

# Ito1 weekly

## Can Loyalty Exist in the Auto Industry?

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Earlier this month General Motor's proposed deal to sell its Saturn brand to Penske Auto Group fell through, essentially killing the popular brand and its 350 dealerships. GM's sale of the Hummer brand to a Chinese company is also on the rocks, and it hasn't gotten over its bankruptcy issues. Add this to the litany of car company woes recently, and things don't look good for US-based auto manufacturers.

Of those still standing, can anything be done to turn the tide? Price will only get you so far, as many U.S. automakers recently found out. The "Cash for Clunkers" program, while successful in getting people to buy cars, saw imports like Toyota and Honda win out, even over less expensive American brands.

Experts agree that customer retention and loyalty are viable long-term strategies for any industry in this turbulent economic time. In a recent interview Martha Rogers, Ph.D., says customers are very cautious about making purchase decisions, so companies with a strong value proposition and customer focus that can win and keep customers now will likely see them remain loyal as economic conditions improve. However, "it's only in an environment of trust that business can flourish," she says.

Trust and loyalty are not heard much around the showroom, but they are possible, says James Bell, executive market analyst at Kelley Blue Book. "In the past loyalty would often be based on the vehicle experience—did it meet my expectations? Was the dealer kind and fair?" he says. "I believe the future of automotive loyalty is going to be much more connected to a vehicle's economic performance. These are new factors based on trust and a belief that the purchaser made the right choice [over the long term] and not just the one that felt right at the time."

This means that both the manufacturer and dealer need to be more responsive to customer needs and build a relationship at every level. "I think we are moving into an era that will reward value and honesty in marketing and service, as well as the sales process," Bell says.

From the customer's perspective, the relationship does not end with the sale, it begins there. As a result, the dealer experience is more important than ever, Bell says. "There is a massive opportunity to not only provide new product sales, but also service," he says. "Smart dealers that are still in business must see these new potential customers as new relationships, not just new revenue...Any dealer that treats a new customer as a conquest and not a partner is also doomed."

Jack Bowen, chief marketing officer at auto consultancy Urban Science, adds: "Although the automaker attracts the customer through its models, the dealer closes the deal and delivers ongoing brand interaction with maintenance over the life of the vehicle. The dealer has a real opportunity to gain consumer trust and win service and new-vehicle business going forward."

### Orphaned customers are an opportunity

But what about those customers who have been recently "orphaned" by their automakers or dealers? Chrysler shuttered 789 dealerships and GM is expected to close a significant number. In addition, brands like Saturn and Pontiac will not be around for much longer. How can companies build loyalty with these customers?

Bowen sees orphaned customers as a potentially fruitful customer group, if treated differently than other customers.

"These orphaned customers may already have minimal customer loyalty," he says. "The automaker and dealers will have to be proactive and ensure communication is targeted to individual customer needs," specifically when it comes to service.

"Since it's more costly to conquest new customers than to maintain current ones, automakers should have letters sent to orphaned customers letting them know where their 'new' dealership is located and offer relevant incentives," Bowen says.

Customer loyalty programs can also play a critical role in relationship-building. "There is significant sophisticated data and analytics at our disposal, and the automotive industry needs to continue to use this information to power marketing campaigns."

Only time will tell if customer relationships with the auto industry will be repaired. Some forward-thinking companies like Hyundai have already put customer-focused initiatives in place. But the temptation to focus on short-term cost cutting looms large. It will be the companies focused on balancing the short and long term while acting in the interests of their customers that will succeed in any economy.

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