

BRUCE GIFFIN
Corporate Market Research Manager
bruce_giffin@polk.com

Consumer Perceptions of “Cash for Clunkers”

The government’s long-awaited “Cash for Clunkers” program, designed to jump-start new vehicle sales, is underway. Even before it officially began on July 27, the widely publicized “Car Allowance Rebate System” or CARS initiative, also known as “Cash for Clunkers” or “Cash for Guzzlers,” sparked considerable interest, confusion and debate among consumers and the auto industry alike.

This program enables consumers who own a “clunker” car or truck to turn it in to be scrapped and receive a credit toward a more fuel-efficient new vehicle. Based on positive results from similar programs in various European countries, the general sentiment is that this program will be successful. R. L. Polk & Co. forecasts 200,000 additional vehicle sales tied to the program, a number that would likely be much higher if it weren’t for funding limits.

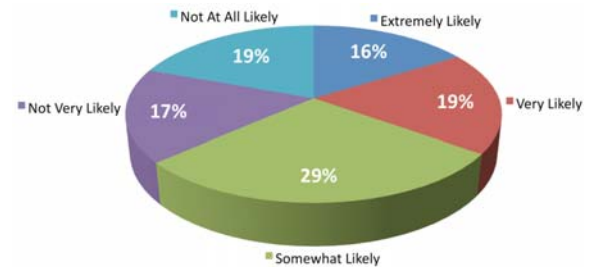
Auto manufacturers and dealers, along with their agency partners, would benefit from understanding what consumers think of Cash for Clunkers. Which consumer groups are likely to be interested in the program? What will motivate consumers to participate in the CARS initiative? Which factors will discourage consumers from taking part?

This Polk View provides high-level answers to these questions based on results from Polk’s consumer sentiment tracking program, which monitors attitudes and outlooks about the automotive industry. From June 15–28, we obtained feedback from 433 U.S. consumers about the Cash for Clunkers initiative.

Strong Consumer Interest in Cash for Clunkers

Based on our consumer research¹ 64 percent of consumers surveyed indicated they would be at least somewhat likely to consider the Cash for Clunkers incentive program.

Figure 1
Likelihood to Consider Participation in Cash for Clunkers



Interest in Cash for Clunkers varies by area of the country. In the Rocky Mountain states, where used car and gas-guzzling 4x4 ownership is high, 81 percent of surveyed consumers expressed interest in the program. On the other hand, just 55 percent of consumers in the Southwest and 56 percent in New England were “somewhat,” “very” or “extremely” likely to consider the program. Cash for Clunkers is probably not as appealing in these two areas for very different reasons, based on past trends observed by Polk. In the Southwest, consumers often choose full-size pickup trucks, which are less likely to qualify for the program based on fuel economy requirements. In New England, consumers tend to be more affluent and less interested in incentive programs, and the area has newer passenger cars on the road (indicating lower ownership of eligible clunkers to trade in).

Economic and Environmental Reasons Fuel Interest

Consumers who are likely to consider trading in a clunker for a credit toward a new vehicle were asked about the importance of various factors in their new vehicle purchase decision. Almost all (96 percent) indicated that improved fuel economy was extremely or very important, while 80 percent felt strongly about the importance of a vehicle with lower emissions. However, just 58 percent cited the hybrid or alternative fuel technology as an important factor in their purchase decision.

continued

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Cash for Clunkers Program Details

- **Duration:** July 27 through November 1 or until \$1B funding runs out
- **Consumer trade in an eligible qualifying vehicle:** in driving condition; continuously insured and registered by the person making the trade-in for at least one year; less than 25 years old (mid-1984 or newer); combined EPA estimated MPG of 18 or less.
- Government-funded credits are applied toward the purchase price of a new vehicle
- **Car credit:** \$3,500 if the fuel economy improvement is at least 4 mpg; \$4,500 if it is at least 10 mpg
- **Light-truck credit:** \$3,500 if the fuel economy improvement is at least 5 mpg; \$4,500 if it is at least 10 mpg

Source: CARS.gov

¹ Conducted June 15–28 among a representative sample of 433 adult auto buyers/owners with a margin of error of +/-4.6 percent



“Sixty percent of consumers not interested in Cash for Clunkers lack interest because they don't own a qualifying trade-in vehicle.”

Consumers see the program as providing the opportunity to buy a specific vehicle of interest. Ironically, considering that the program is positioned as helping the U.S. auto industry, 73 percent see a chance to buy a specific foreign vehicle, while only 46 percent would trade in their clunker for a specific domestic vehicle. Slightly more than half of consumers rated helping the auto industry as an important motivating factor in their decision to purchase a new car or truck.

Figure 2:
Factors Driving New Vehicle Purchase Decision

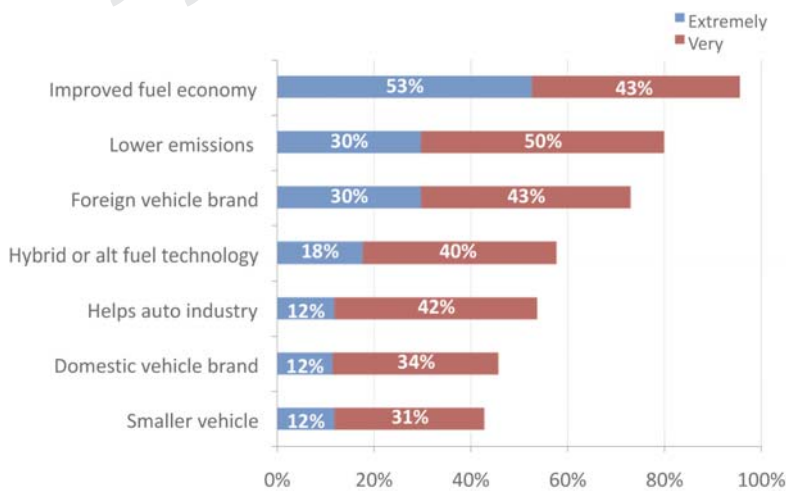
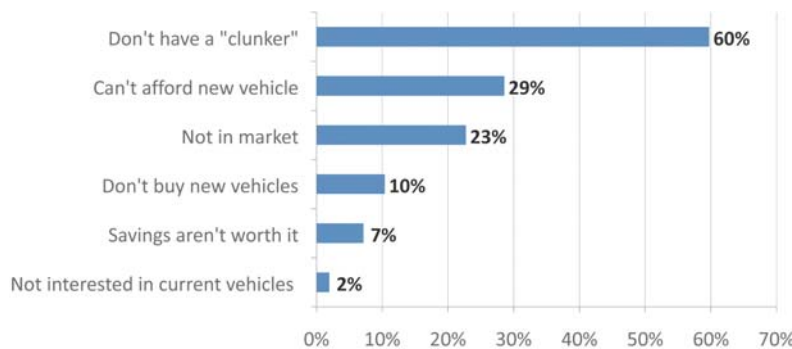


Figure 3:
Reasons for Lack of Interest in Cash for Clunkers



Cash for Clunkers Impact is Limited by Clunker Ownership and New Vehicle Interest

While the majority of consumers expressed interest in considering the Cash for Clunkers program, 36 percent are "not very likely" or "not at all likely" to take part. The primary reason for lack of interest, cited by 60 percent of this group, was that they didn't own an eligible clunker to trade in.

Twenty-nine percent of those who are unlikely to participate in the CARS initiative indicated that they can't afford a new vehicle, while 10 percent said they simply don't buy new vehicles. Just under one-quarter (23 percent) of consumers who were unlikely to participate in the Cash for Clunkers program said they were not currently in the market for any additional vehicles, either new or used.

Getting Ready for Cash for Clunkers

While the forecasted 200,000 additional sales as a result of Cash for Clunkers is not enough to get the industry back on track, it's a positive sign of the government's support for the auto industry. To take advantage of this program, dealers, marketing agencies and OEMs should:

- Identify qualified consumers and target them with marketing materials about the program. With so few overall sales expected for any given dealer, the urgency to go after the few local and qualified prospects should be high.
- Ensure that sales people are trained so that they can take full advantage of Cash for Clunkers. Indications are that there will be a lot of early activity since many consumers delayed purchase while waiting for the program to start.
- Be prepared to take advantage of increased showroom traffic, even among consumers who aren't qualified to participate in the program – either because their trade-in vehicle or the vehicle they want to purchase doesn't qualify. Dealers and OEMs should have programs in place to get their share of sales from the traffic of non-qualifying individuals this program is likely to generate.
- Stock up on fuel-efficient vehicles that qualify for the program. This may require looking for models to acquire via dealer trades in order to avoid taking on additional inventory at the retail level.

About R. L. Polk & Co.

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