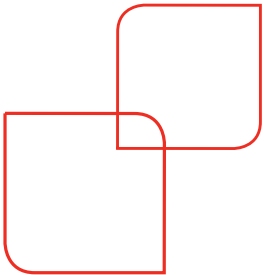


Turning the Corner in Automotive Marketing



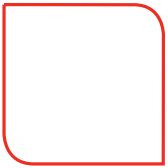
A Research Report by Carlson Marketing
and Peppers & Rogers Group



By: **Luc Bondar**, *Vice President of Loyalty,
Carlson Marketing*

Will Wittkopf, *Senior Global Director,
Loyalty Marketing, Carlson Marketing*

Thomas Lacki, Ph.D., *Senior Advisor,
1to1 Faculty, Peppers & Rogers Group*



Turning the Corner in Automotive Marketing

Executive Overview

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If today you are driving straight ahead on the conventional automotive marketing road, then expect more than a few bumps to come your way in the future. Despite the automotive industry spending vast amounts on advertising and despite a record number of new product launches scheduled for this year¹, customer loyalty is decreasing and brand differentiation is more difficult to achieve². As a consequence, it is worthwhile to revisit the question posed a decade ago by the noted business author and professor, Gary Hamel: “On the road to the future, who will be the windshield, and who will be the bug?”³ Top-level automotive marketing executives are finding their fate to be the same as the “bug” at an alarming rate, with more than a half-dozen departing their job in the past year alone⁴.

It is time to turn the corner. It is time to look clearly through the “windshield” to what lies ahead on the road to the future. In brief, it is time to better understand the importance and value of building authentic, productive and 1to1[®] relationships with customers.

Peppers & Rogers Group and Carlson Marketing partnered on a ground-breaking research study that gathered data from over 2,600 individuals. By quantifying and examining the relationship strength (i.e., the ability of the ongoing exchange to grow, endure and to resist damaging forces) between customers and automotive brands, this research sought to answer the most critical questions on the minds of marketers in the automotive industry:

- Do customers have relationships with automotive brands?
- Which automotive brands are adept at building profitable customer relationships?
- Does it matter? What impact does relationship strength have on an individual’s likelihood to recommend and repurchase from the automotive manufacturer?
- How can marketing strategies and tactics—including loyalty initiatives—be used to drive stronger relationships?

As a research partnership between renowned customer strategy authority Peppers & Rogers Group and loyalty marketing expert Carlson Marketing, *Carlson Relationship Builder* uncovers the most compelling trends in loyalty marketing. The results from this installment of *Carlson Relationship Builder* reveal what lies around the next bend in the road. Automotive brands vary widely in their ability to build and maintain relationships with their customers, and the strength of those relationships has important consequences.

In Brief

Who:

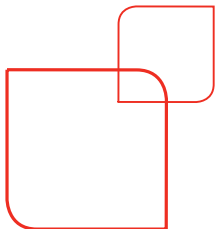
Senior marketers and business executives

What:

The new opportunity to gain automotive market advantage by building and growing productive and authentic customer relationships

How:

- Describing which automotive manufacturers are succeeding or struggling in building robust relationships
- Demonstrating that stronger customer relationships deliver better business results
- Documenting what it takes to “turn the corner”



Carlson Relationship Builder

What You Need to Know

The term relationship strength denotes a practical construct, one that reflects the very core of a commercial connection: namely, the enhancement of the value of the interactions between the automotive manufacturer and the customer.

Carlson Relationship Builder is a research series conducted by Peppers & Rogers Group and Carlson Marketing across numerous vertical industries and global regions, each of which is designed to explore the role of customer relationships in driving results—and, importantly, in understanding the factors which serve to enhance those relationships.

This current research was conducted using an Internet-based survey to collect information from a consumer panel consisting of over 2 million opt-in participants in the United States. Data were gathered on July 18th and 19th, 2007; and a total of 2,604 individuals completed the questionnaire.

At the core of the research approach is a model of relationship strength developed by Carlson Marketing and founded upon the seminal investigations of Dr. Robert Morgan at the University of Alabama⁵. This model places customer relationships in a mediating role, residing between the marketing activities or antecedents that influence (positively or negatively) those relationships and the outcomes or consequences that occur as an end result of the changes in relationship strength. This conceptualization has been shown to exhibit a higher degree of explanatory power than the traditional viewpoint in which marketing stimuli directly impact customer responses.

Carlson Marketing defines relationship strength as the ability of the ongoing exchange between a company and a customer to grow and endure, and to resist any damaging forces that might destroy it. Strong relationships are characterized by:

- Trust: a belief that the company has the best interest of the customer at heart, and can be depended upon for respect, openness, tolerance and honesty
- Alignment: a two-way affiliation resulting in a rewarding experience which meets the mutual expectations of the company and the customer
- Commitment: an enduring emotional attachment to the relationship

Relationships in the context of commerce share attributes of interpersonal relationships (e.g., an enduring emotional bond), but are nonetheless distinct. To be clear, the term relationship strength as used in this white paper does not encompass romantic intimacy, formalized associations (e.g., a marriage by law or by ceremony) or an alliance by ethnicity or kinship. The term relationship strength denotes a considerably more practical construct, one that reflects the very core of a commercial connection: namely, the enhancement of the value of the interactions between the automotive manufacturer and the customer.

Relationship strength is measured by RSxSM, a proprietary research instrument developed, tested, deployed and refined by Carlson Marketing over the past decade. Consisting of 12 core questions using a 7-point anchored Likert scale (“strongly disagree” to “strongly agree”), the tool allows a robust and practical quantification of the construct of relationship strength. As used in the context of this white paper, the phrase “relationship strength” is synonymous with the RSx measure itself.

To qualify for inclusion in the research, respondents must have met three conditions: owning or leasing a vehicle, being the primary driver of that vehicle, and having the vehicle be new at the time it was acquired (i.e., not used or “pre-owned”). All questions

“A manufacturer is not through with his customer when a sale is completed. He has then only started with his customer.”

—Henry Ford

in the study were in reference to the respondent's one vehicle that they own/lease, drive the most, and was new when acquired—referred to as the “primary vehicle” throughout this white paper. In particular, the relationship measured and discussed in this research is the one between the customer and the brand of their primary vehicle.

Respondents were 25 years of age or older; 56% male, 44% female; 75% married, 25% single/divorced/separated/other; and 72% reported an annual household income at or above \$50,000.

The major outcome variables of interest in the research consist of respondent ratings on a 7-point anchored Likert scale (“strongly disagree” to “strongly agree”) to the statements:

- I encourage my friends and family to purchase/lease vehicles from this manufacturer.
- The next vehicle I purchase/lease will be from this same manufacturer.

These outcomes are referenced in this white paper using the terms “recommend” and “repurchase.”

In addition to these key outcome measures, participants in this research answered questions to provide data on a broad range of topics, including information about:

- Their primary vehicle and the perception of its attributes
- The dealership experience
- The communications from the manufacturer and dealer
- The special programs or incentives designed to enhance customer loyalty
- Themselves (demographics)

An investigation of these data was performed using a variety of techniques, ranging from simple descriptive statistics through complex multivariate modeling. All reported findings in this white paper are statistically significant at the one percent level (denoted by “ $p < .01$ ”) or lower, indicating that the probability of the result occurring by chance is less than one in a hundred.

Relationships in Automotive

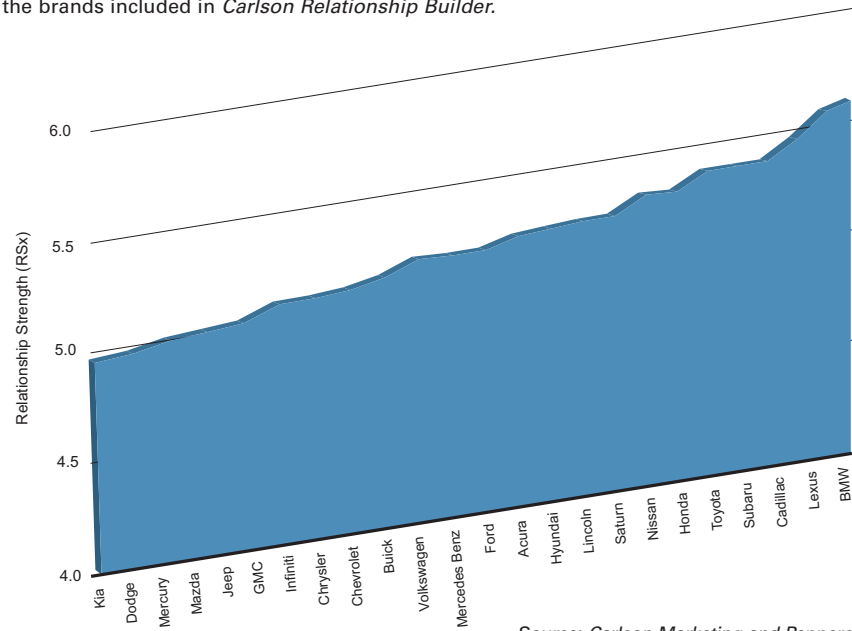
Automotive manufacturers have long assumed that customers have relationships with their vehicles. Consider, for example, a current television advertisement from Cadillac that asks the provocative question, “When you turn your car on, does it return the favor?”⁶ The most fundamental question that *Carlson Relationship Builder* sought to answer was simply whether or not this assumption has an empirical basis and, if so, the extent to which the strength of the relationship varies by brand.

Figure 1 (see page 5) answers the question clearly: customers do have relationships with the brand of their primary vehicle, as evidenced by the fact that the strength of those relationships is moderate (i.e., RSx above the midpoint of 4 on the 7 point scale) or higher across all brands. Nonetheless, there is substantial variation in the range of those relationships ($p < .01$), with BMW, Lexus and Cadillac at the forefront, and Mercury, Dodge, and Kia among the lowest ranking. The same pattern also appears when the individual components of relationship strength—trust, alignment, commitment—are examined by brand, indicating a high degree of consistency in the perception of the relationship.

Even among those brands with the strongest levels of relationship strength, there is still room for improvement. The study found that the strength of the relationship between a

Figure 1: Relationship Strength of Automotive Brands

Relationship strength differentiates among automotive brands ($p < .01$). Depicted in this figure is a subset of the brands included in *Carlson Relationship Builder*.



Source: Carlson Marketing and Peppers & Rogers Group

“In my experience, brand relationship strength is a better driver of profit than market share, quality, cost per labor hour or sales leads and close rates per marketing dollar. CMOs and VPs of Sales should make it their top priority.”

—Jim Schroer,
President and Chief Executive Officer,
Carlson Marketing (formerly Executive Vice
President, Global Sales, Marketing and
Service at DaimlerChrysler and VP, Global
Marketing, Ford)

brand and each of its individual customers is not uniformly equal. There is opportunity to “raise the bar” on an overall basis, and individually based on the variances (s^2) in relationship strength among customers within the brand.

For example, while both Mazda and Mercury have nearly identical levels of relationship strength, the spread of the relationship strength scores is much larger for Mercury ($s^2=2.07$) than Mazda ($s^2=0.97$). For automotive brands such as Mercury, which have a wide variation of relationship strength among customers, the opportunity exists to craft differentiated marketing strategies that leverage the affinity of those customers with strong relationships, on the one hand; and, separately address the challenges of the remainder, on the other hand.

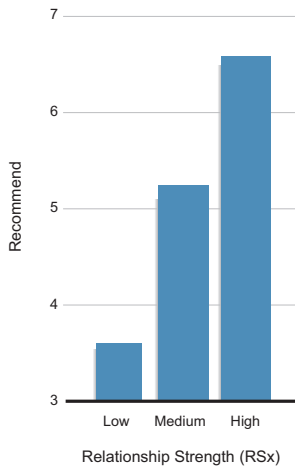
Now that it has been documented that customers have a relationship with their primary vehicle, should automotive manufacturers care? Does the strength of that relationship matter? Specifically, do stronger relationships enhance the customer’s likelihood of recommending the manufacturer to friends and family, and to buy another vehicle from the same manufacturer?

Carlson Relationship Builder addressed this question by classifying survey respondents into low, medium and high categories based upon the strength of their relationship to the brand of their primary vehicle. The low category consisted of the bottom quartile of the distribution of relationship strength scores; medium, the middle two quartiles; and high, the top quartile⁷.

For each category, the likelihood to recommend the manufacturer and to buy another vehicle from the same manufacturer was examined.

Figure 2: Recommend to Friends and Family

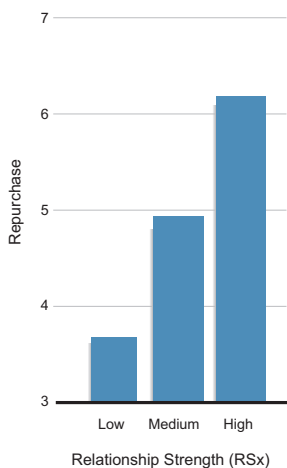
As relationship strength increases, so does the willingness to encourage friends and family to purchase/lease from the same manufacturer ($p < .01$).



Source: Carlson Marketing and Peppers & Rogers Group

Figure 3: Repurchase Same Manufacturer

The strength of a customer's relationship to the brand strongly influences whether or not the next vehicle purchased will be from the same manufacturer ($p < .01$).



Source: Carlson Marketing and Peppers & Rogers Group

Recommend to Friends and Family. Changes in relationship strength to the brand of the primary vehicle have an important impact upon a customer's willingness to encourage friends and family to purchase/lease vehicles from the same manufacturer (see Figure 2).

When the mean recommendation scores (on a 7 point scale) for those customers with high as compared to low levels of relationship strength are compared, the impact is noteworthy. The ratio (i.e., $RSx_{High} \div RSx_{Low} = 6.55 \div 3.45 = 1.90$) demonstrates an impressive 90 percent superiority for recommending the manufacturer to friends and family. This implies that when the strength of customers' relationships to the brand improves from low to high, the occurrence of recommending the manufacturer will be 1.90 times greater.

Word-of-mouth has always been important in a customer's purchase decision, but today these recommendations are valued 1-1/2 times more than in the 1970's and twice as much as information obtained through traditional media⁸. Within the automotive arena specifically, the opinion of family and friends is cited as one of the most important factors in influencing a vehicle purchase by 35 percent of respondents in a GFK Roper study, only slightly behind the look/style of the vehicle itself (38 percent)⁹.

Automotive brands focused on enhancing their marketing effectiveness through word-of-mouth recommendations should concentrate on growing and developing relationships with their current customers. This action will improve the incidence of recommendations and positively influence repurchase intention.

Repurchase Intention. Relationship strength has a strong impact upon a customer's stated intention to purchase again from the same manufacturer (see Figure 3).

Specifically, for those customers with a high as compared to a low level of relationship strength, the intention to repurchase from the same manufacturer is elevated by 77 percent (i.e., $RSx_{High} \div RSx_{Low} = 6.34 \div 3.58 = 1.77$). As a consequence, an automotive manufacturer wanting to improve repeat purchase should consider strategies and tactics designed to enhance the strength of its customer relationships.

This issue has grown in importance over the past two decades. From 1986 to 2006, the percent of customers buying the same brand name as their previous vehicle fell dramatically, from 41.5 to 18.4 percent¹⁰.

Recommend and Repurchase. The outcomes of recommendation and repurchase are not independent, as may be inferred from the similarity of the pattern of results with respect to relationship strength. For example, a one unit increase in the likelihood to repurchase results in a 0.45 unit increase in encouraging friends and family to buy from the same manufacturer¹¹. As a consequence, when the customer's relationship with the brand is strengthened, both outcomes will improve. The flip side of the coin, however, is that when a relationship is damaged, both of these critical outcomes will deteriorate.

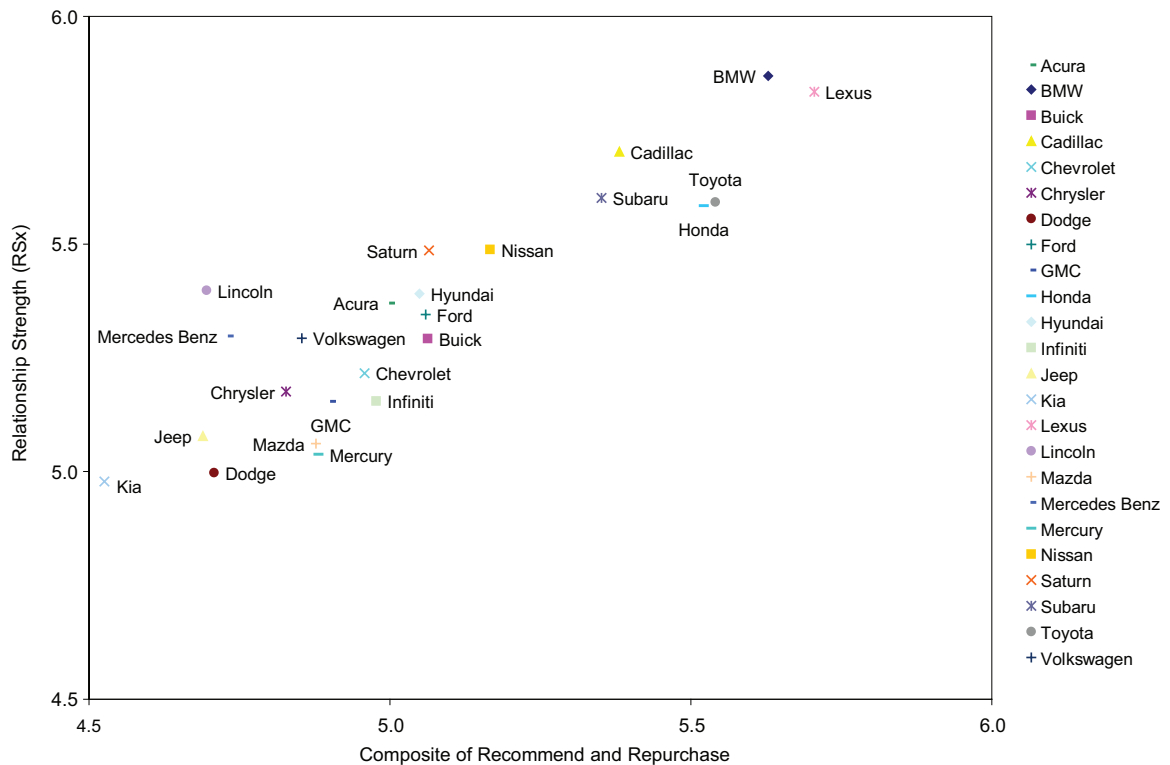
Because the two outcomes are interrelated, an average of both was computed to form a composite, and that score was used—together with relationship strength—to construct a two-dimensional map that depicts the position of one automotive brand relative to another (see Figure 4 on page 7). In general, as the relationship strength for an automotive brand increases, so too does this aggregate outcome measure. More specifically, when the relationship strength for an automotive brand increases by one

unit, it is expected that the performance on the composite of recommending and repurchasing will correspondingly improve by 0.90 ($p < .01$).

If the association between relationship strength and the composite measure was perfect, then all automotive brands depicted in Figure 4 would fall on a single straight line. That is not the case, of course, because in the “real world” many influences always contribute to any one effect. In the automotive industry, these other contributors include pricing, vehicle attributes and the dealership experience, to name a few. Nonetheless, *Carlson Relationship Builder* demonstrates that the proportional magnitude of the change in outcomes arising from an improvement in relationship strength is quite high, with 81 percent of the variability in the outcomes explained by changes in relationship strength.

Figure 4: Recommend and Repurchase

Automotive brands differ from one another, both in terms of relationship strength and an average of the outcomes of recommendation and repurchase. A comparison of the position of one brand to another on this map may be used to identify competitive opportunities and risks. Depicted in this figure is a subset of the brands included in Carlson Relationship Builder.



Source: Carlson Marketing and Peppers & Rogers Group

“In today’s automotive market, achieving competitive advantage on service quality or product features alone is increasingly challenging. Manufacturers who understand the importance of building 1to1 relationships will have the edge.”

—Ed Barclay,
Senior Vice President,
Carlson Marketing

Turning the Corner

Knowing that customer relationships play a significant role in enhancing outcomes for automotive brands, a key follow-up question arises: “What needs to be done to create and maintain these relationships?”

At its most fundamental level, the answer is straightforward: *treat different customers differently*. This 1to1 precept helps to grow relationships for three primary reasons:

1. Relationships are developed with individuals—not market segments—and as a consequence it is necessary to be able to recognize and identify each customer uniquely.
2. Relationships require knowledge by each party of the other in order to enable meaningful conversations and dialog—not mass, one-way broadcasts of messages.
3. Relationships necessitate behavioral change in order to thrive, as each party adapts aspects of their conduct toward the other—not relying upon scripted and static patterns.

The result of an automotive manufacturer treating different customers differently is an increase in the amount of trust toward, alignment with, and commitment to the brand by the customer.

In the realm of automotive marketing, treating different customers differently can be successfully done by strategies and tactics which allow the company to learn about each customer’s individual needs, value, and preferences—and then modifying interactions based upon that insight. Among such techniques investigated in *Carlson Relationship Builder* are the use of loyalty initiatives; the enhancement of the customization, relevance, and frequency of customer communications; and the customer experience at the dealership.

Did You Know?

Carlson Relationship Builder uncovered a number of unanticipated insights concerning how owners interact with their primary vehicle. Did you know...

- Individuals with personalized license plates (i.e., with text or a design chosen by the owner) have stronger relationships with their primary vehicle than those who do not (RSx of 5.5 versus 5.3, $p < .01$).
- BMW, Cadillac and Chrysler owners have the highest incidence of washing their vehicles in the last 30 days, while Volkswagen, Kia and Subaru owners are least likely to have done so ($p < .01$).
- Individuals who have a high level of relationship strength to their primary vehicle are also much happier in life in general, as compared to those with low levels of relationship strength ($p < .01$).

- As compared to most other drivers on the road, 91 percent of respondents rate their own driving skills as “above average”—and more males (31 percent) than females (24 percent) rate themselves the highest on the scale ($p < .01$) in this respect.
- Ford, Nissan and BMW owners have the highest assessment of their own driving skills, while individuals whose primary vehicle is a Lexus, Pontiac and Mitsubishi rate themselves the lowest ($p < .01$).

Would it be worthwhile for an automotive manufacturer to include a personalized license plate or a free car wash program with the vehicle purchase, for example? While separating cause from effect is challenging, inquisitive automotive marketers may nonetheless be able to creatively use such knowledge to build the brand.

“A fundamental objective of loyalty marketing is building authentic relationships, one at a time, through dialog with each customer in a customized, personalized manner with the right frequency.”

—Scott Lochridge,
Senior Vice President,
Carlson Marketing

Loyalty Initiatives. *Carlson Relationship Builder* examined the following four types of automotive loyalty initiatives:

- Credit card that lowers the cost of the next vehicle purchased/leased
- Credit card that allows the individual to earn points that may be redeemed for vehicle service or items related to the manufacturer
- Dealership program that provides recognition or rewards for the continued purchase of maintenance services
- Offers with special pricing for the purchase/lease of a vehicle from the manufacturer

Almost one in five customers (19 percent) participate in at least one such loyalty initiative, and it makes a difference. Comparing participants to non-participants, those experiencing a loyalty initiative exhibit higher levels of relationship strength overall (RSx of 5.62 versus 5.32, $p < .01$) and are even more committed to the automotive brand (RSx commitment of 5.54 versus 5.03, $p < .01$). Consequently, the likelihood to encourage friends or family to purchase/lease vehicles from the manufacturer increases (5.51 versus 5.08, $p < .01$) and, to a larger extent, the likelihood to repurchase from the same manufacturer (5.61 versus 5.00, $p < .01$) also rises.

Individuals participating in automotive loyalty initiatives place different degrees of importance upon the various attributes of the initiative (see Figure 5). The most significant characteristics are economic, including the ability to receive products/services at a discount and

Figure 5: Importance of Factors for Participating in Loyalty Initiatives

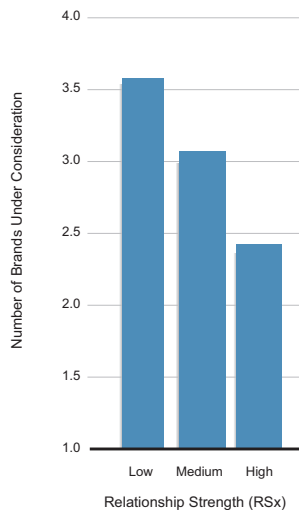
Individuals who participate in automotive loyalty initiatives value the characteristics of those initiatives to different degrees. Respondents allocated 10 points among the items listed in proportion to their importance, expressed in this table as a percentage of the total assigned points.

CATEGORY	WEIGHT	ITEM	WEIGHT
Economic	58.8%	• Receive products or services at a discounted rate	79.1%
		• Participate in activities and transactions to earn and redeem rewards	17.5%
		• Obtain access to special offers from the loyalty program’s partner	3.3%
		TOTAL	100%
Privilege	32.7%	• Receive preferential treatment	35.0%
		• Receive exclusive access to special offers	27.2%
		• Obtain exclusive access to special rewards	26.4%
		• Receive information that would otherwise not be available	11.3%
TOTAL	100%		
Community	8.6%	• Provide feedback to the manufacturer to influence the design of new vehicles	67.7%
		• Participate in activities with other loyalty program members	18.7%
		• Participate in conversations with other loyalty program members	13.6%
TOTAL	100%		
TOTAL	100%		

Source: Carlson Marketing and Peppers & Rogers Group

Figure 6:
Purchase Consideration Set

Strong relationships with an automotive manufacturer narrows the number of brands under consideration for purchasing or leasing their next vehicle. In this figure, 1.0 indicates that the customer is exclusively paying attention to the same brand as that of their vehicle; while a value of 2.0 implies that one additional value brand is being examined, and so forth.



Source: Carlson Marketing and Peppers & Rogers Group

participating in activities or transactions to earn and redeem rewards; followed by characteristics related to being privileged, including receiving preferential treatment or exclusive access to special rewards. Finally, characteristics that have a community or dialog component (e.g., providing feedback to the manufacturer to influence the design of new vehicles) are perceived as less important reasons for participating in the loyalty initiative.

While credit card initiatives do enhance the commitment to the automotive brand for participants as compared to non-participants ($p < .01$), they have no significant impact upon changing the trust of or alignment with the automotive brand. In contrast, dealership programs—often incorporating interpersonal contact—increase all three components of relationship strength: trust ($p < .01$), alignment ($p < .01$) and commitment ($p < .01$).

As loyalty initiatives grow the strength of the relationship between the customer and the automotive manufacturer, they manifest themselves in areas of high importance. For example, one vital indication of loyalty in the automotive sector is “share of garage,” exhibited in households having two or more vehicles where at least one of the additional vehicles is in the same “manufacturer family” (e.g., GM includes Buick, Chevrolet, Pontiac, etc.) as the primary vehicle. In contrast to multi-vehicle households where none of the secondary vehicles meet this criterion, relationship strength is elevated (RSx of 5.54 versus 5.21, $p < .01$) as well the likelihood to recommend (RSx of 5.39 versus 4.94, $p < .01$) and repurchase (RSx of 5.43 versus 4.80, $p < .01$). Consequently, the influence of a strong relationship to the automotive brand extends beyond the individual to impact the composition of the household fleet in total.

A strong relationship also impacts loyalty in another critical area—namely, a customer’s consideration set when shopping for a new vehicle. As relationship strength increases from low to high, the number of brands under consideration drops by 35 percent ($p < .01$) among individuals considering the same brand as their existing primary vehicle (see Figure 6). Equally as remarkable, the percent of brands under consideration from the same manufacturer rises by 49 percent ($p < .01$). Therefore, a solid relationship between a customer and the automotive manufacturer mitigates the scope of “wandering eyes” beyond the brand family, retaining the customer’s faithful focus during the repurchase process.

Loyalty initiatives with customers always involve communications. However, not all communications are created equal. In the following sections, the characteristics of communications that are successful in building relationships are examined.

Satisfaction Isn’t Satisfactory

While automotive manufacturers have concentrated on improving customer satisfaction scores, would they be better served by looking beyond the basics of satisfaction to a more encompassing concept—relationships? Bryan Bergsteinsson, former Group Vice President, University of Toyota, said, “...having satisfied customers is just not enough. You have to delight your customers; you have to create an emotional attachment between the customer and the brand.”¹²

Carlson Relationship Builder examined the extent to which the emotional attachment explains repurchase intention, and found that nearly half (48 percent) of the variability of the latter was accounted for by relationship strength ($p < .01$). Furthermore, incorporating customer satisfaction into the mix results in only a minor improvement (4 percent, $p < .01$). In summary, not only does relationship strength predict

repurchase intention well, but the influence of customer satisfaction above the power of the relationship is small.

The same pattern occurs for the outcome of encouraging friends or family to purchase/lease from the same manufacturer as the primary vehicle driven by the customer. In this case, relationship strength accounts for over half (55 percent) of the variability of the outcome ($p < .01$), and customer satisfaction only adds an incremental 3 percent gain in the prediction ($p < .01$).

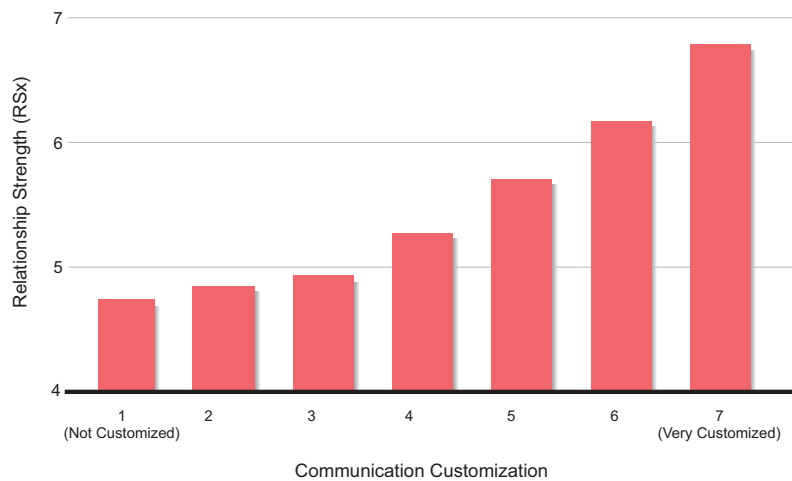
Having a strong and productive customer relationship is intuitively predicated upon satisfactorily addressing the customer’s basic expectations. However, a strong relationship goes above and beyond that baseline condition to encompass trust, alignment and commitment. Satisfaction isn’t satisfactory. Relationships rule.

Customization of communications from the vehicle manufacturer to customers makes a difference. Changing the level of customization from “not customized” to “very customized” increases relationship strength by 42 percent (<.01).

Communication Customization. The customization of communications from the vehicle manufacturer to its customers makes a difference (see Figure 7). As the degree of customization increases, so does relationship strength. The effect holds across a broad range of communication categories, including those related to product/service offers, product/service information, pricing/rate information, and partner (i.e., third-party) offers.

Figure 7: Communication Customization

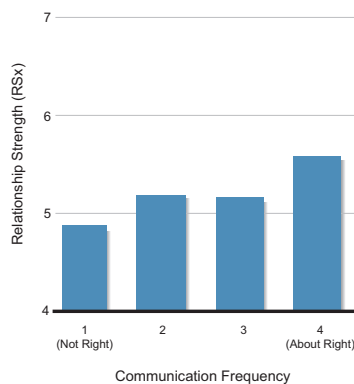
Changing the level of communication customization from “not customized” to “very customized” increases relationship strength by 42 percent ($p < .01$). Data in the figure are based upon the average customization ratings for four communication categories: product/service offers, product/service information, pricing/rate information, and partner offers.



Source: Carlson Marketing and Peppers & Rogers Group

Figure 8: Communication Frequency

Relationship strength is enhanced as the frequency of communications more closely matches the preferences of the individual customer.



Source: Carlson Marketing and Peppers & Rogers Group

Individuals have a strong preference for tailored communications. Independent research has demonstrated that almost four out of five (79 percent) have an interest in receiving personalized content, and over half are willing to disclose demographic information about themselves (52 percent) and to spend 2 to 10 minutes answering questions about their interests (51 percent) in order to enable personalization to occur¹³.

Communication Frequency. The frequency of communications from the automotive manufacturer or one of its dealers to the customer also impacts relationship strength (see Figure 8). As the frequency moves from “not right” (i.e., too infrequent or too frequent) to “about right,” relationship strength increases by 14 percent ($p < .01$).

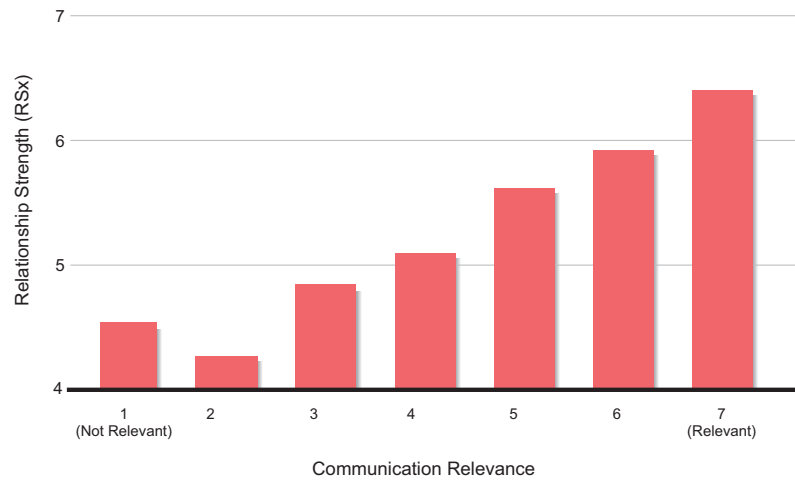
Communication Relevance. The relevance of a communication—i.e., the extent to which the content of the message is applicable to the customer’s current needs—strongly impacts the strength of the relationship (see Figure 9 on page 12). In particular, moving from a state of being “not relevant” to “relevant” increases a customer’s relationship strength by 43 percent ($p < .01$).

Interestingly, it appears to be better for a customer to perceive a communication as completely missing the mark on relevance rather than having the appearance

The relevance of a communication—i.e., the extent to which the contact is applicable to the customer’s current needs—strongly impacts the strength of the relationship.

Figure 9: Communication Relevance

The relevance of messages from an automotive manufacturer or its dealers to customers has a meaningful impact upon relationship strength ($p < .01$).

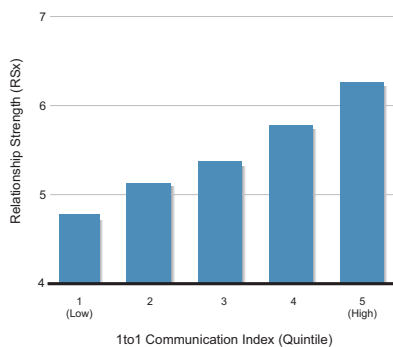


Source: Carlson Marketing and Peppers & Rogers Group

(but not the substance) of being relevant. As illustrated in the left-most two bars of Figure 9, communications that are completely “not relevant” are actually superior in building relationship strength as compared to those at a low but “somewhat relevant” level (RSx of 4.47 versus 4.16), an observation consistent with other research documenting the negative impact resulting from executing relationship initiatives poorly¹⁴.

Figure 10: 1to1 Communication

The strength of a customer’s relationship to an automotive brand is influenced by the joint contribution of communication customization, relevancy and frequency. As the level of 1to1 communication increases from low to high, so too does relationship strength.



Source: Carlson Marketing and Peppers & Rogers Group

1to1 Communication. To examine the joint influence of communication customization, relevance and frequency, a 1to1 Communication Index score was created by averaging the standardized values of each variable, and using that composite to construct five, equal-size groups or quintiles.

Figure 10 shows the results. Clearly, as the level of 1to1 communication increases so too does relationship strength. Among the automotive brands with the highest level of 1to1 communications are Infiniti, Subaru, and BMW; among those with the lowest, Mercury, Acura, and Mitsubishi. It has an impact. A high as compared to a low level of 1to1 communication enhances relationship strength by 35 percent ($p < .01$).

The overall importance of 1to1 communications, however, becomes even more noteworthy when examined in the context of the vehicle product attributes, relationship strength, and the outcomes of recommending and repurchasing from the manufacturer (see Figure 11 on page 13). A change of one unit¹⁴ in 1to1 communications not only causes a direct increase of 0.29 in relationship strength, but also an indirect impact of approximately the same magnitude (i.e., $0.32 = 0.53 \times 0.61$) by influencing the perception of the vehicle features (e.g., comfort, reliability, value). In fact, 28 percent of the variability of the vehicle features themselves is explained by the impact of 1to1 communications.

Beyond the Net Promoter Score

The Net Promoter Score¹⁵ (NPS) has received considerable attention in the business press since the introduction of the concept in 2003¹⁶ and, more recently, has been subjected to increasing scrutiny and criticism¹⁷. In the automotive realm specifically, NPS measures the extent to which “promoters” outnumber “detractors” in terms of customers’ likelihood to recommend the manufacturer of their primary vehicle to a friend or a colleague.

For automotive marketers, a key question concerning NPS is how well it predicts customers’ intent to purchase or lease their next vehicle from the same manufacturer as their current primary vehicle. The answer is “rather well”: the rational inclination to recommend a manufacturer as captured by the NPS metric explains 52 percent of the repurchase variability ($p < .01$) based upon this Carlson Relationship Builder research. Nonetheless, an even more important question arises: could it be the case that the quality of customers’ emotional connection to the brand performs even better?

To examine this hypothesis, relationship strength alone was used to predict repurchase and it accounted for 73 percent of the variability ($p < .01$), considerably more than that of NPS by itself. Additionally, when NPS is inserted into the predictive equation with RSx, NPS fails to improve the prediction in a significant manner, either statistically or practically.

As a consequence, automotive manufacturers may be well served to move beyond the measurement of “promoters” to “passionate promoters”—those who have a strong relationship with the brand.

In total, the joint weight of 1to1 communications and vehicle features account for 64 percent of the variability of relationship strength, which in turn impacts the likelihood to recommend (0.44) and repurchase (0.52) from the same manufacturer.

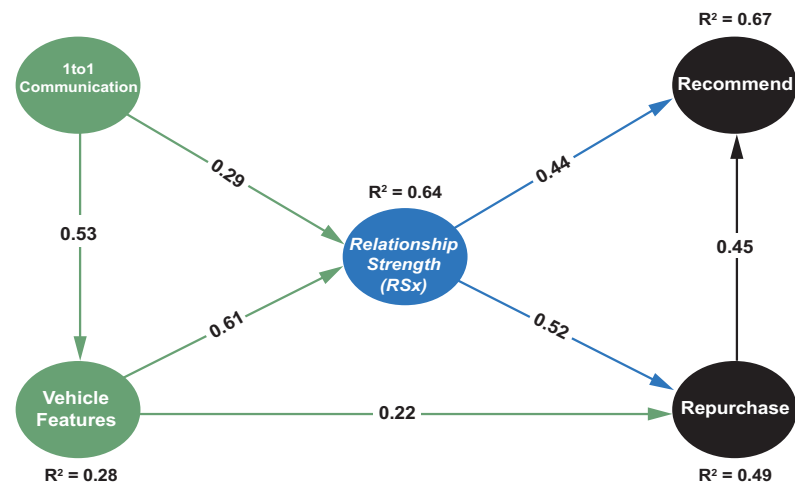
Dealership Experience. The experience that the customer has at a manufacturer’s dealership has a significant impact upon the customer’s relationship with the brand of her or his primary vehicle (see Figure 12 on page 14). Specifically, a change of one unit¹¹ for the dealership experience causes a direct increase of 0.12 in relationship strength ($p < .01$). Therefore, what happens at the dealership influences how the customer perceives the relationship with the automotive brand.

As examined within *Carlson Relationship Builder*, the attributes defining the dealership experience encompassed both “soft” and “hard” facets. While both sets of attributes are predictive of overall dealership satisfaction, it is the “soft” characteristics which are most important, such as keeping promises ($r = 0.81$, $p < .01$) and expressing genuine concern ($r = 0.80$, $p < .01$). Fair prices, a clean facility, and convenient hours of operation and location and are all examples of “hard” features that exhibit lower levels of correlation ($r = 0.71$, 0.63, and 0.60) with dealership satisfaction ($p < .01$).

In the context of the dealership experience, 1to1 communications play an important role. Indeed, an improvement of one unit¹¹ in 1to1 communications influences the customer’s perception of the dealership experience by 0.62 ($p < .01$), and in total impacts relationship strength to the brand of the primary vehicle by 0.51 (directly as well as indirectly through the dealership experience and the vehicle features). As a consequence, it is critical that 1to1 conversation with the customer be conducted well.

Figure 11: 1to1 Communications in the Big Picture

This structural equation model illustrates the influence of antecedents (1to1 communication and vehicle features) upon relationship strength, which in turn impacts the outcomes of recommending and repurchasing from the manufacturer of the customer’s primary vehicle. The weights on each connection (i.e., “arrow”) represent the amount (e.g., 0.52) by which the “output” (e.g., repurchase) will change when the “input” (e.g., relationship strength) is increased by one unit¹¹. All connections depicted are significant ($p < .01$), as is the overall model ($p < .01$).



Source: Carlson Marketing

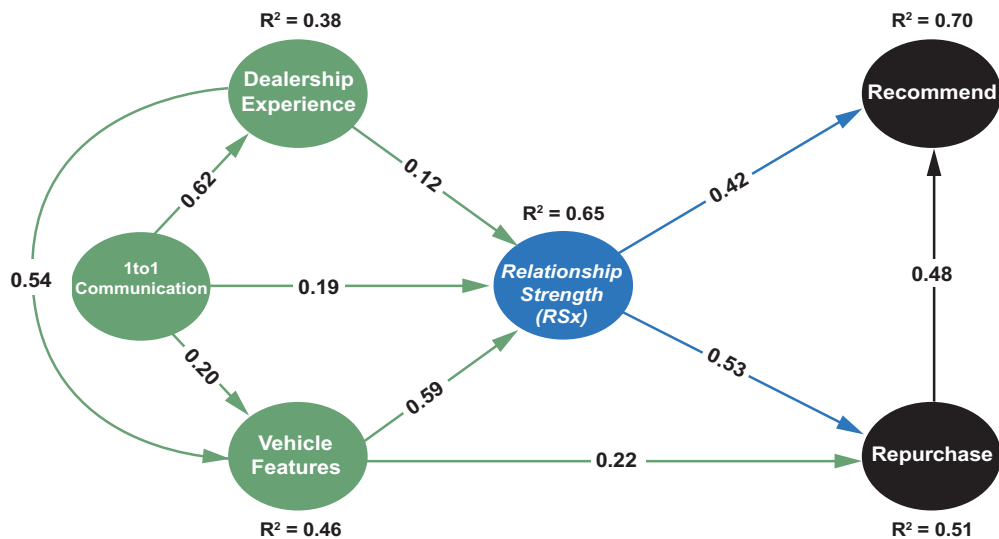
1to1 Process. How can an automotive manufacturer better utilize 1to1 communications? The process of adjusting the customization, relevance and frequency to match the preferences of the individual starts with uniquely and consistently identifying each customer across all products, all channels and all touchpoints. Loyalty initiatives are used as a friendly way to create and maintain a distinctive and stable customer identifier.

With a mechanism to uniquely identify each customer, an automotive manufacturer now has the opportunity to enter into a permission-based dialog and establish a learning relationship, in which increasingly more information about (and for) each individual customer over time is gathered and retained.

Finally, when the information is transformed into insight, the automotive manufacturer has the chance to alter aspects of its behavior toward a customer based upon knowledge of the individual—including but not limited to communications—in order to ultimately deliver a superior experience that would be difficult for the competition to duplicate. This occurs through the application of advanced analytics and the use of marketing tests to assess the impact of one course of action over another.

Figure 12: Dealership Experience in the Big Picture

This structural equation model¹¹ illustrates the influence of antecedents (1to1 communication, dealership experience and vehicle features) upon relationship strength and the outcomes of recommending and repurchasing for individuals who used a manufacturer's dealership for non-warranty service of their primary vehicle (N=1,301). All connections depicted are significant ($p < .01$), as is the overall model ($p < .01$).



Source: Carlson Marketing

Successfully turning the corner requires authentic, productive and 1to1 relationships with customers. Those automotive brands that have started to navigate the turn are already enjoying more success.

Conclusion

The outlook through the rear-view mirror of automotive marketing is cluttered with the debris of old techniques—such as cash-back incentives—which aren't working especially well anymore, and whose effectiveness is declining¹⁸. Successfully turning the corner requires one essential condition: line-of-sight visibility to what lies ahead. Based upon this *Carlson Relationship Builder* research, the road forward is characterized by authentic, productive and 1to1 relationships with customers. Those automotive brands that have started to navigate the turn are already enjoying a heightened propensity for recommendation and repurchase. Those that have not may do well to consider the perspective of Mikhail Gorbachev, the last General Secretary of the Communist Party of the Soviet Union: "History punishes those who come late."

10 Insights for the Automotive Marketer

1. The dealer makes a difference

Individuals who are satisfied with a manufacturer's dealer are considerably more likely to encourage family and friends to purchase from the same manufacturer (54 versus 17 percent).

2. Relationships are all in the family

A customer's relationship to the specific brand of her or his primary vehicle extends to the entire scope of the manufacturer's family of brands, resulting in a 15 percent increase in intent to repurchase within the family.

3. Understand me (please!)

Individuals who perceive that the manufacturer understands their needs are more than three times likely to recommend that automotive manufacturer to family and friends than those claiming that their needs were not known.

4. Loyalty encourages information sharing

Participation in a loyalty initiative makes a majority (67 percent) of individuals more likely to provide personal information about themselves to the manufacturer of their primary vehicle.

5. Customers want to be special

Over two-thirds (71 percent) of individuals expressed interest in special programs and incentives from the manufacturer of their primary vehicle or one of its dealerships.

6. Loyalty is a good defense

Nearly two-thirds (65 percent) of individuals participating in an automotive loyalty initiative state they are more likely to disregard offers from other manufacturers.

7. Relevant emails are remembered

Twice as many individuals recall a relevant email from their own manufacturer as compared to one from a competitive manufacturer (24 percent versus 12 percent).

8. Relevant emails impact repurchase

Individuals receiving emails from the manufacturer of their primary vehicle show a 10 percent difference in intent to repurchase from the same manufacturer as compared to those not receiving emails (53 versus 43 percent), and the incremental impact rises by 27 percentage points among customers who perceive the communications as highly relevant (71 versus 43 percent).

9. Integrity matters

Individuals who rate the integrity of the manufacturer of their primary vehicle low are much more (63 percent) likely to have taken a competitor's product for a test drive.

10. Satisfaction is not sufficient

Four out of five individuals are highly satisfied with their primary vehicle, but less than half (45 percent) of those satisfied customers report that they are very likely to purchase their next vehicle from the same manufacturer.

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Carlson Marketing helps global *Fortune* 1000 clients increase their ROI by designing and delivering sales and marketing programs that drive measurable results. Carlson provides its clients with innovative marketing concepts, coupled with rock solid delivery across its global service offerings: Brand Engagement (including Loyalty Marketing, Recognition & Rewards, Creative and Interactive, Events and Measurement) and Sales Empowerment (including Incentive & Recognition Events, Business Meetings, Training and Enterprise Travel Solutions).

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Carlson Relationship Builder Series

To download research from other verticals in the *Carlson Relationship Builder* series, please visit:

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Endnotes

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Research Team

This exploration of customer relationships in the automotive sector involved contributions from many members of Carlson Marketing and Peppers & Rogers Group, especially: Luc Bondar (Vice President of Loyalty, Carlson Marketing), who provided the overall direction and vision; Thomas Lacki, Ph.D. (Senior Advisor, 1to1 Faculty, Peppers & Rogers Group), who authored the white paper; Will Wittkopf (Global Director of Loyalty Marketing, Carlson Marketing), who analyzed data and delivered fact-based insight; Jack Sundstrom (Director, Research, Carlson Marketing) who managed the project; and Marji Chimes (Vice President of Media and Marketing, Peppers & Rogers Group) who improved the content of this white paper through her advice and counsel.