

 edmunds

# SHUTTERED CAR LINES

AN EARLY LOOK AT THE IMPACT

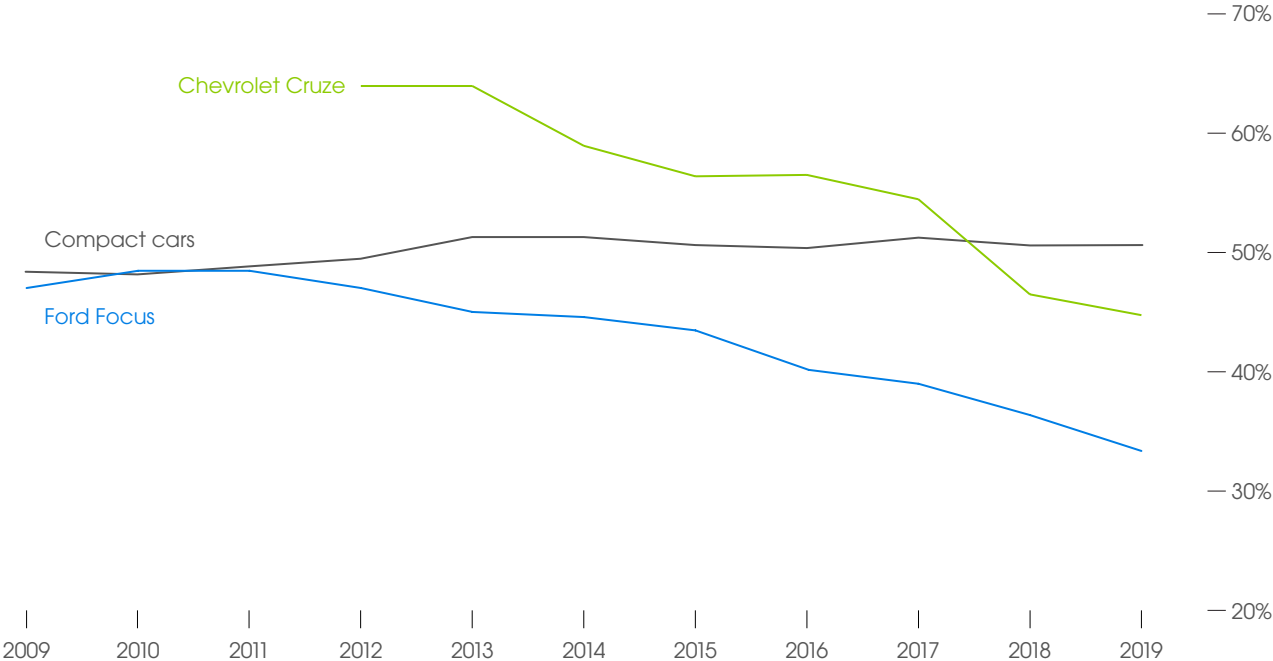


## The issue

Ford and GM have ended production of their compact cars, and the remaining stock is quickly fading from dealer lots. There are nearly 2.7 million Focuses and over 1.6 million Cruzes on the road right now. These are huge bases of owners who won't be able to buy a new version, leaving major questions about where these shoppers will land when they reenter the new car market.

# Model discontinuation prompts drop in overall brand loyalty

## COMPACT CAR TRADE-INS THAT STAY WITHIN THE BRAND



Source: Edmunds (2019 includes Jan - Sept)

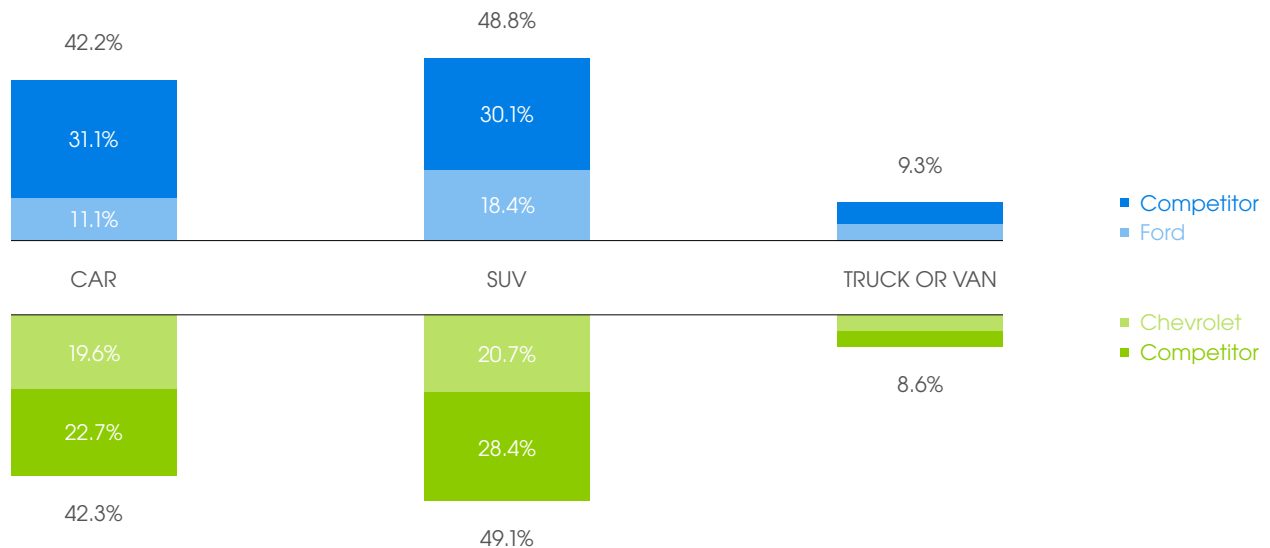
Without direct replacements, the domestic compacts have conceded market share to competitors, with record low levels of owners trading in the Focus and Cruze staying in the Ford and Chevrolet brands, respectively. The termination of these models cemented the declining loyalty for both the Focus and Cruze, which has been consistently falling as the market transitions away from cars to SUVs.

Focus owners trading in their car to buy another Ford vehicle decreased from 40% in 2016 to 33% in 2019. With the forthcoming termination of other Ford cars such as the Fiesta and eventually the Fusion, which have become popular landing spots for Focus trade-ins, trade-ins staying with the brand will likely decline further.

Cruze owners trading their car in for another Chevrolet vehicle fell from 57% in 2016 to 45% in 2019. In 2019, 9% of Cruze trade-ins have gone toward another Cruze, a prospect that won't be an option as the year wears on. The impact was immediate, but Ford and Chevrolet can expect further loyalty declines moving forward.

# Compact cars — a shrinking but still formidable segment

## Focus trade-ins



## Cruze trade-ins

Source: Edmunds, 2019 (Jan - Sept)

Although cars in general have fallen out of favor, compact cars continue to bring a desirable combination of affordability and functionality to the market. They represent a low-cost alternative for those looking for affordable new transportation and still are America’s largest car segment — accounting for 9.1% of all new vehicle sales in 2019. They also boast the highest segment loyalty of any car segment, with 33% of trade-ins going toward the purchase of another compact car. The more vulnerable car elimination target, perhaps, is midsize sedans, which fell from a high of 17% market share in 2012 to a paltry 8% now.

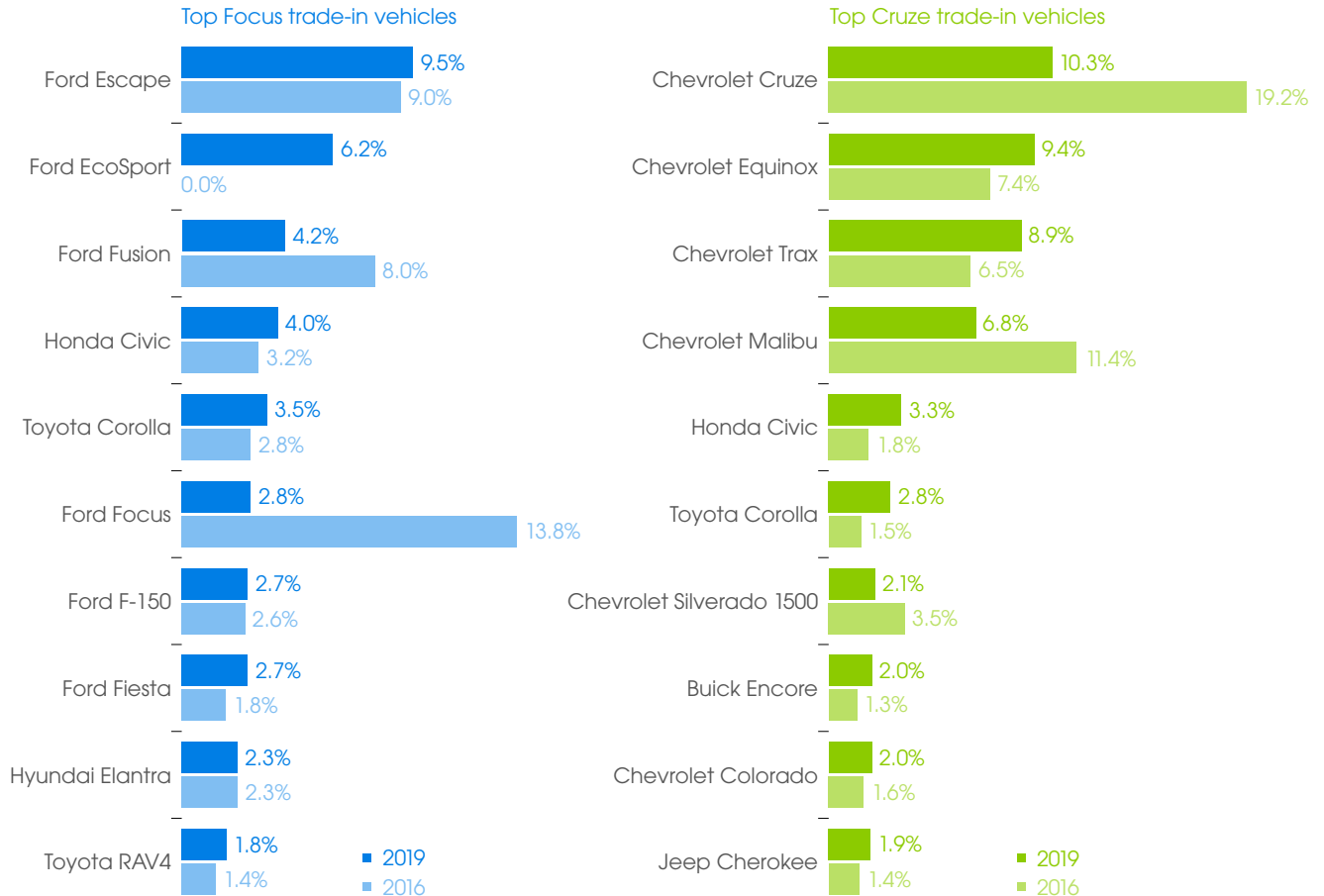
A heavy proportion of Focus and Cruze trade-ins go toward the purchase of another car — 42% for both the Focus and the Cruze. The declining availability of in-brand car models has necessitated that many shoppers intent on buying a car turn to alternative brands. Segment leaders in the compact car segment have benefited from the termination of these models, with the share of trade-ins going toward the purchase of Honda Civics and Toyota Corollas rising sharply — Cruze trade-ins for Civics and Corollas nearly doubled from 2016 to 2019.

Compact cars still represent a sizable portion of trade-in destinations, with 21% of Focus and 22% of Cruze trade-ins going toward a compact car purchase.



# Small SUVs emerge as top destination for Focus and Cruze trade-ins

2019 VS. 2016 TOP TRADE-INS



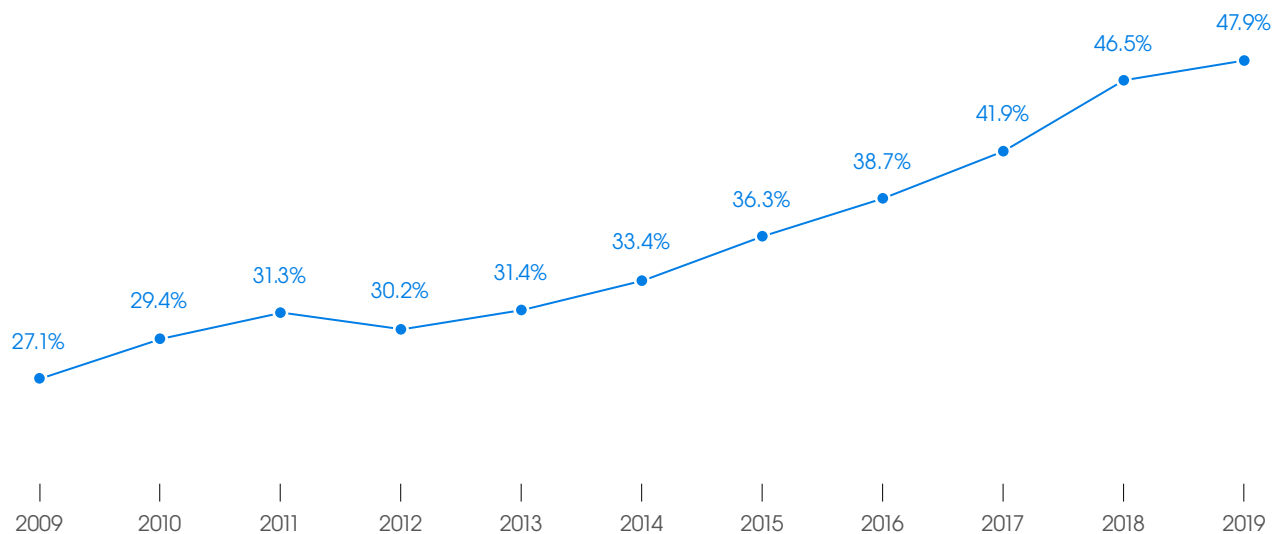
Source: Edmunds

While the compact car competition has benefited from the demise of American compacts, SUVs have become the most popular trade-in landing spot for owners turning in Focuses and Cruzes. Each company's compact SUV is the most frequent landing spot for the trade-in of these models, followed by its subcompact SUV offerings. In this regard, the strategy in Detroit has worked since the

models are more expensive, which inevitably yield greater profits per vehicle for both GM and Ford. Last year the Focus transacted at \$20,900, the EcoSport at \$24,900 and the Escape at \$28,300. The Chevrolet lineup shows a similar price distribution.

# Jump ball for trade-ins

## SUV MARKET SHARE



Source: Edmunds

To Note: Due to seasonality, all years are Jan - Sept only for an even comparison

However, even though Ford and Chevrolet have fielded models in the compact and subcompact SUV segments that have kept shoppers in the fold, the owners of the majority of Focuses and Cruzes that are traded in for SUVs still defect to other brands. The market's swing to SUVs was a trade-in issue for these models well before their discontinuation and has been a boon for automakers with SUV-heavy lineups such as Jeep and Subaru.

Hyundai and Kia have gained some recent trade-in traction with small SUVs of their own, and over index with trade-ins of Focus and Cruzes from older model years. Honda and Toyota, the perennial compact-car segment leaders, have seen the largest increases and are bolstered by Focus and Cruze owners moving into their subcompact and compact SUVs.



## Looking to the past to see ahead

The discontinuation of the Focus and the Cruze has set into motion a major shift for domestic automakers as the industry moves headlong into an SUV-dominated market. Ford has a car share of 16% and GM has a car share of 15% compared to the industry average of 29% in the first nine months of 2019. Although Ford's car market share was already a low 21% in April 2018 when the car shuttering announcement was made, this one-sidedness will only continue as these automakers end production of more cars in the coming months and years.

Ignoring broad market bases isn't without its risks. The trade-in data of these compacts reveals that not all car owners see SUVs as a viable landing spot. Indeed SUVs, while still gaining in market share, aren't growing in sales at nearly the pace they did over the past few years. In fact, market share for SUVs has hit a plateau in the first nine months of 2019, with only 1% growth over the same time period last year.



In this way the Ford Ranger provides an interesting parallel. When Ford pulled out of the midsize truck market in 2012, the segment was dwindling and the Ranger was nixed with the F-150 left to pick up the pieces. In 2019 the Ranger reentered a resurgent midsize truck segment but hasn't been able to command the share of the segment it once did, now slotting far behind the nameplates that stuck around. Still, this has always been a story about profitability, and the new Ranger commands a 49% higher price than it did the last time it was on sale — a trick that might not be in the cards for the economy-minded compact car segment.

New Ranger  
prices up

49%

