

# Cars Online 09/10

**Understanding Consumer Buying Behavior  
in a Volatile Market**



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# Introduction

Mergers and acquisitions. Bankruptcy filings. Government intervention. Vehicle scrapping and rebate programs. The past 12 months have brought fundamental changes to the automotive industry around the globe.

Last year ushered in an unprecedented global downturn that originated in 2007. What started as a financial crisis soon expanded into the larger economy, affecting mature and developing markets alike. The automotive industry has been one of the hardest-hit sectors. The downturn has led most automotive businesses to put in place initiatives aimed at short-term survival and mid-term stability with the focus largely on cost cutting and cash preservation. Tomorrow's winners, however, will shift their focus to longer-term prosperity with the emphasis on future differentiation and competitive advantage.

To achieve this objective and regain their footing, automotive companies must have a deep understanding of consumer buying behavior. *Cars Online 09/10* – Capgemini's 11th annual global automotive study – aims to provide insight into how consumers shop for vehicles, what leads them to buy and what they are really looking for from the full vehicle lifecycle experience.

This year's report focuses on both mature and developing markets. The research involved more than 3,000 consumers in Brazil, China, France, Germany, India, Russia, the United Kingdom and the United States.

In this edition we take a deeper look at top-of-mind issues such as online buying of vehicles and parts/accessories, alternative-fuel vehicles and aftersales/servicing. In addition, we asked consumers to think about the biggest changes they expect to make in how they shop for and buy vehicles in the coming years. Their responses provide valuable insight into consumer expectations about the future of the vehicle buying process. Look for their direct quotes throughout the report.

We hope that the findings of *Cars Online 09/10* will provide automotive manufacturers and dealers with insights into changing consumer dynamics in both mature and developing markets, and will help the industry gain a better understanding of consumer buying behavior in today's turbulent climate.

**“I believe the whole car industry will soon look very different. Those companies owned by the government and unions will be bust. Those that listen to the public and offer value, fair prices and the right features will prosper.”** U.S. consumer

# Executive Summary

With vehicle sales suffering in most markets today and automotive companies focused on cost cutting and cash preservation, it's easy to take your eye off the consumer. But, in a climate characterized by volatility, consumer insight is more important than ever as buying behavior patterns evolve rapidly. How do car buyers research vehicles? What types of cars are they looking for? What triggers them to buy? Where – and how – do they want to buy? How do they want to communicate with manufacturers and dealers?

Capgemini's *Cars Online* research aims to answer these questions and more to provide insight that can help automotive companies respond faster and more effectively to changing consumer needs and demands.

## Key Findings

The research uncovered a number of key findings:

### **1 Usage of the web as a key information source during the vehicle buying process has become pervasive across most markets.**

Almost 90% of consumers today use the Internet to research vehicles, up from 61% in 2005. A clear online usage pattern has emerged, with consumers turning initially to search engines, which jumped up the list of information sources this year; then to manufacturer and dealer sites for factual information about vehicles, prices and availability; and finally to consumer-to-consumer tools like discussion sites for qualitative information and opinions.

The ability to interact online and hold real-time discussions with automotive

experts or other consumers in-market is an important trend, which grew strongly this year. Traditional information sources such as TV advertising remain important in developing countries, however, and should be part of the marketing mix.

### **2 Consumers want to buy vehicles and parts and accessories online as they look for lower prices and an alternative to the traditional dealer model.**

Nearly 40% of respondents said they would like to buy a car over the Internet (the complete end-to-end process) and half would buy parts and accessories. While lower price is the leading reason, many respondents said they simply did not want to negotiate price or interact with the dealer in person. Consumers seem to be polarized in their desire to negotiate: about one-quarter wanted the ability to negotiate a better deal, but another one-quarter felt this was something they preferred to avoid.

### **3 Green vehicle ownership continues to rise as environmental concerns grow.**

Consumers indicate a growing confidence in their understanding of so-called "green" vehicles. This increased knowledge is influencing buying decisions. In this year's study, 41% of consumers said they currently own a fuel-efficient or alternative-fuel vehicle, up from 36% the year before. Another 30% said they plan to buy a fuel-efficient or alternative-fuel vehicle.

Interestingly, the reasons behind these buying decisions are evolving. While fuel economy remains the leading driver, a growing number of respondents named impact on the

environment as the primary reason: 26%, up from 19% the previous year. This trend was particularly evident in the U.S.

### **4 Improvements in brand and dealer loyalty and overall satisfaction with the buying process bode well for the industry.**

With plenty of bad news for automotive companies these days, our research uncovered a bit of good news. More than two-thirds of respondents said they were likely to purchase the same make/brand as their current vehicle, up from 61% last year. Similarly, dealer loyalty also rose, with 63% of consumers saying they were likely to purchase from the same dealer where they bought their current car, up from 59% the year before.

Satisfaction with the overall buying process was also up somewhat. However, consumer approval was more muted in the mature markets, demonstrating that there is still work to be done to improve the customer experience in the U.S. and Western Europe.

### **5 Developing markets show early signs of trending toward mature markets, as consumers in the BRIC countries become more familiar with buying cars.**

For example, this year the gap between the factors that impact vehicle decisions in mature vs. developing markets was much smaller. Greater convergence will likely still take a number of years, and market differences will remain for some time. For instance, mature markets increasingly look for information online, whereas developing markets are still keen to get information from more traditional

**“Many of the formalities of car purchases will soon be a thing of the past. The selection and purchase process will be faster, easier and nicer.”**

Russian consumer

sources such as TV advertising and trade shows. And mature markets focus on permanent value when choosing a vehicle, whereas developing markets show greater interest in more transactional marketing such as cash-back bonuses.

Now is the time for automotive companies to focus attention on providing a positive customer experience in developing countries while loyalty and satisfaction levels remain higher than in mature markets.

**6 As the duration of the vehicle buying cycle contracts, automotive companies have less time to influence purchases.**

Consumers today can quickly and easily get vast amounts of information about the vehicles they are interested in, resulting in a shrinking buying cycle. What used to take six months is now likely to take only four, with showroom visits coming ever closer to the point of purchase. More than two-thirds of respondents begin the research process two to four months before they plan to buy and 60% visit the showroom for the first time within two months of purchase.

Connecting with shoppers during the research period and providing them with the right tools and information is critical in influencing buying decisions. By the time they visit the showroom it is often too late.

**7 Consumers want the car buying process to be easier and faster.**

A number of indicators point to a growing desire for improved ease and speed of transaction. For example, more consumers expect a dealer or

manufacturer to respond to an online inquiry within four hours. In China, consumers are even more demanding, with more than half expecting a response within an hour. In addition, almost one-quarter of respondents point to ease and speed of transaction as the key reason for buying a vehicle online, and 30% say it is the driving factor behind their desire to purchase parts and accessories over the web. It is important to note that most of these factors leading to consumer frustration seem to be down to poor basic management and are in the industry's own hands to resolve.

**8 Less than half of consumers with cars still in-warranty have their vehicles serviced at the purchasing dealership.**

This represents a significant missed aftersales opportunity for dealers. And it may also impact repurchase decisions, as consumers tend to be more likely to buy their next vehicle from the servicing dealer rather than the prior purchasing dealer.

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 focused on key topics such as buying behavior patterns, web usage, online buying, customer interaction and aftersales/servicing expectations.

### About the Study

Cappgemini worked with SmartRevenue, a Ridgefield, Connecticut-based research firm, to conduct the survey for *Cars Online 09/10*. All analysis and interpretation of the data has been made by Cappgemini in collaboration with the Car Internet Research Program (CIRP) of the University of Ottawa, Canada. In total, more than 3,000 consumers were surveyed in eight countries: Brazil, China, France, Germany, India, Russia, 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 in terms of region, age and gender. All consumers surveyed were in-market (24% plan to buy or lease a vehicle within three months; 29% in four to six months; 11% in seven to nine months; and 36% in 10 to 12 months).

# Developing Markets: Buying Trends Evolve Rapidly

**Developing markets are not alike in every respect, as our research identifies variances in buying behavior from one country to another.**

## **Don't Call Them "Emerging"**

On a recent visit to a large Chinese automotive manufacturer, we discussed the market and its potential. During the conversation, a company executive took issue with the term "emerging," often used to describe the Chinese market. He noted that given the size and growth of the automotive business in his country, "emerging" hardly seemed accurate anymore.

We took his point. This year we refer to the BRIC countries as "developing" markets, because as the Chinese executive pointed out, these markets have already emerged.

In this year's study we again track consumer buying behavior in the developing markets of Brazil, Russia, India and China. The findings from the four BRIC countries offer a glimpse of how these dynamic and growing automotive markets are evolving.

The developing markets have seen strong vehicle sales growth in recent years. However, just like the mature markets, they have suffered somewhat in the past 12 months. For example, according to the Association of European Businesses, Russian car sales fell by 49% in the first half of 2009, and a similar drop is projected for the second half of the year. In Brazil, ANFAVEA (the Brazilian National Association of Motor Vehicle Manufacturers) expects car sales to fall this year for the first time since 2003.<sup>1</sup> The picture is brighter in China and India. Nevertheless, the potential for significant long-term growth remains strong in all four markets.

Following are some of the key trends noted in the developing regions. Additional variances by market are discussed throughout the full report.

## **Signs of Convergence Appear**

This year we found early signs of convergence in Russia, Brazil and India as consumers in these markets become more familiar with buying cars. As a result, some of the trends are beginning to move closer toward those in the mature markets. We have seen a similar rationalization in China in recent years too.

For example, this year the gap between the factors that impact vehicle decisions in mature vs. developing markets was much smaller. Last year, consumers in the BRIC countries tended to rate all of the factors as more important than did respondents in mature markets. This year, the numbers were much

<sup>1</sup> "April car sales in Brazil fall 13.7% from the previous month," <http://en.mercopress.com/2009/05/08/april-car-sales-in-brazil-fall-13.7-from-the-previous-month>, May 8, 2009

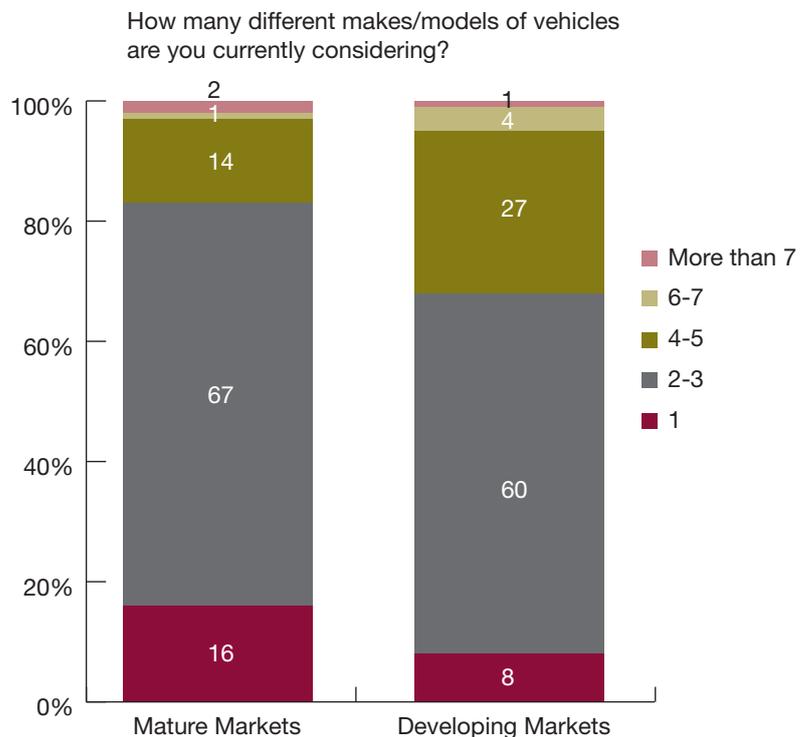
closer to those in the mature markets, with the exception of short-term factors such as low financing and cash-back incentives, which are still more important in developing countries than in mature markets.

Customer loyalty and online buying trends also show signs of convergence, with slight declines in some of the developing markets as they begin to move closer to the levels typically seen in the mature markets.

The shift toward convergence is particularly pronounced in Russia, where many vehicle buying patterns resemble those in western markets, a trend that was apparent last year as well. For example, Russian consumers are more likely than those in the other developing markets to rely on web-based information sources and less so on traditional sources such as TV advertising and auto shows. This pattern mirrors consumer behavior in the mature markets, particularly the U.S.

A similar trend is apparent in the type of vehicle consumers plan to buy. Russian respondents are more likely than their counterparts in the other BRIC countries to want to buy a used vehicle, no doubt helped by recent government tax changes. About one-quarter said they plan to buy a used car, which is about the same as the number in the U.S. The stronger used car market in both the U.S. and Russia likely accounts for the fact that consumers in those countries are more inclined to use service stations and auto repair shops for servicing. In addition, Russian consumers show strong interest in buying a sports utility vehicle, again similar to consumers in the U.S.

**Consumers in Developing Markets Consider More Vehicles (% consumers saying)**



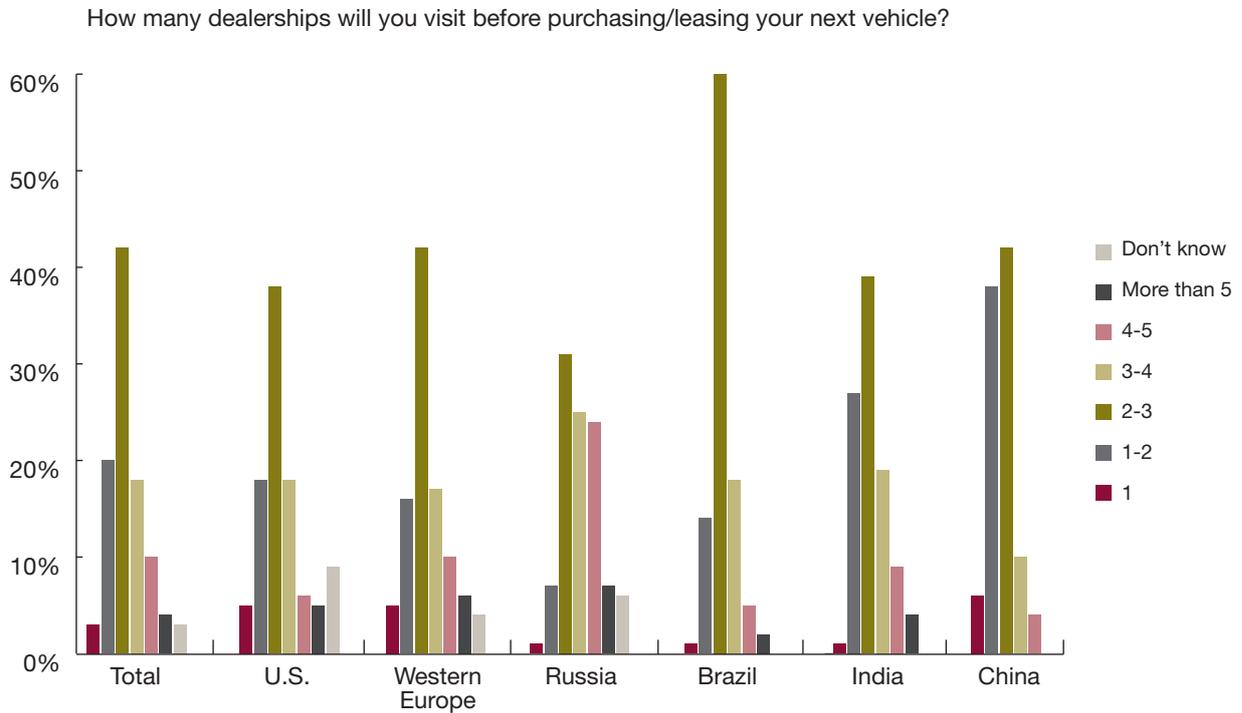
Source: Capgemini

**Differences Between Developing and Mature Markets Remain**

Despite the trend toward convergence, significant differences between developing markets and mature markets remain. For example, consumers in most of the developing countries are more likely to rely on traditional information sources such as TV advertising when researching vehicles. Respondents from mature markets primarily use web-based sources. This is likely due to the fact that consumers in the developing markets are still new to the car buying process and want as much information as possible from a wide range of sources.

**“I have confidence that we will see big changes in the kinds of cars we buy; they will be friendly to the environment and to my pocket.”** Brazilian consumer

**Dealer Visits Vary in Developing Markets (% consumers saying)**



Source: Capgemini

Interestingly, however, respondents in developing countries who do use the Internet are more likely than their counterparts in mature markets to turn to new tools such as blogs, video sites and RSS feeds. They may be new to the vehicle buying process, but not to technology.

Consumers in developing markets are also more likely than those in mature markets to consider a greater number of makes and models before buying. One-third of respondents from the BRIC countries look at four or more makes/models, compared with only 17% in the mature markets.

In addition, consumers in developing markets are prepared to spend a significantly higher proportion of their income on a vehicle. In the U.S., for example, the majority of respondents expect to spend less than 25% of their annual income on their next vehicle, compared with the developing markets where the majority of consumers will spend up to 50% of their income. In Russia, one-third are prepared to spend more than 50%.

**Variations in Buying Behavior Among BRIC Markets**

It is important to note that all developing markets are not alike in every respect and that we see variations in buying behavior from one country to another.

Brazil stands out in a number of respects. For example, Brazilian consumers are more likely than their counterparts in the other developing countries to look at a greater number of vehicles. More than half said they will consider four or more makes/models.

Russian consumers tend to visit more dealers than do shoppers in the other developing markets. Almost one-third of respondents in Russia said they will visit four or more dealers before buying, compared with only 7% in Brazil, 13% in India and 4% in China. This may be due to the fact that there are more dealerships in Russia to choose from than in countries such as India and China.

Differences were also apparent in terms of the types of vehicles consumers plan to buy. Brazilian respondents show a much greater tendency toward buying smaller cars and place greater emphasis on hybrid or other alternative-fuel cars.

**“I would like to see a point system for providing feedback on a blog or forum site, which would enable you to get some kind of discount from the dealer or manufacturer.”**

Indian consumer

# How Consumers Buy: Target Your Marketing Mix

**Vehicle buyers are taking less time to research and visit showrooms and are increasingly turning to web-based information sources.**

## Vehicle Buying Cycle Shrinks

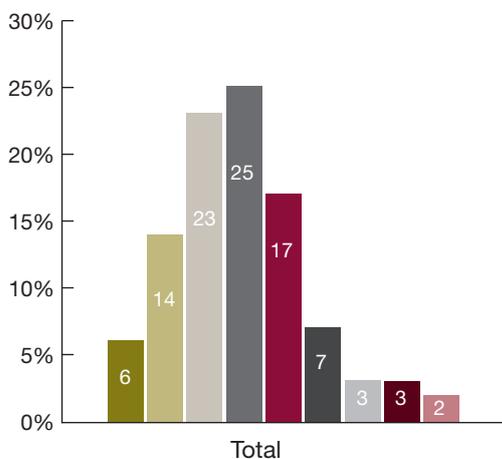
Traditionally, the vehicle buying cycle has been shown to last about six months. Our research indicates that this period is compressing as consumers are able to gather significant information about vehicles quickly and easily over the web. More than two-thirds of respondents begin the research process two to four months before they plan to buy and 60% visit the showroom for the first time within two months of purchase. This pattern is fairly consistent across markets.

Understanding the shifting timeframe is vital, as the research period is the critical time to reach in-market consumers with the right information and the right response mechanisms. By the time a consumer visits the showroom, it is often too late to influence the vehicle decision.

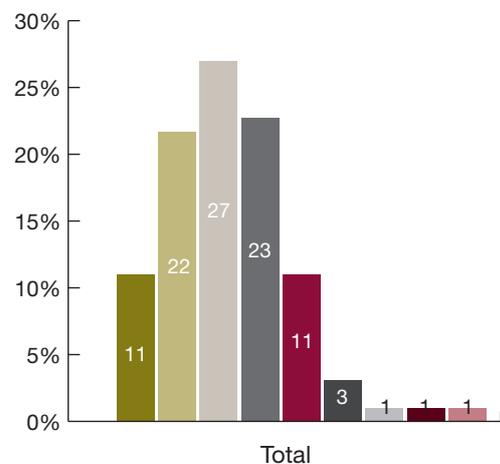
What triggers a consumer to move from the research stage into the showroom? It is not so much a particular point in time but rather a shift in mindset.

### The Shrinking Vehicle Buying Cycle (% consumers saying)

How long before your planned vehicle purchase/lease did/will you begin to research vehicles?



How long before your planned vehicle purchase/lease will/did you visit a dealership showroom?



Source: Capgemini

In earlier consumer research conducted by the Car Internet Research Program (CIRP) and Capgemini, we found that the switch from researching to dealer visits typically occurs when “enough” information has been gathered and a consumer feels ready to negotiate. Of course, what constitutes enough information will vary from one buyer to another. However, from a power-struggle perspective, it typically means that the customer knows what he wants and how much he is ready to pay. When that state of mind is reached, the buyer is ready to enter the showroom.

Ensuring that your showroom is among those visited by consumers is a challenge as consumers visit fewer dealerships today than in past years. About one-quarter of respondents said they visit only one or two dealerships before buying a vehicle.

### The Search for Information

Where do consumers go for their information during the research stage? Most turn to the web. Almost 90% of consumers say they use the Internet to research vehicles.

“There should be a real price for a vehicle and a real warranty with no fine print.” U.S. consumer

This year, the use of search engines jumped considerably, moving up to the third spot from seventh position last year. Search engines are increasingly becoming a key starting point for consumers as they search for new models and brands, as well as information about automotive-related blogs, reviews and other types of resources that might help them during the research process.

Usage of manufacturer websites as well as automotive blogs, forums and discussion groups also increased. While most web-based sources show gains in mature markets this year, the use of more traditional sources such as TV advertising and auto shows, continues to decline among Western car buyers. In contrast, while consumers in developing markets use the web to research vehicles, they still rely on traditional sources too. This is particularly true in Brazil, India and China, though less so in Russia. For example, 30% of consumers in the BRIC regions use and value TV advertising, compared with only 16% of respondents in the mature markets.

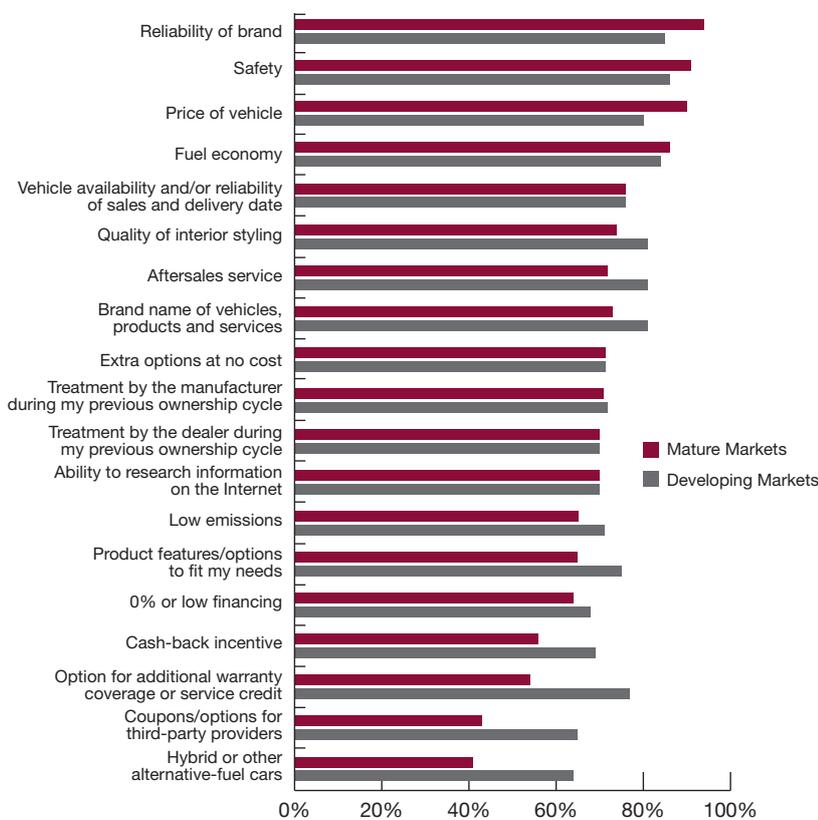
These trends point to the importance of targeting your marketing mix to the specific market. This approach has

Expected Use of Information Sources (% consumers saying)



Source: Capgemini

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



Source: Capgemini

**“Petrol vehicles will become a thing of the past and more emphasis will be placed on safety, the environment and economical vehicles. I will concentrate more on manufacturer and government websites for information.”** UK consumer



already resulted in some significant shifts in spending. For example, in the U.S. local broadcast TV spending in the automotive category fell more than 50% in the first quarter of 2009, according to the Television Bureau of Advertising.<sup>2</sup>

**Reliability and Safety Matter Most**

Once the research process is complete, what factors ultimately determine the

vehicle that a consumer chooses? As in prior years, the top four factors across the board are reliability, safety, price and fuel economy. In a continuation of our findings from last year, consumers in developing markets are more likely than their counterparts in mature markets to emphasize transitory factors, such as cash-back incentives and coupons/options for third-party providers.

<sup>2</sup> "A World Without Local Car Dealer Ads?" Advertising Age, June 12, 2009

# Green Vehicles: A Force for the Future

**Growing interest in fuel-efficient and alternative-fuel vehicles will lead to fundamental shifts in consumer buying behavior over the coming years.**

## **“Time We Got Off the Oil Wagon”**

When consumers were asked about the changes they expect to see in the way they buy vehicles over the next decade, mentions of more environmentally friendly cars vied with online buying as the major change. *“I am hoping that soon my choices for alternative-fuel/green vehicles will be much larger. It’s time we got off the oil wagon,”* said one respondent from the U.S.

That sentiment was echoed throughout the eight markets studied. Even in Germany, where vehicle performance was a key factor for many consumers, one respondent noted that *“A fast car is not exciting if it consumes a lot of fuel.”*

Considerable focus today is being put on developing more fuel-efficient and alternative-fuel vehicles by most major car manufacturers, as well as governments, energy companies and other industries. This growing focus on “green” is being strongly fueled by consumer demand stemming from economic and environmental factors. In our research, 41% of consumers said they currently own a fuel-efficient or alternative-fuel vehicle, up from 36% the year before. And another 30% said they plan to buy a fuel-efficient or alternative-fuel vehicle.

## **Consumer Confidence About Green Knowledge Is High**

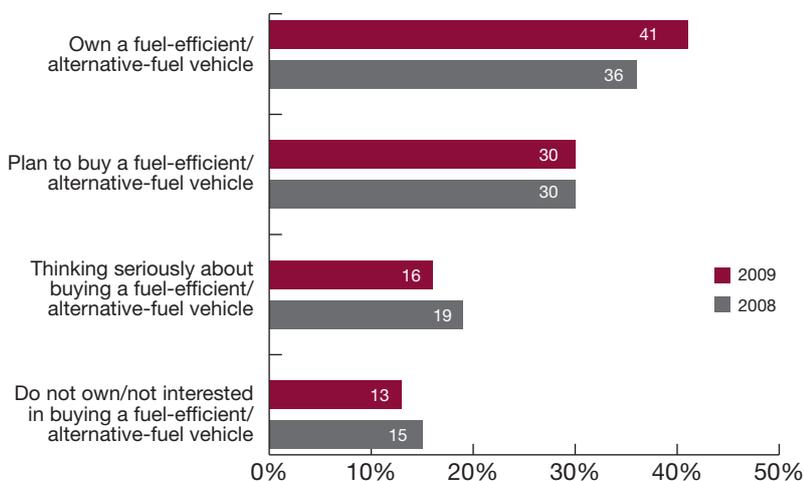
Consumers in most markets today are gaining a better understanding of what green really means. Three-quarters of all respondents say they are confident or very confident in their knowledge of green vehicles. The degree of confidence is highest in

Brazil, which is not surprising given that ethanol-based and flex-fuel vehicles have been sold in that country for a number of years. Almost 90% of Brazilian respondents say they have a strong understanding of green vehicles.

Evidence of rationalization between developing and mature markets is apparent in this area. Confidence in green knowledge was up in the U.S. and level in Western Europe, but down somewhat in developing markets.

**“I think the auto industry is going to make a complete change within 10 to 15 years. I hope there will be no emissions, 100% clean fuel.”** U.S. consumer



**Ownership of Green Vehicles Increases (% consumers saying)**

Source: Capgemini

Brazil, ethanol or gasoline/ethanol flex-fuel cars are popular.

It is not surprising that electric vehicles, particularly hybrid gas/electric cars, would be at the top of consumers' list of alternative-fuel choices. They are the most commercially mature and viable of the various kinds of alternative vehicles and have demonstrated the potential to reduce fuel consumption and exhaust emission.

*"I think we will start seeing an awful lot more cars available in electric form,"* said a consumer from the UK. *"And greater pressure will be put on drivers to be more green aware."*

Although sales of hybrid electric vehicles still represent only a small share of overall car sales and despite slower sales this year, future demand is expected to grow. This is particularly true in markets like the U.S. and Japan as prices of hybrid and other types of electric vehicles begin to drop. By some estimates, global sales of hybrid electric vehicles may surge at a compound annual growth rate as high as 12% over the next few years. Developing markets like Brazil, India and China are also expected to contribute to this growth as they put more focus on environmental issues such as CO<sub>2</sub> reduction.

**Why Consumers Buy Green**

While fuel economy remains the number one reason that consumers own or plan to buy a fuel-efficient or alternative-fuel vehicle, environmental impact is a growing factor. An increasing focus on environmental issues overall, combined with lower fuel prices during the past year are the likely drivers. The trend was particularly apparent in the U.S. where 20% of respondents said the environment was their primary reason for choosing a fuel-efficient or alternative-fuel car, up from just 9% the previous year.

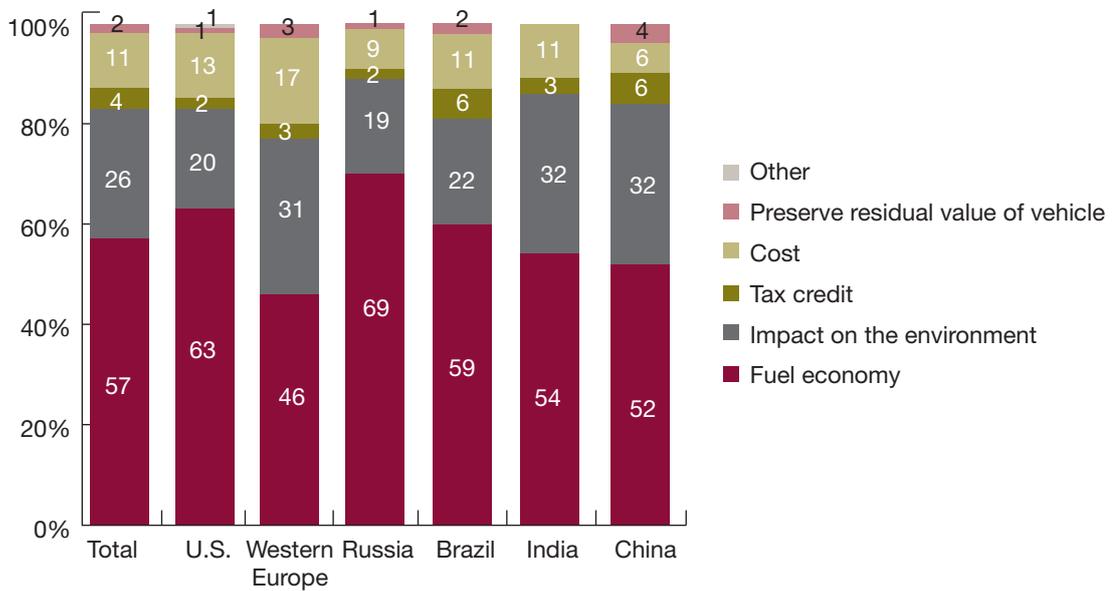
Consumers in Western Europe remain the most focused on the environment, with 31% indicating that environmental impact is the primary reason for owning or planning to buy a fuel-efficient or alternative-fuel car. This number is up from 22% the year before.

Most of the developing markets also saw an increase in the focus on the environment. In India, for example, 32% of respondents pointed to the environmental impact, up 10 percentage points from the prior year. Similarly in China, 32% identified environmental impact as the primary reason behind green vehicle decisions, an increase from 20% in 2008.

**Hybrids Lead the Way**

According to our research, gas/electric hybrids are the primary type of alternative-fuel vehicle that consumers currently own or plan to buy. This is particularly true in the Western markets. In the U.S., for example, 60% say they own or plan to buy a gas/electric hybrid car, up from 52% in 2008. Gas/electric hybrids are less dominant in the developing markets, where consumer interest is also focused on natural gas or natural gas hybrids and all-electric vehicles. In

**Why Consumers Buy Green Vehicles (% consumers saying)**



Source: Capgemini  
 Base: Consumers who own/plan to buy a fuel-efficient or alternative-fuel vehicle

**“I would consider a hydrogen-powered sedan. The maintenance is affordable and it’s good for the environment too.”**  
 German consumer

**Will Consumers Pay for Green?**

While consumer interest in green vehicles is strong and growing, cost remains an issue. Our research found that consumers show some willingness to pay for improved fuel efficiency, although about 70% of respondents said they would pay no more than 10% extra for a fuel-efficient or alternative-fuel vehicle. And in the mature markets, close to 20% said they were not prepared to pay any premium at all.

*“I will purchase an alternative-fuel car as I am very concerned about the environment,”* said a U.S. consumer.

*“But I hope that prices will come down as it will encourage others to purchase this type of vehicle as well.”*

Prices are expected to drop over the coming years, but it is still early in the cost-reduction curve. Government-sponsored programs in the form of both consumer credits/rebates and battery development incentives in the electric vehicle business provide some cost relief. However, the price gap between gas-powered and alternative-fuel vehicles will need to shrink considerably if the mass market is to accept green cars.

# The Role of the Web: Consumer Usage Pattern Emerges

**As Internet sophistication grows, consumers look to different kinds of sites for targeted information.**

Use of the web during the vehicle buying process is now at nearly full saturation in most markets. The exception is China, where Internet penetration remains low in some regions. A clear pattern has emerged, with many consumers starting their research with search engines, then moving to manufacturer and dealer sites, and finally to consumer-to-consumer tools like blogs and discussion sites.

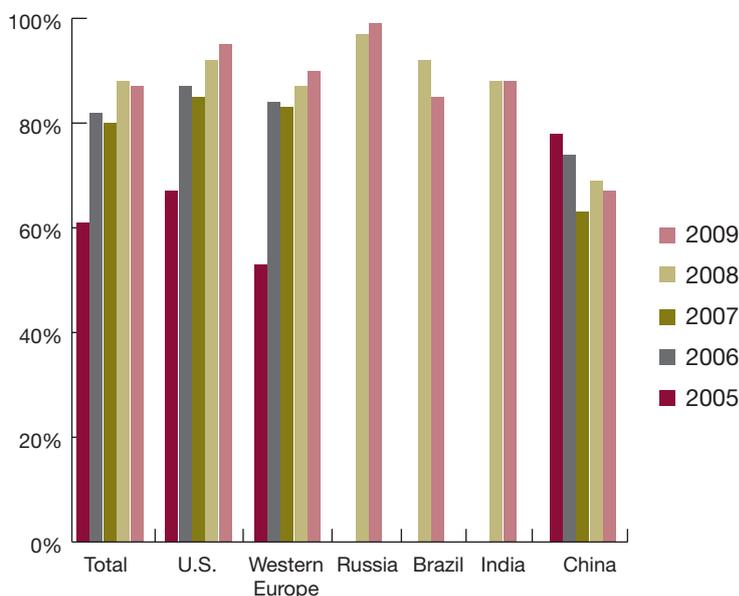
## What Consumers Want from the Web

As Internet sophistication grows, consumers look to different kinds of sites for targeted information. From manufacturer and dealer sites, respondents say they want to find a full range of product information and base pricing above everything else. This has been the case now for a number of years.

The importance of features such as comparators and configurators was down somewhat this year. Least important to consumers are features such as dynamic graphics, the ability to check dealer inventory, availability of a website in their native language, and online information about the latest ads and promotions.

Some differences were apparent by market. For example, comparators and cost calculators were somewhat more important to consumers in the mature markets, especially the U.S. Respondents in the developing markets, particularly those from India, were interested in the ability to get guidance and advice over the web and to communicate with their dealer or car company online to solve problems, buy accessories, etc.

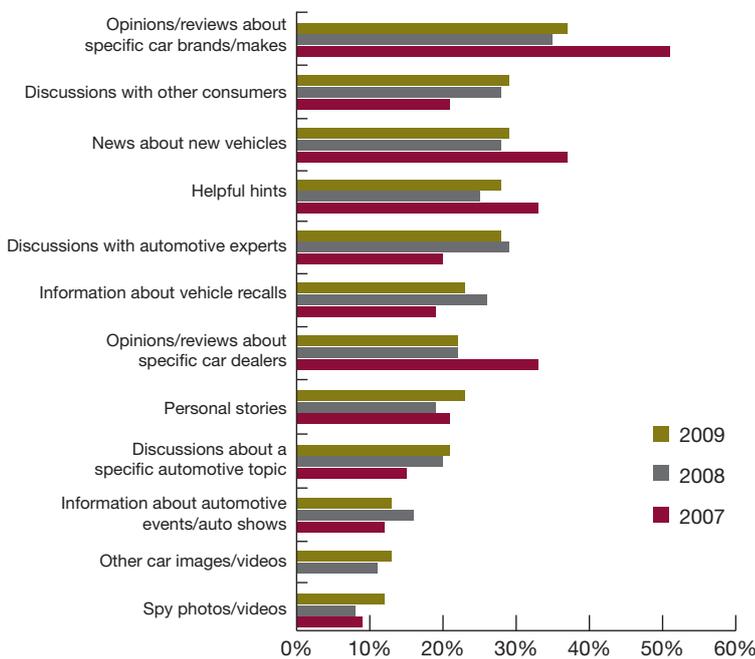
**Wide Use of the Internet to Research Vehicles (% consumers saying)**



Source: Capgemini  
Note: Russia, Brazil and India were not included in the research until 2008

**“I want to look for a vehicle that is more fuel efficient and will be researching at green websites and different car blogs because consumer opinions really matter to me.”**  
U.S. consumer

**Reasons for Using Consumer-to-Consumer Online Tools (% consumers saying)**



Source: Capgemini  
 Note: Multiple responses allowed  
 Base: Consumers who use consumer-to-consumer online tools to research vehicles

**New Tools Provide New Information**

After doing research via manufacturer and dealer websites, an increasing number of consumers are turning to online consumer-to-consumer tools such as automotive blogs, forums, discussion groups, video sites and RSS feeds. The use of these tools during the research process has grown in recent years and is particularly high in the developing markets.

Indian consumers are among the most likely to use automotive blogs (46% of Indian respondents vs. an average of 40%), online video sites (50%, compared with the average of 32%); and RSS feeds (28% vs. 12% overall). Respondents from Brazil are the most likely to use social messaging/micro-blog sites like Twitter (30% vs. the average of 13%) and mobile phone applications (27%, compared with 10% overall).

Consumers rely on these sites primarily to gain more qualitative, objective information about vehicles and dealers. This year respondents placed growing emphasis on interactive discussion sites, rather than static information such as vehicle news. For example, 29% said they look for discussions with other consumers, up from 21% in 2007; and 28% participate in discussions with automotive experts, an increase from 20% two years ago.

Not only do these kinds of tools provide consumers with additional information as part of the research

**“I would like to see one centralized website where it would be possible to find information on all offers for all brands. It would be a more flexible and simple way to choose a car.”** Russian consumer

process, they can influence buying decisions. More than two-thirds of consumers said they would be more likely to purchase a particular vehicle or buy from a certain dealer if they found positive comments posted on blogs, forums and the like. The numbers were even higher in Brazil and India.

Conversely, 57% of respondents said they would be less likely to buy a particular make or from a specific dealer if they found negative comments on these kinds of sites.

### Building Relationships Via the Web

What if consumers had the chance to speak to a vehicle manufacturer adviser as they narrowed down their vehicle selections? Someone who could help them by answering technical questions, or identifying resolutions to their specific needs (as a hotline would); or by being reassuring – offering an ear, a human voice and advice (like a coach).

In research conducted by the Car Internet Research Program (CIRP) and Capgemini, we found that consumers saw value in pioneering flexible web services, such as virtual assistance, particularly during the critical time period during the research process before they enter the dealer showroom.<sup>3</sup>

Our research made it clear that implementing a service like a “Virtual Adviser” into a manufacturer’s web model can engage early-phase shoppers interactively and set the stage for building a superior customer relationship experience. This can provide the following benefits:

- Enhance the probability of a shopper choosing your brand as one of the two models they will closely examine.
- Increase the likelihood that your dealership will be the one they visit.
- Improve the chances that the shopper will arrive at the dealership feeling more comfortable, with a greater level of trust.
- Complement the dealership distribution model by providing broader consumer coverage, particularly in new or expanding markets.

Most importantly, we found that a Virtual Adviser program has the potential to drive an enhanced prospect funnel with improved conversion rates.



<sup>3</sup> “Before the Door,” Car Internet Research Program (CIRP) and Capgemini, 2009

# Online Buying: ‘No Hassles, No Negotiations’

**Consumers want a cheaper, faster, easier way to buy cars. Their answer: the Internet.**

“In 10 years, I expect buying a car online will be more like buying a replacement mirror on eBay. Choose which one you want, pay for it and have it shipped to your front door. No hassles and no salesman negotiations.” – U.S. consumer

“It will be possible to order a car and all the necessary features online – pay, get a loan, insure and arrange a pick-up location (delivery to home or a sales center). All this without leaving your house.” – Russian consumer

There is no question that consumers expect to buy their vehicles over the Internet in 10 years’ time. But many are not willing to wait that long.

Consumers today have demonstrated a clear interest in online buying of

cars and parts/accessories, a trend we began tracking in our *Cars Online* research two years ago after not having focused on it for a number of years. This year, we explored the topic more deeply.

Nearly 40% of consumers said they would buy a vehicle online (the complete end-to-end transaction) if that capability existed. This was down a few percentage points from last year, reflecting a rationalization in the developing markets. Brazil, India and China all experienced a drop in the number of respondents saying they were likely to buy a vehicle online, although the rates are still far higher than those in the mature markets. The number increased to 21% in the U.S., from 17% the previous year. And in

Western Europe and Russia, the results were consistent with last year.

Consumers are more likely to want to buy a new rather than a used car over the Internet. This is no doubt due to the fact that new cars are presumed to be of a high quality and in good working condition. Consumers are less willing to buy a used car sight unseen.

## Why Buy Online?

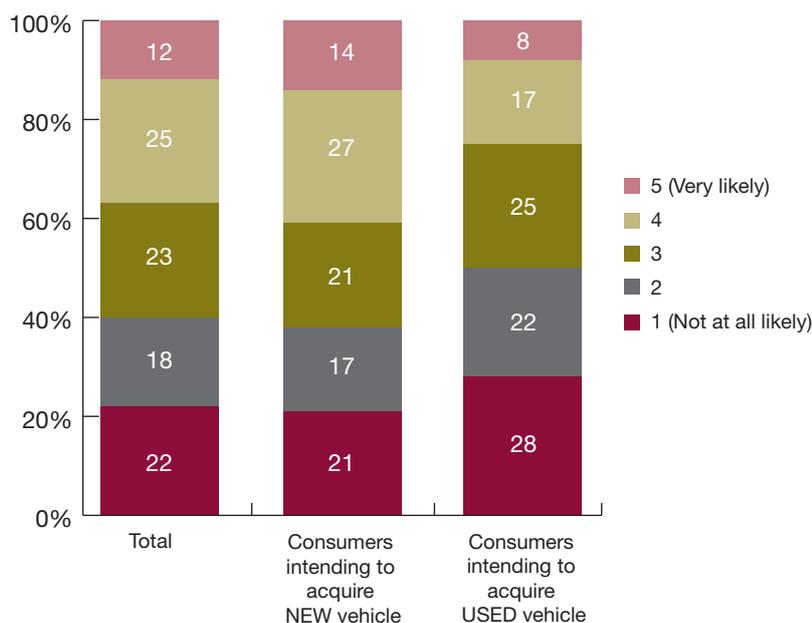
While price discount is the leading reason consumers are interested in buying a car over the Internet, more than one-quarter said they wanted to avoid interaction or price negotiation with the dealer in person. Consumers also expect an online transaction to be easier and faster.

In India and China, respondents were particularly inclined to prefer the Internet in order to avoid interacting with the dealer. In those markets, a price discount was a secondary reason for buying a car online.

It is important to point out that while many consumers dislike the price negotiation that typically goes on inside the dealership, others actually enjoy bargaining over price and say that the *inability* to negotiate price would be a barrier to buying online.

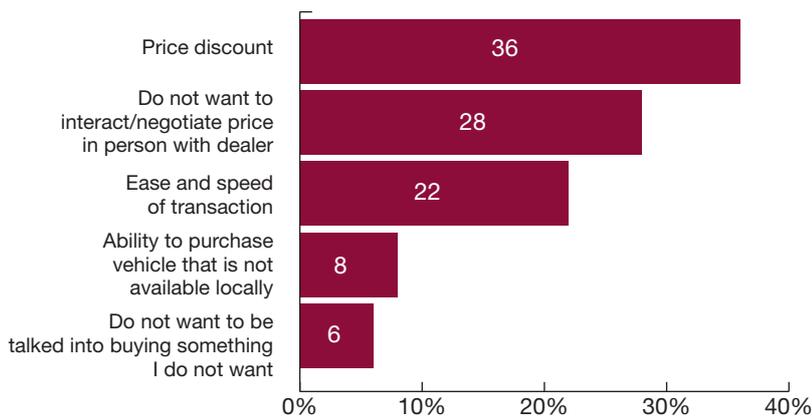
This dichotomy in negotiation preferences was apparent in earlier research published by the Car Internet Research Program (CIRP) and Capgemini.<sup>4</sup> In that study, we found that the process of negotiating the purchase or lease of a vehicle arouses strong emotions and corresponding reactions. Different consumers adopt

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



Source: Capgemini

<sup>4</sup> “Am I Being Taken?’ Inside the Dealership: The Impact of Consumer Negotiation Preferences and Strategy,” Car Internet Research Program (CIRP) and Capgemini, 2008

**Primary Reason to Purchase Vehicle Over the Internet (% consumers saying)**

Source: Capgemini

“I would like to buy a car totally on the Internet and have it delivered to my home. Perhaps there would be only one dealership in town with one of each model for test drives and to look over. Then you would go home and order over the Internet the car you want with the options you want.”

U.S. consumer

different types of negotiation strategies; in some cases they are more *opaque* and in others they are fairly *transparent*.

Transparent shoppers are at ease with the salesperson and are open about their interest in the vehicle as well as why they like it. They are more likely to enjoy the negotiation process. Opaque consumers, on the other hand, are less confident in their ability to get a good price, and so do not enjoy the bargaining process. This second group of car buyers represents a potential market for online vehicle buying.

**Barriers to Online Buying**

Again this year, we asked respondents to identify the barriers they see to online vehicle buying. And again, we were struck by the fact that the primary hurdles – such as the inability to test drive a vehicle, see photos/video of the vehicle or receive full product and price information – are clearly surmountable.

For example, a car could easily be brought to a consumer’s home for a test drive. Some consumers even suggested using virtual reality tools to make online test drives possible.

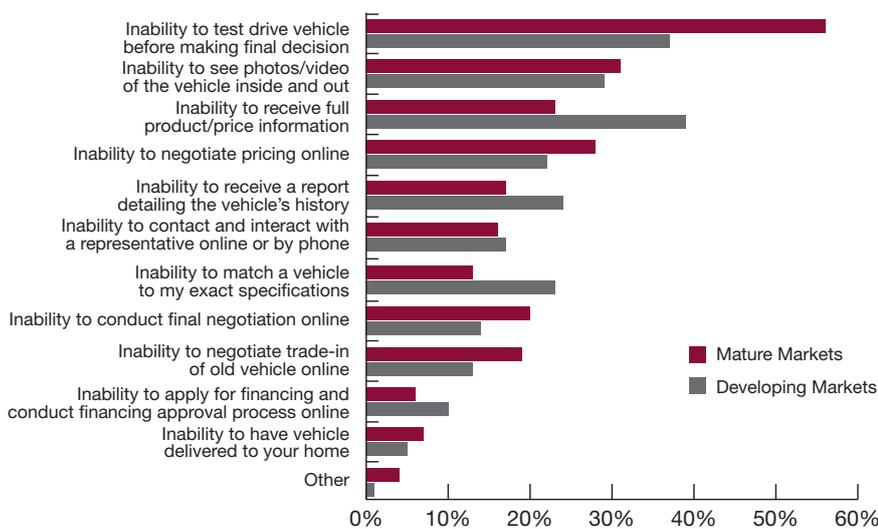
Some differences by market were apparent, with test drives being more of a concern in mature markets and the lack of information about a vehicle’s history a greater concern in developing regions.

Many respondents do not rule out a role for the dealer in online vehicle buying. Close to one-third said price negotiation would be the primary role of the dealership, while 28% pointed to test drives and 17% said providing service packages. Additional functions included serving as a location to pick up a vehicle after buying it online, as well as a place to view the vehicle in person and to acquire additional information before buying online.



**“It will soon be possible to order everything online, starting from the build and color and finishing with accessories.” Russian consumer**

**Barriers to Online Buying (% consumers saying)**



Source: Capgemini  
Note: Multiple responses allowed

Price discounts and dissatisfaction with the dealer/retailer process are the key reasons consumers want to buy parts and accessories over the web. Overall, 35% of consumers expect a price discount when they buy vehicle parts and accessories online; 30% point to ease and speed of transaction as the key reason; 21% look for wider selection and availability; and 10% do not want to interact in person with a dealer or parts retailer.

These reasons are fairly consistent across markets, with a few exceptions. In Russia, the wider selection and availability of parts and accessories resonated most strongly with car buyers. In India, ease and speed of transaction was somewhat more important than price discount. And in China, 31% of respondents said they did not want to interact in person with a dealer or parts retailer.

**Practical Items Lead the List**

Overall, respondents want to buy practical items such as seat covers, floor mats and tires online rather than custom accessories like spoilers, specialty headlights/taillights and custom wheels. There were some notable market differences, however.

For example, in-car entertainment devices and systems lead the list in Russia, named by about half of respondents, compared with an average of 34%. Consumers in India were also more likely than average to consider buying in-car entertainment systems over the web, while these items were at the bottom of the list for Chinese respondents.

However, many consumers do not expect to see dealer lots full of cars if online buying takes off. “There will be only test cars,” said a U.S. respondent. “Cars will be made to your specifications, thus eliminating dealer inventory on the sales floor.”

Some respondents see a grim future for dealers. “Dealerships will become history,” said a consumer in India. “Everyone will buy their cars online and have them delivered at their doorsteps.”

Not everyone is sold on online buying, however. “I hope that we’ll still have our local dealers because of their proximity and their knowledge of their customers,” said a consumer from France. “I think that most of the research will be done on the Internet but finalizing the deal will be face-to-face with the salesman. It’s too important a purchase for everything to be done virtually.”

A similar sentiment was echoed by a respondent from the U.S., who said, “Talking one-on-one with a real person to finalize a purchase is invaluable. I doubt that I would ever purchase a vehicle from the Internet, no matter how easy it is to research makes, models, pricing, extras.”

**Significant Interest in Buying Parts/Accessories Online**

This year we took a closer look at the business of selling parts and accessories over the Internet, an area of considerable interest to consumers. Half of respondents said they would like to buy parts and accessories online. As with online vehicle buying, the trend is growing in the U.S., is consistent in Western Europe and Russia, and is down somewhat in the other developing markets.

# Customer Interaction: Loyalty and Satisfaction Rates Improve

**In a year full of bad news for the automotive industry, our research found bright spots in brand and dealer loyalty and customer satisfaction with the vehicle buying process.**

Automotive companies could use a bit of good news and our research provides it in the form of improved customer loyalty. This year we saw a spike in brand loyalty in most countries, perhaps a reflection of the ever-increasing reliability of most vehicles on the market today as well as improved lead management and customer communication programs.

Overall, 68% of respondents said they were likely to purchase the same make/brand as their current vehicle, up from 61% last year. Improvements were seen in the mature markets as well as most of the developing countries, with the exception of India.

Similarly, dealer loyalty also rose, with 63% of consumers saying they were likely to purchase from the same dealer where they bought their current car, up from 59% the year before. This may be due to the contraction in the dealer business as well as improvements in quality and service resulting from investments in customer lifecycle management systems.

Some variances by market are apparent. The U.S., Western Europe and Russia all registered small increases in dealer loyalty, while China saw a bigger jump. However, both Brazil and India recorded small declines, which again may be a sign of convergence beginning to occur in some of the developing markets.

Despite this year's gains, dealer loyalty still remains lower than brand loyalty, indicating that consumers are more likely to trade dealers than trade brands. This is particularly true in mature markets, where less than half

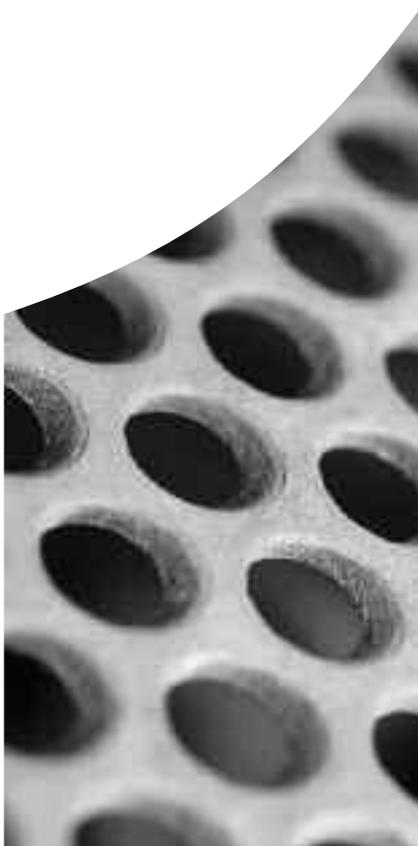
of consumers are likely to return to the same dealer, and where, in fact, one-quarter of consumers would actively search out a new dealer for their next vehicle purchase.

## **Building Loyalty Through Communication**

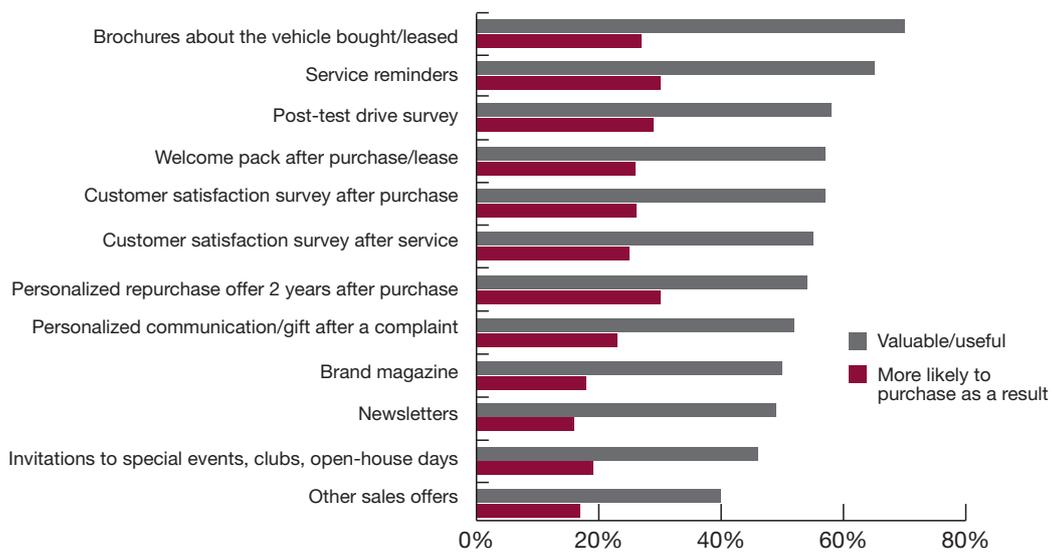
So what can dealers and manufacturers do to maintain customer loyalty? Communication is key. Consumers show a strong receptivity to a wide range of communications, such as brochures about the vehicle bought/leased, service reminders, post-test drive surveys, welcome packs, satisfaction surveys and personalized repurchase offers.

However, those items that are intrinsically most useful, such as service reminders and personalized repurchase offers near the end of a lease or warranty period, are more likely to influence future buying decisions. For example, 30% of consumers said these two items would make them more likely to buy their next vehicle from the same dealer or manufacturer, the highest rating for any form of communication. Personalized repurchase offers are particularly influential in the U.S., Western Europe and Russia, but less so in the other developing markets.

Some consumers suggested that manufacturers go even further in their communication initiatives and involve consumers in the development of new vehicles. *"It would be good to use online surveys to get views and guidance from existing users before manufacturing new vehicles,"* said a respondent from India.



**Consumer Views on Communication (% consumers saying)**



Source: Capgemini

**“Buying a car will be more convenient and quicker. There will be more services but fewer documents, and a shorter waiting period for vehicle delivery.”**

Chinese consumer

In addition to various types of communications, some companies rely on member clubs to drive loyalty and a positive customer experience. Consumer interest in these kinds of clubs varies by country, with considerably less interest in the mature markets. For example, only 24% of U.S. consumers and 22% of those in Western Europe say they are currently or would consider becoming a member of a vehicle owners’ club. This compares with 76% of respondents from Brazil, 64% from India, 56% from Russia and 47% from China.

The features of an owners’ club deemed most valuable or useful tend to be practical items, such as vouchers for service and accessories, the

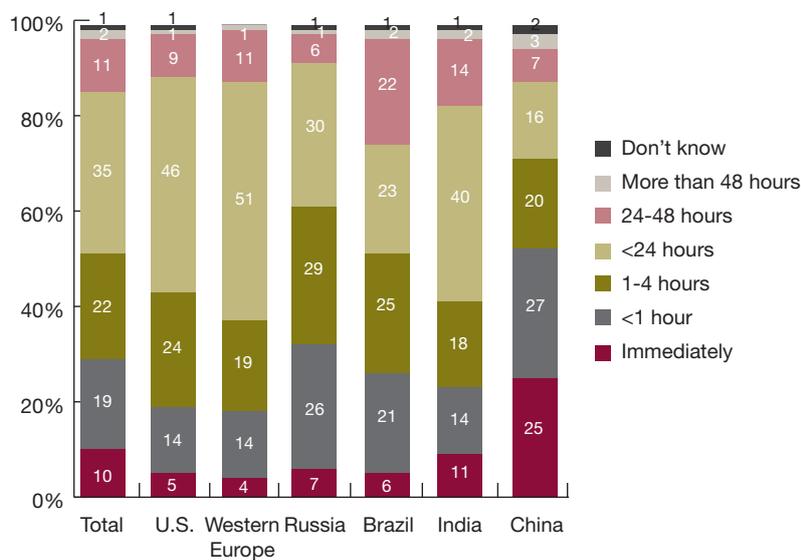
possibility to schedule service appointments online, and online availability of a vehicle’s service history. Less important are invitations to owners’ club events and the possibility to meet, blog or chat with other owners.

Consumers in the developing markets show a much greater willingness to pay for these kinds of features, compared with their counterparts in the U.S. and Western Europe.

**Speed Is of the Essence**

While consumers demonstrate a willingness to interact with manufacturers and dealers, they expect responsiveness when they do. Every year, consumers become more demanding about the speed of

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



Source: Capgemini

response to inquiries. This year is no exception. More than half of all consumers surveyed expect to receive a response within four hours, up several percentage points from last year. The increase was particularly notable in the U.S. with a jump of 10 percentage points.

China remains especially demanding, with 71% of consumers expecting a response within four hours. In fact, more than half of Chinese consumers expect to receive a response within an hour, an increase from the prior year.

Fast response time has proved to be a key factor in consumers' vehicle buying decisions. Almost three-quarters of all respondents say they will look for another manufacturer, another dealer or both if the response time is too slow. Consumers in Brazil are most likely to walk away, with almost 90% saying they will go elsewhere.

**Satisfaction Levels Improve**

Mirroring loyalty trends, consumer satisfaction with the overall vehicle buying process increased somewhat this year. Overall, 69% of consumers said they were satisfied or very satisfied with the buying process, up a couple of percentage points from the previous year. Variances by market are apparent, however. The U.S. and Russia showed the greatest improvements, with satisfaction levels up about 10 percentage points. Western Europe and China recorded smaller improvements, while Brazil and India showed slight declines.

While this is a trend in the right direction, satisfaction levels remain considerably lower in mature markets

**“I'd like there to be less human interaction and need to haggle price. Computer-operated kiosks could greatly add to the customer buying experience because there would be no feeling of sales pressure.”**

U.S. consumer

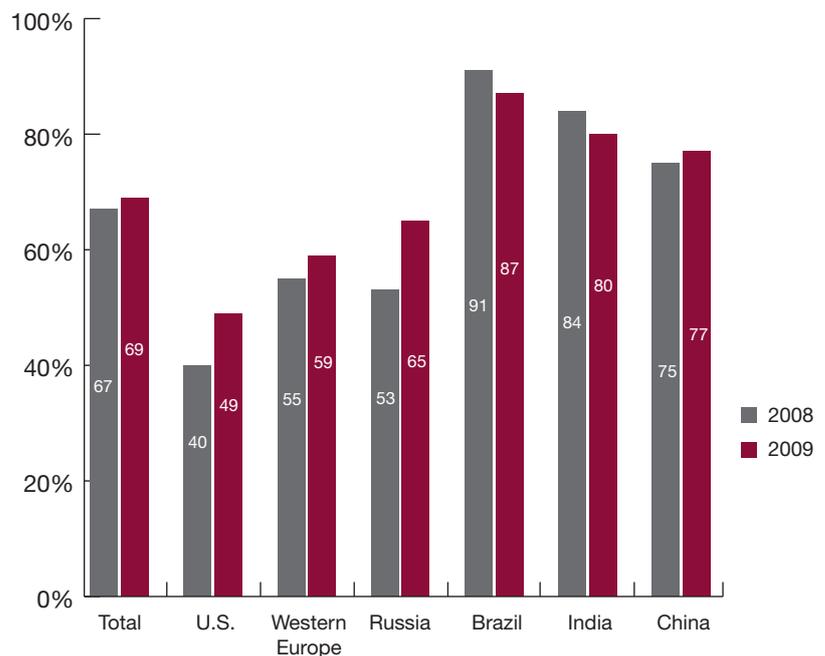
than in most of the developing regions. And with trends in the BRIC markets beginning to move closer toward those in the Western countries, automotive companies have cause for concern. Maintaining customer satisfaction in those markets that offer the greatest potential for growth is imperative for future success.

What can manufacturers and dealers do to improve consumer satisfaction? The number one factor that consumers point to is a willingness to provide a price discount, which is perhaps a reflection of the current economic environment. But respondents are also dissatisfied with the negotiation side of the buying process and the amount of administrative effort involved. They are looking for an easier, faster process, which is leading some consumers to view the Internet as a viable alternative to the traditional method of buying or leasing a car.

Said one U.S. respondent, *“I would like the process to be much quicker, less haggling, less paperwork, less trying to get us to buy extras. I don’t care where I buy it from, I just want to be treated well.”*

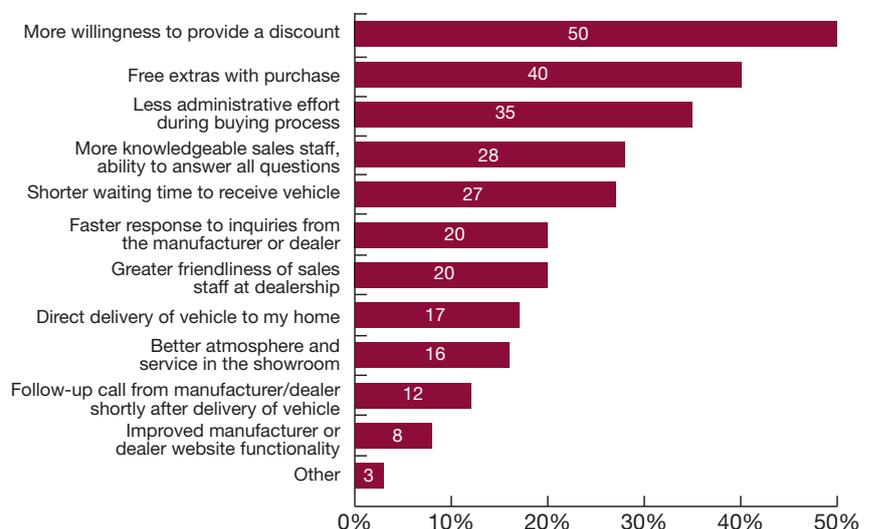
Consumers in Russia were particularly likely to point to administrative effort as the key area of dissatisfaction. *“I’d like simplicity of purchase, speed of transaction, fast and easy loan processing,”* said a Russian respondent.

**How Satisfied Are You with the Vehicle Buying Process?**  
(% consumers saying “satisfied/very satisfied”)



Source: Capgemini

**What Would Make You More Satisfied with the Vehicle Buying Process?**  
(% consumers saying)



Source: Capgemini  
Note: Multiple responses allowed

# Aftersales/Service: Focusing on the Post-Sale Experience

**Service, parts and accessories represent a significant profit opportunity, but what do consumers want from their aftersales experience?**

In the face of stagnant or declining vehicle sales, many automotive companies are putting greater focus on the aftersales business. What happens post-sale can be as important as the sale itself. For one thing, service and spare parts operations offer a profit margin that is typically up to 10 times greater than that of the initial sale.

On average, post-sale service, parts and accessories can account for 20% to 30% of revenue and as much as 50% of profits. In addition, service can be key to securing customer loyalty, fostering a manufacturer's brand name and maintaining competitive differentiation.

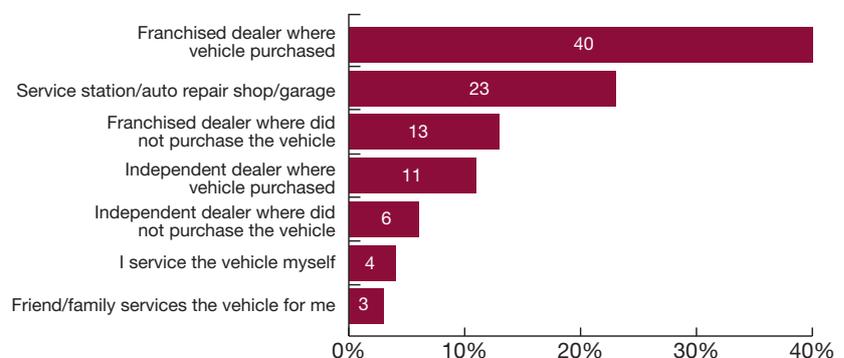
## Purchasing Dealers Miss Aftersales Opportunity

Overall, 40% of consumers rely for servicing on the franchised dealer where they bought their car, 23% turn to a service station or auto repair shop, and 13% take their vehicle to a franchised dealership where they did not buy their car. The pattern was fairly consistent across markets, although consumers in the U.S. and Russia were more likely than their counterparts in other countries to use a service station or auto repair shop.

Not surprisingly, consumers with cars still in warranty were more likely to use the purchasing dealership for servicing. However, the number was lower than expected, at 49%, compared with 36% of consumers whose cars are out of warranty.

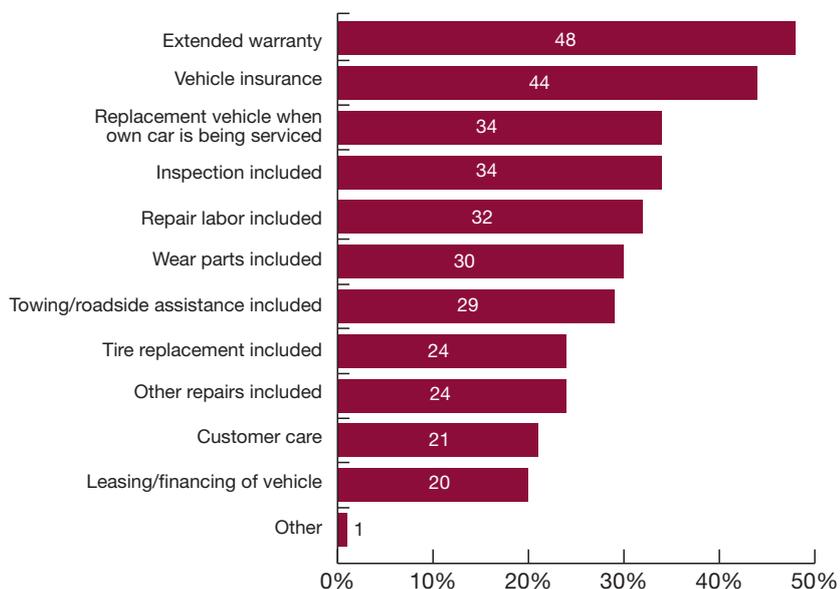


**Location for Vehicle Servicing (% consumers saying)**



Source: Capgemini

**What Consumers Want in Vehicle Service Contracts (% consumers saying)**



Source: Capgemini  
 Note: Multiple responses allowed

This represents a significant missed aftersales opportunity for dealers. And it may also impact repurchase decisions, as consumers tend to be more likely to buy their next vehicle from the servicing dealer rather than the prior purchasing dealer.

Satisfaction levels for servicing were somewhat higher than for the vehicle buying process, with 72% of respondents indicating they were satisfied or very satisfied with their most recent aftersales/servicing experience. Consumers in Russia were the least satisfied, while those in Brazil, India and China expressed the highest degree of satisfaction.

**Extended Warranty Key Feature of Service Contracts**

Service contracts represent an important source of profit for dealers, but, in many cases, sales have suffered along with vehicle sales. This puts pressure on companies to identify the key features that consumers want from service contracts.

Topping the list are extended warranties. Beyond that, however, variances exist by market. For example, providing a replacement vehicle during servicing and the inclusion of towing/roadside assistance are rated highly by consumers in mature markets, but are less important in developing countries. In contrast,

**“I hope that aftersales services get better. Some spare parts should be replaced free and vehicles should be simplified so servicing is easier.”**

Chinese consumer

respondents in the BRIC regions are more interested in vehicle insurance and having other repairs included.

It should be noted that typically manufacturers and dealers do not offer their own vehicle insurance policies for consumers. However, some may cooperate with insurance companies and incorporate vehicle insurance as a feature of a service contract. The inclusion of vehicle insurance in service contracts was clearly desired by consumers, particularly in developing markets, and may indicate a demand for more comprehensive “mobility” services.

The desire for all-around protection is the primary reason consumers say they purchase a service contract, followed by “convenience when driving and servicing my vehicle” and “the vehicle plus service package is a good deal.” This pattern was consistent across markets, although consumers in the U.S. and Western Europe also expect to save money in the long run by purchasing a service contract.

### **Service Contracts Can Influence Future Buying Decisions**

Service contracts not only offer an immediate profit contribution, but they can also play a role in building customer loyalty. Almost three-quarters of respondents said that having the right service contracts available would make them more likely to buy a vehicle from a particular manufacturer or dealer. This was especially true in the developing markets. But even in the mature markets, more than 60% of consumers reported a positive link between the right service contracts and their future buying decisions.

Conversely, 55% of all respondents said that not having the service contracts that were important to them would make them less likely to buy from a dealer or manufacturer. Again, this was particularly true in the BRIC countries, but less so in the mature markets.

### **Profiting From Improved Automotive Accessories Forecasting and Planning**

The accessories business represents a tremendous revenue opportunity for vehicle manufacturers, which is particularly critical given the static sales in many mature markets today. Yet automotive companies currently are not well positioned to take advantage of this opportunity. Most use existing service parts models to run their accessories supply chain. To capitalize on the accessories business, it is imperative that manufacturers stop treating accessories like service parts.

To effectively manage the accessories value chain, manufacturers need to adopt a retail business model and leverage the fundamentals of the “4P” approach: Price, Promotion, Product and Placement. Leveraging the same principles used in other best-in-class retail channels yields more efficient planning.

Further, companies need to build an adaptive, flexible and responsive supply chain for accessories through end-to-end integration, collaboration and visibility. The goal should be to make it easier for dealers to sell and install accessories. To accomplish this, manufacturers need to implement penetration-based forecasting, which uses vehicle volume forecasts to drive accessories forecasts. This concept of market penetration-based forecasting for accessories is new to the automotive industry but has the potential to cause a revolutionary change in the way automotive manufacturers manage their accessories business.

# Conclusion and Recommendations

This year's *Cars Online* research offers both a quantitative and qualitative view of changing consumers needs and buying patterns. Following are recommendations to help companies better meet these needs and demands in today's volatile market.

**1 Eliminate the bureaucracy and inefficiency inherent in the current buying model.** Consumers want a faster, easier way to buy vehicles. Improved lead management systems, dealer optimization and online buying capabilities are among the tools that can be implemented to help achieve this objective.

**2 Get serious about online selling.** Consumer interest in buying vehicles and parts and accessories over the Internet is real. Providing a viable online option will be a key to maintaining customer loyalty in the coming years. Models may vary – ranging from services operated by individual manufacturers or dealers, to sites run entirely by third-parties such as eBay, to joint ventures between the two – but online buying will become the preferred approach for a significant group of consumers.

**3 Focus on the aftersales and servicing experience.** Keeping in-warranty consumers coming back to the purchasing dealership for servicing is imperative, particularly at a time when vehicle sales are slow. Service and spare parts operations typically offer a profit margin up to 10 times greater than that of the initial sale. In addition, the service experience can be a factor in securing customer loyalty and driving future repurchase decisions.

**4 Manage your marketing mix according to each market.** A one-size-fits-all marketing approach won't work in today's diverse automotive marketplace. Understand where to spend on the web and where to continue to invest in traditional media. And be sure to incorporate new media channels such as blogs and discussion groups into the mix. Web-based discussion groups, in particular, are growing in popularity. Consider how you, as a manufacturer or dealer, can facilitate or participate in these kinds of discussion sites.

**5 Communicate with consumers before they reach the showroom.** By the time vehicle buyers enter a dealership they are likely to have done a considerable amount of research and reduced their list of choices to one or two vehicles. The opportunity to influence them is nearly lost. Using new types of such as a Virtual Adviser, can help automotive companies grab consumers' attention before it is too late.

**6 Go green now.** Consumers, automotive companies, governments, utilities and other types of businesses will increasingly focus on alternative-fuel vehicles. In the near future, "CO<sub>2</sub>" will become as important as "mpg" in vehicle buying decisions. It is becoming clear that alternative-fuel vehicles have the potential to be a market-changing force. However, the continued development of this business will require collaboration both inside and, more importantly, beyond the automotive industry.



Turning these recommendations into reality is critical to future success for automotive companies. The manufacturers and dealers that truly benefit from today's uncertainty will be those that look over and beyond the horizon.

Winning tomorrow will require a different mindset and a different set of supporting tools and techniques to improve the vehicle buying experience for consumers. The good news is that those capabilities – including streamlined processes, faster response mechanisms, online buying capabilities, greener vehicles and improved aftersales servicing – are entirely in the hands of manufacturers and dealers.

Capgemini's *Cars Online 09/10* 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 organization. For additional information about our *Cars Online* research or on how we can help your company better understand the dynamics of consumer behavior in today's volatile market, please contact:

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“Like most things today, I feel the car buying and ownership process will become more streamlined and tailored more to the individual. The focus will hopefully be on providing excellent customer service and working for your business like companies used to have to do.”

U.S. consumer



## About Capgemini and the Collaborative Business Experience

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Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery model

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More information is available at [www.capgemini.com](http://www.capgemini.com)

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Capgemini's Automotive practice serves 14 of the world's 15 largest vehicle manufacturers and 12 of the 15 largest automotive suppliers. The sector generates value for companies through global delivery capabilities and automotive-specific service offerings such as Integrated Lead Management, B2C Web Strategy, Service and Parts Management, Supplier Transformation, Optimization of Dealer-Focused Operations and Global Emerging-Market Sourcing. For more information: [www.capgemini.com/industries/automotive/](http://www.capgemini.com/industries/automotive/)



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