

A close-up photograph of a car's wheel and brake system. The wheel is silver with a multi-spoke design. A bright red brake caliper is visible, mounted on a black brake disc. The background is dark, making the metallic parts stand out.

**INCENTIVES**

**INCENTIVES IN  
FRANCE**

**DECEMBER 2014**

**Report by:**

Noémie Bkouche  
Yingqian Chen  
Agnès Janin-Pascual  
In collaboration with Alexandre Parente



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# CHARACTERISTICS AND EVOLUTIONS

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## INTRODUCTION

The objective of the current report is to provide a general insight into the French market evolution from an incentive perspective over a time span of 4 years (2011-2014). This time span covers the most recent crisis in the automobile industry which reached its cyclical bottom in the year 2013, as well as the start of recovery since 2014.

The report starts from preliminary discoveries of the monthly vehicle registrations and correlate them with retail price changes as well as incentive value changes. Then incentives are dissected by categories and by segments as well as by different brands.

A competitive analysis is also carried out for different makes, and finally a comparison between a special French-brand panel and an 'all-generalist-brand' panel is applied to reflect the specificity of the French market. The report serves as the first issue of the incentive research reports and defines future research directions in detailed incentives subjects.

The report uses integrally JATO data in terms of vehicle registration, retail price, and incentive value. The methodology choice of JATO research might potentially bring about differences of perspective in the way data are classified and interpreted for readings adopting other research methodologies, which needs to be duly notified in advance.

Incentives values are weighted with mix and take rates.

### Key Points

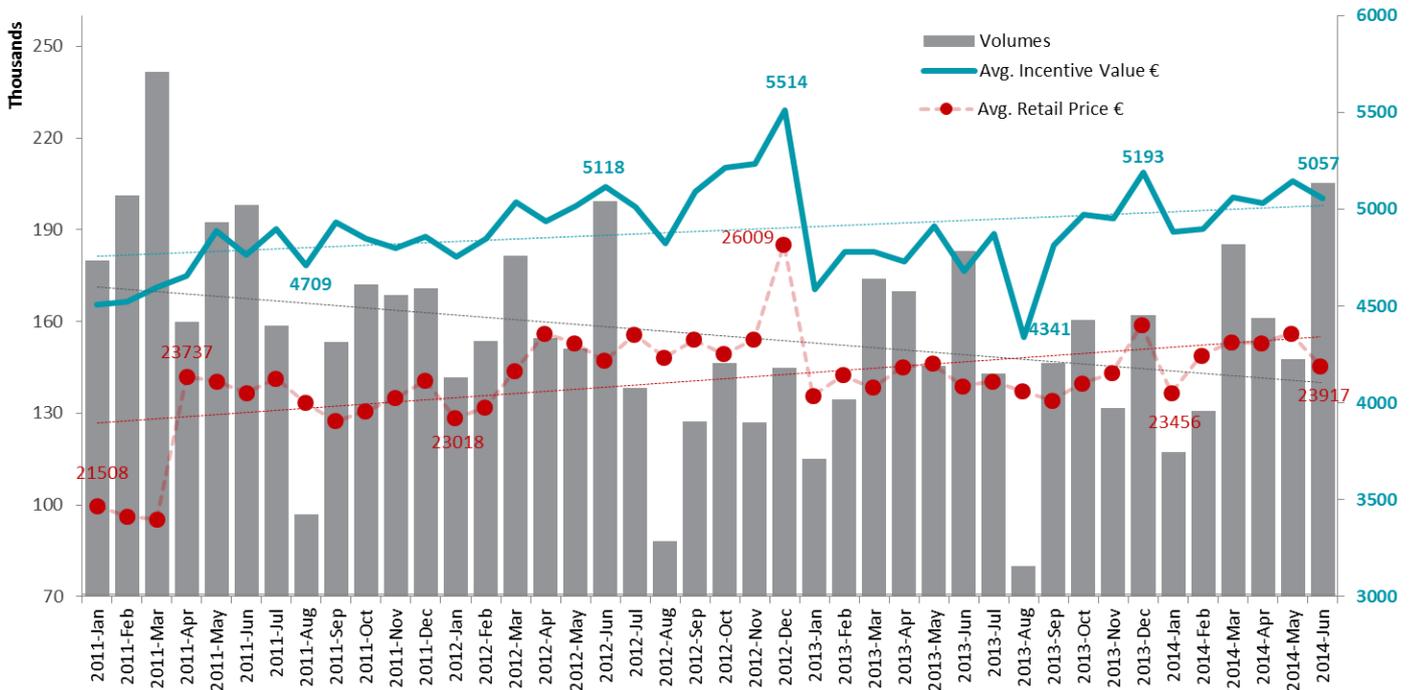
- Economical factors and the correlation between volumes and retail prices are affecting the seasonality of incentives.
- Manufacturers tend to reduce their sales support while launching new aggressive campaigns. Dealers have to compensate with their margins.
- The incentive level by segment is linked to the market share. Either low or high volumes, manufacturers need to adapt their level of incentives.
- French makes invest less in incentives than Generalist makes but spend more in discounts.

# INTERACTION BETWEEN VOLUMES, PRICES AND INCENTIVES VALUE

## What is the correlation between Volumes, Retail Prices and Incentives Values since 2011?

At first glance, there seems to be an obvious correlation between Average Retail Price and Incentive Value (both are weighted with volumes). Plus, the activity is seasonal and impacted by the up and downs of the French market.

- **Volumes** (registrations) have decreased from 2011 to 2013 with a light bounce on the first semester 2014. Volumes are impacted by economical hazards, government and manufacturers' policies, such as scrappage bonus. The effect of bonus/malus or scrappage bonus coincides with some important variations in registration volumes. The ecological bonus is decreasing each year while the malus tend to increase. Registrations increase in December as buyers anticipate the lower bonus/higher malus.
- The **average retail price** (weighted with volumes) has largely increased from 21,508€ in January 2011 to 23,917€ in June 2014 reaching its peak value of 26,009€ in December 2012. This is due to increase of registrations of vehicles with high CO<sup>2</sup> levels (expensive models) whose malus was doubled in January 2013.
- The **average incentive value** (weighted with volumes and take rates) tend to increase as fast as the volumes decrease. Indeed, manufacturers invest more money into incentives to boost sales.



The automobile industry crisis particularly affected manufacturers at the end of 2012. Volumes on car registrations saw a decrease of 20% between 2012 and January 2013. At the same period, the average retail price increased by +7% and average incentive value increased by +5.5%. Since then the industry has been slowly bouncing back from the bottom since 2013 and slowly progressing in 2014.

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## How do economical factors and seasonality influence the Incentives cycle?

Some specificities of the French car market explain the fluctuations of the Incentive Value and Retail Prices through the year. The Incentives cycle can be split up as follows:

### Quarter 1: Adjusting Prices and offers

Since the introduction of the malus/bonus in 2008 to encourage the purchase of non-polluting cars, the system has always been reviewed in January: the malus progressively increasing and the bonus decreasing. Therefore, and since 2011, manufacturers need to compensate these changes by applying a reduced price increase, create attractive entry level versions or offering the malus to customers.

In March, manufacturers throw events such as Open Doors with higher discounts and attractive finance offers. March is one of the best-selling months.

### Quarter 2: Boosting the sales

The second Quarter of the year is quite interesting with a clear increase of Incentives and sales. In May, there is a peak of Average Incentive Value (+4% in May 2013 and +2.2% in May 2014) and Retail Prices, which explains the high number of car registrations in June every year. In June, another weekend of Open Doors usually takes place.

### Quarter 3: Downturn

During July and August, the manufacturers tend to reduce and maintain the same incentives campaigns in place. In September, new incentives are usually introduced, mostly during the last Open Doors of the year. The *Paris Motor Show* (2012 and 2014) is also a major opportunity for manufacturers to launch new attractive offers (especially finance offers) sometimes going along with new models.

### Quarter 4: Increase of Retail Prices and Incentives values

The most noticeable peaks of Average Retail Price and Incentive Value happen during the last Quarter of the year.

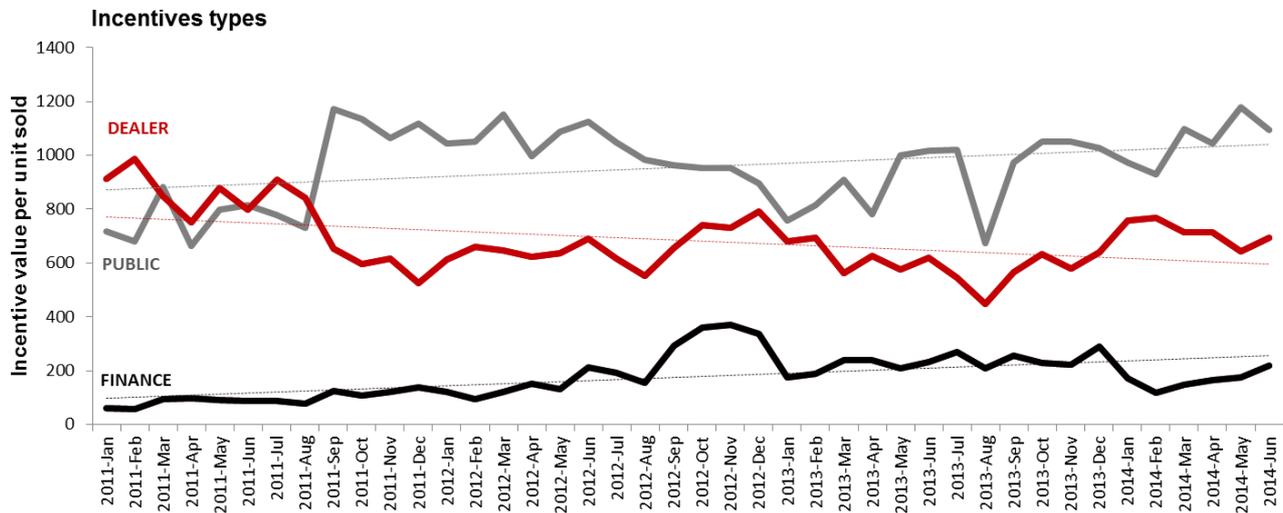
In December, dealers propose higher offers to the customers with the aim to complete their performance objectives and get the maximum of their yearly bonuses and margins. Christmas is one of the most interesting periods for customers to negotiate higher discounts and lower rates. At the end of 2010, the French government decided to end the famous "Prime à la Casse", i.e. the scrappage bonus introduced in 2008, offered for a car older than 10 years, and aiming at eliminating very old polluting cars. Most of customers tried to take advantage of this bonus during the last months, which explains the peak of car registrations in January 2011, following the high sales volume in December.

As said before, December 2012 was critical for the French car industry. December 2013 was affected by the raise of dealer support to compensate for higher malus (e.g. Renault, Citroën).

## EVOLUTION OF INCENTIVES TYPES SINCE 2011

### What are the impacts of the evolution of Public, Dealer and Finance Incentives over the years?

Let us consider the Public Incentives as the sum of Discount + Ownership + Product+ Other Public and the Dealer Incentives as the sum of Bonus + Support.



### Public and Dealer Incentives

At first sight, we notice that the Dealer Incentives tend to decrease since 2011 with -33% between January 2011 and January 2012. During the same period, the Public Incentives have increased by 45%. The up and downs of the market and the competitive promotions have forced manufacturers to come up with new aggressive campaigns.

This implies that manufacturers have significantly reduced their supports at the expense of the dealers, which have to use their own margins to compensate for the higher Public Incentives.

Some major changes in the JATO interpretation of manufacturer's commercial plan also explain the "critical points". For example, since October 2011, minimum discounts are coded on Peugeot cars instead of simple sales support.

### Finance Incentives

As for the Finance Incentives, manufacturers have clearly strengthened the competition on this field, proposing always lower rates, especially during Open Doors events (March, June, September). At the end of 2012, in the middle of the car industry crisis, the value of Finance incentives increased by 178% between January and December.

Leasing offers are becoming more popular, allowing customers to try new cars and change them after a few years. The down of Finance Incentives in January 2013 (-48% compared to December 2012) can be explained by the end of BMW credit offers, which have been replaced by leasing offers.

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Manufacturers try to gain the loyalty of their customers by communicating on attractive monthly payments without showing any facial discounts, e.g. German brands. Generalist brands tend now to have the same strategy, though they are including discounts with or without trade-ins (e.g.: Ford B-Max from €129/month with a discount of €5,000 incl VAT).

## INCENTIVES VS MARKET SHARE BY SEGMENT

### Do main selling segments have a higher level of incentives?

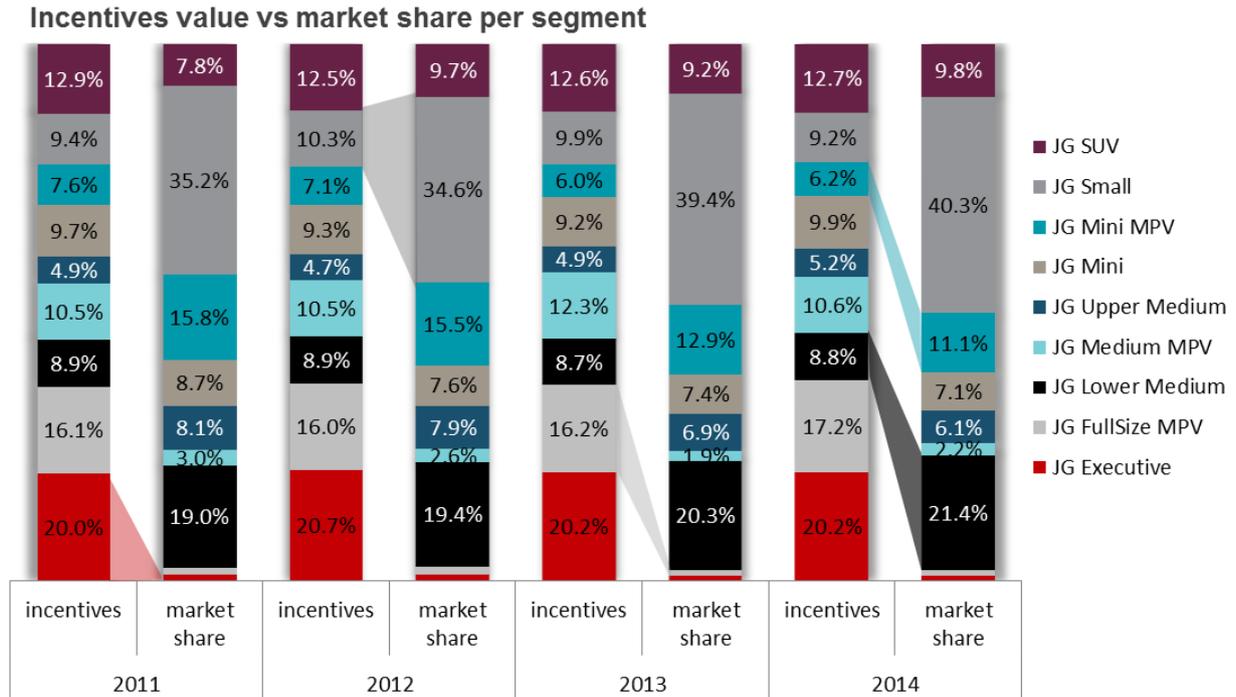
This shows the relation between Incentives and market share on main segments.

- The **Executive** segment is the most incentive segment, naturally because of the level of prices which increase consequently incentives values.
- Volume-makers do not necessarily represent the highest level of incentives, e.g. **Small** segment with 40% of market share in S1 2014 and only 9.2% of incentives value. Investment in incentives for Small segment remains almost the same while the market share is growing.

In this very competitive segment, manufacturers have to keep the pressure and thus the same level of incentives to win the deal.

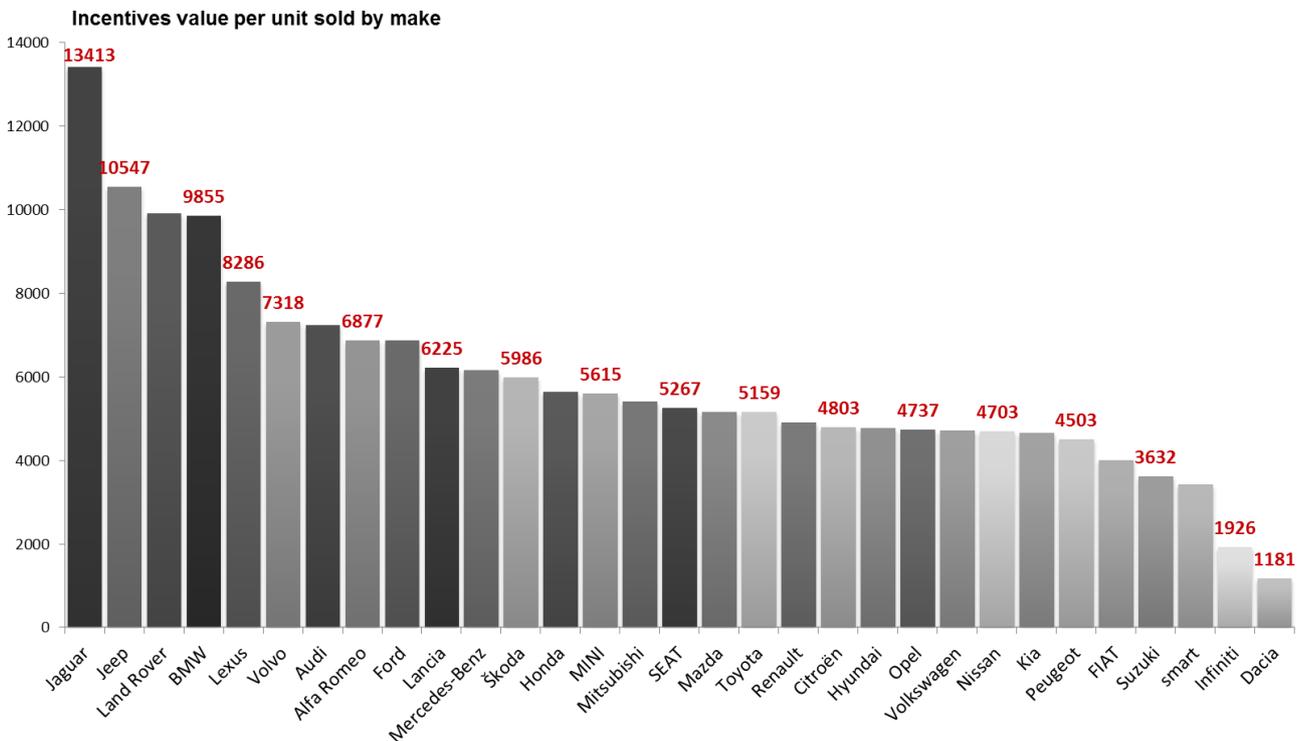
- On the contrary, **Full Size MPV** with very low market share (less than 2%) have high incentives value (17%), partly due to retail price but also because of struggle from manufacturers to sell these vehicles, so high discounts are proposed to customers.
- We can also notice that **Upper Medium** segment market share are decreasing and Incentives values are thus increasing to try to keep up the volumes.
- **Mini-MPV** is left behind; the market share is decreasing along with the incentives level. Contrarily, the **Lower Medium** segment is getting by quite well, the market share going up while the incentives level remains stable.

## Incentive value vs market share per segment



## INCENTIVES VALUE BY MAKE

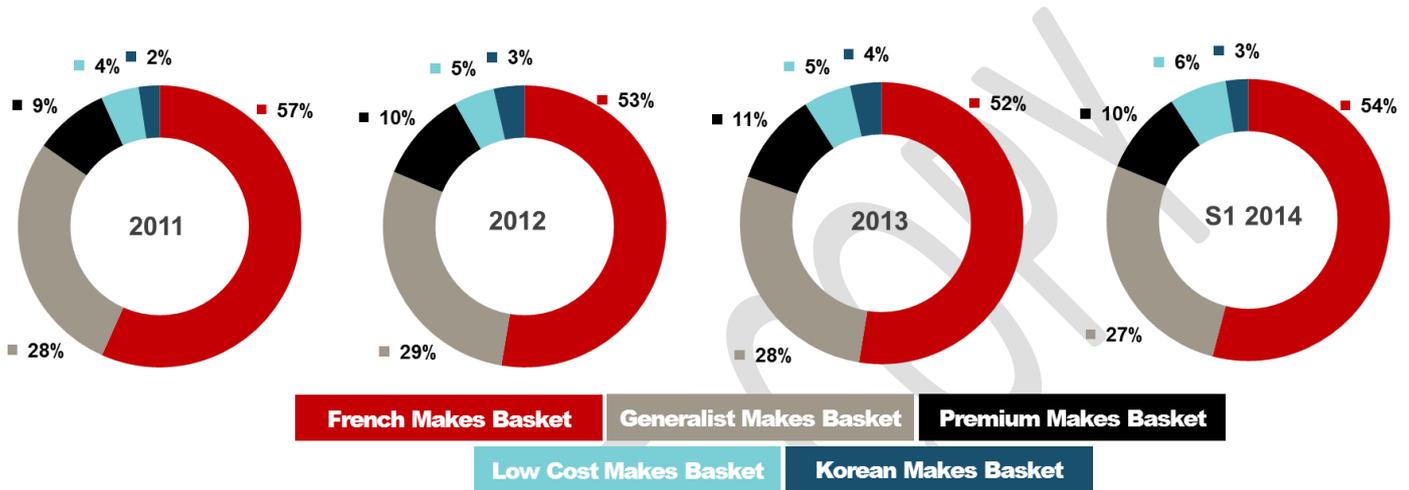
Investments in Incentives are not only irregular from one segment to another but it also depends on each brand. Premium makes invest the most per vehicle sold with Jaguar on top of the podium followed by Jeep, Landrover, BMW, Lexus, Volvo and Audi. Among generalist brands, Ford is investing more compared to its direct competitors.



## What is the evolution of market shares?

To further the analysis, several baskets are chosen in order to give a clearer view of the market evolution:

- French makes basket: Peugeot, Citroën and Renault
- Generalist makes basket: Volkswagen, Ford, Nissan, Toyota, Opel and Fiat
- Premium makes basket: Audi, BMW, Infiniti, Jaguar, Land Rover, Lexus, Mercedes, and Volvo
- Korean makes basket: Kia and Hyundai
- A low cost basket with Dacia only



Even though the market share stays relatively stable throughout the chosen researched period, the evolution of lost and gain of market share still deserves some attention:

French local brands are losing market shares by up to 4 points (-3.91 points) during 2012. Such a loss of market share was never regained back despite of the recent recovery in the first and second quarter of 2014. However, the Premium basket is picking up to 1.77 point of the market share in 2012. Similar pattern is seen at the Korean make basket with an increase of 1.1 point of market share in 2012.

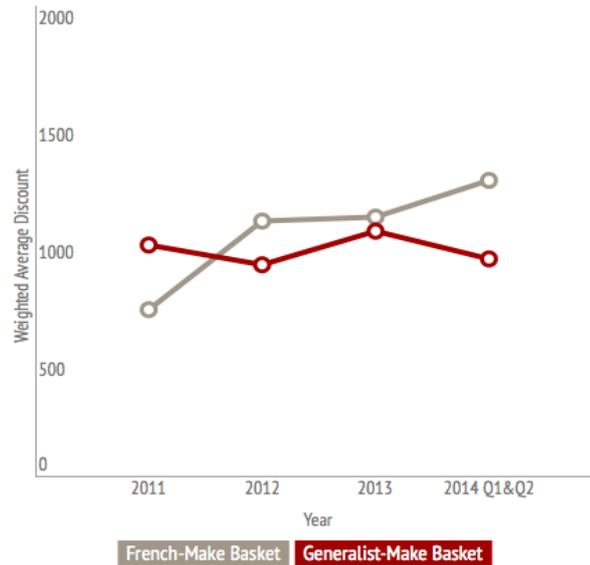
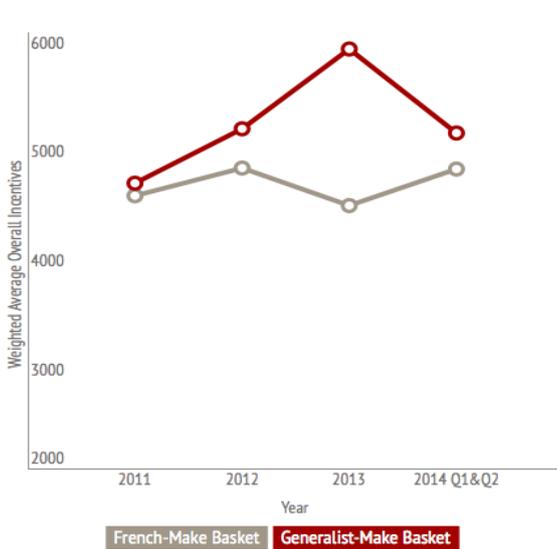
The recent recovery in 2014 for the French local makes (2.2 points) is accompanied by the loss of 0.75 point from the Premium and especially the loss of 0.9 point from the Korean make basket, pushing their market share back almost to the 2011 level.

The low cost brand Dacia is picking up steadily market share (0.8 point in 2013 and 1.1 point in 2014 relatively from all other baskets), in parallel to the dropping disposable income allocation to automobile expenses.

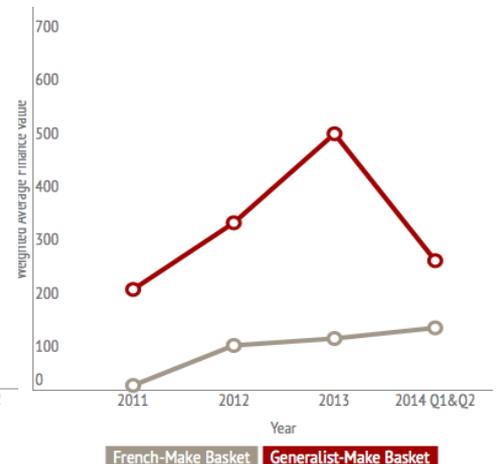
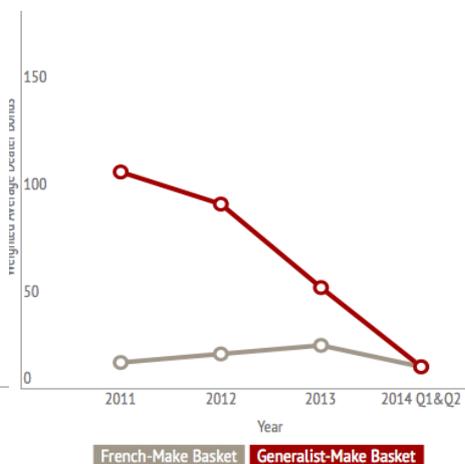
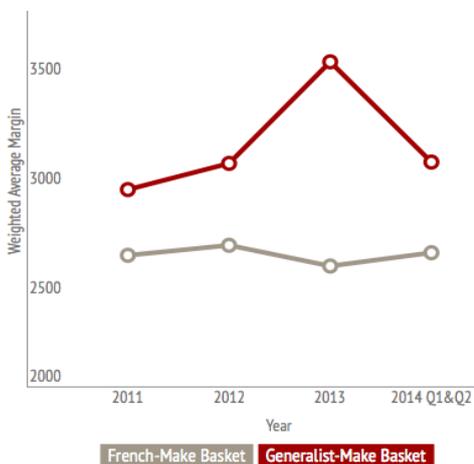
Historically, local brands in the French automobile market always take the biggest share: taking the 2013 October data, the three local brands occupies in total half of the local market. Considering the fact that all three French makes are opting for a generalist positioning, other 6 Generalist brands are chosen as a basket to form a comparison to the French-make basket (Renault, Peugeot and Citroën).

## What are the different strategies between French vs. Generalist makes?

- Overall, non-French generalist makes apply LESS incentive on average to their cars. The difference reached almost 35% in 2013.
- French makes are more willingly to give incentives in hard **discount** forms. The average discount numbers from the French basket surpassed those of the Generalist basket and stays higher than the generalist brands.



- In terms of **dealer margin**, the generalists' networks seem to be better rewarded. (36% less margin given from the French makes in 2013)
- The **dealer bonus** in either basket saw a diminishing trend since 2011 and converges in 2014, explained by a more sensitive cost control from the OEMs vis-à-vis their networks. This also corresponds to the diminishing participation of OEMs in their promotion offers.
- There's a rising trend of **finance** incentives, with regard to the diminishing purchasing power and less budget allocated on automobile purchase. The generalist makes use more tactically finance incentives (leasing not included in the analysis). The average finance value from Generalist basket even quintuples that of the French basket in 2013. But as the market condition turns less severe in 2014, the value of finance incentive from the generalist makes diminishes dramatically as well, giving more tactical meanings to the finance offer.



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## Conclusion

As we have seen, the French market has its very own characteristics and its evolution since 2011 is strongly influenced by economical factors such as the industrial crisis in 2012 and new government policies (end of scrappage bonus, changes in bonus/malus each year...). This explains the variations of Volumes, Retail Prices and Incentives values.

According to those factors, manufacturers have to adapt their campaigns, hence the seasonality of Incentives. While the first Quarter is all about adjusting to lower retail prices, manufacturers boost the market with new offers during the second Quarter. Things slowdown in summer during the third Quarter and finally incentive values and prices increase during the last Quarter.

Furthermore, the evolution of incentives by categories shows a clear tendency of manufacturers to reduce their investment in terms of sales support. Since the public incentives keep increasing over the years, it seems that the dealers have to invest more to compensate.

The incentive level by segment is mainly linked to the market share. Either the segment has high volumes or manufacturers need to keep the incentive level upwards, either the market share is low or manufacturers need to boost sales with new incentives. However, there are some exceptions as the left behind Mini-MPV and the Lower Medium segment which is doing quite well.

Going deeper, we have noticed that French makes have been more affected by the crisis in 2012 than Premium brands and their market share has started to increase recently and thanks to low cost brands such as Dacia.

While French makes seem to invest globally less in Incentives than Generalist makes, their strategy relies on higher discount offers and lower margins.

This first report opens up a full range of interesting topics to analyse deeper, such as the impact of bonus/malus on each brand strategy (in terms of specifications, volumes and incentives), the link between incentives and the lifecycle of a vehicle or the different incentives strategies for the launch of a new model in a complex environment.

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## APPENDIX

### Methodologies, data and constraints

The report uses integrally JATO data in terms of vehicle registration, retail price, and incentive value. The methodology choice of JATO research might potentially bring about differences of perspective in the way data are classified and interpreted for readings adopting other research methodologies, which needs to be duly notified in advance:

**Segmentation:** Nine major segments are chosen: Mini, Small, Lower Medium, Upper Medium, Mini MPV, Medium MPV, Full Size MPV, SUV and Executive. The segmentation used is the Jato Global Segment.

**Volume information:** the private car volume database includes information on Business versions that are open to private purchase.

**Incentive information:** the incentive information used in the report only includes promotion information that is available nation-wide. 7 categories are used to classify incentives: discount, owners, product, other public, dealer bonus, dealer support and finance.

**Average retail price:** average retail prices are calculated with a weighted method, with the weight being the sales volume over a specific period concerned.

**Average incentive value:** take rates are applied first to each incentive values. Weighted average methods are also applied with the weight being the sales volume.



JATO DYNAMICS LIMITED  
CARPSECS HOUSE  
BESSBOROUGH ROAD  
HARROW, MIDDLESEX  
HA1 3XW, UK

T +44 (0) 20 8423 7100  
F +44 (0) 20 8423 2233  
enquiries@jato.com

[www.jato.com](http://www.jato.com)

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