American Consumer Institute Calls for FTC Action:

What Vacuum Cleaners Manufacturers Don't Want You to Know

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The razor and razor blade business model is alive and well. The name derives from the practice of the inventor of disposable razor blades, King C. Gillette, who commenced more than a century ago, the marketing practice of selling the permanent platform (razors) at or below cost and the consumable complement to the platform (blades) at a significant mark up over cost.

Like the old Fram auto filter marketing slogan goes -- "you can pay me now or pay me later." So it appears to be with vacuum cleaners. A study conducted by TeleNomic Research and released today by the American Consumer Institute (www.theamericanconsumer.org) found that the long-term cost of operating and maintaining a vacuum cleaner are usually much more than the vacuum's purchase price. This is because the cost of using a vacuum requires maintenance and the purchase of accessories like vacuum bags, belts and filters; and these costs are seldom obvious to consumers at the time of purchase.

The cost of maintenance and required replacement accessories are usually not explicitly identified on the retail box, so knowing the prices and longer term costs *before purchase* requires a lot of research time – making comparisons across brands and models nearly impossible to make for most consumers. The fact is that manufacturers generally do not want their customers to know these costs, because manufacturers benefit from hiding them. After

all, once consumers buy their vacuums, they are locked into buying expensive accessories for many years to come.

The TeleNomic Research study – "Are Manufacturers Cleaning Up?" – compares the most popular brands and models, and it calculates a long term cost estimate, referred to as the *Vacuum Cost of Ownership* (VCO). The VCO is the sum of the price of the vacuum plus the cost of all of its accessories and maintenance over a 5-year period. The study finds that the cost of operating and maintaining vacuums is most often far greater than the upfront price of the vacuum. In one illustration, the study finds the 5-year VCO for one vacuum to be seven times the price of the vacuum.

This study provides evidence that alternatives to the razor and blades business model could produce significant savings for consumers. For example, among lower-priced vacuums and those vacuums rated lower in performance and quality by a survey of repair shops, the Shark Navigator, while the most expensive model in its class, had no variable costs and provided the lowest cost-of-ownership over a five-year period (see Figure 1).

Figure 1

Similarly, among the moderate and higher-priced vacuums and those rated highest among repair shops in terms of quality and performance, Dyson and its divergence from the razor and blades business model had no variable costs and provided the lowest cost-of-ownership over a five-year period (see Figure 2). In short, vacuums with no variable costs tend to provide the greatest savings to consumers.

Figure 2

The study also found less expensive vacuums to have higher hidden costs and generally lower quality. In fact, one low-end $50 vacuum was found to require $300 in additional costs to operate over a five-year period, assuming average household usage. While higher-priced vacuums tend to have lower repair costs, many such brands were still found to have high variable costs, resulting in hundreds of dollars of hidden expense. The study also showed that

consumers may be much better off paying a little more upfront to buy vacuums with low or no variable costs.

It is difficult for consumers to identify these hidden costs at the time of purchase and that is to the advantage of manufacturers. The lack of information leads many bargain shoppers to buy cheaper and lower-quality brands and models, only to find they are paying much more by using vacuums with higher operational costs.

The answer to the problem is simple – manufacturers should disclose these hidden costs in order to give consumers better information to compare brands and models. This can be accomplished by developing an industry standard, like the VCO. If consumers could find the VCO on the box, on fact tags at the point-of-purchase or on manufacturers' websites, they would be able to make informed decisions that will better suit their needs and save them money.

In turn, this would encourage competition in the market for vacuums with lower variable costs. Better informed consumers and increased competition is a recipe for maximizing consumer benefits and savings. For consumers, the current system of hidden costs provides neither.

Steve Pociask is president of the American Consumer Institute Center for Citizen Research, a 501c3 educational and research institute. Click here to read the entire research study or visit www.theamericanconsumer.org.