

Does "No-Haggle Pricing" work?



Market Research Project

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Executive Summary

For our marketing research project, our group chose to analyze the concept of no haggle pricing at car dealerships. Our objective was to analyze whether or not no haggle pricing was an effective marketing strategy. Our findings suggest that 67.7% consumers who are planning to buy a vehicle from a dealership would rather be able to negotiate the price of their vehicles purchased. We also wanted to find out what types of people liked to negotiate on car prices.

The method that we used to gather data was the survey method. This gave us background information on a sample of consumers throughout the Boulder/Denver area as well as a few out of state respondents (Michigan). We found out that the majority of consumers would rather have a negotiable price when they buy cars. We gathered 130 surveys and the majority of the people who had experience with purchasing a vehicle purchased it from a dealership (54.9%).

The results of our survey analyses suggest that no haggle pricing does not affect consumers' buying decisions that heavily. 56.1% of those who answered the question "how heavily does no haggle pricing affect a purchase decision" said that it only moderately affects them. We would conclude that no haggle pricing only works for the dealership, and only if consumers are willing to pay the fixed price. The strategy is quite ineffective based on the results of our survey.

Introduction

Dealerships in today's car market are looking for new, inventive methods for selling cars to customers seeking a good deal. The competition is fierce with so many dealerships vying for the opportunity to gain the customer's buying experience. With the advent of John Elway Autonation's policy of no-haggle pricing, owners of dealerships are looking to see if they can be successful with a fixed price. Our research group concentrated on learning some of the new behaviors and attitudes of car buyers today. With the recent purchase of John Elway's car dealerships by Wayne Huizenga a new type dealership was created. What this dealership offers to consumers is a wide selection of new and used cars, no pressure salesmen, loads of information for consumers, and fixed prices. Fixed prices or "no-haggle pricing" is the driving force behind these new dealerships. Fixed price car buying is relatively new and its results are unknown. Does no-haggle pricing work for today's customers seeking to buy a new vehicle? We will see...

There are many different people out in the market to buy a new vehicle. We want to find out what types of people prefer no-haggle pricing and how dealerships are adapting to consumer buying behaviors. Is no-haggle pricing an effective form of dealer/buyer relations? We will find out by analyzing the results of our experiment.

Research Design

(refer to survey at the end of this report)

To begin our research project, we made an attempt to contact a John Elway Autonation dealership. Their response was that they had all the information they needed their personal research staff. We then decided to focus this project to all any dealership that wanted to know more about no – haggle pricing; more specifically we want to know who uses no-haggle pricing dealerships. We then met to discuss what dealerships would want to know about consumer’s car buying behavior. Our first assumption was that car buyers would prefer a negotiable price to a fixed price. We focused our questions on this assumption and tried to write questions that would determine their buying experience.

We chose the survey method of research for our project. This method is relatively inexpensive and gives us a large sample size. It also removes the biases found in some other research methods that are given. For sampler reasons our group chose a majority of close-ended questions. We also used some open-ended questions, so our group could determine more in depth explanations. Demographics were placed towards the end of the survey in order to prevent the respondent from feeling threatened or discontinuing the survey before it was complete. We also had a number of questions that had multiple answers. Our group formed the questionnaire and got valuable feedback from our professor, Robert Taylor.

Our questions were designed so we could find key information for our project. Demographics in our opinion were very important to determine key characteristics of consumers. We asked questions about age, gender, income, and occupation. Many of our questions were to find out consumers choice between negotiable price and fixed price. We also asked questions about the brand of automobile they would purchase.

Each group member was given a survey to make copies and distribute them to a variety of people. We thought it would be important to distribute these surveys to anyone that was over 18. We chose this because we wanted a sample that would be representative of Colorado. A total of 130 people were surveyed. With six people handling out surveys in many different areas in Boulder and outside of Boulder, we feel that our sample base was an accurate representation of consumers opinions on no-haggle pricing.

Data Analysis

What is your gender?	Frequency	Valid %
male	71	54.60%
female	59	46.40%
Total	130	100%

Of the 130 people surveyed, 71 (54.6%) were male; 59 (46.4%) were female. There was a 100% response rate to this question.

What is your age?	Frequency	Valid %
>18	0	N/A
18-21	16	14.80%
22-25	28	25.90%
26-30	15	13.90%
31-40	26	24.10%
41-50	20	18.50%
51-60	3	2.80%
60+	0	N/A
Total	108	100%
Missing	22	N/A
Total	130	

Out of the 130 people who were sampled, 108 (100% of responses) were between age 18 and 60. Twenty-two people did not respond to this question. Fifty percent of the respondents were between the ages 22-25 and 31-40. The remaining 50% were fairly evenly dispersed among the '18-60 years' range.



What is your marital status?	Frequency	Valid %
Single	80	61.50%
Married	50	39.50%
Total	130	100%

The majority of the respondents who answered this question were single, the results were: 61.5% of questionnaire respondents were single and 39.5% were married.



What is your annual income?	Frequency	Valid %
15,000 or less	24	23.10%
15,000 - 25,000	13	12.50%
25,001 - 35,000	18	17.30%
35,001 - 45,000	10	9.60%
45,001 - 55,000	2	1.90%
55,001 - 65,000	10	9.60%
65,001 - 80,000	7	6.70%
80,001 - 100,000	2	1.90%
100,001 - 125,000	5	4.80%
125,001 - 150,000	2	1.90%
150,000 +	11	10.60%
Total	104	100%
Missing	26	
Total	130	

While analyzing the 104 respondents who answered this question, we found that just over half, 52.9%, of survey respondents have an annual household income of \$35,000 or less. Of the people surveyed 37.5% have a annual household income between \$35,000 and \$150,000, while only 10.6% people earn over \$150,000 in annual household income. Twenty-six of the hundred and thirty people surveyed did not answer to this question.



List Price of Current Vehicle	Frequency	Valid %
<10000	32	28.30%
10000-14999	26	23%
15000-19999	15	13.30%
20000-24999	10	8.90%
25000-29999	16	14.20%
30000-34999	8	7.10%
35000-45000	4	3.50%
>45000	2	1.80%
Total	113	100%

51.3% of respondents' present price of their automobile is below \$15,000. This corresponds to data stating that 52.9% of respondents have a annual household income less than \$35,000. Surprisingly only 5.3% of the respondents own vehicles costing over \$35,000, half the percentage of respondents with greater than \$150,000(10.6%) annual incomes. This leads us to hypothesize that: even though a person may be able to afford an expensive vehicle (over 35,000) does not necessarily mean that they will purchase one. Of course... it could also mean that they own several differently priced vehicles.

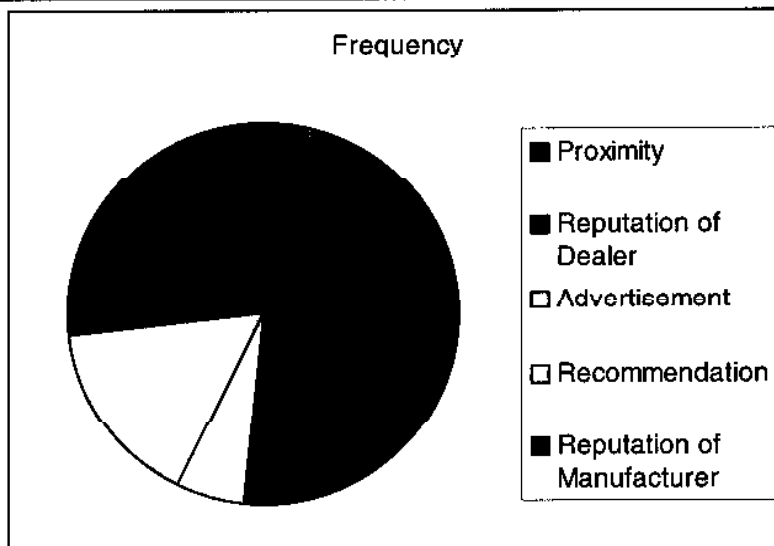
Did you buy your vehicle from:	Frequency	Valid %
friend	19	14.30%
relative	15	11.30%
dealer	73	54.90%
classified ad	20	15%
never purchased vehicle	2	1.50%
other	4	3%
total	133	100%

54.9% of respondents purchase directly from the dealership, and 25.6% purchase from friends and relatives. 15% purchase vehicles from the classified ads in the newspapers.

Whose reputation affects buying decision?	Frequency	Valid %
Manufacturer	79	63.70%
Dealer	32	25.80%
Neither	13	10.50%
Total	124	100%

Peoples automotive purchase decisions are significantly effected by a specific vehicles manufacturer. This is supported by our results showing that 63.7% of our respondents base their auto purchase decisions on the auto manufacturers' reputations. Of the remaining respondents, 25.8% buy according to the dealerships' reputations and only 10.5% claim that neither a dealer's nor manufacturer's reputation is important in their buying decision. Six of the hundred and thirty people surveyed declined to answer this question.

How do you choose dealership?	Frequency	Valid %
Proximity	23	10.30%
Reputation of Dealer	42	33.30%
Advertisement	7	5.60%
Recommendation	20	15.90%
Reputation of Manufacturer	34	27%
Total	126	100%

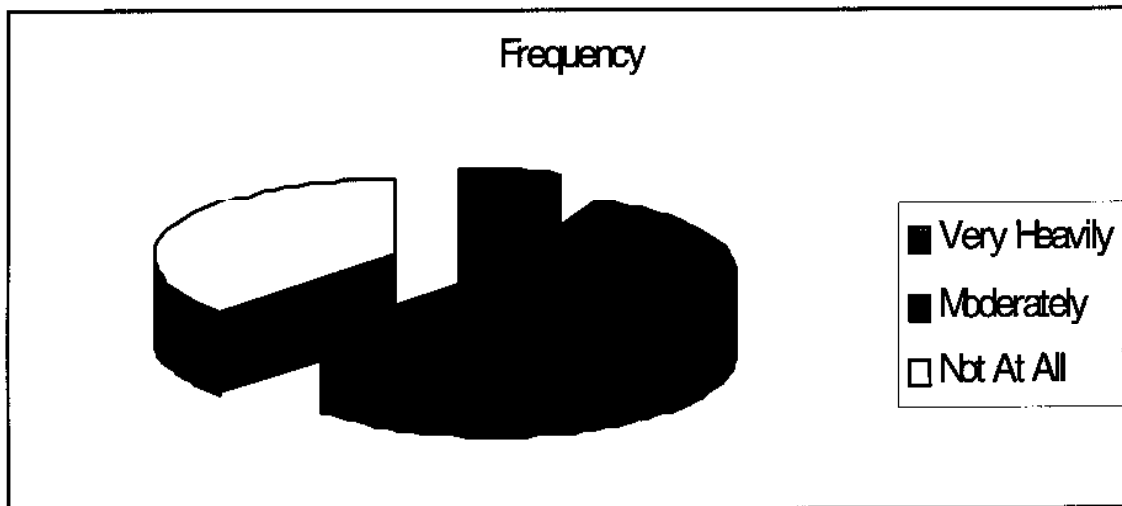


Supporting the previous data, 50.3% people choose to purchase their vehicle based from the reputation of a dealer or manufacturer. 18.3% respondents choose their dealer by simple proximity, probably for convenience purposes. It is important to note, however, that advertisement and recommendations can directly influence peoples' impressions of reputation, whether consciously or unconsciously.

Are You planning to buy:	Frequency	Valid %
Passenger Car?	36	30%
Luxury Car?	12	10.10%
Sports Car?	11	9.20%
Sports Utility Vehicle?	41	34.50%
Van or Minivan?	7	5.90%
Truck?	12	10.10%
Total	119	100%

The majority of future car owner's that we surveyed ,34.05%, plan purchase an Sports Utility vehicle. At 30%, passenger cars are the second most sought after vehicle to purchase. 10% of the people plan to buy truck and similarly 10% want to buy luxury cars. 9.2% covet a sports car and only 5.9% of respondents want to own a van or minivan.

How heavily does "no-haggle" pricing effect a consumer's purchasing decisions?	Frequency	Valid %
Very Heavily	8	7.02%
Moderately	64	56.10%
Not At All	42	36.80%
Total	114	100%



Only 7.02% of our respondents felt that "no-haggle pricing" heavily affects their purchasing decisions. 56.1% respondents felt that it affects their decision moderately, and 36.8% said that it had no effect whatsoever.

Resulting Summary from frequency graphs and charts

Our results from the frequency charts and graphs provided the demographic information plus other relevant information that characterizes our respondents. Of the hundred and thirty respondents who completed our survey a slightly higher percentage were male, 54.6%. Approximately two-thirds of our respondents are single while one-third are single.

Almost all the respondents were from people who were fifty years of age or less. In fact, we didn't receive any responses from people over sixty years of age. Our group would have liked to receive a few more responses from people in their fifties or older because this specific age group holds most of the money in America today. Moreover, 50% of these people buy from car dealerships¹ when they purchase vehicles. We hypothesize that we received a majority of our surveys from people fifty years of age or less because we live in a college town, and interact with a younger age group more frequently. This also may explain why the majority of our respondents made an annual income of thirty-five thousand dollars or less. Respectively, we did have a large percentage of people making over a hundred and fifty thousand dollars (10.6%).

Our results proved that most of the people who responded to the survey own a vehicle costing less than twenty thousand dollars. Half of the people bought their car from a dealer, while roughly fourteen percents of the remaining respondents bought their vehicle from either a friend, a relative, or from the classifieds. Our results proved that

well over half of the respondents base their buying decisions off of the reputation of the manufacturer's reputation; a quarter of the respondents purchase a vehicle due to the reputation of the dealer. People decide to purchase from a dealership due to two main factors: the reputation of the dealer and a recommendation from someone of value. Of our respondents "no haggle" pricing does not significantly effect a person's purchasing decisions. In fact, only seven percent of respondents said that it affects their purchasing decision very heavily.

¹ Refer to Danielle DeWitt's website project: it gives more information on the buying habits of senior citizens.

Cross Tabulations

Do you like to negotiate?				
		Gender		Total
		Female	Male	
Negotiate	Yes	20 26.3%	56 73.7%	76 100.0%
	No	40 74.1%	14 25.9%	54 100.0%
Total		60 46.2%	70 53.8%	130 100.0%

→
→
SIGNIFICANCE?

Chi-squared = 28.97

The majority of the people in our survey who said they liked to negotiate were males

whereas the majority of the females who participated in the survey said that they prefer not to

negotiate.

NOTE! THE MAJORITY WHO PREFER NOT TO NEGOTIATE WERE FEMALES (74.1%)

Gender vs. No Haggle Pricing				
		Gender		Total
		Female	Male	
No Haggle	Preferred	33 82.5%	7 17.5%	40 100.0%
	Not Preferred	18 21.4%	66 78.6%	84 100.0%
Total		51 41.1%	73 58.9%	124 100.0%

Chi-squared = 41.74

A large percentage of the females preferred to have a no haggle price (82.5%). This

correlates with the previous analysis because we see that more females would rather not negotiate,

thus, they prefer a fixed price when dealing with car buying.

NOTE! 82% OF THOSE WHO PREFERRED NO-HAGGLE PRICING WERE FEMALES!

33/51 = 65% OF FEMALES PREFERRED NO HAGGLE PRICING!

Price vs. Marital Status				
		Marital Status		Total
		Single	Married	
Price Structure	Fixed	8	32	40
		20.0%	80.0%	100.0%
	Negotiable	56	28	84
		66.7%	33.3%	100.0%
Total		64	60	124
		51.6%	48.4%	100.0%

SINCE YOU HAD 80 SINGLE AND 50 MARRIED... I DON'T UNDERSTAND THESE TOTALS!
NONE!

Chi-squared = 23.63

There are more single people (66.7%) who would negotiate the price of a car than married people (33.3%). Married couples not only have to deal with the salesperson's suggested price, but they have to negotiate between their spouse as well. Therefore, it is reasonable that more married people from our survey would rather have a fixed price when buying a car.

Age vs. Preferred Price Structure								
		Age					Total	
		18 - 21	22 - 25	26 - 30	31 - 40	41 - 50		51 - 60
Price Structure	Fixed	8	14	10	6	2	0	40
		20.0%	35.0%	25.0%	15.0%	5.0%	.0%	100.0%
	Negotiable	7	14	5	20	18	4	68
		10.3%	20.6%	7.4%	29.4%	26.5%	5.9%	100.0%
Total		15	28	15	26	20	4	108
		13.9%	25.9%	13.9%	24.1%	18.5%	3.7%	100.0%

Chi-squared = 20.17

As people get older, they tend to get more experience with buying cars, therefore, the majority of people who would rather have a negotiable price belong in the older age bracket (from 31-50 years old). The pattern seems to favor fixed prices in the younger age group. For example, approximately half of those between the ages of 18-21 and between the ages of 22-25 prefer fixed

YES... BUT THOSE ARE NOT THE PERCENTAGES YOU SHOW IN THE TABLE!

prices. As consumers get older, they might feel more comfortable with their car buying experiences to change their price structure to negotiable pricing.

Cross Tabulation Analysis

According to the data, the type of people who like to negotiate are single, male, or between the ages of 31-50. The least likely people to prefer negotiable prices are female, married, or over the age of 50. The older age group has more experience with car buying, which would explain the vast majority of that group preferring to negotiate the price of their cars. Women historically have not been the primary buyers in a household. This factor might explain why most people who do not like to negotiate are female or married.

We found that more males than females, who answered the survey liked to negotiate. In correlation to no haggle pricing, only 17.5% of the males would prefer a fixed price, 82.5% of the females surveyed preferred a fixed price.

*YOU MISINTERPRETED
ALL THE CROSSTABS ---*

Limitations and Errors

When analyzing our data, we encountered many limitations. Respondents often times did not answer all of the questions. They would answer only the questions that they wanted to and not important demographic questions. This severely limited us when we tried to produce cross tabulation tables, because on certain questions we lacked a sufficient number of responses.

We were forced to omit a few questions. Question 12 was omitted due to a limited response. The data was not representative of the sample due to its lack of information. The follow up questions to Question 17 were withdrawn because people incorrectly filled out the question. In other words, people would answer no to the first part and then continue to answer the follow up questions as if they had answered yes to the first part. For the open-ended , we received such a vast variety of answers that we could not put to any useful research information. Question 8 was also omitted because there were too many varying responses. We believed that we would obtain some useful demographic information, but we were wrong.

Recommendations

- Our first recommendation would be for dealerships to make partnerships between a few dealerships, so that the partnership would be able to obtain more of the market share, thus gaining a competitive advantage. Our research showed that people were familiar with the larger dealerships and were brand loyal when it came to car buying. A small dealership does not have the resources to provide cars from every category and brand. Autonation, being as large as it is, accomplishes this feat. They have, in their inventory, vehicles of every make and class.
- We stress that dealerships find out the demographics of their clientele, because our research showed that lower income people were more susceptible to the fixed price strategy. Wealthier people cared less about fixed prices than the middle to low income brackets. If the dealership were selling vehicles to people of low income, we recommend that they switch to a fixed price strategy. As proof to this think of how many BMW or Mercedes dealerships you see advertising fixed prices.
- We discovered that the reputation of the dealership is very important to people when purchasing a car. It is extremely important that management stresses the importance of customer relations to its salespeople. Our survey showed that people do not return to the same dealership that they have had a bad experience at.

1. Do you like to negotiate? Yes No

2. What types of items do you like to negotiate on? _____

3. Do you feel you get a better deal after you have negotiated on an item? Yes No

4. Do you own a car? Yes No

5. Did you buy your car from: a friend a relative a dealer classified ad
 have never purchased a car before other: _____

6. If you purchased your car from a dealer, how did you become aware of that dealer?
 internet newspaper location television radio friend/family

7. Please list the price category of your current car?
 below 10,000 10,000-14,999 15,000-19,999 20,000-24,000
 25,000-29,999 30,000-34,999 35,000-45,000 over 45,000

8. Please list the make _____, model _____, and year _____ of your present vehicle.

9. Please mark the time frame when you are planning to buy your next car?
 0-3 months 3-6 months 6-9 months 9-12 months
 1-2 years 3-4 years 5-6 years 6 years or more

10. Are you planning to buy: new used

11. Are you planning to buy: Passenger Car Luxury Car Sports Car
 Sports Utility Van/Minivan Pickup truck

12. Are you planning to buy: Honda Ford Chevrolet
 Toyota Other domestic: _____
 Other foreign: _____

13. Are you planning to buy from: a friend a relative a dealer
 the internet the classifieds other: _____

14. If you are planning to buy from a dealership, is this your first time buying from a dealership? Yes/No
-if you answered no, how many times have you purchased a vehicle from a dealership before? _____

15. Would you like to have a fixed buying price at the dealership or would you like to be able to negotiate the price of the car? Fixed Negotiable

16. If you have bought a car from a dealer before, did you feel you were cheated by the salesperson during or after you purchased the vehicle? Yes No
-if yes, will you change you buying strategy next time you buy a car? Yes No
please explain: _____
would you return to the same dealership? Yes No

17. Have you heard or seen advertisements for no haggle pricing? Yes No
 -does it sound interesting to you? Yes No
 -would you investigate no haggle pricing dealerships , would you only buy from no haggle pricing dealerships , would you look at all dealerships , other _____
 -do you feel no haggle pricing is good for the consumers? Yes No
 -do you feel no haggle pricing is better for consumers or the dealership?
18. How heavily does no haggle pricing effect your purchasing process?
 very heavily moderately not at all
19. If you have had an experience with no haggle pricing while buying a car:
 -did you buy the car? Yes No
 -did you end up negotiating the price of the vehicle anyway? Yes No
 -were you satisfied with your experience? Yes No
20. Whose reputation affects your buying decision most: manufacturer dealer neither
21. Are you brand loyal when you buy an automobile? (do you repeatedly buy the same car brands) Yes No
22. After you have decided to go to purchase a car, how do you determine which dealer to go to?
 proximity reputation of dealer advertisement
 recommendation reputation of manufacturer other: _____
23. On your first visit to the dealership you : look look and test drive look, test drive, and buy
24. What do you like most about going to a dealership? _____

25. What do you like least about going to a dealership? _____

26. Are you familiar with Auto Nation as a dealership? Yes No
27. How would you rate Auto Nation as a dealership? _____
 1=outstanding 2=excellent 3=good 4=fair 5=poor N/A
28. What is your gender? Female Male
29. What is your marital status? Single Married
30. How old are you? years old
31. What is your occupation? (circle one)
 professional/executive professional/technical
 clerical/administrative middle management
 unskilled laborer student
 homemaker sales/service
 unemployed other: _____
32. What is your annual household income?(circle one)
 15,000 or less 45,001-55,000 80,001-100,000
 15,001-25,000 55,001-65,000 100,001-125,000
 25,001-35,000 65,001-80,000 125,001-150,000
 35,001-45,000 over 150,0000