

The future of automotive loyalty



1. Customer loyalty in automotive – what has changed and what impact have these changes had?

The challenge facing car manufacturers

Customer loyalty matters to car manufacturers. But does it matter to car buyers? There are signs that their loyalty is under threat from increased competition among car manufacturers, a general trend away from brand loyalty, and new emerging ways to access car services.

So what evidence is there of declining loyalty within the automotive sector?

There have been a number of reports into consumer purchasing behaviour in the automotive sector in the past few years. Most reveal key trends based upon consumer behaviour but do not try to explain them or to link them to consumer psychology.

Our approach to understanding customer loyalty in the automotive sector began by reviewing research that had already been conducted; we took an in-depth look at how the world has changed; and then conducted a series of bespoke studies that explored consumer attitudes to automotive brand loyalty.

Our research, first conducted in 2013, focused on customer loyalty in the utilities and insurance sectors and produced a segmentation of consumer groups based on their attitudes toward switching provider. This was followed by a study in 2014 that explored consumer attitudes to marketing promotions and how these relate to their loyalty persona.

In 2015, we focused on automotive loyalty in the UK using the segmentation we developed during our first study as the basis for our research. We undertook a combination of face-to-face and online interviews among 2,024 new car buyers to understand their decision-making processes and how these have changed over time. Our findings validate and expand upon what others have also found.



“We interviewed 2,024 new car buyers to understand their decision making processes”.



What are the key things that we and others have learned?

Brand loyalty is fading among car buyers¹

The main reasons for this are:

- We are buying cars less frequently.
- We shop around constantly, even at the car dealership.
- The automotive industry is changing rapidly – and so are car brands.

Longer term owners are less loyal than newer owners²

Only 34% of those who have owned their car for at least 12 years would purchase their next vehicle within the same brand family, compared to 57% of those who have owned their car for up to 12 months.

Brand loyalty among car buyers is dying a slow death³

- 79% percent of car buyers research vehicles online.
- 50% are open to buying any car brand, rising to 54% of Millennials⁴.
- Purchasers are no longer considering one or two select brands, they review the market.

Consumers are doing more homework before buying⁵

Today, car buyers visit between one and two dealerships on average while shopping for a car. Ten years ago, the average number visited was five.

Don't dismiss disloyalty

Almost one half (48%)⁶ of new car owners haven't decided if they will choose the same car or brand again next time. Even those who are usually loyal to brands or suppliers in other sectors are less loyal to their car brand – indicating that holding onto customers is more of a challenge in the automotive sector, even compared to the Utilities and Insurance sectors.

Owing to the fact that consumers are conducting research online, we find they are more informed of the options available to them prior to visiting dealerships. It is partly for this reason that they are less likely to simply buy the same brand of car as they already own again, particularly if they have owned their existing car for many years.



“79% of car buyers research vehicles online”.



1. Experian 2012 <http://business.time.com/2012/10/30/why-brand-loyalty-is-fading-among-car-buyers>

2. Experian Automotive <https://www.experianplc.com/media/news/2014/analysis-shows-that-the-longer-consumers-hold-onto-vehicles/>

3. JD Power's 2013 New Autosopper Study http://www.thecarconnection.com/news/1086885_jd-power-confirms-brand-loyalty-is-dead-especially-among-millennials

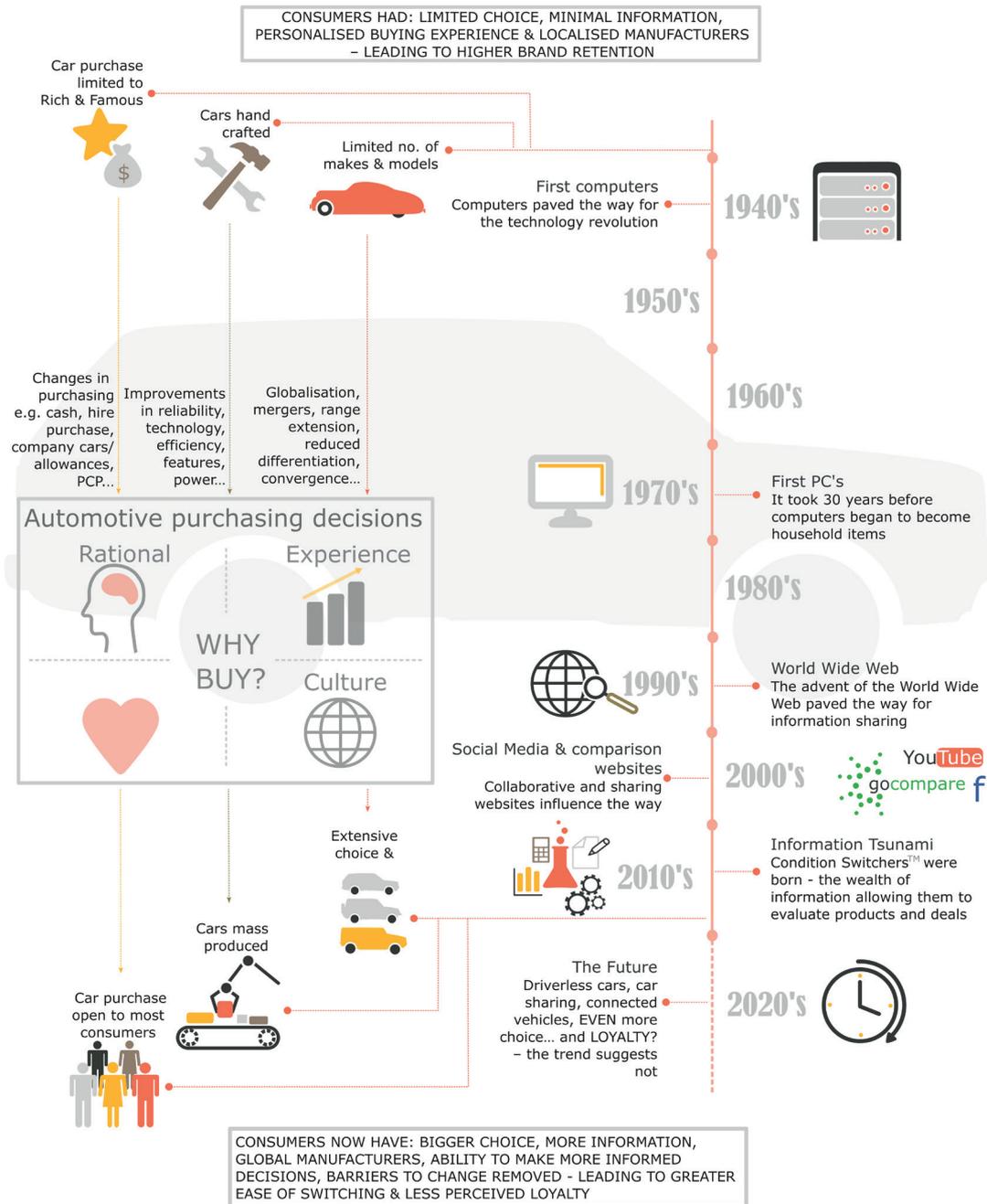
4. Millennials (also known as the Millennial Generation or Generation Y) are the demographic cohort following Generation X.

There are no precise dates when the generation starts and ends; most researchers and commentators use birth years ranging from the early 1980s to the early 2000s.

5. McKinsey 2013 Retail Innovation Consumer Survey

6. Beehive Automotive Loyalty study 2015

Changes impacting the automotive industry



So what has changed that has impacted automotive loyalty?

The automotive industry is only 120 odd years old, yet in that time it has undergone some major changes, most of which have happened in the last 60 years. Once a localized, country-specific industry, car manufacturing and distribution has become increasingly globalised. With these changes there has evolved a general acceptance and trust of foreign brands, though localised loyalty to 'native' brands is still exhibited to some extent.

Other changes include the expansion of car ranges and models within brand families, and the convergence of vehicle designs, particularly among those produced for mass market. The latter has meant that key points of differentiation and perhaps the reason for remaining loyal to a particular car brand have been minimized – the reliability and quality of vehicles has, for example, greatly improved across the board.

Arguably, however, the biggest impact on automotive loyalty has been the rise of the internet and the availability of increasing sources of information, as well as consumer comments on social media and pricing information on comparison sites. Through our research we found that those most likely to switch car brands were also most likely to use car review websites as part of their decision-making process when buying a new vehicle. However, other factors also play a role, and these are something we will explore in the next section.

2. Customer Loyalty in automotive – how do consumers make decisions?



What factors impact car buying?

Consumers have always been influenced by conflicting needs, desires, and practical considerations when purchasing a car. Just what these needs, desires and practical considerations are is constantly evolving. However, underlying them and helping to shape what cars consumers buy are:

1. Rational elements
2. Experience
3. Emotional elements
4. Culture and location

Rational elements are likely to be the starting point for many car buyers' decision-making. Their life-stage and budget, for example, will impact their shortlist of car brands.

Consumers' experience of the vehicle and the car brand (e.g. its customer service) also have a real impact on their purchase decisions and, critically, on loyalty. It is within car brands' power to ensure the customer has a good experience, but real brand engagement with consumers at appropriate points during the customer lifecycle is often lacking. The depth interviews we undertook reveal that consumers are more likely to be loyal if they feel valued, like part of a family, or have had a good customer experience. Their resulting trust in the brand makes them want to give it another go.

Emotional elements consist of passion and desire, including wanting to have a car that reflects the image and status that you want to project. These are more unpredictable than rational elements and therefore aren't necessarily good news for brands when it comes to encouraging loyalty. New models, the latest gadgets, or simply the look of another car can move consumers to switch.

Where consumers live in the world or even where specifically within a country can also have

an impact on the rational and emotional factors that influence their purchasing decisions and their experience. For example, if a dealership is not in close proximity to a customer they are less exposed to the brand and less likely to visit as part of their purchase journey. They also may simply reject the brand based on the perceived difficulty of servicing.

We also see that even with the extensive globalisation that has occurred there are still regions within the world and countries and where 'tradition', 'peer pressure', or 'a stronger sense of national pride' still have a big impact on their choice of car.

Our research confirmed that the majority of car buyers, nine out of ten, state that a rational examination of the benefits of a new car, including its price, played a role in their last car purchase decision. However, while rational reasons are cited most often as impacting purchasing decisions, those who switch car brands most often base their decisions on emotional factors (e.g. the look of the car) as well as the rational ones (e.g. the specification of the car, its features, price and deals). Switchers are also savvier about deals due to their frequent use of price comparison or car review websites. Those who are loyal to their car brand base their decisions more on their experience with the brand. Consumers also indicate that they feel more valued by the brand if they are rewarded for loyalty through good deals on their next new car.

In addition to the factors already mentioned, family members also have an impact on new car choice. A recent study, published in September 2015, found that wives, husbands and partners⁷ are a major influence on car purchasing decisions in the UK, with 25% of people citing them as the greatest influence.

7. Rocketfuel <http://rocketfuel.com/uk/under-the-thumb-spouses-and-partners-are-biggest-influence-on-car-purchasing-decisions/>

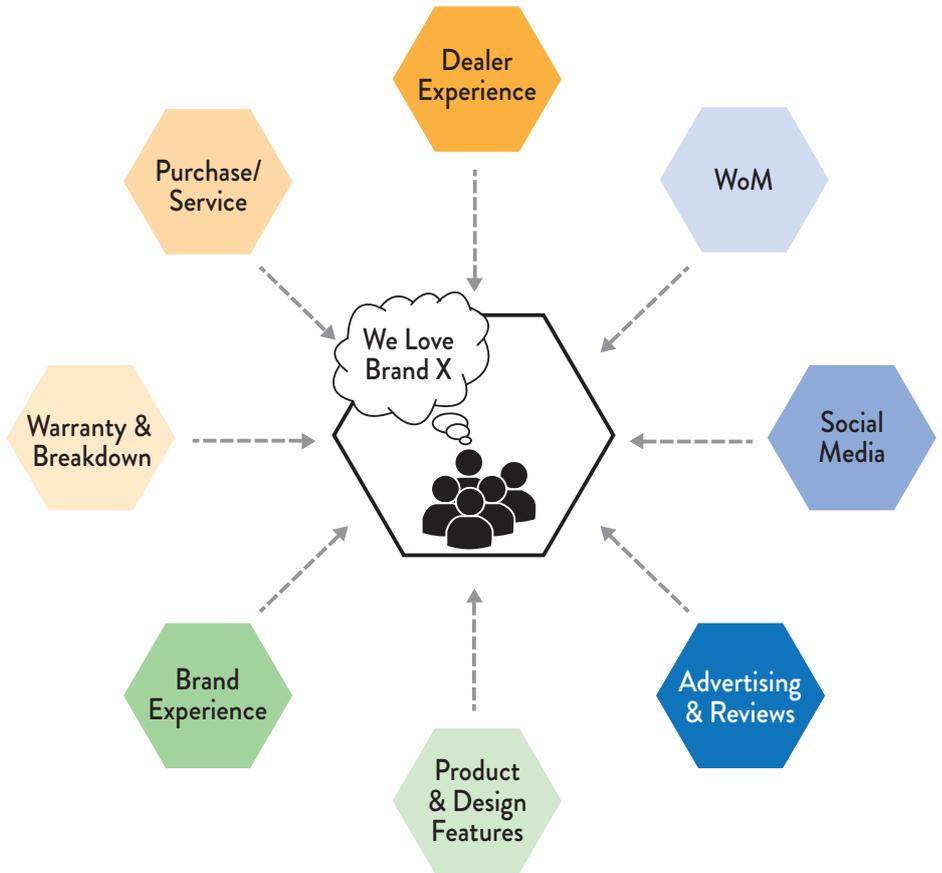
Does the internet encourage disloyalty?

We all know that the internet and onset of comparison websites have made it easier for consumers to research their options and to seek opinion and recommendations. They can even be seen to have encouraged this behaviour, as has social media. According to Beehive’s research, 20% of those stating they intend to switch car brands have one or more social media accounts, compared to 12% who are loyal to their car brand⁸. Half (50%) of those in the market to buy a different brand have conducted research using a car review website or magazine, compared to 36% of those who are interested in buying the same brand again.

Are extended warranties the key to keeping car buyers loyal?

Dissatisfaction with the warranty experience, when faults occur, and the reliability of vehicles drive almost half (48%) of car owners to switch brands when they next purchase a car. Correspondingly, we see a strong correlation between warranty and reliability satisfaction with car brands, and the proportion of loyal customers they enjoy. Dissatisfaction ‘triggers’ must therefore be managed by a brand to ensure a good overall customer experience and encourage loyalty.

As vehicles have become more reliable over the years, a key point of differentiation has disappeared, and this has arguably made switching between brands easier. Reliability and warranty are still important, but perhaps more



so as ‘hygiene’ factors that come with a level of expectation, which if not met can lead to switching.

From an acquisition perspective, the reliability and the offer of a warranty in case things do go wrong remain attractive. From a retention perspective, they are also important, but it is how things are managed when they go wrong that is most likely to impact switching behaviour.

The length of the warranty offered poses a conundrum. Offering a long warranty may help with acquisition, however, as Experian’s 2014 study⁹ shows, the longer a person owns a vehicle the less loyal they become. Conversely, long warranties aren’t a guarantee that will prevent customers from switching brands when

they next renew their car. There is an argument here that the longer the warranty the more important it is for a brand to stay in touch with their customers, to maintain a good relationship with them between purchases. This will help customers to feel more valued and can even help brands to identify the optimum time to encourage customers to purchase a new car before their warranty expires.

What this means for car manufacturers and dealers is that car brand loyalty isn’t blind. It has to be earned rationally. A positive experience combined with the commercial appeal of a brand is essential. Brands have to make their benefits clear at the point of re-evaluation, when the customer is considering which car to purchase next.

“when faults occur, dissatisfaction with the warranty drives 48% of car owners to switch brands when they next purchase a car”.

⁸ Beehive Automotive Loyalty study 2015

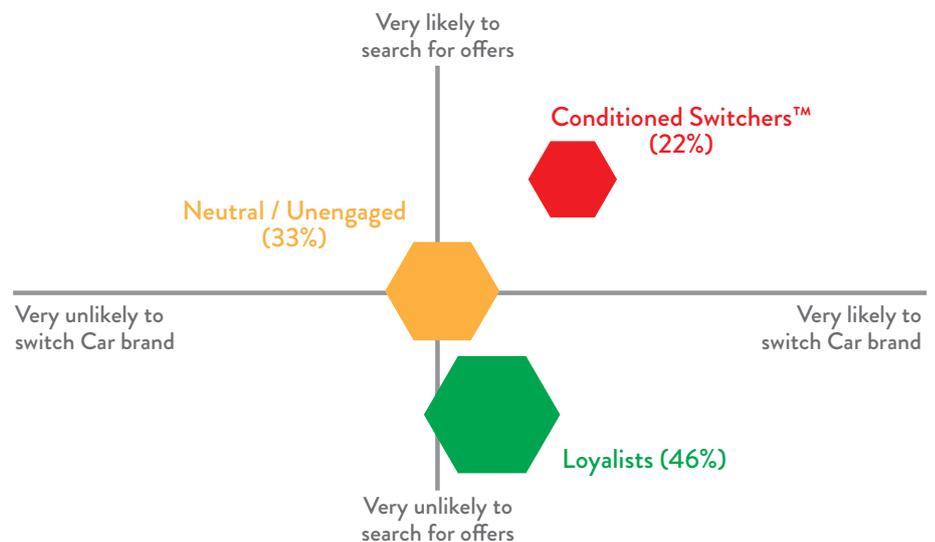
⁹ Experian Automotive <https://www.experianplc.com/media/news/2014/analysis-shows-that-the-longer-consumers-hold-onto-vehicles/>

3. Loyalty in automotive – segmenting loyalty attitudes and deconditioning Switchers

What are attitudes towards loyalty among new car buyers?

Using the segmentation we developed for our first study into consumer attitudes towards loyalty and switching as the basis for our research into automotive loyalty, we identified three main segments:

- **Conditioned Switchers™** – i.e. those more likely to look for new car offers and to switch car brands
- **Neutral** – i.e. those who are disengaged with the process
- **Loyalists** – i.e. those who tend to engage more with and to be loyal to car brands



The proportion of Loyalists vs. Conditioned Switchers™ differs by car type and brand. Luxury brands typically have a higher proportion of Loyalists and buyers are more likely to state quality, value retention and design/image/status as reasons for buying the brand.

What became clear from our research was that car brands that have had aggressive acquisition campaigns do show a higher proportion of Conditioned Switchers™, which may be good in the short term but retention strategies will be needed to keep them.

So what now for loyalty?

The latest trade industry figures show that UK new car sales hit an all-time record high in 2015¹⁰, driven by stronger consumer confidence, special deals and cheap finance.

But with more new cars being sold, can car manufacturers hold onto their customers?

What is clear is that it is no longer enough to have a strong brand. Nor is it a case of the job being done once a car is sold because loyalty is not only dependent on providing a great product that has a warranty just in case. Ultimately, consumers want a sustained positive brand experience. Consequently, brands need to take a holistic approach to loyalty and to provide a seamless experience through customer service, operations, communications (both on and offline) and personnel. Brands are only as strong as their weakest touchpoint.



“ultimately consumers want a sustained positive brand experience”

¹⁰ BBC <http://www.bbc.co.uk/news/business-35249044>

Car Magazine <http://www.carmagazine.co.uk/car-news/industry-news/ford/uk-2014-car-sales-analysis-winners-and-losers/>

SMMT <http://www.smmt.co.uk/category/news-events/news/news-registration-cars/>

FT <http://www.ft.com/cms/s/0/00cd2d0c-e40b-11e4-9039-00144feab7de.html#axzz3hvsbGfut>

Are my customers at risk?

Two thirds (65%) of Conditioned Switchers™ have proven to be disloyal to their car brand and can be classed as customers at risk. Sizing this segment is therefore a valuable – and reliable – measure for comparing your brand’s risk status to that of your competitors.

How can I align marketing strategies with loyalty segments?

Knowing the proportion of Conditioned Switchers™ and Loyalists your brand has can be used to inform retention and acquisition strategies, ideally in combination with existing customer segment strategies. For example, a strategy focused on new customer deals will attract Conditioned Switchers™. However, it may also have a negative impact on Loyalists, who often feel that it is always new customers who are rewarded with the best deals. It is also worth bearing in mind that, while it is possible to decondition and retain Switchers by providing a sustained positive customer experience, it is harder to hold onto these customers in comparison to Loyalists who feel more engaged with the brand in the first place.



Acquisition strategies – make it easy to meet the brand

Take the showroom online?

Consumers are increasingly researching their next new car online. Especially those who have a propensity to switch. The webroom has apparently replaced the showroom as over 7 out of 10 drivers now do their research online,¹¹ and only visit the dealership as their last port of call. Increasingly, too, major players including Ford UK, Dacia and Tesla are moving the entire sales process online, including the purchase itself. Yet many manufacturers are lagging behind, offering simple car ‘spec’ websites. It’s time for dealers to engage with consumers where they are online, particularly if you want to persuade Conditioned Switchers™.

Example: In the United States, Toyota is evolving the virtual showroom model in new and interesting directions. Their ‘SaleMove’ service allows the consumer to configure vehicles, check stock, select a dealer, and pre-negotiate financing, all before setting foot in the dealership. Should they wish to, the consumer can also chat directly with a dealer using text or audio functions. Simply put, ‘SaleMove’ takes the showroom to the consumer.



“dealers could take the car to the consumer to test drive”



“the webroom has replaced the showroom as over 7 out of 10 drivers now do their research online”

Make test drives less testing?

Car buyers expect more and more convenience. More than two thirds of motorists are searching for a new car between the hours of 6-9pm and 57% of buyers expect a response within just four hours, even outside traditional working hours. 59% of Auto Trader users now use their smartphone to search for cars.¹² That’s six times more than did so in 2010. And those who employ smartphones during the buying process purchase their car quicker on average. We expect Conditioned Switchers™ who frequently conduct online research before making a purchase are at the forefront of this trend.

In order to respond to consumers’ need for speed and convenience, dealers could take the car to the consumer to test drive. They could even take the updated model of the car the customer already owns, just before the driver is likely to consider switching.

Example: The Holden Group now provides test drives from your home in the UK for Honda, Renault, Dacia and Volvo vehicles (holdengroup.co.uk/test-drive).



¹¹ JD Power’s 2013 New Autosopper Study <http://about-us.autotrader.co.uk/more-than-7-in-10-turn-to-dealer-websites-when-buying-their-next-car/>
¹² Autotrader http://advertising.autotrader.co.uk/brand/research/car-buyer-behaviour#.VpJsG_mLTIU.

Retention strategies – Ways to hold onto Loyalists and decondition Switchers

Use data to fuel customer relationships

A good customer relationship management system is not simply a way for the sales division to keep tabs on its customers, but for the entire business to stay ahead. With truly personal customer profiles, brands can optimise communication to offer customers relevant services they will respond positively to, rather than use general, unfocused advertising. Good data management also allows brands to respond more quickly, reducing customer anxiety in the process.

Devising a highly sophisticated real-time customer satisfaction/experience programme that goes beyond an NPS¹³ score and verbatim comment significantly improves a company's ability derive what is most important, manage customers in real-time and enhance their customer experience.

Data also allows you to anticipate customer needs, rather than wait till problems occur – the secret to a happy customer. We know from our research into loyalty that consumers generally bemoan the lack of genuine moments of 'surprise or delight' offered by brands. By recording not only a customer's demographics but their preferences and passions as well, the opportunity is there for car brands to build a more personal engagement with their customers.



Example: Rolls Royce contacts customers on their birthday to say hello and make contact.

Car brands can also learn how to 'surprise and delight' their customers from brands in other sectors.

Example: MasterCard 'Priceless Surprises'. MasterCard is now connecting with members on social media to give them spontaneous gifts and prizes, like a meeting with Justin Timberlake, an exclusive Gwen Stefani concert, or even VIP tickets to the Grammy Awards.

Couldn't car brands apply the same principle?

Encourage car renewal at optimum point in customer journey

The pace at which brands are embracing extended warranties indicates that car brands are recognizing their sales power, and the need to keep up. But brands should also keep in mind that the longer a customer holds onto their car the more likely they are to switch. A considered approach is important. It is necessary to strike the right balance between offering a warranty that is attractive enough in length to a prospective buyer, but isn't too long that they move on anyway. Having a strategy in place to encourage customers to switch to

a new car within the brand family before the warranty on their existing vehicle runs out could be advantageous.

Example: Kia offers a seven year warranty, while Hyundai, Subaru and Toyota all offer five years cover. Now too, Jaguar Land Rover has introduced a two-year warranty for all approved used vehicles.



Make ownership easy

The effort required to maintain a car is considerable, with insurance, road tax, congestion charges, servicing, petrol and parking fees, and so on. Customers will thank you for making it easier. Car leasing services offer the opportunity to take a lot of effort away from customers.

Consumers are often lazy and will go for an easy option, however with every acquisition strategy a new benchmark is set which can be beneficial to retention or not, if a similar perceived deal is no longer available.

Example: Peugeot's 'Just add fuel' is an approach to leasing that provides most of the essential car maintenance services and support in exchange for one monthly payment, so all the driver has to worry about is filling up.



"the opportunity is there for car brands to build a more personal engagement with their customers"

Create strong ties with consumers through tech

People are no longer happy to go from A to B unless it involves going via their mobile device. With the launch of Apple’s Carplay, and rival technology from Android, smartphones are becoming deeply integrated into the car’s dashboard. But that’s just the start. 50% of us already use connected navigation services, with a further 24% hoping to start.¹⁴ In the not too distant future all cars will be part of a wider connected ecosystem that can automatically turn on home heating, open garage doors or book service appointments, instead of a few pioneer brands that are leading the way.

Whilst this is an opportunity for car manufacturers to integrate into customers’ lives outside of the car, to create a deeper bond with them and arguably make it less likely that they will leave them, this is no guarantee. To make it really work brands need to look at how Apple commands such fierce loyalty. All of its devices interconnect beautifully, incentivising customers to stick with the brand. Apple is not just about buying a product, but an entire ecosystem.

Example: Jaguar Land Rover has announced the launch of ‘justDrive’. Optimised for its ‘InControl’ platform and both Apple iOS8 and Android phones, ‘justDrive’ integrates popular apps and services such as Spotify, Twitter and Yelp into a connected experience that provides navigation, media, social interaction, voice search and information.

Reward loyalty

We found in our 2014 research into attitudes to marketing promotions and how these relate to their loyalty persona, that one of the biggest issues loyal consumers complained about was the fact that new customers were often offered better deals than they were for staying loyal.

Rewarding loyalty is something that car rental services already do¹⁵, but it’s not yet commonplace when it comes to car buying. To make customers feel more appreciated and engaged with the brand, the re-purchase process needs to be easier, seen to be fair and rewarding them for loyalty and a deal that is perhaps not available to a new customer? There is evidence that this is starting to happen, but is there a place for a sliding scale of rewards that increase over the lifetime of the brand relationship?

Example: Enterprise Car Rental offers “rewards and appreciation you deserve with the Enterprise Plus® programme. Join today and start earning points that never expire. Then redeem your points for free hire days – with no blackout dates – at thousands of participating Enterprise® locations worldwide.”

Example: Last year Hyundai announced ‘Hyundai Rewards’ in the US. The comprehensive engagement programme rewards owners for shopping online and servicing their vehicles at dealerships participating in the scheme. Customers earn points for every dollar they spend shopping online through the ‘Hyundai Rewards’ site, and every time they visit the service department of a participating dealer.



Example: Tesla has introduced a ‘member-get-member’ scheme, through which existing customers are rewarded with \$1,000 for referring a new customer, and the new customer gains a similar discount.

¹⁴ Accenture <https://www.accenture.com/us-en/insight-automotive-connected-vehicle>

¹⁵ Enterprise Car Rental – Enterprise Plus® programme

4. Customer Loyalty in automotive – the future

Moving forward

Our findings show how important it is for both manufacturers and dealers to look at what prompts consumers to be loyal or turn into Switchers and to model their retention and acquisition strategies accordingly.

Competition from other directions

As we have seen, loyalty in the automotive sector has been impacted over the years by various developments both within and external to the industry. With car ownership facing increased competition and disruption from new models of car use, maintaining customer loyalty for particular car brands is only likely to get harder.

The rise of the likes of car hire app Zipcar and car-sharing service BlaBlaCar present fresh opportunities to consumers beyond car ownership. Car sharing services are predicted to surpass 12 million members worldwide by 2020¹⁶. And urban centres are looking to implement new personal transport networks using technology such as driverless vehicles and transportation pods.

Similarly, online taxi business Uber has been seeking a piece of the action with its UberPop operation, which links private drivers to passengers. Whether brands can capitalise on these new channels and turn them into a brand extension opportunity remains to be seen but they certainly shouldn't be ignored.



Future trends

New car sales have been on the increase in the last two years across Europe, so what does the future hold for automotive manufacturers? According to Goldman Sachs¹⁷, there are four themes shaping a profound transformation of the car industry:

1. There is pressure from consumers and regulators to produce green cars.
2. An aging population is driving demand for safety, leading to fertile environment for self-driving cars.
3. An increasing demand for affordability, especially in developing countries, is accelerating technical developments in terms of fuel efficiency and lighter production materials.
4. The growing cost of car ownership and fact that private cars aren't being used 95% of the time is leading to demands for convenience and car sharing or matching services. This demand is also set to increase with 35% of Millennials indicating that they would consider sharing a car compared to 7% of Generation X and Baby Boomers.¹⁸

Taking these developments and future trends into account, what is the likely impact on car loyalty? Is the idea of repeat purchase under threat? Fundamentally, it is critical that car brands invest in technology that makes owning

a car more sustainable: that they have the right product for now and the future.

Beyond this, if car brands are to encourage repeat purchase as mentioned before, brands need to ensure they provide the best customer experience across touchpoints and have an engagement strategy that is maintained between purchases.

But, what is the role of the dealer going to be in the future? With more and more people researching potential new cars online and only visiting dealers once a decision has already been made, their level of control over the purchase process is reduced. However, dealers can be a powerful tool in helping to maintain customer loyalty. Through successful customer contact programmes with customised contact at key points along the customer journey, dealerships can build a direct, long-lasting relationship with customers. By getting customer communications right, dealers can turn customers into loyal advocates, which in turn will reward the bottom line.¹⁹

The automotive industry has seen many changes regarding customer behaviour, particularly in recent years. It is imperative for car brands to amend their acquisition and retention strategies to reflect these. Research into the customer journey, personalities and requirements, and use of insight to inform marketing strategies is vital to stay ahead of the competition.

Brands that track and monitor loyalty segments such as Conditioned Switchers™ among their customers in association with their retention and acquisition strategies will have an advantage over competitors and have another tool by which to predict and manage loyalty.

¹⁶ Navigant <http://www.navigantresearch.com/research/carsharing-programs>

¹⁷ Goldman Sachs <http://www.goldmansachs.com/our-thinking/technology-driving-innovation/cars-2025/index.html>

¹⁸ Footnote on generations (see next page)

¹⁹ Car Dealer Magazine <http://cardealermagazine.co.uk/publish/blog-can-dealerships-drive-brand-loyalty/91882>



Beehive research are as passionate as you are about giving your customers the best possible experience of your business and brand. So we take an active approach to Customer Satisfaction and Voice of the Customer programmes. Working with you, we deliver the insight and understanding that puts the customer at the heart of your business. We believe that this approach – rather than passively relying on scorecards and metrics – truly brings the customer experience to life and allows our clients to proactively manage it.

For further information please get in touch, and we'll be happy to help.



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Footnote on generations:

- Baby boomers are people born during the demographic post-World War II baby boom approximately between the years 1946 and 1964, giving an age range between 51 and 70 as of 2016.
- Generation X, commonly abbreviated to Gen X, is the generation born after the Western Post-World War II baby boom. Most demographers and commentators use birth dates ranging from the early 1960s to the early 1980s.
- Millennials (also known as the Millennial Generation or Generation Y) are the demographic cohort following Generation X. There are no precise dates when the generation starts and ends; most researchers and commentators use birth years ranging from the early 1980s to the early 2000s.

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