

VW, Audi dealers in Ill. protest automaker's changes to warranty work payments

- *Automotive News*

The protest is the latest chapter between VW and Audi dealers in Illinois and Volkswagen Group of America regarding warranty work payments.

Volkswagen and Audi dealers in Illinois are fighting back against Volkswagen Group of America after the automaker said it has changed how it charges retailers for warranty work.

The issue stems from the Multiplier Act, a change in Illinois' Motor Vehicle Franchise Act signed into law in 2021, which removed the traditional time guide warranty compensation formula and instead required automakers to pay the same amount for a covered repair as a retail customer would.

VW filed a lawsuit in December 2022 and said the change in warranty flat rate time reimbursements equated to a 50 percent increase per service operation. The new provision went into effect Jan. 1, 2022. VW contended in its suit that from that date through the end of November 2022, it had paid nearly \$10 million more to its VW and Audi stores in Illinois for warranty work.

In May, a federal court in Illinois dismissed the suit.

The Illinois Automobile Dealers Association said VW Group of America announced in July that it will try to recoup its cost of complying with the Multiplier Act by "debiting the parts accounts of Volkswagen and Audi dealers." The change went into effect on Sept. 1, the association said.

In the Audi and Volkswagen memos obtained by Automotive News, the brands broke down the new process into four parts.

- After each quarter closes, VW Group will calculate the total added cost of the Multiplier Act across all Audi and VW dealers in Illinois.
- VW Group will then distribute the total Multiplier Act cost evenly across all new vehicles wholesaled to all Illinois dealers during that quarter.

- Audi and VW dealers will then be notified in advance of each quarterly recoupment.

- Finally, a surcharge will be issued to each dealership's open parts account for the total Multiplier Act cost attributable to the dealership for the quarter.

The association said a group of 28 Volkswagen and nine Audi dealers filed a protest with the state's Motor Vehicle Review Board on Sept. 13.

The association said the move is a violation of the Illinois Motor Vehicle Franchise Act.

"We think it's pretty clear in the statute it says that manufacturers cannot recoup their cost with any type of surcharge," said Joe McMahon, executive director of the Illinois Automobile Dealers Association.

Andrew Savvas, VW's head of U.S. sales, said the VW brand believes Illinois' legislation allows the automaker to recoup the cost.

"From our perspective, the state failed to articulate a sound policy or rationale to pay 50 percent more than the actual and the reasonable cost of warranty repair," Savvas said. "We've got time guides. We believe those time guides are realistic."

Savvas said the automaker has made its position clear to VW dealers in Illinois and that discussions are ongoing.

In the protest, dealers said the charge is "severely prejudicial."

"For one, dealers cannot know how much [VW Group] will charge them at the time the vehicle is purchased," the filing said. "In turn, such a charge cannot be factored into customer pricing, forcing dealers to bear the entire cost of the charge. Moreover, charges may fluctuate greatly depending on how much warranty work is done on VW vehicles in the state. VW's

charge effectively requires dealers to bear the cost and risk that VW will make inferior products that are prone to warranty repairs."

McMahon stressed the significance of the protest.

"If [VW Group gets] away with that surcharge, the rest of manufacturers will follow," McMahon told Automotive News.

McMahon said the Motor Vehicle Review Board will appoint a hearing officer who will typically call both sides in to see if there's any mediation attempts.

"If not, they hear the facts," McMahon said. "It's a regular case."

McMahon anticipates it being a yearlong process.

The protest is being funded by the Illinois Automobile Dealers Association and the Chicago Automobile Trade Association.