

THE RISE OF CPO

Certified Pre-Owned Programs in Australia 2017

Executive summary

In comparing the current penetration of Certified Pre-Owned (CPO) vehicles in Australia, which sits at just 3.7% of dealer cars advertised online, to comparable sites in the US where CPO vehicles account for 15% or more of stock on site, it's clear that there is huge growth potential for CPO vehicles in the Australian market.

Carsales data confirms that CPO programs provide a win-win situation for consumers and original equipment manufacturers (OEMs) alike. Consumers like the certainty that CPO vehicles offer, enabling them to buy a car that's in good condition and protected under warranty at a good price. OEMs benefit from the wealth of customer data that CPO programs bring with them, and the opportunity to attract and keep consumers within the brand family. Additionally, a Nielsen Online Brand Effect Study (December 2015) confirms that franchised dealers who participate in OEM sponsored CPO programs enjoy an increase in consumer preference compared to non-franchised independent dealers.

With the benefits for consumers, OEMs and franchise dealers clear, the discrepancy in penetration between the two markets can perhaps be explained by the relatively small number of manufacturers offering certified programs in the Australian market. With fewer than 30% of new car brands playing in the space, it also means that there are a large proportion of Australian consumers

who don't know what a CPO program is yet, because it's not readily available to them. Further, certified programs in Australia haven't always been executed well, causing some OEMs to question their role or even cancel them, which has hindered progress.

But growth is inevitable. It stands to reason that as the number of OEMs offering CPO programs increases, and manufacturers promote their programs and the benefits to consumers and dealers, that awareness will also grow, driving an increase in demand, and fuelling the rise of the CPO sector.

Background

In the past few years Certified Pre-Owned vehicles have become increasingly popular in Australia due to their appeal with consumers looking to buy a used car in like-new condition, with the peace of mind that a factory warranty provides.

However, the CPO sector is still in its infancy in Australia when compared to markets like the US, where sales of manufacturer CPO vehicles reached a new high in 2016, on the back of six consecutive years of growth, accounting for almost 25% of dealer sales.*

Using the wealth of data available to us from carsales customer surveys, leads and feedback, we wanted to test some widely held assumptions to better understand the CPO segment, and the opportunity it presents for OEMs in 2017 and beyond.

Key Takeouts:

CPO programs present an ideal opportunity to attract new consumers to OEM brands. They deliver a buying experience similar to a new car purchase, helping to deliver a strong brand experience, and can have a profound influence on future new car sales as consumers enter, and stay within, the brand family.

CPO programs allow OEMs to capture valuable lifecycle data which can be used to market to your customers more effectively, and to keep them within your ecosystem, with the aim of putting them in a brand new car when the time is right for them.

Consumers who know what a CPO vehicle is like the certainty of them, and have a higher perception of dealers who offer them, but more education is required to ensure mass market awareness.

Promotion of CPO programs within the relevant context of carsales is proven to drive a significant increase in awareness amongst in-market consumers, and positively shift the key brand funnel metrics of favourability, consideration and recommendation.

*Source: Manheim Used Car Market Report 2016, USA

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WHAT IS A CERTIFIED PRE-OWNED VEHICLE?

Although the exact details of CPO programs vary among manufacturers, the general principles are the same, with OEMs imposing limits on age, mileage and overall condition for potential vehicles, and providing a vehicle history report to prove that the car has led an 'uneventful' life.

Unlike vehicles purchased through private sellers or independent used car dealers, CPO vehicles are inspected according to the manufacturer's standards - most of which encompass 100 points or more - and carry a manufacturer-backed warranty that extends the length of the new car coverage.

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Do Australian consumers know what a Certified Pre-Owned Vehicle is?

In the automotive industry we take for granted that consumers know what a CPO program is, but in reality the truth is very different. In an online survey of 4,999 respondents conducted on carsales in November 2016, 53% of consumers stated that they did not know what a CPO vehicle was. These consumers were in

the market, on the journey to vehicle ownership. It's reasonable to assume that the understanding of CPO programs in the wider populace is much lower, and emphasises the importance of educating future buyers on the features and benefits of CPO vehicles to assist in growing the segment.

CPO Program Criteria

100+ Point
Mechanical Inspection

Full Service
History

Low Age

Low Mileage

Factory Backed
Warranty

'Like New'
Condition

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CONSUMERS LIKE THE PEACE OF MIND THAT CPO PROGRAMS PROVIDE

Purchasing a CPO vehicle can often save the consumer thousands of dollars compared to buying a new car, enabling them to buy a car that's in good condition, reliable and protected under warranty.

One of the common assumptions made about CPO programs by marketers is that consumers are attracted to them because they like the certainty that they provide. Using data collected from over 6,500 carsales 'post enquiry surveys' we put this assumption to the test.

Methodology

After every enquiry made on carsales, customers are invited

to tell us about their purchase through our 'post enquiry survey'; to share whether or not they bought the car, and if so, why - selecting up to four key drivers.

To test the assumption that consumers like the certainty that CPO programs provide, we looked at data from all survey respondents who had enquired on dealer used cars that were 3-years old or less. From those responses we then compared the closure rate and purchase drivers of consumers who submitted leads on CPO vehicles (n = 463) against those buying non-CPO vehicles (n= 6222).

Outcomes

The CPO leads closed at a higher rate than comparable non-certified leads, with the number of people reporting that they had purchased the car being 16.4% higher for leads on certified cars.

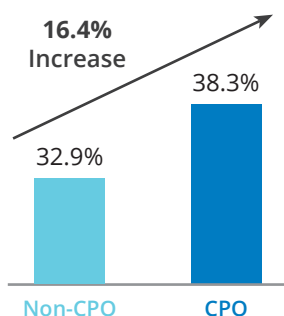
Additionally, for consumers submitting leads on CPO vehicles,

Certified Pre-Owned programs are a smart way for OEMs to engage used car buyers who they would otherwise not have a customer relationship with, and present an opportunity to capture valuable lifecycle data.

warranty was the most important factor in their purchase decision, with price and location far less important than it was for non-CPO purchasers.

This data confirms that leads convert at a higher rate on CPO vehicles, and that warranty is the major driver in the purchase decision, supporting the assumption that consumers do indeed like the certainty that CPO programs provide.

Enquiry Closure Rate



Key Purchase Drivers

DRIVER	NON-CPO	CPO	INDEX
Warranty	29%	41%	143
Accessories	13%	18%	140
Design	29%	37%	126
Brand	48%	53%	112
Price	77%	67%	87
Location	11%	9%	82

Source: carsales post-enquiry survey, January 2015–December 2016

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CERTIFIED PRE-OWNED DRIVES NEW CAR BRAND LOYALTY

Certified Pre-Owned programs are a smart way for OEMs to engage used car buyers who they would otherwise not have a customer relationship with, and present an opportunity to capture valuable lifecycle data that would otherwise be lost in private-to-private and independent dealers transactions.

This data can be used to keep customers in the ecosystem of franchised dealers, to market to them more effectively, and to upsell them in to a new car when the time is right.

Marketing orthodoxy suggests that manufacturers are much more likely to sell new cars to existing brand customers than they are to attract customers from their competitor. If this is true, CPO programs offer an ideal opportunity to attract consumers

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Methodology

To test this theory, we analysed a large data sample of 31,355 carsales customers who submitted a lead to a dealer, and also reported the make and model of the car that they wished to trade in. We took all leads that were made on new cars, and cross referenced which marques these same customers were trading in.

Outcomes

For both mass and prestige brands, the data confirmed that new car buyers are much easier to recruit from the ranks of existing owners.

Prestige Results – Brand X

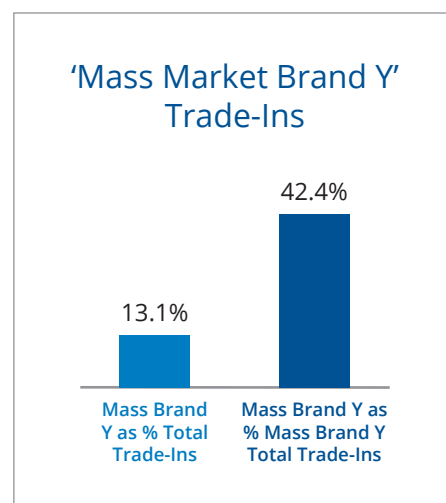
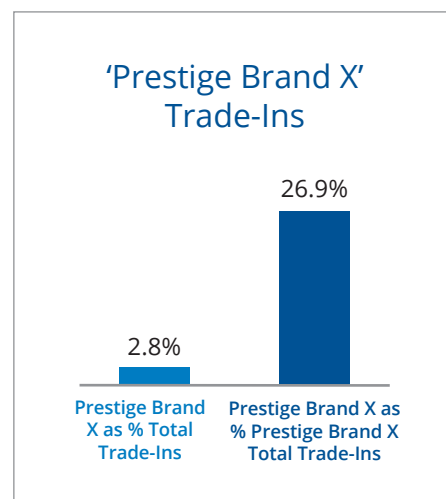
Among those placing leads on a new 'brand X' cars, 'brand X' was by far the most commonly nominated trade-in. Although 'brand X' trade-ins accounted for less than 3% of the total 31,335 trade-ins, they were offered for trade-in on 26.9% of new 'brand X' cars, confirming that new 'brand X' buyers are much more likely to be existing customers of the brand.

Mass Market Results – Brand Y (Top 10 OEM)

The same trend was evident for mass market brands. 'Brand Y' trade-ins accounted for just 13.1% of the total reported trade-ins, but they were offered for trade-in on 42.4% of new 'brand Y' cars,

confirming that new 'brand Y' buyers are also much more likely to be existing customers of the brand.

The data confirms that OEMs are indeed far more likely to sell new cars to consumers who are already within the brand, and that by attracting consumers to the brand family, CPO programs really do have the opportunity to influence future new car sales.



Source: carsales internal Business Intelligence, February 2016–December 2016

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PROMOTING A CERTIFIED PRE-OWNED PROGRAM

To understand the results that manufacturers can expect to see when advertising their CPO program in the contextually relevant environment of carsales, carsales commissioned Nielsen to undertake an Online Brand Effect Study for the BMW Premium Selection (BPS) campaign that ran from April to December 2015.

Promotion of CPO programs within the relevant context of carsales is proven to drive a significant increase in awareness amongst in-market consumers, and positively shift key brand funnel metrics.

Project Summary and Methodology

Nielsen used a control versus exposed methodology for this study. Campaign tracking tags were implemented, and linked to an independently verified sample of car buyers. Tags enable Nielsen to determine whether or not respondents were exposed to the BPS campaign on carsales.

From this information, two distinct groups of consumers are created—

control and exposed—with the control group modelled to match the demographic factors of the exposed group.

Both groups were surveyed to understand their ad receptivity and brand attitudes with regard to BMW's CPO program, with Nielsen comparing results to determine what impact exposure had on viewer's brand perceptions.

Research Findings

Exposure to the campaign on carsales drove a significantly lift in awareness of BPS, with top of mind awareness of the CPO program sitting at 41% for the exposed

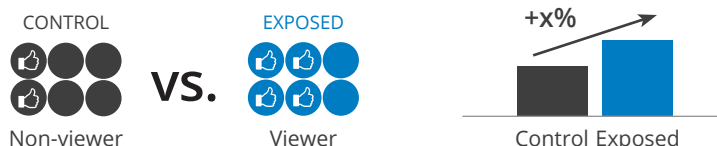
group, compared to just 19% in the control group.

For those consumers aware of the BPS program, exposure to the campaign on carsales considerably increased the key brand funnel metrics of favorability and recommendation.

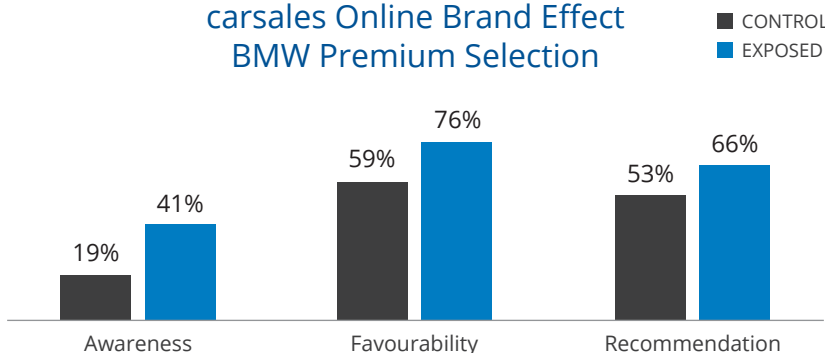
Broader Findings

In increasing top of mind awareness, and driving a rise in both favorability and recommendation for BPS, the carsales campaign successfully moved BMW's CPO to the top ranking of the competitive set for all brand funnel diagnostics.

How Exposure Impacts Brand Perception



carsales Online Brand Effect BMW Premium Selection



Source: Nielsen Online Brand Effect Study; BMW Premium Selection December 2015

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It's not always smooth sailing

In the past, not all CPO programs have gone according to plan. Some large OEMs who previously ran CPO programs in Australia have cancelled them due to associated costs, lack of take up from dealers

and perceived lack of customer interest. It's important for the structure of CPO programs to be mutually beneficial for franchised dealers and OEMS, and for consumers to be educated on the benefits, to ensure program success.

Australian Certified Pre-Owned Programs

Manufacturer	Qualification	Point Check	Unlimited kms Warranty	24hr Roadside Assist
Audi Approved	< 5 YEARS OLD / 120,000 KMS	115	2 YEARS	2 YEARS
BMW Premium Selection	< 6 YEARS OLD / 120,000 KMS	100	1 YEAR	1 YEAR
BMW Premium Selection Platinum	< 7 YEARS OLD / 120,000 KMS	100	2 YEARS	2 YEARS
Ferrari Approved	< 11 YEARS OLD	190	1 YEAR	1 YEAR
Jaguar Approved	< 5 YEARS OLD / 100,000 KMS	165	2 YEARS	2 YEARS
Land Rover Approved	< 5 YEARS OLD / 100,000 KMS	165	2 YEARS	2 YEARS
Mercedes Certified	< 12 YEARS OLD / 150,000 KMS	118	2 YEARS	2 YEARS
MINI NEXT	< 6 YEARS OLD / 120,000 KMS	100	1 YEAR	1 YEAR
Porsche Approved Vehicle	< 10 YEARS OLD / 200,000 KMS	111	1 YEAR	1 YEAR
Renault Approved	< 3 YEARS OLD / 100,000 KMS	100	2 YEARS	2 YEARS
Subaru Assured	< 5 YEARS OLD / 125,000 KMS	120	1 YEAR	1 YEAR
Volkswagen Certified	< 5 YEARS OLD / 120,000 KMS	114	1 YEAR	1 YEAR
Volvo Selekt	< 5 YEARS OLD / 100,000 KMS	125	1 YEAR	1 YEAR
Toyota Certified	< 10 YEARS OLD / 150,000 KMS	90	1 YEAR	1 YEAR

Correct as at January 2017. Further terms and conditions may apply.

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Contact us

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