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What Do U.S. Car Buyers Think about the Challenges Facing the Auto Industry?

The automotive industry continues to struggle. Dealerships throughout the country are slated to close. Continued layoffs, plant closings and production cuts dominate the headlines. Although General Motors and Chrysler quickly came out from bankruptcy, they are emerging as very different companies. Chrysler has formed a partnership with Italian automaker Fiat¹, while GM is in the process of paring down to four core brands: Chevrolet, Cadillac, Buick and GMC².

Amid all this turmoil, consumers have the ability to “make or break” the U.S. auto industry. How do U.S. drivers feel about heavily publicized local dealership closings? What do the bankruptcies of GM and Chrysler mean to the average consumer? How do GM’s plans to eliminate the Pontiac, Saturn, Saab and Hummer brands³ affect consumers? Most importantly, what effect will all of these changes have on the buying decisions of the average American?

To find out, R. L. Polk & Co. surveyed 433 consumers between June 15 and 28. Results are summarized in this Polk View.

Impact of Local Dealership Closings

On May 14, Chrysler announced that it would close 789 of its dealerships⁴. The next day, GM announced that it was terminating contracts with 1,124 of its 6,000 dealerships as the first step in drastically trimming its dealer network.⁵

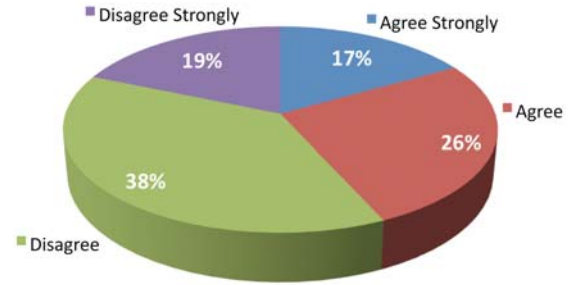
Because of the dramatic impact on jobs and tax revenues in towns across America, dealership closures have received heavy media coverage. The media is also interested in pending legislation (at the time this Polk View was written) that would overturn the dealership closings⁶. With all the media hype, how will the potential closings of nearly 2,000 dealerships across the country affect consumers’ buying behavior?

As shown in Figure 1, 43 percent of consumers we surveyed said they’d be less likely to buy from GM or Chrysler if their local dealership closed. This represents a significant group of potential defectors and a cause for concern, especially as other automakers make moves to conquest these owners. For example, through the end of June, Ford offered \$1,000 in “conquest cash” to owners of Chrysler, Dodge or Jeep owners who switched to a Ford SUV, pickup or crossover vehicle.⁷

Figure 1:

Consumer Attitudes – Impact of Local Dealership Closings on Purchase

Level of Agreement: “I’m less likely to buy a GM or Chrysler because of a local dealership being closed.”



In areas where dealerships close, stores that remain may need to incent consumers to get them into the showroom. Only about one-third (34 percent) of surveyed consumers said they’d be willing to drive further to go to a GM or Chrysler dealership if necessary.

Impact of Bankruptcies on Buying Behaviors

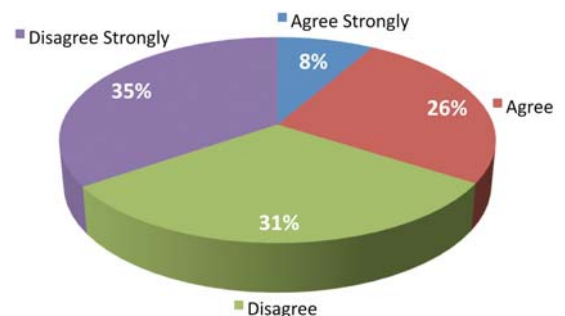
Although General Motors and Chrysler both emerged from bankruptcy fairly quickly, the negative publicity and concerns over the companies’ financial stability might be expected to linger in the minds of consumers. Did the bankruptcies of these two OEMs affect Americans’ willingness to buy their products?

Polk found that consumers are split 2:1 on the effect of GM and Chrysler’s bankruptcies on their purchase decision. One-third (34 percent) are less likely to buy from these automakers because of the bankruptcies.

Figure 2:

Consumer Attitudes – Impact of Bankruptcy on Purchase

Level of Agreement: “I’m less likely to buy a GM or Chrysler due to bankruptcy.”



¹ New Chrysler Emerges from Bankruptcy, autoMedia Auto News Blog, June 2, 2009

² GM Emerges from Bankruptcy After Landmark Government Bailout, The Washington Post, July 10, 2009

³ Era Ends as GM Snubs Saturn, Other Makes, The Wall Street Journal, February 19, 2009

⁴ Chrysler Says it Wants to Close 789 Dealerships, MSNBC.com, May 14, 2009

⁵ GM Whacks 1,100 Dealers, CNN Money.com, May 15, 2009

⁶ Aid to Car Dealers Stirs Fight, The Wall Street Journal, July 22, 2009

⁷ Ford Banks on its Rivals’ Misfortunes, Detroit News, April 16, 2009



“Just one-third of consumers would be less likely to purchase a brand being discontinued.”

One reason that consumers may still be willing to buy from GM and Chrysler is because they suspect that pricing will be favorable. Two-thirds (68 percent) of consumers feel that dealer closings and brand eliminations will result in deals on cars and trucks.

We also looked at whether other brands were likely to benefit from GM and Chrysler's financial struggles. About 40 percent of consumers said they'd be more likely to consider Ford, slightly above the 37 percent that would consider an import. Consumers are more favorable about Ford than GM and Chrysler, according to a recent Rasmussen Report⁸.

Impact of Brand Elimination on Consumers' Purchase Patterns

As part of its reconfiguration into a smaller, leaner organization, GM decided to “slim down” to just four brands – Buick, Cadillac, Chevrolet and GMC³. Faced with uncertainty about the availability of service, the continuation of warranties and resale values, consumers might be expected to have strong opinions about buying vehicles from terminated brands. However, our research shows that the majority of consumers do not seem that concerned about buying from a brand that's going away. Just one-third of consumers (35 percent) would be less likely to purchase a brand being discontinued.

This is an improvement over consumer opinions from Polk's previous research, conducted from January 31 through June 8, when 54 percent of consumers said they would not buy a new vehicle from a discontinued brand. During much of this time period, the specifics of which brands were being eliminated had not been announced, so it may be that consumers are more comfortable with facts than rumors.

Also in the earlier research, more than half (51 percent) of respondents said they'd switch to a different brand from the same manufacturer (e.g., Chevrolet instead of Saturn). This is good news for GM, which may have the opportunity to “save” some of these customers.

What the Industry Should Do to Maintain Customer Loyalty and Public Trust

While Polk's research shows some negative effects from the recent turbulence surrounding GM and Chrysler, the findings also indicate that the majority of consumers have not “lost faith” in the OEMs due to dealership closings, bankruptcy and brand eliminations. Therefore, automakers and dealers should take the following actions to maintain customer loyalty and public trust:

- **Communicate with their customers:** OEMs and dealers should tell their customers about actions they are taking that might affect them. For example, customers who live in areas where dealerships are closing should receive communication about other locations they can visit for sales and service. Otherwise, these customers are likely to go to the competition, especially if other OEMs are courting them with marketing messages and incentives.
- **Provide options to owners of discontinued brands:** GM should keep in mind that customers of discontinued brands are being marketed to by competitive OEMs. Therefore, GM and its dealers need to proactively reach out to owners of discontinued brands with information about alternate brands that may fit their needs. Additionally, for customers previously assigned to closed dealerships, corporate or field staff for the OEM should ensure these owners are properly reassigned so they do not get “lost” in the retail shuffle.
- **Be transparent about their actions:** OEMs should use PR and the media to share details about actions they are taking to emerge from their current struggles as a step toward regaining the confidence of buyers. Sharing how they are using taxpayer money to improve the business for the benefit of both dealers and consumers could go a long way toward maintaining the trust of the American public. For example, people will watch whether the Fiat alliance with Chrysler will lead to the introduction of more fuel-efficient models based on European platforms. If this happens, Chrysler should communicate the buyer and taxpayer benefits of such models.

About R. L. Polk & Co.

R. L. Polk & Co. is the premier provider of automotive information and marketing solutions. Polk collects and interprets global data, and provides extensive automotive business expertise to help customers understand their market position, identify trends, build brand loyalty, conquest new business and gain a competitive advantage. Polk helps automotive manufacturers and dealers, automotive aftermarket companies, finance and insurance companies, advertising agencies, media companies, consulting organizations, government agencies and market research firms make good business decisions. A privately held global firm, Polk is based in Southfield, MI with operations in Australia, Canada, China, France, Germany, Japan, Spain, the United Kingdom and the United States. For more information, please visit www.polk.com.

⁸ Ford Favorables Hold Steady, GM, Chrysler Down, Rasmussen Report, July 27, 2009

Note: Research conducted from January 31 – June 8, 2009 was with 2,273 consumers and had a margin of error of +/- 1.9%. Research conducted from June 15 – June 28, 2009 was with 433 consumers and had a margin of error of +/- 4.6%.