

# Giving Fleets the Freedom to Buy

*How Direct-To-Customer Electric Vehicle Sales Accelerates  
Fleet Electrification And Brings Economic Benefits To States*

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Electrification  
Coalition

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This report was authored by Will Drier.

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## EXECUTIVE SUMMARY

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Vehicle fleet electrification is a key strategy for achieving states' goals for electric vehicle (EV) adoption, while increasing state economic opportunities and reducing vehicle emissions. However, many states restrict EV manufacturers from selling vehicles directly to their customers, including businesses and government agency fleets. In just over half of states, auto dealership franchise laws currently restrict some or all manufacturers from selling their products directly to customers, including fleets, and many states lack clarity on whether those manufacturers can provide service on those vehicles as well. Instead, these franchise laws require that new vehicles be sold and serviced only by franchised dealers. In many other states, franchise laws, often decades old, are ambiguous on the role new entrants, such as EV manufacturers without a dealer network, can play in selling and servicing vehicles.

Prohibitions on direct EV sales are a major barrier for public- and private-sector fleets and the manufacturers of light-, medium-, and heavy-duty EVs. This report details how a patchwork of often ambiguous and outdated franchise laws across the states can limit the sales of EVs, obstructs vehicle-financing processes, complicates how fleet managers navigate cross-border taxes and registrations, and hampers vehicle warranty services, ultimately deterring EV adoption by both public and private fleets—many of whom have set ambitious targets for electrification.

States that allow direct-to-customer sales and service for light-, medium-, and heavy-duty EVs will see significant economic benefits and more quickly meet EV market share goals. Accelerating fleet electrification requires removing unnecessary market barriers that stand in the way of manufacturers, fleet operators and consumers, and enabling the freedom to buy the EV of choice from the manufacturer of choice.

## INTRODUCTION: THE EV MOMENT

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Electric vehicles (EVs)—whether light-duty vehicles or medium- and heavy-duty (MHD) vehicles—bring a range of benefits to fleets. Given the stable and lower cost of electricity compared to traditional fuels, overall fuel costs for EVs can be two-thirds less than fuel costs for gasoline or diesel, or more depending on the price of gas or diesel and driving behaviors and behaviors and patterns—and can expect to decline even further as supply chains develop economies of scale.<sup>1</sup> Combined with the savings on maintenance for EVs, which can be half as much as what they are for internal combustion vehicles, EVs become a very attractive financial option for fleets.<sup>2</sup> As EV charging stations are equipped with bidirectional charging capabilities to provide power back to the grid, fleets can also anticipate a financial payment from the local utility for the power provided during peak or critical times with vehicle-to-grid (V2G) programs.

Combined with the air quality and public health benefits of EVs—as they have no tailpipes and therefore emit no tailpipe pollution that can lead to adverse health impacts, along with the reduced carbon emissions that can aid in fleets meeting sustainability and carbon reduction goals, EVs are a win-win for any fleet.

Moreover, the transition to electric promotes U.S. national and economic security, as the dependency on oil in the transportation sector is significantly reduced by powering with electricity instead, and reducing our exposure to a volatile commodity that is influenced by a cartel of nations who control supply and influence the price. With the passage of the Bipartisan Infrastructure Law (BIL) and the Inflation Reduction Act (IRA), EV adoption is poised to accelerate in the U.S. through the various policies and new funding streams that are now unlocked. City and state policymakers are prioritizing the adoption of MHD EVs as their deployment into the fleet can help achieve attainment status for air quality zones in metropolitan areas, can attract new jobs and innovation in the tech and automotive sectors, and spur further economic development. In addition, policymakers are encouraging the swift adoption of MHD EVs as these clean vehicles



A woman loading groceries into her EV. (Photo credit: JGalione / iStock)

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1 The DOE's eGallon calculator shows the comparison between a gallon of gas and the "eGallon" price.  
2 See more at: <https://advocacy.consumerreports.org/wp-content/uploads/2020/09/Maintenance-Cost-White-Paper-9.24.20-1.pdf>

can help to achieve equity goals as well, since the pollution from internal combustion MHD vehicles disproportionately affects the communities where these vehicles are in operation—namely along highway corridors, freight depots, and ports. These communities are often historically disadvantaged communities.<sup>3</sup> Indeed, the disproportionate impact MHD vehicles have on emissions suggests we should prioritize electrification here first—MHD vehicles comprise less than 5 percent of vehicles on U.S. roads, but account for a quarter of total transportation greenhouse gas emissions (including non-road sources, such as shipping, airplanes, and pipelines), according to the Environmental Protection Agency.<sup>4</sup>

It’s no surprise then that some of the nation’s largest fleets are making efforts to transition to electric vehicles: Amazon, FedEx, Nestle, the U.S. Postal Service and more.<sup>5</sup>

New EV models designed for fleet applications are entering the market at a brisk pace, with many legacy and start-up manufacturers announcing robust investment decisions to go all-electric with their make and model offerings.

**Benefits of MHD EVs in Fleets:**

- Provide fleet operators with significant cost savings from fuel and maintenance.
- Provide a stable source of fuel, as electricity is domestically generated from a diverse set of energy resources, and a growing share comes from clean and renewable sources.
- Produce zero tailpipe emissions and have much lower total lifecycle emissions than diesel vehicles.
- Help fleets achieve sustainability and carbon reduction goals and meet regulations.

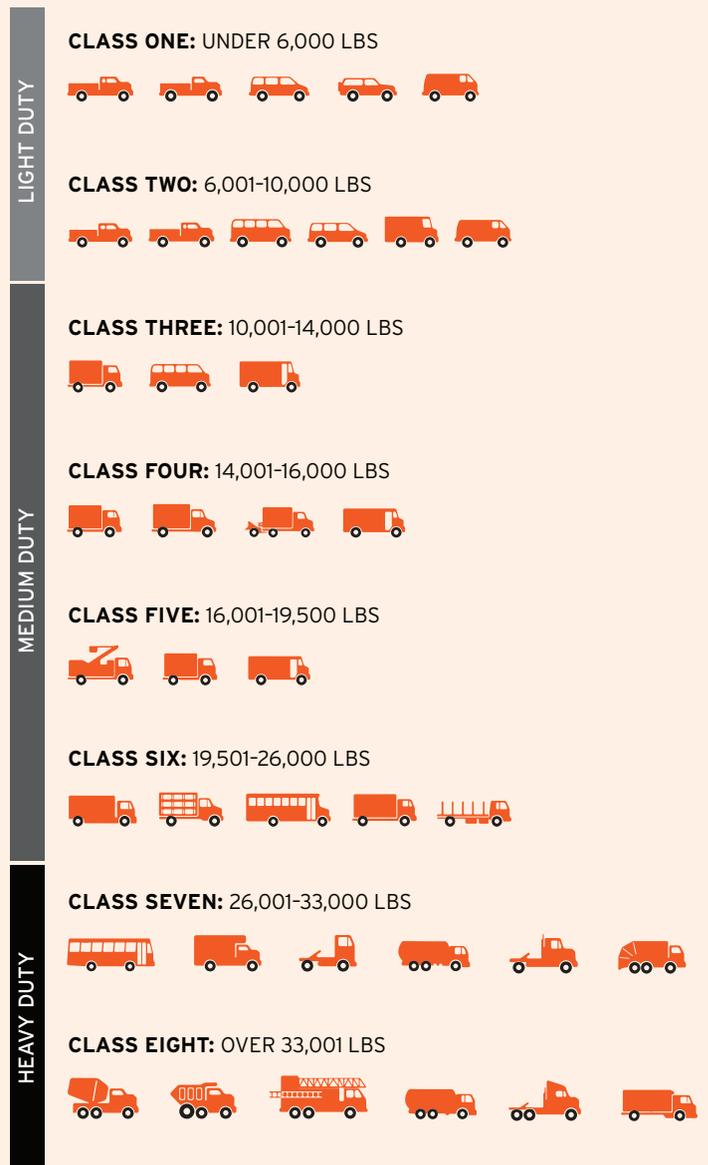
3 Buholtz, T. et al. (2020). Electrifying Freight: Pathways to Accelerating the Transition. Electrification Coalition. <https://www.electrificationcoalition.org/wp-content/uploads/2020/11/Electrifying-Freight-Pathways-to-Accelerating-the-Transition.pdf>

4 See more at: <https://www.epa.gov/greenvehicles/fast-facts-transportation-greenhouse-gas-emissions>

5 See the cost savings and benefits for transitioning the federal fleet to be electric here: <https://atlaspolicy.com/federal-fleet-electrification-assessment/>

**Medium- and Heavy-Duty (MHD) Vehicles**

The U.S. Department of Transportation categorizes vehicles based on gross vehicle weight ratings, which limits the maximum weight of a vehicle. There are eight different classes of vehicles. Medium-duty vehicles (such as box trucks, fire trucks, and school buses) are Classes 3, 4, 5, and 6, and weigh between 14,001 and 26,000 pounds; heavy-duty vehicles (Classes 7 and 8) exceed 26,001 pounds and include transit buses, refuse trucks, and long-haul trucks.



Source: <https://afdc.energy.gov/data/10381>



## HISTORY OF FRANCHISE DEALERSHIP LAWS

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Franchise laws were first enacted in the 1940s to protect dealerships from their franchisors—large domestic vehicle manufacturers that dominated the U.S. market. Dealers benefited from attractive terms, such as exclusive rights to geographic sales territories and protections from competition with manufacturers.<sup>6</sup> Manufacturers, in turn, benefited from forgoing a massive capital investment in physical sales locations, choosing to work with dealers so they could focus on production growth. However, these laws were never intended to block manufacturers from selling directly to their customers.

As noted in Cato Institute’s Regulation Magazine: *The present dealer-franchise system arose over the period 1930–1950. At that time, the Big Three automakers—General Motors, Ford, and Chrysler—dominated car sales and dealers were mostly “mom-and-pop” local businesses. The dealers complained that the Big Three took unfair*

*advantage of their unequal bargaining power to impose draconian contractual terms on the dealers ... The dealers also argued that the Big Three competed against their own franchised dealers by offering lower prices at company-owned stores than what independent dealers could match. The dealers ultimately persuaded most state legislatures to pass laws regulating the automobile dealership relationship to protect the dealers, not*

<sup>6</sup> <https://www.justice.gov/atr/economic-effects-state-bans-direct-manufacturer-sales-car-buyers>



A typical auto dealership in Florida. (Photo credit: negapriou /iStock)

consumers. Among the provisions of most of these laws was a prohibition on manufacturers opening their own showrooms and service centers and thereby competing against their franchised dealers.<sup>7</sup>

## Dealers and EVs

Although the franchised auto dealership model has worked for the incumbent automakers in distributing fossil fuel-powered vehicles, this approach has not yielded overwhelming success in selling EVs to consumers thus far. Giving fleets the freedom to buy EVs from dealerships and direct from manufacturers will drive both sales channels to compete to provide buyers with the best purchasing experience to fit their needs. According to a Sierra Club study<sup>8</sup>, as of 2019, 74% of auto dealerships across the country were not selling EVs; further, the report found that:

- Salespeople often failed to provide information on federal or state consumer incentives or were poorly informed or uninformative about EV technology;
- Ten percent of the time when volunteers asked to test drive an EV, the vehicle was insufficiently charged and unable to be driven;

- Forty-four percent of the dealerships that did sell EVs had no more than two EVs available on the lot; and
- Of the dealerships that sold EVs, more than 66% did not display EVs prominently, with vehicles sometimes buried in the back.

### DEALER HISTORY WITH EVS

According to an analysis of 2020 EV sales in Connecticut by Rivian, dealerships sold just 342 EVs, an average of 1.3 EVs per dealership across the state.<sup>9</sup> In December 2020, 150 Cadillac dealers chose to take buyouts from GM and stop selling Cadillac vehicles rather than transition to selling EVs.<sup>10</sup>

7 <https://www.cato.org/sites/cato.org/files/2021-06/regulation-v44n2-3.pdf>

8 <https://www.sierraclub.org/sites/www.sierraclub.org/files/press-room/RevUpReportFinal.pdf>

9 <https://cleantechnica.com/2021/06/19/the-average-dealership-in-connecticut-sold-1-3-evs-in-2020/>

10 <https://www.cnbc.com/2020/12/04/about-150-cadillac-dealers-take-gm-buyouts-rather-than-invest-in-evs.html>



New Rivian R1T trucks are seen at a Rivian service center in South San Francisco, California. (Photo credit: hapabapa / iStock)

Part of the reason dealerships have not yet been more successful in selling EVs is that their employees often lack knowledge about EV technology, including charging requirements, vehicle capabilities, and available purchase incentives. And because EVs are a new technology, vehicle buyers may have many more questions than they do about a conventional vehicle.

Whereas the current dealership model works well for large, legacy automakers that have highly developed internal combustion engine vehicle manufacturing and supply chains capable of stocking thousands of dealership lots with inventory, EV manufacturing and supply chains are still in the early stages and produce vehicles at much lower volumes. Most EVs are currently manufactured to order, pre-sold, customized, and delivered to each customer as they come off the production line. The requirement to pass the vehicle through a dealership can add unnecessary delays and costs.

## New Vehicle Manufacturers and Direct Sales

As the first major EV-only automaker, Tesla has pursued state legislation that would enable direct sales and the freedom for consumers and fleet owners to buy the EV of their choice. In 2009, Tesla announced the opening of several store locations and an intention to sell directly to its customers.<sup>11</sup> The company has won the right to mostly unrestricted direct sales in several states through new legislation. In some states this translates to a law that specifies that manufacturers without existing franchise dealers in the state are able to engage in direct sales.<sup>12</sup> However, in other states, the law was modified to make an exception just for Tesla to sell direct. As EV sales grow in the United States and new companies enter the market, other EV manufacturers focusing on passenger vehicles,



A Tesla Showroom in Downtown Seattle. (Photo credit: Seastock / iStock)

including Rivian, Lucid, VinFast, and Aptera, have joined with Tesla to pass direct sales laws.

Now, as more vehicles within the MHD sector become electric, EV manufacturers for vehicles in the Class 2b sector and beyond are planning to sell direct to fleet operators and owners as well. These EV manufacturers include Arrival, Lion Electric, and more. Fleet operators and owners around the country need the freedom to choose the best MHD EV that will work for their fleet and should not be prohibited from purchasing straight from the manufacturer.

<sup>11</sup> [https://web.archive.org/web/20090611150612/http://www.teslamotors.com/media/press\\_room.php?id=1405](https://web.archive.org/web/20090611150612/http://www.teslamotors.com/media/press_room.php?id=1405)

<sup>12</sup> <https://electrek.co/2020/12/03/tesla-loophole-direct-sales-in-michigan-is-getting-shut-political-backstabbing/>

## THE ECONOMIC CASE FOR DIRECT SALES

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In addition to the multiple benefits that fleet electrification brings, giving fleets the freedom to buy the EV of their choice—namely, straight from the manufacturer—will bring new job opportunities and in the case of public fleets, save taxpayers money.

### Direct EV Sales and Jobs

#### Franchise Dealership Jobs

Allowing for the freedom to buy via direct sales does not spell the end of the franchise dealership model but will instead create new jobs in communities across the country. A study from the Acadia Center, a research and advocacy organization focused on clean energy, found that between 2009 and 2016, direct sales of EVs did not negatively impact employment levels at car dealerships in four northeastern states. Researchers reviewed employment data at auto dealerships in Connecticut, which did not allow direct sales at the time, and nearby states that did allow direct sales. “The results show that there has been no negative impact on auto dealer job levels or trends in states that allow EV direct sales,” the report said. “This is consistent with the general experience in other states that there have been no significant economic downsides to allowing EV direct sales.”<sup>13</sup>

Dealerships in states that allow for the freedom to buy via direct sales have not experienced declines in revenue either. On the contrary, these dealerships have seen greater revenue growth than dealerships in states that do not allow direct sales. From 2012 through 2021, total U.S. dealer sales grew from \$676 billion to \$1.18 trillion—an increase of 75.1%. In states that allow for the freedom to buy via direct sales, that growth was 58%, whereas in

states that do not give such freedom, the growth was 61.3%.<sup>14</sup> This could be attributed to the fact that new competition in a market drives a better sales experience for consumers and fleet operators, leading to more overall sales. Traditional dealerships likely had to hire EV sales experts and EV service technicians too, leading to job growth. Post-pandemic, auto dealerships are seeing record profits, even as EV sales are accelerating.<sup>15</sup> Dealerships are no longer the mom-and-pop shops of yesteryear: In 2019 pre-pandemic, more than one-third of the top 150 U.S. dealership groups had revenues that exceeded \$1 billion, and the top 10 had collective revenue of more than \$97 billion.<sup>16</sup>

Some fear that allowing fleets and consumers to access sales and services directly from manufacturers would open the door for legacy manufacturers to terminate franchise agreements, thus displacing the jobs of the franchised dealers. According to a study by the Economic Analysis Group of the U.S. Justice Department Antitrust Division, these concerns are misplaced as manufacturers have a reputational incentive to see dealers succeed, particularly as competition among

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<sup>13</sup> Acadia Center. (2017). Direct Sales of Electric Vehicles in Connecticut; Assessment of Employment Impacts at Existing Car Dealerships. <https://acadiacenter.org/resource/direct-sales-of-electric-vehicles-in-connecticut/>

<sup>14</sup> 2012 data from National Automobile Dealers Association (NADA). (2013). NADA DATA: State of the Industry Report 2013. [http://www.asymcar.com/f/2014/2013\\_NADA\\_Data\\_102113.pdf](http://www.asymcar.com/f/2014/2013_NADA_Data_102113.pdf)

2021 data from NADA. (2021). NADA DATA: Annual Financial Profile of America's Franchised New-Car Dealerships 2021. <https://www.nada.org/media/4695/download?inline> <https://www.nada.org/media/4695/download?inline>

<sup>15</sup> Lincoln Kitman, Jamie. (2022). “One Weekend in Vegas with the Nation's Auto Dealers,” *The New York Times*. <https://www.nytimes.com/2022/04/02/business/auto-dealers-sales-profits.html>

<sup>16</sup> Automotive News (2019). Supplement to Automotive News: Top 150 Dealership Groups. <https://s3-prod.autonews.com/data-protected/032519-2019Top150DealershipGroups-032519.pdf?djoDirectDownload=true>.



Franchise dealer jobs are unlikely to be significantly affected by direct EV sales. (Photo credit: Goodboy Picture Company / iStock)

manufacturers limits their real market power.<sup>17</sup> Further, passing direct sales and service legislation does not leave dealerships defenseless against potential damages. The Federal Automobile Dealer Franchise Act gives dealers the right to sue manufacturers for damages if manufacturers do not act in good faith regarding existing agreements.<sup>18</sup> Additionally, it is very difficult for manufacturers to end agreements with their dealer networks. In the decade since Tesla has been permitted to sell direct to its customers, no legacy manufacturer with franchises in the U.S. has changed their distribution model.

### **EV Manufacturing, Servicing, and Supply Chain Jobs**

Enabling consumers the freedom to buy EVs will also enable EV manufacturers to bring investment and jobs to states that allow for their business models to succeed. EV

manufacturers must still apply for state sales and manufacturing licenses and subsequently begin investing in states to support local fleets and other consumers through building brick-and-mortar showrooms and maintenance facilities. Conversely, states which limit the business models of manufacturers may miss out on private investment in the future of the automotive industry. States should embrace opportunities to attract these well-compensated jobs for sales and service, in addition to the construction job opportunities. The service employees who are hired and trained by the early EV manufacturers will become attractive talent as legacy automakers shift to more EV production and sales too.

<sup>17</sup> Bodisch, G. (2009). Economic Effects of State Bans on Direct Manufacturer Sales to Car Buyers. Economic Analysis Group Competition Advocacy Papers. <https://www.justice.gov/sites/default/files/atr/legacy/2009/05/28/246374.pdf>

<sup>18</sup> Federal Automobile Dealer Franchise Act of 1956, 15 U.S.C. § 1222. (1990).

## Indirect Savings for Fleets

Allowing for the freedom to buy via direct sales leads to significant indirect benefits and savings for fleets as well. In the case of public fleets, this also translates into savings for taxpayers.

First, direct EV sales increases competition for new customers between the franchise dealers and the EV manufacturers. This competition places downward pressure on vehicle prices, which may speed the major transition to electric vehicles. As the Federal Trade Commission notes:

Without competition, the grocer may have no incentive to lower prices. The phone shop may have no reason to offer a range of choices. The car dealer may have no motivation to keep its showroom open at convenient hours or offer competitive financing...Competition in America is about price, selection, and service. It benefits consumers by keeping prices low and the quality and choice of goods and services high. Competition also encourages businesses to offer new and better products. Competition makes our economy work.<sup>19</sup>

Second, direct EV sales offer fleet operators

transparent pricing. With direct sales, small fleets and consumers are able to obtain a comprehensive and straightforward financing package from the manufacturer rather than having to seek it out themselves. This reduces significant burdens in purchasing an EV, especially at the fleet level when multiple vehicles are being purchased. By contrast, the dealership business model enables dealerships to be opaque with their pricing strategies, which creates financial uncertainty and pricing challenges for fleets, and leaves open the opportunity to individualize price manipulation on a fleet-to-fleet and customer-to-customer basis, particularly for the addition of unnecessary features, services, or add-ons that may increase prices.

A 2019 paper by the National Consumer Law Center found that a customer's race or ethnicity can also raise the vehicle purchase price and add-on product charges, as well as impact financing terms.<sup>20</sup>

Third, the direct EV sales model allows the EV manufacturers to pass savings on to customers. By enabling a direct line between the customer and the manufacturer, EV manufacturers are able to tailor production volumes to meet demand and are able to optimize the standing inventory of vehicles.<sup>21</sup> The cost savings achieved from enabling direct-to-consumer EV sales can ultimately allow for the most competitive vehicle pricing for fleets and consumers.<sup>22</sup>

<sup>19</sup> <https://www.ftc.gov/advice-guidance/competition-guidance/competition-counts>

<sup>20</sup> Van Last, J. (2019). Time to Stop Racing Cars: The Role of Race and Ethnicity in Buying and Using a Car. National Consumer Law Center. [https://www.nclc.org/images/pdf/car\\_sales/report-time-to-stop-racing-cars-april2019.pdf](https://www.nclc.org/images/pdf/car_sales/report-time-to-stop-racing-cars-april2019.pdf)

<sup>21</sup> Bodisch, G. (2009).

<sup>22</sup> Cooper, M. (2002). Bringing New Auto Sales and Service Into the 21st Century: Eliminating Exclusive Territories and Restraints on Trade Will Free Consumers and Competition. Consumer Federation of America. <https://consumerfed.org/pdfs/autointernet.pdf>

## THE CASE FOR DIRECT SALES BEYOND ECONOMICS

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Beyond the economic case for enabling the freedom to buy via direct sales for fleets, there are additional benefits with the direct sales model for EV manufacturers. Ultimately, the direct sales model creates a pathway for new market entrants to market, and creates competition to create a better purchase experience that accelerates EV adoption. Direct EV sales can accelerate the delivery of EV technology to the market, so fleet operators are not waiting for new manufacturers to complete the long process of establishing networks of dealerships. Furthermore, direct EV sales aligns with free market principles, enabling fleets to gain greater access to new innovative products and services offered by new EV manufacturers beyond just the sale of the vehicle, such as fleets-as-a-service products. Finally, the direct EV sales model promotes better customer service, as the EV manufacturers have a tremendous incentive to provide good customer service during this crucial period of market entry.



An Arrival van at a loading dock. (Photo credit: Arrival)

## DIRECT SALES AND FLEET ELECTRIFICATION

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Allowing for the freedom to buy EVs via direct sales for fleet operators positively impacts all aspects of the fleet transition and ownership: the procurement process, including the financing process, and any ongoing warranty repairs and service needed.

### Vehicle Procurement

To understand how direct EV sales can accelerate the transition to EVs with fleets, it's critical to first understand how fleets purchase and replace the vehicles within their fleet. Many fleet operators must purchase new vehicles from a fleet dealer that specializes in working with businesses and ordering vehicles at volume. According to one study on fleet electrification, some fleet operators, particularly those within governments, have a bid list of approved dealers that they must exclusively buy from.<sup>23</sup> These bid lists may not include all vehicles on the market, namely those from start-up EV manufacturers. Other businesses may require their fleet operators to buy only from local dealers on an approved vendor list that, “may screen out start-up manufacturers that do not have an extensive network of dealerships.”<sup>24</sup> Very large fleets are able to negotiate long-term purchase agreements with manufacturers directly, but many still purchase through the dealership system regardless of the limited number of choices available. While very large fleets may be able to set up purchasing centers in some states that have greater access to EVs and register EVs for interstate transport, this is not an option for smaller fleets. Overall, the patchwork of regulations across multiple states poses substantial logistical challenges for procurement, even for large fleets. The ability to purchase EVs for fleets should not be another challenge that fleet operators need to navigate through.

**Fleet electrification can help jumpstart the transition to EVs by driving scale and reducing costs of the technology and charging infrastructure.<sup>25</sup> Fleets can range in size from a few vehicles used by a small business to thousands of vehicles owned by a large corporation or government agency. They can include light-duty vehicles (such as those owned by a car rental company) and MHD vehicles such as delivery vans, work trucks, and buses.**

In a survey of 91 large-fleet managers, many fleet managers recognized the need to adopt EVs, and may have already implemented pilot programs, but acknowledged that a full fleet transition may require “restructuring their internal business processes, including procurement, accounting, long-term capital project planning, fiscal budgeting, operations,

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<sup>23</sup> <https://rmi.org/electrifying-fleets-from-pilot-to-full-scale/>

<sup>24</sup> Ibid.

<sup>25</sup> <https://rmi.org/electrifying-fleets-from-pilot-to-full-scale/>



A fleet of Amazon vans. (Photo credit: Teamjackson /iStock)

and more.”<sup>26</sup> Transitioning a fleet of dozens to thousands of vehicles is already a complex undertaking, and franchise laws that prohibit direct sales add costs and complexity that stall EV adoption. Fleets that operate in multiple states may preferentially deploy EVs in those that do not prohibit direct sales; fleets whose operations do not cross state lines will likely electrify more quickly in states that allow direct sales.

## Financing for Fleets

The financing of vehicles within a fleet is an important part of the procurement process. Many franchise laws require the dealership to broker the financing on the purchase. When purchasing most types of vehicles from a dealer, a fleet operator or small business owner enters a dealership as a consumer would, conducts test drives, selects vehicles, and then discusses loan or lease options with a finance manager to reduce upfront cash requirements. According to the Automotive Dealership Institute, “Car dealerships rely on their finance managers to bring in these loans and boost their profits

through interest. The more interest these loans produce, the more profitable the dealership will be.”<sup>27</sup> The Automotive Dealership Institute further notes that dealership finance managers are incentivized to convince the customer to add on costly accessories and warranties to increase monthly payments and interest revenue to the dealership.

Consumers and fleet operators are increasingly seeking ways to purchase vehicles outside the dealership experience, without the time-consuming financing process of filling out applications and forms by hand. A 2020 J.D. Power study found that “43% of car buyers ... are willing to complete the entire purchase process online, without ever visiting the dealership.”<sup>28</sup>

A direct sales channel is uniquely positioned to offer seamless online sales and financing experiences for commercial customers, but many state franchise dealership laws prohibit them from doing so. These franchise dealership laws require commercial customers to initiate their own finance or lease arrangements with

<sup>26</sup> [https://rmi.org/wp-content/uploads/dlm\\_uploads/2021/01/steep-climb-ahead\\_fleets\\_survey\\_2021.pdf](https://rmi.org/wp-content/uploads/dlm_uploads/2021/01/steep-climb-ahead_fleets_survey_2021.pdf)

<sup>27</sup> <https://autodealerinstitute.com/a-career-as-an-automotive-dealership-finance-manager/>

<sup>28</sup> [https://read.nxtbook.com/digital\\_dealer/dealer\\_magazine/august\\_issue/covid\\_19\\_elevates\\_automotive\\_.html](https://read.nxtbook.com/digital_dealer/dealer_magazine/august_issue/covid_19_elevates_automotive_.html)



Dealer discussing options and financing for new vehicle. (Photo credit: Teamjackson / iStock)

local financial institutions that may not have knowledge of the vehicles' asset risk profile or how they are priced, registered, or insured. Lessors in the commercial vehicle industry must have an intimate understanding of the manufacturer and the vehicle technology in order to set residual value forecasts and budget for expected service, maintenance, and remarketing costs. Financing and leasing EVs can become a major roadblock for fleet managers if EV manufacturers are not permitted to offer programs through designated financial partners that all fleet customers in all states can work with.

In short, there are already enough hurdles when it comes to financing new vehicles for fleets, and the financing of EVs should not be an additional hurdle for fleet operators. Direct EV sales can open new and easier financing models and processes, easing the transition to fleet electrification.

## Fleet Warranty Repairs and Service

Managing vehicle warranty repairs and any service needs are an important part of any successful fleet operation. The good news for fleet operators is that EVs have different, and typically simpler, service needs than those of internal combustion engine vehicles. As EVs have no need for oil or automatic transmission fluid changes, and the regenerative braking in EVs reduces brake wear—prolonging service intervals for brake pads—fleet operators can expect to save significant costs on maintenance with EVs.<sup>29</sup>

The challenge for fleet operators is that many state franchise dealership laws severely complicate fleet vehicle service and maintenance, especially for fleets that operate in multiple states, and especially for EVs.<sup>30</sup> The patchwork of franchise laws extends to servicing—each state may have different prescriptions as to who can provide service to a vehicle, complicating the transition further for fleets operating across state lines. For

<sup>29</sup> <https://insideevs.com/news/317307/ev-vs-ice-maintenance-the-first-100000-miles/>

<sup>30</sup> RMI "Steep Climb Ahead" Fleets survey

example, some states allow fleet owners to complete warranty repairs themselves, some states allow for third-party repairs, and the most restrictive states only permit independent franchised dealers to perform warranty repairs. Effectively, if an EV sold by an EV manufacturer without a dealership presence in one of those states needs servicing, the fleet manager must move the vehicle to another state where repairs can be legally performed by either the manufacturer or a third party. Additionally, it's not always clear looking at state laws written before the rise of EV manufacturers what is actually permitted in various states. It may be easier for larger fleets with in-state facilities and trained personnel; such processes may be highly problematic for smaller fleets without the same resources.

Restrictions on warranty repairs for EVs and other vehicles within a fleet increase the time vehicles are out of operation, thereby increasing fleet costs and complicating fleet management. Dealerships hold a monopoly in some states during the warranty period for most vehicles, cutting out independent maintenance providers.

**Ultimately, this state-by-state patchwork approach forces EV manufacturers and their customers to create several different service models, adding to inefficiencies in both adoption of EVs and their operation.**

The challenge for fleet operators to receive warranty repairs and service needs is heightened for MHD EVs due to the lack of EV service centers and trained technicians specific to these vehicles. Although an ecosystem of service station facilities and trained technicians already exists for MHD internal combustion vehicles, these employees and their employers are unlikely to retool and retrain until there

is sufficient demand for new EV services. This creates a chicken-and-egg problem for the industry.<sup>31</sup> Enabling direct sales of EVs can open the door to direct service capabilities and allow EV manufacturers to take a leading role in the development of EV service centers and EV technicians, including for MHD EVs—all of which is critically important for new manufacturers and vehicle types where servicing via existing franchise dealerships may not be possible.

It is important to note the role that warranty repairs and maintenance currently play in franchise dealership operations. On average, 49.6% of a dealership's gross profits come from its service and parts department, whereas new vehicle sales account for less than 26%, according to the National Automobile Dealers Association.<sup>32</sup> As more and more fleets transition to electric, this business model for franchise dealerships may prove to be unsustainable given the reduced need for maintenance with EVs, putting fleet operators at risk of having fewer or no service centers available. At a minimum, the market should be expanded to allow fleet operators the freedom to buy and the freedom to receive service direct from the EV manufacturers.

<sup>31</sup> Buholtz, T. et al. (2020).

<sup>32</sup> <https://www.edmunds.com/car-buying/where-does-the-car-dealer-make-money.html>

## POLICY RECOMMENDATIONS ON DIRECT SALES

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The benefits for enabling the freedom to buy via direct sales for consumers and fleets are clear. With new EV makes and models, major fleet operators—including the federal government, logistics companies such as UPS and FedEx, private fleet operators, and state and local public agencies—are making commitments and preparations for widespread vehicle electrification. However, the barrier of direct EV sales must be addressed by states.

In addition, state governments have set ambitious targets to accelerate the adoption of EVs, including MHD vehicles. Seventeen states and the District of Columbia have signed onto the Multi-State MHD Zero Emission Vehicle Memorandum of Understanding (MOU), pledging to work together to identify barriers and propose solutions to support widespread electrification of MHD vehicles. Signatories to the MOU commit that at least 30% of all new trucks and buses sold in their states will be zero-emission vehicles by 2030, and 100% by 2050. However, some of these states, which have other policies supportive of transportation electrification, are closed to direct EV sales.<sup>33</sup> Addressing this barrier is an important opportunity—and relatively low-hanging fruit—to help states meet the targets laid out in the MOU and to help public- and private-sector fleets meet their own electrification goals.

States that allow direct sales have seen greater EV adoption rates than those that have not. On average, states with direct sales had an EV market share of 3.4% in 2020, whereas states that allow limited or no direct sales averaged 1.34%. Moreover, direct EV sales and the use of franchise dealerships can coexist; markets in Europe, China, and Canada (and in states that permit direct EV sales in the U.S.) allow for both manufacturer and franchise dealership sales channels.

Most direct EV sales and service laws in effect today enable the direct sale for those manufacturers only manufacturing EVs (versus those manufacturers also manufacturing internal combustion engine vehicles), recognizing the unique characteristics of the technology and EV manufacturers' position in the market. For example, Vermont passed a bill in 2021 that allows an original equipment manufacturer to offer direct sales only if it does not have and has never had a franchise in the state.<sup>34</sup> Outlined below are several policy recommendations to enable direct EV sales for fleets:

### POLICY RECOMMENDATION

#### **Direct sales should be allowed for all manufacturers and vehicle types.**

Rather than the existing patchwork of regulations across the state lines with various prohibitions and carve-outs—all of which made well before there were multiple EV manufacturers in the market—direct sale of EVs should be allowed for all manufacturers. Direct sales will both enable new entrants to bring their vehicles to market and support automotive innovation while also encouraging and supporting dealerships to continue to play a critical role as a competing EV sales channel.

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<sup>33</sup> <https://www.nescaum.org/documents/multistate-truck-zev-governors-mou-20200714.pdf>

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<sup>34</sup> <https://legislature.vermont.gov/bill/status/2022/S.47>

**POLICY RECOMMENDATION**

**If a direct sales approach for all manufacturers is not tenable in some states, they should pass direct sales for EV manufacturers to create a feasible pathway for new EV manufacturers to bring their EVs to market.**

New EV manufacturers, which do not have existing franchise agreements in place to distribute their vehicles, currently have no pathway to market or ability to support consumers after purchase in states that prohibit direct sales. States ought to provide the necessary policy frameworks to support EV manufacturers supplying EVs to meet growing demand, developing new automotive supply chains to scale, and thereby accelerating domestic EV manufacturing and deployment.

**POLICY RECOMMENDATION**

**States should create clear and efficient licensing processes for manufacturers to sell, service, lease, and finance vehicles.**

In states that permit limited direct EV sales for specific manufacturers, there should be a clear, efficient, objective process for allowing manufacturers to apply for licenses to sell, service, and broker finance within the state. Some states require cumbersome, subjective hearings to grant a manufacturer the ability to sell within the state. Any criteria for direct EV sales should include clear business practices and requirements.

**POLICY RECOMMENDATION**

**States should allow EV warranty services to be completed by manufacturers, fleets, third parties, and franchise dealers.**

EVs and internal combustion engine vehicles are starkly different technologies and thus have very different maintenance needs. Ultimately, as the transition progresses, we should enable flexibility for all types of consumers.

**POLICY RECOMMENDATION**

**State franchise laws should encourage innovative business models that give fleets and customers greater freedom to select the vehicles that best meet their needs.**

Vehicle manufacturers, fleets, and third-party operators are developing new, innovative models for EV deployment, such as fleet-as-a-service subscriptions. These new solutions give fleets a turnkey transition to EVs that includes the vehicles, charging equipment, energy use, and maintenance.

## CONCLUSION

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For fleets to successfully transition to EVs and reap the many benefits of fleet electrification, states must address the market barrier of franchise dealer laws and enable the direct sale of EVs by EV manufacturers. While franchise dealership laws may have helped in the past with selling internal combustion engine vehicles, these laws are now a barrier in enabling fleets to transition to EVs. Allowing for the freedom to buy EVs via direct sales for fleet operators positively impacts all aspects of the fleet transition and ownership experience, including the procurement process and any ongoing warranty repairs and service the EVs might need.

In addition to the multiple benefits that fleet electrification brings to fleet owners and businesses, giving fleets the freedom to buy the EV of their choice straight from the manufacturer brings significant benefits to states as well. New job opportunities, and in the case of public fleets, saved taxpayer dollars are just some of the many economic benefits with direct EV sales. The states that choose to prioritize and enable direct EV sales will reap these economic benefits and realize additional public health benefits that a transition to EVs brings. Furthermore, these states will enable more pathways to achieve carbon reduction goals, as EV adoption can proceed unhindered. Enabling the freedom to buy via direct sales for fleet operators and consumers should be at the top of state policymaker agendas.

## APPENDIX: FREEDOM TO BUY BY STATE

STATUS	STATE	SUMMARY
Closed	AL	Law prohibits direct-to-consumer sales for all manufacturers.
Open	AK	Direct-to-consumer sales are not prohibited.
Open	AZ	An administrative law judge in 2016 affirmed a manufacturer without pre-existing franchise relationships can sell direct.
Closed	AR	Law prohibits direct-to-consumer sales for all manufacturers.
Open	CA	Manufacturers with no existing franchises engaged in the sale of the same make-model can sell directly.
Open	CO	A 2016 law enables EV manufacturers with no pre-existing franchise relationships to sell their vehicles direct-to-consumer.
Closed	CT	Law prohibits direct-to-consumer sales for all manufacturers.
Closed	DE	Law prohibits direct-to-consumer sales for all manufacturers.
Open	FL	A 2020 law allows manufacturers with no existing franchise relationships of the same line-make to sell direct.
Limited	GA	Law prohibits direct-to-consumer sales for all manufacturers except Tesla.
Open	HI	Direct-to-consumer sales are not prohibited.
Open	ID	Direct-to-consumer sales are not prohibited.
Open	IL	Direct-to-consumer sales are not prohibited for manufacturers that do not have any existing franchise agreements.
Limited	IN	Law prohibits direct-to-consumer sales for all manufacturers except Tesla.
Closed	IA	Law prohibits direct-to-consumer sales for all manufacturers.
Closed	KS	Law prohibits direct-to-consumer sales for all manufacturers.
Closed	KY	Law prohibits direct-to-consumer sales for all manufacturers.
Closed	LA	Law prohibits direct-to-consumer sales for all manufacturers.
Open	ME	Direct-to-consumer sales are not prohibited for manufacturers if there are no independent dealers available in the relevant market area.
Limited	MD	EV manufacturers with no franchise agreements can obtain up to four dealer licenses to sell direct-to-consumer.
Open	MA	A ruling in the state supreme court held that state dealers lacked standing to sue, affirming EV manufacturers without existing franchise agreements to sell direct-to-consumer.
Open	MI	Lawsuit settled between Tesla and the state of Michigan allows for Tesla to sell direct - an agreement extended to all OEMs without a franchise agreement.
Open	MN	Minnesota DOT ruled in 2013 that state law does not prohibit EV manufacturers from selling direct-to-consumer.
Open	MS	Direct-to-consumer sales are not prohibited.
Open	MO	A ruling in the state appeals court held that state dealers lacked standing to sue, affirming EV manufacturers without existing franchise agreements to sell direct-to-consumer.

STATUS	STATE	SUMMARY
Closed	MT	Law prohibits direct-to-consumer sales for all manufacturers.
Closed	NE	Law prohibits direct-to-consumer sales for all manufacturers.
Limited	NV	Law prohibits direct-to-consumer sales for all manufacturers except Tesla.
Open	NH	A 2013 law allows manufacturers with no existing franchise relationships of the same line-make to sell direct.
Limited	NJ	Law prohibits direct-to-consumer sales for all manufacturers except Tesla, and is limited to four licenses.
Closed	NM	Law prohibits direct-to-consumer sales for all manufacturers.
Limited	NY	Law prohibits direct-to-consumer sales for all manufacturers except Tesla.
Limited	NC	Law prohibits direct-to-consumer sales for all manufacturers except Tesla, and is limited to six licenses.
Closed	ND	Law prohibits direct-to-consumer sales for all manufacturers.
Limited	OH	Law prohibits direct-to-consumer sales for all manufacturers except Tesla, and is limited to three licenses.
Closed	OK	Law prohibits direct-to-consumer sales for all manufacturers.
Open	OR	Direct-to-consumer sales are not prohibited.
Limited	PA	Law prohibits direct-to-consumer sales for all manufacturers except Tesla, and is limited to five licenses.
Open	RI	DMV lawyers conclude that manufacturers without existing franchise agreements are allowed to sell direct-to-consumer.
Closed	SC	Law prohibits direct-to-consumer sales for all manufacturers.
Closed	SD	Law prohibits direct-to-consumer sales for all manufacturers.
Open	TN	Manufacturers with no existing franchises engaged in the sale of the same make-model can sell directly.
Closed	TX	Law prohibits direct-to-consumer sales for all manufacturers.
Open	UT	A 2018 law allows US-based EV manufacturers with no existing franchise relationships of the same line-make to sell direct.
Open	VT	Direct-to-consumer sales are not prohibited.
Open	VA	Direct-to-consumer sales are not prohibited for manufacturers if there are no independent dealers available in the relevant market area.
Limited	WA	Law prohibits direct-to-consumer sales for all manufacturers except Tesla.
Closed	WV	Law prohibits direct-to-consumer sales for all manufacturers.
Closed	WI	Law prohibits direct-to-consumer sales for all manufacturers.
Open	WY	Law allows manufacturers without existing franchise agreements to sell direct-to-consumer.



The Electrification Coalition is a nonpartisan, nonprofit organization that advances policies and actions to facilitate widespread deployment and adoption of electric vehicles to overcome the economic, public health and national security challenges that stem from America's dependence on oil.

1111 19th Street, NW  
Suite 406  
Washington, DC 20036

Tel: 202-448-9300  
[Electrificationcoalition.org](http://Electrificationcoalition.org)  
 [@ElectricRoadmap](https://twitter.com/ElectricRoadmap)

Tel: 202-461-2360  
[Secureenergy.org](http://Secureenergy.org)  
 [@Securing\\_Energy](https://twitter.com/Securing_Energy)