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Automakers ‘undermine’ brand with 0% financing

Incentives may be an easy route to a consumer’s heart, but for carmakers, they can be a dangerous strategy.

By John Greenwood

Financial Post / National Post, December 6, 2003

Incentives may be an easy route to a consumer’s heart, but for carmakers, they can be a dangerous strategy.

These days, with consumers battening down the hatches, the auto industry, and particularly the Big Three, have been tripping over themselves to persuade consumers that now is the time to buy. “The incentives across the board have been much more aggressive than in the past,” said Richard Hilgert, an analyst at Fahnestock & Co. based in Detroit.

In 2000, the industry came out with 0.9% financing. Then in the fall of 2001, it dropped to 0%, with virtually all three U.S. players offering the deal on select models.

Everyone is joining in “because of the competitiveness of the marketplace,” said Mr. Hilgert. “Your competitors are going to try to at least match your moves. It’s a game of chicken – whoever blinks first is going to lose.”

The entire industry uses incentives as a way to grab attention, but the Big Three are the most aggressive, and likely to pay the biggest price.

“The U.S. car companies have ended up damaging their brands by discounting, ” said Ted Matthews, president of Brand Coach Inc. “These days, nobody buys a car without 0% financing. It’s become a commodity. But when [the manufacturers] advertise cars for $0 down and 0% financing, that reflects badly on the brand.”

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“It says, to sell this car, we have to take this kind of extreme measure. People use price as an indicator of quality. A car offered at these discount rates indicates it is of lesser quality and needs dramatic incentives,” Mr. Matthews said.

“You can undermine your brand image. If you’re constantly cutting the price of a car, the consumer can interpret that as you have a problem with your brand,” said Dennis DesRosiers, a leading Toronto-based analyst.

The other danger is that the practice can become a spiral with players forced to sweeten their offers just to keep sales going. Consumers learn that if they wait long enough, the price will go down again.

“They let you keep the market afloat six months longer, but when the market goes down, it really goes down,” said Mr. DesRosiers. “The problem is, how do you wean consumers off them?”

“From a purely consumer perspective, the only bad thing is that the consumer sometimes ends up buying the incentive rather than the car.”

Car companies have been using incentives in some form or another for as long as they have been around. It began as a way to unload supplies of last year’s model just before the new ones were set to arrive.

That changed in the early 1970s when the oil crisis hit. Automakers were left floundering, in the midst of one of the most serious crises in the industry’s history. For the first time, they began unveiling price cuts outside of the traditional fall period to entice buyers back into the market. Since then, said Mr. DesRosiers, incentives have been a standard tool, expected by consumers.

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