

Auto Distribution: Current Issues and Future Trends
Workshop hosted by the Federal Trade Commission
January 19, 2016

Part 4 of 4

Full Transcript available on workshop webpage <https://www.ftc.gov/news-events/events/calendar/2016/01/autodistribution-current-issues-future-trends>

PANEL 4: FUTURE TRENDS

Panelists

- x Avery Ash, Director of Federal Relations, American Automobile Association
- x

Planning, Federal Trade Commission
Planning, Federal Trade Commission

in Attorney Adviser in the Office of
Panelist is Patrick Sch, whom you've

First, all the way on the end there, we have Avery Ash. Avery is Director of Federal Relations for the American Automobile Association, and is responsible for strategy development regarding connected cars and electric vehicles, among other things.

He and others at AAA have spent a great deal of time thinking about the trends we will discuss on this panel, and how they are likely to affect car ownership and auto consumers. Next, we have Ashwin Chhabra. He is with us from Uber Technologies. Ashwini serves as Head of Policy Development at Uber and has on the ground experience with these new technologies, as well as with their regulation.

We have Robbie Diamond, who is Founder and President of ~~the~~ America's Future Energy. And he is also President and CEO of the Electrification Coalition. In these roles, Robbie has developed extensive experience in mobility issues and in alternative vehicles.

Over here, we have Professor Fiona Scott Morton, who is joining us from Yale University. Fiona is an economist, and she has worked on many of the issues discussed earlier today. She'll be able to help us think about the new technologies in the context of the current franchise system.

Then, we have Professor Bryant Walker Smith. And Bryant is one of the world's foremost experts in the law of autonomous vehicles. And finally, last but definitely not least, we have Peter Welch, who's president of the National Automobile Dealers Association. And Peter brings a very extensive perspective of the automobile dealers to these issues.

I'd like to just go over a few procedural things before we get started. We're going to run this panel as a structured question and answer session, so it'll be a little bit different than other panels. We'll direct each question to a particular panelist to start us off, and then we'll be taking responses from the other panelists.

Panelists, if you would like to respond to a particular question, please just turn your name tag on its side, sort of like that. Or if I don't notice that, just sort of flag me down. We may limit discussion around certain questions just to make sure that we're able to move through all of the topics.

million miles driven on those vehicles. You have Tesla that's got a valuation of over \$25 billion. You have Uber, whose valuation is

And I think one of the other trends I would bring up is watching this ~~slow~~ ^{rise} coming. And when I started say, 12 years ago, it was really a question of fuel economy standards, and how

You have particular demands in toothbrushes. You might walk or bike down to the neighborhood store, in which case these technologies may keep you safer.

You may call up what would be the Uber of the future, and have a driverless vehicle pick you up and take you to the store. Perhaps you'll share that with other people, and it will be much cheaper as a result. You're frankly unlikely to take the bus as we traditionally understand that mode. A lot could change.

But those aren't the only options. You may call down to the store and have that toothbrush or other piece of equipment sent by a little robotic shuttle that travels along the sidewalk at low speeds. You may have that product delivered by aerial drone or simply ask the hotel to print it off on their 3D printer in the lobby.

experience on the road—I mean, at the end the day, they're the ones who've driven the most autonomous miles, and they'll tell you how difficult it is.

But they originally started with the driver and the steering wheel, and came to the conclusion that they had to leapfrog that. That, in fact, it was a driver and the steering wheel that were the problem, and that it's a very difficult for a driver, for a human, to get, as you heard before, situational awareness when they're lazy. I think we were described as lazy. And well, I'm lazy, so.

And I think that that's very telling. And that gets to liability issues and everything else. And so the simplicity of that. And lately, you've heard Ford say the same thing. And that doesn't mean there won't be incremental approaches. And yes, safety features are going to be added to cars and more autonomy.

But I think ultimately, I think that that human, that situational awareness question, is so powerful—do we get there? The other thing about the power of full autonomy are all the people who will be able to take part in mobility that have never taken part. And that's from disabled people—50 million people in the United States are disabled. You have 2 million of those people never leave their homes. Over 500,000 of those people, it's ~~betray~~ they have no access to mobility.

And so, I think there's a whole group of people—elderly people as our age population, ~~eeaboutiev 5yftt ln6Awi(6Awi)102ut]TJ -22.88t t hav d(t)- h()1iesk(t)- hthe t haf sa1k(e)3i a6()4(e)3(s)6~~

And I think that sort of consumer education is really incumbent on all parties in this process, and it's really going to take a rethinking of some of the processes that is currently goes through. And I'm sure that we can certainly if you look through the dealer process today, at the education that takes place at the dealership, and it's a tremendous process. They do a very good job. There's great training.

But a lot of that challenge will be incumbent on thinking up new and innovative ways to effectively address these changes. We're seeing some interesting new ways of tackling that. We've heard from our clubs in the Northeast that some dealerships are actually leveraging high school students, very tech savvy high school students, to come and explain these new systems to new vehicle buyers.

We're certainly not saying that's maybe the approach moving forward, but that's sort of the out of the box thinking to allow people to understand the technology that comes with the car that they buy is going to be paramount to ensuring the trust and safety of these technologies.

ELLEN CONNELLY: Thank you. Peter?

PETER WELCH: Well, the question of acceptability and the marketability of these vehicles, I think we'll probably all agree on the panel that autonomy is coming. The question is whether it's full autonomy, and what the timeline is. And technology will take control of that.

From a marketing perspective, I think it's actually a pretty big leap to go from autonomy

So they're really smart when they do that. So right now, the fleet side of our business is about 27%. And of course, we sell cars to the rental car companies, and the van pool companies, and taxi companies, and everybody else.

So roughly 70%, 73% today are vehicles that we sell to personal consumers. There is a little variance there. We're selling cars to all of the Uber drivers over here, and those probably don't

FIONA SCOTT MORTON: Yeah. I just wanted to expand on that last point. I think if you consider an autonomous vehicle as a higher quality vehicle, it can be driven by you, but it can be driven without you, and so you can expand the market to teenagers and disabled people, and whoever, that suggests that you would sell more cars.

If, on the other hand, these objects are expensive and the technology evolves so that we can share cars more easily, then we need fewer cars. So I think it's not clear how many more cars you would sell at the end of the day. What's definitely clear is that more miles will be driven by these things, and that we can spend today we will spend today talking about cars. But there's certainly other issues I think that we need to be considering, such as zoning.

I'm going to be very happy to live a three hour drive from my job in the city if I get in the car in my PJs and sleep for two of those hours, and then open up the portable restroom, or whatever. So then, we'll have exurbs and cutting down forests, and so on, which might be counterproductive to the electric vehicle. It's all very complicated.

ELLEN CONNELLY: Bryant?

BRYANT WALKER SMITH: Just two notes on this discussion. The first is often talk about new technologies as the domain of the wealthy. In some ways, we may see poverty as a driver of automation, to the extent that a network organizer can identify pockets of demand that are ill-served and by combining trips can compete favorably with traditional suburban bus service, both in time, money, and perhaps even in environmental performance.

The second is when we're talking about the impact on vehicle sales and other models, it's important not to confuse vehicle miles traveled with vehicles sold or vehicles owned. It is entirely possible that fewer people will own vehicles, but each vehicle that is sold may be driven more miles each year as it enters service into a fleet, or into the automated version of Uber or other models, such that those vehicles are actually renewed and replaced much quicker than the average vehicle in the United States, which is about 11 years old.

So we may see a very long tail, particularly of individually owned vehicles, even as we see much more dramatic changes in the vehicles that we actually use and the vehicle miles that we actually travel.

ELLEN CONNELLY: Thank you. Ashwini?

ASHWINI CHHABRA: Bryant and I were talking before the panel began, and we were sort of discussing this question of what actually happens to vehicle miles traveled? Do you see people driving around a lot more, living in the exurbs, or sending a car to pick up a toothbrush? Or do you see people sharing these cars more because once you no longer conceive of it as an asset that you own and only you would use, but you view it as a means for getting to from A to B, then sharing that backseat with someone becomes more palatable?

And really, I don't know that there's one clear answer there. I think you're going to see some of both. Some of the data that we've got from operating Uber Pool, which is our carpooling product in the dozen or so markets that we've launched in ~~now~~ we launched in San Francisco in September 2014. So that was our first market. And currently, half of our trips there are Uber Pool trips.

That's in line with what our projections were, and obviously, it sort of trended up over time, and part of that is driven by there's a cost savings. It's a lot cheaper to get around if you'll share that ride, so long as that ride doesn't really inconvenience you, you don't have to go more than 10% out of your way to pick up another passenger.

So L.A., which is car central, a third of our trips there are Pool trips. So I think you will see this, again, in cities. You will see it in some instances. And other people will choose, it's my car. I have a friend ~~I~~ live in New York. I have a friend, and I'm bewildered by the fact that he has a car, until he points out that he has three kids, and he's got his three car seats, and there's no Uber product that's going to be able to address that.

And so there's always going to be different fact patterns. Which I think you'll see a little bit of both. But what's interesting, what's curious for me, is what does that mean for vehicle miles traveled? If it is disabled passengers? If it is people sending their kids to school? If it is the elderly? And we are quickly reaching the point where the Baby Boomer generation is going to be aging out of comfortably driving themselves in many instances ~~and~~ those are new vehicle miles traveled.

I would argue those are virtuous vehicle miles traveled, and it's not it's sort of important for us to think about, what does the profile of those trips look like? And to the extent that that's something we're concerned about, what are the policies we can put in place to address that?

ELLEN CONNELLY: Robbie?

ROBBIE DIAMOND: I agree with basically everything that's been said. I continue to come back to say a few facts. But one previous point that I made, which is the consumer proposition, and the money that is both to be made by businesses, but then also to consumers themselves, both to save money and to offer a value proposition.

And what's really exciting about this trend potentially is that it's going to be driven by consumers. And in fact, it might be just for government to get out the way, certainly initially. And I think that Secretary Fox's announcement last week, in comparison and in contrast, to what the California DMV did or if you don't know, the California DMV said that you can't have an autonomous vehicle unless you have a licensed driver in the car, which then negates the whole concept of potentially offering this to elderly, and to disabled, and everything else. Whereas I would interpret Secretary Fox as sort of like, wait, let's watch this a little bit. And you see that in the British government and other governments. And I think that that's a really interesting, because this could be pulled instead of pushed. Our government pushes fuel economy, and our government pushes electrification. And we push all these things. But this could be a pull.

So two facts I just say is our cars sit 95% to 96% of the time. It's just second biggest asset we all buy, and yet it sits in the most valuable parking spots in the world, real estate in the world. And I think that is really telling, and if we can operate that economic value, which in many cases, is somewhat what Uber has done for these drivers who have these cars, and then allowing them to use it more frequently to make money, I think that's really telling.

It costs about \$1.60 to operate a current car mile. We take insurance, and maintenance, and everything else. And some people say electric miles in a shared environment

to be \$0.15, to \$0.20 to \$0.25. And I then give you one other statistic, which is public transportation.

So in a city like Washington, which is dense, or New York, the authorities or the government subsidizes about \$1 per trip above the fair that you pay. And in a city like Richmond, which is less dense, it's about \$7 per trip. And when you look at disabled public transit, it's about \$35 per trip.

So here you have, if this is really \$0.25, an electric vehicle that doesn't have the maintenance, doesn't have the fuel requirements, because electricity is so cheap, you now could have the government actually providing free miles to people and still making money at the end.

So I really think that the economics here are just so vastly different than anything we've

We've never had more transportation options now. I will observe, though, that yes, I think everybody in this room uses Uber, including myself. But it's probably about \$2 a mile, and I'm willing to pay for it for the convenience. It's a great model. But the cost going down with ride-sharing, and the effects of that may have, quite frankly, on mass transportation transit systems and others is another policy issue that I think we have to examine very carefully.

ELLEN CONNELLY: Any other comments on this? I'd like to think for a moment about a world where autonomous vehicles have been adopted by consumers, and consumers really love them, and have really adopted ride-sharing as well, and think for a minute about how that would affect the regulatory system that currently governs auto distribution, some of the topics that we've discussed earlier today.

Some of the things that I've been thinking about, just to sort of start us off, you I think mentioned this earlier, is this concept of

that people have already paid a deposit on. So I don't even incur the cost for the parts until I have cash in hand. That saves carrying costs for both the manufacturer for parts and the dealer for inventory. Moreover, you're never marking down a car, because every car is already bought. So that, the estimates on the savings of that changing a system from producing to inventory to producing to demand are quite large. So then, you don't need a local dealer to hold inventory for you.

You do need to test drive, look at the features of the car, physically touch the car perhaps. There are many interesting ways to organize that. It's not clear that the franchise model would be the one. It might be a company-owned store. It might be something else. I don't know. But we could experiment there.

Shared cars would be likely owned by a corporation. Such a corporation would buy in bulk, and would not be confined to probably a single city, but would want to deal directly with the manufacturer, and perhaps customize that car. We see today that there are individually owned cars, but you can also easily see how Uber might service a very efficient group purchasing mechanism, and would have also specifications and quality issues that they would care about in the cars that their people are buying.

Again, the local dealer would have less of value added in that world. Self-driving cars. OK. Self

demand and the choice and the pricing and so on would be negotiated between two large parties, a buyer and a manufacturer.

And then we have some remaining activities. And as David Sappington and Dennis Carlton have said, the market is good at figuring out how to organize a firm when consumers are choosing among different options, and firms have the flexibility and ability to change the way they organize themselves to meet those needs. So that was my shortlist.

ELLEN CONNELLY: Thank you, Peter?

PETER WELCH: Hey, Fiona, you found a clever way to make an opening statement. To answer your question, to tie this up with some of the earlier panels, quite frankly, I think most Americans and maybe people in this room take for granted what an incredible private and personal transportation system we have here in the United States, which makes us very different than many other people, and many people in other parts of the world envy us.

Last year, our dealer members sold 32 million cars. If you include new cars and used cars, we performed 285 million repair orders, 59 million of which were warranty or safety repairs. We take it for granted that within about a half an hour drive of any direction here, you can find just about any make and model that is produced by the 32 manufacturers that our dealers represent, and the nine heavy duty truck manufacturers that they represent.

You can find them in probably different trim lines, colors. You can find a factory trained technician to fix those vehicles. And you can find a ready supply of inventory of parts and

The average consumption rate is 3.9×10^{-12} (3.9e-12) units per year.

the differences of opinion that we have from day to day, they still embrace it as the most cost-effective and efficient system to mass market vehicles to millions of Americans.

ELLEN CONNELLY: I'll give Bryant a few moments, and then see if anybody down here has any thoughts.

BRYANT WALKER SMITH: And the issue here is whether consumers should decide, or a regulator should decide on this. Can I pick on an industry that's not here to defend itself?

ELLEN CONNELLY: Sure.

BRYANT WALKER SMITH: Thank you.

ELLEN CONNELLY: We already covered TV.

BRYANT WALKER SMITH: [LAUGHING] Indeed. So taxi cabs, and the taxi industry broadly construed, an area in which the FTC's been involved with for decades, has been waging a lonely largely unsuccessful struggle against Uber. And there are a lot of critiques that can be made of Uber from a legal, or perhaps an economic perspective.

But when the taxicab industry pushes back against it, it's frankly kind of sad. And the reason why is because many of these ads and promotions start from the perspective, perhaps a very believed perspective that people actually like taxis. They actually like getting in one. They find them to be safe. They find them to be clean. They find the drivers to be courteous.

That's sad, because I have met no one outside of the taxicab industry who believes that to be true. And so my caution is as we're discussing new models and the serious disruptions they may bring, to bring that dose of reality into the conversation.

Now given that we have an economist down here, and I am not, as informed by what some of the repercussions may be, regardless of whether they may demand a legislative or regulatory response. When we think about the traditional notion of taxis, one of the historical arguments for regulation has been the fear that lack of regulation would result in flooding the streets with all manner of drivers and vehicles, and that as a result, there would be a saturation whereby no individual owner or driver would make enough money for it to be worthwhile. And there would be serious swings, and it just would not be a healthy industry.

Now, I wonder what that means for even a driver-based model, like Uber is currently,

You contrast that with same time report on a Tesla vulnerability that, once announced, it was shown to be a known vulnerability, and they were able to announce, though, that Tesla had already delivered over-the-air update to those vehicles. It was able to patch the vulnerability.

I think we're really seeing there the potential for substantial consumer protection, and substantial increases to consumer safety. And really, the benefits ultimately to a consumer of A, right now with recall rates, we don't see people bringing in their vehicles to get fixed at the rate that we, certainly, as a motorist organization or really anybody at this table will be happy with. In a world of over-the-

But as we're thinking about the wonders of the new technology, it's just important to keep in mind who's benefiting from the safety gains, and the environmental gains, and so forth.

And I think that safer matters tremendously, and we just need to make sure that the definitions that people use are not there are incumbent today that will lose tremendously. There is no doubt the world will be turned upside down here are people who are not incumbents today that will be incumbents of tomorrow, who will want to stop the system advancing in its tracks.

And to me, it's the question of how do you allow consumers, the public, to have a role, and have a smart regulatory environment that's watching it and dealing with it as it's needed, but not getting in the way of it before we even get started.

ELLEN CONNELLY: Thank you. Just a quick reminder to the audience. We have about 15 more minutes left. So if you do have questions that you'd like to have us consider asking the panelists, please flag down one of our conference staff for a comment card.

I'd like to spend a few moments talking about an issue that I think Robbie has sort of set up nicely here, and that's the issue of adaptability. We also heard a lot about this in the earlier panels. I believe it was Steve McKelvey, in particular, in the last panel who talked about how the current system may be impeding the ability of manufacturers and dealers to adapt as the situation changes.

And it seems, to me at least, that when you are sort of sitting on the cusp of technologies of the type that we're discussing on this panel, adaptability is really important. The saying adapt or die comes to mind. And I've read some things that maybe the current system is not adaptable enough, and maybe the dealer system is not the best, or it's not in the best position to be responsible for the introduction of new technologies, such as electric vehicles and autonomous vehicles.

I'd like to get my panelists' thoughts on that, perhaps starting with Peter, and then moving to Robbie, Fiona, Avery, others.

PETER WELCH: Well, not to repeat myself, but I will. The dealer model is tried and true. And again, dealers are merchants. We derive all of our revenue from consumers. And like any other merchant, we stock, sell, and service. We're quite frankly agnostic as to your proposal.

Our dealers sold all the cars to Avis. They sold all the cars to Zipcar. We're not strangers to shared mobility and ride sharing. We, in fact, are out there selling the cars. We're doing the warranty work on them, the repair work on them.

And yeah, if we have shared technology, I think Bryant made an excellent comment, vehicles are going to wear out quicker. The useful life, 11.4 years right now is the average age of a vehicle on the road right now. If we have more mileage on it, they're going to wear out more. We're going to sell more probably. Probably going to have more robust service arrangements with fleet owners.

OK. So there's a lot of confusion about in-brand competition versus inter-brand. If the manufacturer sells to the franchise dealer, then both it and consumers want a lot of those dealers. That's true. Because once the car has passed into the ownership of the dealer, and the manufacturer would like a consumer to buy it, the lower retail margin is good, and it's critical to competition with other brands.

If I'm Nissan, I want to low retail margin to compete with Honda. OK. A single franchise dealer that owns the car has market power in its local area, and it will set a stiff retail mark. This is called double marginalization, so you have two mark, one on the manufacturer, and one on the retailer.

That's why I, in this piece cited, and others have found that the retail mark falls with more dealers and more in-brand competition. However, this issue disappears with vertically integrated auto retailing. There is no retail margin because there's no retailer. There's just one guy. He manufactures, and he sells to consumers.

OK. So you don't have double marginalization. It doesn't matter how many of the stores you have, because one guy is setting the price, and that's the manufacturer. OK. So there is zero second mark up, and cars are cheaper, if you have market power in two layers compared to if you vertically integrate. So if you're really trying to help the working mother with a couple of kids, then we should let the distribution system of this industry and any other respond to market forces and competition, and deliver those results that consumers want. If they want lower prices, then maybe vertical integration is a good choice.

PETER WELCH: Fiona, if I could respond to that.

ELLEN CONNELLY: Peter I'm sorry. I'm just going to, because we're running out of time. I'm terribly sorry. Do any of you have comments on this topic? No. OK. I'd like

PETER WELCH: Then could I respond? There's a big difference between selling a car out of an order book and selling it out of an inventory, OK? A manufacturer that sells directly it's only six states out of 50 that have any kind of prohibitions. And I think the gentleman from Tesla even acknowledged that.

And guess what? They've been doing a pretty good job of going to those state houses and by the way, that is the appropriate forum for them to go to change the laws. But ~~that's~~

But in addition to that detailed approach, rather than the superficial approach that we've sometimes seen from state legislatures with respect to automated vehicles and other technologies, both the public sector and the private sector needs to build a public safety case for these technologies—to start talking about what safety means, how that safety will be measured, and how that safety will be monitored for the lifetime of the systems.

ELLEN CONNELLY: Fiona? Robbie?

ROBBIE DIAMOND: Yeah, I go back to my original point, which is I think that the revolutionary changes are incredibly profound and incredibly important to our country, and the lives of its citizens, and the entire world. ~~At~~ therefore, at this cusp of this moment, what we need to do is allow the technology to get out there, and ha o(w)f-5(linB83 (y))14(e)3.fu(e)3(c 0 Tw 32. t(10(t)1018.9e(e)1xhe)10(t)1rd [(n)14(nk6(nds)6(,))113(utia.001 T(n(v)176(af4e)3(sp)1 T(d)14(uthe

ASHWINI CHHABRA: Sure. The one thing that I think are a couple things that I think are necessary in fashioning good regulation. And I say this as a former taxi regulator. There's the need to be expert in your area where you are regulating, which means staying current with new technology trends, and being nimble. And regulation is often incremental. Much to the frustration of people who are innovating an industry. But that can work so long as a regulator then keeps up, and the process is such that it allows for regular and frequent updates, because the technology's just moving that fast.

I think sometimes, we have this rep as being opposed to regulation, and nothing is farther from the truth. We advocate for sensible regulation. It's just the process takes so long, and there are entrenched interests, and so forth. But whether it's auto distribution, whether it's permitting new vehicle technology, whether it's regulating for higher services, it's clear that all of these sectors and many more require a degree of expertise that regulatory agencies have historically not had, or have not been able to stay current in.

And I speak as someone who was at the New York Taxi Commission when Uber came on the scene. People there, I myself, others, didn't understand it in the way that I think people are understanding it now. And I think you see that repeating itself with the various bodies that are looking at self-driving cars now.

And so there's a difficulty in attracting the folks who understand the technology, because in government, you don't pay big bucks. And so it's hard to attract the experts, because the private sector will hire them away. But that's one thing I think is very, very necessary in devising good regulation, is having experts on board, and then being open enough to tear down whatever you regulated just the year before, because things will have changed.

ELLEN CONNELLY: I realize time's up, but I want to give Avery a chance to respond.

AVERY ASH: Yeah, and I think kind of building on what Ashwini, I mean, really, whether you're a federal or state legislator, it begins with educating yourself about the technology, and then asking smart questions. Figure out the right questions to ask, and to identify where or if regulation or legislation is important.

And then it really comes down, from our standpoint, it's back to those principles. If you're thinking about it from a consumer perspective, it's about transparency and understanding the technology. It's about security and understanding there's a safety behind it. And then it's promoting consumer choice. I think with all those three, that's how you really realize the benefits of this technology.

ELLEN CONNELLY: Well, thank you. I know we went a little bit over. So thank you for bearing with us. I hope you found this to be as interesting as I did. And thank you very much to my panelists for a really spirited and interesting discussion. James Frost will conclude.

CLOSING REMARKS

x James Frost Attorney, Bureau of Com ()toJak2 .002(t)10c(Tw 3.7RK)-er(d)-(a)4(-.)7()-1T(d)d a

Again, thank you all. And then I want to remind all of, please, turn in your security badge on your way out. And that completes the program for today. Thank you all. Have a good afternoon.

[END OF WORKSHOP]