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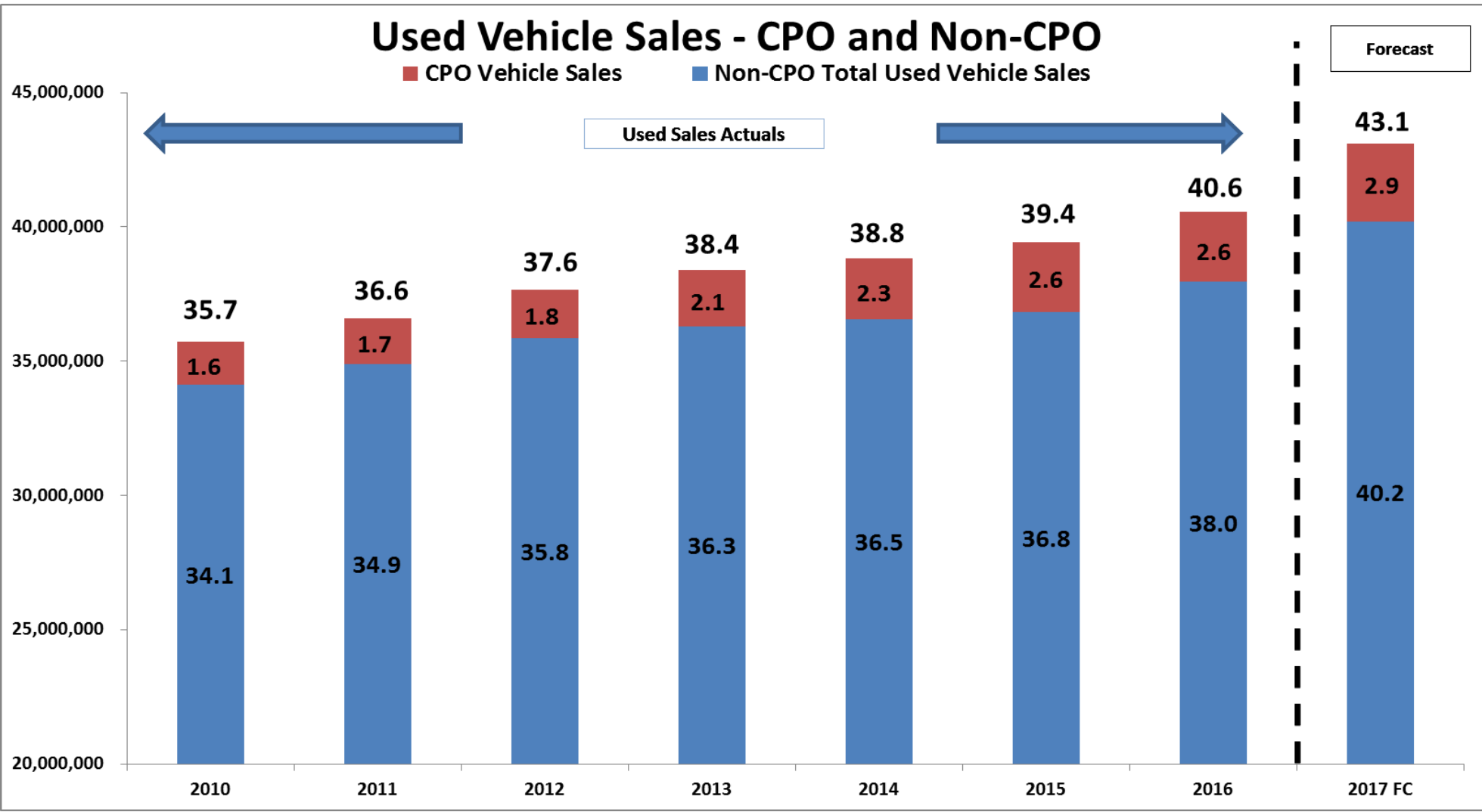
Research & Market Intelligence

# Used, CPO, and The Millennial



# Prelude: Used and CPO Sales

# Auto Industry Update Used, CPO, and Non-CPO Sales



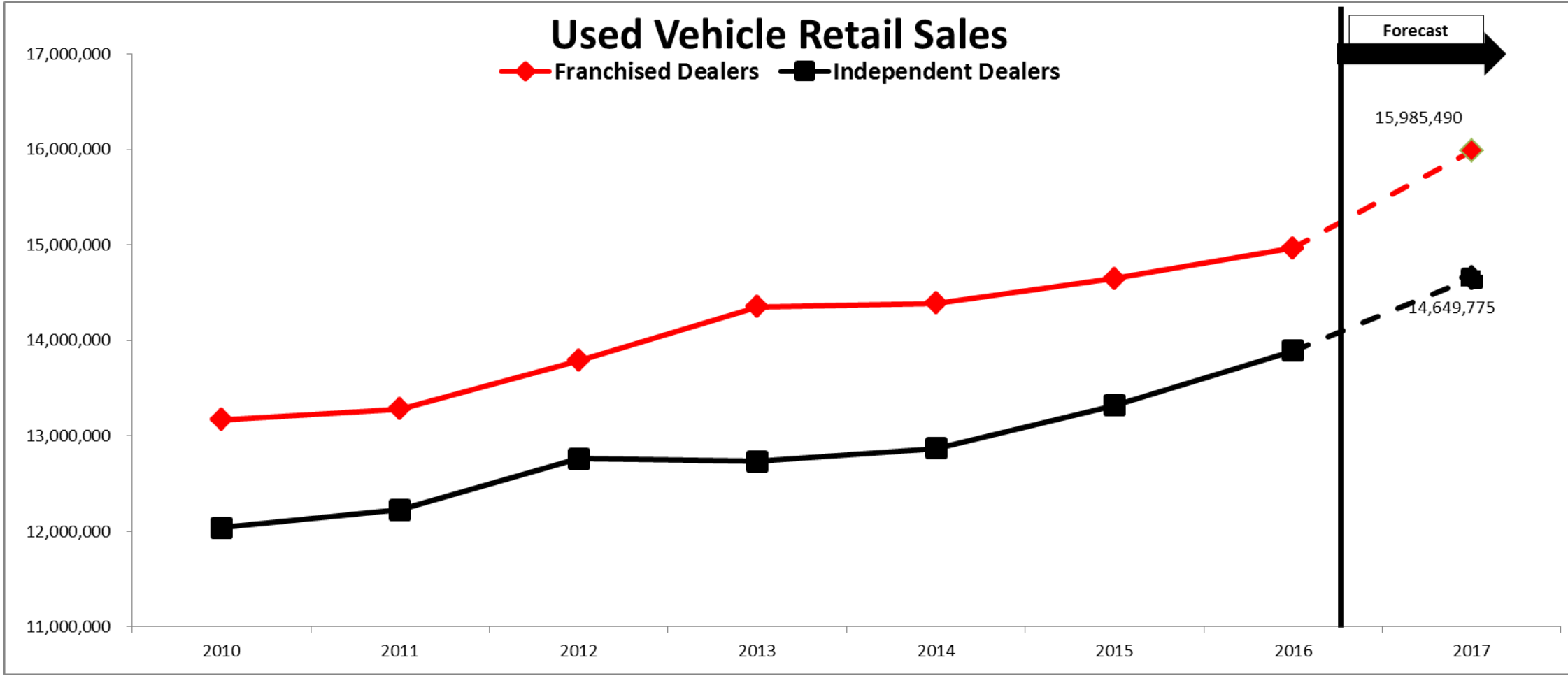
### Takeaways

Used Vehicle sales, which were up in 2016, should continue growing in 2017.

- Used Sales should hit 43M in 2017 while **New will remain flat at 17.5**

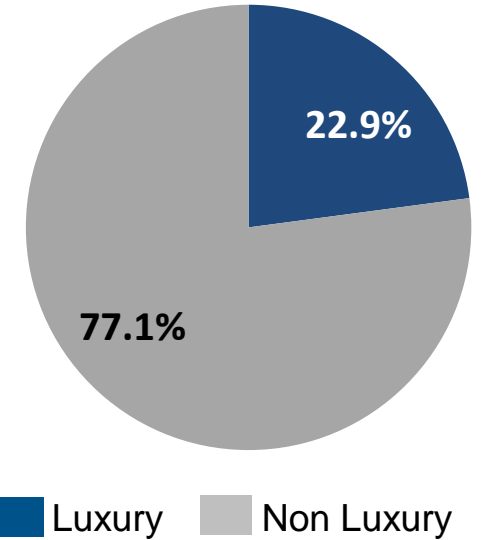
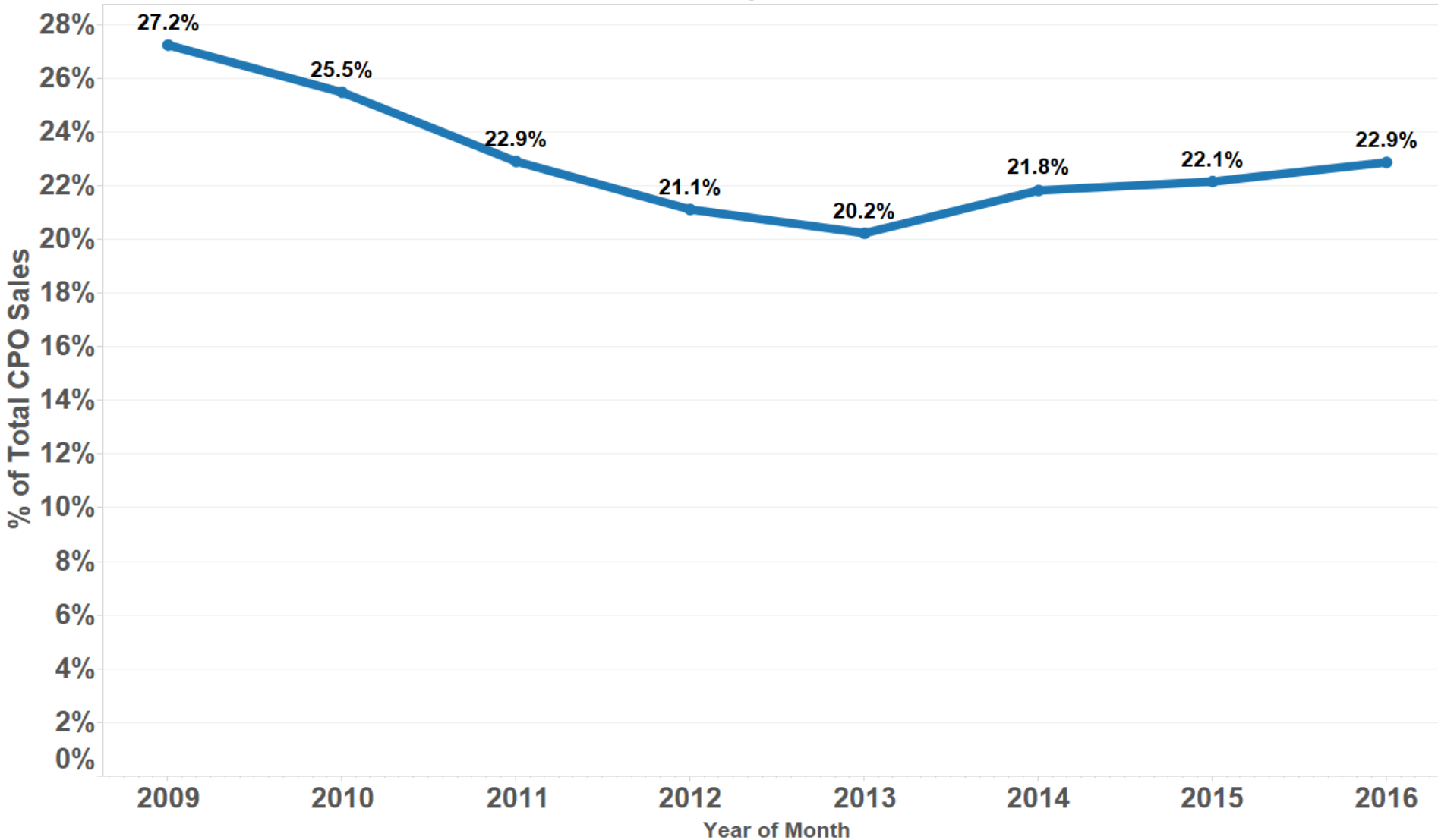
Used vehicle sales have rebounded since the Recession and robust leasing has caused strong growth in off-lease vehicles that can be CPO

# ➤ Auto Industry Update – Used Sales Franchise and Independent



# CPO Market Luxury Penetration as of December 2016

Luxury Brands traditionally have high lease/CPO rates but their overall share has decreased as non-luxury brands 1) increase lease rates and 2) emphasize CPO programs

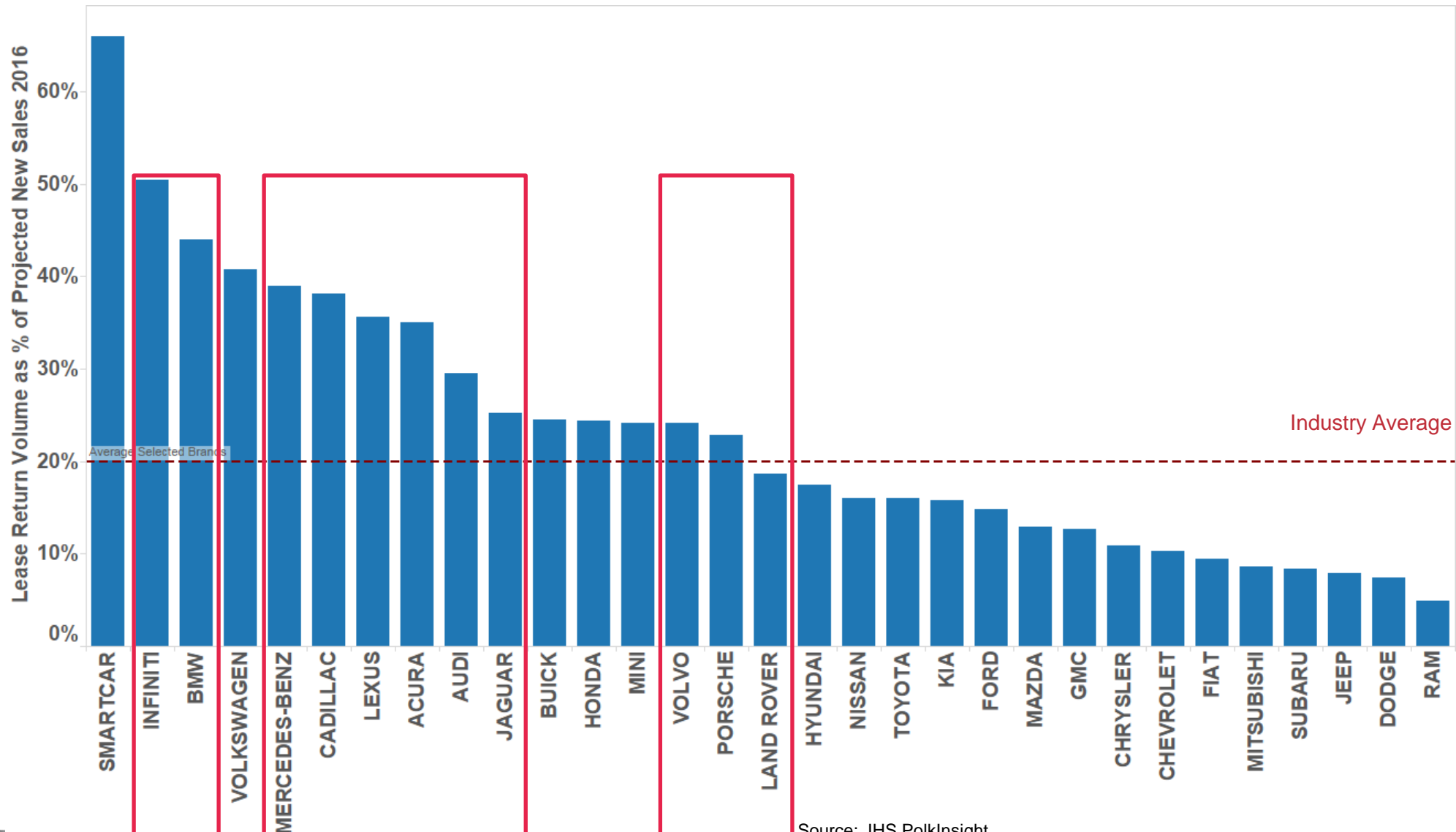


## Brands Reporting:

- |            |               |
|------------|---------------|
| Acura      | Lexus         |
| Audi       | Lincoln       |
| Bentley    | Maserati      |
| BMW        | Mercedes-Benz |
| Cadillac   | Mini          |
| Infiniti   | Porsche       |
| Jaguar     | Volvo         |
| Land Rover |               |

# CPO Potential – 2016 Off Lease Volumes vs Forecast New Vehicle Sales

Off Lease Projected Volume as % of Forecast New Sales (2016): Further left indicates higher % of lease returns in relation to new vehicle sales

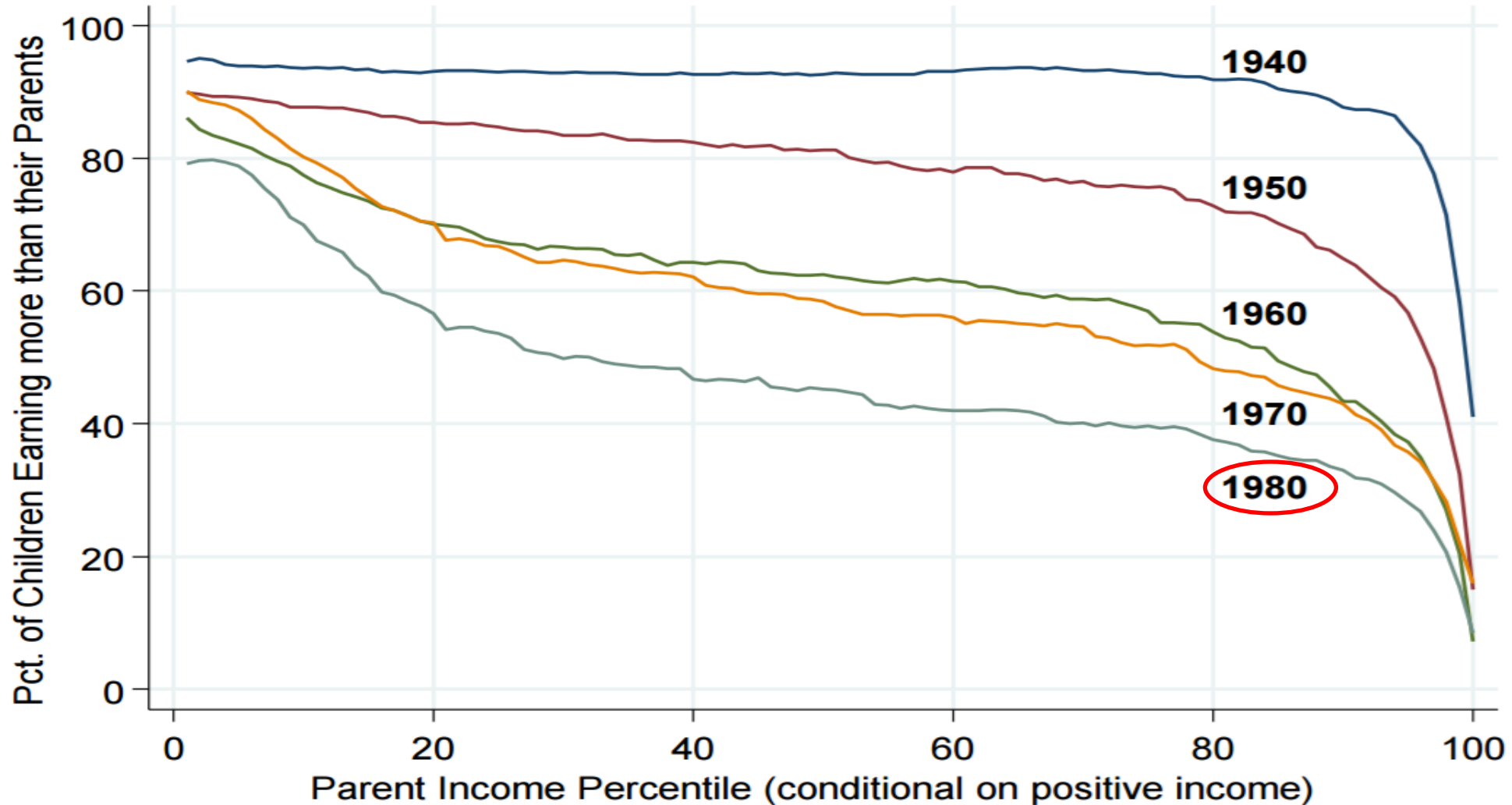




# Prologue: The Changing of the Millennial American Dream

# The American Dream is Changing

Percent of Children Earning More than their Parents  
By Parent Income Percentile



## Takeaway

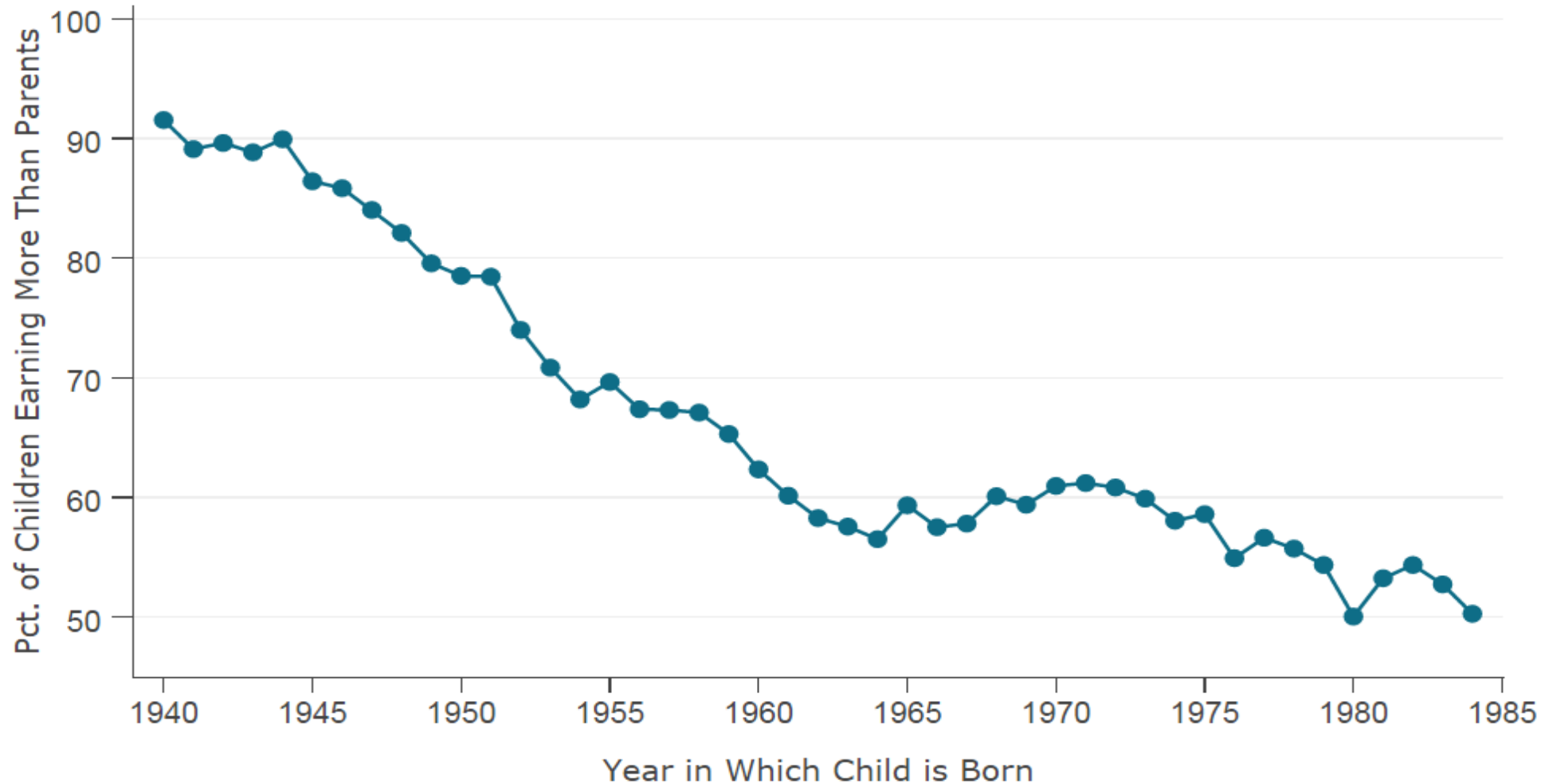
- This decline has occurred throughout the parental income distribution, for children from both low and high income families, as shown in the chart.
- Most of the decline is due to the more unequal distribution of economic growth in recent decades rather than the slowdown in GDP growth. Increasing economic growth rates to the higher levels experienced in mid-century



# The American Dream is Changing

## The Fading American Dream

Percent of Children Earning More than their Parents, by Year of Birth

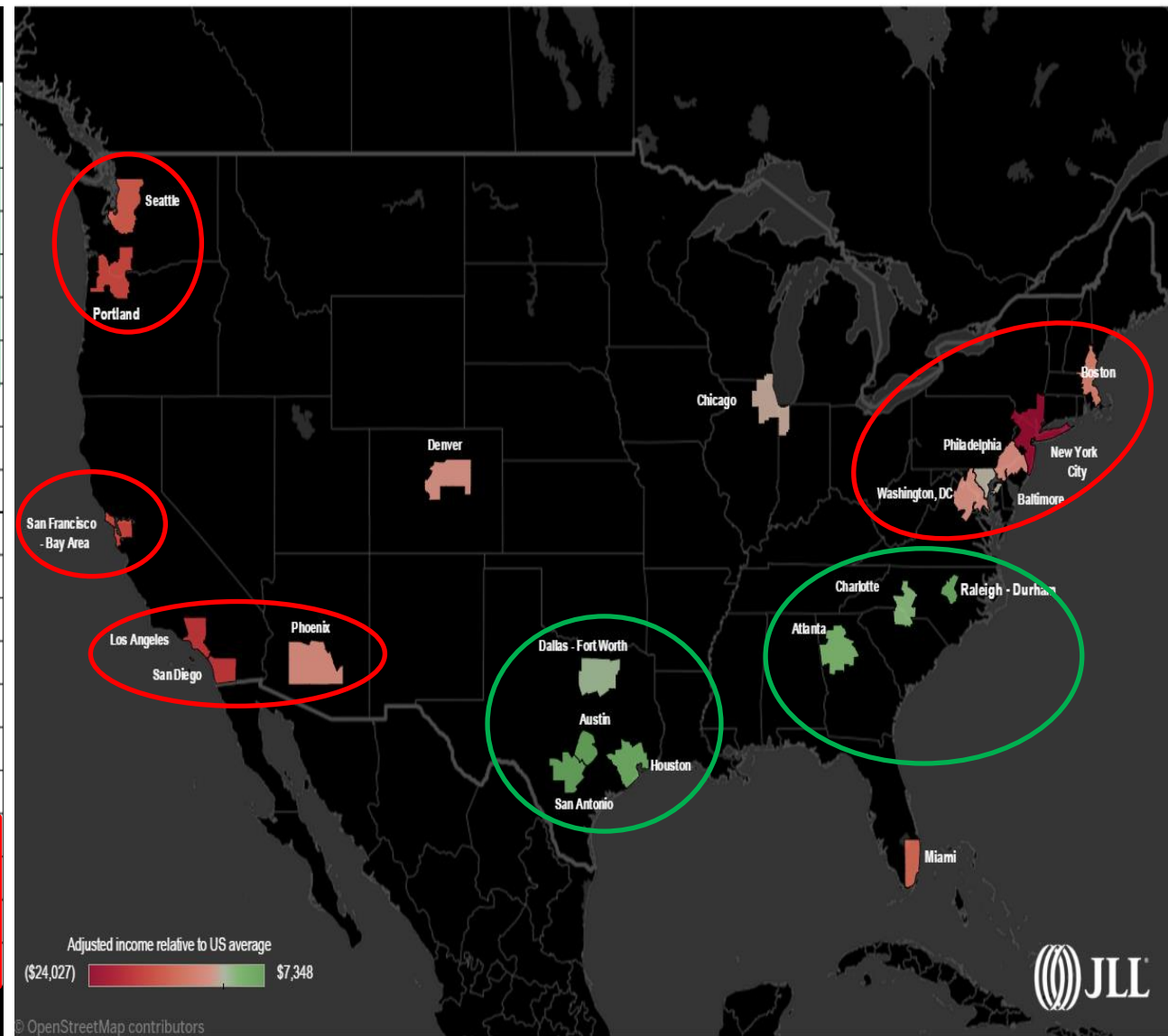


## Takeaway

**Children's prospects of achieving the "American Dream" of earning more than their parents have fallen from 90% to 50% over the past half century.**

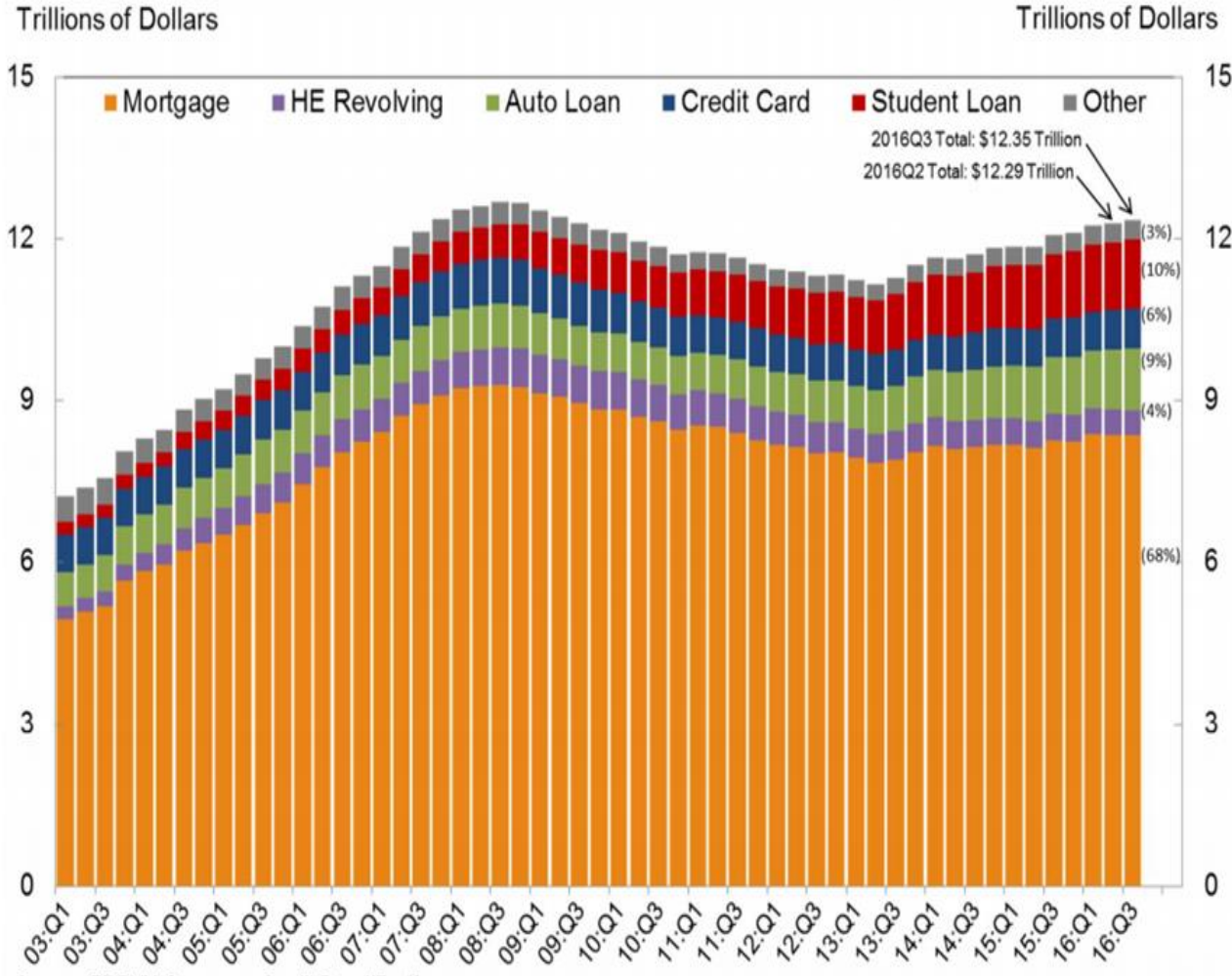
# Millennials in high cost of living areas are still struggling

US Major Market Households Aged 25-34 Years	2016 Mean Household Income	2016 Median Household Income	Cost of Living Index	Cost of Living Adjusted Average Income	Total Population	Difference from US Adjusted Average Cost of Living	Adjusted Income Above / Below US Average
Austin	\$72,442	\$55,483	96.3	\$75,225	2,000,860	10.8%	\$7,348
San Antonio	\$63,902	\$50,794	85.4	\$74,827	2,384,075	10.2%	\$6,950
Raleigh - Durham	69,874	53,758	94.7	\$73,785	1,273,568	8.7%	\$5,908
Houston	\$72,749	\$54,364	99.4	\$73,188	6,656,947	7.8%	\$5,311
Atlanta	\$69,159	\$53,488	97.6	\$70,860	5,710,795	4.4%	\$2,983
Charlotte	\$66,959	\$51,848	95.9	\$69,822	2,426,363	2.9%	\$1,945
Dallas - Fort Worth	\$70,266	\$54,125	102.3	\$68,686	7,102,796	1.2%	\$809
Baltimore	\$77,658	\$62,734	115.1	\$67,470	2,797,407	-0.6%	(\$407)
Chicago	\$78,679	\$59,297	117.6	\$66,904	9,551,031	-1.4%	(\$973)
Denver	\$73,976	\$57,575	112.6	\$65,698	2,814,330	-3.2%	(\$2,179)
Washington, DC	\$99,013	\$81,712	151.6	\$65,312	6,097,684	-3.8%	(\$2,565)
Philadelphia	\$75,014	\$57,948	115.9	\$64,723	6,069,875	-4.6%	(\$3,154)
Phoenix	\$63,707	\$51,425	98.6	\$64,612	4,574,531	-4.8%	(\$3,265)
Boston	\$91,775	\$71,934	146.4	\$62,688	4,774,321	-7.6%	(\$5,189)
South FL	\$64,336	\$48,456	108.7	\$59,187	6,012,331	-12.8%	(\$8,690)
Seattle	\$82,037	\$63,645	143.1	\$57,328	3,733,580	-15.5%	(\$10,549)
Portland	\$69,974	\$55,296	128.2	\$54,582	2,389,228	-19.6%	(\$13,295)
San Francisco - Bay Area	\$98,831	\$77,335	181.9	\$54,333	4,656,132	-20.0%	(\$13,544)
San Diego	\$76,190	\$57,906	145.7	\$52,292	3,299,521	-23.0%	(\$15,585)
Los Angeles	\$74,547	\$54,684	143.6	\$51,913	13,340,068	-23.5%	(\$15,964)
New York City - New Jersey	\$89,892	\$65,676	205.0	\$43,850	20,182,305	-35.4%	(\$24,027)
United States	\$67,877	\$51,921	100.0	\$67,877	--	0.0%	\$0



# Total Debt and Highest Student Debt States

## Total Debt Balance and its Composition



## Key Takeaways

**\$1.28 Trillion** in Total U.S. Student Loan Debt

**44.2 million** Americans with student loan debt

**10.9%** – Student loan delinquency rate

**\$351** – Average monthly student loan payment (for borrowers aged 20 to 30)

TABLE 1

HIGH-DEBT STATES	
New Hampshire	\$36,101
Pennsylvania	\$34,798
Connecticut	\$34,773
Delaware	\$33,849
Rhode Island	\$32,920
Minnesota	\$31,526
Massachusetts	\$31,466
District of Columbia	\$31,452
South Carolina	\$30,564
Ohio	\$30,239

TABLE 2

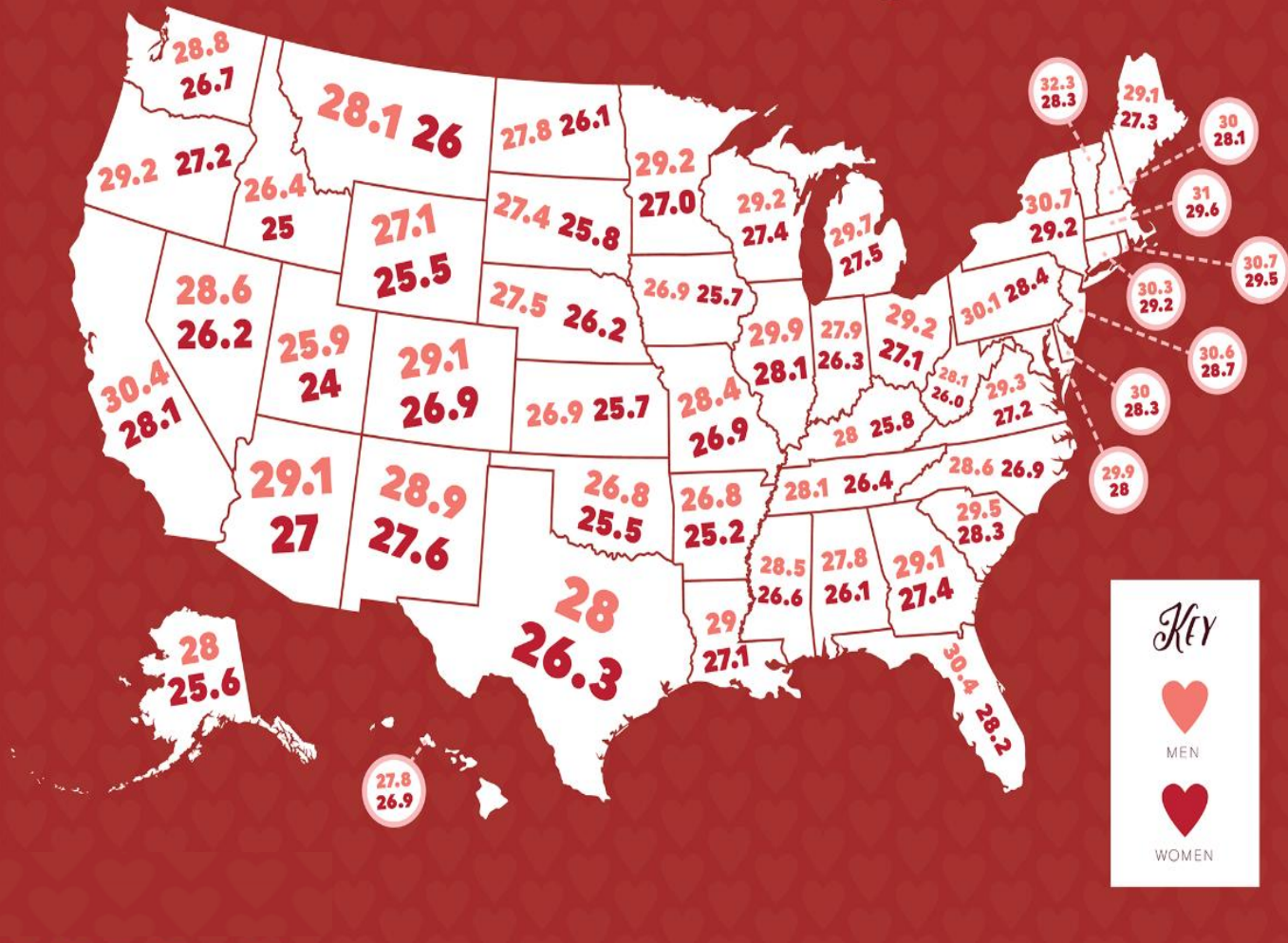
LOW-DEBT STATES	
Utah	\$18,873
New Mexico	\$20,193
California	\$22,191
Wyoming	\$22,683
Florida	\$23,379
Hawaii	\$23,456
Nevada	\$23,462
Arizona	\$23,780
Washington	\$24,600
Oklahoma	\$24,849

Source: Total Debt NY Fed & The Institute for college access & success

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# Millennials and Marriage

*THE AGE PEOPLE FIRST GET MARRIED IN EACH STATE*



## Top 2016 Wedding Statistics

- Average Wedding Cost: \$35,329 (excludes honeymoon) (up from \$32,641 in 2015)
- Most Expensive Place to Get Married: Manhattan, \$78,464 average spend
- Least Expensive Place to Get Married: Arkansas, \$19,522 average spend
- Average Spent on a Wedding Dress: \$1,564
- Average Marrying Age: Bride, 29 ; Groom, 31
- Average Number of Guests: 141
- Average Number of Bridesmaids: 5
- Average Number of Groomsmen: 5
- Most Popular Month to Get Engaged: December (15%)
- Average Length of Engagement: 15 months
- Most Popular Month to Get Married: October (16%) and September (16%)
- Popular Wedding Colors: Dark blue (29%), gold (28%) and light pink (28%)
- Percentage of Destination Weddings: 20%

Image Source: The Knot

# Half of Millennials are at the age where they have their first child

## Key Takeaways

There are two age groupings to consider, the age at which people start to have kids and a minivan enters their consideration set, and the point where they move from minivans to SUVs.

As of 2014, the average age of women having their first child was 26.

Year	Number Born (mil)	2016	2017	2018	2019	2020	2021	2022
2000	4.24	16	17	18	19	20	21	22
1999	4.18	17	18	19	20	21	22	23
1998	4.19	18	19	20	21	22	23	24
1997	4.21	19	20	21	22	23	24	25
1996	4.25	20	21	22	23	24	25	26
1995	4.36	21	22	23	24	25	26	27
1994	4.45	22	23	24	25	26	27	28
1993	4.52	23	24	25	26	27	28	29
1992	4.65	24	25	26	27	28	29	30
1991	4.73	25	26	27	28	29	30	31
1990	4.73	26	27	28	29	30	31	32
1989	4.54	27	28	29	30	31	32	33
1988	4.44	28	29	30	31	32	33	34
1987	4.36	29	30	31	32	33	34	35
1986	4.38	30	31	32	33	34	35	36
1985	4.41	31	32	33	34	35	36	37
1984	4.27	32	33	34	35	36	37	38
1983	4.33	33	34	35	36	37	38	39
1982	4.33	34	35	36	37	38	39	40
1981	4.28	35	36	37	38	39	40	41
1980	4.37	36	37	38	39	40	41	42

# The Cost of Raising a Child: \$233,610



Not including  
the annual cost  
of college!

\$45,370  
Private

\$20,090  
Public

\*Includes room  
and board.

Where does the money go?

18%  
Food

29%  
Housing

15%  
Transportation

9%  
Health Care

6%  
Clothing

16%  
Child Care  
& Education

7%  
Misc.

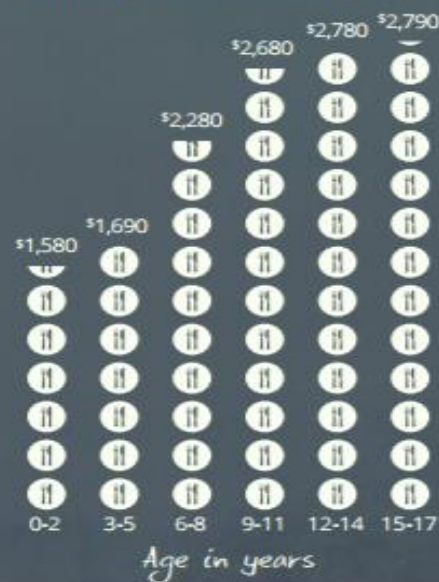
Annual Housing Cost  
per Child

Urban  
\$3,900

VS

Rural  
\$2,400

Annual Food Costs by Age



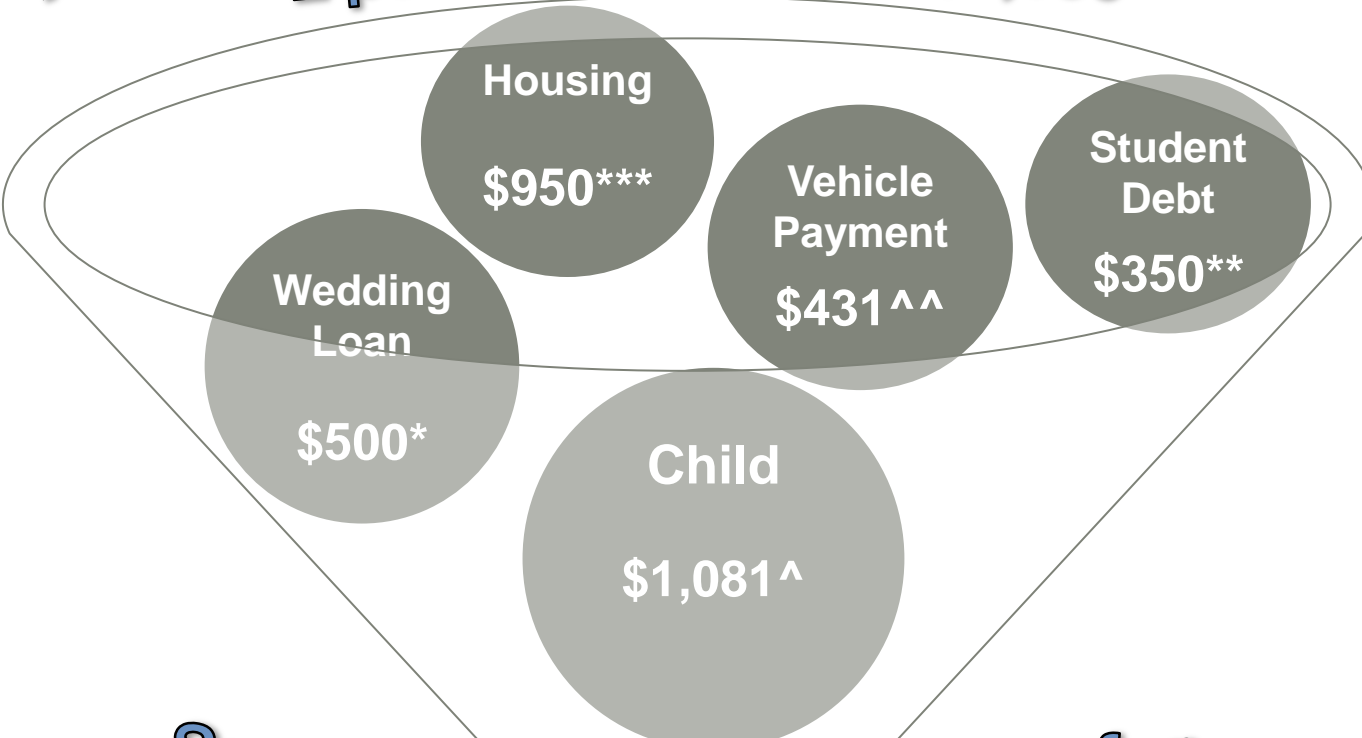
Cost by Region



\*U.S. average for middle-income, married-couple families. Total costs are from birth through age 17.  
Source: Expenditures on Children by Families, 2015.  
U.S. Department of Agriculture, Center for Nutrition Policy and Promotion. Misc. Pub. No. 1528-2015.

# No one is talking about what REALLY MATTERS ...Affordability

Average pre tax weekly salary for a Millennial  
2 person household: \$2,386



Sum of Monthly Expenses for  
In Funnel: \$3,312

## TOP REASON FOR NOT OWNING A VEHICLE

*I can't afford buying or leasing*

**57%**

## OTHER TOP REASONS FOR NOT OWNING A VEHICLE

**28%**

*I don't like driving*

**28%**

*I don't want to worry about maintenance*

**27%**

*I will use public transportation*

**22%**

*My life circumstances don't require a vehicle*

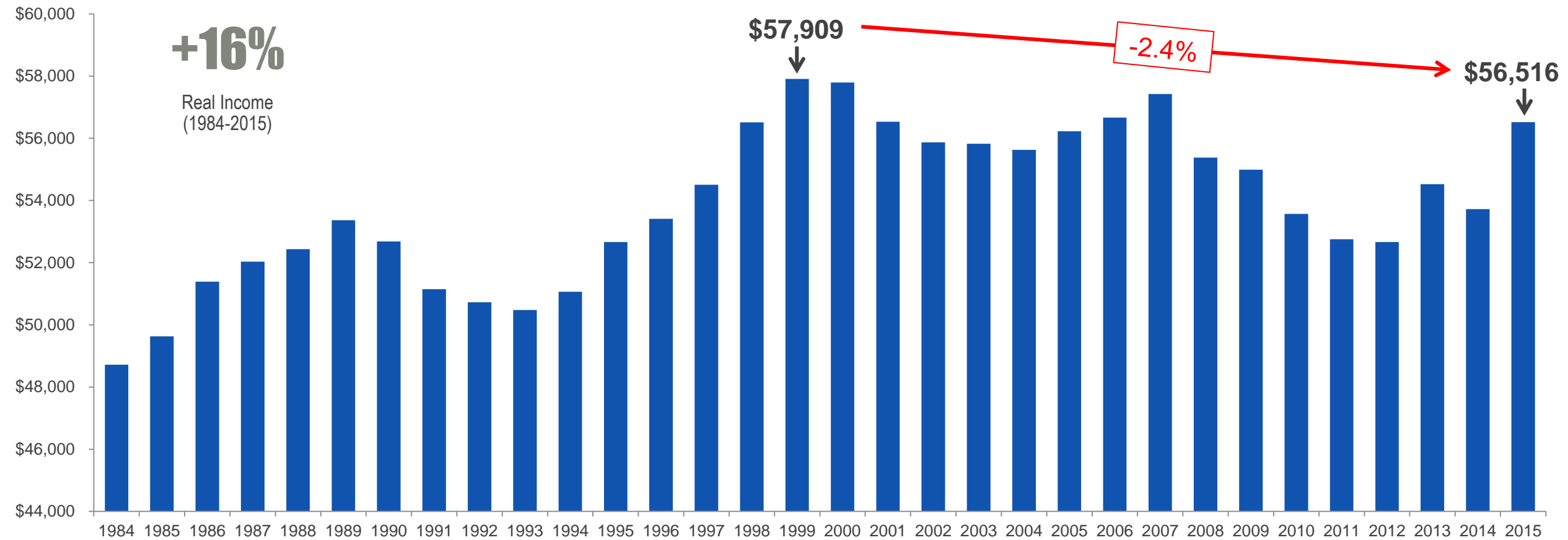
**18%**

*I walk, bike, rollerblade, etc.*

Note: \*average wedding cost \$32K over 60mo \*\*average student debt payment NY Fed \*\*\*Census ACS Survey ^United States Department of Agriculture ^Dealertrack Credit Application Network, Feb 2016 weekly salary from Bureau Labor Statistics and of 28 year old with a college degree.  
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Even with record gains in 2015, real median household income is **down 2.4% or nearly \$1,400** compared to 1999.

## ADJUSTED MEDIAN ANNUAL INCOME





Consumers and the industry are finding ways  
to make it work **for now**

**\$3,766**

Monthly  
average  
incentive  
spend

Source: Autodata (Dec. 2016)

**30%**

Lease  
Penetration

Source: Experian Auto Finance Report Q3 2016

**\$1.14 Trillion**

Outstanding  
Automotive  
Loans

Source: NY Federal Reserve (Q3 2016)

To keep their monthly payment affordable, buyers have **longer loans** than ever before

2009 vs. 2015

**AMOUNT FINANCED**  
**\$18,493** 2009 **VS** **\$24,297** 2015

**DOWN PAYMENT**  
**\$2,342** 2009 **VS** **\$2,251** 2015

**MONTHLY PAYMENT**  
**\$404** 2009 **VS** **\$431** 2015

Average Length of Loan in 2015

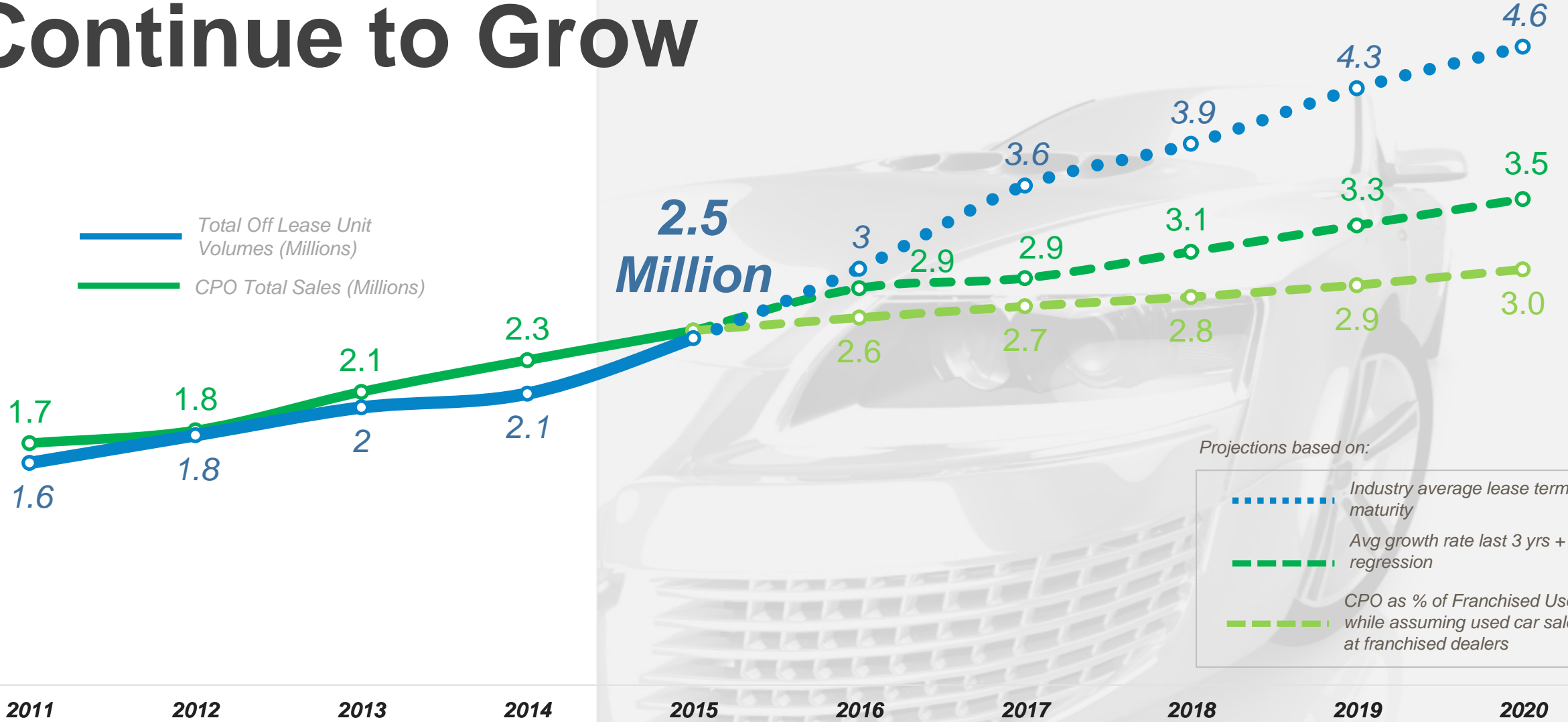
**68.1**  
 (64.5 in 2009)

Term (Retail)	24 months	36 months	48 months	60 months	72 months	84 months	96 months	108 months	120 months
Payment	\$1275	\$858	\$650	\$525	\$454	\$409	\$393	\$389	\$395
Point of Equity	3 - 5 months	5 - 7 months	8 - 10 months	13 - 15 months	25 - 27 months	43 - 45 months	68 - 70 months	100 - 102 months	116 - 118 months



# Epilogue: Marketing Affordability

# CPO Sales Continue to Grow



Projections based on:

- Industry average lease term maturity
- Avg growth rate last 3 yrs + regression
- CPO as % of Franchised Used while assuming used car sales at franchised dealers

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## THE RIGHT INVENTORY

*Is key to attracting CPO shoppers. Sales tactics should start with make, model, year, and style*

*CPO also sells faster and is valued \$3000 more than the same non-certified used vehicle*

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## ACCELERATE CPO OFFER

*CPO Leasing can convert Used shoppers to CPO, especially for millennials*

*Benefits packages are another way to enhance CPO, with increasing purchase interest as packages are layered in*

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## MESSAGE & EDUCATE

*CPO shoppers are looking for the essentials – but they're willing to pay more for quality condition and technology. CPO can also help draw in millennials; focus on warranty and tech*

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## DELIVER ON EXPERIENCE

*Experience matters. Not only can highly rated dealers attract more interest in CPO, but CPO purchase has also shown to create loyalty for both OEMs and dealers. An electronic F&I experience could further enhance this*

The 4  
cornerstones to  
**maximize the  
market  
potential**

# THE RIGHT INVENTORY

# THE RIGHT INVENTORY

is key to attracting CPO shoppers

*Most important criteria for vehicle purchase*

## MAKE/MODEL

When prospects arrive on the lot, the sales approach should start with make, model, year, and style



**Most important criteria for vehicle purchase**

1. *Make/model*
2. *Model year*
3. *Style preferred (sedan, etc.)*
4. *New/Used/CPO*
5. *Warranty coverage*



**DEALER**

Dealers **overestimate (2x)** the importance of warranty coverage to shoppers, and **underestimate (1/2x)** the importance of vehicle type (e.g., new, used, CPO)

## THE RIGHT INVENTORY

CPO inventory sells faster and generates more revenue

After vehicle frontline ready, how many days it took to sell

CPO

**30** DAYS

USED

**35** DAYS



Shoppers value CPO on average

**\$3000 OR MORE**

over the same non-certified used vehicle



DEALER

Dealers underestimate the value of CPO to shoppers, thinking consumers value a CPO vehicle on average **\$1260 more** compared to a used, non-certified vehicle

## MESSAGE & EDUCATE

# CPO SHOPPERS ARE LOOKING FOR THE ESSENTIALS...

### Items looking for in a CPO vehicle

1. *Certified/backed by OEM/dealership*
2. *Passed a detailed inspection*
3. *Extended warranty*
4. *Vehicle history report*
5. *Scheduled maintenance from dealer*

## ...But they're willing to pay more for GREAT CONDITION & TECHNOLOGY

### Items that shoppers would be *willing to pay more* for in a CPO vehicle

1. *Mechanically perfect*
2. *Better condition than used*
3. *Latest tech features*



**DEALER**

Dealers **correctly identify the essentials** and their interest among CPO shoppers

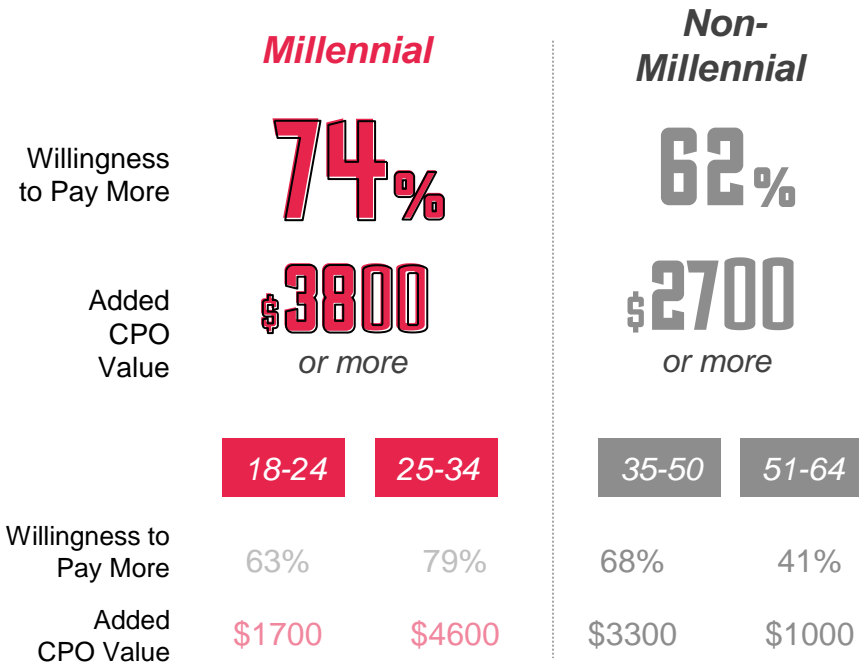


**MESSAGE &  
EDUCATE**

# CPO IS A WAY TO TAP INTO THE MILLENNIAL MARKET

*Millennial CPO Shoppers are willing to pay more for  
warranty & technology than Non-Millennials*

Millennials place a **higher value on CPO** than Non-Millennials



Items that shoppers would be **willing to pay more** for in a CPO vehicle

	<i>Millennial</i>	<i>Non-Millennial</i>
<b>Extended warranty</b>	<b>53%</b>	37%
<b>Latest tech features</b>	<b>50%</b>	41%
Mechanically perfect	50%	65%
Better condition than used	47%	50%

# ACCELERATE CPO OFFER WITH BENEFITS PACKAGES



## **Concierge**

- Picking up your vehicle for service
- Free wash/detail with scheduled service
- Loaner vehicle during servicing
- Towing coverage



## **Security**

- Free GPS tracking
- Vehicle alarm notification
- Engine/ignition failsafe/lockdown



## **Maintenance**

- Free oil/fluid changes
- 1 year cosmetic damage coverage
- Covered services available at any franchise across US

**ACCELERATE  
CPO OFFER  
WITH BENEFITS  
PACKAGES**

As CPO vehicle

**benefits packages increase,  
so does purchase interest**

CPO  
No Additional Packages



**Likelihood to Purchase  
(Lift)**

**+ 9%**



**Concierge**

**+ 17%**



**Security**

**+ 44%**



**Maintenance**

**All Packages**

*Concierge, Security  
and Maintenance*



**+ 61%**



# Afterword: Questions for the Dealer and OEM

## Key Questions for a Dealer

- Is your sales staff familiar with CPO?
- How are you marketing and educating consumers regarding CPO on your websites?
- How is your dealership educating consumers on CPO?
- When you qualify a lead, are you identifying couples and individuals who are prime targets for affordability marketing
- Are you tracking your CPO versus non CPO inventory on ROI and turn?
- Have you thought about offering a benefits package to your customers to make CPO even more attractive?

**MESSAGE & EDUCATE**

**THE RIGHT INVENTORY**

**ACCELERATE CPO OFFER WITH BENEFITS PACKAGES**

## Key Questions for an OEM

Are you target marketing Millennials with CPOs?

How does your CPO strategy differ from other OEMs?

How does your CPO website educate CPO buyers?

Are you funding your dealers, per CPO sold, to support crafting a unique benefits program?

**MESSAGE & EDUCATE**

**ACCELERATE CPO OFFER WITH BENEFITS PACKAGES**

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Research & Market Intelligence

# Thank You

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