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Volkswagen joins move to cut car prices

Most big manufacturers still reluctant to meet challenge of rising dollar

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Volkswagen Canada has become the second mainstream automaker to cut its retail sticker prices in response to the continuing strength of the dollar.

The Ajax-based automaker announced yesterday that it will reduce the key manufacturer's suggested retail price, or MSRP, on most of its models from a few hundred dollars to \$5,800 starting on Friday.



RICHARD LAUTENS/TORONTO STAR

The distinctive Volkswagen New Beetle, on display at the Toronto auto show, now carries a suggested retail price of \$21,975, a 3.5 per cent decrease.

"These very significant pricing actions not only demonstrate our commitment to the Canadian market by recognizing the sustained strength of the Canadian dollar but also continue to reinforce Volkswagen's message of affordability," said John White, chief executive officer of Volkswagen Group Canada.

Canadian auto shoppers have complained for months about much lower MSRPs on vehicles in the U.S., despite the rapid rise last fall in the value of the Canadian dollar.

Some luxury automakers such as Audi slashed their manufacturer's prices but all mainstream automakers instead have boosted their incentive packages temporarily in view of the dollar's volatility.

Automakers don't like to change their MSRPs during a model year because they play havoc with planning and budgets and adversely affect the residual values of auto leases.

But the dollar has remained strong and Toyota Canada rocked the industry earlier this month by reducing retail stickers on 16 models.

The company also hinted it would cut them on the 2009 Corolla, Matrix and Camry models when they arrive in showrooms during the next few weeks.

Stephen Beatty, managing director of Toyota Canada, said consumers want a better reflection of the actual price of a vehicle in the manufacturers suggested price.

"Over the medium term, in the next few months, I think the industry is going to lower MSRPs and move to more normal incentive programs," he said in an interview at the Canadian International

AutoShow.

Analysts said Toyota's cuts represented a significant move in Canada's intensely competitive auto market and would trigger similar actions by rivals or even higher incentives and benefits for consumers.

However, analysts said some automakers are waiting to see the impact of Toyota's cuts on sales or their own performance in the marketplace before deciding on whether to reduce MSRPs.

They added other companies may just jack up incentives to maintain showroom traffic rather than cut manufacturer's prices.

Senior officials for other automakers have given no indication that they would cut their MSRPs.

Reid Bigland, chief executive officer of Chrysler Canada, said his company boosted incentives late last year and it led to the 18th consecutive month of gains in sales.

One industry source said Honda Canada is seriously considering MSRP cuts, but executive vice-president Jim Miller said the company has no plans and is sticking with incentives.

Marc Comeau, vice-president of General Motors of Canada Ltd., said his company made "adjustments" to some models late last year when the dollar soared.

"It's pretty much behind us now," he said, noting that GM reported strong January sales.

At Ford Motor Co. of Canada Ltd., chief executive officer Barry Engle said his company has remained competitive through incentives. "From the consumer's standpoint, it's really about the final transaction price," Engle said.

Volkswagen, which generates annual Canadian sales of about 37,000, or 2.2 per cent of the market, made its move after its sales tumbled 34 per cent in December and another 18 per cent in January.

Among its cuts, Volkswagen said it would reduce the MSRP of the Rabbit five-door version by \$700, or 3.2 per cent, to \$20,975; the Jetta A5 sedan by \$1,500, or 6.3 per cent, to \$21,975; the Passat 2.0T sedan by \$3,500, or 11.2 per cent, to \$27,475; and the Touareg 2 V-8 luxury sport utility vehicle by \$5,800, or 9 per cent, to \$58,975.

At the show's media preview, five automakers unveiled six new models that they will build in Ontario including the Ford Flex in Oakville, the Toyota Corolla and Matrix in Cambridge, the Chevrolet Silverado hybrid truck in Oshawa, the Dodge Challenger sports car in Brampton and the Volkswagen Routan minivan in Windsor.

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