edmunds

LOYALTY REPORT

2018

Introduction: Why Buyer Loyalty Is More Critical Than Ever

The American auto industry is on the cusp of its most transformative period in history, marked by a battle on multiple fronts. On one side, automakers are attempting to anticipate demands of the future, developing autonomous and electric vehicle technology as the industry races toward the mobility revolution. On the other side, automakers are scurrying to address the changing tastes of today's car shoppers by shifting investment away from passenger cars in favor of SUVs and trucks.

Instability in the short term could severely jeopardize the future success of automakers. Due to the glut of new SUVs on the market and the creation of new segment niches, automakers are faced with the immediate challenge of maintaining a base of buyers at a time when nameplate loyalty no longer holds the weight it once did. While it's critical for automakers to continue to demonstrate that they're looking toward an electric and autonomous future, they must avoid being too farsighted. With sales continuing to cool off from record highs, customer loyalty is of the utmost importance to automakers in order to maintain current sales and market share — and to fund their expensive visions for the future.

In this report, we examined more than 13.9 million vehicle transactions to delve deep into what drives buyer loyalty at both the segment and the brand level. We uncover the reasons why shoppers have made such a dramatic pivot away from passenger cars toward SUVs. We call out the specific manufacturers that are managing to attract buyers to their passenger cars, and how that's giving them an edge in overall buyer loyalty. We name the specific brands, both mainstream and luxury, that are doing the best job at keeping car shoppers in their brand family — and call out exactly what they're doing right.

Report Methodology

All the numbers in this report are the percentages of vehicles traded in to purchase the same segment, manufacturer, brand or vehicle. Edmunds analysts believe that looking at the data from the angle of trade-ins rather than vehicles purchased is the truest form of buyer loyalty because it excludes conquesting, which can also be seen as an equally or more desired outcome. This study includes data from 2007 to 2017 and our analysis of more than 13.9 million transactions in the U.S. Lease returns were excluded from this study.

The Shopper Shift From Cars to SUVs: How Did We Get Here?

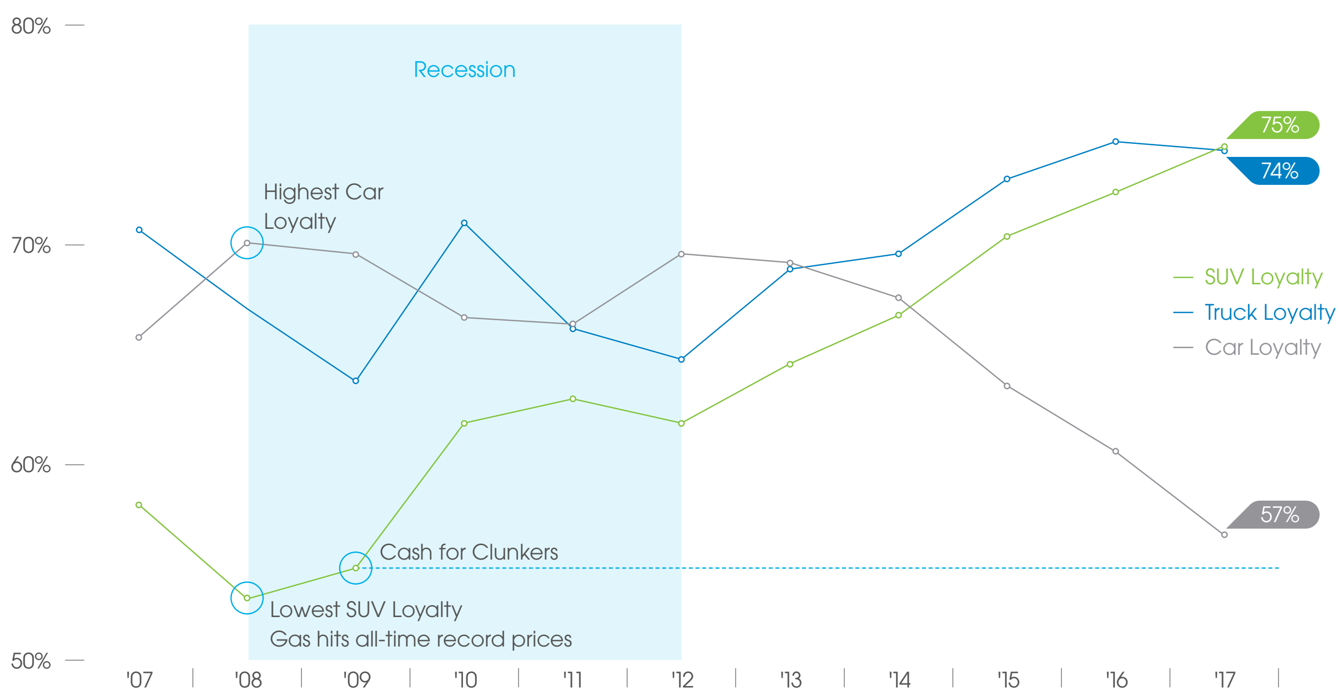
The loyalty rates for cars and SUVs have shifted noticeably in the past decade. Just before the start of the recession, SUVs had a fairly loyal following. But once the recession hit in 2008 and gas prices reached record levels, these shoppers quickly turned their backs on their big gas guzzlers, driving passenger car loyalty to record highs and SUV loyalty to record lows. The Cash for Clunkers program further spurred this trend as shoppers traded in their SUVs for more efficient passenger cars. The U.S government also enacted tougher Corporate Average Fuel Economy (CAFE) mandates in an effort to prevent large gas-hungry vehicles from returning to the roadways, pressuring automakers to develop more environmentally friendly choices.

By the time the country slowly began to crawl out of the recession, automakers were ready to roll out smaller, more fuel-efficient truck and SUV choices. They were the perfect product at the perfect time, and passenger car loyalty plummeted. Edmunds anticipates that as soon as the end of 2018, loyalty for passenger cars could drop so low it would match loyalty to SUVs during the Cash For Clunkers period — a time when the U.S. government was actually paying people to turn them in.

The irony of the last decade is that had the recession not happened, and had automakers not been forced to develop more fuel-efficient SUV options, the segment may have stayed limited to just those buyers who preferred larger, truck-based SUVs. But the fact that market forces compelled automakers to create SUVs that drove and consumed fuel similar to passenger cars actually led to abandonment of the passenger car segment we're seeing today.

SEGMENT LOYAL BUYERS

Percent of owners who traded in one body style (car, SUV, or truck) to buy the same body style



SUVs Now Have Highest Segment Loyalty Rate

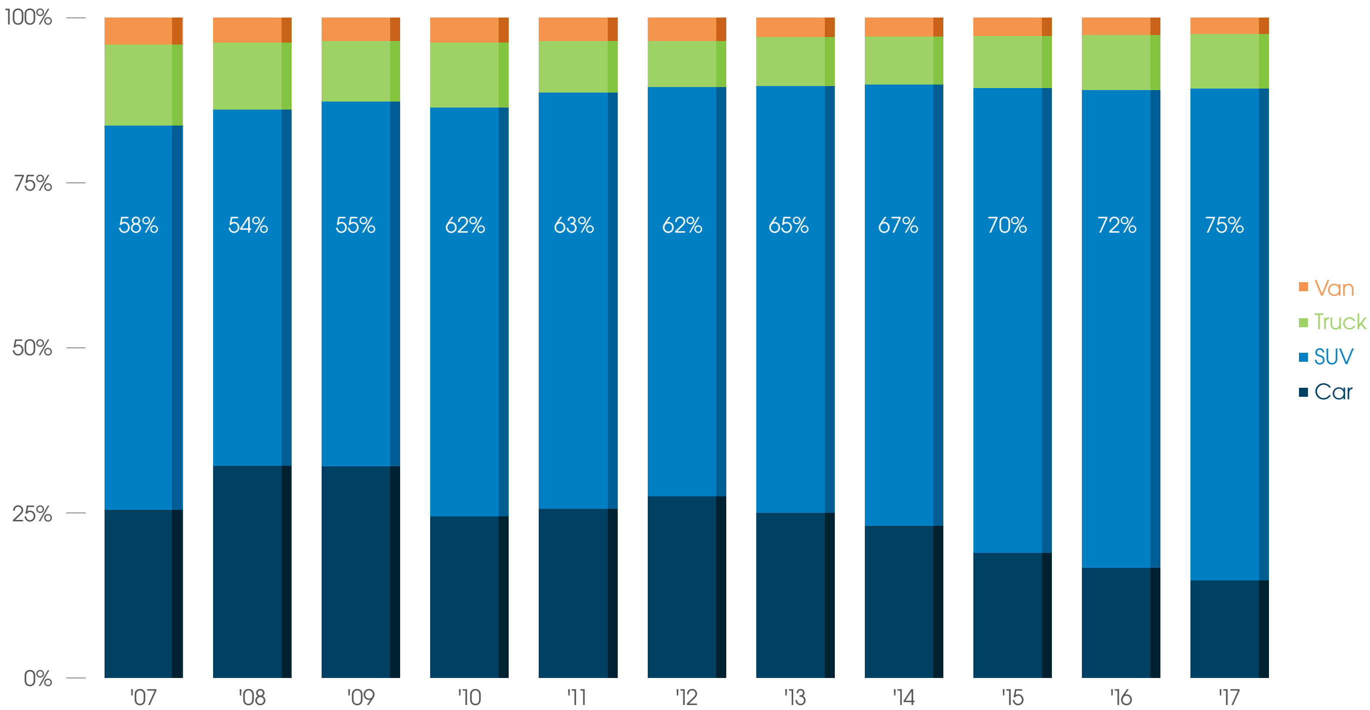
While historically truck buyers have been the most fiercely loyal to their segment, the growing number of SUVs on the market has given this segment the loyalty crown. In 2017, 75 percent of SUV owners who traded in their SUV to buy another new vehicle chose an SUV, compared to 57 percent of car owners who chose a car again for their next purchase and 74 percent of truck owners who traded in their truck for a new one. In fact, due to the breadth of SUV offerings of all sizes, the segment has developed into a funnel for buyers of all types — stealing business away from both cars and pickup trucks.

While segment loyalty for trucks remains high, it has leveled off in recent years, partly because there simply aren't as many model choices available for truck buyers as for SUV buyers.

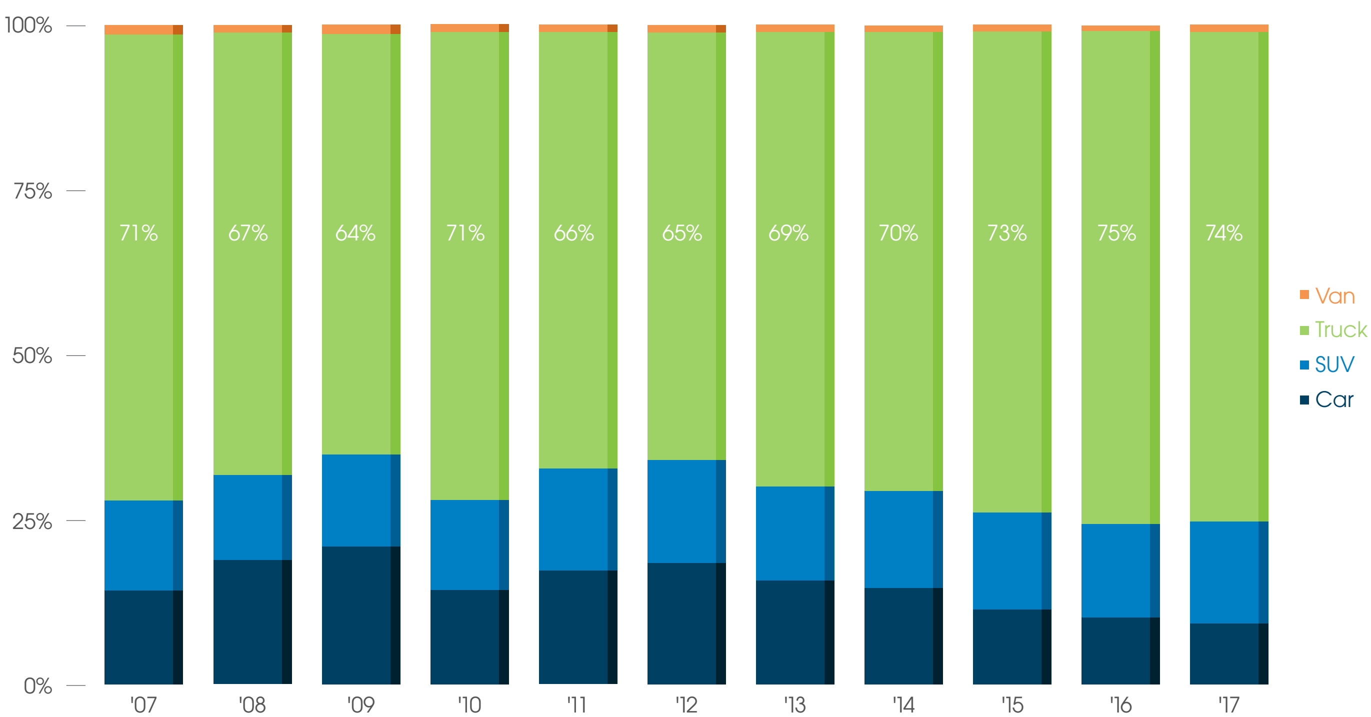
75%

of SUV owners traded in their SUV for a new one

VEHICLE TYPE PURCHASED WITH AN SUV TRADE-IN



VEHICLE TYPE PURCHASED WITH A TRUCK TRADE-IN



Passenger Cars in Crisis ...

In 2017, passenger cars accounted for 36 percent of all new vehicles sold. This is the lowest market share figure ever for cars and a noticeable decline from just five years ago when cars constituted half of the sales in new car market. The primary cause for this drop: In the last three years, millions of passenger car owners have traded their cars in for a truck or an SUV. In 2017, only one-third of all vehicles traded in went toward the purchase of a car; five years ago, the number was close to half. Slowing sales and lower margins have caused a few major automakers to either re-evaluate the passenger car segment or abandon it completely.

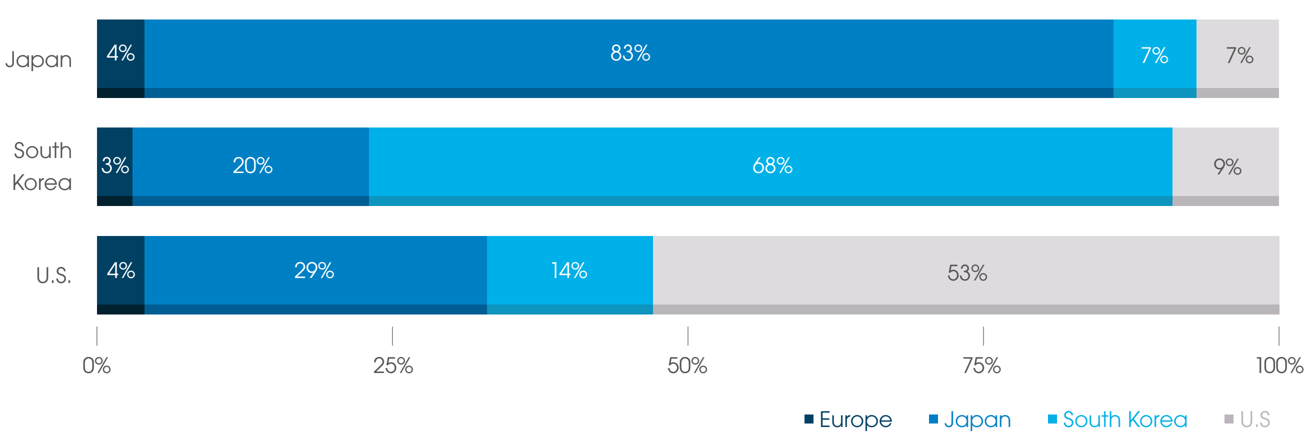
... But Not All of Them

While this signals a clear crisis for the passenger car segment, it doesn't mean cars will completely disappear. This shift has forced automakers to change their go-to-market strategy for passenger cars, designing products to appeal to buyer emotions rather than positioning cars as the pragmatic, cost-effective choice.

The Japanese automakers have found the most success so far with handling this pivot, but they are starting from a place of dominance — 50 percent of all car trade-ins in 2017 were from a Japanese brand. Companies such as Toyota and Honda built their business around producing the most reliable, cost-effective passenger cars, and they have kept buyers coming back by adding emotion into the equation. In 2017, 83 percent of people who traded in Japanese cars to purchase a new car bought a Japanese brand, compared to 53 percent for American brands. The high retention rate for Japanese brands bodes well for the recently redesigned Toyota Camry and Honda Accord, both long seen as the passenger car gold standard, and helps Toyota and Honda keep more buyers in their brands even as SUV loyalty becomes imperative.

CARS TRADED IN FOR CARS BY ORIGIN OF AUTOMAKER

Cars of an automaker origin that were traded in for the purchase of a car by the same automaker origin. This chart covers passenger cars only, excluding data for both trucks and SUVs

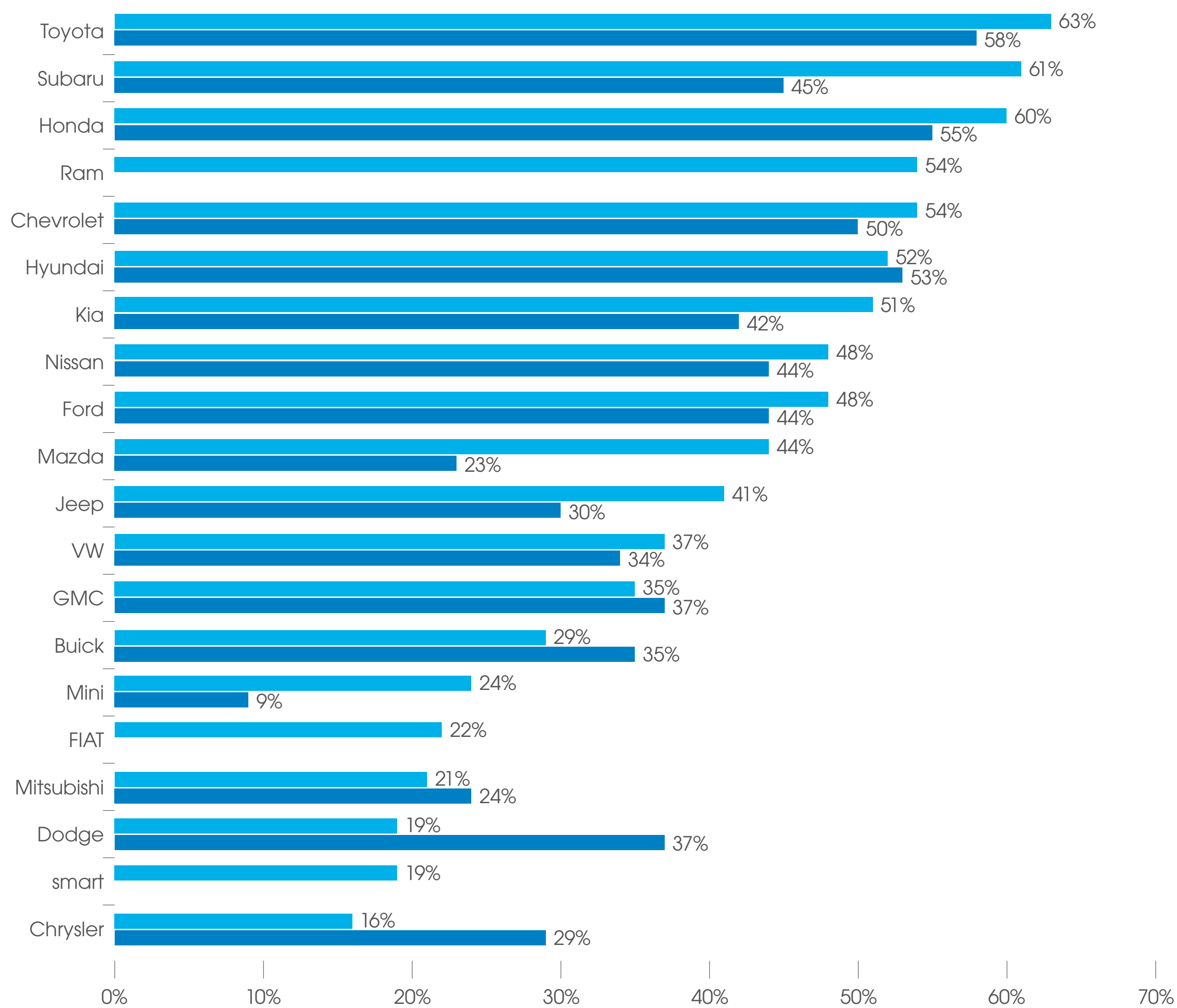


Mainstream Brand Loyalty: Passenger Car Success Helps Boost Toyota, Honda

VEHICLES TRADED IN FOR THE PURCHASE OF THE SAME BRAND

The percent of vehicles traded in to purchase the same brand
(e.g., 63 percent of Toyota trade-ins went toward the purchase of a new Toyota)

■ 2017
■ 2007



Top of the Pack

Both Toyota and Honda have built reputations for quality and reliability that resonate with purchasers who are looking to keep their vehicle for an extended period of time. Their full model lines do a good job of keeping customers in the family. But not only that, the two automakers also report the highest model-to-model loyalty rates in many segments. Camry and Accord stand at the very top of the midsize segment while their SUVs are also near the top of their respective segments. In fact, 44 percent of both RAV4 and CR-V trade-ins are applied toward new ones.

Most Improved

Subaru has not only moved to the top of the pack but has witnessed its loyalty rate climb from 45 percent a decade ago to 61 percent in 2017. Similarly, Mazda has nearly doubled its rate of customer retention, capturing sales from 44 percent of people who traded in its vehicles in 2017. Mazda also has the distinction of having the vehicle with the highest number of return customers of any single vehicle in 2017 with its CX-5. The common thread between the success of these two brands is that they quickly moved away from cars and anchored their lineups with many SUV options. These new or reimagined offerings have helped them both keep previous car owners in their fold. There's been discussion that Subaru loses buyers to the pickup truck segment, but in reality, less than 6 percent of Subaru customers traded in their vehicle for a pickup truck. Its retention rate shows that its current SUV lineup serves its buyer base well — for the time being.

Bottom of the Pack Suffers From Strategy Shifts

Dodge and Chrysler, under the FCA umbrella, have made long-term strategic changes to boost profitability. Both brands have undergone a product overhaul, phasing out car nameplates to focus on their light-truck offerings. Owners looking to stay in the car segment return to dealer lots with few options and consequently defect to other brands, and neither brand has many compelling SUV options for shoppers to trade up to. From a corporate standpoint, this strategy isn't as risky as it seems since FCA's other volume brands, Ram and Jeep, have high or growing loyalty rates due to their comprehensive lineups of trucks and SUVs. In 2017, 50 percent of FCA's trade-in customers stayed within the FCA family.

Up-and-Coming

After a challenging past few years encapsulated in its emissions scandal, we expect Volkswagen to show notable gains in owner retention in 2018. As we've seen for other brands, VW's new SUVs — the all-new Atlas and the redesigned Tiguan — should move the needle in the positive direction for the German company.

Luxury Loyalty Hits New Lows

Buyer loyalty from a trade-in perspective has historically always been lower for luxury brands than for mainstream brands, but it's been dropping steadily for the last three years and in 2017 hit its lowest point since 2009. In 2017, only 37 percent of luxury buyers traded in their vehicle for one from the same brand compared to 40 percent three years prior.

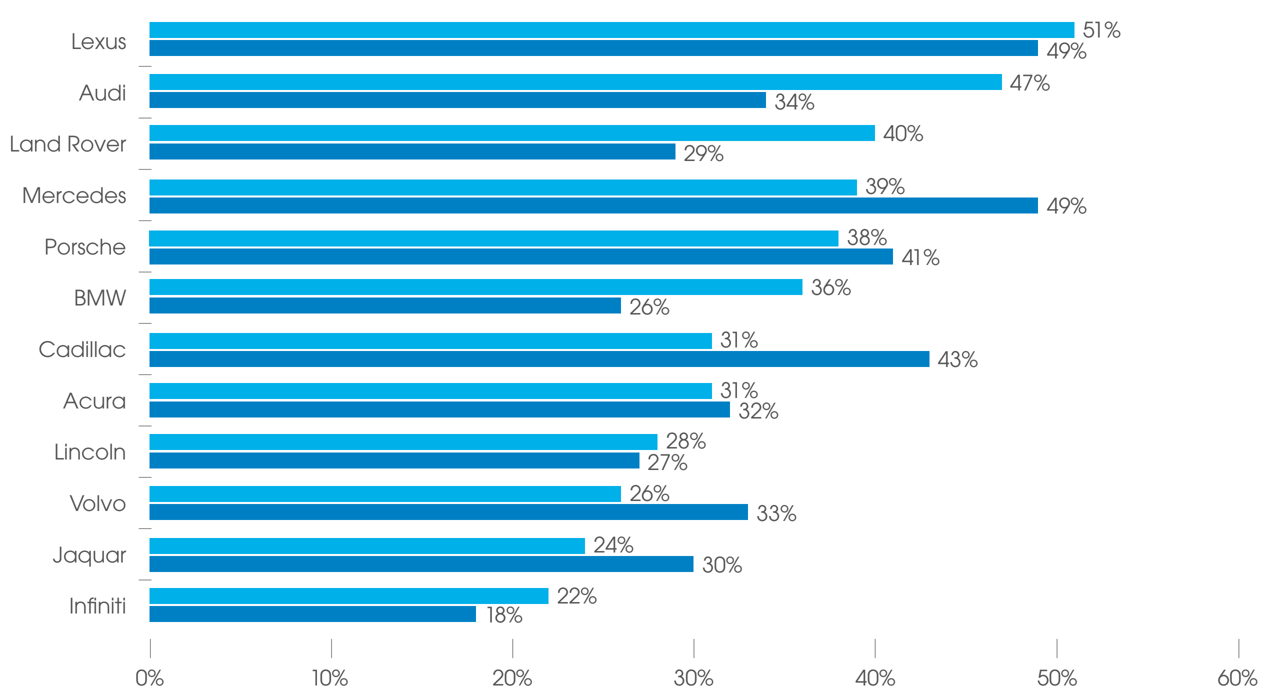
37%

luxury buyers traded in their vehicle for one from the same brand

Similar to the phenomenon on the mainstream side, luxury owners are making the jump to SUVs in record numbers. Luxury car defection rates are 10 percent higher than those for luxury SUVs, so buyers making the jump are a prime opportunity to pluck away market share from competition. In 2017 owners who traded in a luxury vehicle to purchase another luxury brand bought an SUV 59 percent of the time.

LUXURY: VEHICLES TRADED IN FOR THE PURCHASE OF THE SAME BRAND

The percent of vehicles traded in to purchase the same brand
(e.g., 51 percent of Lexus trade-ins went toward the purchase of a new Lexus)



Top of the Pack

Following the path of Toyota, Lexus leads the luxury segment in both car and SUV loyalty (46 percent and 55 percent, respectively). Though the brand doesn't boast a reputation for flashiness or performance, its renown for comfort and reliability resonates with owners. Two of Lexus' enduring nameplates, the ES and RX, bolster the brand's loyalty immensely. Audi, on the other hand, has made massive strides in market share and that success has been matched by soaring loyalty levels. The same push in design and appointments that has expanded Audi's market share has also helped keep existing owners in the fold. Audi has the luxury segment's second-highest loyalty for both cars and SUVs behind Lexus (44 percent and 54 percent, respectively)

Bottom of the Pack Shows Promise of Improvement in the Near Future

Infiniti's loyalty levels have been on the rise but still significantly trail the luxury average. Encouragingly, Infiniti's growing lineup of SUVs has proven to be more effective than its cars at keeping owners in the brand (26 percent SUV loyalty; 19 percent car loyalty). As these nameplates take root, they can cultivate future loyalty for the brand. Jaguar, with strong sales growth of late, is waiting for some positive movement on the loyalty side. Its first SUV, the F-Pace, has become a landing spot for many competitor trade-ins but hasn't yet swayed the Jaguar loyalists. With more time — and more SUVs on the horizon — Jaguar can expect loyalty to grow as their owners settle into the new diversity of model options.

Subcompact Luxury: An Experiment Gone Right

While the race among luxury brands has heated up to lure shoppers away from one another, luxury's latest entrants — subcompact cars and subcompact SUVs — have proven adept at persuading mainstream-brand shoppers to make the jump into luxury. In fact, nearly half of all trade-ins for luxury subcompact cars and SUVs are from non-luxury brands. These products have revitalized the luxury segment, bringing the next generation of luxury owners into the fold amid automakers' hopes they stick around for subsequent vehicle purchases.

The smallest luxury vehicles are unique in that they are the only portion of the luxury market bringing in non-luxury buyers. Besides the infusion of these new luxury converts, this segment is also appealing to luxury owners of older vehicles. With transaction prices rising steeply, these lower entry points let them remain in luxury for less.

In Closing: This Is Not a Pre-Bankruptcy Repeat

Strategies heavy on trucks and SUVs can breathe fear into those who witnessed the U.S. automotive collapse of 2008, but the irony is that the recession was a catalyst for the success of the current generation of SUVs. Today's SUV landscape is the result of finding an equilibrium. In 2004, the pendulum swung too far in favor of monster SUVs, and in 2008 it moved to other extreme to tiny fuel sippers. It's no surprise the right-sized choice was somewhere in the middle. Although automakers face a battle for market share, they are delivering what consumers want while achieving the margins needed to be successful.

Unfortunately, it's not all sunshine and rainbows. Defection rates make it easy to see why car lineups, the staple of the American auto industry for decades, are in jeopardy. However, it's not so simple since companies that have severed car lines have watched customers defect to competing brands. The automotive business is moving quickly into uncharted territory, and automakers are forced to make critical product decisions without much of a roadmap. They are placing big bets on the future in which traditional volumes targets are not guaranteed. The stakes grow even higher when product uncertainty is combined with the gamble on autonomy and electrification. Automakers today must address the issue of preserving loyalty as shopper demand shifts away from cars to ensure they are viable players in the future.