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RE: House Bill 1515 Opposition

Date: 2/6/2025

Committee: House Transportation

Intro

Good Afternoon Mr. Chairman and members of the committee. I thank you for the opportunity to speak in opposition to some of the proposed language in HB 1515

I am Christopher Wolf, Manager of Warranty Compliance with Volkswagen Group of America. I'm currently leading teams which conduct dealer warranty audits and the process dealer reimbursement requests such as parts, labor and now requests related to dealership use of labor time guides. I began my automotive career as a dealership service technician. During that time, I earned my pay under the flat rate system that we speak about today.

I am in strong opposition to certain provisions of HB 1515.

Dealer Compensation

Labor Rate: Established by representative repair order sample. Provides transparency and the ability to validate the rates that are charged by dealership to its customers. In accordance with current statutory provisions, we must reimburse the dealerships for warranty work using this rate.

Parts Markup: Established by representative repair order sample Provides transparency and the ability to validate the rates charged by the dealership. In accordance with current statutory provisions, we must reimburse the dealerships for warranty work using this rate

With regards to labor time, HB 1515 proposes language where the warranty labor time is provided by a third party time guide without any sort of validation permitted by the manufacturer. As an initial matter, the inability for the manufacturer to simply validate that a particular dealership is actually using any such time guide for their customer-pay, non-warranty repairs is troubling. As Mr. Fisher stated earlier, third party labor time guides such as those published by common providers All Data, Mitchell Pro Demand, Snap-On Shop Key and the like do not routinely perform time studies to establish accurate labor time suggestions for a given repair. (By the way, the proposed language here doesn't define what a legitimate third-party time guide might look like or from where may come.) The lack of transparency here is alarming. In one example that I have here, a popular third party time guide provider's document demonstrates that the labor time suggested by their service is substantially higher than their competitors. This FAQ they provide goes on to state that they don't regularly use actual repair time studies to establish their repair times. Rather, they admit that they provide only "estimated repair times" intended to be used "...as a guide only".

Volkswagen Group of America's warranty labor times are fair and reasonable. We provide reimbursement for repairs based on combination of actual time studies and the summing of repair operations in combination of adjacent parts removal and installation. In addition, we reimburse for actual time expended in the necessary diagnosis including the use of an electronic scan tool and for the performance of necessary inspections, measurements and testing. We also allow for actual time claimed in addition to the suggested repair times for extraordinary circumstances such as the repair of a stripped or broken fastener. Further, we provide dealerships the opportunity to provide feedback and request review of warranty labor times. Since the inception of our electronic portal known as ELSA, we have received zero requests from North Dakota dealerships for revision of any

warranty labor time. We also have advisory councils comprised of dealership service managers and shop foreman who meet with us regularly to discuss common issues and work towards resolution. Not long ago, we had a concern with a labor time related to a particular recall. We studied the frequency of a certain additional step that occurred at a higher frequency than originally forecasted. While this additional step wasn't needed in every case, we nevertheless added the additional requested time to 100% of the recall labor operations. We also analyzed the recalls completed prior to this labor time revision and reimbursed that additional time to all previously paid claims.

It's interesting to note that the profitability of Volkswagen dealership service departments in North Dakota is quite healthy. In fact, the gross profit on warranty labor is either equal to or greater than the gross profit on customer-pay labor. Considering that the labor rates are equal and that the warranty labor time is provided by the manufacturer's time guide, one could come to question the basis for this particular provision.

As Mr. Fisher stated earlier, and as I've shown you here in a third party time guide providers own document, these third-party time guides are estimates. Studying these different time guides through the course of my work in the other states, the repair times for identical repairs on identical models will vary wildly on occasion. This further supports our position that the third-party guides are not based on actual repair times.

MN/NY Experience

While these states have similar statutory provisions, we have found that the majority of dealers are in fact not using these third party time guides to calculate labor charges for non-warranty work.

After legislation was enacted in these two states, dealers inquired as to how they could submit for this additional labor. We reasonably requested that they provide repair order samples in a similar fashion to how they would request warranty labor rate or warranty parts markup under their prevailing statutes. Several dealers submitted repair order samples for our review. None utilized the third party time guide purportedly used with any consistency. Some even charged different labor amounts for the identical repair performed on identical vehicles belonging to different customers. This inconsistency is cause for great concern.

Conclusion

Third party time guides are intended as guides, not the basis for warranty reimbursement. There is nothing to regulate the accuracy of these time guides. The times can be established in ways that one could only image. The lack of transparency in the manufacturer's ability to simply validate the use of any guide which impacts literally thousands of financial transactions is unconscionable.

We ask that you find some sensible common ground here that would provide reasonableness and transparency.