



Selling Customers on a Better “Fit”

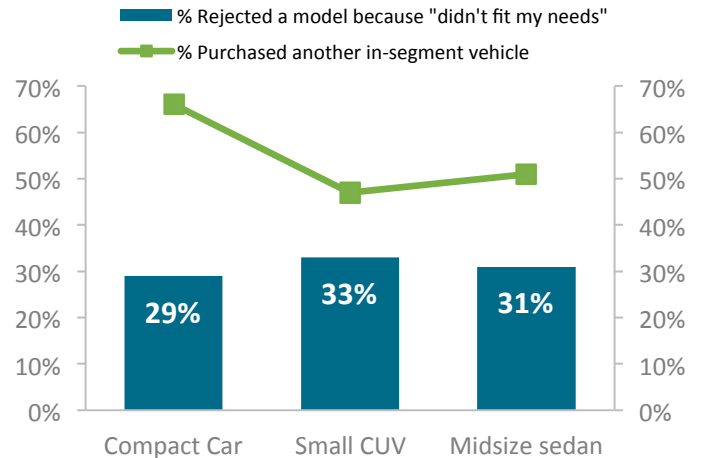
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The December 2012 Analyst Note, *Gate Crashers*, debunked the myth that the majority of lost vehicle sales occur during the price negotiation phase (they happen earlier in the process) and the top reason for vehicle rejection is price, (it’s actually the shopper’s perception that a particular vehicle did not meet their needs).

New analysis suggests that far from being a product issue dealers cannot control, sales staff may exert influence over that impression simply by staying more in tune with shoppers’ needs in the vehicle discovery phase.

Indeed, recent sales data indicates the majority of shoppers eventually buy a vehicle in the same segment as one previously rejected because it “didn’t fit their needs.”

THE CASE FOR A BETTER NEEDS ASSESSMENT Most Customers Stay In-Segment



Source: J.D. Power Canadian Consumer Retail Experience StudySM

Behind the Numbers

- It’s understood that across a segment, there are some differences in the various models available. However, the notion that one compact car, for example, has drastically different capabilities than another is spurious at best. As such, when there is a high percentage of vehicle rejecters saying they did so because a vehicle didn’t fit their needs (29% of compact car shoppers; 33% small CUV; and 31% midsize sedan) it’s important to ascertain which vehicle they ultimately purchased.
- Secondary analysis finds that despite rejecting a particular model due to the perception that it wouldn’t meet their needs, the majority of shoppers eventually buy a very similar model. For instance, of those who rejected a compact car due to a perceived gap in needs, 66% ultimately purchased another compact car. A similarly significant percentage of rejecters of small CUVs (47%) and midsize sedans (51%) also stayed within the respective segment for their eventual purchase.
- What is the potential impact in terms of dollars at the dealer level? If a hypothetical mass market franchise sells 30 compact cars per month, average industry-wide close ratios suggest those 30 sales are generated from approximately 88 prospects, resulting in 12 prospects who left the showroom prior to any price negotiation and under the impression that the vehicle they evaluated did not fit their needs.
- What has been regarded as an unavoidable product issue now takes on new meaning, given that eight of those 12 brand rejecters walk directly into another dealership, where they purchase a very similar vehicle. Given that the YTD average front-end gross profit on a compact car in Canada is approximately \$1,050, those lost sales amount to more than \$100,000 in annual lost profitability.
- What remains is a soft-skill opportunity for dealership staff, particularly in the discovery phase. A vehicle may well suit a customer’s needs, but if you don’t know what those needs are, you’re never going to convince them it will.



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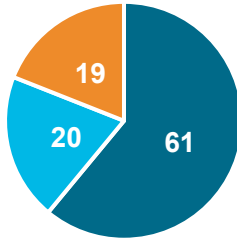
Automotive MarketMetrics

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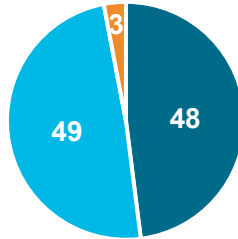


VEHICLE PURCHASE TYPE
Percent of Total Transactions (Past 12 Months)

New Vehicles

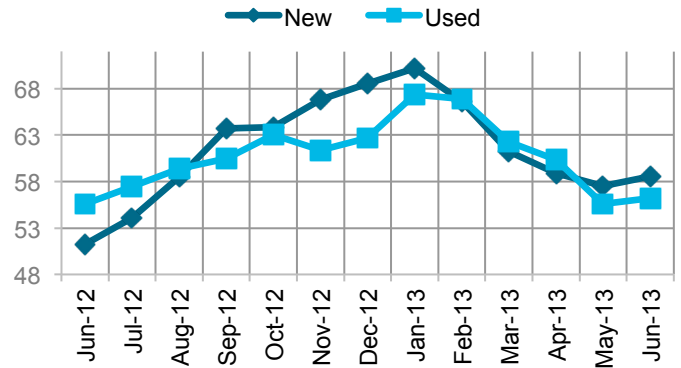


Used Vehicles

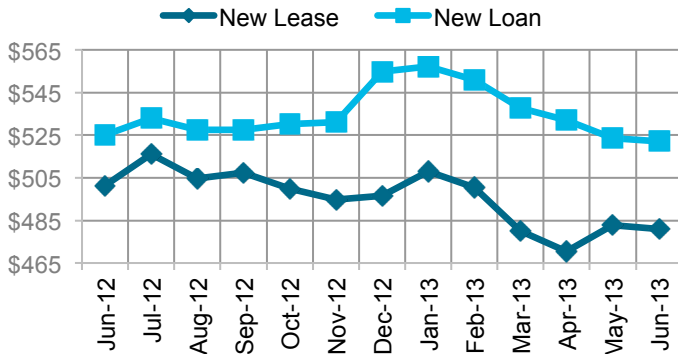


■ Cash ■ Lease ■ Loan

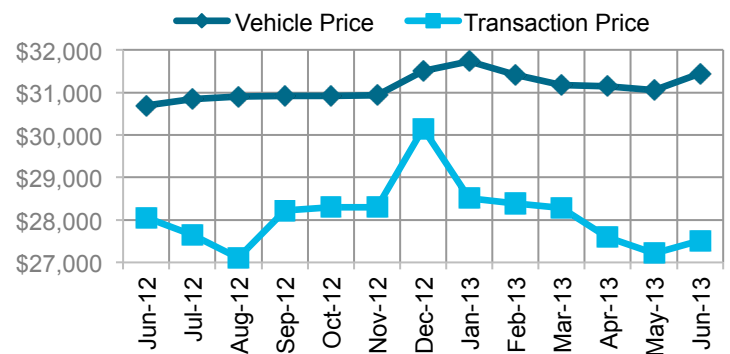
DAYS TO TURN



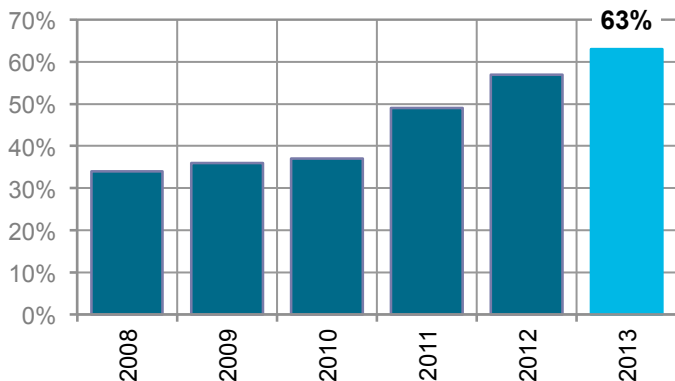
MONTHLY PAYMENTS
Average per Customer



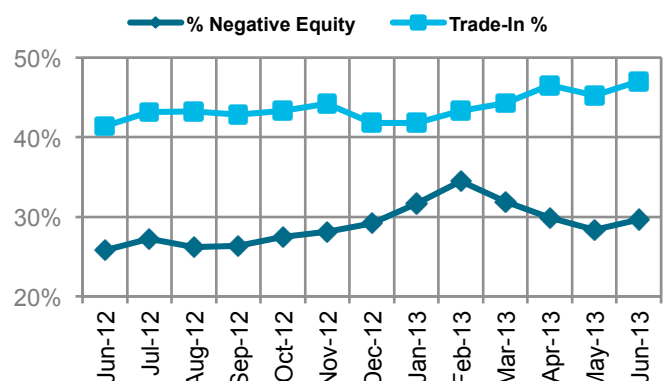
VEHICLE PRICE VS. CUSTOMER FACING PRICE
Data from JDPA PIN Incentive Spending Report (ISR)



PERCENT NEW-VEHICLE LOAN TERM
72 Months and Greater



PERCENT NEGATIVE EQUITY & TRADE-IN
Percentage of negative equity vehicles at trade-in



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