sales

The dealer franchise model is not compatible with the business strategies of emerging, EV-only manufacturers.

- **Volume:** Dealerships rely on high volume production and frequent service to be profitable is not viable for emerging EV-manufacturers, who are still achieving economies of scale.
- **Connectivity:** With owner permission, EV manufacturers remain connected to the vehicle for over-the-air software and security upgrades, performance diagnostics, and more. Operating through a dealership precludes this, to the detriment of customer safety and convenience.
- **Maintenance Fees:** Franchise dealerships generate half of their revenue from servicing and maintenance; they also rely on financing as a profit center. Emerging EV manufacturers make their profit on the sale of the vehicle rather than servicing and financing: Tesla does not use either as a profit center.
- **Customer Education:** Compared to the internal combustion engine, which has existed for nearly 100 years, EV technology is still nascent and customers have unanswered questions. EV manufacturers are in the best position to provide that customer education.

While many dealerships may ultimately embrace electric vehicles, the average dealership in the United States sold fewer than 5 electric vehicles in 2020. Current sales figures, and discrepancies in revenue structure, make franchise dealerships and new, EV-only manufacturers incompatible.

## Global Competitiveness and Economic Growth

While direct EV sales do not harm legacy automakers and their distribution networks, this policy enables new American automotive companies to grow, create domestic manufacturing jobs, invest in new transportation technologies, and innovate to improve the car buying and ownership experience.

## Additional Resources

- [Plug-In America's website on Direct Sales](#)
- The Federal Trade Commission: [Who decides how consumers should shop?](#)
- The Department of Justice: [Economic Effects of State Bans on Direct Manufacturer Sales to Car Buyers](#)
- University of Michigan Law Professor Dan Crane is a preeminent expert on direct sales. See his [website dedicated to this issue](#).
- 2015 [letter from consumer, environmental, and free-market groups finding common ground on direct sales](#).
- R Street: [Buying a car in Texas shouldn't require a middleman](#)
- NRDC: [Let Drivers Buy Clean Cars](#)