Auto Trader Market Report

September 2016



Transparency in the car buying process is paramount to establishing trust with today's consumers



NATHAN COE Auto Trader Operations Director

elcome to September's Auto Trader Market Report, the biannual review of the UK's new and used car market, consumer buying and selling intentions, and data and observations taken from activity on Auto Trader, the UK's largest digital automotive marketplace.

The core focus of this Market Report is the importance of trust and transparency in the automotive industry, something it has not traditionally done well.

The result of the EU referendum has presented the UK with a great deal of economic uncertainty, creating a hugely unpredictable landscape both economically and politically. How this affects manufacturing and trade with Europe remains uncertain, as does the affect Brexit may have on wider consumer confidence and the behaviours of UK car buyers.

In February's Market Report, we highlighted how the industry is starting to evolve in response to the changes we are seeing with the way that UK consumers approach car buying, which we know is now done predominately online, like almost every other retail experience today.

That Report also revealed that haggling on car price was decreasing, with 56% of car buyers claiming to have paid the asking price or more. This is just one example of how the car buying process is changing for consumers. The rate at which statistics like this are changing, however, does highlight how slowly our industry is evolving in response to the broader changes in consumer buying behaviour and expectations. Consumer behaviour is evolving at a rapid rate and, as retail processes in other industries make experiences easier, more efficient and ultimately more enjoyable for consumers, car buyers' expectations will rise at a similar rate – posing a bigger challenge for the automotive industry if it fails to act quickly enough.

The current picture isn't very positive and this Report reveals widespread distrust particularly in the UK's used car industry. Only 7% of today's consumers claim to trust used car dealerships, highlighting a significant reputational problem for the used car industry. The good news, however, is that the statistic is reversed when we ask car buyers who bought within the last six months – with only 7% claiming they didn't trust the used car dealership they bought from. It highlights an issue of perception, rather than the reality, but such ingrained perceptions require significant changes to shift.

Despite the recent emissions crisis, consumer trust in automotive manufacturing is much higher in comparison to the used car industry. The new car industry is ranked as the fourth most trusted amongst 13 other industries, with the home industry ranking top and the used car industry ranking bottom.

We know from watching other industries that, if you work to change negative perceptions and focus on delivering good experiences for consumers, retailers have the power to not only improve consumer sentiment but also influence buying cycles and behaviours.

With 76% of car buyers claiming that the transparent pricing of cars is the most important thing to them in the car buying process, it's clear that other opportunities to adopt wider transparency within the industry will help to increase consumer confidence. That could be through the growth of consumer reviews to help car buyers build trust with car businesses, clearer finance offerings, or simply by providing full transparency in each step of the purchase process, both online and in the dealership.

The steps to improving industry perceptions and consumer confidence within the automotive sector are based on the assessment of consumer demands. Understanding what's important to consumers in the car buying process will enable the industry to work together to build greater levels of trust with UK car buyers.

So for those willing to adapt and take a progressive retail approach there is a big opportunity. Our findings suggest that retailers that provide a transparent and therefore trusted experience for car buyers will become more successful in today's marketplace. Furthermore, if growth of transparency is adopted industry-wide, it will remove some of the friction that's currently felt in the car buying process and lead to people changing their cars more often, which could be a big win for car owners and the industry as a whole.

We spoke to 5,000 car buyers for September's Market Report, asking them about their most recent and future car buying habits, but also running additional surveys which sampled attitudes to car buying before and after the EU referendum.

The trends emerging in terms of consumer behaviour changes since the referendum are as marginal and divisive as the Brexit vote itself. What they do reveal, however, is an uncertain economic climate that could become more challenging if consumer apprehensions about the future worsen.

That's why it's important that the industry works

together to offer wider transparency that will mirror the experiences consumers have with other retail industries today - so we can start to change these negative and long-standing perceptions once and for all.

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KEY FINDINGS



Only 7% of UK consumers claim to trust used car dealerships

The perception for UK car buyers is far worse than the reality. The statistic is reversed when we ask car buyers who have actually bought a car in the last six months, with only 7% claiming they didn't trust the dealership they bought from.

Read more on page 06

Transparent pricing is the most important factor in the car buying process

Over three quarters of car buyers claim that the transparent pricing of cars is the most important factor in the purchase process. Consumers consider it more important than history checks or sales people when looking to buy a car.

Read more on page 10



Finding vague or misleading information is still a problem for car buyers in the research process

One fifth of recent car buyers found vague, hard to find or misleading information in their recent research to buy a car, with over a third claiming they delayed or actually put off buying all together.

Read more on page 12



Consumers claim that the EU referendum result will not affect their car buying intentions

30 days before the vote took place, 75% of consumers said their car buying intentions would not be influenced by the EU Referendum. This rose to 89% following the Brexit result.

Read more on page 14

% 18 rise in CONCERNS about the COST OF

CAR OWNERSHIP in the last six months

Concerns about the cost of running a car increasing in 2016

%

There's been a reasonable increase in the concerns UK drivers have with the cost of running a car. Despite this, the number of consumers planning to change to a more fuel efficient or cost effective car remain steady year-on-year.

Read more on page 16

Younger car buyers have the biggest concerns about the future of car prices

Concerns about the future of new and used car prices are mostly shared by younger car buyers. Negative predictions about the future of the economy and subsequent affect on car prices is a trend that steadily decreases with age.

Read more on page 17

17-23 year olds think new car prices will rise

TRUST IN THE MARKETPLACE

rust in products, businesses and brands has long been considered a major influence for retail purchases large and small. It becomes a defining factor when consumers consider whether they're making the right purchase decision or are establishing or furthering a relationship with a brand they can trust.

There has been a global rise in trust over the last year in business, government and media¹. UK consumers are seen to have had a 2% rise in trust in business overall, but this remains 3% below the global average.

Whilst this rise is clearly good news to most retailers,

'Used car dealerships ranked the lowest for trust, falling below property, finance and insurance companies.'

trust in the automotive industry (both new and used) tells a very different story. Trust in the industry has dropped by 6% globally in the last year, with a decrease of nearly 10% (69% to 60%) reported since 2014 - a trend no doubt partly attributable to the emissions crisis of 2015.

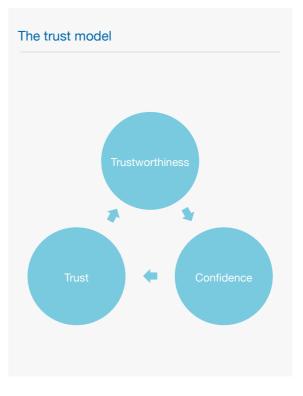
Despite the majority of consumers claiming to trust the automotive industry globally, perceptions of the used car industry in the UK are far more negative. The research conducted for this Report reveals that only 7% of consumers claim to trust UK used car dealerships.

Looking at 13 industries in total, UK consumers were asked to rate each industry with the extent to which they trust them when doing business with them. Used car dealerships ranked the lowest for trust, falling below property (i.e. estate agents), finance (i.e. banks) and insurance companies.

The finance sector has had a series of widely

reported events within the last decade which one would expect to lead to negative public perceptions of the industry and subsequent trust. Yet it's an industry that is trusted 11% more than the used car industry.

But there is some good news for the used car industry when we look specifically at consumers who have bought a car within the last six months. Only 7% of those buyers claim they didn't trust the dealership they bought from, with 68% claiming a significant level of trust and 25% remaining indifferent. It highlights a negative perception that is nearly ten times worse than the reality, but it also raises the question of how a negative perception of an industry could be so far removed from the actual experience for today's UK used car buyers.



Blue Martin Director at strategic research consultancy, Acacia Avenue

Defining 'trust' is more complex than it might first appear. 'Trust' is often conflated with 'trustworthiness'– the two concepts sound similar, but they aren't the same thing. And this is particularly important to bear in mind when trying to address 'trust' issues, because the solutions are achieved through different means.

Trustworthiness is a perception that is not necessarily based on direct experience. A belief that something or someone is trustworthy means you think you can trust them – based on their image and reputation.

Perceptions of trustworthiness are influenced by a range of factors, including the prevailing cultural context, by a brand's reputation, the sector it is in, and by what it says about itself through advertising and communications.

Trust, by contrast, is a feeling that is firmly rooted in direct experience. You cannot truly trust (or mistrust) something or someone that you have no direct experience of, although you can believe them to be (un)trustworthy.

People buy cars from individual salespeople at specific dealerships and have a good experience. This leads to trust in that particular dealership, based on that direct experience. But it doesn't have any effect on broader industry perceptions; the second-hand car salesman has become a byword for untrustworthiness in popular culture.

The first step in addressing the 'trust problem' in the used car industry is to diagnose the issue correctly – it's a trustworthiness issue, not a trust issue.

Levels of car buyers' trust in dealers can be improved if they focus on offering good experiences, but an effective solution to the trustworthiness problem will require the industry as a whole to work together towards the same goal.

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Sue Robinson Director at National Franchised Dealers Association

There are still a small number of dealers and sales people who tend to focus on traditional showroom sales and forget the importance of tools like websites. Nevertheless, the objective is to ensure the online buyer's experience is as positive and enjoyable as when they step into a showroom. This can help build a positive relationship and ultimately make customers feel secure and confident.

'In a period of uncertainty, our industry should be relying on its strengths and looking at how to improve by adapting to new market trends.'

Now more than ever, the majority of consumers will ensure they have taken into account every single detail before committing to a big purchase. Having clear, accurate and honest information is vital in today's market.

The perception of a dealership or a brand has the potential to strongly influence customers' attitudes. In a period of uncertainty, our industry should be relying on its strengths and looking at how to improve by adapting to new market trends. A more transparent approach would help improve perceptions and benefit both consumers and businesses, ultimately creating a more trusted marketplace.

The challenge of changing perceptions

We can assume that because consumers do not buy cars as regularly as they buy other goods, perceptions of the car buying process may be driven by past experiences that may have happened years ago. The average consumer changes their car every three years, which could be a long enough time to limit consumer exposure to digital progress made by the industry within that time.

Negative perceptions are perpetuated by word-ofmouth or the media's influence, but more often by first-hand experiences. In the digital world where most of our initial or entire retail engagement is done online, consumers now expect to be helped and encouraged through the buying process, and they won't work hard to find the information they need, or be restricted in their natural steps of research-to-purchase.

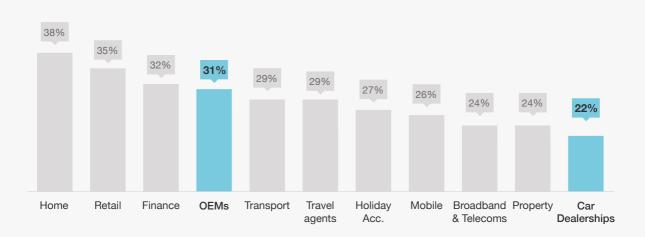
With nearly three quarters of consumers conducting their car buying research online, the internet becomes an ever more critical place for dealerships to influence the consumer before they step onto the forecourt, changing their perceptions and demonstrating they are worthy of their trust.

In May 2016, Auto Trader conducted its annual

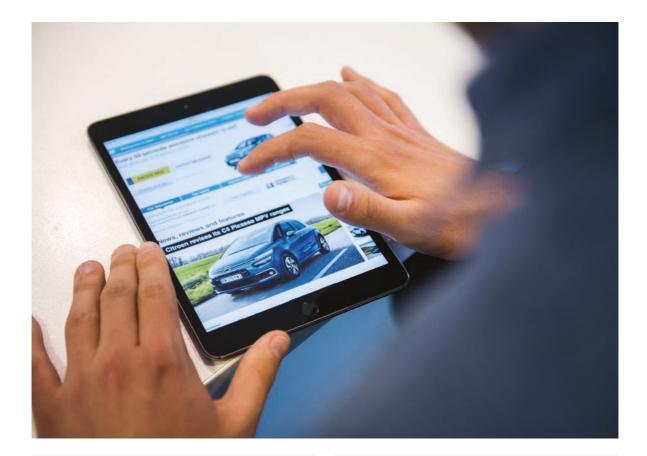
Digital Excellence Research Study, where 8,000 consumers were asked to rate websites across the automotive sector and comparable industries. This Study generated over 32,000 reviews revealing how trusted these websites are to consumers.

The Study highlighted the challenge facing the automotive industry to change the negative perceptions and perceived lack of trustworthiness and also revealed a missed opportunity to change perceptions through engagement with consumers online. The automotive sector ranked bottom out of all industries and was rated by only 22% of consumers as being truly trustworthy.

Other industries are making major progress in disrupting the way the retail process is experienced by consumers, with the home and retail sectors standing as good examples of areas that are embracing digital excellence. The research for this Report reveals that the automotive industry is currently improving digital experiences for consumers at the same rate as the average business in the digital economy today, which arguably is just not quick enough to facilitate a noticeable shift in consumer perceptions.



How trustworthy does this organisation feel from its website?



74%

of consumers conduct their car buying research online 11 hours spent researching online on average by car buyers

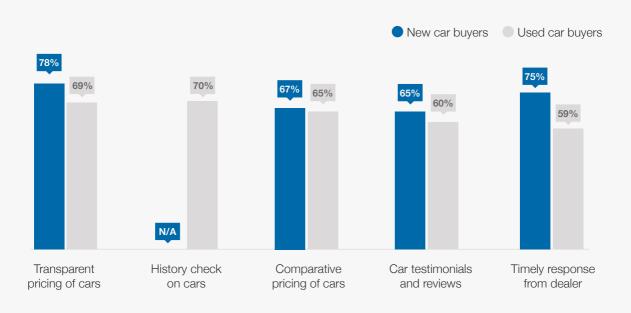
22%

of consumers see car dealership websites as being truly trustworthy 23%

of car buyers find visiting a car dealership daunting

BUILDING TRUST WITH TODAY'S CAR BUYERS

How important are the following factors in the car buying process?



hen it comes to defining how the automotive industry can increase levels of consumer trust in the UK, we need to look at what's considered most important to car buyers in the purchasing process.

Our research reveals that the transparent pricing of cars is currently the most important thing to consumers in the car buying process, with 76% of car buyers of both new and used vehicles claiming it's the most important factor when searching for their next car.

Retail behaviours adopted by consumers today signal a greater reliance on online research, with consumers now spending on average 11 hours online when researching their next car², which is double the amount of time they spend researching offline. This research now encompasses not only access to information and pricing, but also a demand for the opinions of other consumers – a growing trend which has been considered crucial for building trust in products and businesses in the retail and travel industries, and especially for smaller businesses which cannot rely on brand awareness to build trust.

Rated almost as highly as the transparent, comparative pricing of cars and history checks as the most important factors in the purchasing process, 61% of car buyers rated car testimonials and reviews as one of the most important factors in the car buying process; 65% for new car buyers and 60% for used car buyers. of car buyers say transparent pricing is an important factor

This year's Auto Trader Annual Buying Report, which closely examines consumers' car buying habits - revealed that nearly a third of consumers (30%) claimed they had bought a car recently based on dealer reviews or recommendations by family or friends.

There is good reason to believe that these low levels of trust are not insurmountable, because whilst only 7% claim to trust used car dealerships, for most this is perception: that statistic is reversed for those who had bought a used car in the past six months, with only 7% stating that they didn't trust the used car dealership they bought from.

Building greater levels of trust can be achieved by investing in the factors that we know are most important for consumer confidence in the buying process. This could ultimately lead to developing greater levels of trust not only through first-hand experiences, but also through the opinions and influence of others. 1/5 found information to be vague, hard to find or misleading



claim to not trust used car dealerships

How does a lack of transparency or trust affect car buying behaviour?

The research for this Report highlights the growing importance of transparency in the buying process for consumers in the market for their next car. However, perhaps most interesting is that a lack of transparency could potentially lead to consumers changing their decision to buy at all, with 36% of consumers who intended to buy a car in the last six months but did not complete the process claiming to have found vague, hard-to-find or misleading information.

One in five consumers (19%) overall found information to be vague, hard to find or misleading during the research process. Of this group, 42% claimed it made the process more stressful, 41% found that the purchase process took much longer than expected and 38% either visited another dealership or felt a strong desire to.

⁶ A lack of transparency could potentially lead to consumers changing their decision to buy at all.²



19% of recent car buyers claim to have found information that was vague, hard to find or misleading during the buying process. But how did this affect their behaviour?



It made the car buying process more stressful for me



It took me longer to purchase the car I wanted



It put me off and I nearly ended up visiting another dealer instead



I decided to purchase from another dealer

TRUST AND TRANSPARENCY IN A PERIOD OF UNCERTAINTY

n June this year, more than 30 million people voted in the EU referendum, with the UK voting to leave the EU in a narrow result which saw 52% of the UK vote to depart the European Union. It was a result which came as a shock to many, with government, big business and media at a loss to determine categorically what it will mean for the UK and its European relationship both in the short and long-term.

The current uncertainty surrounding the new and used car markets is similar to most industries in the UK. Figures revealed by The Society of Motor Manufacturers and Traders (SMMT) showed that UK new car registrations experienced a moderate increase in July, by 0.1% for the month³. Despite this, there was a decline of 6.1% in private new car registrations year-on-year, following a decline in June of 4.5%⁴. The SMMT, however, attributes the decline to the expected stabilisation of the new car market following a record year in 2015, which saw a total of 2.6 million new vehicle registrations for the entire year.

By contrast, used car sales for the first half of 2016 broke records, marking the first time the number of

half year sales had risen over the four million mark. The SMMT reported that there were 4.18 million used vehicles sold in the first half of this year, which is 8% more than the same period for 2015^5 .

The consumer research conducted for this Report reveals that when it comes to current car buying behaviour, both the build up to the EU referendum and the result itself have had little impact on consumer car buying intentions.

Our pre-referendum poll found that 75% of car buyers claimed that the referendum would not have an impact on their car buying habits, with 25% intending to wait until after the result to determine how prices could be affected.

The percentage of consumers claiming the referendum would have no impact on their car purchase actually rose to 89% (they were polled 30 days after the Brexit result happened) with more car buyers feeling confident that the UK's decision to leave the EU would not affect their next car purchase.

Sentiment amongst car manufacturers and some of the UK's largest car dealership groups also remains



stable following the Brexit result, with many businesses claiming that, although they expect an initial period of uncertainty that may affect consumer confidence, the market will return to the normal healthy levels of consumer spending in the medium term.

It is still too early to tell, but there have been no clear signs of consumer car spending wavering significantly in light of the EU referendum result. Manufacturers are closely monitoring the situation, with some suggesting that the continued increase in incentivised finance and attractive new car offers will help to alleviate consumer confidence concerns during any short-term economic uncertainty.

The car today is still largely considered a practical purchase, with consumers still expected to buy cars to fulfil the important role they play in everyday life. There is also, of course, the fact that there are vast numbers of UK drivers currently in PCP or other finance deals whose contracts come up for renewal every 2-3 years. The Finance & Leasing Association reported that new business for consumer car finance in June was 4% higher than the same month 2015⁶, with the percentage of private new car sales that were bought using dealer finance making up 84% of car sales between June 2015 to June 2016. It highlights the high numbers of UK drivers that are likely to be in the market for their next car in 2-3 years, when the economic climate could be considerably more stable.

Our post EU referendum poll revealed a 29% increase in consumers looking to upgrade their car to a more expensive model, with a 9% decrease in consumers claiming they were considering a new car, opting for a used car instead. September's Market Report research reveals that consumers are likely to spend twice as much on a new car (£20,047 on average) than a used model (£8,753 on average).



Driving cost review

One other change the research conducted for this Report reveals is a heightened concern about the cost of running a car, with a significant trend towards younger car buyers being more concerned about the future of both new and used car prices.

Considering all financial commitments, such as paying a mortgage, funding a holiday or financing their children's education, 50% of consumers claimed to be most concerned about the cost of running a car in the current economic climate, which is up by 18% in just the last six months alone.

'50% of consumers claimed to be concerned about the cost of running a car.'

Asked about their car buying intentions with their next vehicle purchase, 62% of consumers said they plan to buy a more fuel efficient car, with 63% claiming they plan to a buy a car that's cheaper to run. Both of these trends remain steady on their yearon-year comparisons – a probable result of stable and favourable market conditions and the increased availability of incentivised finance offers.

Despite this, there is also a noticeable uplift in consumers who are more optimistic about the UK's future post the Brexit result, as some are looking to upgrade their cars, a divisive tale of two contrasting outlooks that we saw in the EU referendum result itself.



Consumer outlook on new and used car prices

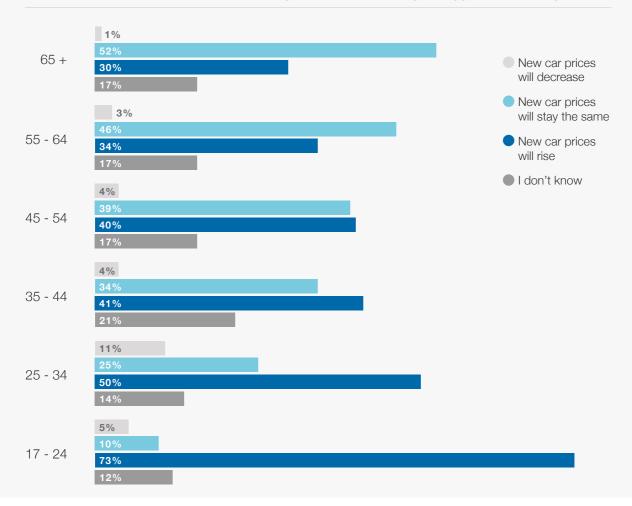
Asked about how the Brexit result could affect new and used car prices, our research revealed an interesting trend amongst the different consumer age groups. 73% of 17-24 year olds think that new car prices will rise following the UK's decision to leave the EU, compared to less than a third of 65+ year olds (30%) and a third of 55-64 year olds (34%).

Only 10% of 17-24 year olds think that new car prices will remain the same, which is nearly three quarters less than the expectations of the average consumer (37%). Predicting new car prices to stay relatively flat is most commonly felt by the older age groups - a trend which steadily increased with age.

Similar to new car prices, younger car buyers also share the most concern about used car prices in light

of the Brexit result. 37% of 17-24 year olds and 29% of 25-34 year olds think used car prices are likely to rise, with 49% of consumers overall claiming they predict used car prices to stay the same. The Auto Trader Retail Price Index* showed that used car prices have risen by 5.3% over the six month period between February to July compared to the same period last year. This is, however, not unusual given the seasonal trends that affect used car prices during this period.

Although the car buying intentions for most car buyers look largely unaffected by the referendum and the Brexit result, this current period of economic uncertainty has clearly led to more concerns with younger car buyers on the future of the economy and subsequent new and used car prices.



The UK has voted to leave the EU, what do you think is most likely to happen to new car prices?

A FINAL MESSAGE

his Report has revealed the full extent of the UK used car industry's lack of trustworthiness. The consumer perception at large has been well known for decades, but the fact that it hasn't changed in recent times is alarming – and it's in uncertain times like these that we must question what effect negative perceptions could have on business overall.

Consumer confidence in the UK dropped 11 points in July following the EU referendum, marking the sharpest month-by-month drop for more than 26 years⁷. However, the research for this Report indicates that for most UK car buyers, their buying intentions are likely to remain the same, but a drop in overall confidence indicates that individual car retailers may still have work to do in order to raise confidence with car buyers to become more successful in today's marketplace.

⁶Changing perceptions of the used car industry is a huge challenge, but it's not unsurmountable. It will require the majority of the industry to embrace a greater level of transparency to increase trustworthiness with consumers.'

This Report has highlighted the fundamental importance of transparency and its central role in creating trust. Despite the underlying trust problem within the industry, there are some great examples of businesses embracing a transparent approach to car retailing, which is providing positive experiences for UK car buyers and accounting for the huge gulf we are seeing between the positive reality and the negative perception for UK car buyers. These retailers understand the benefits of adopting wider transparency within car retailing, and what is essential to car buyers in the purchase process.

This Report revealed that the four most important things to car buyers in the purchase process were the transparent pricing and comparative pricing of cars, history checks and reviews left by other consumers.

30% of recent UK car buyers bought a car based on dealer reviews or recommendations from family or friends. This highlights the extent to which transparency is relied upon by consumers; it goes beyond transparency offered by car retailers and in many cases it now also relies on information provided by the general public.

With only 7% of UK consumers claiming to trust used car dealerships today, those who do not adopt transparency within retailing face a significant risk of becoming less successful, as progressive car retailers are starting to see the positive impact on their market share and profits by providing a trustworthy and transparent experience for consumers. This is more important than ever given the uncertain economic climate.

Changing perceptions of the used car industry is a huge challenge, but it's not unsurmountable. It will require the majority of the industry to embrace a greater level of transparency to increase consumer perceptions of trustworthiness, but for those who have already adopted this approach it may become a critical competitive advantage during this period.

But fundamentally, as a wider focus and priority, the industry stands to not only enable a retail experience that consumers have come to expect, replicating the standard of other successful retail industries, but it will lead to greater consumer confidence and greater prosperity for the UK automotive industry overall.

Nathan Coe Auto Trader Operations Director

RESEARCH METHODOLOGY

Auto Trader Market Report

Auto Trader partnered with Fresh Minds, an award winning insight and innovation consultancy, to reveal and analyse the car buying behaviours of over 3,000 UK motorists', who were asked about their car buying and selling behaviours over a six month period (February - September 2016).

Auto Trader also surveyed circa 2,000 UK motorists on how the EU referendum may have influenced their car buying habits and decisions. Motorists were surveyed approximately 30 days prior and 30 days after the EU referendum.

Auto Trader Digital Excellence Study

Auto Trader's Digital Excellence Study was based on interviews with 8,000 UK motorists who assessed 130 websites across 10 industries including Automotive and took place between April - June, 2016. Respondents assessed each website's performance across PC, laptop, mobile and tablet platforms reviewing key categories such as homepage, website features, ease of use and trustworthiness. 32,000 reviews were collected in total. The research was commissioned by Auto Trader and conducted by the independent research agency, Acacia Avenue.

Auto Trader Annual Buying Report

The Auto Trader Annual Buying Report was based on interviews with 2,000 car buyers who had purchased a car within the last six months and was conducted in June, 2016. Car buyers from the online sample were managed with quotas to provide a nationally representative sample and no private buyers were included. The research was commissioned by Auto Trader and conducted independently by global market research agency GfK.

Auto Trader Price index

The Auto Trader Retail Price Index tracks the market value of all used cars advertised by retailers on Auto Trader. Tracking the trends and changes driven by supply and demand dynamics across makes, models, segments and fuel types - the Auto Trader Retail Price Index offers detailed insight into any significant movements in used car prices and overall market shares.

<mark>ABOUT</mark> AUTO TRADER

Auto Trader Group plc is the UK and Ireland's largest digital automotive marketplace. Auto Trader sits at the heart of the UK's vehicle buying process and its primary activity is to help vehicle retailers compete effectively on the marketplace in order to sell more vehicles, faster. Auto Trader listed on the London Stock Exchange in March 2015 and is now a member of the FTSE 250 Index.

The marketplace brings together the largest and most engaged consumer audience. Auto Trader has over 90% prompted brand awareness and attracted 60 million monthly cross platform visits in July 2016, with circa 70% of visits coming through mobile devices.

The marketplace also has the largest pool of vehicle sellers (listing more than 420,000 cars each day). Over 80% of UK automotive retailers advertise on autotrader.co.uk.

For more information, please visit about-us.autotrader.co.uk

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