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Press Release

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NEW PHOENIX CENTER STUDY DEMONSTRATES THAT CONSUMERS BENEFIT FROM INTRA-BRAND PRICE COMPETITION AMONG AUTO DEALERS

Changing State Franchise Laws Could Reduce Number of Dealers Which Could, In Turn, Soften Competition and Raise New Car Prices for Consumers

WASHINGTON, D.C. – In a new analysis released today entitled *The Price Effects of Intra-Brand Competition in the Automobile Industry: An Econometric Analysis,* the Phoenix Center addresses the important question of whether automobile dealers for the same make and model of new cars and trucks compete on price. The study finds that consumers significantly benefit from "intra-brand" price competition for new cars—often in the hundreds of dollars per sale.

Cars are expensive and most consumers know to shop among dealers for the best prices. Yet, until this study there has been little to no empirical evidence on the price effects of intra-brand competition among different dealer franchises for the same automobile model. Using large samples of transactions for ten of the most popular new cars purchased in the state of Texas for the years 2011, 2012, and 2013, the Phoenix Center study estimates the effects of intra-brand competition on new car prices.

Intra-brand competition is measured as the distance (in miles) to the nearest same-brand dealer. Significantly, for all but one of the models, the Phoenix Center's scholars find that intra-brand competition does, in fact, lower new car prices for consumers. For the popular Honda Accord, for example, increasing the distance between Honda dealerships by thirty miles raises the price paid by consumers by about $500.

"When two same-brand dealers compete for the business of a consumer on a car, the bargaining focuses mostly on price," said study co-author Dr. George S. Ford, Chief Economist of the Phoenix Center. "The data show that having multiple same-brand dealers in close proximity produces significant price cuts for the consumer. More auto dealers means lower consumer prices."

Given that retail margins on auto sales are quite small (about 6% on average), the price reductions resulting from intra-brand competition are substantial relative savings for new-car consumers. Moreover, the Phoenix Center finds that the price effects of intra-brand competition are relatively strong compared to inter-brand competition—at the sample means, moving an intra-brand dealer one mile closer reduces prices by the equivalent of an increase in 35 inter-brand rivals.

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"Laws exist in almost every state governing the retailing of new cars to consumers," adds study co-author Phoenix Center President Lawrence J. Spiwak. "These laws have encouraged large dealer networks, which the evidence suggests have led to significantly lower prices for consumers."

A full copy of the paper, PHOENIX CENTER POLICY PAPER NO. 48, *The Price Effects of Intra-Brand Competition in the Automobile Industry: An Econometric Analysis*, may be downloaded free from the Phoenix Center's web page at: http://www.phoenix-center.org/pcpp/PCPP48Final.pdf.

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