

Cars Online 07/08

**Responding to Changing Consumer
Trends and Buying Behaviour**



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Introduction

Welcome to the ninth annual Capgemini automotive study – *Cars Online 07/08*.

Each year we extend the scope and depth of this survey to explore new and evolving trends within the retail side of the automotive industry, with a particular focus on consumer buying habits.

Cars Online 07/08 continues the detailed analysis of the changing patterns of consumer demand, shopping trends, web usage and customer loyalty that we have uncovered over the past eight years. This year, however, we have broadened the scope to explore in greater detail environmental issues, including fuel-efficient and alternative-fuel vehicles, as well as consumer use of new online tools, such as weblogs, discussion forums and search engines.

These additional areas of focus reflect changes in today's automotive landscape. The industry is clearly in transition, with static sales in almost all developed markets; growing pressure from Asian manufacturers; eroding customer loyalty; and increased emphasis on environmental and regulatory compliance.

Consumer behaviour will be a primary force in determining how this transition will evolve. Getting closer to the customer in today's highly competitive landscape is essential for the entire industry and is no longer just a retail issue. It requires all organisations across the supply chain to work as a single enterprise, sensing and responding rapidly to consumer demand in a co-ordinated manner.

Capgemini's annual *Cars Online* study is designed to give automotive companies information that can help them get a better grasp on changing consumer trends, shopping patterns and demands. This year's research involved almost 2,600 consumers in five countries: China, France, Germany, the United Kingdom and the United States.

Interestingly, we found significant commonalities among responses across the more mature markets, with differences still quite apparent in the emerging Chinese automotive market. This report highlights these results, as well as country-specific differences. The executive summary provides an overview of key findings from the study, and the sections that follow offer more in-depth data and analysis on consumer behaviour, environmental issues, web usage, lead management and customer loyalty.

The automotive world today is changing; consumers are changing. And the speed of change is continuing to accelerate. We hope the findings of Capgemini's *Cars Online 07/08* study will provide automotive companies with insights that can help them respond faster and more effectively to these changes.

Executive Summary

In total, 20% of consumers said they were likely or very likely to buy a vehicle over the Internet.

Competitive pressures and increasing complexity have led automotive companies to look for an edge wherever they can find it. Improved consumer insight into vehicle shopping and buying behaviour can provide that valuable advantage.

Capgemini's *Cars Online* report contains insight that can help vehicle manufacturers and dealers develop and execute more effective strategies in areas such as sales, marketing and advertising, aftersales service, Customer Relationship Management (CRM) and manufacturer/dealer collaboration.

Key Findings

This year's *Cars Online* research uncovered a number of key findings:

Consumer interest in online vehicle buying emerges as web sophistication grows. In total, 20% of consumers said they were likely or very likely to buy a vehicle over the Internet. While still a small percentage, it is significantly higher than when we last looked closely at the topic of online car buying. In 2001, only 2% of consumers were looking to the web as a channel to purchase vehicles.

What has changed in the interim? Plenty. Vehicle buyers today are no strangers to the web – 80% use the Internet when researching car purchases. The use of manufacturer sites, in particular, has grown and consumers are more targeted in their web research, focussing on fewer sites overall. In addition, they are becoming more comfortable with online buying as they increasingly use the web to purchase items such as computers, televisions and home appliances.

These factors are converging to create an environment in which at least some consumers feel more comfortable with the notion of buying a car online. We don't anticipate a boom in online vehicle sales nor do we expect to see the franchised dealership system disappear, but we may be seeing the emergence of an untapped latent market that merits closer investigation.

New online tools such as search engines, automotive blogs and web forums are becoming key information sources for vehicle buyers.

In this year's study, 29% of web users indicated that they use consumer-to-consumer (C2C) sites such as web forums, blogs or Internet discussion groups when researching information during the vehicle shopping process, up from 21% a year ago. In addition, 78% of web users rely on search engines when researching car purchases. These options are not being used in lieu of manufacturer websites – in fact use of manufacturer sites is on the rise. Consumers are using them to obtain supporting information and a more objective viewpoint. As these new tools become an increasingly powerful force driving purchase decisions they must be given a higher ratio of the marketing mix by automotive companies.

Consumers are going "green." More than one-quarter of this year's *Cars Online* respondents said they currently own or lease a fuel-efficient vehicle¹ and half said they are planning to buy or are thinking seriously about buying a fuel-efficient vehicle. A smaller percentage own or are considering buying an alternative-fuel vehicle.

¹ The definition of what constitutes a "fuel-efficient vehicle" was left to the respondent's discretion.



Interestingly, the reasons behind consumer decisions vary somewhat by market. For example, European consumers were more likely than those in the U.S. or China to cite environmental impact as a primary factor influencing their buying decisions, while more respondents in China and the U.S. pointed to fuel economy. As environmental issues remain in the forefront, they will continue to impact consumer vehicle buying behaviour in the coming years.

Vehicle buyers want their information fast. And if they don't get it, they will switch dealers, brands or both. This year 34% of European and U.S. consumers said they expect to receive a response to a web inquiry within four hours, up from about 30% last year. This number has risen steadily over the past few years as web usage grows and consumers become more demanding. In some cases, particularly in the U.S. and Germany, consumers demand a quicker response time the closer they get to the point of purchase. And if they don't get their response fast enough? Half of the respondents will look for a new dealer and 25% will look for a new manufacturer or for both a new dealer and a new manufacturer. The bottom line: Faster response times result in higher conversion rates.

Personalised communications have a significant impact on repurchase decisions. About two-thirds of consumers said the receipt of personalised post-sale communications from manufacturers or dealers would make them more likely to purchase another vehicle from that same company. These

include personalised repurchase offers via e-mail and post, as well as personalised communications following a complaint. At the same time, however, it is important to keep in mind that not all consumers appreciate personalised communication. Companies need to understand who is open to this kind of approach and who isn't, which requires having the right systems and processes in place to effectively manage consumer segmentation.

Anticipating Consumer Changes

What do these findings tell us? They make it clear that consumer behaviour is evolving and that automotive companies need to anticipate this evolution in order to be part of, or even influence, the changes.

Is your company ready? What changes will you need to make? Companies will need to take a look at their multi-channel approach as they consider the potential market for online sales. Effective web strategies will be vitally important, as the online landscape evolves rapidly with the emergence of powerful

consumer-to-consumer tools like blogs, discussion forums, social networking sites and virtual worlds.

Automotive companies will need to stay focussed on environmental developments and evolving consumer attitudes about fuel-efficient and alternative-fuel vehicles. As with the web, green issues are dynamic and it's still too early to determine their ultimate impact on the automotive industry.

Manufacturer/dealer collaboration in the form of effective retail integration and integrated lead management will become more important than ever to satisfy increasingly sophisticated and demanding consumers and to retain loyalty. And companies will need to establish and maintain a true two-way dialogue with individual customers through personalised communication.

While this topline review provides a summary of key findings from this year's *Cars Online* study, the sections that follow offer more in-depth data and analysis of consumer behaviour, environmental issues, web usage, lead management and customer loyalty.

About the Study

Capgemini worked with SmartRevenue, a Ridgefield, Connecticut-based research firm, to conduct the survey for *Cars Online 07/08*. All analysis and interpretation of the data has been made by Capgemini in collaboration with the Car Internet Research Program (CIRP) of the University of Ottawa, Canada. In total nearly 2,600 consumers were surveyed in five countries: China, France, Germany, the United Kingdom and the United States. The composition of the consumer sample in each country was based on projectable national samples representative of the population from the standpoint of region, age and gender. All consumers surveyed were in-market – that is, intending to purchase or lease a new or used vehicle in the next 18 months.

Consumer Behaviour: Turning to the Web and New C2C Tools

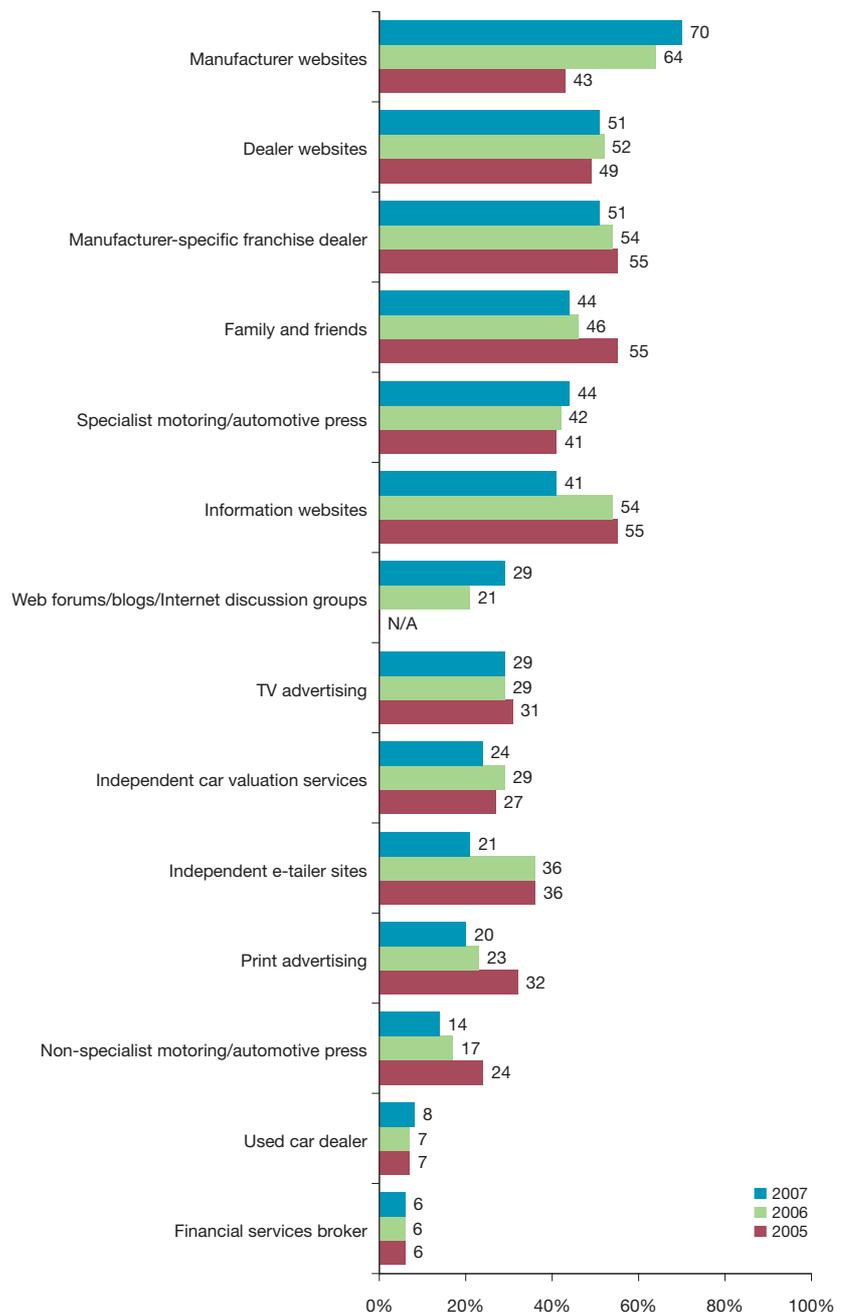
Consumers today have a multitude of sources from which to gather information during the vehicle buying process, but the Internet tops the list. The web has become a standard resource in the shopping process for eight out of 10 consumers when researching car purchases.

However, the way they use it is changing. As the web matures, vehicle buyers are visiting fewer sites and focussing more on manufacturer and C2C websites and less on third-party information sites and independent e-tailer sites.

Manufacturer Sites a Key Information Source

Just two years ago, information websites were identified as the number one information source by web users responding to the *Cars Online* survey (tied with family and friends and manufacturer-specific dealer), named by 55% of consumers. This year, they dropped to the number four source, named by 41% of web users. In comparison, manufacturer sites are now the top source for consumers who use the web when researching vehicles, named by 70% of respondents. Two years ago manufacturer sites held the number three position, named by 43% of web users. The use of dealer websites has remained steady, with about half of web users turning to these sites.

Expected Use of Information Sources by Web Users
(% online consumers saying)



Source: Capgemini
Base: All consumers who use the Internet
Note: Multiple responses allowed
N/A: Not asked

At the same time, the use of new online consumer-to-consumer tools such as blogs, RSS (Really Simple Syndication) feeds, user-generated content, social networking sites and web forums is growing. In this year's study, 29% of web users indicated that they use these kinds of tools when researching during the vehicle shopping process, up from 21% a year ago. (For a more detailed analysis of the use of these new online tools see separate section on "Web Usage.")

Interestingly, it is not just the young generation who use the web to research vehicles. Almost half of consumers 50 and older visit manufacturer sites, nearly the same number as those in the 18 to 34 age group. The numbers do fall off, however, when it comes to blogs and web forums. About 30% of the youngest consumers rely on these new tools, compared with just 12% of those 50 and older.

As web usage rises, consumer reliance on other more traditional information sources is on the decline. Take print advertising, for example, which has shown a steady downward trend particularly among consumers who rely on the web during the vehicle shopping process. This year, just 20% of web users said they use print ads when researching vehicles, compared with 32% in 2005.

The message for automotive companies is clear: Consumers trust the information they receive from manufacturer and C2C sites. Vehicle manufacturers and dealers need to be aware of how fast online changes are occurring and continually adjust their marketing mix and resources accordingly to anticipate tomorrow's mix. Marketing funds directed toward more traditional media such as print advertising should be regularly re-examined for ROI.

Key Factors in Vehicle Choice

When it comes to making their final decision about which vehicle to buy, consumers focus on factors such as reliability, safety, price and fuel economy. At the bottom of the list are cash-back incentives, named by fewer than half of consumers. The importance of incentives as a deciding factor has declined for the past several years, indicating that consumers today seem less interested in gimmicks when it comes to their car purchases.

Where consumers are in the buying cycle can make a difference in how they rank the factors that influence their vehicle choice. For example, additional warranty coverage is important to consumers who are furthest away from the point of purchase; it was named by 69% of respondents who were 13 to 18

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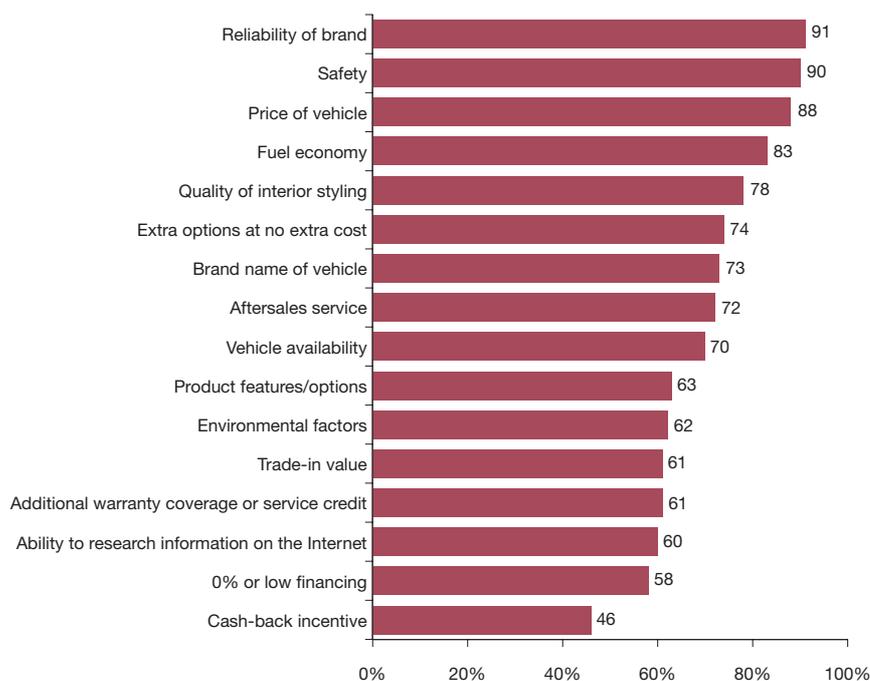
months from purchase. However, the number declines as consumers get closer to actually buying the car: 55% of respondents who were within three months of purchase said extra warranty coverage was important. This reflects the fact that consumers will narrow down the factors that really matter to them as they get closer to the point of purchase.

Demographic factors such as age and gender accounted for some variances. For example, older consumers tend to put more emphasis on reliability and safety than do younger

respondents. Those in the 50-plus age group were also more concerned with environmental issues and fuel economy. The youngest respondents were most likely to rate the ability to research information on the Internet as an important factor in their vehicle decision.

Women tend to rate most of the factors as more important than do men. The difference was most pronounced for cash-back incentives, low financing, safety, environmental issues, fuel economy and additional warranty coverage.

Importance of Factors in Consumers' Choice of Vehicle
(% consumers saying "important/very important")



Source: Capgemini

Consumer Behaviour: What Makes Markets Different

The use of information sources varies somewhat by country. Chinese consumers tend to rely more heavily than do their Western counterparts on external sources – online and off-line – when researching vehicles. For example, 86% of Chinese respondents turn to family and friends, compared with 45% of consumers overall. And 71% rely on manufacturer-specific dealers vs. 44% of respondents overall. In the U.S., just 26% of consumers use franchised dealers as an information source.

Chinese respondents also rely heavily on new types of information sources. They have the highest usage of manufacturer websites (named by 60% of Chinese respondents) and new tools such as blogs and search engines (43%). Their reliance on the web can be expected to grow as the rate of Internet penetration increases. Today only about 10% of the Chinese population has Internet access.² But that rate has grown more than 500% since 2000 with continued gains predicted for the coming years.

In all the countries studied, the top factors affecting consumers' vehicle choice were consistent. However, further down the list there were noticeable differences.

The biggest variances occurred in China, where consumers place higher-than-average importance on a wide range of factors when choosing a vehicle, reflecting their relative inexperience with cars in general and the car buying process in particular. Factors such as the brand name of the vehicle, products and services, extra options at no extra cost, cash-back incentives, aftersales service, vehicle availability and additional warranty coverage are significantly more important to respondents from China than to those in the other countries. For example, more than 90% of Chinese consumers said the vehicle's brand name was important or very important, compared with 66% of consumers in Europe and 74% of those in the U.S.

U.S. consumers were less interested in additional warranty coverage than were respondents from some of the other markets. Just 48% said it was an important factor in their choice of vehicle, compared with 61% of respondents overall. This may be due to the fact that consumers in the U.S. are more likely than those in other countries to trade in their vehicles every few years, so additional warranty coverage is not a big concern.

French respondents consider 0% or low financing and aftersales service to be more important than consumers from most of the other countries. In the UK, consumers placed lower-than-average importance on factors such as quality of interior styling, extra options at no extra cost, brand name of vehicle, 0% or low financing and cash-back incentives. German consumers tended to be quite consistent with the average in most cases.

Almost half of consumers 50 and older visit manufacturer sites, nearly the same number as those in the 18 to 34 age group.

² Internet World Stats, Miniwatts Marketing Group, Nielsen/NetRatings.

Going 'Green': Fuel Efficiency Takes Centre Stage

Almost half of respondents said they are planning to buy or thinking seriously about buying a fuel-efficient vehicle.

Fuel efficiency and environmental issues have moved to the forefront in consumers' minds and in automotive industry forums thanks to factors including global warming, fluctuating gasoline prices, and proposed legislation to increase fuel efficiency and reduce CO₂ emissions.

This growing interest in so-called green vehicles was evident in this year's *Cars Online* research. More than one-quarter of respondents said they currently own or lease a fuel-efficient vehicle while almost half said they are planning to buy or thinking seriously about buying a fuel-efficient vehicle.

Not surprisingly, the numbers for alternative-fuel vehicles were lower. Just 2% of respondents currently own an alternative-fuel vehicle and 11% are planning to buy or thinking seriously about buying one. The most common

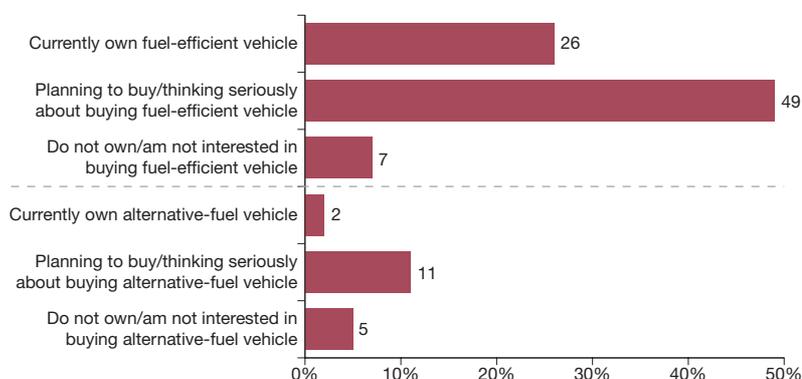
type of alternative-fuel vehicle represented in the survey were gas/electric hybrids, named by about half of current alternative-fuel car owners. Biodiesel vehicles were the second most common, named by 15%.

The alternative-fuel market remains in transition and it's still too early to tell how it will ultimately shake out, although sales are expected to continue to grow. For example, J.D. Power and Associates predicts that U.S. sales of hybrid vehicles will increase by 35% in 2007, compared with 2006.³

Current ownership of fuel-efficient and alternative-fuel vehicles tended to be quite consistent across gender and age groups, although the oldest consumers were somewhat more likely to be seriously thinking about buying an alternative-fuel car.



Consumer Interest in 'Green' Vehicles
(% consumers saying)



Source: Capgemini

³ J.D. Power and Associates 2007 U.S. Hybrid Vehicle Forecast Second Quarter Update.

Why Buy a Green Vehicle?

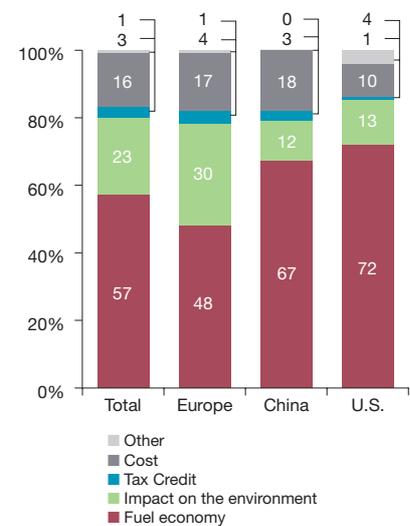
Fuel economy is the number one factor driving consumer decisions about green vehicles (named by 57% of respondents), followed by the impact on the environment (23%). Tax credits and cost factors were less important. Some consumers pointed to less tangible reasons such as “it makes me feel better.” This is in line with research conducted by CNW Marketing Research. When asked why they bought a Toyota Prius, 57% of Prius owners said because it “makes a statement about me.”

However, the *Cars Online* research uncovered some differences in the reasons behind consumer decisions

about green vehicles. For example, European consumers were more likely to cite environmental impact as a primary factor, while more respondents in China and the U.S. pointed to fuel economy.

Older consumers were somewhat more likely to identify fuel economy as a primary factor, compared with the youngest respondents (18-34). Men put more emphasis than did women on fuel economy, while a higher proportion of women identified environmental impact as the primary reason driving their decisions about green vehicles.

Primary Reason Behind ‘Green’ Vehicle Decisions
(% consumers saying)



Source: Capgemini
Base: Those who own/are interested in/thinking seriously about buying a fuel-efficient or alternative-fuel vehicle

Going ‘Green’: What Makes Markets Different

Current ownership of green vehicles is at consistent levels across the Western countries but higher in China, where 41% of respondents own a fuel-efficient or alternative-fuel car. German and French respondents were more likely than others to say they were either planning to buy or thinking seriously about buying a green car (67% and 66%, respectively).

The number was somewhat lower in the U.S., where 58% said they were planning to buy or thinking seriously about buying a fuel-efficient or alternative-fuel vehicle, and the UK (59%). The U.S. had the highest number of respondents (16%) who said they did not own/were not interested in buying either a fuel-efficient or alternative-fuel car.

While gas/electric hybrids were the primary type of alternative-fuel vehicle in China and the U.S., biodiesel vehicles were fairly common in Europe. That’s not surprising given the overall popularity of diesel vehicles in Europe, where about half of all the cars sold are diesels. In the U.S., however, diesel market share is only about 3.5% and that consists primarily of pick-up trucks, according to R.L. Polk & Co. However, diesel vehicles overall are expected to grow in the U.S. as many of the major manufacturers begin introducing cars for the American market designed to run on ultra-clean diesel fuel.

Web Usage: Will Online Vehicle Buying Grow?

While we don't expect that consumers will begin buying their cars over the web in significant numbers any time soon, the results of our *Cars Online* research may indicate an untapped latent market that warrants further investigation.

Consumers today are increasingly knowledgeable about vehicles and the car buying process, and that trend is expected to continue, due largely to the prevalence of web-enabled and other new technologies. This is not surprising given the exponential increase in the Internet penetration rate, which stands at about 70% in the U.S. and more than 50% in the European Union.⁴ These rates are expected to continue to grow thanks to low-cost Internet access devices, more widespread use of DSL and broadband connections and an increase in the number of wireless Internet access points.

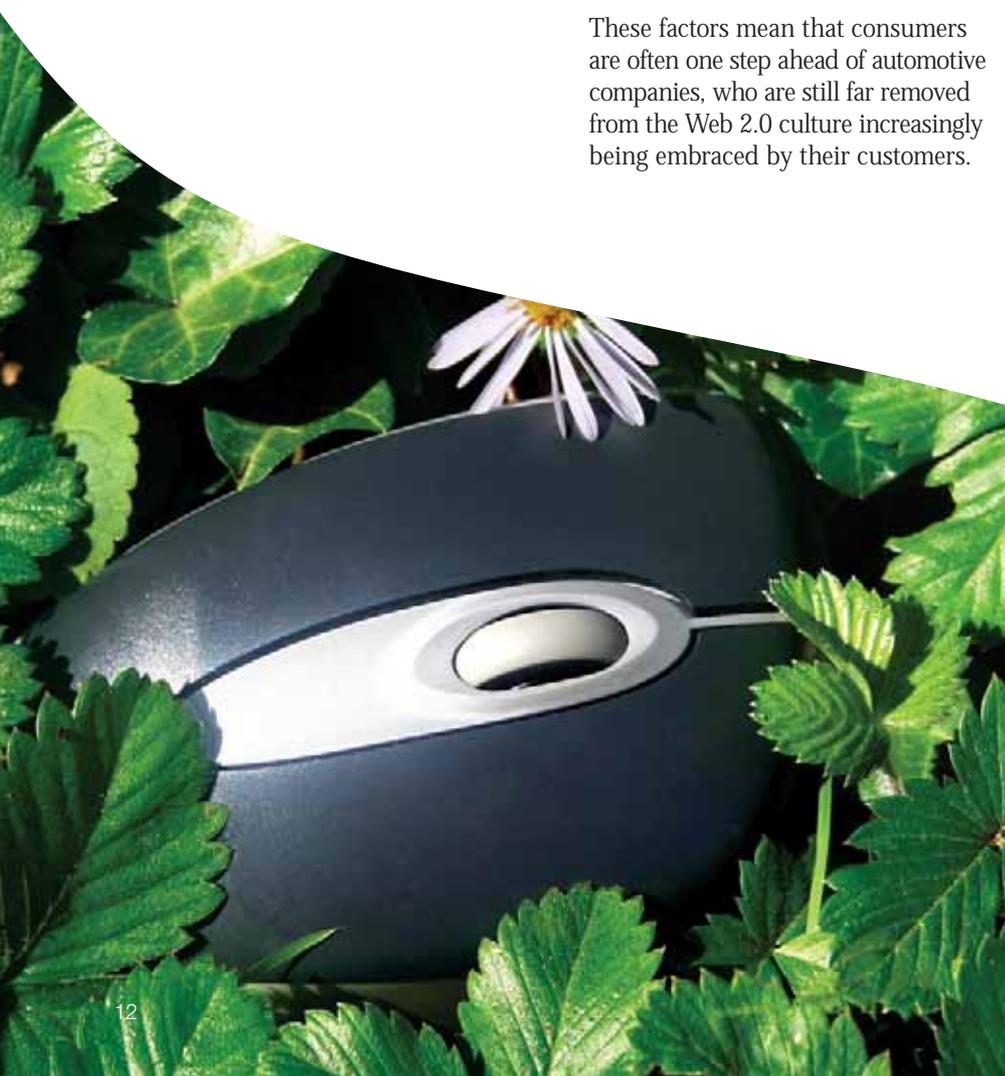
These factors mean that consumers are often one step ahead of automotive companies, who are still far removed from the Web 2.0 culture increasingly being embraced by their customers.

Online Vehicle Buying – Untapped Opportunity?

Consumers' growing web sophistication and increasing comfort level may explain the surprisingly high number of respondents who said they might actually buy a car online, not just research the purchase. In total, 20% of consumers said they were likely or very likely to buy a vehicle over the Internet.

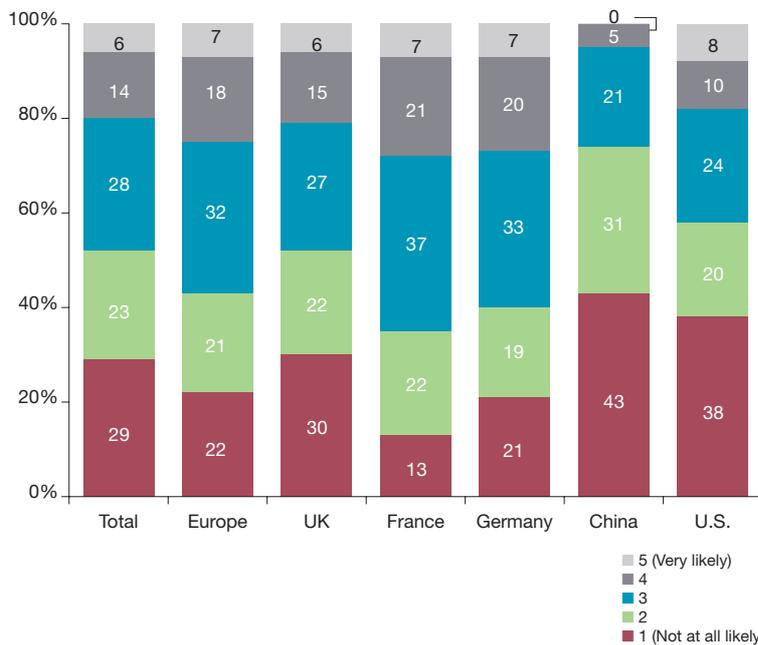
The numbers were fairly consistent across age groups: 21% of respondents in both the 18 to 34 and 35 to 49 age groups and 18% of those 50 and older said they were likely to buy a car online. Men were somewhat more likely than women to consider buying a car on the web. French and German consumers were the most willing to consider buying a car online, while the Chinese were the least likely to do so.

While still a small percentage, it's significantly higher than when we last looked closely at the topic of online car buying. In 2001, only about 2% of consumers were looking to the web as a channel to purchase vehicles.



⁴ Internet World Stats, Miniwatts Marketing Group, Nielsen/NetRatings.

Likelihood to Purchase Vehicle Over the Internet
 (% consumers saying)



Consumers are visiting fewer websites: 67% of consumers said they visit between one and four manufacturer sites while researching vehicles, compared with 57% in 2005.

Source: Capgemini

Those consumers who said they were not yet willing to buy a car over the web were asked what it would take to change their minds. The most common answer: the ability to talk to a person online or by phone during the purchase. Other key prerequisites included the ability to negotiate pricing online, having the vehicle delivered to their home or brought to a pick-up location near their home, and the ability to see photos/video of the vehicle inside and out (including the engine).

While we don't expect a significant rise in online car sales any time soon, the results of our *Cars Online* research indicate an untapped latent market that warrants further investigation. The more comfortable consumers become with purchasing other types of products online – computers, televisions, home appliances – the more likely that at least some of them will consider doing the same with their car purchases. This will be particularly true for consumers who see a car purchase as very much a commodity purchase now that prices have been reduced, functionality is consistent and reliability has increased.

Two-thirds of respondents said that having the web features they consider important would make them more likely to purchase a vehicle from that manufacturer.

What Consumers Want From the Web

In general, consumers are more targeted in their web usage, visiting fewer websites. This trend has been noticeable for several years. This year 67% of consumers said they visit between one and four manufacturer websites while researching vehicles, compared with 57% in 2005. Conversely, the number of consumers visiting five or more manufacturer sites declined to 34% this year vs. 44% in 2005.

Consumers have been consistent in their web demands over the years: They want price and product information and the ability to compare vehicles. Secondary features they look for are vehicle configurators, the ability to get a quote and a cost calculator. The least important web features include zippy graphics, online information about the manufacturer's or dealer's latest ad, and the ability to schedule test drives.

Most Important Website Options

(% online consumers saying)



*Price includes transaction price, retail list price and dealer invoice price

Source: Capgemini

Base: All consumers who use the Internet

Note: Multiple responses allowed

Consumers over 50 years old are more interested in obtaining a full range of product information, while younger consumers are more likely to use cost calculators.

How important are these features to vehicle buyers? Very important, according to our research. Two-thirds of respondents said that having the web features they consider important would make them more likely to purchase a vehicle from that manufacturer.

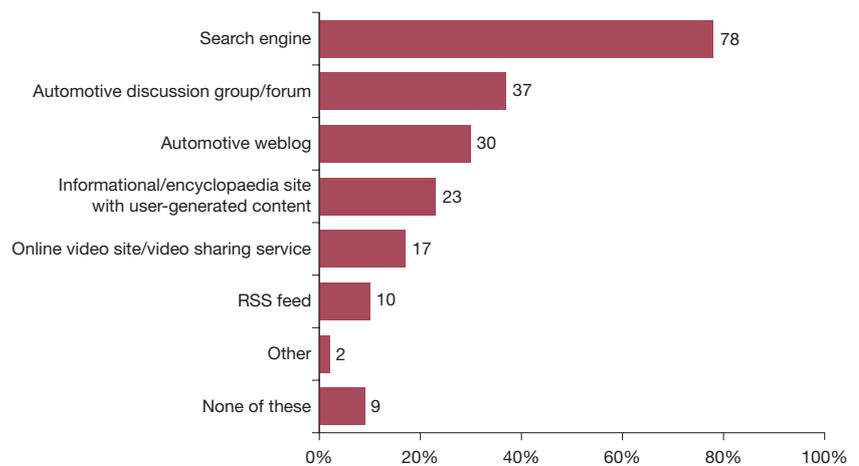
Conversely, the lack of important web features can deter buyers. More than 40% said they would be less likely to buy a vehicle if that maker's website did not give them what they want.

That's up from 36% the prior year. The youngest consumers and men were the most likely to walk away if they couldn't find the web features they wanted.

New Online Tools Take Hold

As consumers use the web more extensively during the vehicle buying process, they are increasingly turning to new tools such as automotive blogs, discussion forums/chat rooms, search engines, RSS feed, user-generated content, social networking sites and online reviews. Search engines, in particular, have become a powerful force and should be considered by automotive companies when determining their marketing mix. In total 78% of web users said they use

New Online Tools Used for Researching Vehicles
(% online consumers saying)



Source: Capgemini
 Base: All consumers who use the Internet
 Note: Multiple responses allowed

Used Car Buyers Turning to the Web

The Internet is increasingly becoming the information source of choice for used vehicle buyers. For example, 42% of used car buyers in this year's *Cars Online* research said they turn to dealer sites when researching vehicles. This topic was examined more closely in a separate study published by the Car Internet Research Program (CIRP) and Capgemini, titled "The Anatomy and Physiology of the Used Car Business."

The used car study found that the key to continued used car growth will be transparency and symmetry of information, as consumers apply the same approach to research and collection of information in their search for used vehicles as they do to the new car buying process. Although consumers still use local newspapers and word-of-mouth when researching used car purchases, they are turning to the web in increasing numbers, highlighting the importance of having a strong Internet strategy for used vehicle programmes.

Dealers that have focussed more attention on multichannel communication strategies are beginning to reap benefits, with an increasing number saying their web activities have improved sales and extended their trading range.⁵

In addition, dealers in some countries use the Internet as an alternative sales channel, for instance selling less attractive vehicles to third-party sites. They also increasingly use tools such as Google AdWords to highlight their own sites and vehicle stock.

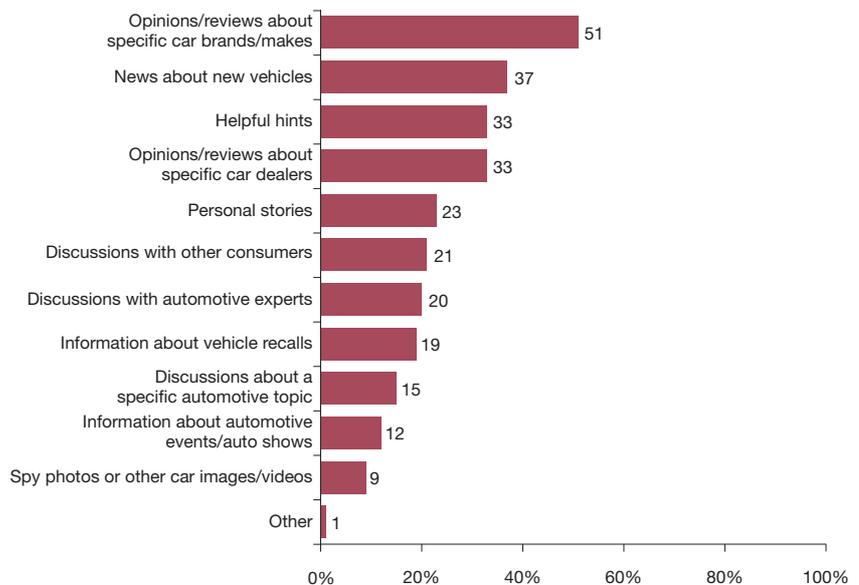
search engines when researching car purchases, and 75% said they find search engines to be useful.

Automotive discussion groups/forums and blogs were used by about one-third of respondents; 23% of consumers said they use informational/encyclopaedia type sites with user-generated content such as Wikipedia; and 17% use video sharing sites like YouTube.

Even older consumers use search engines during the buying process, although they are less likely than their younger counterparts to use other tools such as blogs, discussion forums and video sharing sites. For example, 22% of those 50 or older use automotive blogs, compared with 34% of those between 18 and 34.

Interestingly, consumers are not turning to these options in lieu of manufacturer websites, they are using them to obtain additional information and a more objective viewpoint. For example, 51% of respondents said they visit these sites when researching vehicles in order to read opinions and reviews about specific car brands. About one-third use these tools to get news about new vehicles, helpful hints, and opinions and reviews about specific car dealers. The use of these tools demonstrates that word of mouth is still a vital element in the vehicle buying process, but today it takes an electronic form.

Reasons for Using New Online Tools
(% consumers saying)



⁵ Waller, Hwang and Navarre, "The 335 Kilometer Franchise," CIRP (Car Internet Research Program).

Source: Capgemini
Base: All consumers who use new online tools to research vehicles
Note: Multiple responses allowed

Although vehicle manufacturers and dealers may not be able to directly influence the content of some of these C2C channels, they should monitor the most popular automotive blogs to see what consumers are saying about their brands. Significant product and market intelligence can be gleaned from these channels. They also represent an interesting yet challenging opportunity for advertising spend.

At this point, it's impossible to know how this new area of the web will ultimately develop, but automotive

companies need to invest more time and energy paying attention to what's happening out there. Developments such as Second Life, the 3D virtual world, represent a brave new world as companies try different ways to position their brands to a new generation of consumers. Some automotive manufacturers are already using Second Life to experiment with new ways to use 3D experiences to interact with their existing or potential customers.

In total 78% of web users said they use search engines when researching car purchases, and 75% said they find search engines to be useful.

Web Usage: What Makes Markets Different

While web usage is growing in all of the countries studied, there are differences in online trends among markets. French and German consumers were the most willing to consider buying a car online, while the Chinese were the least likely to do so. This is not surprising given that Chinese consumers are new to the vehicle buying process and they still rely heavily on franchised dealers for information.

Differences were evident in terms of the factors that would lead consumers to consider making a vehicle purchase online. While human interaction/contact was the primary factor overall for consumers, French and U.S. respondents were somewhat more interested than their counterparts in the ability to negotiate price.

Consumers everywhere want web features like price and product information and the ability to compare vehicles, but other preferences vary somewhat by country. U.S. consumers are interested in price information, while French and German respondents appreciate having a website available in their native language. In the UK, consumers were particularly interested in the ability to compare vehicles.

Responses in China varied considerably from those in other markets. Chinese consumers placed higher-than-average importance on full vehicle configurators, product information and the ability to contact the dealer from the web.

The impact of the web on purchase decisions in France, in particular, has increased. This is most likely a reflection of the growing use of the web in the country.

The use of new online tools was quite consistent across countries, with the exception of China, where usage was higher than average for many of these kinds of sites, particularly blogs and discussion forums. A site such as ChinaCarForums.com, for instance, is dedicated to enthusiasts and owners of China-made automobiles and includes general discussion forums as well as forums focussed on individual brands.

Lead Management: Consumers Want Information Fast

The bottom line is that consumers want their information fast. Every year they are less willing to wait for a response via the web.

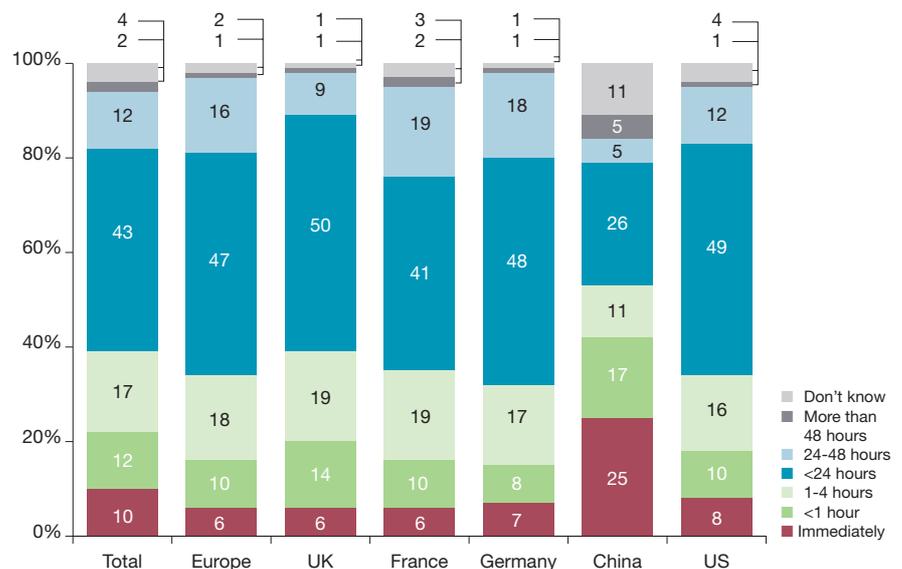
How quickly do consumers expect to receive a response from an automaker or dealer to a web inquiry? And what happens if that response doesn't come fast enough? The answers to these questions can provide valuable insight as vehicle manufacturers and dealers re-evaluate their web strategies and lead management programmes.

The bottom line is that consumers want their information fast. Every year they are less willing to wait for a response via the web. This year 34% of European respondents said they expect to receive a response within four hours, up from about 30% last year. Similarly, 34% of U.S. consumers expect a response within

four hours vs. 31% the prior year. This number has risen steadily over the past few years as web use grows and vehicle buyers become more knowledgeable and demanding. Overall, only one out of five consumers is willing to wait more than 24 hours for a response.

In some cases, demands vary depending on where consumers are in the buying cycle. For example, in the U.S. and Germany the demand for fast response times was much more pronounced as vehicle buyers got closer to the point of purchase. In the case of the U.S., only 21% of respondents who were 13 to 18 months from purchase required a response time of within four hours;

Required Speed of Response From Dealer/Manufacturer to Consumer Query
(% consumers saying)



Source: Capgemini

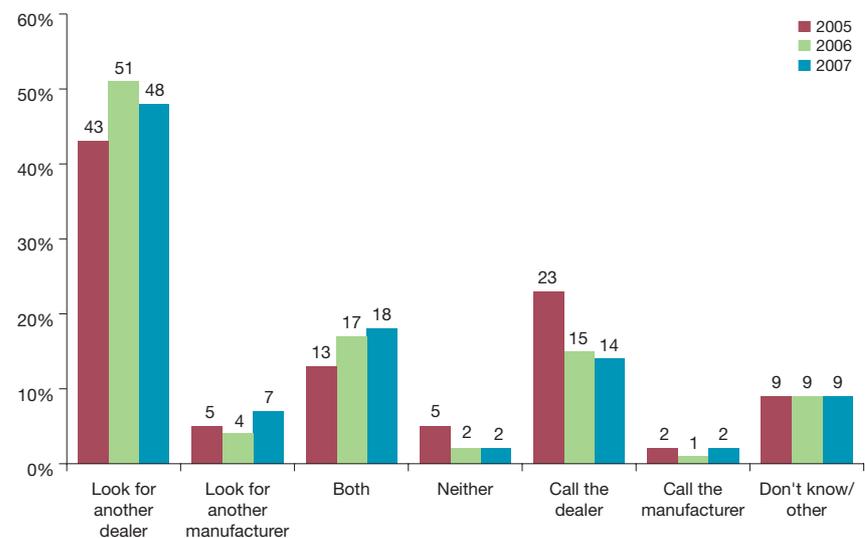
however, that number jumped to 51% among consumers who were one month from the point of purchase. In Germany, the number increased from 16% of those in the 13-to-18-month range to 42% for those within one month of purchase.

Faster Response, Higher Conversion Rates

Year after year, our *Cars Online* research has shown that if consumers do not receive quick responses from manufacturers and dealers, they will walk away. This year is no exception. While dealers suffer the most from slow response times, automakers are not immune either. Half of the respondents will look for a new dealer and 25% will look for a new manufacturer or for both a new dealer and a new manufacturer. This translates into a significant amount of lost business.

It is essential to increase response time for Internet-generated leads to help reap the benefits of this method of customer contact. A quick response is critical not only for consumer satisfaction, but can also translate into improved conversion rates. Based on Capgemini's work with automotive clients, the faster the response times, the better the conversion rates. For example, in working with a European luxury brand manufacturer, Capgemini found that when the automaker responded to a consumer web inquiry within 20 minutes, conversion rates were doubled. Achieving that degree of speed requires that manufacturers and dealers have the right response mechanisms in place.

Behaviour If Dealer/Manufacturer Took Too Long to Respond to Query
(% consumers saying)



Source: Capgemini

Lead Management: What Makes Markets Different

When it comes to the speed of response, consumers in China are even more demanding than vehicle buyers from other countries. However, the numbers this year indicate that Chinese consumers are becoming a bit more realistic about the web and are slowly starting to resemble vehicle buyers in the Western countries in this particular respect.

In this year's study, 53% of Chinese respondents said they expect to receive a response to a web inquiry within four hours, the highest among the five countries but a significant drop from the previous year, when 73% of Chinese consumers expected a response within that time frame.

Country differences were apparent regarding consumer behaviour when response time is too slow. Chinese consumers were less likely to just look for another dealer, compared with U.S. and European respondents. Instead more of them said they will look for a new manufacturer or for both a new dealer and a new manufacturer.

Customer Loyalty: Establishing and Maintaining a Dialogue

Overall, 55% of consumers said they were likely to lease or buy the same make as their current vehicle, down from 57% last year and 59% in 2005.

Visibility into the consumer research and buying process can help automotive companies improve their understanding of vehicle shopping behaviour. But consumer satisfaction doesn't end with the sale. Tracking what happens after a consumer gets a vehicle home can be a challenge.

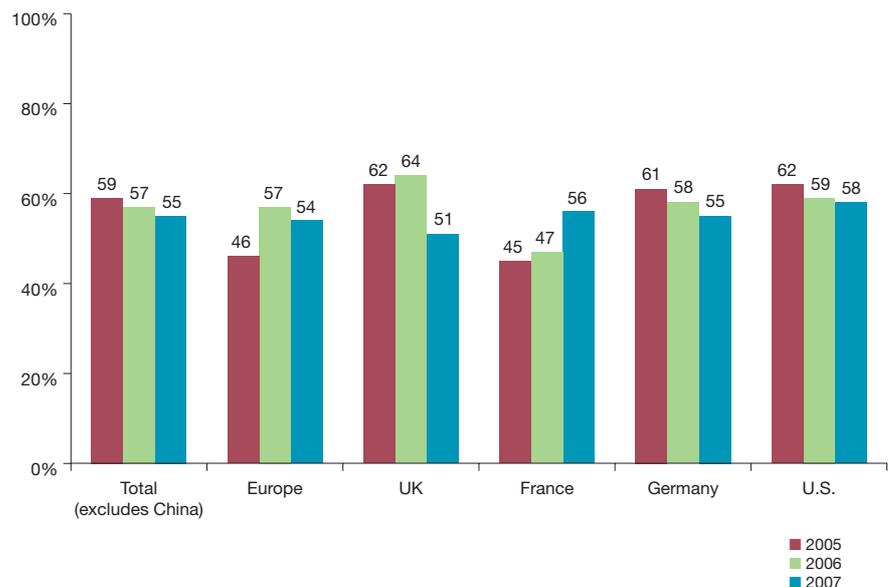
What kinds of continued communication with the dealer and manufacturer do consumers want? What tactics will help maintain their loyalty? What might lead them to switch brands or dealers? These are critical questions for both dealers and manufacturers as customer loyalty remains up for grabs.

Brand Loyalty Declines

In most of the countries studied, brand loyalty declined last year. Overall, 55% of consumers said they were likely to lease or buy the same make as their current vehicle, down from 57% last year and 59% in 2005.⁶

Lexus and Toyota top the list of brands with the greatest customer loyalty, based on the *Cars Online* survey. They were followed this year by BMW, Mercedes-Benz and Volvo.

Likelihood to Lease/Purchase Same Make as Current Vehicle
(% consumers saying "likely/very likely")



Source: Capgemini

⁶ Data excludes China, which has only recently begun to post brand loyalty numbers that are similar to those in the Western markets.

The factors that influence brand repurchase decisions have remained relatively unchanged in recent years and include vehicle quality, reliability of make, enjoyment of vehicle, customer service quality and fuel economy. However, the number of consumers indicating that these factors will “greatly influence” their decision-making has gone down somewhat in the past year.

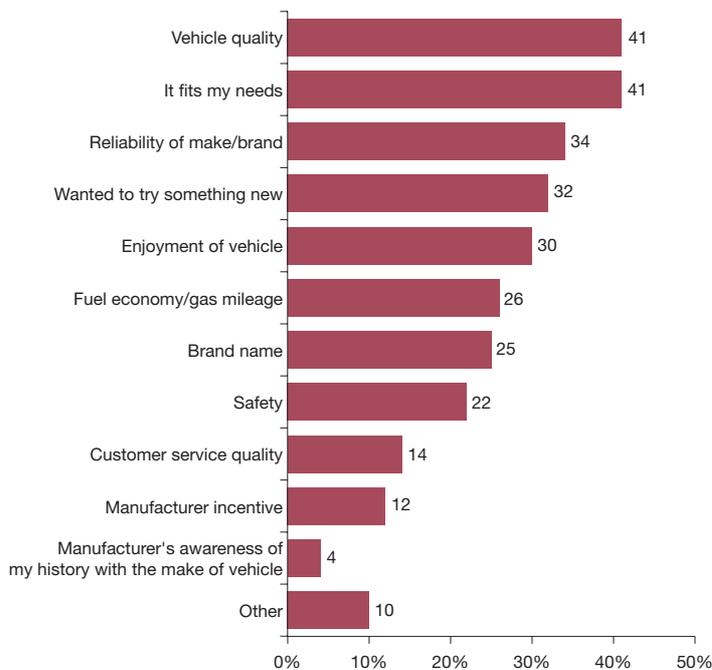
As in previous years, younger consumers tend to show less brand loyalty than do older respondents.

This year 52% of those aged 18 to 34 said they would likely buy the same make of vehicle, compared with 59% of consumers who are 50 or older.

What causes people to switch brands? The reasons range from tangible factors such as vehicle quality, reliability and fuel economy/gas mileage to more emotional reasons like “it fits my needs,” “wanted to try something new” and “enjoyment of vehicle.”

The key to success for dealers is having the right formula of company culture, processes and systems to be able to improve customer retention.

Reasons for Switching to a Different Make of Vehicle
(% consumers saying)



Source: Caggemini
 Base: All consumers who switched to a different make
 Note: Multiple responses allowed

Dealer Loyalty Remains Low

In a continuation of an ongoing trend, dealer loyalty remains at lower levels than manufacturer brand loyalty. Just 42% of consumers indicated that they were likely to lease or purchase a vehicle from the same dealer. Similar to brand loyalty, young consumers are the least loyal to dealers. In this year's research, 38% of those between the ages of 18 and 34 said they would buy from the same dealer vs. 45% of those in the 50-plus age group.

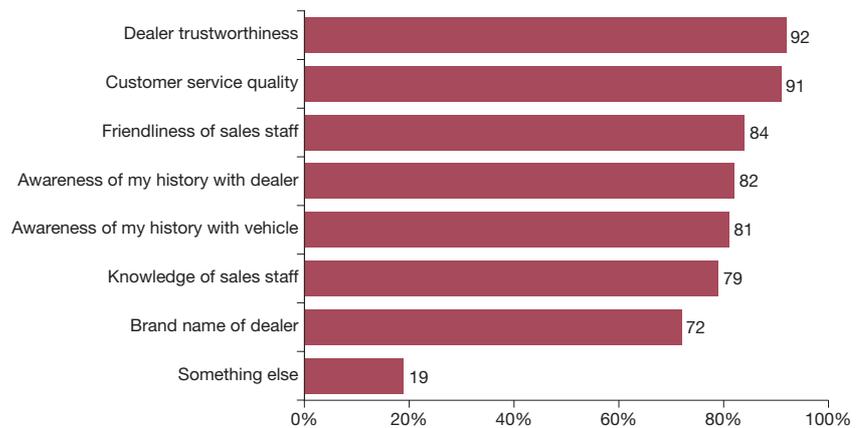
Factors influencing dealer repurchase decisions remain the same as in previous years. Consumers point to dealer trustworthiness, customer service quality and staff friendliness, all of which are reliant upon the dealer's inherent culture. Other influential factors include awareness of a customer's history with the dealer and history with the vehicle, which require that dealers have the right systems and professional processes in place.

The degree of knowledge that a dealer's sales staff has is an additional, though somewhat less important, factor that influences consumer repurchase decisions. As consumers increasingly turn to the web for their information they are less likely to rely on the dealer.

The key to success for dealers is having the right formula of company culture, processes and systems to be able to improve customer retention.

Factors That Influence Repurchase Decisions From Same Dealer

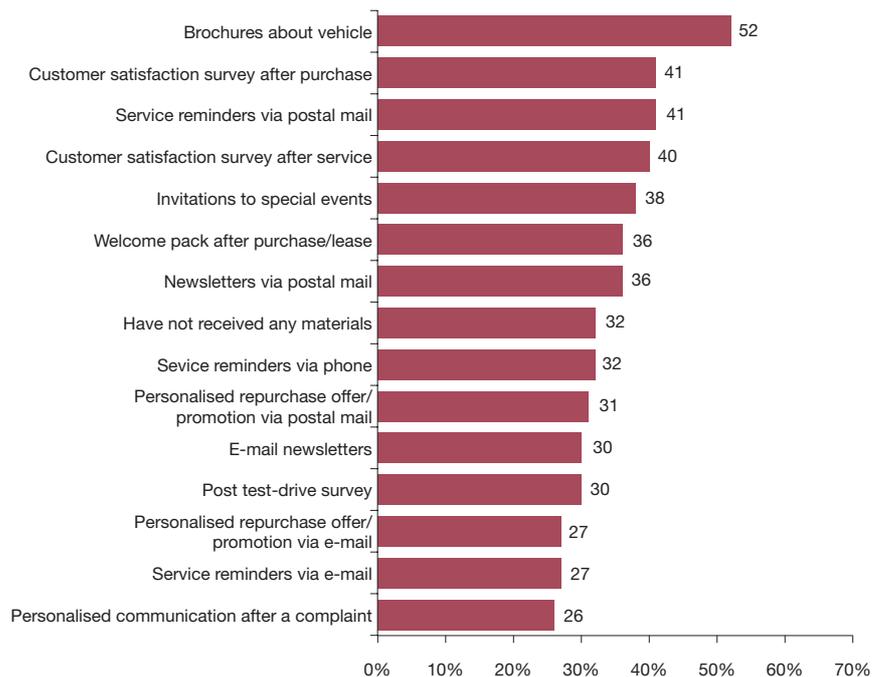
(% consumers saying factors would "influence/greatly influence" repurchase decision)



Source: Capgemini
Base: All consumers who are likely to purchase from the same dealer

Receipt of Materials From Dealer or Manufacturer

(% consumers receiving)



Source: Capgemini
Note: Multiple responses allowed

Staying in Touch

An important element in establishing and maintaining customer loyalty is the ability to communicate after the sale. Many dealers and manufacturers attempt to accomplish this through a variety of methods, including brochures, customer satisfaction surveys, service reminders and welcome packs. Yet 32% of respondents indicated that they had not received any type of post-sale materials from the manufacturer or dealer.

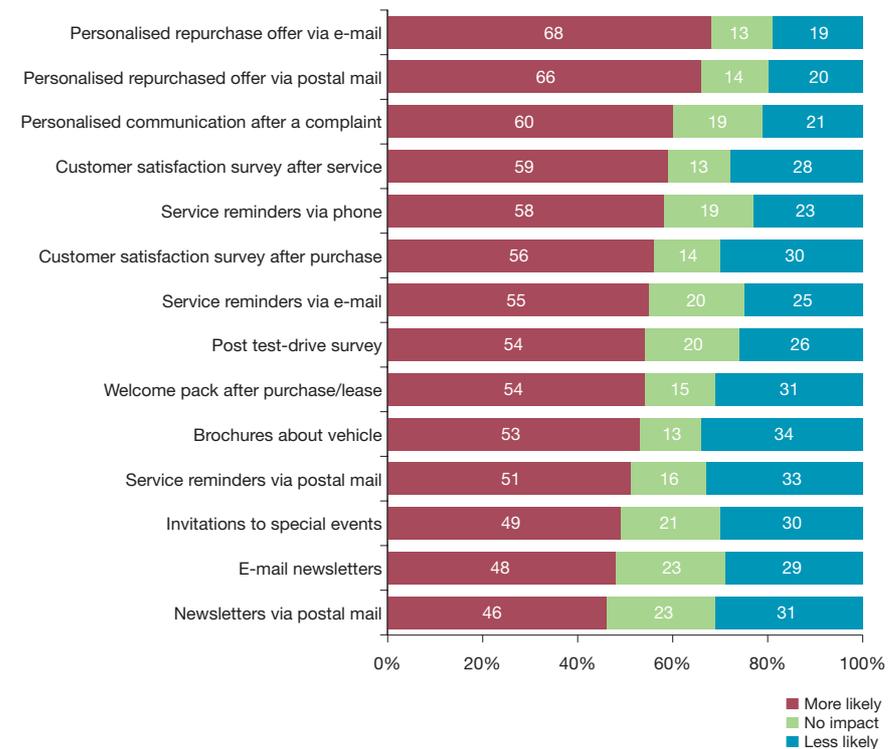
Of those who did receive materials, brochures were highly valued, as were welcome packs and service reminders via postal mail. Service reminders via phone and e-mail were named by more consumers than in the prior year.

However, these types of materials only allow for one-way communication. New tools such as weblogs and social networking sites offer true two-way communication that may prove to be more valuable for an automotive company hoping to establish a dialogue with its customers. A few dealers and manufacturers have begun to test these waters, but the potential remains largely untapped.

Providing a Personal Touch

It's clear from the research that consumers value a personal approach and that it can impact their future purchases. Two-thirds of respondents said that personalised repurchase offers via post and e-mail would make them more likely to buy their next vehicle from that same dealer or manufacturer. And 60% said a

Impact of Materials on Likelihood to Purchase Next Vehicle From Same Dealer or Manufacturer
(% consumers saying)



Source: Capgemini
Base: Consumers who received materials and found them valuable

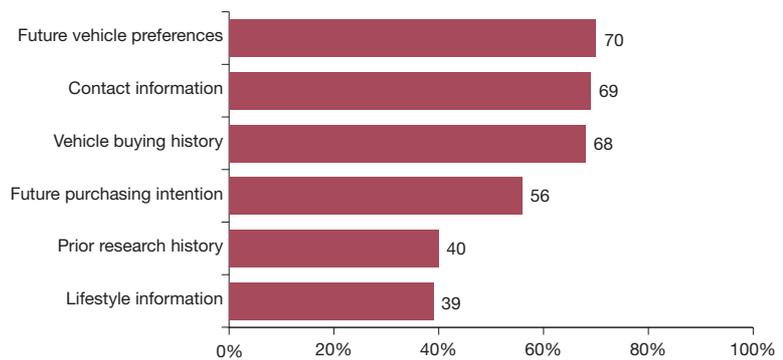
personalised communication after a complaint would have a positive impact on their repurchase decision.

At the same time, however, it is important to keep in mind that some vehicle buyers take a negative view of a personalised approach, particularly given today's privacy concerns. In fact, about 20% of respondents said that these kinds of personalised communications would make them less likely to purchase a vehicle from that dealer or manufacturer.

The message to companies: Personalise your communications – but be careful. Dealers and manufacturers need to understand who is open to this kind of approach and who is not, and this requires effective management of consumer databases. Where customers are open to personalised communication, dealers and manufacturers should take a closer look at the kinds of materials they send in light of the repurchase impact in order to better assess their ROI.

Two-thirds of respondents said that personalised repurchase offers via post and e-mail would make them more likely to buy their next vehicle from that same dealer or manufacturer.

Information Willing to Share With Manufacturers/Dealers
(% consumers saying “yes, willing to share”)



Source: Capgemini

Sharing Information: The Key to Communicating

Getting permission from consumers to communicate with them is a critical step toward establishing a two-way dialogue. Based on our survey, 60% of respondents indicated a willingness to opt in to a manufacturer's or dealer's website in order to receive communications and other materials.

Among those who would not opt in, 27% said nothing would lead them to change their minds. However, others indicated they could be swayed by additional warranty coverage, additional accessories/options at no extra cost, a special gift or an assurance that they would only receive requested information.

Establishing and maintaining a dialogue with individual consumers requires mutual sharing of information. Manufacturers and dealers put considerable emphasis on communicating with their customers, but are consumers willing to reciprocate?

In fact, survey respondents indicated a surprisingly high willingness to provide automakers and dealers with information about their needs and preferences. For example, 70% said they would be willing to share information about their future vehicle preferences; 68% would share their vehicle buying history; and 56% would share information about their future purchasing intention – all valuable information to help companies establish long-term relationships with their customers.

More than two-thirds were even willing to share contact information. Based on similar research conducted in other industries, consumers are often less inclined to share this type of data, perhaps feeling that these relationships may be abused. For instance, in Capgemini's recently published “Future Consumer” study focussing on the consumer products and retail industry, only 36% of consumers said they would be willing to share contact information with retailers and manufacturers,

compared with half who would share information about their buying behaviour and lifestyle.

Vehicle buyers' willingness to share personal information is good news for automotive companies. The ability to access shopper data such as contact details and information about buying behaviour and lifestyle is critical for manufacturers and dealers as they attempt to provide the greatest value to their customers and maintain loyalty. However, it is incumbent upon businesses to manage consumer

information in an effective and trustworthy manner. Consumers are willing to share information – as long as they can trust that this information is being treated in a respectful manner and is translated into relevant offerings and promotions, fully in accordance with consumers' wishes and needs (for example, in cases where a consumer is not open to a personalised approach).

Survey respondents indicated a surprisingly high willingness to provide automakers and dealers with information about their needs and preferences.

Customer Loyalty: What Makes Markets Different

Nationality can make a difference in customer loyalty. UK consumers, for example tend to be somewhat less loyal than respondents in the other markets. In fact, dealer loyalty has been declining steadily in the UK over the past few years. In this year's study, 32% of UK consumers said they would likely purchase a car from the same dealer, compared with 38% in 2006 and 46% in 2005.

Brand loyalty in China has evolved in the past few years, as consumers there begin to resemble those in the West in some respects. In 2005, for example, just 6% of consumers said they were likely to buy the same brand as their current vehicle. This year, 52% of Chinese respondents said they would buy the same brand of car, a level much closer to that in the Western markets. A similar change was apparent in dealer loyalty.

Although personalised communication can be influential when it comes to repurchase decisions, it isn't for everyone. Consumers in China were far less likely to be influenced by these types of materials, compared with those in Europe and the U.S. French respondents, in particular, were very positive about the impact personalised communication might have on their repurchase decisions.

In general, European consumers were more willing than respondents in China or the U.S. to opt-in to a manufacturer's or dealer's website in order to receive communications and other materials. Chinese consumers were the least likely to opt-in – nearly half said nothing would encourage them to opt-in.

U.S. consumers were less willing than their counterparts to share contact information and vehicle buying history, but were more willing to share lifestyle information.

Conclusion and Recommendations

This year's *Cars Online* research demonstrates that consumer needs are indeed changing, and the way consumers behave in the future will be different from what we are used to as an industry today. This means that companies must respond to and, whenever possible, anticipate these changes across a number of dimensions.

Following are recommendations to help companies achieve this objective:

Get the most out of the web.

With at least some consumers considering buying their vehicles online, automakers should re-evaluate their channel strategy. It may make sense to consider an Internet sales arm for your business, especially for particular niche markets where experimentation is an opportunity

rather than a risk. Given the increasing usage by consumers of manufacturer sites, focus on ways to extend your web strategy. Integrate your online and offline channels to provide a consistent consumer experience. Look for the right level of online/offline synergies – but also leverage the different characteristics of each channel.

Integrate C2C tools more tightly into the marketing mix. Take a closer look at the new online tools that are influencing consumer buying decisions. Although manufacturer websites are the primary online source being used by consumers researching vehicles, a growing number of buyers are also turning to blogs and discussion forums for opinions and reviews. Significant product and market intelligence can be gleaned from these channels.



Make sure your web strategy encompasses this emerging area. Are you incorporating search engines into your marketing mix? Do you have an internal or external blog that you are using? (A note of caution: Don't establish a blog just to have one; blogs are most effective when you really have something to say.) Are you monitoring existing automotive blogs and discussion forums to understand what is being said about your brands? As in the early days of the Internet, it's hard to know how this whole area will shake out, but companies that are slow to embrace these developments do so at their own peril.

A mindset change may be required for manufacturers and dealers who are used to taking a command-and-control approach with their web strategies. The new online C2C world is more about reacting and responding, with consumers in control.

Understand what green means in different markets. The research demonstrated that factors driving decisions about fuel-efficient and alternative-fuel vehicles vary by country. Issues related to fuel efficiency and the environment are likely to remain with us in the coming years, keeping consumers focussed on green vehicles – although what constitutes green may evolve over time. And green should not be treated as just a marketing or advertising gimmick or message; if you want to play in this market you need to be committed to green practices throughout your business.

Improve your ability to quickly respond to consumer queries. As consumer demands rise, effective lead management is more important than ever. An integrated end-to-end approach to lead management can significantly improve conversion rates and decrease the overall cost of selling cars. Harnessing the power of the Internet is a major priority for lead generation, as the information that customers gather from websites directly affects their purchasing decisions. A strong web presence, including across-the-board and up-to-date product and price information, vehicle configurators and cost calculators, is critical to positively influence the customer experience. It should also provide relevant data to estimate the value of leads generated, such as buying potential and probability.

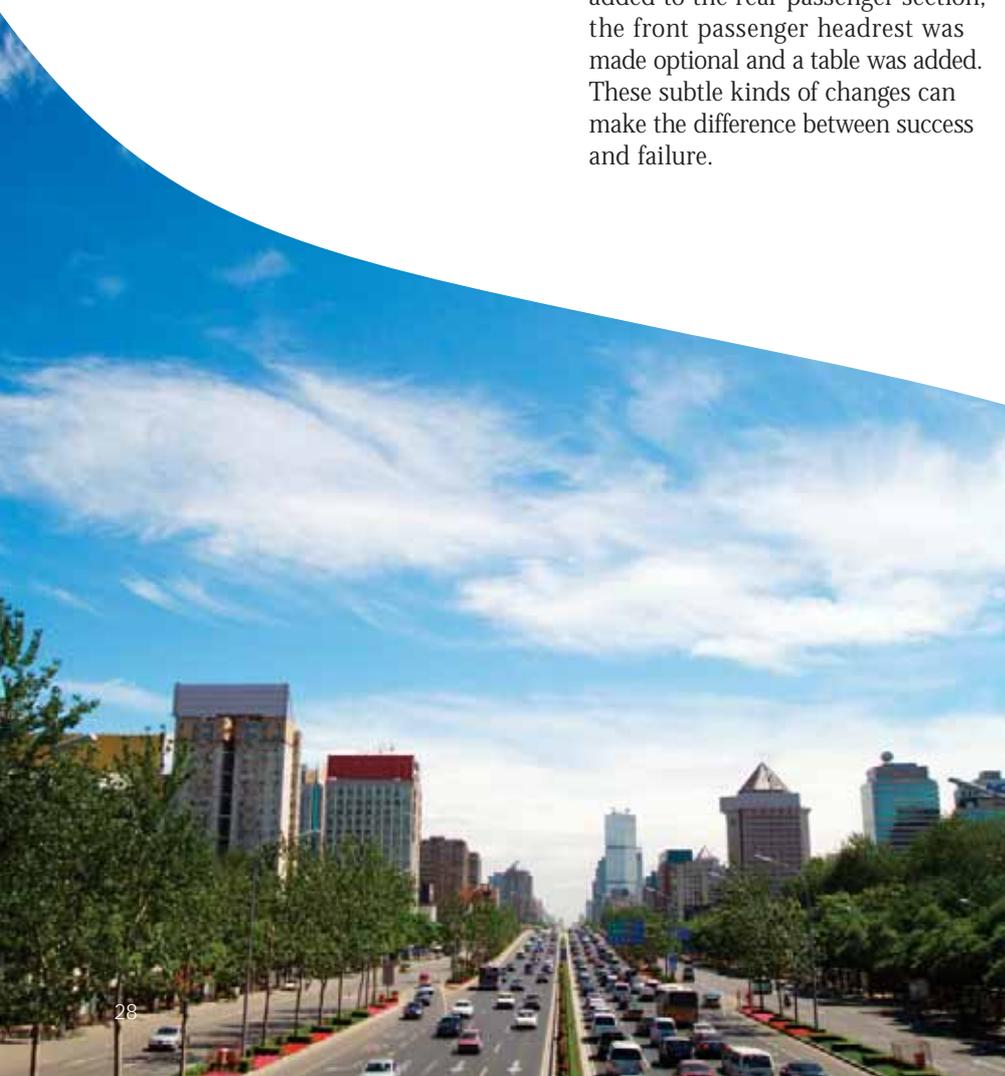
Personalise your communications; don't mass customise. Personalised communication with consumers can have a positive impact on their vehicle repurchase decisions. Achieving this objective requires an effective CRM programme and the use of advanced technologies that can better enhance targeted messaging, increase efficiencies and improve delivery of services to the consumer. Most importantly, it requires careful and effective management of customer information such as personal profiles.

Addressing consumer changes and challenges will not be possible in a single step. This will be a process of evolution. But companies that start this process well prepared with the right consumer information and insight will be heading in the right direction.

Treat China differently; it's still an emerging market, but signs of convergence are beginning to appear. China, now the world's second-largest car market, represents an enormous growth opportunity for automotive companies. However, nowhere is the importance of understanding the local market more apparent than in China. The secret to succeeding in this market will be finding the right degree of local difference. For example, Buick sales in China improved significantly when local modifications were made to allow for the fact that most cars were chauffeur-driven: More room was added to the rear passenger section, the front passenger headrest was made optional and a table was added. These subtle kinds of changes can make the difference between success and failure.

Despite the differences in this emerging market, there are early signs that consumer trends are beginning to evolve in the direction of more mature automotive markets. For example, in this year's study, 53% of Chinese respondents said they expect to receive a response to a web inquiry within four hours, the highest among the countries but a significant drop from the previous year, when 73% of Chinese consumers expected a response within that time frame. In addition, brand and dealer loyalty has evolved in the past few years. In 2005, for example, just 6% of Chinese consumers said they were likely to buy the same brand as their current vehicle. This year that number was 52%, a level much closer to that in the Western markets.

Focus on improving customer loyalty. Establishing and retaining loyalty among today's knowledgeable and fickle consumers is more challenging than ever. Critical to success for manufacturers and dealers will be the ability to develop a strong two-way dialogue with customers, improved manufacturer/dealer collaboration and effective retail integration. Creating efficiencies and enhancing integration in transactions between manufacturers and dealers has implications not only for the cost structure of the manufacturer and dealer, but also indirectly for the customer's perception and thus the competitive position.



Addressing Changes and Challenges

Consumer attitudes about the vehicle buying process have become increasingly sophisticated, as have the tools at their disposal. This has resulted in the need for automotive companies to fundamentally rethink their approach to critical areas such as sales, marketing and advertising, post-sale communication, CRM and manufacturer/dealer collaboration. In some cases this may involve a change of mindset as well as significant financial investments, but these opportunities hold the potential for great returns and are, in fact, necessary in today's market.

Addressing these changes and challenges will not be possible in a single step. This will be a process of evolution. But companies that start this process well prepared with the right consumer information and insight will be heading in the right direction.

Our *Cars Online* study presents many of the findings of our extensive automotive consumer research. Yet there is much more that can be explored and applied to your own organisation. For additional information about our *Cars Online* research or how we can help your company better understand the dynamics of consumer behaviour and customer loyalty, please contact:

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