

Pricing New Vehicles Below MSRP Online Drives Consideration And Purchase

The myth that pricing transparency erodes value and gross for dealers is pervasive, but new data from AutoTrader.com shows that dealers who price new vehicles below MSRP attract more buyers.

ATLANTA, Nov. 4, 2013 /PRNewswire/ -- New data from AutoTrader.com® debunks the pervasive myth that online vehicle pricing transparency erodes value and gross for dealers by showing that dealers who price their new vehicles below MSRP attract buyers—and more of them. An AutoTrader.com digital audience analysis of over 6,605 new vehicle sales across 1,000 dealerships showed that when dealers list their new vehicles below MSRP, they receive more traffic to their inventory online, attract buyers from greater distances and sell more vehicles than dealers who list their new vehicles at MSRP. Additionally, the data shows that buyers tend to transact at a higher price than the range they were searching within online, indicating that there is significant opportunity for additional incremental dealer profit.

(Logo: <http://photos.prnewswire.com/prnh/20110425/CL88097LOGO>)

"The belief that advertising competitive prices for new vehicles online is fueling a race to the bottom simply isn't holding up under analytic scrutiny," said Scott Hernalsteen, senior director of enterprise analytics at AutoTrader.com. "Instead, we're seeing that when dealers put an actual price—not MSRP—on their new vehicles, they are able to more effectively compete to capture and influence consumers' attention. Consumers know that most people don't pay MSRP, so when dealers list a price at which they are more likely to transact, consumers take notice." Hernalsteen also noted that laws in certain states prohibit advertising prices below MSRP and cautioned dealers to consult with their legal advisors.

According to the analysis, new cars priced below MSRP get 34 percent more page views than new cars priced at MSRP. Pricing-savvy dealers not only received more eyeballs on their inventory online—they actually sold more vehicles, too. The analysis showed that dealers who priced their new vehicles below MSRP sold 20 percent more new cars than their counterparts who used MSRP instead. And, buyers traveled an average of 10 more miles to dealers who listed their new cars below, rather than at, MSRP. On AutoTrader.com, only half of dealers list a price other than MSRP on their new vehicle inventory, giving those dealers an advantage by shrinking the set of dealers they are competing against.

"New car buyers do as much to find the right vehicle at the right price as used car buyers, so dealers need to devote as much attention to merchandising their new vehicles as they do their used vehicles," Hernalsteen continued. "Shoppers flock to new car listings that are well merchandised with custom photos, comments and below-MSRP pricing, so the dealers who invest in these aspects are helping shoppers make their short lists shorter."

Dealers who are still concerned about profitability if they come off of MSRP on their listings should bear in mind that a large majority of buyers spend additional money at the point of sale if the value is right. According to the analysis, 76 percent of new car buyers transacted at a higher amount than the price range they were searching online. This indicates that there is significant opportunity for dealers to generate additional incremental profit in the form of selling a more expensive make/model or trim level, add-ons, service and maintenance contracts and extended warranties.

"Quite simply, listing below MSRP and investing in merchandising increases turn on new vehicles, and with the opportunity for incremental add-ons at the point of sale, that higher rate of turn can result in more—not less—profit for dealers," Hernalsteen said. "Having an effective pricing strategy online doesn't equate to a race to the bottom—it results in winning the race to the consumer."

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