

THE IMPACT OF CHRYSLER'S "LET'S REFUEL AMERICA" PROMOTION ON COST OF OWNERSHIP

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It seems straightforward.

1. Buy a car.
2. Buy fuel at \$2.99/gallon for three years.
3. Enjoy savings on fuel.

However, as with any promotion, the impact on Total Cost of Ownership must be studied to determine the value a promotion provides to a buyer. By doing so, costs that might otherwise have remained hidden can be taken into account when determining the value of creative automotive sales incentives such as discounted fuel promotions. A recent analysis by Vincentric found that these fuel price incentives may be worth significantly less than they appear when all ownership costs are considered.

Total Cost of Ownership (TCO) is the measurement of all costs incurred as a result of owning and operating a vehicle. By using TCO to evaluate the value of a vehicle, buyers take into account more than just the purchase price. Items such as depreciation (how much value a vehicle loses over time), fuel costs, insurance, maintenance, repairs, financing, and even opportunity cost...which is the loss of potential interest income as a result of owning and operating a vehicle....all play a role when evaluating a vehicle's value.

Vincentric is well positioned to analyze the impact of promotions on Total Cost of Ownership. Each month the organization measures Total Cost of Ownership for over 12,000 vehicle configurations for vehicles from 2003-2009 model years, with many of the results published on major web sites, including Yahoo!, Cars.com, NADA Guides, and many others. In addition, the company releases Vincentric's Best Value in America awards each year for vehicles in each automotive segment.

Let's Refuel America Analysis

A recent Vincentric analysis of Chrysler's "Let's Refuel America" promotion found that the value of this promotion is reduced from 20% to over 100% when all ownership costs are taken into account. This doesn't necessarily mean the promotion doesn't provide value; it simply recognizes that the actual value of the promotion may be lower than the perceived value of the prospective buyer.

Total cost of ownership components

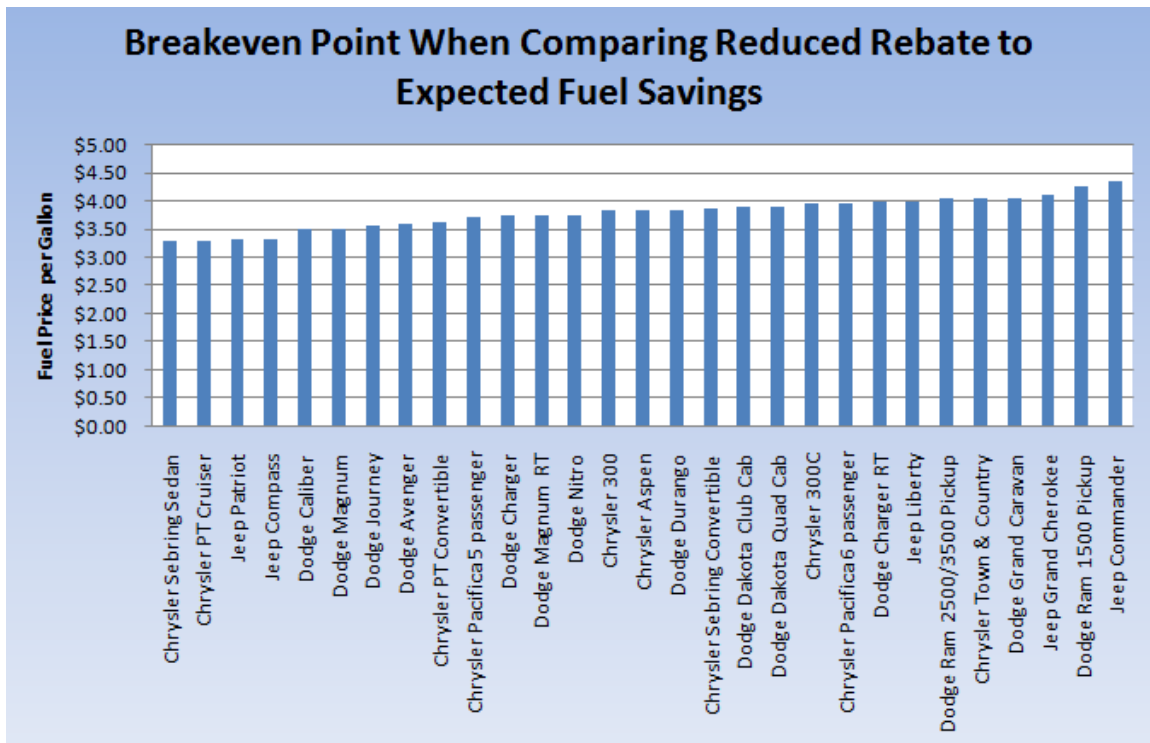
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|--------------------------------|----------------------------------|
| - <i>Depreciation</i> | - <i>Financing</i> |
| - <i>Fees and Taxes</i> | - <i>Maintenance</i> |
| - <i>Fuel</i> | - <i>Repairs</i> |
| - <i>Insurance</i> | - <i>Opportunity Cost</i> |

To determine the overall impact on Total Cost of Ownership from Chrysler's "Let's Refuel America" promotion, Vincentric analyzed ownership costs for Chrysler vehicles included in the promotion, using rebates that were available at the time.

Although not promoted heavily, buyers of Chrysler products in the promotion can forego the fuel subsidy and instead take a cash rebate¹

Change in Fuel Costs

We then looked at the impact on fuel costs if buyers chose the "Let's Refuel America" promotion as their purchase incentive and determined the breakeven price for fuel. In other words, at what fuel price would the value of the fuel subsidy exceed the cash rebate? The results are shown in the following chart.



¹ Some vehicles offer the fuel promotion along with a smaller rebate, and some offer a lower financing option. The lower financing option was not part of this study.




Note that if the Chrysler Sebring Sedan buyers expect the average fuel price over the next three years to be \$3.28/gallon or higher, then the fuel savings will offset the cash rebate they lose with the program. On the other end of the chart, unless gas prices exceed \$4.34/gallon, buyers of the Jeep Commander are better off taking the \$3,500 cash rebate instead of the lower fuel promotion and its \$750 cash rebate.

A Complete View of Costs

However, fuel costs are just one part of the Total Cost of Ownership. Buyers considering the \$2.99 fuel guarantee need to look at all components of Total Cost of Ownership to make an informed decision on the type of incentive that best meets their needs. With the study, Vincentric did this analysis on three different vehicles: The Chrysler Sebring Sedan, the Jeep Compass, and the Dodge Ram 1500. The incentive offers at the time of the study were as follows:






Program Incentives at time of Study			
	Chrysler Sebring Sedan	Jeep Compass	Dodge Ram 1500
Rebate without Fuel Program	\$ 500	\$ 500	\$5,500
Rebate with Fuel Program	\$ 0	\$ 0	\$3,000
Vincentric Market Price² (without fuel incentive)	\$17,342	\$15,550	\$14,290
Vincentric Market Price (with fuel incentive)	\$17,842	\$16,050	\$16,790
Subsidized fuel quantity	1714 gallons	1500 gallons	2400 gallons

A summary of the results is shown below. Further detail is available in the final table in this report.

1.  **Depreciation Expense** - Accepting a lower rebate in exchange for a guaranteed fuel price means the initial purchase price for the vehicle will be higher, resulting in greater depreciation when the vehicle is sold. For example, the Chrysler Sebring Sedan is expected to be worth \$7,842 in three years. If a buyer uses the “Let’s Refuel America” promotion, the purchase price is approximately \$17,842. This means the buyer will incur

² The Vincentric Market Price is the estimated price that consumers are actually paying for a vehicle.

a depreciation expense of \$10,000 (\$17,842-\$7,842). However, if the buyer chooses the \$500 rebate instead of the fuel subsidy, the purchase price is reduced to \$17,342, thereby reducing depreciation by \$500 (\$17,342-\$7,842= \$9,500). The net result? An increase of \$500 in depreciation expense.

2.  **Fees and Taxes** – The same increase in depreciation that occurs when the “Let’s Refuel America” promotion is used will also occur with fees and taxes. By giving up the \$500 rebate, Sebring buyers will pay additional taxes on a product with a higher sales price. The impact on a Sebring Sedan buyer is estimated to be an additional \$28.
3.  **Finance Costs** – The higher purchase price when the guaranteed fuel price is selected (as described previously) results in a higher loan amount, and therefore higher interest payments. With the Sebring Sedan, the estimated increase in interest fees is \$80.
4.  **Opportunity Cost** – Opportunity Cost is the amount of interest that could have been earned with the out of pocket expense of a vehicle. With the “Let’s Refuel America” promotion, buyers actually reduce their overall opportunity cost, with Sebring buyers enjoying a reduction of \$222. This is due to the lower out of pocket fuel expenses, which increase available cash for the buyer.
5.  **Fuel Costs** – Fuel costs are expected to be reducedquite significantlywhen the guaranteed fuel price is selected. The amount of savings is dependent upon future fuel costs, but for purposes of this analysis fuel prices were calculated using a price of \$3.95/gallon, with a 5% annual inflation factor, bringing the year 3 price per gallon up to \$4.22. If fuel prices rise more than 3.5% per year, as forecast by many, the fuel cost savings will increase accordingly.
6.  **Other Ownership Costs** – There is not expected to be any change in maintenance, repairs, or insurance costs resulting from the guaranteed fuel price.

In reviewing Total Cost of Ownership in detail, all three vehicles studied show different values for the \$2.99 fuel program. As seen with the Dodge Ram 1500, giving up a large rebate for discounted fuel would not be the best choice if fuel only rises 5% annually, although as previously mentioned, if buyers want to hedge against gasoline that exceeds \$5.00/gallon, the guaranteed fuel option can be the right choice...even when the complete Total Cost of Ownership is taken into account.



The Key Insight

There is no right or wrong answer for Chrysler buyers when deciding whether the best choice is to select the guaranteed fuel price or the option of a cash rebate. Only in the future....after we know what fuel prices were in place from June 2008 to May 2011....will we know whether it is better to lock in a lower fuel price.

However, we do know this: Giving up a cash rebate will:

- Raise depreciation
- Increase taxes and fees
- Grow financing costs

....all of which will reduce the value of the discounted fuel promotion.

To most effectively implement similar programs, manufacturers and dealers need to understand these impacts when structuring both the length of the program and the sizing of cash rebates or similar discounted fuel promotions. .

Similarly, consumers should know that only awareness of these facts....and knowledge of the impact on other ownership costswill give them the insight necessary to make a more informed vehicle purchase decision .



TOTAL COST OF OWNERSHIP COMPARISON

**WITH CHRYSLER “LET’S REFUEL AMERICA” PROGRAM
compared to
OTHERWISE AVAILABLE CHRYSLER REBATES**

Cost of Ownership Item	Sebring Sedan			Compass			Ram 1500		
	With Available Rebates	With Fuel Program	Change in ownership costs with fuel program	With Available Rebates	With Fuel Program	Change in ownership costs with fuel program	With Available Rebates	With Fuel Program	Change in ownership costs with fuel program
Depreciation	\$ 12,991	\$ 13,477	\$ 486	\$ 11,478	\$ 11,953	\$ 475	\$ 12,581	\$ 15,084	\$ 2,503
Fees & Taxes	\$ 1,348	\$ 1,376	\$ 28	\$ 1,233	\$ 1,256	\$ 23	\$ 1,237	\$ 1,377	\$ 140
Finance	\$ 2,804	\$ 2,884	\$ 80	\$ 2,515	\$ 2,595	\$ 80	\$ 2,315	\$ 2,717	\$ 402
Fuel	\$ 13,321	\$ 11,569	\$ -1,752	\$ 12,925	\$ 11,230	\$ -1,695	\$ 18,038	\$ 15,673	\$ -2,365
Insurance	\$ 6,921	\$ 6,921	\$ -	\$ 6,325	\$ 6,325	\$ -	\$ 7,681	\$ 7,681	\$ -
Maintenance	\$ 2,720	\$ 2,720	\$ -	\$ 2,417	\$ 2,417	\$ -	\$ 3,394	\$ 3,394	\$ -
Opportunity Cost	\$ 3,635	\$ 3,413	\$ -222	\$ 3,389	\$ 3,174	\$ -214	\$ 4,137	\$ 3,936	\$ -201
Repairs	\$ 770	\$ 770	\$ -	\$ 681	\$ 681	\$ -	\$ 868	\$ 868	\$ -
Total	\$ 44,509	\$ 43,130	\$ -1,379	\$ 40,962	\$ 39,631	\$ -1,331	\$ 50,251	\$ 50,730	\$ 478
	Value of program for the Sebring is reduced 21% when all ownership costs are included.			Value of program for the Compass is reduced 21% when all ownership costs are included.			Value of program for the Ram 1500 is reduced 120% when all ownership costs are included.		

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