

7 Prices

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Introduction

7.1. The pricing system for the car industry is founded upon the supplier's 'list price' (maximum or recommended retail price), which in the main functions as a point of reference and a basis upon which calculations can be made rather than as a firm price at which transactions actually occur. The list price is usually increased two or three times a year.

7.2. As described in Chapters 5 and 6, suppliers use a system of dealers to sell to customers. The price paid by a dealer is set at a fixed percentage below the current list price excluding taxes. The difference between the price the dealer pays and the net-of-tax list price is usually referred to as the 'dealer margin'. Where the supplier also manufactures in the United Kingdom, it will carry out the function of distributing cars to the dealer. This is the case whether or not the supplier also imports some of its cars from overseas factories. Where, however, the supplier does not manufacture in this country, it either uses a subsidiary company to import and distribute the cars to dealers or makes arrangements with an independent importer to carry out this function. Nissan Motor, whose subsidiary NMUK manufactures in the United Kingdom, does not at present act as a distributor, this role being performed by an independent company, Nissan UK.

However, Nissan Motor has now set up its own subsidiary company, NMGB, for the purpose, and the contract with Nissan UK will end on 31 December 1991. Where a supplier uses an independent company, it pays the importer a margin, which may or may not be based on the net-of-tax list price; and the dealer receives his dealer margin in the usual way. Nissan UK told us that the price it currently pays to Nissan Motor is not directly based on the net-of-tax list price. BMW told us that it purchased cars from its supplier, carrying all the risks, including exchange risks. Volvo told us that it did not receive a standard margin. Toyota told us that list prices do not form the basis of the prices it pays to its supplier.

7.3. The prices paid by customers, whether private or business, are often reached by negotiation. Relatively few customers in practice pay the list price; most will be able to negotiate a discount. These discounts are provided by car dealers, and come out of the dealer margin, which most suppliers set at levels recognising the necessity for dealers to provide discounts. Dealers are also paid allowances of various sorts by their suppliers which differ from time to time and model by model and which enable them to increase the discounts given to customers. The allowances are part of some suppliers' marketing programmes aimed at promoting the sale of particular models or model variants at particular times. Additional discounts are not the only forms of promotion within marketing programmes. Subsidised credit, free insurance, free subscriptions to motoring organisations and other offers are also made available by the supplier to customers through the dealer. In some cases they are provided to all customers of a particular model; in others they are available as an option. Their value to individual customers will vary greatly. We refer to these additional forms of promotion as 'financial benefits'.

7.4. The whole of the negotiation (including optional financial benefits as well as discounts) is carried out between the customer and the dealer. It is complicated in most cases by an accompanying sale of a used car by the customer to the dealer, the transaction then being generally known as 'part-exchange', as the customer makes a single net payment to the dealer covering both the purchase of the new car and the sale of the used car. In some cases the dealer will agree with the customer a price for the used car in excess of its 'true' trade value and at the same time give the customer a lower discount on the new car. This is usually known as making an 'over-allowance' for the used car. In some cases invoices may not, however, reflect this aspect of the transaction.

7.5. List prices are published information and are widely available not only in suppliers' brochures but also in motoring and consumer magazines. But the prices at which customers actually buy-which we term 'transaction prices'-are private, and little information on them is generally available. The press and consumer magazines provide on a regular basis anecdotal accounts of transaction prices (and hence of discounts) that have been individually negotiated, especially at times of promotional campaigns by suppliers. But there is no information available to the public, based for example on surveys, that provides any systematic or detailed picture of the discounts that customers are negotiating. On the other hand the availability of financial benefits is widely advertised, especially in the press and in car showrooms. For used cars detailed guidance on prices is provided by a number of publications, the most authoritative of which is *Glass's Guide*, which we are told is not available to the public.

7.6. There are some exceptions to the pricing system as just described that apply to 'fleet' customers and will be covered in the relevant section later in this chapter.

7.7. List prices are usually defined inclusive of tax. As explained in paragraphs 4.109 and 4.110, the tax component consists of Car Tax and VAT.

7.8. The rest of this chapter falls into three sections. We first consider list prices, the way they are set and how they have changed over time. We then look at dealer margins. Finally we consider the terms on which customers buy their new cars (including financial benefits as well as discounts), looking first at private and then at business customers (including fleet sales).

List prices

Setting list prices

7.9. Suppliers have told us that they take into account a number of factors when setting list prices, the most important of which is the need to remain competitive at the product level. Other factors that influence the pricing decision are cost pressures (which may involve the rate of increase of costs in more than one country, interest rates and exchange rates), the requirements of financial performance, and shorter-term factors of supply and demand. We shall look at these factors in order.

7.10. All the main suppliers emphasised the paramount need to remain competitive on a product and price basis when setting list prices. The price of a model variant had to be priced appropriately both within the model range and against model variants offered by other suppliers. It had to be seen by customers as representing value for money and at the same time provide a competitive base such that an adequate return could be earned by both supplier and dealer.

7.11. A considerable amount of effort is spent in monitoring market changes and in evaluating the competitiveness of models and model variants. Suppliers keep a check on the sales volumes of all variants of their competitors relative to their own, and changes in market shares are reviewed to assess the need for price adjustments either at the next price round or even earlier.

7.12. Suppliers told us that they regularly carry out comparisons of the price and specification content of model variants in order to test their competitiveness. For example, Peugeot uses a statistical model which evaluates the technical specification values for all vehicles. Valuations are assigned to differences in specification in the context of a particular model range and are used to assess the competitiveness of the supplier's own model variants against those of other suppliers. (The complexity of an exercise of this kind is discussed in detail in Chapter 8 in the context of evaluating the differences between model variants produced for different countries.) A comparison carried out in January 1988 indicated that Peugeot decided to introduce its 405 model at what was seen to be an undervaluation of £173 (in the case of the GL 1.6 variant) compared with the equivalent Cavalier, an undervaluation of £244 compared with the Sierra, and an overvaluation of £627 compared with the Montego.

7.13. Volvo on the other hand compares its model variants against a weighted basket of competing variants. As an independent importer it has then to discuss the results of the exercise with the car manufacturer before price adjustments are decided. Cars are chosen for the basket based on the alternatives that are indicated by customer surveys as being under consideration by customers thinking of buying a Volvo, and prices are adjusted according to differences in specification. In January 1990, for example, a 340 model variant was compared against a weighted basket containing the Ford Escort, Volkswagen Golf, Vauxhall Cavalier, Rover 214 and Peugeot 309. The result of the exercise was that the price of the 340 was estimated to be 6.4 per cent lower than the adjusted prices of the competitors. This conclusion was in line with the preferred market positioning given the relative ages of the models compared.

7.14. Another version of this type of comparison was carried out for BMW by the Cardiff Business School (CBS) in August/September 1990. The study covered over 400 model variants. In around half of the cases prices were shown to be higher than would be predicted on the basis of specifications, engine size and other factors. Some 63 per cent of German cars (Audi, BMW and Mercedes-Benz) were among those with relatively higher prices, whilst 69 per cent of Italian cars (Alfa Romeo and Lancia) fell in the other category.

7.15. Where such a comparison points to a need for a competitive response, it may be decided to introduce a specification improvement instead of, or associated with, a price increase. For example, in response to changes by Vauxhall, Rover introduced central locking on the Montego L 1.6 but did not increase its price, although the introduction of the facility corresponded with a general price increase across all models.

7.16. Changes in costs of one sort or another were mentioned by most suppliers as a factor that affected the setting of list prices. The effect of exchange rates was specifically mentioned by Honda, Nissan UK, Renault, BMW, Mercedes-Benz and VAG (UK). Of these the last two gave instances of movements in exchange rates being responsible for particular price changes. Mercedes-Benz told us that in 1986 three increases in list prices were made, chiefly because of significant changes in the sterling/DM rate from

around DM3.5 in January down to DM2.85 in December. VAG (UK) told us that of the 11 changes in its prices which were made between 1986 and 1989 seven were because of movements in the exchange rate.

7.17. Suppliers generally told us that, over the longer term at least, list prices had to be set with a view to obtaining a reasonable return for themselves and their dealers.

7.18. Occasionally the setting of list prices may be influenced by shorter-term factors, for example an excessive stock position or the phasing out of a model range. The two may be linked. Special measures may need to be taken when it is known that a model range will not be in production much longer. A 'run-out' model may be introduced as well as pricing action being taken to ensure that large stocks do not remain after the range has been phased out. Rover also told us that the introduction of a new model by competitors may have a greater impact on one particular model in their range, thus placing additional pressure on the list price for that model.

7.19. Further consideration is given in paragraphs 7.42 to 7.57 to the more detailed aspects of pricing within the model range and against competing model variants.

Price leadership

7.20. Most suppliers told us that they regarded either Ford, or Ford and Vauxhall, as market leaders overall. Honda, however, told us that while traditionally the market leaders had been Ford and Rover it now regarded Vauxhall as holding that position. Renault preferred the term 'main competitive benchmarks', which it saw as applying currently to Ford and Vauxhall. Market leadership was more easily identified for a given segment. We were told by Peugeot that it regarded Ford as the market leader in the small and lower medium segments of the market with the Fiesta and the Escort; Vauxhall in the upper medium segment with the Cavalier; and Ford, Vauxhall and Rover as market leaders in the large segment. NMUK said that for its Primera it saw the price leaders as Ford (with the Sierra) and Vauxhall (with the Cavalier). VAG (UK) said that, while Ford might be the market leader overall, Vauxhall's Cavalier held a very important position in the upper medium segment, particularly for fleet sales. Toyota on the other hand said that it did not follow one particular supplier. In more specialised niches the leaders might not be either Ford or Vauxhall. Renault told us that it regarded the Toyota Previa and Range Rover as bench-marks for its Espace.

7.21. Vauxhall said that Ford could be regarded as the market leader as it was the largest supplier of new cars in the United Kingdom. However, Vauxhall said that it did not regard the concept of price leadership as useful in analysing competition in the United Kingdom.

7.22. For its own part Ford accepted that it was the leader in terms of market share, but that although it had priced first on a number of occasions, other suppliers had priced first on other occasions. Hence it did not consider itself to be the price leader. It believed, however, that it was normal business practice for suppliers with smaller market shares to wait and see what price adjustments were made by the leader and then to price in a competitive way. Ford also told us that if a key competitor were to gain an advantage in responding to Ford's original price move it might react in order to restore its competitive position. This might take the form of action on pricing, or specification or marketing promotions, or any combination of them.

7.23. A general pattern of list price increases has now become established reflecting the seasonal cycle of the industry. The increases occur across all or most models two or sometimes three times a year. The first of these general increases normally takes place in the early part of the calendar year; the second is timed to coincide with the beginning of the new model year (ie in August); and a third increase, if it takes place, is usually around May, midway between the other two.

7.24. Suppliers, however, also increase list prices of some of their models at other times in the year. Vauxhall made ten general increases in list prices in the period 1986 to 1989 and there were ten other occasions on which it increased the prices of some of its models. Ford, on the other hand, which also made ten general increases, made no other increases.

7.25. Table 7.1 shows the precise dates of the general price increases by the top three suppliers in 1986 to mid-1991.

TABLE 7.1 **Effective dates of United Kingdom list price increases* by the top three suppliers, 1986 to end-July 1991**

Year	Ford	Rover	Vauxhall
1986	1/1	15/2	14/1
	17/8	18/8	10/9
1987	4/1	12/1	5/1
	11/5	4/5	11/5
	17/8	1/9	24/8
1988	4/1	11/1	7/1
	16/5	16/5	16/5
	15/8	15/8	22/8
1989	3/1	1/1	3/1
	N/A	15/5	N/A
	14/8	14/8	21/8
1990	2/1	1/1	2/1
	1/5	26/6	8/5
	13/8	18/9	4/9
1991	21/1†	11/2	14/1
	N/A	1/7	N/A

Source: Data supplied by companies.

*Excludes increases due to VAT change in April 1991 budget.

†Except Granada/Scorpio where the date was 4/2.

7.26. The table shows that in the period 1986 to the end of July 1991 the top three suppliers generally increased their prices in the same month and that Ford was usually in the lead. On only two occasions, in May 1989 and July 1991, did one supplier, Rover, increase list prices across the board with no corresponding increases from the other two. Ford moved before the other two on seven out of the 14 occasions it increased prices, and moved first together with Rover alone on two other occasions. On one occasion, all three suppliers changed their prices from the same effective date (excluding the increases in list prices reflecting the increase in VAT in the 1991 Budget). Rover was first to move on five out of the sixteen occasions it increased prices.

7.27. Suppliers usually announce their increases in list prices a few days before they take effect. Most suppliers now apply the price ruling on the day an order is placed. This means that customers then have the short period between announcement and the effective date to order a new car before the increase in list price. After that date negotiations for a sale may be based on the old list price only if the car was already in stock. Ford provided us with details of the dates on which it announced its increases in list prices and the dates on which these became effective. During the period 1986 to 1989 Ford usually announced increases in its list prices 17 to 19 days in advance of the effective dates (including weekends and bank holidays).

7.28. In July 1991 in response to extremely weak demand and with large stocks of unsold cars a number of suppliers introduced temporary reductions in list prices. The lead was taken by Ford, which made reductions of £1,000 per car on the prices of its higher trim level¹ models in the small, lower medium and upper medium segments of the markets; it also reduced by £2,000 the list prices of its large segment models made to earlier specifications. In all, these list price reductions applied to around one-third of Ford's total new car registrations by volume. The price reductions were for three months (although later extended for certain models), and were part of a marketing initiative that also included changes in allowances to dealers (as described in paragraph 7.71).

7.29. Vauxhall responded to the Ford offers only two days later. Instead of reducing list prices it offered a 'cash-back' benefit, a form of discount to the consumer that is frequent in the United States but had not previously been used in the United Kingdom. A 'cash-back' benefit means that the customer receives a discount from the supplier, rather than the dealer. This method has the advantage, it is said, that the residual

¹Trim level refers primarily to the quality of the interior furnishing of the car and to minor improvements to its external appearance.

value of the car (ie the value of the car when subsequently sold) is unaffected, whereas a reduction in list price is likely to exert a downward pressure on residual values. A number of large fleet buyers told us that the level of residual values was a particularly important factor for them. The 'cash-back' offers applied to most models in the small segment and to all models in the lower medium segment. As in the case of Ford the offers were part of a marketing initiative that included changes in allowances to dealers and in financial benefits.

7.30. The only other responses to the Ford lead were those of Fiat and VAG (UK), both of which cut list prices for many of their models for a period of between one and two months. Rover, which had increased list prices by around 2 per cent at the start of July, issued a statement to the effect that it had no intention of responding to Ford and Vauxhall as its cars were already good value. Nissan UK had announced price reductions several days before the Ford announcement, but these were not generally seen as the main trigger to the price round.

7.31. Another recent development was the decision by Vauxhall in October 1991 to introduce its new Astra model range at a list price below that of its old Astra, reflecting a reduced dealer margin (hence the level of discount the customer could expect would be much lower). On average the list price of the new Astra is said to be just under £250 lower than the previous Astra although the new version is said to have extra equipment worth, on average, just over £1,000. Vauxhall has said that it wishes to reduce the difference between list and transaction prices, so it will not be necessary for customers to negotiate hard in order to obtain larger discounts.

Changes in list prices over time

7.32. The Central Statistical Office (CSO) collects data on new car prices and calculates a price index called the Producer Price Index (PPI) (for new cars). It receives data on a representative sample of cars from United Kingdom producers. The information identifies those changes that amount to a change in model variant but does not cover other specification changes, for example the addition of power steering or a sun-roof. The CSO seeks prices on a 'normal transaction' basis and excluding taxes. Information from suppliers indicates that the prices are likely to be list prices less the dealer margin rather than transaction prices.

7.33. In order to assess changes over time in list prices for cars of comparable quality we would require a price index that took into account the vast majority of specification changes. For this purpose the PPI for new cars would appear to provide only a starting point. The fact that the index also takes into account dealer margins is not likely to lead to any significant distortion as margins are expressed as a percentage of the list price and have been fairly stable over the last few years. But the limited adjustment for specification changes means that the increases in the index may include a substantial element attributable to specification rather than to a pure price change. The valuation of specification changes is a complicated and technical matter (as shown in the price comparison study described in Chapter 8) and is difficult for anyone but the supplier to carry out. It is not a task that we have attempted for this limited purpose of estimating a price index.

7.34. We have nevertheless considered how far there has been an apparent increase in car prices that might be explained by an increase in quality, ie an enhancement of specifications. Table 7.2 sets out the PPI for the years 1985 to 1990 together with the Retail Price Index (RPI) for the United Kingdom and an average RPI for the six main supplying countries (including the United Kingdom). The average figure has been weighted by volume of cars supplied and takes into account movements in exchange rates. The six countries account for over 80 per cent of the United Kingdom market.

TABLE 7.2 Price indices, 1985 to 1990

Year	PPI*	United Kingdom RPI	Six country RPI†
1985	100	100	100
1986	107	104	112
1987	116	108	118
1988	126	113	119
1989	136	122	126
1990	145	133	135

Source: CSO, *Department of Employment Gazette*, and MMC calculations on data from the *Gazette* and SMMT monthly statistical reviews.

*For cars produced in the United Kingdom.

†Weighted average RPI for the United Kingdom, France, Germany, Belgium, Italy and Japan adjusted for movements in exchange rates.

The table shows that over the period 1985 to 1990 there was an increase of 33 per cent in the RPI for the United Kingdom by itself and of 35 per cent for the six countries together. The latter would appear to be the more relevant measure of overall inflation with which to compare increases in car prices.

7.35. A comparison of the increase in the PPI over this period with the increase in the six-country RPI shows a higher level for the PPI of ten points on the index or 7.4 per cent. It would not seem implausible that over five years specification enhancement beyond that incorporated in model variant changes could account for most if not all of this difference.

7.36. Vauxhall told us that its own calculations of its list price increases between 1985 and 1989, unadjusted for specification changes, are in line with that shown by the PPI, but when adjustment is made for specification changes, prices are seen to have increased by only 3 per cent over RPI between 1985 and 1989. Vauxhall also calculates that its list prices, adjusted for specification changes, have fallen by 2 per cent between 1985 and 1989 against an index that reflects movements in its underlying cost structures (including adjustments for exchange rate changes). Ford told us that if the model description changes, for example on series or engine change, the PPI treats this as a new model and ignores the price change, and that the PPI might not include the changes of a new model if there was no nomenclature change. Ford also told us that it considers indices calculated on a December to December basis rather than on average-year over average-year to be the most meaningful, accurate and understandable way to measure performance. Accordingly Ford disputes the validity, as measures of real price increases, of the indices set out in Table 7.2. Rover said that over the period 1979 to 1990 the growth in the RPI was virtually identical with that in the PPI but that by 1985 the PPI lagged behind the RPI by 10.6 per cent. Rover also considered that the weights used by the CSO in calculating the PPI, which are based upon manufacturers' production for the United Kingdom market in 1984, were no longer realistic.

7.37. Renault also provided us with separate price indices for eight of the top ten suppliers (no data being given for Nissan UK and Volvo) for the period 1985 to 1990. The figures for these eight suppliers are shown in Table 7.3. The indices have been calculated on the basis of list prices taken from publicly available sources and weighted by model and model variant to take account of volume of sales.

TABLE 7.3 Price indices of selected suppliers of new cars, 1985 to 1990

	Ford	Vauxhall	Rover	VAG (UK)	Peugeot	Citroën	Fiat	Renault
1985	100	100	100	100	100	100	100	100
1986	108	108	108	110	108	110	109	107
1987	114	117	118	123	117	114	118	117
1988	124	126	127	128	126	124	128	125
1989	134	138	138	133	138	133	139	133
1990	149	153	154	145	150	144	147	145

Source: Renault.

Note: Prices were not adjusted for specification changes over time.

As the indices are based on unadjusted list prices (ie they do not take account of changes in specification), the figures provide an indicator of increases in value, as discussed in the context of the PPI.

7.38. The figures in Table 7.3 show some variety of pricing behaviour. Suppliers could be seen as falling into three groups in respect of prices over the period. The first group, consisting of VAG (UK), Citroën, Renault and Fiat, have increased prices by relatively smaller amounts; a second group, consisting of Vauxhall and Rover, have increased prices by more; and Ford and Peugeot fall in between.

7.39. Rover and Peugeot have provided us with their figures for their own price changes and they differ only slightly from those calculated by Renault.

7.40. Not only do price increases vary between suppliers, they may also vary between model ranges and models of a single supplier. This can be seen by considering Rover's price changes for the period 1986 to 1989, which are shown in Table 7.4.

TABLE 7.4 Percentage list price increases of selected Rover models, 1986 to 1989

Date	Mini	Metro	Maestro	Montego Saloon	Montego Estate	Rover 200 4-door	Rover 800
15.2.86	4.50	3.56	3.06	4.03	3.86	4.80	N/A
18.8.86	4.07	3.27	4.01	3.80	4.21	3.92	N/A
12.1.87	3.95	3.95	3.58	3.50	3.50	3.95	2.67
4.5.87	2.10	2.79	2.10	2.10	2.10	2.78	2.07
1.9.87	1.14	2.01	1.12	2.63	2.33	3.03	3.03
11.1.88	2.50	2.20	2.70	2.38	2.70	3.80	3.50
16.5.88	2.48	2.19	2.49	2.59	2.33	3.24	2.39
15.8.88	2.51	2.55	3.02	2.98	2.56	2.50	2.73
1.1.89	3.88	3.92	4.01	4.32	4.05	3.92	3.79
15.5.89	2.00	0.00	1.66	1.99	2.15	0.00	2.00
14.8.89	2.62	3.48	2.79	2.61	2.73	2.00	3.12

Source: Rover.

Note: Excludes Rover SDi.

7.41. Between February 1986 and August 1989, Rover's list price increases ranged from 34.3 per cent for the Metro to 39.6 per cent for the Rover 200 series. The reasons given by Rover for differences in price increases relate mainly to specification enhancements.

Pricing of model variants

7.42. In Chapter 4 we described the way a supplier's cars can be analysed in terms of model ranges, models and model variants, and provided some examples of this form of analysis. The way in which suppliers price their cars can usefully be considered on the same basis. We take the examples of Ford and Vauxhall and first look at the dispersion of their model ranges and variants as advertised by the two suppliers across price bands. Table 7.5 shows the dispersion of Ford cars across bands based on list prices in January 1989. In designating model ranges we have differentiated between body styles and have therefore classified the Orion and the Sapphire as separate model ranges even though they are the saloon versions of the Escort and the Sierra. Ford does not itself regard the Sapphire as a separate model range.

TABLE 7.5 Number of Ford model variants by price band and model range, January 1989

Price band £'000	Fiesta	Escort	Orion	Sierra	Sapphire	Granada	Total
5-6	2	-	-	-	-	-	2
6-7	6	3	-	-	-	-	9
7-8	6	6	-	-	-	-	12
8-9	2	11	6	-	-	-	19
9-10	-	6	3	8	6	-	23
10-11	-	2	3	7	4	-	16
11-12	-	-	3	1	1	-	5
12-13	-	1	-	1	1	1	4
13-14	-	-	-	1	-	3	4
14-15	-	-	-	-	-	1	1
15-16	-	-	-	1	-	3	4
16-17	-	-	-	-	-	2	2
17-18	-	-	-	1	-	1	2
18-19	-	-	-	-	-	1	1
19-20	-	-	-	-	-	1	1
20 plus	-	-	-	-	-	5	5
Total	16	29	15	20	12	18	110

Source: Ford's January 1989 price list (tax included).

7.43. The table shows that in January 1989 Ford was offering 110 variants, of which all but five were priced between £5,000 and £20,000. However, 64 per cent of the variants fall within the range £7,001 to £11,000.

7.44. The table also shows the extent to which the model ranges overlapped in terms of price. The entry points for each successive model range were on average little more than £1,000 apart: the Fiesta entered the small segment in the £5,000 to £6,000 price band; the Escort entered the lower medium segment in the £6,000 to £7,000 band; the Orion entered the same segment in the band £8,000 to £9,000; the Sierra and the Sierra Sapphire entered the upper medium segment at between £9,000 and £10,000; and the Granada entered the large segment at £12,000 to £13,000. The largest overlap occurred in the £9,000 to £10,000 and the £10,000 to £11,000 bands in each of which four model ranges (belonging to two segments) were represented.

7.45. Model ranges vary in the spread of their prices. The Escort and the Sierra have a wider price range than their saloon equivalents; and the Granada/Scorpio has a price range twice as large as that of the Fiesta.

7.46. Vauxhall's model variants are analysed in a similar way in Table 7.6. Prices are again those for January 1989. We have followed the supplier's own division into model ranges.

TABLE 7.6 Number of Vauxhall model variants by price band and model range, January 1989

Price band £'000	Nova	Astra	Belmont	Cavalier	Carlton	Senator	Total
5-6	2	-	-	-	-	-	2
6-7	9	3	-	-	-	-	12
7-8	2	6	1	-	-	-	9
8-9	1	6	3	6	-	-	16
9-10	-	2	1	6	-	-	9
10-11	-	2	2	4	-	-	8
11-12	-	2	-	3	-	-	5
12-13	-	1	-	2	4	-	7
13-14	-	1	-	-	5	-	6
14-15	-	-	-	-	1	-	1
15-16	-	-	-	-	3	-	3
16-17	-	-	-	-	1	1	2
17-18	-	-	-	-	-	-	0
18-19	-	-	-	-	-	1	1
19-20	-	-	-	-	1	-	1
20 plus	-	-	-	-	-	2	2
Total	14	23	7	21	15	4	84

Source: Vauxhall's January 1989 list price (tax included).

7.47. In Vauxhall's case all but two of its model variants were in the £5,000 to £20,000 bracket, and 55 per cent had a price between £6,000 and £10,000. Vauxhall is similar to Ford in the relationship of model ranges to segments and the overlap of model ranges in respect of price bands.

7.48. Within a model range models may be distinguished by trim level. Different suppliers use different symbols for their trim levels, though the designations L, GL and GT are common to many. Specifications are improved with each succeeding trim level, and the increase in price that has to be paid will reflect the value of the enhanced specification though the relationship is not exact. In order to identify the differences in price attributable to specifications at different trim levels we have looked at the list prices of certain models with the same sized engines and number of doors. Table 7.7 compares the prices of Ford models from the Escort and Sierra model ranges.

TABLE 7.7 Differences between prices of models within model ranges for Ford cars, January 1989

Trim level	Escort			Sierra		
	List price £	Difference £	%	List price £	Difference £	%
Popular*	6,668					
L*	7,813	1,145	17.2			
L†	7,993			9,140†		
LX†	8,428	435	5.4	9,490†	350	3.8
GL†	8,738	310	3.7	10,135†	645	6.8
Ghia†	9,541	803	9.2			
GLS				11,390‡		
Ghia				12,860‡	1,470	12.9

Source: Ford's price lists for January 1989.

*These Escorts are the 1.3 litre, 5-door variants for each model.

†These Escorts are the 1.4 litre, 5-door variants and the Sierras are the 1.8 litre, 5-door variants for each model.

‡These Sierras are the 2 litre, 5-door, EFI variants for each model.

Thus at the lowest trim level the price of the Escort L was £1,145 higher than that of the Escort Popular for the appropriate model variant; and at the highest trim level the Sierra Ghia had a higher price by £1,470 than the GLS, again for the appropriate model variant.

7.49. Table 7.8 shows a similar comparison for certain Vauxhall models-again with the same sized engines and number of doors-within the Astra and Cavalier model ranges.

TABLE 7.8 Differences between prices of models within model range for Vauxhall cars, January 1989

Trim level	Astra			Cavalier		
	List price £	Difference £	%	List price £	Difference £	%
*				8,717†		
L				9,164†	448	5.1
Merit‡	7,145					
L‡	7,996	851	11.9	9,909‡		
GL‡	8,791	795	9.9	10,910‡	1,000	10.1
SRi				11,499‡	589	5.4
CD				12,888‡	1,389	12.1
GTE§	11,351					
GTE16v§	12,671	1,321	11.6			

Source: Vauxhall's price lists for January 1989.

*Trim level name not given.

†These Cavaliers are the 1.6 litre, 4-door variants for each model.

‡These Astras are the 1.3 litre, 5-door variants and the Cavaliers are the 2 litre, 4-door variants for each model.

§These Astras are the 2 litre, 3-door variants for each model.

As was the case for Ford, the price paid for a higher trim level varies widely. The customer is able to determine whether the additional cost may be value for money only by a detailed examination of the specifications associated with each trim level.

Pricing against competitors

7.50. As described in paragraph 7.10, suppliers see the setting of prices first of all in the context of competing with the products of other suppliers. We have again taken the example of Ford and Vauxhall in looking at this competitive aspect of pricing. To begin with we compare in Table 7.9 the range of (list) prices for the two suppliers covering the model ranges in each of the four main market segments. The prices are those obtaining in January 1989. We use the terms 'entry price' and 'exit price' to indicate the prices of the least and most expensive model variants within a model range.

TABLE 7.9 Price ranges of Ford and Vauxhall cars by market segment, January 1989

	£			
Segment: Small	<i>Ford</i> <i>Fiesta</i>	<i>Vauxhall</i> <i>Nova</i>		
Entry price	5,199	5,138		
Exit price	8,852	8,853		
Difference	3,653	3,715		
Segment: Lower medium	<i>Ford</i> <i>Escort</i>	<i>Orion</i>	<i>Vauxhall</i> <i>Astra</i>	<i>Belmont</i>
Entry price	6,390	8,035	6,629	7,274
Exit price	12,337	11,080	13,499	10,576
Difference	5,947	3,045	6,870	3,302
Segment: Upper medium	<i>Ford</i> <i>Sierra</i>	<i>Sierra</i> <i>Sapphire</i>	<i>Vauxhall</i> <i>Cavalier</i>	
Entry price	9,140	9,140	8,370	
Exit price	17,035	12,850	12,888	
Difference	7,895	3,710	4,518	
Segment: Large	<i>Ford</i> <i>Granada</i>	<i>Vauxhall</i> <i>Carlton</i>	<i>Senator</i>	
Entry price	12,465	11,921	16,705	
Exit price	24,680	19,248	22,308	
Difference	12,215	7,327	5,603	

Source: Ford and Vauxhall January 1989 price lists.

7.51. There are many similarities in the pricing of the two suppliers, as shown in Table 7.9. They both, for example, enter the small segment with a price of just over £5,000 (Ford with the Fiesta 950 Popular 3-door and Vauxhall with the Nova 1.0 saloon 2-door). Both suppliers also exited from the small segment with 'sports' versions of the model ranges at prices that were virtually the same: Ford priced the Fiesta 1.6 XR2 3-door at £8,852, whilst Vauxhall priced the Nova GTE 1.6i 3-door at £8,853. In the lower medium segment both suppliers differentiate by body style, Ford having the Escort (hatchback) and the Orion (saloon), and Vauxhall having the Astra (hatchback) and the Belmont (saloon). The difference in price ranges is somewhat larger than is the case in the small segment.

7.52. In the upper medium segment Ford is represented by the Sierra (hatchback) and the Sierra Sapphire (saloon), but Vauxhall is represented by the Cavalier in both saloon and hatchback styles. There is particular competition between the two model ranges for non-private sales as both ranges are typical of what is wanted by many fleet and business purchasers. A comparison of the two model ranges shows, however, both similarities and differences. Vauxhall enters the segment with a variant a trim level below Ford and with a smaller engine than Ford-and hence at a lower price (£8,370 compared with £9,140). On

the other hand Vauxhall exits from the segment (with its Cavalier CD 2.0i) at a very similar price to Ford's Sierra Sapphire (with its luxury variant, the 2.0 EFi Ghia). However, the Ford Sierra's exit variant, the 2.9 EFi Ghia Estate, has a much higher list price than either that of the Sierra Sapphire or the Cavalier.

7.53. In the large segment Vauxhall distinguishes between the Carlton and the Senator model ranges, whilst Ford chooses to be represented by only one (the Granada). The combined Vauxhall ranges are positioned slightly below the Ford range in terms of price.

7.54. Such is the variety of specifications within a model range that it is not easy to identify the comparable model variants of different suppliers and hence the extent to which their prices are really close to each other. The difficulties are magnified when the comparisons are between model variants made for different national markets, as described in Chapter 8. We have compared in Tables 7.10 and 7.11 the (list) prices of model variants with the same sized engine and number of doors. We have again used Ford and Vauxhall as examples. The difference in price for the L trim levels is generally smaller than for the introductory trim levels, but larger than for the higher trim levels. The comparisons take no account of differing levels of equipment specifications between vehicles.

TABLE 7.10 Comparison between Ford and Vauxhall models: lower medium segment

Model	Trim level	Engine	Doors	Style	Price £	Difference	
						£	%
Astra	Merit	1.3	3	Hatchback	6,877		
Escort	Popular	1.3	3		6,390	487	7.1
Astra	Merit	1.3	5	Hatchback	7,145		
Escort	Popular	1.3	5		6,668	477	6.7
Astra	Merit	1.3	3	Estate	7,514		
Escort	Popular	1.3	3	Estate	6,958	556	7.4
Astra	L	1.3	3	Hatchback	7,728		
Escort	L	1.3	3		7,535	193	2.5
Astra	L	1.3	5	Hatchback	7,996		
Escort	L	1.3	5		7,813	183	2.3
Astra	L	1.3	5	Estate	8,669		
Escort	L	1.3	5	Estate	8,381	288	3.3
Astra	L	1.6	5	Hatchback	8,239		
Escort	L	1.6	5		8,233	6	0.1
Escort	LX	1.6	5		8,668	435	5.3
Astra	L	1.6	5	Estate	8,911		
Escort	L	1.6	5	Estate	8,801	110	1.2
Astra	GL	1.6	5	Hatchback	9,034		
Escort	GL	1.6	5		8,978	56	0.6

Source: Company price lists for January 1989.

7.55. However, Vauxhall has told us that in its view price comparisons should be carried out on the basis of equivalent engine power (bhp) and not engine capacity (cc), a view which it says is conventionally employed within the industry. Vauxhall has pointed out that the Escort Popular 1.3 develops 54 brake horsepower (bhp) whereas the Astra Merit 1.3 develops 75 bhp. The correct Vauxhall comparator, in Vauxhall's view, should be the Astra Merit 1.2 which develops 55 bhp. In the L series, the Astra L 1.3 should therefore be compared with the Escort 1.4 L which also develops 75 bhp (the same as the Astra 1.3). On this basis the list price of the Astra Merit 1.2 3-door, at £6,629, is £239 higher than the list price of the Escort Popular 1.3 3-door (£6,390). For the 5-door versions the list price of the Astra Merit 1.2, at £6,897, is £229 higher than the list price of the Escort Popular 1.3 (at £6,668). The 3- and 5-door versions of the Astra 1.3 L should therefore be compared with the Escort 1.4 L. The list price differences are then £13 for the 3-door version (the Astra being priced at £7,728 and the Escort at £7,715), and £3 for the 5-door version (the Astra being priced at £7,996 and the Escort at £7,993).

7.56. Table 7.11 shows the comparison for the upper medium segment, ie between the Ford Sierra and Sierra Sapphire and the Vauxhall Cavalier. Again the comparisons take no account of differences in equipment specifications. The price differences are remarkably small.

TABLE 7.11 Comparison between Ford and Vauxhall models: upper medium segment

Model	Trim level	Engine	Doors	Style	Price £	Difference	
						£	%
Cavalier	L	1.6	4	Saloon	9,164		
Sapphire	L	1.6	4		9,140	24	0.3
Sapphire	LX	1.6	4		9,490	350	3.8
Cavalier	L	1.6	5	Hatchback	9,164		
Sierra	L	1.6	5		9,140	24	0.3
Sierra	LX	1.6	5		9,490	350	3.8
Cavalier	GL	1.6	4	Saloon	10,165		
Sapphire	GL	1.6	4		10,135	30	0.3
Cavalier	GL	1.6	5	Hatchback	10,165		
Sierra	GL	1.6	5		10,135	30	0.3
Cavalier	CD	2.0i	4	Saloon	12,888		
Sapphire	Ghia	2.0EFi	4		12,860	28	0.2
Cavalier	CD	2.0i	5	Hatchback	12,888		
Sierra	Ghia	2.0EFi	5		12,860	28	0.2

Source: Company price lists for January 1989.

7.57. Vauxhall has again made the point about comparing list prices on the basis of engine power and not engine size, stating that the list price of the Cavalier 1.6 should be compared with that of the Sierra and the Sierra Sapphire 1.8 and not the 1.6. In this case, however, this change makes no difference to the price comparison as Ford priced its 1.8 Sierra and Sierra Sapphire at the same list price as the 1.6 variant.

Advertising

7.58. Table 7.12 shows the estimated advertising expenditure of the top ten car advertisers in 1990 and the allocation between television, press and radio.

TABLE 7.12 The top ten car advertisers in Great Britain in 1990

	Estimated expenditure £m	Volume of new car registration '000	Percentage spent on:		
			TV	Press	Radio
Ford	35.8	507.3	41.1	55.9	3.0
Vauxhall	32.5	323.1	26.9	72.6	0.5
Rover*	30.2	281.1	39.3	60.2	0.5
VAG (UK)	25.7	115.7	54.9	44.2	0.9
Peugeot	25.3	123.7	43.8	54.9	1.4
Fiat	23.3	54.9	45.2	52.8	2.0
Citroën	20.4	58.7	27.1	72.4	0.6
Renault	18.4	67.6	28.2	67.1	4.8
Volvo	13.4	66.5	20.8	78.7	0.5
Nissan UK	13.2	106.8	19.6	79.7	0.7

Source: Based on MEAL's *Marketing Week* survey, 22 February 1991, and data supplied by the companies.

*Includes Land Rover.

7.59. The ranking of the larger suppliers as car advertisers is very similar to their ranking by market share. The two main exceptions are Fiat, which in 1990 was the tenth largest supplier but the sixth largest advertiser, and Nissan UK, which was the sixth largest supplier but the tenth largest advertiser. After the top ten advertisers the next six are also in fact the remaining suppliers that have more than 1 per cent of the United Kingdom market, ranging from BMW which spent over £11 million in 1990 on advertising to MVI (Lada) which spent over £5 million.

7.60. Suppliers vary in the importance they attribute to advertising, to judge from the amount they spend relative to their revenues. It would appear moreover that the amount spent on advertising does not need to rise proportionately with market share. The supplier that spent least in 1990 as a percentage of turnover was Ford, whose expenditure did not quite reach 1 per cent. The highest level of expenditure on this basis among the top ten advertisers was that of Fiat, at just over 5 per cent.

7.61. Advertising expenditure also varies considerably in any given year according to model range marketing priorities and objectives. The launch of a new model range will require greater expenditure on advertising than later in its life cycle.

7.62. Table 7.13 shows for eight of the top ten car advertisers in 1990 the total estimated expenditure on their top advertised model range, together with the proportion of their overall expenditure accounted for by this model range.

TABLE 7.13 **Estimated advertising expenditure on model ranges, 1990**

<i>Ranking</i>	<i>Supplier</i>	<i>Model range</i>	<i>Estimated expenditure £m</i>	<i>Proportion of total expenditure %</i>
1	Rover	Metro	10.7	35.4
2	Vauxhall	Nova	9.9	30.5
4	Ford	Escort	8.9	24.9
5	Fiat	Uno	8.3	35.6
6	Citroën	AX	8.1	39.7
8	Peugeot	205	7.0	27.7
11	Renault	19	6.5	35.3
14	VAG (UK)	Golf	5.4	21.0

Source: Marketing Week, 12 April 1991.

7.63. Table 7.13 shows expenditure on individual model ranges as a proportion of a supplier's overall expenditure varying from 21 per cent in the case of the Volkswagen Golf to 40 per cent in the case of the Citroën AX. Of the top 15 advertised model ranges in 1990 Ford had four (the Escort, Fiesta, Sierra and Orion), and there were four suppliers each with two: Vauxhall (the Nova and Astra), Fiat (the Uno and Tipo), Citroën (the AX and BX) and Peugeot (the 205 and 405).

Prices paid by dealers

7.64. As already explained in paragraph 7.2, the dealer buys from the supplier at a discount (known as the dealer margin) to the list price net of tax. In addition dealers from time to time receive financial allowances and incentives which are usually linked to promotions of a particular model or variant or related to the achievement of various targets. These may take the form of a further discount off the net-of-tax list price or a cash sum. The dealer margin together with these additional sums provides the financial framework within which the dealer decides how to set his prices and negotiate with customers.

7.65. Most dealer margins are generally between 14 and 18 per cent. The range of margins for 12 leading suppliers are set out in Appendix 7.1. They are set for individual model ranges and sometimes for particular models and model variants. Those at the lower end of the range usually relate to basic or special model variants. Rover, for example, allows a margin of 12.5 per cent for its Mini City Special Edition. Volvo allows only 15 per cent for its 940 SE Turbo variants compared with 17.5 per cent on most models. The special model variant is a marketing strategy used by suppliers where the level of specification is not

fully reflected in the list price by comparison with the variant on which it is based. The margins given by the suppliers to dealers on basic or special model variants generally reflect the lower margins of suppliers.

7.66. A recent development was the decision by Vauxhall in October 1991 to introduce its new Astra model range with a dealer margin of 10 per cent, seven points lower than on the previous version. A similar policy was adopted (though later abandoned) by Peugeot in the mid-1980s when it reduced its dealer margins to 12 per cent.

7.67. Dealer margins are generally higher in the United Kingdom than in other countries of the EC. This is exemplified in Table 7.14, which sets out margins allowed by General Motors for its four main model ranges in 1990 in a number of EC countries. Lower dealer margins on lower specified model variants are not confined to the United Kingdom. The table shows that this policy is adopted, for example, by General Motors for the Nova and Astra in France and Belgium.

TABLE 7.14 Dealer margins in EC countries for General Motors cars, 1990

Model range	<i>per cent</i>						
	UK Netherlands	Germany	France	Spain	Italy	Belgium	
Nova	16*	16.0	13.0†	10.25	14	14.0†	12.7
Astra	17	16.0	14.5†	10.25	16	14.0†	13.9
Cavalier	17	16.4	15.5	10.25	17	15.5	14.5
Carlton	17	16.8	16.5	12.00	19	17.5	14.9

Source: General Motors.

*Up to 2 per cent less for lowest specification model variant.

†2 per cent less for City model variant.

7.68. The size of the dealer margin does not give any indication of the net margin that may be retained as profit by the dealer as that will depend partly on the dealer's costs and partly on the size of any discounts he gives to customers.

7.69. Suppliers which operate two-tier dealer systems (as described in paragraph 5.19) need to allow a different margin for each tier of dealer. Thus Ford establishes a maximum price for wholesale transactions from its main to its retail dealers that results in a discount of 0.9 per cent (or in a few cases 1 per cent) less to its retail (second-tier) dealers than it gives its main (first-tier) dealers. Satra (now MVI) had a similar arrangement prior to January 1988 when it too had a two-tier dealership system.

7.70. Differential levels of margin may also be allowed for other purposes. Vauxhall gives an additional 1 per cent margin to dealers who hold only its franchises.

7.71. The additional allowances and incentives given to dealers from time to time can have a significant bearing on dealers' finances and on the prices they can offer customers. Vauxhall may be taken as an example. Allowances additional to standard margins tend to be related to promotions which are run at various times of the year. There are three categories. The first, called 'trading allowances', is designed to increase the sales of particular models. At certain times between 1986 and 1989 Vauxhall gave its dealers between £100 and £300 per car to try to increase the sales of Novas, Astras and Cavaliers. Also under this category Vauxhall includes incentives given for 'run-out' models (ie those soon to be replaced) which can be as high as £1,000 per car in the limited 'run-out' period. The second category is the 'model change allowance', which frequently amounts to some 5 per cent of list price and provides an incentive to sell models which have been discontinued. The third category is the 'specification allowance' which is given to improve the competitive position of models which have not had an improvement in specification for some time.

7.72. While suppliers set the financial framework in this way and provide incentives for particular categories of sale, they have no control over the discounts given by dealers to individual customers. Suppliers, moreover, have told us that apart from the information on margins provided by dealer management reports (from which average customer discounts can be deduced) they do not have information on the discounts given by their dealers.

7.73. There is, however, one general exception to this. The effective price reduction given to those fleet customers who purchase in particularly high volumes cannot be accommodated within the framework of the standard dealer margin. Additionally, a fleet customer may wish to establish a direct relationship with a supplier so that it will meet his particular requirements (eg for specifications or the scheduling of a large delivery) which the dealer could not meet. Suppliers therefore play a role in negotiating the effective price for this category of customer. We asked about this in our dealer survey. Just over one-third of dealers said that their supplier (or main dealer) actually negotiated the terms of fleet sales. Of these dealers around 80 per cent told us that the level of 'discounts' given on such fleet sales (as defined in paragraph 4.34) by their supplier (or main dealer) was higher than their standard dealer margin with 23 per cent of dealers being compensated for loss of potential margin. However, nearly all fleet sales are invoiced through the dealer.

7.74. 80 per cent of dealers said that they did not require to get approval from their supplier for the terms of fleet sales they negotiated. Of the remaining dealers around one-third said that their suppliers had to approve the terms of all fleet sales they negotiated, and two-thirds said that their suppliers had to approve some of the terms.

Terms of sale to the customer

7.75. All customers, except for those large fleet buyers just mentioned and a very small proportion of customers who use an agent, negotiate all the terms of their car purchases with a dealer. (The agent, which will usually be a small company specialising in car buying and, acting on behalf of customers from whom it has obtained orders, will also buy from a dealer.) Customers vary considerably in their knowledge of cars and of the buying system, and the extent to which individual customers negotiate with the dealer varies greatly, not only between categories of customers but also between individuals. Negotiation will concentrate on the discount off the list price, but will also take into account other financial benefits to the purchaser (as already mentioned in paragraph 7.3) and in many cases the value to be placed on a used car that is being offered by the customer in part-exchange. Our consumer survey showed that about three-quarters of customers offered an existing car in part-exchange when buying a new car, the proportion being consistent with information given to us by the companies.

7.76. When announcing a large reduction in its dealer margin on the new Astra model range (described in paragraph 7.31) Vauxhall said that its market research had shown that in the United Kingdom more than four-fifths of buyers would rather see a standard price than have to negotiate one.

7.77. We first look briefly at the negotiation of discounts from the point of view of the dealer. In one of our dealer questionnaires we asked dealers what was the relative importance of the factors which determined the level of discounts given to customers. The results are set out in Table 7.15.

TABLE 7.15 **Relative importance as seen by dealers of factors determining the level of discount given to a customer**

<i>Factor</i>	<i>Less important</i>	<i>Important</i>	<i>Very important</i>
Category of customer	35	40	25
Part-exchange	20	39	41
Strength of the market	5	39	56
Strength of competition	7	33	60
Availability of car model	8	33	59
Customers' persistence	53	41	6
Time of year	41	47	12
New model	17	45	38

Source: MMC dealer survey.

Note: Excludes nil returns.

7.78. We shall now consider the various aspects of the negotiation one by one. Given the different circumstances surrounding the private and the non-private purchase we shall look at the two sectors separately.

Private sector

7.79. We first consider the way in which private sales are negotiated, then examine levels of discounts that private customers receive, and finally look at the additional financial benefits.

Negotiation

7.80. Our consumer survey (covering purchases of new cars in 1989 and 1990, and described in detail in Appendix 4.2) asked a number of questions about the way in which discounts were obtained by consumers and their expectations when buying a new car. Responses covered just under 600 purchases during 1990, and over 1,200 in the previous year. Approximately 75 per cent of purchases in each year involved a part-exchange with the dealer from whom the new car was bought. Whilst the survey, based on consumers' recollections, provides some indication of consumer perceptions, its accuracy regarding the information on size of discounts is likely to be less than that of our discount survey (referred to in paragraph 7.86).

7.81. Many consumers were offered a discount from the start of negotiations although it appears that some of them did not realise this (see paragraph 7.111). Table 7.16 shows the percentage breakdown of the first price quoted to the consumer. While 42 per cent of consumers (in 1990) were initially quoted the list price, 33 per cent were quoted a lower price.

TABLE 7.16 Initial price quoted to consumers

	<i>per cent</i>	
	1989	1990
List price	44	42
Price lower than list	28	33
Not sure what price was quoted	8	6
Net price after taking into account valuation of part-exchange	17	17
Cannot remember	<u>3</u>	<u>2</u>
Total	100	100

Source: MMC consumer survey.

7.82. Expectations of receiving a discount varied widely between consumers. Table 7.17 shows that around 50 per cent of consumers expected to receive a discount of over 5 per cent but that over one-third expected no discount.

TABLE 7.17 Consumers' expectations of discounts

	<i>per cent</i>	
	1989	1990
None	40	34
5% or less	11	10
Over 5% to 10%	26	27
Over 10%	<u>23</u>	<u>29</u>
Total	100	100

Source: MMC consumer survey.

7.83. Some consumers who said that they expected to receive no discount were not, however, deterred from negotiating. Table 7.18 shows that in 1990 over 70 per cent of consumers said that they

negotiated on price. Of those (in 1990) who negotiated, 44 per cent did so with one dealer and 32 per cent did so with two.

TABLE 7.18 **Negotiation by consumers**

	<i>per cent</i>	
	1989	1990
Did negotiate	67	72
Did not negotiate	<u>33</u>	<u>28</u>
Total	100	100

Source: MMC consumer survey.

7.84. We compare in Table 7.19 the discounts that consumers reported that they received with those they expected. (Part-exchanges, accounting for about three-quarters of the sample, are excluded.) The underlined figures in the table forming diagonals show those consumers that received roughly the discount they expected-in each case as a percentage of all those in that expectations group. Thus in 1990 of those who expected no discount 84 per cent received no discount; and at the other end of the scale of those who expected more than 10 per cent, 83 per cent received more than 10 per cent. The figures above and to the right of the diagonal are consumers who in differing ways received a larger discount than they expected; and the figures below and to the left of the diagonal are the consumers who received less than expected. The largest group whose expectations were not realised were the 46 per cent (in 1989) who expected a discount of up to 5 per cent but received none.

TABLE 7.19 **Analysis of discounts received by size of discount expected, 1989 and 1990**

<i>Discount expected</i>	<i>Discount received, per cent</i>				
	1989				
	<i>Nil</i>	<i>5% or less</i>	<i>Over 5% to 10%</i>	<i>Over 10%</i>	<i>Total</i>
None	<u>79</u>	9	10	2	100
5% or less	46	<u>38</u>	12	4	100
Over 5% to 10%	10	18	<u>57</u>	15	100
Over 10%	9	1	18	<u>72</u>	100
All consumers	24	11	30	35	100
	1990				
None	<u>84</u>	6	5	5	100*
5% or less	15	<u>64</u>	14	7	100*
Over 5% to 10%	13	9	<u>64</u>	14	100
Over 10%	3	2	12	<u>83</u>	100
All consumers	17	10	26	47	100

Source: MMC consumer survey.

*Less than 30 responses.

7.85. The possible effect of negotiation is shown in Table 7.20, which focuses on those consumers who were initially quoted the list price. (Again part-exchanges are excluded.) Data are shown only for 1989 because of the small number of responses. Not surprisingly, most of the consumers who responded to the survey and who negotiated appear to have received higher discounts than those who did not. Even some of those with low expectations did better by negotiating. For example, 95 per cent of those consumers who expected no discount and did not negotiate received no discount, but the proportion fell to 60 per cent for those who did negotiate. However, it should be noted that these figures are based on data received from less than 30 respondents.

TABLE 7.20 Effect of negotiation on discounts received, 1989

<i>Discount expected</i>	<i>Discount received, per cent</i>				<i>Total</i>
	<i>Nil</i>	<i>5% or less</i>	<i>Over 5% to 10%</i>	<i>Over 10%</i>	
Consumers who did not negotiate					
None	95	5	0	0	100*
5% or less	100	0	0	0	100*
Over 5% to 10%	50	0	50	0	100*
Over 10%	<u>38</u>	<u>0</u>	<u>0</u>	<u>62</u>	<u>100*</u>
Total	73	2	8	17	100
Consumers who did negotiate					
None	60	20	20	0	100*
5% or less	43	29	14	14	100*
Over 5% to 10%	0	22	64	14	100
Over 10%	<u>8</u>	<u>0</u>	<u>20</u>	<u>72</u>	<u>100</u>
Total	10	13	38	39	100

Source: MMC consumer survey.

*Less than 30 respondents.

Discounts

7.86. Our main source of information on the discounts customers received is a survey we carried out of new car sales. This covered a sample of 3,000 such sales during 1990. They involved 51 dealers in areas to the north-east and south-west of London, the North-West, the South-West, East Midlands, Wales and Scotland. Each dealer sold over 200 new cars in 1990. The dealers were selected with a view to giving a reasonable representation of the three largest suppliers (Ford, Vauxhall and Rover) and some representation of the other 13 major suppliers. The survey covered retail sales only (ie it did not include fleet sales), and excluded any transaction which involved a part-exchange.¹ Where identified, sales to employees and the disabled who bought cars through the Motability Scheme were excluded, as were transfers between dealers.

7.87. The details of the sale were taken from a copy of the sales invoice to the customer and this sale was then traced to the dealer's consignment note to determine the wholesale and retail list price.

7.88. We have compared the distribution of sales by supplier in our discount survey with new registrations in the retail sector of the total market, and the time profile of sales in our survey with the profile of new registrations in the total market. The distributions are very similar.

7.89. 80 per cent of the sample were registered in the name of a private individual and the results are reported here. For the other 20 per cent, which were registered as company sales, we discuss the results in the section on the non-private (non-fleet) sector (paragraphs 7.126 to 7.131). (Further details on the discount survey are given in Appendix 4.2.)

Discounts by marque

7.90. As shown in Table 7.21, there is a wide distribution of discounts for any given marque and considerable variety between them. The average discount for all marques covered is 11 per cent. The highest average discount (13 per cent) was for Volkswagen and Ford; low average discounts were for BMW (3 per cent) and Honda (4 per cent).

¹One of our dealer surveys showed that more than 80 per cent of dealers give away about the same in the form of an 'over-allowance' in taking a used car in part-exchange for a new car as they would in discount when there is no part-exchange involved.

TABLE 7.21 Distribution by marque of discounts given to private buyers in 1990

per cent

Discount	All*	Ford	Vaux- hall	Rover	Peugeot	Nissan	VW	Fiat	BMW	Citroën	Honda	Renault	Toyota	Volvo	Audi
0	7	2	3	15	8	9	1	8	21	2	16	6	12	2	4
1	1	1	1	2	2	2	0	2	1	4	2	0	5	0	0
2	1	1	0	2	3	2	0	4	9	2	2	2	0	0	4
3	4	4	0	3	0	5	1	2	21	2	21	2	3	2	0
4	3	4	2	4	1	2	0	2	12	4	16	2	0	0	0
5	3	1	0	1	3	5	1	2	16	4	16	2	5	0	7
6	4	3	2	6	3	6	0	0	8	7	14	3	3	2	11
7	4	3	2	3	9	10	1	4	8	2	4	2	2	0	4
8	4	3	3	6	6	9	0	2	4	4	2	5	7	2	19
9	4	2	4	5	7	8	3	2	0	7	4	6	5	6	15
10	7	5	11	8	9	8	3	6	1	8	2	10	9	12	22
11	6	5	5	7	7	7	12	4	0	8	0	10	10	12	4
12	7	8	12	2	7	9	10	8	0	6	0	12	9	15	4
13	8	10	15	4	9	5	9	0	0	4	0	11	17	19	0
14	8	8	14	5	8	2	15	18	0	7	2	10	5	6	0
15	7	7	12	4	5	4	12	14	0	8	0	9	2	12	0
16	7	7	11	6	8	2	10	4	0	15	0	4	2	8	4
17	4	7	2	4	3	2	11	14	0	2	0	2	3	2	0
18	3	6	1	3	1	0	8	6	0	1	0	1	0	2	0
19	2	4	0	1	0	1	1	0	0	0	0	2	0	0	0
20	1	3	0	2	1	1	0	0	0	0	0	0	0	0	0
21	1	1	0	2	0	1	0	0	0	1	0	0	0	0	4
22	0	1	0	1	0	1	0	0	0	0	0	0	0	0	0
23	1	2	0	2	1	0	0	0	0	0	0	0	0	0	0
24	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0
25	1	1	0	1	1	0	0	0	0	0	0	0	0	0	0
25+	1	2	0	1	0	0	0	0	0	0	0	0	0	0	0
	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Average	11	13	12	10	10	8	13	11	3	10	4	10	8	12	8

Source: MMC discount survey.

**All* also includes Lada, Proton and Yugo.

Note: Totals may not sum due to rounding.

7.91. Overall 7 per cent of cars were sold with no discount; at the other extreme 5 per cent were sold with discounts of 20 per cent or more. The proportion of cars sold without a discount varied considerably, from the 1 per cent of Volkswagen to the 21 per cent of BMW. Ford and Vauxhall are at the lower end with only 2 or 3 per cent (respectively) sold without a discount. Table 7.22 shows the extent of discounting in private sales by marque.

TABLE 7.22 Proportion of private sales in which discounts were given, by marque, 1990

	%
Audi	96
BMW	79
Citroën	98
Fiat	92
Ford	98
Honda	84
Mercedes-Benz	0
Nissan	91
Peugeot	92
Renault	94
Rover	85
Toyota	88
Vauxhall	97
Volvo	98
Volkswagen	99
Average*	93

Source: MMC discount survey.

*Also includes Lada, Proton and Yugo.

7.92. The levels of discount that were most frequently negotiated by dealers varied considerably by marque. 70 per cent of Ford cars were sold with discounts of between 10 and 20 per cent; 80 per cent of Vauxhall sales had discounts of between 10 and 16 per cent; while the discounts given by Rover dealers varied more widely, with around 35 per cent of sales having discounts of between 6 and 11 per cent-but 15 per cent of sales had no discount, of which the Mini accounted for 42 per cent, the Metro 22 per cent, the 400 series 18 per cent and the 200 series 16 per cent.

7.93. For Peugeot three-quarters of cars were sold with discounts of between 7 and 16 per cent. In the case of Volkswagen nearly 90 per cent of cars were sold with discounts ranging from 11 to 18 per cent. Around half of Fiat cars were sold with discounts of between 14 and 17 per cent. Two-thirds of Citroën cars were sold with discounts of between 8 and 16 per cent. But nearly half of BMW sales had discounts of only 3 to 5 per cent.

7.94. Of the Japanese marques, over two-thirds of Honda cars were sold with discounts of only 3 to 6 per cent; two-thirds of Nissan sales had discounts of between 5 and 13 per cent; while 45 per cent of Toyota cars were sold with discounts of between 10 and 13 per cent.

Discounts by model range

7.95. The range of discounts sometimes varies between the model ranges of a single supplier. This is shown in Table 7.23 which sets out the distribution of discounts for selected model ranges of four leading suppliers.

7.96. In the case of Ford there is very little difference between the average discount, and the distribution of discounts, for the three model ranges. We also analysed the discounts given with the Orion and Granada, but again there was very little difference by model range in the pattern of discounts. The results for three Vauxhall model ranges are shown in Table 7.23 and, as in the case of Ford, there is little difference between them in the distribution of discounts and the averages.

7.97. In the case of Rover, however, there are differences both in the distribution of discounts and the averages. The Metro has an average discount of 10 per cent (the same as for all Rover cars covered in the sample), but the average for the Mini is 6 per cent, for the 200 series 9 per cent and for the Maestro 17 per cent. We also looked at the 400 Series, which has an average discount of 3 per cent though this is based on a small number of observations.

7.98. In the case of three Nissan model ranges the discounts given with the Micra and the Sunny are similar, both having an average discount of 8 per cent, but the average discount for the Bluebird's sales is 12 per cent and the range is wider.

7.99. The model ranges of other suppliers were analysed but are not shown in the table. There is little difference in the discounts given on the Volkswagen Golf and Polo. The Renault 5 has an average discount of 9 per cent compared with an average of 11 per cent for the Renault 19. The average discounts given on BMW variants in its 3 and 5 Series were 3 and 4 per cent respectively.

7.100. Since the level of discounts may therefore vary by model range within a single make, as well as by make and market segment, the customer is not able to rely on any discount information he may have that does not relate to the particular model range in view.

Distribution of discounts by position in the model range

7.101. We have also considered whether the pattern of discounts may vary by trim level across model ranges. It had been suggested to us that larger discounts were usually available on cars with higher trim levels. We have looked at the cars of the three leading suppliers, Ford, Vauxhall and Rover, and divided them each into three groups by trim level. If larger discounts were given on higher trim-level cars, the discounts of group 3 (as shown in Table 7.24) would be expected to be larger than the discounts in groups 1 and 2. There might also be some similarity between group 3 discounts as between suppliers.

TABLE 7.23 Distribution of discounts given to private buyers on selected model ranges, 1990

per cent

Discount	Ford			Rover				Vauxhall			Nissan		
	Escort	Fiesta	Sierra	Metro	Mini	200	Maestro	Astra	Cavalier	Nova	Bluebird	Micra	Sunny
0	2	1	3	8	34	7	4	1	0	5	4	7	17
1	1	1	0	1	3	0	0	0	1	2	0	2	0
2	0	0	1	1	0	10	0	0	0	0	0	3	3
3	7	2	3	4	6	2	0	0	0	0	4	6	0
4	3	6	1	3	2	10	0	0	1	2	4	1	3
5	0	2	1	2	2	2	0	0	0	0	4	6	0
6	3	3	1	7	3	5	0	3	0	3	4	7	3
7	1	4	3	4	3	2	0	1	0	4	4	10	10
8	4	3	1	7	13	2	0	1	1	5	8	11	0
9	2	3	1	6	5	5	7	1	1	6	4	6	21
10	3	6	6	7	10	14	0	13	6	13	4	10	3
11	2	6	9	7	3	10	7	9	3	5	4	7	10
12	11	8	3	4	2	0	4	9	12	12	12	11	3
13	13	10	9	4	6	0	0	16	19	12	4	7	0
14	8	8	7	9	0	2	7	10	14	16	8	1	0
15	5	7	11	4	0	5	0	16	20	5	4	3	10
16	9	5	7	5	0	10	11	12	16	8	4	1	7
17	6	5	10	5	0	0	7	4	1	2	4	0	7
18	6	5	6	4	0	2	11	1	3	0	0	0	0
19	4	3	6	2	0	0	7	0	0	1	4	0	0
20	2	3	3	1	2	2	4	0	0	0	4	0	0
21	2	1	1	4	0	0	4	0	0	0	4	0	0
22	1	1	0	1	3	2	0	0	0	0	4	0	0
23	1	2	0	1	3	2	15	0	0	0	0	0	0
24	0	0	0	0	0	0	7	0	0	0	8	0	0
25	1	1	3	1	0	2	0	0	0	0	0	0	0
25+	<u>1</u>	<u>3</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>4</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	100	100	100	100	100	100	100	100	100	100	100	100	100
Average	13	13	14	10	6	9	17	12	13	11	12	8	8

Source: MMC discount survey.

Note: Totals may not sum because of rounding.

7.102. The results of this analysis, as set out in Table 7.24, do not, however show any systematic difference between the three groups of trim levels in respect of size of discount. For Ford and Vauxhall there is little difference in the discounts between any of the three groups. In the case of Rover there is a higher level of discount at the lower trim levels, though this may reflect mainly the number of Metros allocated to this trim-level group.

TABLE 7.24 Distribution of discounts given to private buyers on selected makes, by trim-level group in the model range

Trim-level group (see paragraph 7.101)	per cent								
	Ford			Rover			Vauxhall		
	1	2	3	1	2	3	1	2	3
Discount (%)									
0	2	4	2	10	23	10	4	0	0
1	1	0	1	0	7	4	2	0	0
2	0	0	0	1	2	4	0	0	0
3	4	4	2	5	2	3	0	0	0
4	6	0	0	2	2	9	1	3	0
5	2	4	0	3	2	0	0	0	0
6	2	0	4	5	7	9	2	0	0
7	2	0	5	4	0	3	2	0	0
8	5	0	3	4	9	4	2	3	0
9	3	0	2	6	7	4	5	3	0
10	4	9	8	7	14	7	11	10	10
11	5	0	5	7	5	13	5	0	5
12	8	4	12	4	0	0	11	13	14
13	10	13	6	4	2	7	14	13	24
14	8	9	6	5	0	3	15	26	5
15	7	4	8	3	2	4	10	15	24
16	6	17	8	6	2	7	11	13	14
17	8	9	3	5	5	3	3	3	5
18	5	9	7	3	2	1	2	0	0
19	3	4	5	4	0	0	1	0	0
20	3	4	3	2	0	1	0	0	0
21	1	0	3	4	0	1	0	0	0
22	1	0	1	0	2	0	0	0	0
23	2	0	1	4	5	0	0	0	0
24	1	0	0	1	0	0	0	0	0
25	1	4	3	2	0	0	0	0	0
25+	2	0	3	0	0	1	1	0	0
	100	100	100	100	100	100	100	100	100
Average	12	13	13	11	7	8	12	13	13

Source: MMC discount survey.

Note: Totals may not sum because of rounding.

Variation of discounts over time

7.103. We have been told that the pattern of discounts varies over time. For example, higher discounts are said to be available in the months when sales are traditionally low (especially July) and also in the final week of each month when dealers' performance may be assessed against various targets. We have analysed the distribution of discounts by month, by week, and for the last seven days in each month. We have not, however, been able to detect any significant difference in the distribution of discounts on any of these bases.

Distribution of discounts by region

7.104. We also examined the distribution of discounts by region. On the whole there is little difference in discounts between regions for a given make of car. Where differences do exist there is no clear pattern.

Suppliers' estimates of dealers' discounts

7.105. Ford provided us with information on average discounts given to its customers. It relates to all customers except for fleet sales (defined as described in paragraph 4.32) and is not therefore directly comparable with the figures in Tables 7.21 and 7.23 as they refer to private sales only. The Ford figures are set out in Table 7.25. In 1990 the average discounts ranged from 9.7 per cent for the Fiesta to 13.4 per cent for the Granada. Average discounts for the Fiesta and Escort were higher in 1990 than in the years 1987 to 1989 but were lower than the 1986 levels. For the Orion and the Granada average discounts were higher in 1990 than in any other year; and average discounts for the Sierra in 1990 were similar to those given in 1986 but higher than for the intervening years.

TABLE 7.25 Ford dealers' average discounts, 1986 to 1990

	1986	1987	1988	1989	1990
Fiesta	11.0	9.0	8.2	8.9	9.7
Escort	11.4	9.8	8.9	9.2	10.5
Orion	11.4	10.8	9.9	10.5	12.3
Sierra	11.9	11.0	10.2	11.1	11.8
Granada	11.7	11.7	11.7	12.2	13.4

Source: Ford.

7.106. Vauxhall (through its consultants A T Kearney (ATK)) has also provided information on its discounts. The figures, which like Ford's relate to all customers except fleet, are set out in Table 7.26. For the second quarter of 1990 they show an average discount of 13.1 per cent. The average discount varies by model range from a low of 9.4 per cent for the Nova to a high of 14.9 per cent for the Carlton. ATK carried out further work (put to us in May 1991) to see to what extent non-fleet business customers in the United Kingdom obtain different discounts from private customers. Based on an analysis of over 600 invoices of Vauxhall sales in the United Kingdom it concluded that there is no significant difference between the average discount for the private customer and the overall average for private and non-fleet business customers combined. For the Astra, however, ATK estimated the average discount for the private customer at 10.6 per cent compared with an average for all non-fleet sales of 11.6 per cent, though the latter was over two points lower than the average of 13.7 per cent for the Astra for retail customers in its full survey (of December 1990).

TABLE 7.26 Vauxhall dealers' discounts, 1989/90

	1989 (Q1)	1990 (Q1)	1990 (Q2)
Nova	12.2	13.0	9.4
Astra	12.4	11.9	13.7
Cavalier	11.7	12.9	13.9
Carlton	13.0	14.0	14.9
Senator	<u>12.7</u>	<u>11.4</u>	<u>12.0</u>
Total	12.2	12.6	13.1

Source: ATK.

7.107. Renault has also provided us with figures for average discounts and like the other suppliers they apply to all non-fleet customers. The average was 10.6 per cent in 1989 and 10.7 per cent in 1990—slightly higher than the figures of 9.4 per cent in 1988 and 9.6 per cent in 1987 but lower than the 11.2 average per cent of 1986.

Employee discounts

7.108. Most suppliers operate purchasing schemes in favour of their employees and employees' relatives. The rules of the schemes *inter alia* cover eligibility (for example, in relation to family members), frequency of purchase, and level of discount. Some schemes are more generous than others in terms of

scope and size of discount given, but they all tend to ensure that the beneficiaries are able to purchase cars on better terms than can be negotiated by most private buyers or non-fleet business customers.

7.109. Table 7.27 shows the percentage of new car registrations accounted for by sales to employees and their eligible relatives and the range of discounts given with such sales for each of the four main United Kingdom producers.

TABLE 7.27 **Leading suppliers' sales of new cars to employees, etc, and related discounts, 1988 to 1990**

	<i>percentage of new car registrations</i>			<i>Size or range of discount</i>
	<i>1988</i>	<i>1989</i>	<i>1990</i>	
Ford	4.6	4.4	4.9	19.7-22.5*
Vauxhall	1.9	1.7	1.9	19
Rover	4.8	7.0	5.6	14-22.5
Peugeot	1.0	1.1	0.9	15 and 20.5†

Source: MMC calculations on data supplied by the companies.

*Discounts are calculated at 93.4 per cent of the wholesale price.

†15 per cent given on imported cars and 20.5 per cent on cars produced in the United Kingdom.

The effect of part-exchange on discounts

7.110. Based upon our consumer survey, Table 7.28 shows the distribution of discounts when part-exchanges are included and when they are excluded.

TABLE 7.28 **Distribution of discounts of all suppliers with and without part-exchange, 1989 and 1990**

<i>Size of discount</i>	<i>per cent</i>					
	<i>1989</i>			<i>1990</i>		
	<i>Part-exchange Without</i>	<i>With</i>	<i>Overall</i>	<i>Part-exchange Without</i>	<i>With</i>	<i>Overall</i>
None	24	55	47	17	47	39
5% or less	11	15	14	10	13	13
Over 5% to 10%	30	18	21	26	20	21
Over 10%	<u>35</u>	<u>12</u>	<u>18</u>	<u>47</u>	<u>20</u>	<u>27</u>
Total	100	100	100	100	100	100
Average discount*	6.9	3.2	4.2	8.1	4.2	5.3

Source: MMC consumer survey.

*Using mid-points of the bands.

Two points emerge from the comparison. Firstly, the level of discounts negotiated in 1990 was higher than in 1989. Secondly, the main conclusion must be that consumers with no part-exchange believed that they received a higher discount-irrespective of year-than consumers with a part-exchange. In 1990 47 per cent of consumers without a part-exchange believed that they received a discount over 10 per cent compared with only 20 per cent of consumers with a part-exchange; and conversely only 17 per cent of consumers without a part-exchange believed that they received no discount at all compared with 47 per cent of consumers with a part-exchange. However, as mentioned in the footnote to paragraph 7.86, the responses from one of our dealer questionnaires showed that over 80 per cent of dealers gave away about the same in discount combined with over-allowance in a part-exchange as they do in discount alone when there is no part-exchange. Consumers therefore may not equate a discount with an over-allowance or they may not know how large an over-allowance they are receiving. As noted in paragraph 7.80, our discount survey provides a more accurate indication of the distribution of discounts for purchases that did not include a part-exchange.

7.111. Table 7.28 shows that 17 per cent of customers who bought a new car in 1990 without a part-exchange believed that they did not receive a discount-compared with 7 per cent found in the discount survey (see Table 7.21). This difference may be explained by two factors: in the consumer survey some customers who were initially quoted a price lower than the list price said that they did not receive a discount; adjusting for this reduces the proportion of customers receiving no discount to 12 per cent. Secondly, the average discount in the discount survey was around two points higher than that in the consumer survey. This was because the discount survey focused on the main suppliers, whereas the consumer survey included a higher proportion of luxury and niche makes, and also because the consumer survey was restricted to private purchases, whereas it is likely that the discount survey included cars which were financed, wholly or in part, by an employer but registered in the employee's name.

Financial benefits

7.112. As mentioned earlier, discounts are not the only element in the negotiation between dealer and customer. The dealer is also able to offer, at different times and varying by model, one or more additional financial benefits, such as loans at low or nil rates of interest, free or low-cost insurance, free membership or reduced rates of subscription to motoring organisations (such as the Automobile Association (AA) and the Royal Automobile Club (RAC)), and free or reduced rates for services or extended warranties. The dealer may also be able to offer a 'special edition' within a model range. For most customers cheap finance is the most significant of the financial benefits in value terms. Table 7.29 shows the percentage of sales by supplier in 1990 which included a finance option. The average proportion was 43 per cent. Sales of Renault cars had the highest proportion of finance options at over 80 per cent. Renault told us that, based on information from Hire Purchase Information Ltd, 68 per cent of its new cars in 1990 were sold with a financing option. In the case of Ford and Vauxhall over half of sales included this option.

TABLE 7.29 Sales to private buyers by marque including a finance option, 1990

	%
Audi	22
BMW	62
Citroën	40
Fiat	26
Ford	61
Honda	2
Lada	73*
Mercedes	41
Nissan	26
Peugeot	28
Renault	81
Rover	28
Toyota†	33
Vauxhall	52
Volvo	19
Volkswagen	17
Average‡	43

Source: MMC discount survey.

*Small sample.

†Given by the dealer.

‡Also includes Proton and Yugo.

7.113. Unlike discounts financial benefits are advertised by the suppliers and the terms are not subject to negotiation between dealer and customer. The existence of some of these benefits might be expected to affect the size of discount given by dealers. We have considered this with respect to finance packages. Table 7.30 shows the average discounts by supplier with and without a finance option in 1990. There is little difference in the two sets of averages for most suppliers, including Ford, Vauxhall and Rover.

TABLE 7.30 Average discounts on sales to private buyers with and without finance option, 1990

	<i>With</i>	<i>Without</i>
Audi	5*	9
BMW	3	3
Citroën	8	11
Fiat	5*	13
Ford	12	13
Honda	4	4
Lada*	13	13
Nissan	8	8
Peugeot	9	10
Renault	10	12
Rover	10	10
Toyota	9	8
Vauxhall	11	12
Volvo	11*	12
Volkswagen	14	13

Source: MMC discount survey.

*Small sample.

7.114. In most cases the average cost to the supplier of providing this benefit is less than its value to the consumer, since the supplier is able to negotiate better terms with financial institutions, insurance companies or motoring organisations.

7.115. The take-up and size of financial benefits is generally much higher in the private than in the non-private sector, and hence the vast majority of the funds provided by suppliers to finance these benefits are attributable to private sales.

7.116. We now turn to the marketing programmes of individual suppliers, focusing principally on examples of financial benefits provided by the three leading suppliers. In 1989 approximately 17 per cent of Rover customers took advantage of a cheap finance scheme and around twice that number had it available as an option. The total cost to Rover was £21 million, which was just over one-half of 1 per cent of its total turnover (£3.4 billion) or about £400 per unit sold. In 1987 only 12 per cent of Rover customers availed themselves of such finance packages, the total cost to Rover being £8 million (just over one-quarter of 1 per cent of its £3.1 billion total turnover) at a unit cost of approximately £200. In 1986, however, very few customers had a low-rate finance package. Rover, on the other hand, has made relatively little use of special edition models: it estimated that in 1990 it sold nearly 18,000 such cars compared with less than 6,000 in 1986.

7.117. The Boston Consulting Group (BCG), consultants commissioned by Rover, estimated that on average the financial benefit of low-cost finance programmes to consumers was 4 per cent of the net-of-tax list price for all new cars.

7.118. Ford has offered a wide range of financial benefits for several years. Table 7.31 shows the number of Ford sales of special model editions and those accompanied by financial benefits for the period 1986 to 1990.

TABLE 7.31 Ford sales of special model editions and sales accompanied by financial benefits, 1986 to 1990

<i>Financial benefit</i>	<i>'000 new car sales</i>				
	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>
Special model editions	27.6	37.1	35.9	75.2	82.9
Low-rate finance	79.7	131.1	133.6	163.7	145.7
Free insurance	0.0	0.0	0.0	26.4	76.9
Subscriptions to motoring organisations	0.0	0.0	6.8	149.9	507.2
Free service	0.0	0.0	0.0	7.8	3.6
Free extended warranties	29.7	0.1	0.0	6.8	0.0
Total sales	507.1	575.7	583.6	608.6	507.2

Source: Ford.

7.119. The number of Ford sales accompanied by cheap finance varied over the period, reaching a peak in 1989 on the basis of the number of offers taken up. But as a proportion of total sales the 1990 level is higher than that of 1989: in the former 29 per cent of all Ford new registrations had low-rate finance compared with 27 per cent in 1989. Free insurance was not introduced until 1989, and the number of sales linked to it increased rapidly from 26,000 in 1989 to 77,000 in 1990. Subsidised subscriptions to motoring organisations were introduced in 1988, and are now offered on all sales. However, Ford's current marketing programmes do not include either low-rate finance or free insurance.

7.120. Ford has also provided information on the relationship that it considers to exist between the cost of the benefits to the company and their value to customers. Table 7.32 shows this relationship by type of benefit for 1990. Special edition models are excluded.

TABLE 7.32 Relationship between costs of financial benefits to Ford and average value to customers, 1990

	Total cost £m	Average unit cost to Ford £	Average value to customer £	Ratio of value to cost	
Subscriptions to motoring organisations	[‡]	80	[‡]
Low-rate finance	63.7	126	229	1.0*	
Low-rate insurance	13.4	26	53	2.0	
Other	<u>14.9</u>	<u>29</u>	<u>74</u>	<u>1.9</u> †	
Total	[‡]	436	2.0
Total turnover	5,674.0				

Source: Ford.

*Ford has assumed that the value to the customer is the same as the cost to Ford. The reason for the difference between cost and value is that the value assumes that only retail customers benefit whereas the cost to Ford is divided by its total volume.

†Combination of programmes applicable to total volumes and those applicable to retail customers only.

7.121. The total cost to Ford of financial benefits in 1990, at £96 million, was just under 2 per cent of its total turnover in that year. The cost of low-rate finance accounted for two-thirds of the total cost of financial benefits. Ford estimates that the average benefit to its customers was £436, with low-rate finance accounting for just over half of the average benefit. The actual value of these benefits to individual customers will vary considerably, partly depending on the value of the car, partly because the availability of benefit varies and partly because the circumstances of individuals differ. For example, Ford has published typical savings on insurance ranging from £153 to £811.

7.122. The value of benefits also varies by model range. Table 7.33 shows Ford's estimate of the value of financial benefits as a percentage of net-of-tax list price by model range in 1989 and 1990. Special edition models are again excluded.

TABLE 7.33 Value of Ford's financial benefits in 1989 and 1990 as a percentage of net-of-tax list price

	per cent	
	1989	1990
Fiesta	2.5	7.7
Escort	5.8	7.2
Orion	5.7	7.0
Sierra	3.8	2.9
Granada	1.6	1.0
Average	3.9	5.7

Source: Ford.

The average value of financial benefits to the customer varies by model range, and changes from one year to another.

7.123. Vauxhall has also provided information on financial benefits and other forms of marketing promotions. Table 7.34 shows Vauxhall's estimate of the average benefit of its marketing programmes over the period 1988 to 1990. 'Campaign models' (a form of 'run-out' model) are included in the programme.

TABLE 7.34 Average benefit to customers of Vauxhall's financial benefits and marketing promotions, 1988 to 1990

	£			
	1988 (Q1)	1989 (Q1)	1990 (Q1) (Q2)	
Nova	233	233	529	610
Astra	265	265	562	731
Cavalier	0	0	0	0
Carlton	0	0	22	1
Senator	0	0	0	0

Source: ATK.

Vauxhall told us that the take-up rate of low-rate finance for models on which it was available was 76 per cent. For the Astra in October 1990 the average benefit of low-rate finance was £696 for those customers who took up the offer and £439 when averaged across all non-fleet sales. For the Astra, the average benefit of Vauxhall's marketing programmes increased from 4 per cent of the average price (excluding taxes) of the Astra in the first quarter of 1989 to 7.5 per cent in the first quarter of 1990 to 8.4 per cent in the second quarter of 1990.

7.124. Vauxhall, like Ford, targets its marketing programme mainly at the small and lower medium segments. The value of its programmes for the Nova and Astra was much higher in the first half of 1990 than in the first quarter of each of the previous two years.

7.125. Most of the other 13 suppliers that have more than 1 per cent of the market currently offer low-rate finance or have done so over the last few years. However, five suppliers told us either that they did not offer financial benefits or that they had offered them on only a very limited number of occasions. Mercedes-Benz and Honda told us that they did not offer such a package; BMW and VAG (UK) told us that they did not usually offer such packages, whilst Toyota said that it made only limited use of them.

Non-private sector

Discounts

7.126. Information on the discounts received by customers in the non-private sector comes mainly from our discount survey and from answers to our questionnaire to suppliers. Out of the 3,000 sales covered by the discount survey there were 600 registered in the name of a company (but not fleet sales) and it is these that form the basis of the first analysis in this section.

Discounts by make

7.127. The distribution of discounts by make given to non-private (non-fleet) customers are shown in Table 7.35.

TABLE 7.35 Distribution by make of dealer discounts given to non-private (non-fleet) buyers in 1990

Discount	per cent											
	All	Ford	Vaux- hall	Rover	Peugeot	Nissan	VW	BMW	Citroën	Renault	Toyota	Volvo
0	4	1	0	2	0	0	0	13	2	0	10	0
1	2	2	0	3	0	0	0	3	0	0	7	0
2	1	2	0	0	0	0	0	1	0	0	0	15
3	2	2	0	2	0	0	0	6	0	0	0	0
4	3	2	0	0	0	0	3	11	2	0	0	0
5	5	1	0	5	0	0	3	20	0	0	3	0
6	5	2	0	2	0	0	0	20	2	0	0	0
7	5	2	0	3	10	0	3	18	5	0	0	0
8	4	2	1	3	0	50	0	4	0	2	10	0
9	4	3	3	0	0	0	6	1	2	2	13	0
10	4	2	3	14	5	0	0	0	5	3	7	0
11	6	3	6	23	0	0	9	1	0	6	13	0
12	4	2	6	3	15	25	0	0	5	11	7	0
13	10	13	12	5	30	25	14	0	20	8	3	15
14	8	6	7	13	15	0	20	1	12	9	10	15
15	11	13	19	5	10	0	17	0	17	17	0	31
16	11	9	34	5	5	0	14	0	15	18	7	15
17	6	10	3	3	10	0	9	0	7	14	7	8
18	3	8	1	5	0	0	3	0	2	2	0	0
19	2	5	0	0	0	0	0	0	0	5	0	0
20	1	2	0	5	0	0	0	0	0	0	0	0
21	1	2	1	2	0	0	0	0	0	3	0	0
22	0	1	0	0	0	0	0	0	0	0	0	0
23	0	2	0	0	0	0	0	0	0	0	0	0
24	0	0	0	0	0	0	0	0	0	2	0	0
25	0	1	0	0	0	0	0	0	0	0	0	0
25+	<u>1</u>	<u>2</u>	<u>1</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>3</u>	<u>0</u>
	100	100	100	100	100	100	100	100	100	100	100	100
Average	11	14	14	11	13	10	13	4	13	14	10	12

Source: MMC discount survey.

Note: Totals may not sum because of rounding.

7.128. As in the private sector, the distribution of discounts to these non-private buyers varies considerably between suppliers. The distribution, however, is more concentrated than that in the private sector. An example is the discounts given by Rover: nearly 60 per cent of discounts in the non-private (non-fleet) sector are between 10 and 14 per cent, whilst for private sales the 60 per cent level is reached only when the discount band is widened to between 6 and 16 per cent.

7.129. On the whole, discounts given by dealers to private customers are somewhat less than those given to these non-private (non-fleet) customers. Table 7.35 shows an overall average discount of 11 per cent which compares with the same overall average given to private customers shown in Table 7.21. However, the makes with lower discounts (eg BMW) formed a larger part of the non-private sample, thereby depressing the overall average compared with that of the private sample. After adjusting for this difference the overall average discount to the private buyer is around two points below that of the non-private (non-fleet) buyer. Table 7.36 sets out the differences by supplier. Larger differences are shown for Peugeot and Citroën (each showing a difference of three points) and for Renault (four points) in favour of the non-private customers.

TABLE 7.36 Average dealer discounts by make on private and non-private (non-fleet) sales in 1990

	<i>per cent</i>	
	<i>Non-private (non-fleet)</i>	<i>Private</i>
Ford	14	13
Vauxhall	14	12
Rover	11	10
Peugeot	13	10
Nissan	10*	8
Volkswagen	13	13
BMW	4	3
Citroën	13	10
Honda	4*	4
Renault	14	10
Toyota	10	8
Volvo	12*	12

Source: MMC discount survey.

*Small sample.

Discounts by model range

7.130. We have compared the average discount for certain Ford and Vauxhall model ranges given to private customers with those given to the non-private customers for the same ranges—although analysis at this level is limited by the small number of observations. For Ford, the average discount given with the Escort and Orion was two points higher for the non-private customers; it was one point higher for the Granada; and for the Fiesta and the Sierra the average discounts were one point lower for the non-private customers. For Vauxhall, discounts to the non-private customers were slightly higher than those to private customers, by one point for the Astra and Carlton, two points for the Nova, and three points for the Cavalier.

7.131. As was the case for private sales, there was little difference in average discounts by supplier in cases where a finance option was taken up. The comparison of average dealer discounts for the non-private customers is shown in Table 7.37.

TABLE 7.37 Average discounts by make on sales to non-private (non-fleet) buyers with and without finance option, 1990

	<i>per cent</i>	
	<i>Without finance</i>	<i>With finance</i>
Audi*	8	6
BMW	5	4
Citroën	13	13
Ford	14	13
Honda*	5	3
Peugeot*	13	13
Renault	15	14
Rover	11	12
Toyota	10	11*
Vauxhall	15	14
Volvo*	12	14
Volkswagen	13	12*

Source: MMC discount survey.

*Small sample.

Fleet sales

7.132. As explained in paragraph 7.73, some fleet sales are negotiated entirely between dealer and customer, but where large total discounts (including rebates) are likely to be given the supplier plays a role too as the level of total discount cannot be accommodated within the normal financial framework in which the dealer operates. The role played by the supplier both in the negotiations and in the financial contribution varies between suppliers.

7.133. Table 7.38 shows the distribution of total discounts, and the weighted average discount, given to fleet buyers (as defined by the suppliers themselves) between 1986 and 1990. The figures represent the combined contributions of dealer and supplier. The suppliers included account for around 70 per cent of fleet sales in 1990 (Rover being the main company that did not provide data on this basis). The table shows that the average discount to fleets in 1990 was just over 22 per cent and ranged from 0 to 5 per cent to 41 to 45 per cent. In 1990 nearly 54 per cent of sales (based on the data available to us) had a discount of between 16 and 20 per cent and over one-tenth a discount of between 36 and 40 per cent.

TABLE 7.38 **Distribution of fleet discounts, 1986 to 1990**

<i>Discount levels</i>	<i>per cent</i>				
	1986	1987	1988	1989	1990
0-5	-	-	1	1	2
6-10	1	1	0	*	-
11-15	23	26	16	12	8
16-20	51	46	53	53	54
21-25	2	5	9	10	8
26-30	1	3	3	6	8
31-35	22	17	16	16	8
36-40	-	2	*	1	12
41-45	-	*	2	*	*
46-50	<u>0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
50+	-	-	-	-	-
Total	100	100	100	100	100
Average discount	21	20	21	21	22
Percentage of fleet sales covered	49	53	52	71	71

Source: MMC calculations based on information from BMW, Citroën (not for 1990), Renault, Ford, Vauxhall (for 1989 and 1990 only), Peugeot, Nissan UK, and Fiat (not for 1986); all suppliers using their own definitions of 'fleet' (see paragraphs 4.32 and 4.33).

*Less than 0.5 per cent.

Notes:

1. Ford has assumed an average dealer discount of 14 per cent.
2. An average dealer discount of 15.3 per cent for 1989 and 15.8 per cent for 1990 has been assumed for Vauxhall (taken from the ATK report).
3. Peugeot discounts have been estimated by using the mid-point of the relevant bands and adding a dealer discount of 14 per cent.
4. Nissan UK discounts have been estimated by using the mid-points of the relevant bands and adding its average discount of 11 per cent.

7.134. Ford provided us with its own estimates for the average discounts or rebates to fleet customers for the period 1986 to 1990, and they are set out in Table 7.39. The figures include both the discount given by the dealer and the additional discount provided by Ford itself. In 1990 the average benefit to fleets was just under 24 per cent, slightly higher than that given in previous years. The major car-rental companies and other large fleet customers such as BT, which received discounts of between 31 and 35 per cent during 1986 to 1989, received between 36 and 40 per cent in 1990.

TABLE 7.39 Discounts given on Ford's fleet sales, 1986 to 1990

Discount ranges	percentage of fleet sales				
	1986	1987	1988	1989	1990
11-15	[
16-20					
21-25					
26-30	<i>Figures omitted. See note on page iv.</i>				
31-35					
36-40					
Total]
Average	21	21	21	22	24
Sales ('000)	225	268	294	275	229

Source: Ford.

7.135. Rover told us that large companies which negotiate with it direct receive around 30 to 35 per cent off the list price and discounts to car rental companies and the British School of Motoring can be even higher.

7.136. ATK, on behalf of Vauxhall, estimated that the average discount given by its dealers on fleet sales was 15.8 per cent for 1990. For national account holders (customers buying more than 100 Vauxhall cars in a year-and accounting for 90 per cent of Vauxhall's fleet sales) Vauxhall itself gave an additional average discount of 6.1 per cent.