



Monthly automotive competitive insights

By The Compete Automotive Team

All GM brands bettered the market overall in terms of increasing demand

Compete provides automakers with the most detailed and immediate insights into **vehicle demand generation and conversion**, as well as **vehicle and brand competitiveness**. Our services help automakers optimize marketing and incentive decisions and benchmark performance against rival actions. Compete intelligence can be applied to marketing effectiveness, demand forecasting, and vehicle launches.



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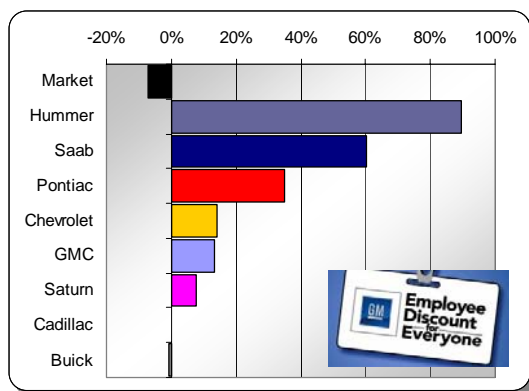
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DON'T DISCOUNT THE IMPACT OF DISCOUNTS

GM is using a variety of tools to regain market share. The most recent was the heavily promoted "You Pay What We Pay" campaign, which offered employee-level discounts to all consumers. If successful, such a campaign should *both* (1) increase demand and (2) improve conversion of demand to retail sales. Compete assessed the effectiveness of the campaign in increasing demand during the first two weeks of June compared to the first two weeks of May by GM brand, and benchmarked those results against the market.

MID-MONTH OVER MID-MONTH DEMAND CHANGE - JUNE VS. MAY 2005



Results show that all GM brands bettered the market, which had 7% fewer shoppers in the period. However, the gains were not uniform across brands. Hummer's gain was the greatest at 90%, though demand gains have been heavily driven by the addition of the H3. Saab also posted gains, but higher demand for 9-2X and the addition of 9-7X also drove higher demand. The net result is that Hummer, Saab and Pontiac were in the best position among GM brands for higher June sales based on more demand, while Cadillac and Buick were in the worst position.

Now that GM knows which of its brands benefited from better demand (the message and advertising of the campaign), it can determine which brand realized better conversion (the effectiveness of the deal behind the campaign) by comparing changes in actual retail sales by brand in the period. For example, if Pontiac sales were up less than 35%, it means Pontiac's conversion worsened as a result of the campaign (sales up less than demand). Likewise, if Chevrolet sales were up more than 14% it means Chevrolet drove demand and increased conversion (sales up more than demand).

BIG CHANGE FOR HONDA'S SMALL CAR

This fall's launch of the 2006 Civic is key for Honda's continued success. Compete assessed the advertising spend Honda is likely to need to launch the 2006 Civic. The assessment is based on Honda's current Civic advertising effectiveness (dollars per shopper), typical effectiveness dynamics during a launch, and the assumption that Honda will seek to increase retail sales.

Compete estimates that Honda will need to spend an average of \$19M per month during the launch. That calculation is based on the following assumptions: (1) retail sales of 325,000 annually (27,083 per month), (2) poorer conversion (from May's 14.5% to 10.0%—worse conversion is typical during a launch and we assumed lower incentives with the new model), and (3) poorer advertising cost-effectiveness (from an average of \$55 per shopper over the past year to \$70 per shopper—ad efficiency often decreases as spend increases). Applying these assumptions, Honda will need just over 270,000 shoppers per month during the launch. At \$70/shopper, the launch should require \$19 million per month on average.

2006 CIVIC ADVERTISING LAUNCH COSTS

	Baseline*	Launch
Sales	24,765	27,083
Conversion	14.6%	10.0%
Shoppers	181,061	270,830
Ad Cost/Shopper**	\$55*	\$70
Calculated Ad Budget		\$18,958,100

* All May 2005 except cost per shopper

** Ad spend data from TNS, Feb 2004-Feb 2005

Honda can use this type of analysis to validate the Civic launch budget. Recurring tracking of the the launch will dictate any adjustments Honda will need to make as the launch progresses. For example, if Civic has fewer than 270,000 shoppers it will need to ensure conversion is better than 10% (such as through higher incentives or more effective dealer salespeople). If early demand exceeds 270,000, Honda can consider shifting Civic ad spend to other Honda models.

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