

Alaska Auto Dealers Association

**HOUSE BILL 233**  
**Relating to Time Allowances**  
**for Warranty Work**

HOUSE TRANSPORTATION COMMITTEE

APRIL 25, 2024

# Alaska Auto Dealers Association

- The AADA is a statewide association of auto dealers, both franchise new car dealers and independent used car dealers. We represent our State's auto dealers by promoting best practices, providing communication on the state of the automotive industry in Alaska, and representing dealers' concerns to our elected officials.

# Driving Alaska's Economy

## Annual Contribution of Alaska's New-Car Dealers

Numbers reflect annual economic activity during 2022.



**27**  
**DEALERSHIPS**  
(new car)



**3,959**  
**TOTAL JOBS**  
(created by dealerships)  
Includes 1,778 direct jobs and  
2,181 indirect and induced jobs.



**66**  
**EMPLOYEES**  
(average per  
dealership)



**\$2B**  
**TOTAL SALES**  
(all dealerships)



**\$135M**  
**PAYROLL**

**\$76,128** | **\$30M**  
Average Annual Earnings | State and Federal  
Income Taxes Paid



**0.2%**  
**REGISTRATIONS**  
Alaska's Share of Total  
U.S. New-Vehicle Registrations

**\$0**  
**STATE SALES  
TAX PAID**

Source: Center for Automotive  
Research, NADA, S&P Global,  
Taxfoundation.org, U.S. Bureau of  
Labor Statistics, U.S. Census Bureau



**NATIONAL AUTOMOBILE DEALERS ASSOCIATION**  
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# Why do all 50 States Need Auto Dealer Franchise Protections?

In 1978, the United States Supreme Court recognized the need for motor vehicle dealer franchise laws:

**“Dealers are, with few exceptions, completely dependent on the manufacturer for their supply of cars.** When the dealer has invested to the extent required to secure a franchise, he becomes, in a real sense, the economic captive of his manufacturer. The substantial investment of his own personal funds by the dealer in the business, the inability to convert easily the facilities to other uses, the dependence upon a single manufacturer for supply of automobiles, and the difficulty of obtaining a franchise from another manufacturer **all contribute toward making the dealer an easy prey for domination by the factory.** On the other hand, from the standpoint of the automobile manufacturer, any single dealer is expendable. The faults of the factory-dealer system are directly attributable to the superior market position of the manufacturer.”

# In 2018 the Alaska Legislature Found

## LEGISLATIVE FINDINGS AND INTENT.

(a) The legislature finds that

**(1) the distribution and sale of motor vehicles in the state affects the general economy of the state and the interests and welfare of the residents of the state;**

**(2) providing warranty service for new motor vehicles is a matter of substantial concern to the residents of the state;**

**(3) the maintenance of fair competition among new motor vehicle dealers is in the public interest;**

**(4) maintaining strong and sound new motor vehicle dealerships in the state is essential to providing the consuming public with continuing and reliable services necessary for their motor vehicles; and**

**(5) strong and sound new motor vehicle dealerships with active service departments will provide stable employment opportunities to the residents of the state.**

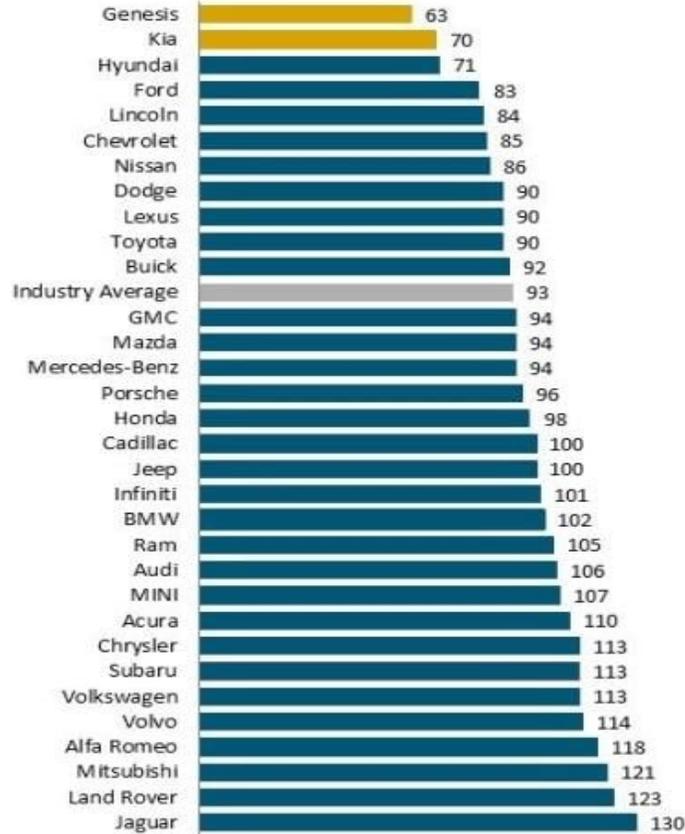
**(b) The legislature declares that this Act is remedial, and, to the extent permitted by the Constitution of the State of Alaska and the United States Constitution, it is the intent of the legislature that the provisions of this Act apply to all franchise agreements between manufacturers and new motor vehicle dealers.**

# The Problem

- Manufacturers help themselves to a massive self-decided discount on the time they will pay dealers and our employees for their warranty repairs.
- **Automotive News February 27, 2023**
  - 'Mr. White – previously worked as a field service manager for Ford and stated that manufacturers aggressively discount labor time estimates.'
- Technicians are avoiding working for dealerships because they are paid for more hours for the same work when they work for an independent repair facility.
- Their discounts shift the expense of warranty repairs from the manufacturer, directly to Alaskan consumers, employees, and businesses.

## J.D. Power 2019 U.S. Initial Quality Study<sup>SM</sup> (IQS)

### 2019 Brand Ranking Problems per 100 Vehicles (PP100)



Note: Included in the study, but not ranked due to small sample size, is Fiat. Not included in the ranking due to unrepresentative sample size is Tesla.

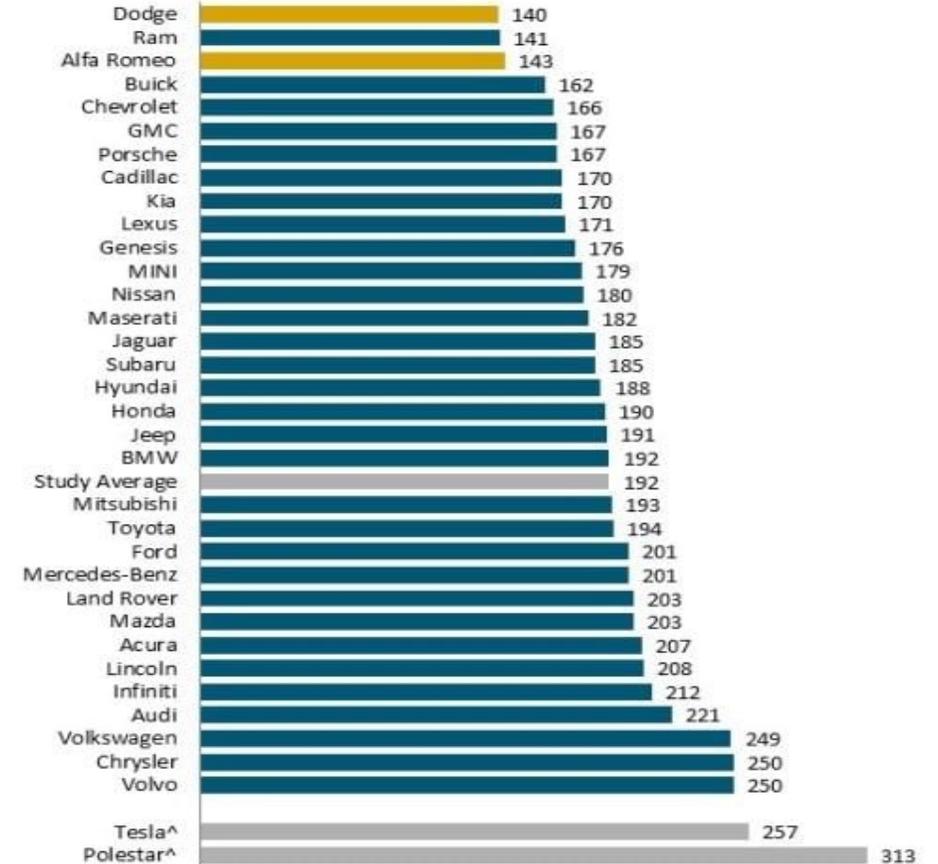
Source: J.D. Power 2019 U.S. Initial Quality Study<sup>SM</sup> (IQS)

Charts and graphs extracted from this press release for use by the media must be accompanied by a statement identifying J.D. Power as the publisher and the study from which it originated as the source. Rankings are based on numerical scores, and not necessarily on statistical significance. No advertising or other promotional use can be made of the information in this release or J.D. Power survey results without the express prior written consent of J.D. Power.

## J.D. Power 2023 U.S. Initial Quality Study<sup>SM</sup>

### Brand Ranking

Problems per 100 Vehicles (PP100)



Dodge ranks highest Overall and among Mass Market brands, and is noted by a gold bar.

Alfa Romeo ranks highest among Premium brands, and is noted by a gold bar.

Note: ^Brand is not rank eligible because it does not meet study award criteria.

Source: J.D. Power 2023 U.S. Initial Quality Study<sup>SM</sup>

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# Cost Shifting by Manufacturers to Alaskan Consumers

## 2020 Ram 1500 Engine Replacement

	<b>Alaskan Customer Pay</b>	<b>Manufacturer Warranty Pay</b>
Cost per hour	\$190	\$190
Compensated Hours	29	9
<b>Cost to Alaskan Consumer/Manufacturer</b>	<b>\$5,510</b>	<b>\$1,710</b>
Less Cost of Technician Labor/\$50/hr	\$1,450	\$450
<b>Gross Profit 74%</b>	<b>\$4,060</b>	<b>\$1,260</b>
Less Other Service Employee Compensation	\$979	\$713
Less Employment related taxes	\$486	\$233
<b>Balance to pay fixed expenses</b>	<b>\$2,595</b>	<b>\$314</b>
<b>% Paid to/for Employees</b>	<b>53%</b>	<b>82%</b>
<b>% Left to pay for additional expenses</b>	<b>47%</b>	<b>18%</b>
<b>Only 18% of Warranty Work Paid by Manufacturers Remains to Pay All Other Expenses</b>		
	<b>Less Other Expenses</b>	<b>Less Other Expenses</b>
	Technician Training	Technician Training
	Special Tools	Special Tools
	Image Compliance	Image Compliance
	Warranty Chargebacks	Warranty Chargebacks
	Rent	Rent
	Elec	Elec
	Gas	Gas
	Water Sewer	Water Sewer
	Insurance	Insurance
	Advertising	Advertising
	Employee Benefits	Employee Benefits
	Etc	Etc

# Who Is Affected

Automobile Manufacturers take these discounts out of the hands of Alaskan employees, Alaskan businesses, and the Alaskan economy to unfairly pad their bottom line.

- **Alaskan Employees** – technicians are unable to bill full hours for their work, resulting in lower pay for them and their support staff, including service writers and service managers.
- **Alaskan Businesses** – **Fairbanks** lost Buick, Cadillac, Daewoo, Hyundai, Kia (twice), Mazda, Mercedes, and VW. **Juneau** lost Chevy(once) Ford, Mazda, VW. **Ketchikan** lost Subaru, Ford, and Chevrolet. **Kenai** lost Chevrolet, **Kodiak** lost Ford. **Anchorage** lost Mitsubishi and Volvo.
- **Alaskan Consumers** – The burden of manufactures' discounts directly raise prices on the Alaskan consumer.

# The Solution

- This bill would require manufacturers to **pay the same number of hours for a repair** that a customer would be charged for non-warranty work **by using an industry-wide time guide** rather than their discounted time guide.
- This bill would provide protection to Alaskans by requiring manufacturers to pay **equal compensation** for doing warranty work versus non-warranty customer work.
- This bill would create **a level playing field for the Alaskan consumer** by preventing the manufacturer from inflating the cost of repairs on consumers by discounting time from dealers and our service employees.

# Important Points

- Manufacturers believe they deserve a discount for volume work.
  - They have very sophisticated methods to extract discounts
  - They are not our biggest customers, the Alaskan consumers are.
- They claim this is a “money grab” by Dealers when we try and level the playing field, but not so when they are taking money from Alaskan workers, businesses, and consumers.
- Manufacturers know that the contracts they offer are contracts of adhesion – where the parties are of such disproportionate bargaining power that the party of weaker bargaining power could not have negotiated for variation in the terms of the contract.
- Manufacturers know their contracts have to be addressed by State Legislatures in order to be compliant with federal anti-trust laws.
- They know these protections can only be provided by state law.

**“the simple fact is that auto manufacturers retain to this day a massive economic power advantage over their franchised dealers, resulting from market structure, manufacturer behavior, and intrusion in the market by the federal antitrust statutes. And manufacturers often use this excess power to overreach and act opportunistically in their relationships with their dealers, to the detriment of dealers and ultimately consumers.**

**The state franchise laws that have been enacted operate to counteract these anomalies and to afford the dealers a reasonable opportunity to negotiate their economic relationships.”**

The National Automobile Dealers Association also explained the compelling need for state franchise laws in its recent comments to the FTC