



**Testimony to the House Economic Matters Committee
HB 274 – Vehicle Laws – Manufacturers and Dealers –
Prices Listed on Dealers Websites
Position: Favorable**

Feb. 9, 2022

The Honorable C.T. Wilson
House Economic Matters Committee
251 Lowe House Office Building
Annapolis, MD 21401
cc: Members, House Economic Matters Committee

Honorable Chair Wilson and Members of the Committee:

I'm a consumer advocate and Executive Director of Consumer Auto, a non-profit group that works to foster safety, transparency, and fair treatment for Maryland drivers and car buyers.

Consumer Auto strongly supports **HB 274** because it will help consumers get accurate, competitive price information online and benefit from vigorous price competition among dealers.

Because this reform is important to enabling consumers of all sorts to get better information and access to more affordable transportation, it also has strong support from leading national advocates including the **Consumer Federation of America**, the **Center for Auto Safety** and the **National Association of Consumer Advocates**. And from leading Maryland advocates such as the **Maryland Consumer Rights Coalition**, the **Job Opportunities Task Force** and the **MD Attorney General's Office**, and **Progressive Maryland**.

Accurate online price information may be more important than ever to car buyers – because over the last two years, the pandemic has sharply accelerated the shift of much of our car shopping from the showroom to the Internet. In 2020, almost 30% of car sales happened online – up from just 2% before the pandemic.¹ A CarGurus survey recently found that 60% of car buyers would prefer to do more of their car shopping from home on their next vehicle purchase.² And Kelley Blue Book recently advised shoppers to consider online shopping because it saves time, “It’s More Virus Safe,” and “You can Comparison Shop from Your Couch.”³

This shift ought to be good news for consumers – helping us indeed to shop for vehicles from the comfort and safety of our own couches. But car shoppers still face a serious (but little known) problem few other consumers face: the prices we see online and in online price-comparison sites like cars.com or edmunds.com (where many people now start their car searches), can often be \$1,000, \$1500 or more higher online than the prices available in the showroom.

1 <https://abcnews.go.com/Business/consumers-shopping-online-cars-dealerships/story?id=76650042>

2 <https://www.globenewswire.com/news-release/2021/09/28/2304534/0/en/CarGurus-Study-Shows-Lasting-Impact-of-Pandemic-on-Car-Shopping.html>

3 <https://www.kbb.com/car-advice/crazy-stats-online-car-buying-pandemic/>



These price distortions are caused by **Minimum Allowable Advertised Price (MAAP)** rules many car manufacturers have imposed on their dealers. These rules set a high floor for the prices they can list on their own websites for many vehicles. If dealers list a lower price, they can lose the ability to participate in awards and incentive programs and access other supports they need to compete in a low-margin marketplace.

These rules effectively prohibit some dealers from publicizing their own deep discounts. And as these examples from 2019 show, the gap between the prices available in the showroom and online can make a huge difference to car buyers.

<u>Car Model</u>	<u>MAAP Price</u>	<u>Showroom Price</u>	<u>Price Gap</u>
2019 Toyota Corolla LE (Fitzgerald Auto)	\$17,628	\$15,910	\$1,718
2019 VW Jetta (Darcars)	\$22,954	\$20,454	\$2,500

Now of course consumers can't (effectively) "Comparison Shop from Your own Couch" if the information we're getting isn't accurate. And since MAAP rules can effectively prohibit dealers from listing prices online that are lower than those many other dealers post, an online shopper may never learn that lower prices are available. As a result, consumers get faulty price information and often pay more than they need to for a car – and few car buyers even know this is happening.

HB 274 would allow all consumers to benefit from price transparency and competition online by simply prohibiting car manufacturers from punishing dealers for listing a valid price offer online.

In contrast, the distorted information **MAAP** rules now produce not only misleads online shoppers but puts those who may find it difficult or unsafe or unpleasant to go to multiple showrooms to find out what discounts may be available at an unfair disadvantage. That includes people who don't currently have a working vehicle, seniors or people with disabilities who may face mobility challenges, immuno-compromised people worried about their safety, and people in areas where it's difficult to get to a new car dealership (Baltimore City, for instance, has no new car dealerships.)

Yet even as online car shopping has grown, MAAP rules have spread across much of the industry. The list of car makers that impose them now includes not just luxury brands like Mercedes, Lexus, and Infiniti but mid-priced brands like Toyota, Mazda, Nissan, Subaru, Hyundai, and VW. And, as the language of the 2019 Toyota Dealers Marketing Covenant explains, the MAAP price rules have such a broad reach that they apply to just about any online price quote those consumers who prefer to shop from home are likely to see – including those on online price comparison tools.

This is what Toyota tells its dealers:

- *MAAP applies to all advertised dealer prices.*
- *1. Dealer website(s).*



- 2. *All Media (print, digital, TV, radio, direct mail, outdoor, social, etc.) and includes third-party sites (e.g., Autobytel.com, Edmunds.com, KBB.com, Truecar.com, and other similar websites).*
- 3. *Email blasts (dealer owner base or other).*
- a. *Only a unique, one-to-one, single communication (e.g., a sales consultant communicating with one customer via an individual email, response to an electronically generated lead via email or phone, etc.) is excluded from MAAP.*

Car manufacturers, and their lobbyists, often argue that MAAP rules advance useful ends like preventing misleading car advertising or promoting competition. But there is little evidence that they actually accomplish such goals. And by sharply limiting online price competition, they tend to push up the prices consumers pay for cars.

As the popular radio show and auto blog “Earl Stewart on Cars” explains:

The manufacturers’ official reason for this rule is to prevent their dealers from advertising prices lower than they will sell the car for. In other words, bait and switch advertising. This sounds like a good and noble reason, but the facts are that bait, and switch advertising exists as prevalently today as it did before the rules for Minimum Advertised Price (MAP) advertised were established. What this rule accomplishes is to decrease price competition between car dealers which has the predictable consequence of increasing the price paid by the consumer.⁴

This works to the advantage of the big car makers – and of those dealers that don’t really want to compete to offer better prices to their customers. But it pushes up the prices consumers pay for one of the most expensive products most of us will ever buy. And can work to punish those dealers that want to compete to offer car shoppers more affordable vehicles.

We all hope that the pandemic will ease soon – and with it the shortages that have helped push up the cost of cars. But online car shopping is surely here to stay. And online car shoppers deserve the same access to accurate and competitive prices we take for granted when we shop for so many other products.

Nothing in this legislation allows dealers to engage in fraud – or changes the rules on fraudulent price offers. It simply levels the playing field for car shoppers of all sorts by blocking enforcement of rules that prevent us from seeing accurate, competitive car prices. That will make the car market work better both for consumers and for the dealers that want to compete to offer them a good deal.

We strongly support HB 274 and urge the committee to give it a FAVORABLE report.

Sincerely,

Franz Schneiderman
Consumer Auto

⁴ <http://oncars.blogspot.com/2020/01/auto-manufacturers-mandate-dealers-to.html>