

Washington's Changing Economy

Each Auto Sale: A Bazaar-Like Deal

By Philip S. Brown

IT'S easy to look up the current price of Ford Motor Company common stock, but in trying to find out the price of a new Ford car one can spend hours without getting more than a "feel" for the possible price range.

Newspapers devote one or two pages to listing the daily prices of stocks, but no newspaper lists the average transacted prices of new cars, TV sets, clothes dryers or air-conditioning units, even though far more people are interested in the latter. A survey made in January, 1955 indicated that only 8 per cent of "spending units" in the United States owned one or more stocks. In contrast, almost every family has in view the purchase of a car, or some expensive electric appliance.



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The public would welcome more information about the current market prices of local land, houses, autos, and appliances, and some day it may be possible for newspapers to tabulate the week's average, or typical, prices of selected consumers' goods. At present, it would be a pretty big undertaking to compile any such list.

It is remarkable that in our type of economy it should be so difficult to determine the local retail prices of some of the most widely sold products. The products are standard, nationally advertised and delivered to local merchants ready for sale, except for unpacking or minor make-ready services. Yet, when one asks, for example, about the price of a particular make and model of car, one is given only an approximate figure. One is told: "Maybe the manager will let me go lower if you'll come in and talk it over," or "We'll give you the best price in town," etc.

Bazaar-Like Pricing

Price haggling accompanies most auto sales. The haggling can be complicated because it involves not only the price and terms of payment, but the product itself. Many small items of equipment and conditioning may get added, or dropped, in the process. Also, if a trade-in is involved, another variable is introduced. (In the Washington area, nearly 90 per cent of new-car buyers trade in their used cars at the time of purchase.)

In one day, a dealer may sell identical cars at prices several hundred dollars apart. One very large dealer, when asked if he wasn't sometimes embarrassed by complaints of those who later found out that they had paid more than their neighbors for the same type of car, said: "No, but occasionally when I look over the invoices and see one at a much bigger mark-up than is usual, I'm always relieved when I find the buyer isn't someone I know."

Actually price discrimination is so obscured by infinite combinations of optional equipment, financing terms, and valuation of trade-ins that it is less invidious than one might suppose.

Under this system of trade, buyers who know what the dealers pay for cars (and it isn't as much of a secret as it used to be) have an advantage. Even without this exact knowledge buyers can squeeze dealers' margins pretty thin by giving one dealer after another the opportunity to underbid their competitors. . . . But the buyer who is too innocent, or too polite, to bargain, "gets taken."

One difficulty a prospective

buyer encounters is in disentangling all the components that enter into the quoted price. If he is persistent and peels off this charge and that by repeated questioning, he may arrive at (1) a "basic" price, (2) a list of charges for undercoating, white side-wall tires, radio, heater, etc. and (3) a discount or inflated valuation for one's trade-in. Also, if the car is to be bought "on time," as 68 per cent of new cars were in 1956, there will be interest, insurance and other finance charges.

Price Packing

In Washington, the "basic price" used by most dealers selling a particular make of car will be the same. It is a price agreed upon by the local Ford Dealers Advertising Fund committee, or by similar groups in the case of other makes. The price may be \$300 or more higher than the factory's suggested retail price.

Part of the difference is due to the transportation charge that is not included in the factory's suggested price. In Washington, this averages about \$60 for the lower-priced cars. Also, there may be a few small extras, such as gold anodizing strips, which Washington dealers of a particular make agree to have added to their cars. But, the remainder and major part of the difference is "pack."

The "pack" is a markup over and above that allowed for in the nationally adver-

tised "list prices" shown each week in the industry's trade magazine "Automobile News," and elsewhere. These list prices are "suggested" by the manufacturer to allow the dealer a markup of about one-third; they include also an additional "handling charge" to cover a dealer's make-ready costs in washing and checking over new cars, adding his totem, etc.

For example, the "basic price" of a Plymouth 4-door hardtop in the Belvedere series, quoted by most dealers in this area, is \$2845, compared with the factory's suggested list price of \$2518.50. With a heater and radio the Washington dealer's nominal price is \$3032. But after a few minutes of sparring, bargaining may start with the salesman offering a discount of \$500, or an equal over-allowance on the prospect's old car.

From this point on, much depends on how many cars the dealer has in stock, whether he can induce the prospect to take other equipment, whether he is to arrange the financing and so on. If the salesman has to increase his offered discount by \$200 or a little more, his manager may still regard the sale as "a good deal." (It should be noted at this point that the entire cost of repairing and replacing defective parts within the warranty period is now borne by the manufacturer.)

Why the "price pack"? Simply because a lot of people are trusting (or gullible) enough to

think that the "basic price" is a fair price and that a "discount" measures the amount of normal markup the dealer is foregoing. Marking up and then marking down the price of an article is one of the oldest and most common practices in retail selling, but for some reason it still works. In auto retailing, it is a more recent development.

Price Discrimination

That the price of a car should differ a little from one dealer to another is not surprising. The prices of groceries tend to be higher at stores which extend credit and provide delivery service, than at cash-and-carry stores. One expects to pay more at a reputable, long-established jewelry store that pays high rent and employs knowledgeable salesmen. Similarly an auto dealer's reputation, location, facilities and caliber of employees should influence what a buyer is willing to pay. This is "only right and proper."

What vexes so many people about the automobile business is the practice of selling at different prices to different customers, one that disappeared long ago in this country in most types of retailing.

Also, auto retailing exemplifies in the extreme much of what is annoying and wasteful in the present system of distribution. Instead of just going to a store and buying the kind of chair or electric fan we want, when we want it, we are obliged to spend days and weeks watching for special sales, shopping and consulting one another if we are to buy economically. . . . To be sure, there are some who seem to enjoy this type of activity; some in fact, who spend almost as much time deciding what and where to buy as they spend at their jobs.

Experiment in Mill Valley

The auto industry is a paradox. Innovation is the rule at the factory level. For example, Ford is replacing most of the expensive machine tools at its engine plant in Cleveland, which it regards as obsolete, even though these machines were the latest and most efficient of their kind when this plant was opened in 1951 and was considered a marvel of automation. On the other hand, except for the increasing razzle-dazzle of sales promotions and the increasing size of some

dealerships, the selling of autos is essentially the same as it was years ago. Little has been done to help the buyer. Most salesmen have only a superficial knowledge of cars; their sole role is "to swing a deal."

In Mill Valley, about 7 miles across the Golden Gate Bridge from San Francisco, seven auto dealers have joined in financing and building a sort of automobile supermarket. On the ground floor, there is a common meeting room, lounge, etc. Each dealer has a separate office on the second floor, and in the area around the building, equal space to display new and used cars. Five dealers handle American-made cars (Chevrolet, Pontiac, Ford, Mercury, Plymouth and Willys) and two sell foreign cars (Volkswagen, Hillman and Triumph).

Elsewhere, a few dealers with ideas of their own are trying out new ways of selling cars. But nowhere does one read of any dealer advertising: "These are our prices—The same to everyone—No special deals."

Buying "On Time"

At present, there is usually no difficulty in the Washington area in financing a new car over a 3-year period. In some cases, payments over 40 months can

be arranged. Typically, the down payment must equal one third the "basic price" of the new car but in many cases it is less. Usually the down payment is covered by the value of one's old car.

Banks generally insist on payment in 30 months and stick closely to "one third down." Their typical discount rate is 4 per cent on new cars, less than that charged by most finance companies. Also, most banks don't make any credit investigation, or other, charge. On used cars the rate may be 5 or possibly 6 per cent.

The difference between a discount rate and an interest rate is that the former is computed as a percentage of the initial amount of the loan; the latter, on the average amount due over the period of the loan. For example, a 4½ per cent discount is equal to an 8 per cent interest rate on a 30 months' loan.

Many buyers do not realize that by having payments spread over 36, or even 40 months, the interest charge is higher not only because they are borrowing for a longer period but because the rate of interest is generally higher—to cover the added risk and expense of bookkeeping.

A Big Market

About 525,000 new cars have been registered in the Washington area since Jan. 1, 1950. Many of these have been scrapped, or traded in and sold to wholesalers for resale elsewhere. On the other hand, there are still quite a few pre-1950 cars in use. All in all, nearly 500,000 passenger cars are probably registered in this area—about one car to a household, on the average. The exact number can't be computed because of the way records are kept in Virginia.

Serving this market, and also the commercial-car market, there were 187 franchised dealers, 115 independent used-car dealers, 92 tire, battery and accessory dealers and 1025 gasoline service stations in the census year 1954. These establishments employed about 20,000 persons. In addition, several thousand persons worked in independent garages, car-washing establishments, and parking places.

Over 10 per cent of the average family's expenditures go for the purchase and operation of their car, or cars. Just how much this adds up to in a year and what proportion is retained in the area in the form of wages and profits is not known.

A survey made in 1954 and 1955 by the Department of Labor indicated that 7 out of 10 automobiles purchased by Washington residents in that period were new cars. This is almost the reverse of what occurred in the country at a whole; in 1954, two used cars were sold for every new one, and in 1955, the ratio was 1½ to 1.

As those in the trade know, there is a steady net export of used cars, principally to the South.

