



Improving residual value becomes a top company priority

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The lowest sticker price may not be the most important cost consideration when it comes to buying a new car or truck. In fact, a more expensive vehicle might actually cost you less to own by the time you're ready to trade again.

That's not to say you can go for an Aston Martin on a Ford Focus budget, but it does mean weighing the total cost of ownership in making a purchase or lease decision. Several new Ford Motor Company models now beat the competi-

tion from General Motors and DaimlerChrysler in that important pocketbook indicator.

The Dodge Neon SE at \$16,070 has a lower sticker price than the Focus ZX4 SE with a manufacturer's suggested retail price of \$17,775. That means the Focus starts out costing \$1,705 more than the Neon — a substantial difference in that highly price sensitive segment. But according to Automotive Lease Guide, after 36 months the Focus is worth \$1,850 more than the Neon.

The reason is the vehicles' residual values. Improving residuals is a priority at Ford and one that is beginning to

show positive results.

That's why the company is backing away from rental fleet business. The resale of fleet vehicles, often after less than a year of service, leads to an oversupply of relatively new used vehicles flooding the marketplace, depressing prices or residual values.

"Due to the strong residuals of each product, we are seeing a higher percentage of leasing customers than we are accustomed to — between 20 percent to 30 percent," said Greg Smith, executive vice president and president of the Americas. The company also is pricing new models so that they'll

appeal to retail buyers without heavy incentives.

"Excess incentives and the issues with flooding the auction market made no sense for us," said Jim Padilla, president and chief operating officer.

Although the company initially lost overall market share as a result, Padilla points out it was a sound business decision because residual values in almost every segment improved dramatically and retail sales are on the rise this spring.

"It is aligned with the strategy of not pushing too much product into the marketplace, so you don't have to go into

excessive discounts," Padilla said. It is a business case of switching from a mindset that focuses on the deal to a mindset of selling for appeal.

"Appeal means a vehicle has to be aspirational. It has to be inspirational. And it has to be affordable," said Naomi Hughey, Global Lifestyle Analytics Department manager in Marketing and Sales Operations.

The company has developed a model for forecasting residual values based on a demand/supply equation.

"When looking at residual values, you have to look at how the product is sold to the first customer, the retail buyer, but more so to the second customer. What does the second customer want and value?"

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That's when we get into dependability and durability, which are critical factors for good residual values," Hughey explained.

The supply side of the equation involves managing the model mix and determining build levels that will meet customer demand.

Flexible manufacturing helps accomplish that with much greater efficiency than in the past.

According to Hughey, once the demand and supply equation is at an equilibrium point, good residual values result. And good residuals

reduce the total cost of ownership and increase sales.

The May-June figures from "Automotive Lease Guide" forecast the Ford Freestyle SEL AWD holding 49 percent of its value after three years compared with only 36 percent for the Buick Rendezvous.

"With the Mustang, the Ford Five Hundred, the Freestyle, the Mercury Montego and the F-150, we've found that equilibrium point. We've priced it right and the consumers demand our products," Hughey said.

The Dodge Neon has a lower sticker price, but fades in a residual value comparison with its Ford Focus competitor.