



Incentives' Impact on Used Vehicle Values

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Outline

- **Incentives**
- **New/Used Vehicle Market Dynamics**
- **Incentives' Impact on Used Vehicle Market Values**



Incentives

➤ Objectives of Incentive Offerings

- Tactical marketing solutions for balancing demand and supply in a short time period
- Strategic weapons for defending or growing market shares

➤ Evolution of Incentive Programs

- Cash -> APR -> Residual Support
- Single type -> Combo programs
- National -> Regional
- Quarterly -> Monthly -> Weekly
- Monetary -> Equipment discount or free giveaways
- Aged vehicle products -> New vehicle models



Incentives

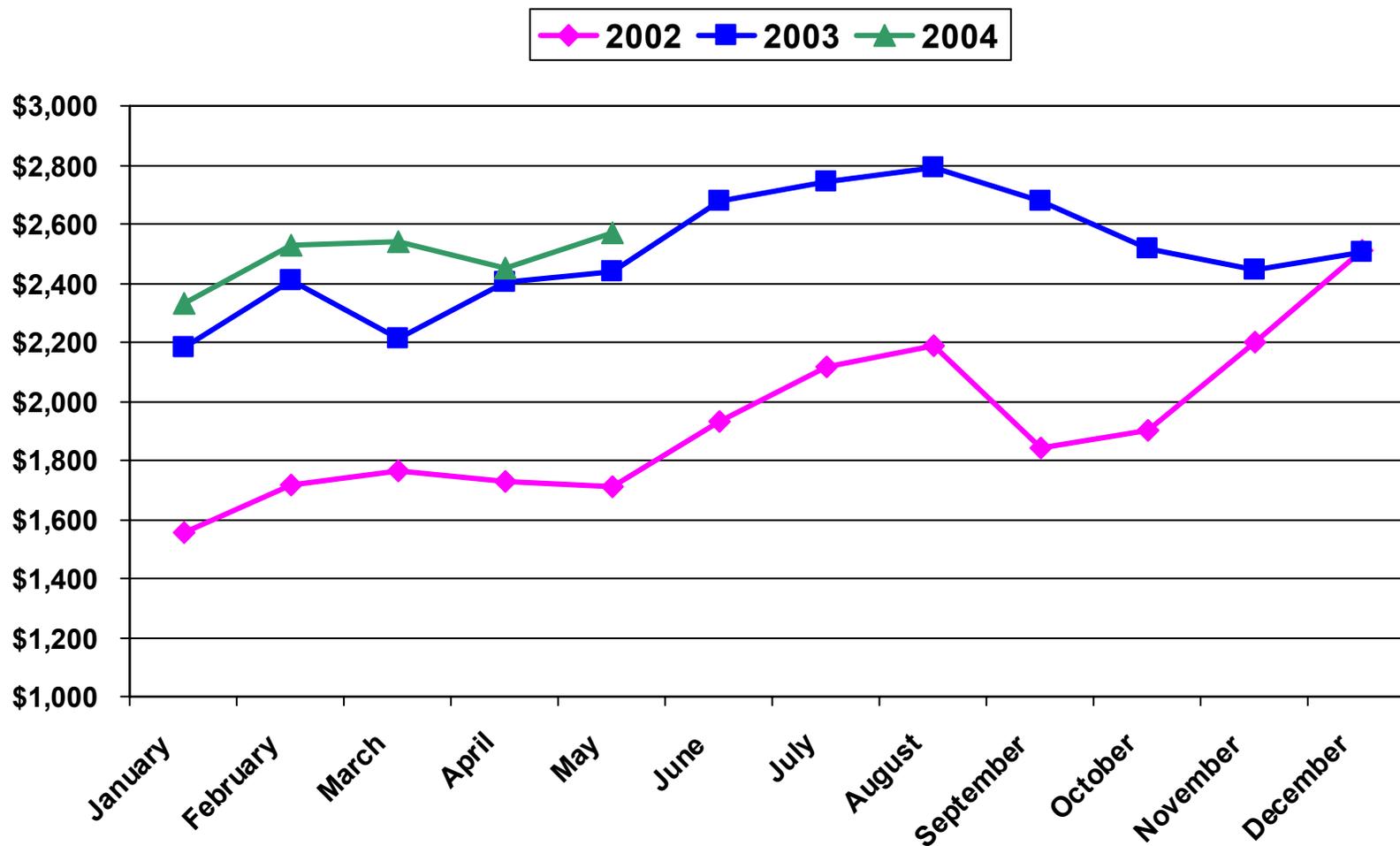
- **Forms of Incentives**

- **Dealer cash (including volume bonus)**
- **Consumer cash (rebate, bonus cash, loyalty cash)**
- **Finance interest rate subvention**
- **Lease residual support**
- **Combo programs**

- **Cost of incentives**

- **Cash – Immediate payout**
- **APR – Cost spread over time**
- **Residual Support – Cost impact at the end of leases for the returned units only**

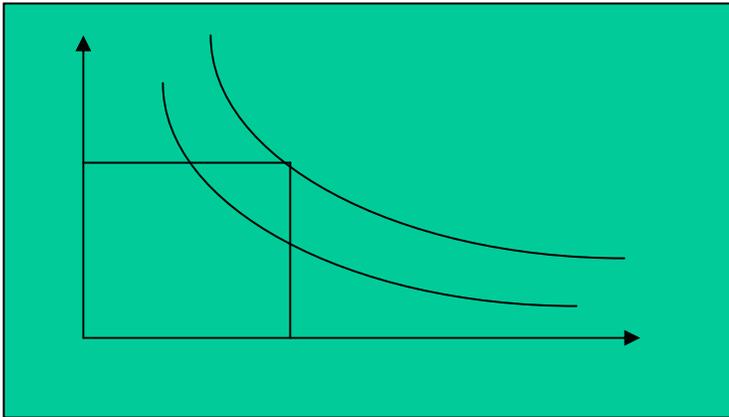
Total Incentive Spending for 2002-2004 (National)



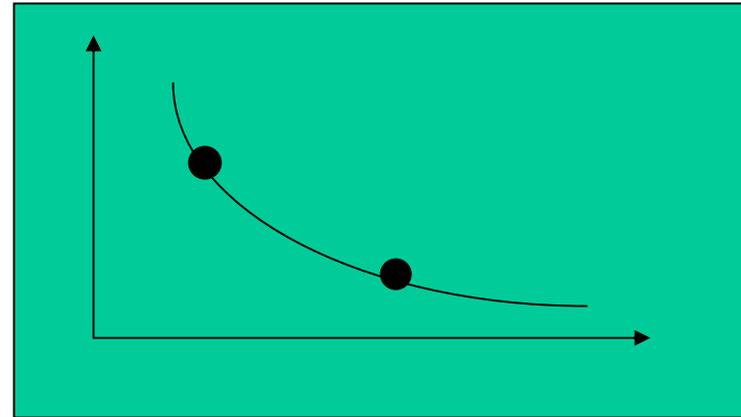


Incentives and Vehicle Demand

- Incentives lead to increases in the quantity of vehicles demanded for a vehicle product
- But they don't effect the fundamental demand-price relationship for that vehicle product



Two demand curves



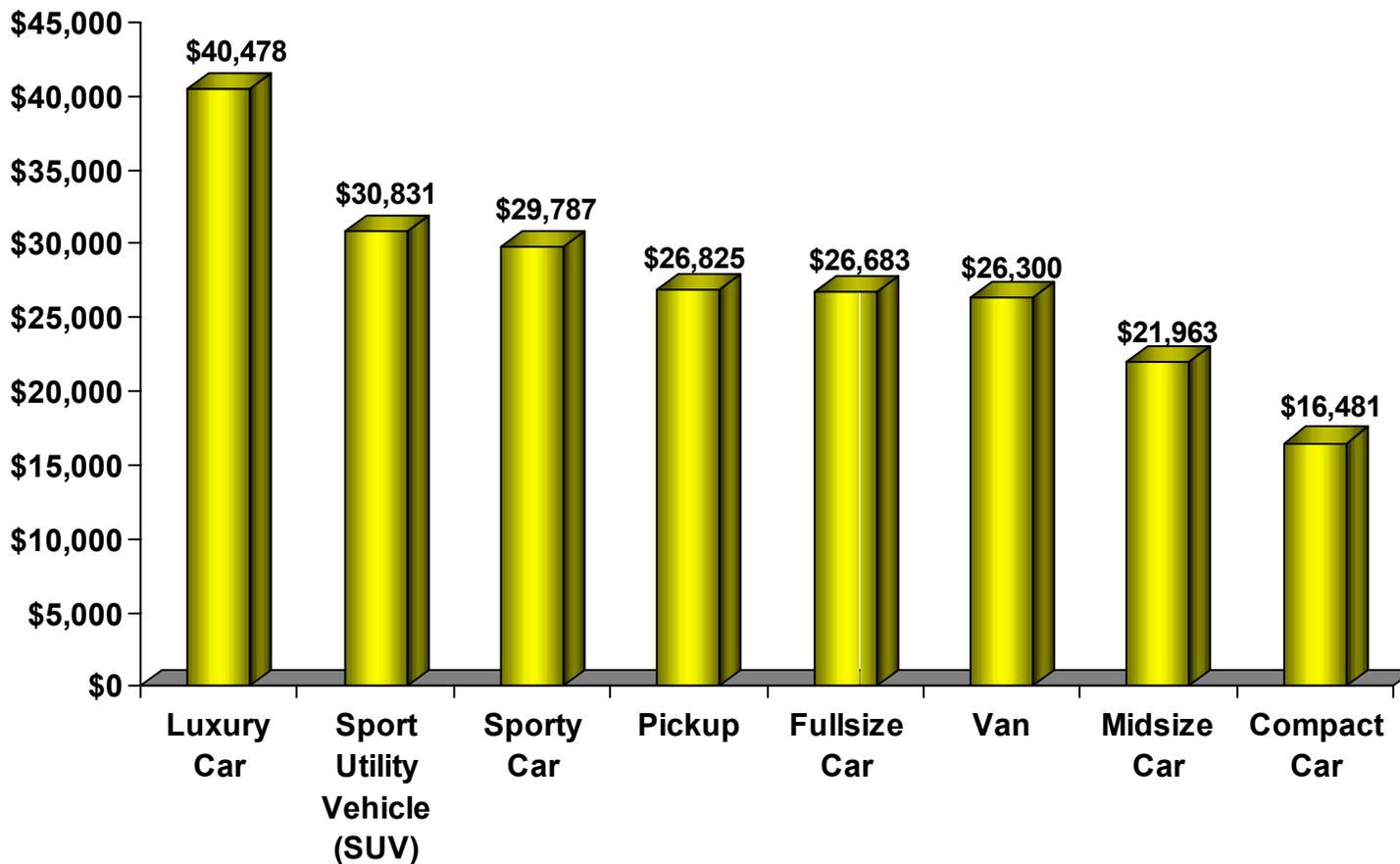
Two points on the same demand curve



New/Used Vehicle Market Dynamics

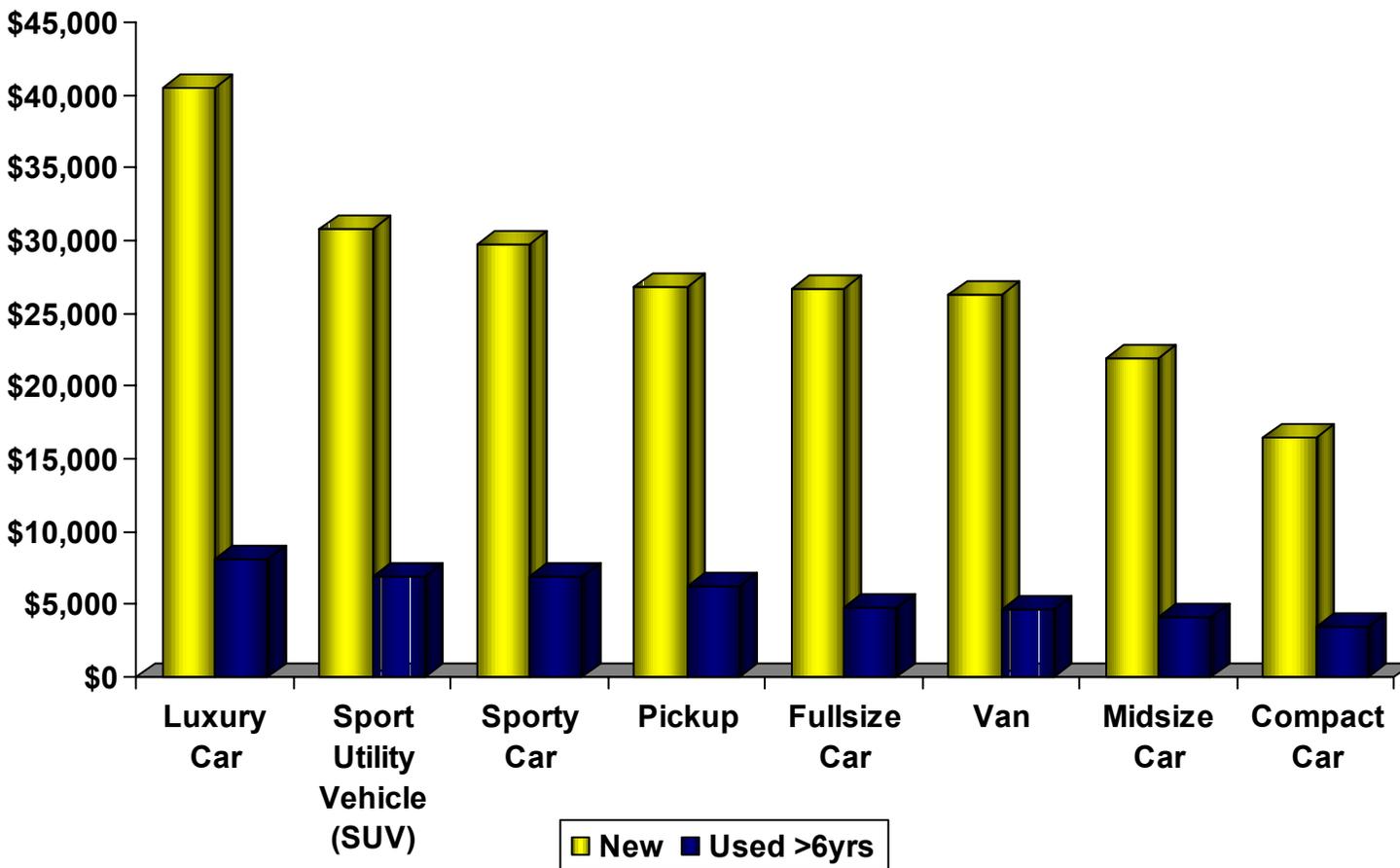


New Vehicle Retail Transaction Prices (2003 through June)



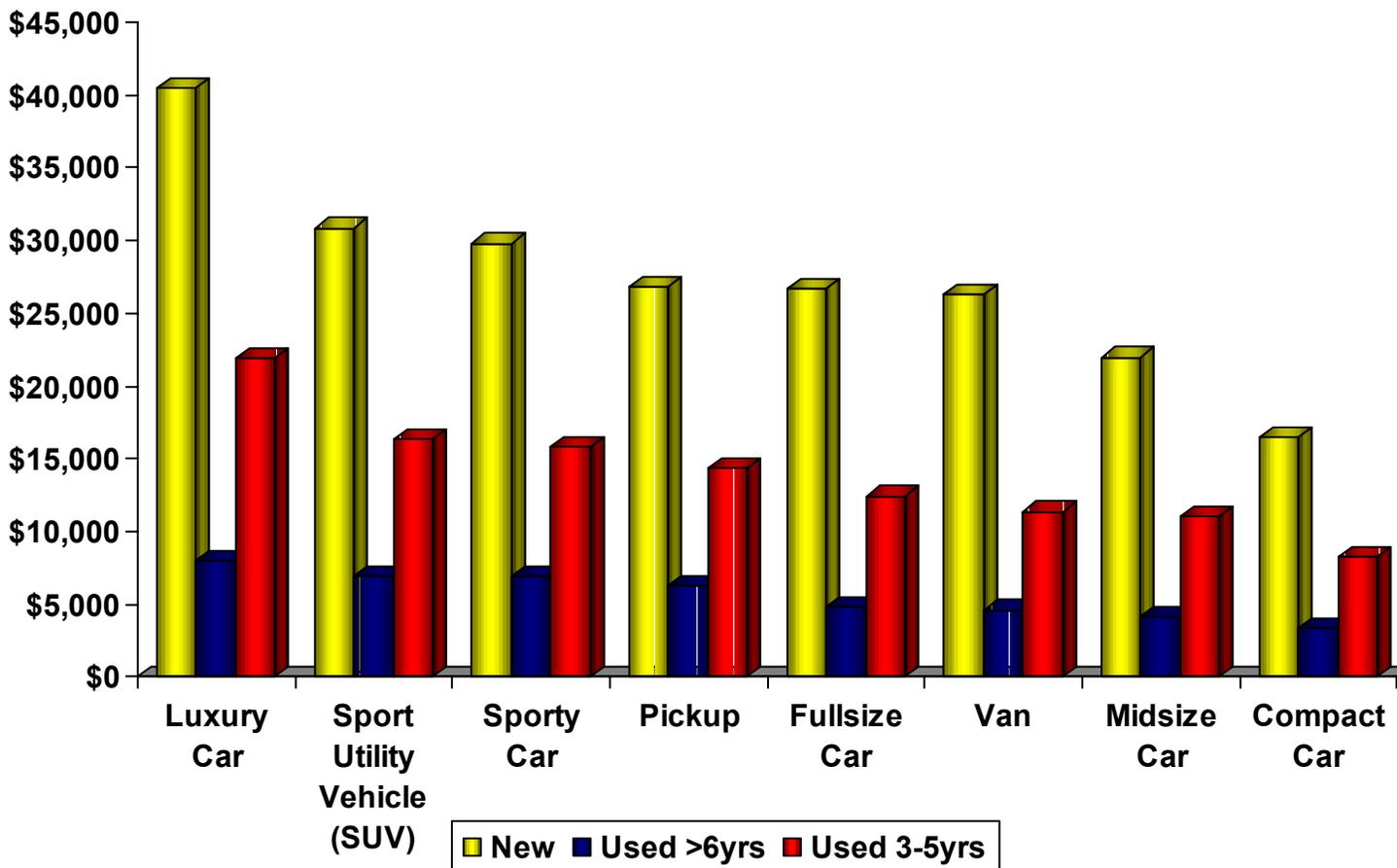


Those 6+ years old vehicles don't really mix with new vehicles in any segment



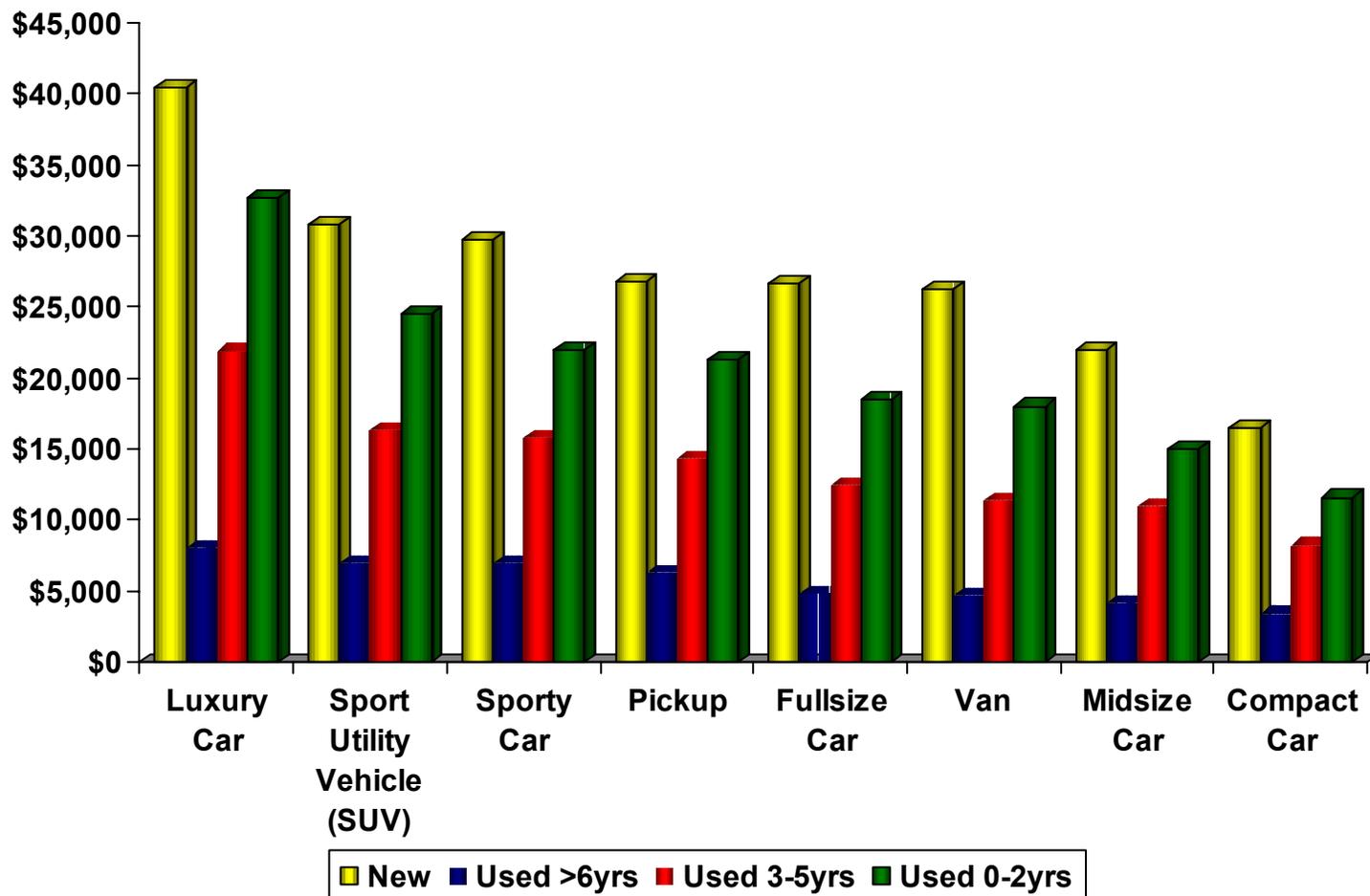


3-5 years old vehicles start to compete with new vehicles in lower priced segments



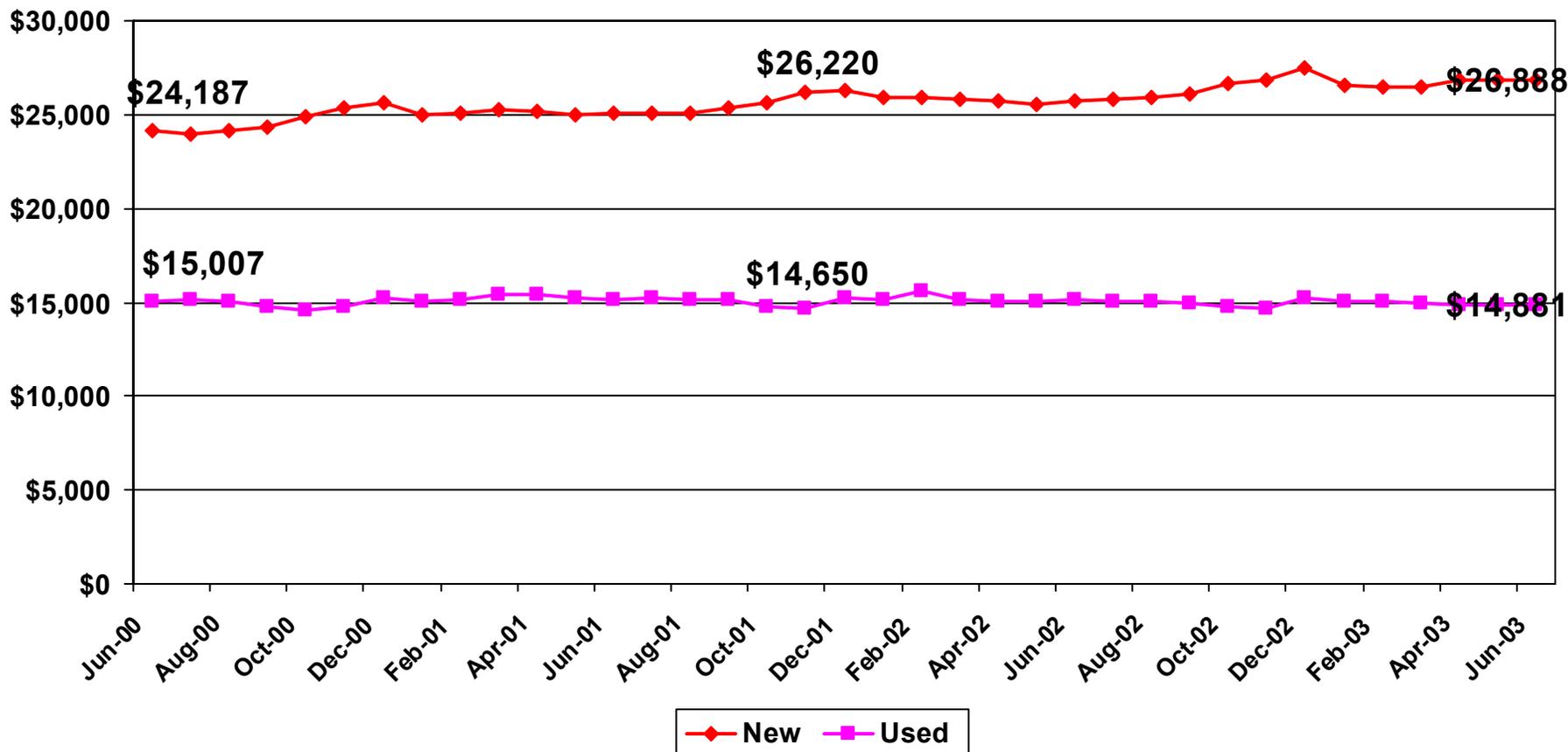


Vehicles that are 0-2 years old further close the gap among new vehicle segments, a strong substitution for both new and 3-5 years old vehicles



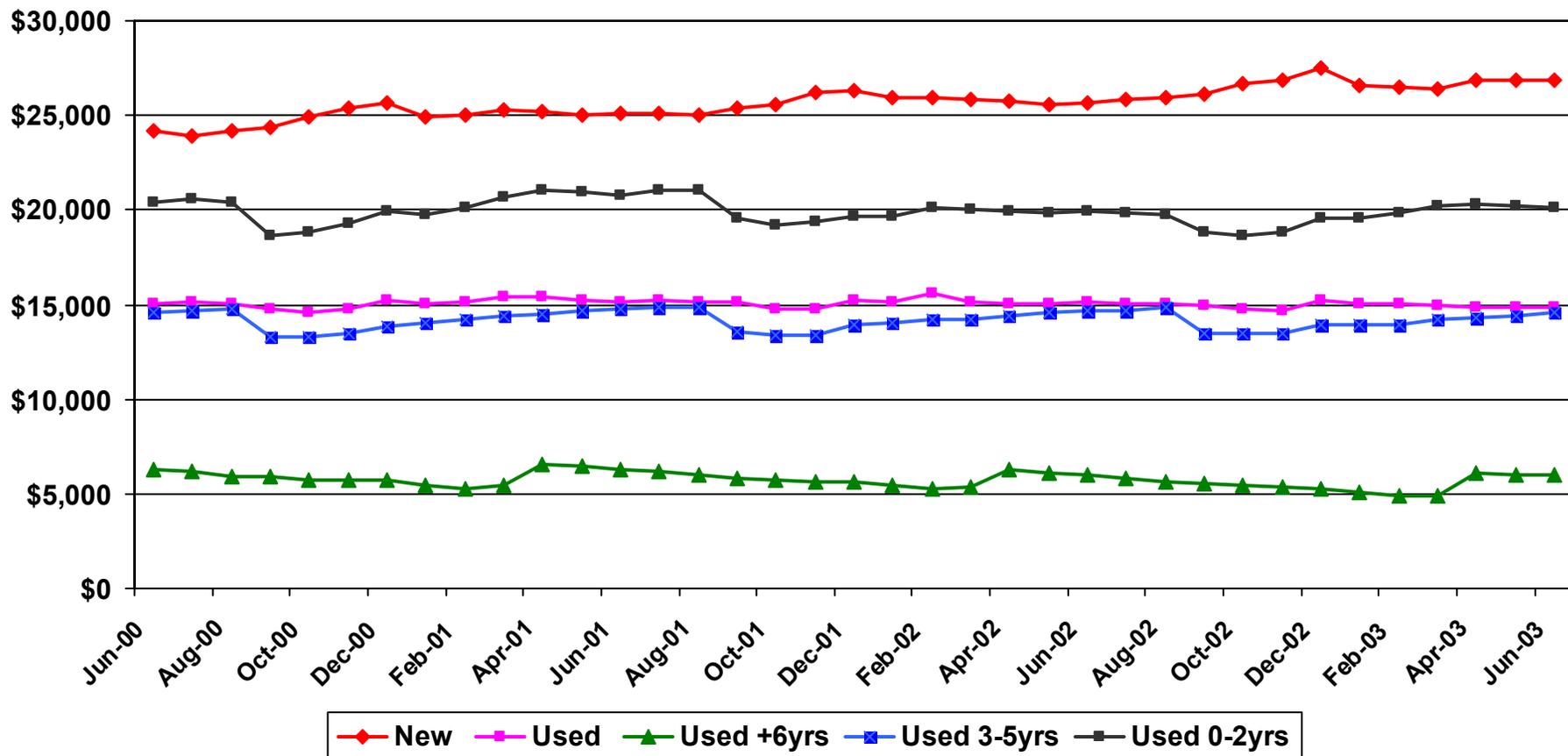


New/Used Vehicle Retail Price Trend





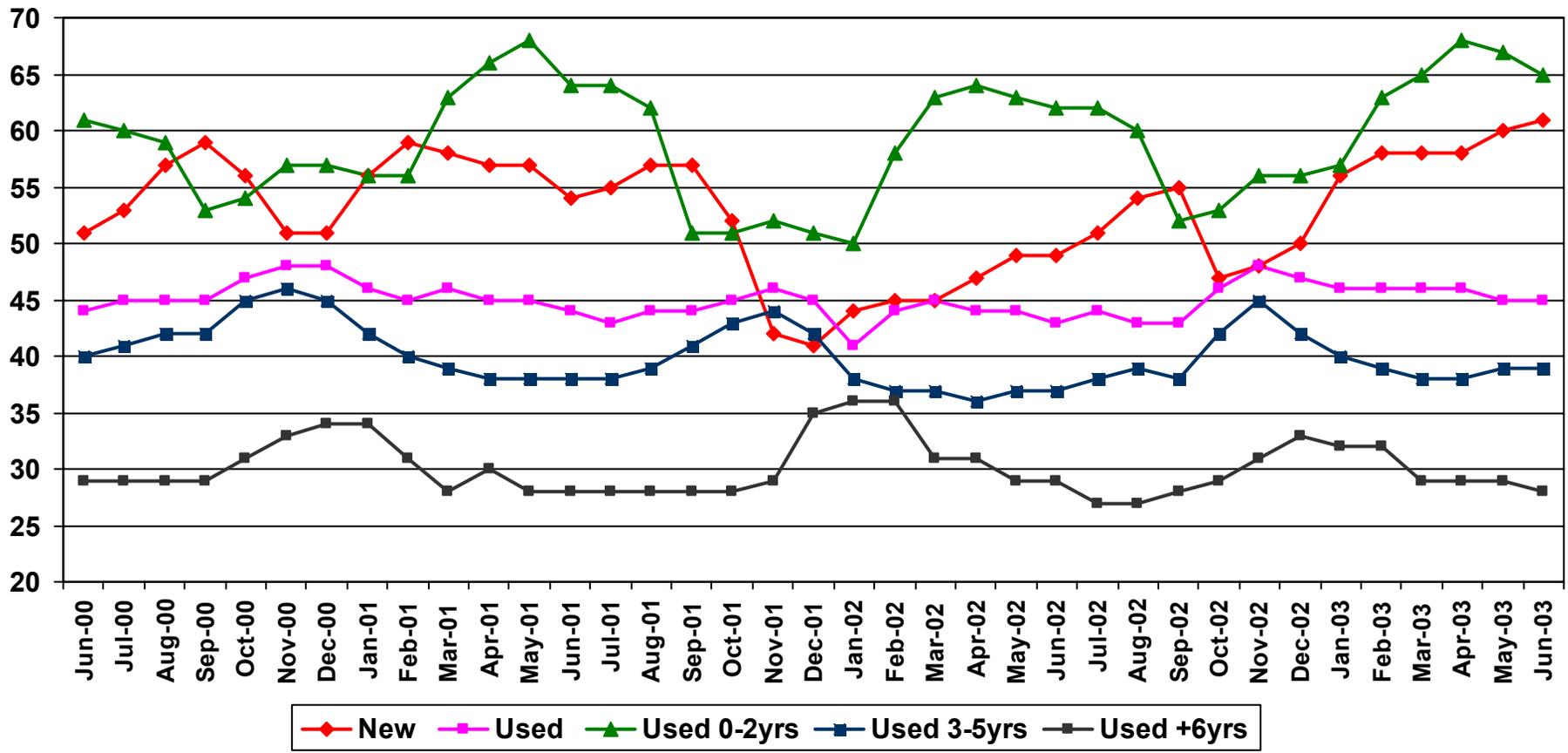
New/Used Vehicle Retail Price Trend



Used vehicle age measured from March of each model year



Days to Turn for New and Used Vehicles



Used vehicle age measured from March of each model year



Incentives' Impact on Used Vehicle Values

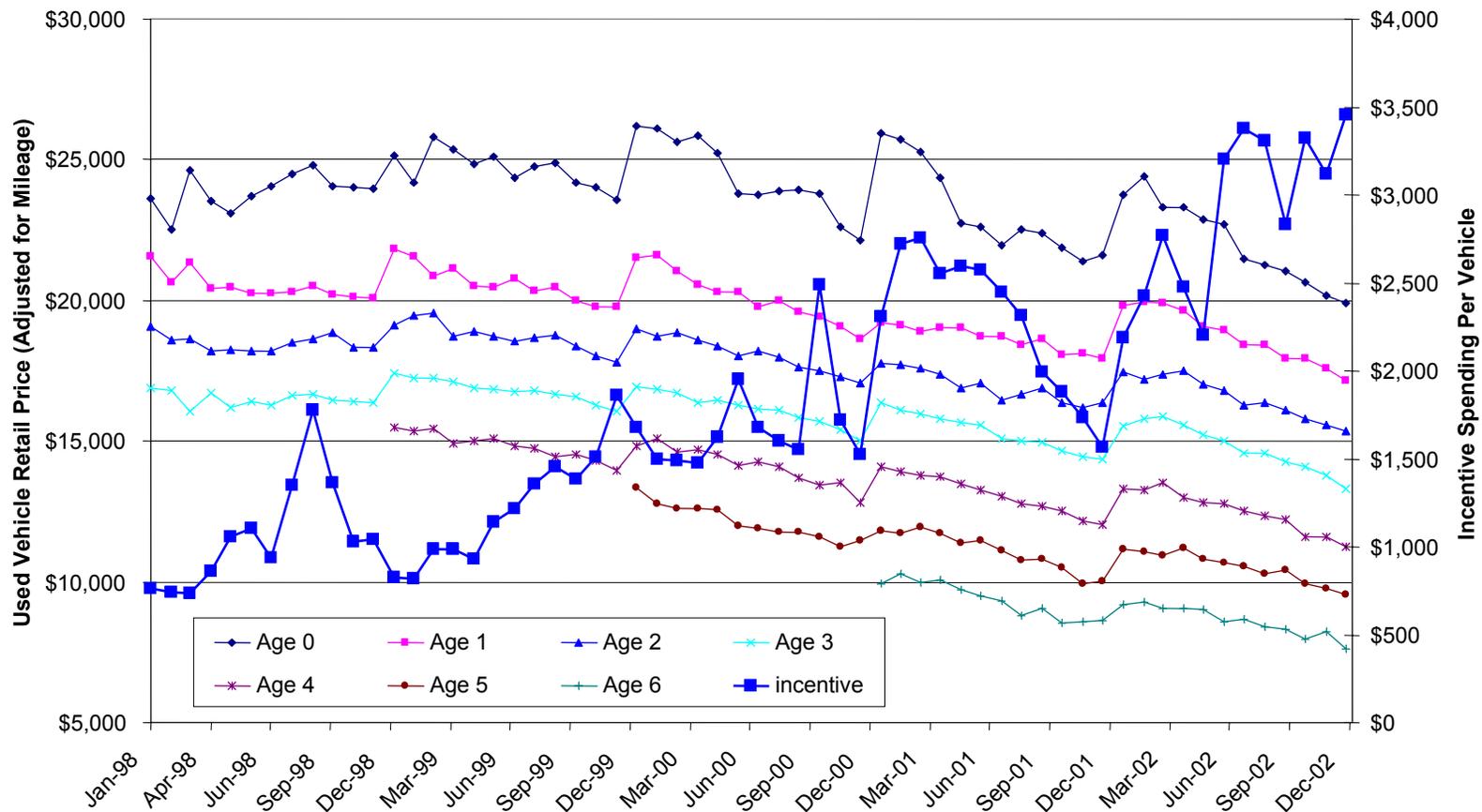


Incentives' Impact on Used Vehicle Values

- Incentives on new vehicles displace demand for used vehicles
- Incentives also lead to rush for trade-in's, adding downward pressures on used vehicle values
- Impact of incentives differ by category and levels of incentive offerings
- The impact is non-linear, with sensitivities reducing as incentive level increases
- Use price increase to “fund” incentives is a fallacy because of differences in elasticities relative to changes in prices versus changes in incentive amounts



Used Vehicle Retail Prices and Incentive Spending History (Chevy Blazer, 0-6 Years Old,)





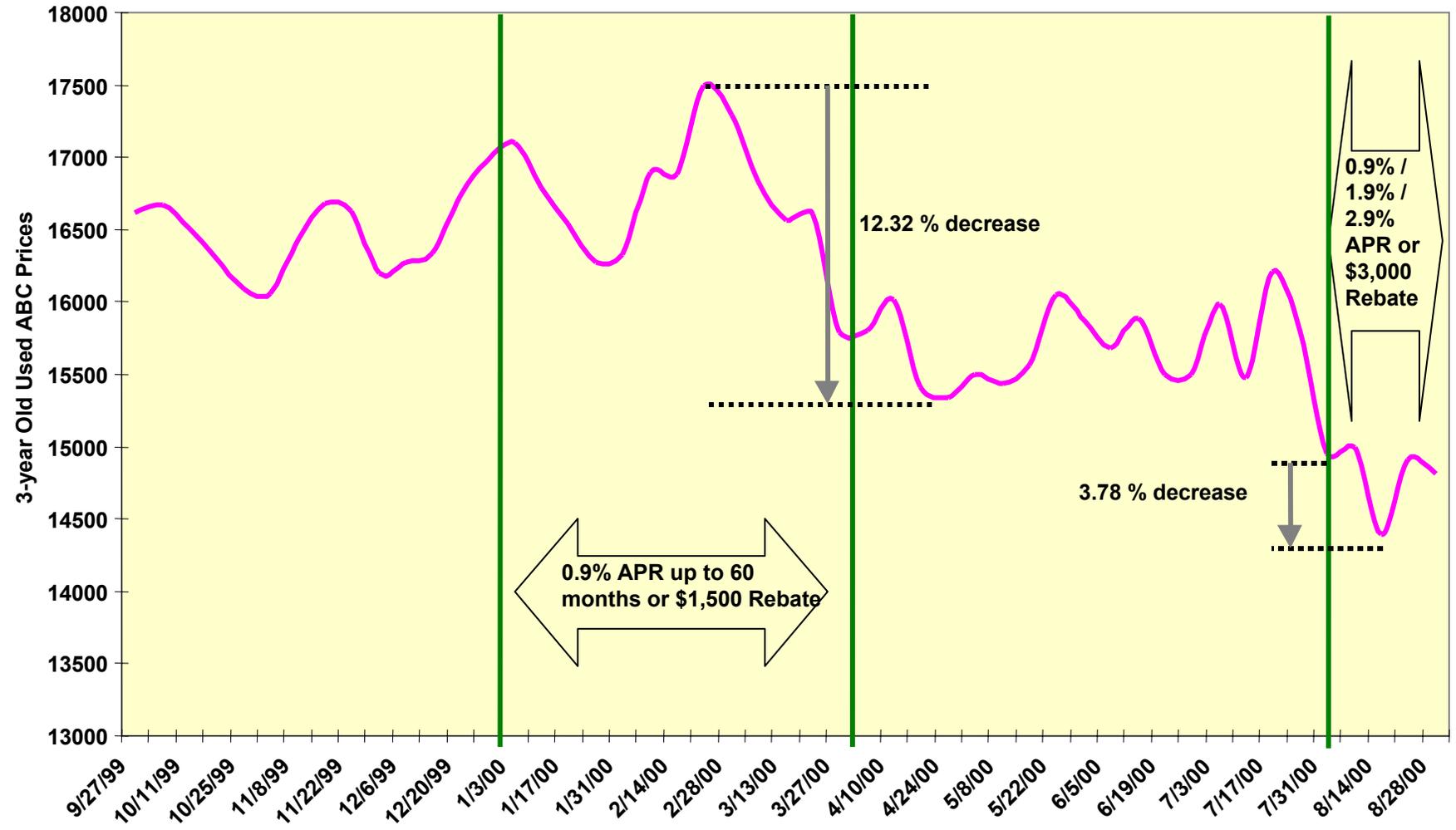
Used Vehicle Price Sensitivity wrt to Incentive Spending (Chevy Blazer, 0-6 Years Old)



- Derived using PIN incentive spending reports and vin-level historical sales information
- Controlled for mileage, seasonality, #Doors, drive type, and market
- Results are rounded to the nearest multiple of \$5's

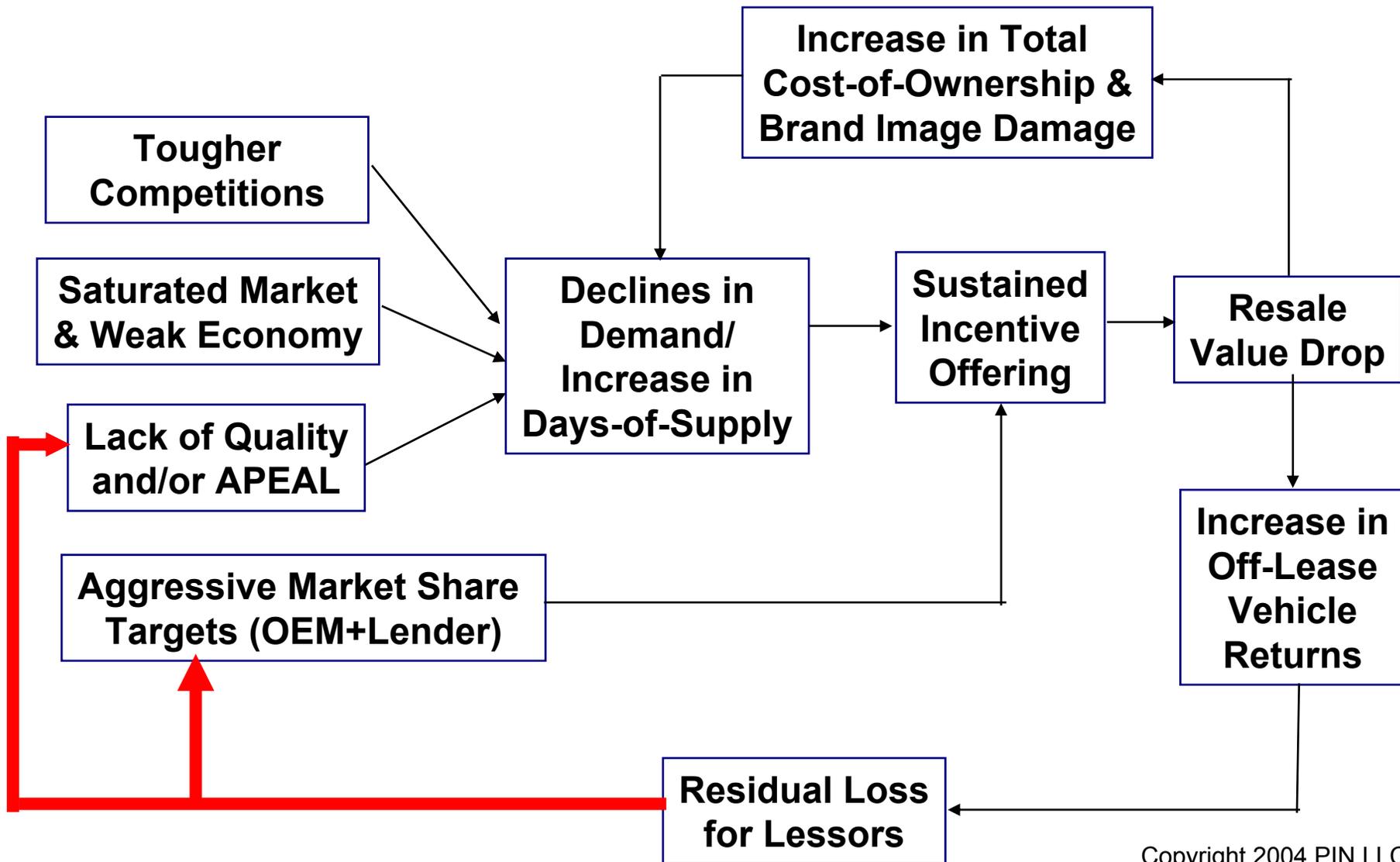


Incentive Impact Illustration (Grand Caravan)



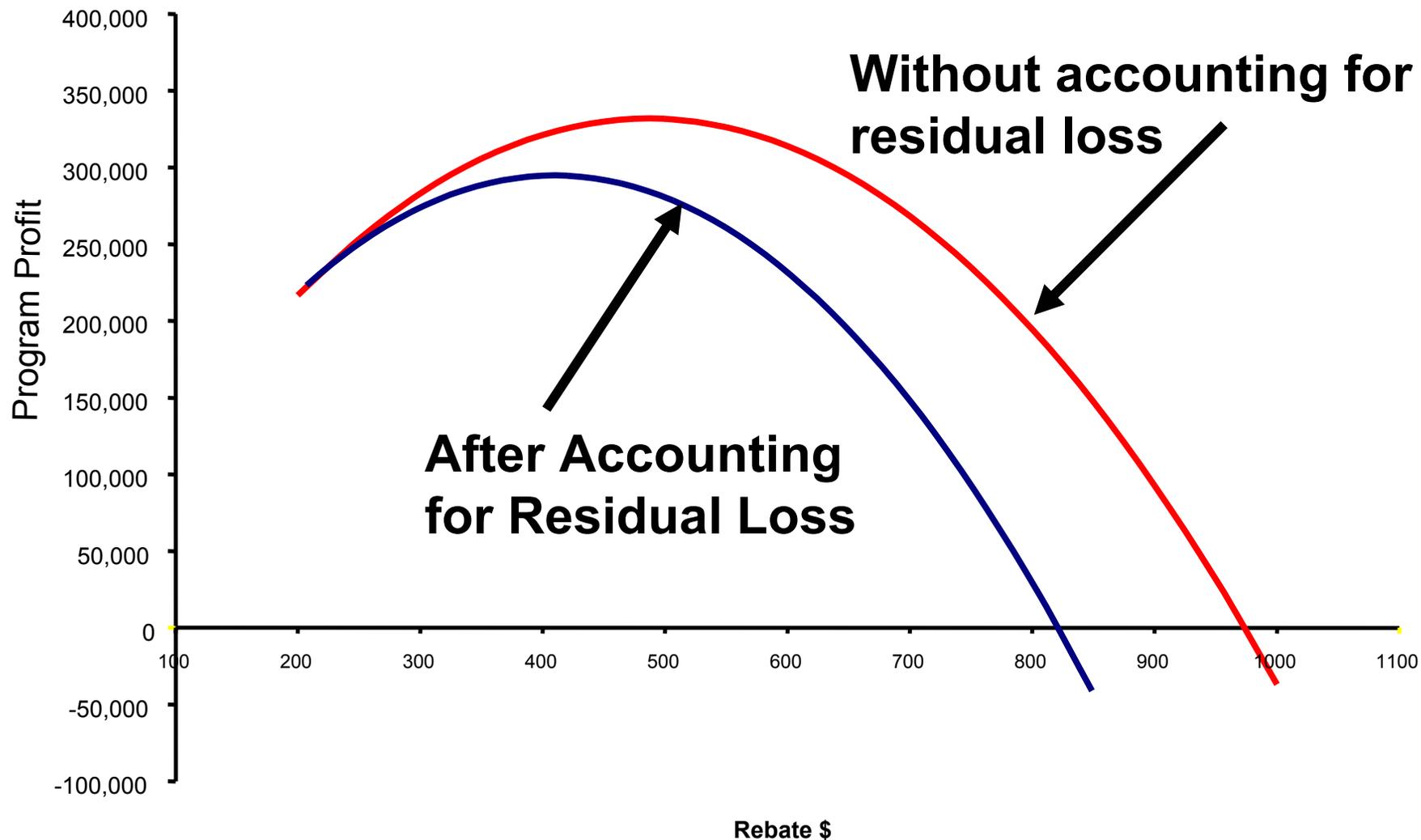


Cause and Effects of New Vehicle Incentives





What is the Optimal Spending on Incentives?





Incentives' Future Trend

- Move MSRP closer to transaction prices
- Transition to more regional offerings
- More incentive choices for consumers
- Free equipment/feature give-away
- Increased “incentives” and promotions for used vehicles
- Trade-off with rental sales and production realignment
- **Revenue/Risk Management for Total Portfolio (New+Used Vehicles) with targeted incentive offerings**



Summary

- **Incentive is a major factor that impacts on used vehicle values as the new and used vehicle markets become more integrated together**
- **Incentives spending is a strong function of product and brand strength in the market, increasingly so with the escalating competitions in the vehicle market**
- **Incentives lead to used vehicle value erosion which then leads to needs for even higher incentives**
- **The long term implication of incentives has to be recognized and incorporated into OEM's marketing and product decision making before we can see any possible slowdown or reverse of the incentive trend**