

MBA 503 Economics Component Case 4

Due: Monday 12/3/01

Competition Sparks SUV Sales Incentives

By Warren Brown
Washington Post Staff Writer
Friday, July 27, 2001; 10:36 AM

Competition rules.

Anyone doubting that should take a look at what's happening in the market for sport-utility vehicles.

Prices are falling for both new and used models. Automakers are loading new sport utilities with incentives, largely because Ford is packing its midsize Explorer with discounts to counter the effects of bad publicity from the Ford/Firestone tire recall.

Until recently, Firestone tires were standard equipment on Explorers. But reports over the past year about tread separation, blowouts and fatal rollovers put an end to that. The bad news also endangered the Explorer's No. 1 sales standing atop the sport-utility segment in the United States.

To help support Explorer sales, Ford turned to discounts.

In July, leasing incentives on 2002 Explorers averaged \$1,563, according to reports in "Automotive News" (www.automotivenews.com), the Detroit industry trade journal. That is up from \$1,341 in June.

That means General Motors Corp. soon will be forced to offer incentives on its comparable 2002 Chevrolet TrailBlazer. The two vehicles are not all that far apart in quality and performance. Price matters.

GM so far has remained mum on TrailBlazer discounts. But, watch that spot. The company already has set the stage for incentives by offering \$3,000 discounts on its older Blazer midsize sport-utilities, and by loading \$1,500 in incentives on its smaller Chevrolet Tracker models.

If GM matches Ford by sweetening deals for the TrailBlazer (the newest version of the Blazer), look for DaimlerChrysler Ag to start cutting prices on its newly introduced Jeep Liberty.

Neither the Japanese nor the Germans will be immune from this price-cutting business. The popular Toyota 4Runner has customer and dealer incentives ranging from \$750 to \$1,000. Subaru is offering 2.9 percent to 6.5 percent financing on its Outback Sport and Forester wagon/SUV hybrids. Suzuki is offering 1.9-percent financing on its Vitara and Grand Vitara sport-utilities.

The new midsize Toyota Highlander (the less spiffy version of the Lexus RX 300) is still selling at a premium; and BMW and Mercedes-Benz dealers are still finding customers willing to pay \$40,000 or more for their offerings, the BMW X5 and Mercedes-Benz ML320. But auto industry analysts say consumers are beginning to find wiggle room at the highest ends of the market, too.

The reason is competition. The market is crowded with SUVs competing for the same buyers. Differences in product quality and content are not that great, segment by segment. Pricing is becoming the primary distinction.

Also, the car companies themselves are rendering traditional SUVs obsolete. They are introducing super-hybrid vehicles (SHVs), such as the Chevrolet Avalanche and Isuzu Axiom. The SHVs combine the characteristics of sport-utilities, pickups, minivans and sedans into one vehicle. They eventually will

become a segment unto themselves, consisting of large, midsize, small, base and luxury models. They will make SUVs old hat.

Add to all of this growing concerns about fuel economy, and you get an SUV market that has no choice other than to back off high prices.

All of this means, of course, that the resale value of conventional SUVs will take a big hit. That is good news for the buyers of those used models, but bad news for the sellers. But that's business, isn't it?

Assignment

Due: Monday 12/3/01

1. What type of market structure is described in this article? What types of pricing strategies are the corporations in this market employing? Explain.
2. Why are some SUVs being priced differently than others? That is, why do some firms employ one type of pricing strategy while others follow another, despite the fact that these firms are competing in the same market?
3. Given that many of these corporations are multi-product firms, what pricing strategies might be used? Do you see evidence of this in the article?
4. Can you think of any examples of price discrimination that may take place in this market? Explain. What type of price discrimination is the most likely in the market for automobiles?