PURCHASE PROCESS

Wave IX

The Changing Automotive Landscape

Tracking Differences in Consumer Behavior
And Media Consumption

CNW Marketing Research

Time Inc.

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Time Inc. Automotive Purchase Process

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Introduction

Time Inc.'s latest wave of the Automotive Purchase Process, conducted with CNW, is the culmination of ten years of research examining the new vehicle purchase intender. This market study profiles these prospects and their use of media and other information sources as they move through the purchase cycle. While earlier waves focused on the buying process by segment, the information in this latest study focuses on tracking the differences in consumer behavior and media consumption.

The executive summary highlights the key findings of the research and serves as an excellent complement to the Wave IX study. The Automotive Purchase Process demonstrates Time Inc.'s commitment to providing clients with the most thorough and insightful information about this market.

Nick Plakoris
Group Development Director/Automotive
Time Inc.

CNW Marketing/Research has been conducting major studies into the actual methods used by consumers to buy products and services for a number of years. The goal is to understand what issues are important at different points in time among automotive consumers and what sources are used to gain insights and information about those products.

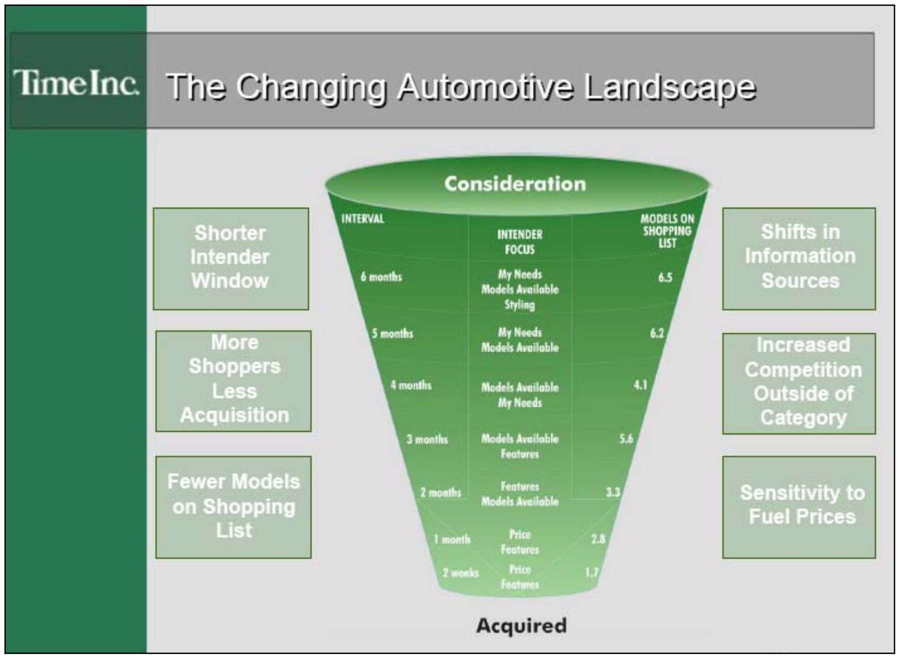
Unlike other studies of purchasing procedures, CNW Marketing/Research uses a "real time" methodology. Simply stated, we measure product/ service intender actions over the course of time until the product is purchased or the decision is made not to buy at all.

This "real time" study is far more accurate in determining what is important and how one product comes to the forefront while another is no longer desired or acquired. It can also indicate the size of the shopping list, sources as well as provide an assortment of other data on the automotive intender.

Art Spinella
President,
CNW Marketing/Research

Overview

Time Inc.'s Automotive Purchase Process Study conducted with CNW was initiated in the fall of 1995 and is one of the most detailed examinations of consumer behavior in the automotive category. In collaboration with the automotive industry, the research has evolved from one "wave" to the next addressing issues of importance relating to the auto marketplace.



The original study established that a 'purchase funnel' exists among intenders. We have tracked the changes over the last decade. Subsequent waves have also provided a detailed overview of the elements affecting brand consideration, and the factors that generate the highest levels of acquisition, including: brand image, quality, features and price.

The Concept of the Funnel

In the 'funnel', intenders start out by assessing their needs, then actively seek out or are exposed to sources of information (media and non-media) — leading to an eventual purchase decision. In marketing terms, this is identified as part of the "complex" decision making process, since this acquisition involves a considerable amount of financial risk by the consumer and generally will require more time for information gathering and evaluation.

Our most recent study (Wave IX) focuses on tracking the differences in consumer behavior and how it effects media consumption.

The Purchase Process research has been presented to automotive clients and their agencies in the U.S., Canada, Australia, and New Zealand.

Research Methodology

CNW Marketing/Research has been conducting major studies into actual methods used by consumers to buy products and services for a number of years. The goal is to understand what issues are important at different points in time during the process and similarly, what sources of information are used to gain the insights and information about these products.

Unlike other studies, CNW uses a ‘real time’ methodology — measuring product intenders over a series of stages until the purchase is made or a decision not to acquire is finalized.

The Wave IX study profiles automotive intenders and acquirers during the survey period of January through June 2005, and includes over 130,000 respondents. This large sample size allows for a stable base of respondents at the brand level.

CNW Marketing/Research is located in Bandon, OR and utilizes telephone interviews to gather the data. This data is tracked along with consumer confidence and dealer floor traffic (other statistics measured by CNW) as an indicator of the health of the auto industry and the general national economy. The Federal Reserve Board is a major client, utilizing CNW data (among other sources) in setting monetary policy for the nation.

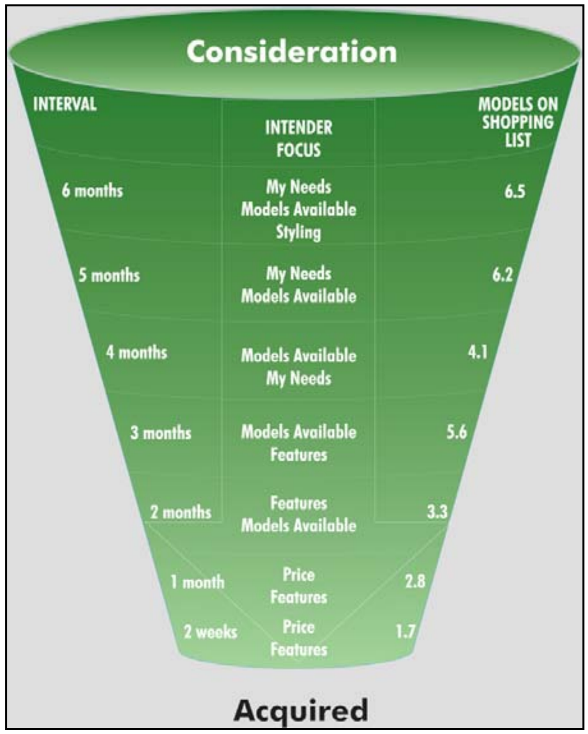
Art Spinella — a respected industry authority on automotive marketing who has been quoted numerous times in the industry and consumer press — directs the research.

Movement of Intenders through the Purchase Funnel

The Six-Month Intender Window. Our research has shown that the purchase process begins within six months from the eventual acquisition. While there are intenders who start shopping farther out (12 – 7 months away), the study shows that the process begins on average, at 5.2 months before the purchase/lease of a new vehicle.

Three Distinct Stages emerge as the intenders pass through the purchase process:

- **'Needs' Phase (6 months – 4 months)** Intenders are accessing the models that are available for basic consumer needs and desires — size, space and styling. There are still more than four models on the shopping list at the end of this period. Cross-segment consideration is high during this phase and this movement between segments accounts for the initial changes in the shopping list.



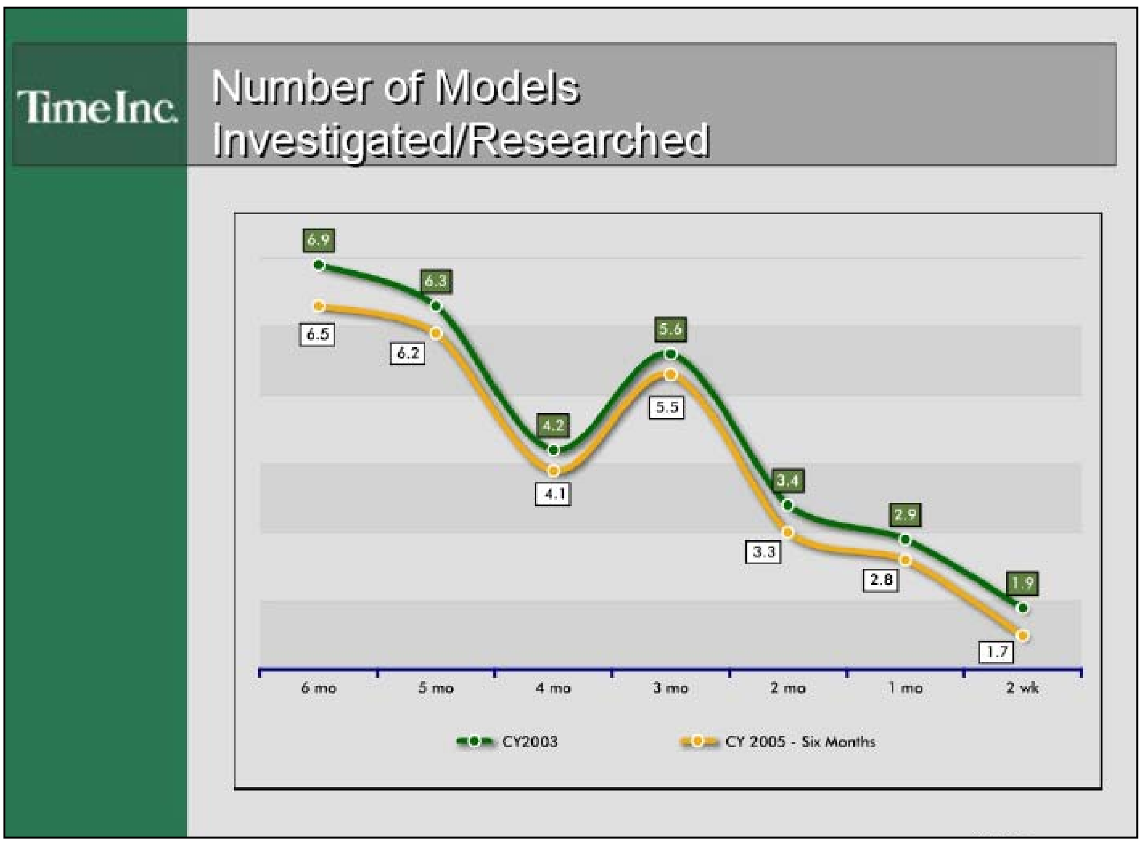
- **'Features' Phase (3 months – 2 months)** Intenders have narrowed their choices and are now comparing models within a single segment focusing on product features. At this point in time, the shopping list begins its final descent from 5.6 to 3.3 models.

- **'Price' Phase (final month)** Vehicle cost becomes paramount as the intender visits dealerships (usually for the first time) and makes final comparisons that lead to purchase. In the final two weeks, buyers have less than two models on their list, and are entering the local dealership ready to negotiate the best price.

Changes in the Shopping List

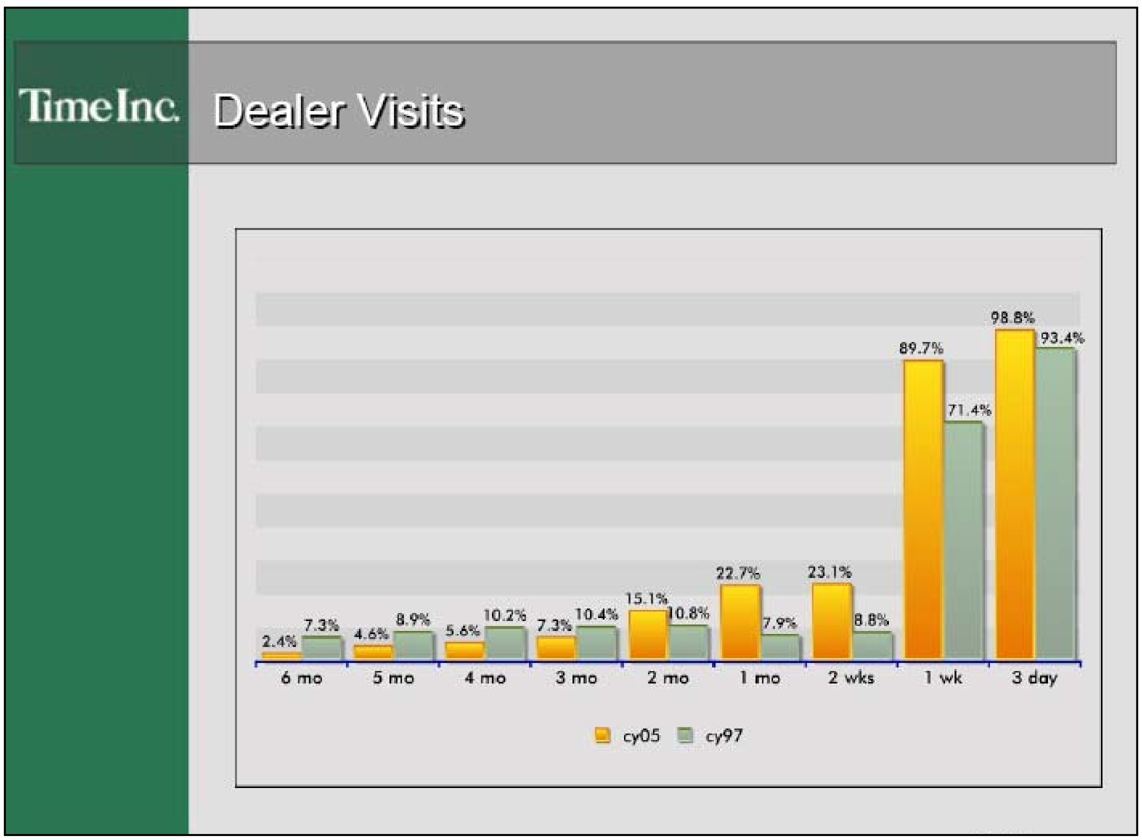
Models Under Consideration. In tracking the research over the last few years, we have noticed a slight decrease in the size of the shopping list in all stages of the purchase process.

CNW confirms that the number of new models is actually decreasing, as fewer model lines are profitable — especially among domestic manufacturers. There has also been an increased emphasis on price-point marketing at the end of the funnel, which has lead to a much greater competitive environment today than in the recent past.



Dealer Visits

Research Confirms That the Highest Concentration of Dealer Visits Takes Place at the End of the Purchase Funnel. At this point in time, consumers have narrowed their product choice and are ready to negotiate product options and the final transaction price. Prior to meeting with the dealer, intenders have consulted a number of information sources, which has helped determine what brands and models would remain on their shopping list.



The Sources of Information

Multiple Sources at Work During Each Stage. The Purchase Process Study identifies the Primary Source of information (media and non-media) at each stage (months) of the purchase process. While CNW measures all sources of information, they ask intenders to pick which of the multiple sources is primary at that stage. No individual primary source is higher than 20%, showing that multiple sources are at work at the various stages.

Key Points:

- During the initial 'Needs' stage (6 – 4 months), auto consumers are assessing their basic wants and desires. TV ranks the highest as a primary source when consumers are forming their preliminary brand list. In this phase — Magazines, the Internet and non-media sources of information (Friends/ Relatives and Business Associates) also 'score' highly (more than 10%).

Time Inc.

2005 Primary Source of Information
All Intenders – January through September

	6 mo	5 mo	4 mo	3 mo	2 mo	1 Mo	2 Wk
TV Ad	17.8%	17.9%	18.4%	14.3%	10.7%	8.7%	6.4%
Consumer Mag Ad	12.9%	16.2%	16.2%	16.4%	10.9%	8.1%	6.4%
Friend/Relative	12.2%	9.9%	7.8%	5.9%	9.3%	12.4%	5.1%
Business Assoc.	10.2%	8.7%	6.2%	5.9%	5.4%	5.8%	7.1%
Dealer Brochure	5.6%	5.5%	5.8%	5.4%	5.2%	5.1%	4.7%
Consumer Report	7.7%	7.3%	7.9%	10.7%	10.9%	10.7%	8.5%
Newspaper Ad (local)	4.4%	4.7%	5.3%	6.8%	7.7%	9.7%	18.7%
Auto Article (any source)	3.7%	3.8%	4.2%	4.9%	4.8%	6.7%	7.1%
Radio Ad	1.8%	1.9%	1.9%	2.1%	2.3%	2.4%	3.8%
Internet	10.2%	10.6%	11.7%	12.2%	13.8%	13.6%	15.9%
Auto Mag Ad	1.3%	1.4%	1.5%	1.8%	2.0%	1.8%	1.7%
Auto Buyers' Guide	5.2%	5.5%	6.0%	5.5%	5.9%	6.1%	6.6%
Co. Store/Mall Display	0.1%	0.1%	0.1%	0.1%	0.3%	0.2%	0.2%
Auto Show	3.1%	3.1%	3.3%	3.5%	4.3%	4.3%	4.1%
National Newspapers	0.6%	0.6%	0.5%	0.5%	0.7%	0.6%	0.6%
Other	3.2%	2.9%	3.2%	4.0%	5.8%	3.8%	3.1%

- In the second 'Features' phase (4 – 2 months) where intenders have assessed their needs (and are zeroing in on specific features), Magazines post the highest primary incidence as consumers narrow their shopping lists. While TV continues to score higher than 10%, the Internet (which includes local dealer, manufacturer and 'price' resource sites — such as Edmunds and Kelley Blue Book) and Consumer Reports become very important because they provide comparisons of features between models.

- During the final 'Price' stage (1 month – acquisition), the intender has narrowed the model list, usually to 1– 2 models, and the focus is on acquiring the desired vehicle with the best price. The two primary sources that score highest are local newspapers and the Internet.

Multiple Sources Work Best. Our contention is that multiple media sources are important during the entire purchase process, and an effective mix of media not only serves to get a brand added to the shopping list, it also can maintain consideration down the purchase path.

Role of Perceived Quality

“Quality is a hard sell and a slow process.”

Chrysler, February 2005

“Quality is one of the biggest factors impacting a brand’s image.”

Art Spinella, March 2004

Our earlier “waves” addressed the impact brand image has on the automotive consideration set. When we presented that information to the automotive community, many of our clients wanted to know what the driving factor behind the image of the brand was.

While there are many elements that support or detract from a brand’s image, we found that reliability (based on either personal experience or reputation) was the key factor among those who had previously owned a brand and those who had not.

Time Inc. What Constitutes Quality?

New “It’s Experience and Reputation”

Owned Brand Before		Never Owned Brand Before	
Reliability (experience)	95.1%	Reliability (reputation)	98.8%
Brand Image	91.4%	Appearance	95.1%
Appearance	89.8%	Product Materials	91.8%
Product Materials	85.2%	Brand Image	88.8%
Reliability (reputation)	83.4%	Extended Warranty	49.6%
Performance	42.6%	Performance	41.6%
New Technology	37.1%	New Technology	35.2%
Extended Warranty	29.7%	Styling	25.3%
Styling	18.1%	Features	16.7%
Dealer Service & Sales	15.2%	Price Point	16.4%

Note: “Never Owned” includes brands not purchased/leased in past 10 years or longer.

More importantly, the industry agrees that how consumers perceive the brand’s quality is a bigger issue than quality itself. During the interview, we asked our intenders to rate the quality of all auto brands on a scale of 1– 10 (10 = highest quality, 1= lowest quality).

The top-scoring brand in our study was Lexus, generating a rating of 9.6. To learn if perceived quality had any impact at retail, we compared the brand ratings against the percent of the MSRP received at the point of sale (this reflects the manufacturer's discount only and does not include any dealer discounting or incentives).

Time Inc.

Quality Ranking

Top 10			Bottom 10		
Nameplate	Quality Perception	% MSRP Received	Nameplate	Quality Perception	% MSRP Received
Lexus	9.6	92.4%	Dodge	7.4	84.6%
Porsche	9.4	93.7%	Pontiac	7.3	80.1%
Cadillac	9.3	90.6%	Lincoln	7.2	78.2%
Volvo	9.2	89.8%	Ford	7.1	81.6%
Toyota	9.2	87.4%	Kia	6.7	82.1%
Mercedes	9.1	88.4%	Chrysler	6.2	84.9%
Land Rover	9.0	87.7%	Jeep	6.2	85.6%
Honda	8.9	89.4%	Isuzu	5.8	80.3%
BMW	8.9	88.1%	Mercury	5.2	76.6%
Infiniti	8.7	88.5%	Suzuki	3.8	80.5%

The relationship is clearly evident. Brands that score high in quality receive more of their price-point at retail. Also, the top 10 / bottom 10 profiles show that nine of the ten high scoring brands also posted sales increases for the year vs. only half of the bottom brands.

Branding Is Essential to Maintain Shopping Consideration

"Once a company abandons its brands distinctive personality, it's just a matter of time before confused customers start drifting away."

Harvard Business Review — September 2005

The current market dynamics reveal that the following factors are at work:

- More prospects — but less consumer retention.
- Intenders are considering fewer models.
- Fewer brands are posting share increases.
- Branding ads are being replaced by price-point marketing and lower funnel emphasis.

The chart below illustrates that there is a decision matrix that exists at each stage of the purchase funnel where the intender is exposed to multiple messages.

CNW research asked intenders to rate (on a 1– 10 scale) the importance of various marketing, advertising and branding factors that keep a brand on their shopping list at various stages of the Purchase Funnel.

We have shown the top responses for each of the four quadrants of the matrix: *brand, industry, media and consumer*. The research shows that among all of the factors:

- Quality and brand image garner the highest ratings overall — at each stage.
- New products are key for the automotive industry, and incentives and dealer visits help close the deal in the final month.
- The media types that consistently rate highest at the various stages are Television, Magazines, the Internet and Consumer Reports.
- Among consumers themselves, their personal experiences also weigh heavily on keeping the brand on the list.

Time Inc.

The Decision Matrix of the Purchase Funnel

	Influence Putting Brand on the List (6-5 Months)		Influence Keeping Brand on the List (4-2 Months)		Influence the Final Selection (1 month-2 weeks)	
BRAND	Quality	9.9	Quality	9.9	Quality	9.8
	Brand Image	9.5	Brand Image	9.4	Brand Image	9.2
INDUSTRY	New Product	9.4	New Product	6.4	New Product	9.8
	Price Promo.	7.6	Dealer Service	6.2	Incentive Promo.	9.1
	Dealer Service	6.5			Dealer Visit	8.1
					Price Promo.	7.9
MEDIA	TV Ad	7.1	Magazine Ad	7.3	Cons. Rpt/Guide	7.6
	Magazine Ad	6.3	Internet	6.5	Internet	6.7
CONSUMER	Prev. Experience	8.8	Prev. Experience	8.1	Prev. Experience	8.6
	Currently Own	7.7			Currently Own	7.7

What We've Learned . . .

Wave IX of the Time Inc./CNW Purchase Process study indicates that:

- Quality remains as the major driver of intender consideration and acquisition in the purchase path — and it is one of the key components of brand image.
- Brands with the highest quality ratings tend to maintain a higher price point at the retail level and show positive overall sales results.
- Understanding how the sources of information are used by intenders at each stage of the purchase process maximizes advertising and marketing communications and helps maintain brand consideration on the shopping list.

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