Cobalt

The 2007 Dealer eBusiness Performance Study:

THE NEW BUYING INFLUENCES

In partnership with:

YAHOO! Polk

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The Cobalt Group, in partnership with Yahoo! and R.L. Polk & Co., conducted the *2007 Dealer eBusiness Performance Study: The New Buying Influences* to better understand current automotive dealership Internet lead handling and the impact of search and consumer-generated media on vehicle shopping and purchase behavior. Using a variety of research methods, the companies set out to answer the following questions:

- How are consumers utilizing the Internet, search and online consumer-generated media to shop and select a dealership?
- How do online dealership reviews and reputation, lead response and professionalism of sales staff impact consumer purchase decisions?
- What are the current dealership ebusiness performance levels?
- How much Internet lost opportunity occurs at dealerships and what are the causes?
- What are high-performing dealerships doing to meet consumer expectations and successfully convert Internet opportunities?

The result is a comprehensive report on the state of automotive car shopping today and is meant to inform and guide automotive manufacturers, dealer groups and dealership employees on the current state of the industry, important trends and what they can do to maximize business opportunities in an Internet-driven marketplace.

The Internet has transformed how consumers live, work and most notably, how they shop for products and services. The introduction of search and social networking has fueled the growth of Internet use by making information more accessible and connecting users with other "like" consumers to hear about their opinions and experiences. This explosive growth—combined with a decrease in model, brand and dealership loyalty—has led car shoppers to consider more makes, models and dealerships at the start of the shopping process, effectively broadening the top of the traditional automotive purchase funnel.

To manage the increase in selection, consumers are using information found on the Internet to assist in the narrowing of their choices. These Internet-based sources act as selection "filters," influencing consumers as they move through the purchase funnel. For this report, the filters have been organized into three distinct shopping phases or sections within the traditional purchase funnel (Figure 1):

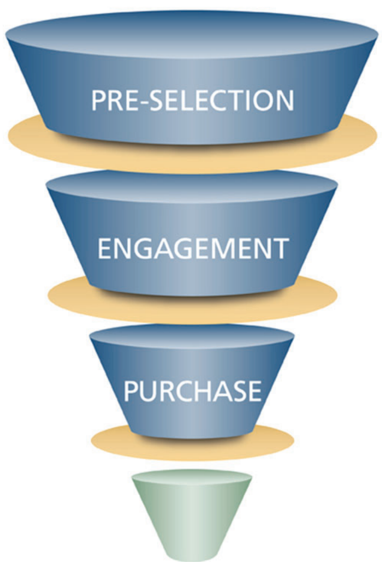


Figure 1

Pre-selection

The initial research period where consumers start their shopping process and filter information using all resources available. Today they are using search engines, and advertising — both online and traditional — to research and locate vehicles and dealerships.

Engagement

Following Pre-selection, Engagement occurs when a consumer initiates a dialogue with a dealer about a vehicle by email or phone. Consumers are filtering their selection by evaluating dealer responsiveness, time to respond to a vehicle inquiry and the quality of the response.

Purchase

The final phase includes the decision to purchase and the post-purchase actions of consumers. Consumers consider the price of the vehicle, their experience with dealership personnel, loyalty with the brand and dealership, location of dealership and online reviews and rankings of dealerships to make final choices to purchase. After buying a vehicle, some consumers are sharing their experience by posting reviews of dealerships online for other shoppers to see.

Consumers have gone through a similar shopping process since the beginning of the modern automotive industry. Only now, most consumers are starting the process online instead of at the physical dealership and have unprecedented access to information and communication channels to other "like" consumers. Dealers need to understand these new filters and how they affect the purchase process in order to advance through the purchase funnel and ultimately be successful in today's new shopping environment.

Pre-selection

Most consumers start their vehicle shopping process online using Internet-based resources to filter information and opportunities. Eighty-three percent of car shoppers used the Internet to research vehicles and 79% used search to research dealerships. When comparing reliance on traditional media vs. online media, consumers are turning more to online advertising sources while conducting their research. Forty-eight percent referred to a dealership's website to view what models and vehicles were available versus 20% that called the dealership to see what vehicles were in stock. For finding a dealership, 31% used dealer websites and 29% used OEM websites versus 19% used yellow pages and 17% used radio ads. Dealers who evaluate their advertising to ensure they're getting maximum exposure to these consumers will benefit.

Most consumers are choosing to initiate a conversation with a dealership online as well. Sixty-three percent of new car shoppers submitted a purchase inquiry or lead to a dealership via email with 67% having submitted through the dealership website, 42% through a third party portal and 36% via an OEM website. With two-thirds of consumers initiating dialogue through email, dealers need to establish processes to answer these lead inquiries promptly and completely.

Consumers are willing to travel further for a dealership they feel is going to provide the right experience. Thirty-two percent traveled more than 20 miles from home to physically visit a dealership. Search advertising can level the playing field and give dealerships outside of larger markets the chance to compete for these customers.

Walking into a dealership's showroom is still an important part of the shopping process. On average, consumers physically visited 6 dealerships prior to purchasing a vehicle. As the overall quality of vehicles increase, shoppers are actively considering multiple brands and using the Internet to filter which dealership they will visit for a demonstration drive. The consumer’s experience with a dealer’s website can therefore have a large impact on getting selected as the dealership for that brand. Most importantly, consumers typically select only one dealership of each brand to physically visit. That means the choice to buy one brand over another can rest solely on the interaction with one dealership. Dealers may have one shot at selling to a consumer or they can lose the sale for the entire brand.

Engagement

Fifty-five percent of approximately one million de-duplicated new vehicle leads from a third-party portal resulted in a sale of a new or used vehicle. Of those 55%, 10% were sold at the "intended dealer" or the dealer to which the lead was initially sent. The other 90% closed at a dealer other than the intended dealer. This 90% represents the "lost opportunity" dealerships are experiencing because they had the opportunity to convert the lead but lost the sale to another dealership.

Of the 90% of new vehicle leads that closed at an other dealer, 23% purchased a new vehicle of the same brand specified in the initial lead. Forty-one percent purchased a used vehicle and 36% bought a new vehicle of a different brand. This represents a 6% increase in brand defection since the study in 2005. This confirms the findings above that consumers are considering multiple models and brands right up to the point of purchase.

Of the leads that resulted in a sale, 24% closed within 10 days and 68% closed within 90 days. Once consumers initiate a dialogue, dealers who respond promptly will have a better chance with consumers who have a short purchase timeframe.

Cobalt's national 2007 eMystery shop showed an overall decline in how dealers are responding to online leads across almost all key performance areas since the 2005 national eMystery shop. Specifically, these areas of decline include whether or not dealers responded to a lead and the quality of the dealer's response to the lead. Most dealers are performing at levels below what consumers have come to expect, creating an alarming gap between consumer reliance on the Internet and dealer performance in handling these consumers.

Top-performing dealers recognize the importance of prompt, complete and transparent communication with consumers. Eighty-three percent of these dealerships have processes in place to phone immediately after receiving an email lead and 95% provide price and vehicle information as part of an initial response. All of the participating dealers credited having management support of Internet sales efforts and strong processes to ensure they are able to communicate promptly, completely and transparently with consumers.

Purchase

Reliance on online dealership reviews and rankings written by independent consumers is rapidly increasing and the impact of these reviews on purchase experiences is becoming more substantial. Of those consumers that looked at reviews and rankings of dealerships, 21% changed their dealership selection and 23% decided to look at a different make/brand based on what they read in the reviews. Forty-three percent used information from reviews to select a dealership.

Adoption rates for reviews and rankings are high and projected to increase dramatically. A total of 73% of consumers said they would be likely to use dealership reviews and rankings for future vehicle purchases. When people have a good experience, they want to tell others. Eighty-six percent of the consumers who posted reviews provided positive comments about their experience. Dealers who embrace online reviews and rankings by investing in the customer experience and implementing processes to respond promptly and transparently to all communication will benefit as their customers will be more likely to write positive reviews.

A comparative variable conjoint analysis was conducted to measure the relative importance of five primary dealership attributes that influence consumers to purchase: location of the dealership, loyalty (of a consumer to a dealership), price of the vehicle, professionalism of sales staff and online reviews and rankings of the dealership. The analysis revealed that while the price of a vehicle is the most important attribute for consumers, the professionalism of sales staff ranks in almost equal importance. Online dealership reviews and rankings were shown to have medium-high importance and have significant "pull" on consumers considering one dealer over another. Proximity of the dealership and loyalty both had low levels of importance among the attributes.

The analysis shows that consumers value a good buying experience from a professional sales staff nearly as much as a low price and in some cases are willing to forgo the absolute lowest price in order to have a better buying experience with the dealership sales staff. These findings dispel the commonly held belief that lowest price and dealership location are the primary attributes that lead consumers to choose one dealership over another.

It also illustrates the growing importance of dealer reputation. If a dealership promotes an environment of professionalism by investing in the customer experience through their sales staff combined with offering a competitive price, strong online reviews from customers will naturally result thus establishing a system of reciprocity where strengthening one attribute will benefit the others.

This study was modeled after *The Cobalt Group's 2005 Industry and Dealership eBusiness Performance Study* and used similar methodologies to gain insight into dealer performance trends. As a result of requests from customers wanting to know what influences consumers to buy a vehicle, two Internet-based surveys were added to this study to examine how consumers are researching, pre-shopping and purchasing vehicles.

Results from a total of five "sub-studies" make up this report: a lead match and closure analysis of approximately one million Internet new car leads representing 35 brands over a 15-month period; two Internet-based surveys of 1,550 car shoppers and purchasers; a mystery shopping campaign directed at more than 2,100 dealerships; and onsite interviews with more than 20 "high-performing" dealerships to determine processes and practices that contribute to their success. Details on methodologies used can be found in Appendix A. The scope of research methodologies and conclusions makes this the largest and most comprehensive study of automotive ebusiness in the industry to date.

The following findings are organized within three distinct phases of the purchase funnel: *Pre-selection, Purchase* and *Engagement*.

Terminology

In order to understand the findings in this document, definitions for key terminology are provided below:

- Intended dealership - *The dealership to which the lead was initially sent*
- Other dealership - *Any dealership other than the intended dealership*
- Intended make (new) or intended brand - *The vehicle make and model described in the initial lead*
- Other make (new) or other brand - *Any make other than the intended make as specified in the lead*

Pre-selection Phase

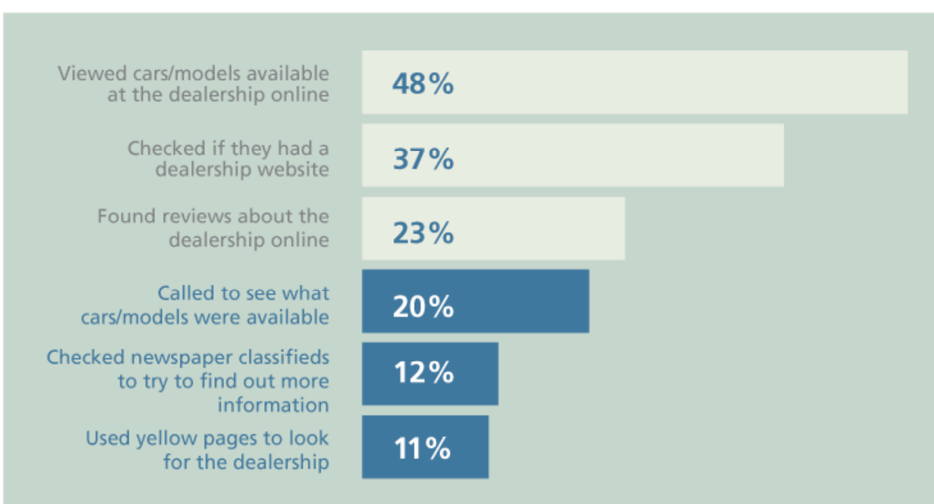
Research conducted online

The days of the consumer going directly to the dealership to do the bulk of their vehicle research is over. Nearly every consumer conducts some kind of vehicle research prior to visiting a physical store. Most of this qualifying happens online — 83% of new car shoppers conducted their research on the Internet and 79% conducted their dealership research with the help of a search engine.

What are they doing? Forty-eight percent looked at cars and models available on a dealership website, 37% checked to see if the dealership had a website and 23% looked at consumer-generated reviews about the dealership. In comparison, reliance on offline sources is significantly less: 20% called the dealership to see what models were available, 12% looked at print newspaper classifieds, and 11% looked at yellow pages to learn more about the dealership (Figure 2).

83% of new car shoppers conducted their research on the Internet and 79% used the help of a search engine.

Figure 2

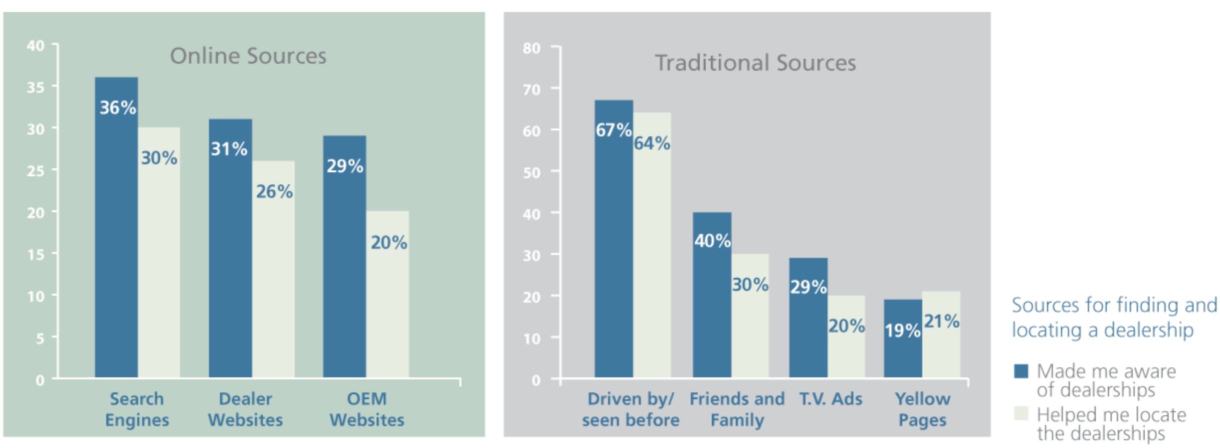


Reliance on online and traditional sources

2007 Dealer eBusiness Performance Study, This data shows more than twice as many consumers referred to the website to see inventory than called the dealer to ask what they had in stock. Consumers are using the dealership website as a central point of reference making it a direct extension of the physical store. Consumers are filtering dealers during the pre-selection phase by using the information they find online to make a decision whether to physically visit the dealership. If a dealer's website isn't well maintained and has dated promotions or inventory, to online visitors it is indicative of the dealer not caring about earning their business. If a website is crowded with oversized flashing banners, obtrusive promotional coupons popping up, and video of talking heads launching automatically, consumers will assume this is the kind of treatment they will get if they physically visit the showroom—overbearing and uninvited sales tactics. Conversely, a website that is well maintained with current inventory, user controlled multi-media and well-timed promotional offerings (service coupon on the service section of the site, etc.) indicates the consumer will be treated respectfully and professionally upon visiting the physical store.

Search engines are also a valuable source when it comes to helping consumers become aware of and locate a dealership. Thirty-six percent of respondents used search to find out about a dealership and 31% used search to find the location of dealers in their market. Dealer websites and OEM websites are also important sources. For finding out about a dealership, 31% used dealer websites and 29% used OEM websites. For locating, 26% referred to dealer websites and 20% used OEM websites. While dealers traditionally use offline media to create general awareness and to advertise their location, this data shows most online sources outranked offline media such as newspaper classifieds, yellow pages, radio and billboards in accomplishing these two objectives (Figure 3).

Figure 3



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All of this information shows that consumers rely heavily on online resources such as search and the dealership website to conduct their research during the pre-selection phase and to filter which dealers they're going to visit versus those they won't visit. To make it through these filters, dealers need to treat their online website as an extension of their brand. They need to consider the appearance and attractiveness of their website the same way they do their physical store including offering an attractive display of current inventory complete with pictures. Dealers also benefit by being well situated on search engines and by reallocating advertising budgets from offline to online media to ensure they have a presence online where consumers can find them.

Offline shopping still important

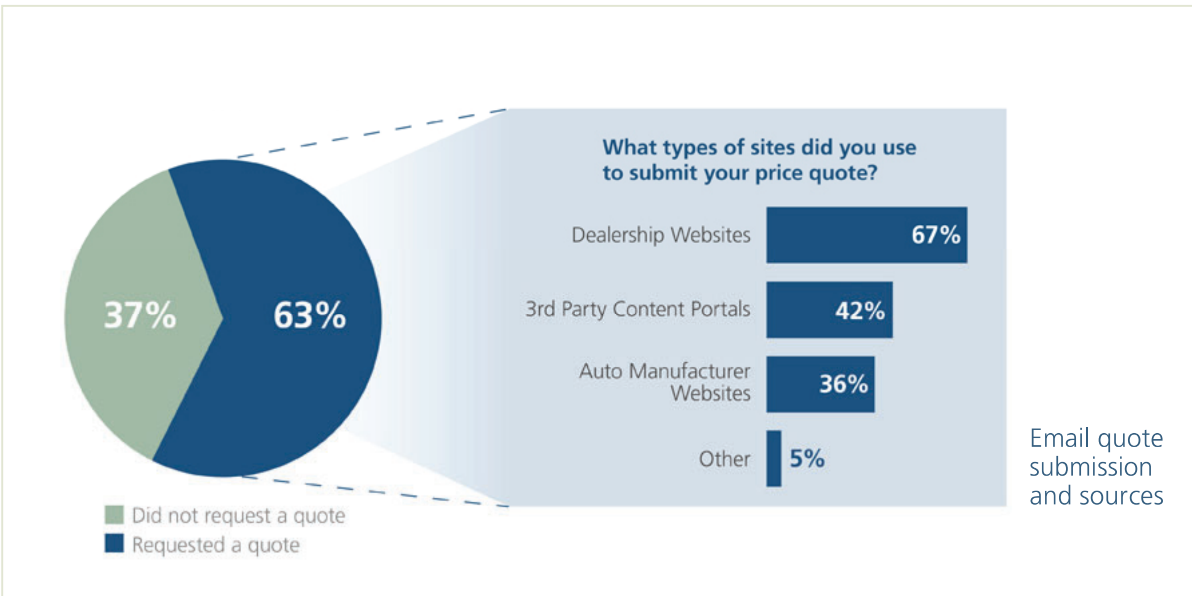
New car shoppers are very active offline as well as online. Physically visiting dealerships is still a significant part of the research process for consumers. Commonly held assumptions state that consumers physically visit 3 to 4 dealerships prior to purchasing a vehicle. Furthermore, it's believed these dealerships represent the same brand indicating consumers determine which brand they are going to purchase and shop multiple dealers of the same brand to find a car to purchase. This study revealed that on average, consumers physically visited 6 dealerships prior to purchasing a vehicle. Most interesting is these consumers tended to visit dealerships of different brands as opposed to multiple dealers of the same brand. Well into the shopping process, consumers are actively considering multiple brands and using the Internet to filter and select one dealership of each brand to physically visit. Furthermore, this illustrates the propensity to buy one brand over another can rest solely on the performance of one dealership. Dealers may have one shot at selling to a consumer or they can lose the sale for the entire brand. Given the quality and breadth of products on the market and the online tools to engage consumers as they research, new car shoppers can be marketed to and swayed right up until the point of purchase.

While consumers are conducting their vehicle research online, they are also gaining a sense of the in-person experience they will get from each dealership. Consumers determine this by evaluating variables such as vehicle availability, price and dealer response to email inquiries. The study revealed that consumers are willing to travel further for a dealership they feel is going to provide the right experience. Even within the large DMAs which often contain 10 or more dealerships per brand, 32% traveled more than 20 miles from home to physically visit a dealership. For dealerships located outside of larger markets, search advertising can become a significant equalizer.

Multiple sources used for quote submission

As more and more consumers conduct research online, they are choosing to initiate their interaction with dealers online as well. Sixty-three percent of new car shoppers submitted purchase inquiries or leads to a dealership online with 67% having submitted via the dealership website. While dealership websites are the source of the majority of purchase inquiries, third-party automotive portals and OEM websites also deliver significant opportunities with 42% submitting a purchase inquiry through a third-party portal and 36% via an OEM website (Figure 4). Dealers need to answer all inquiries because most consumers are choosing to initiate a conversation through the online channel. Furthermore, dealers need to respond to purchase inquiries promptly and transparently in order to improve their ability to get these consumers into the dealership. More details about answering leads effectively are covered in the next section.

Figure 4



2007 Dealer eBusiness Performance Study,

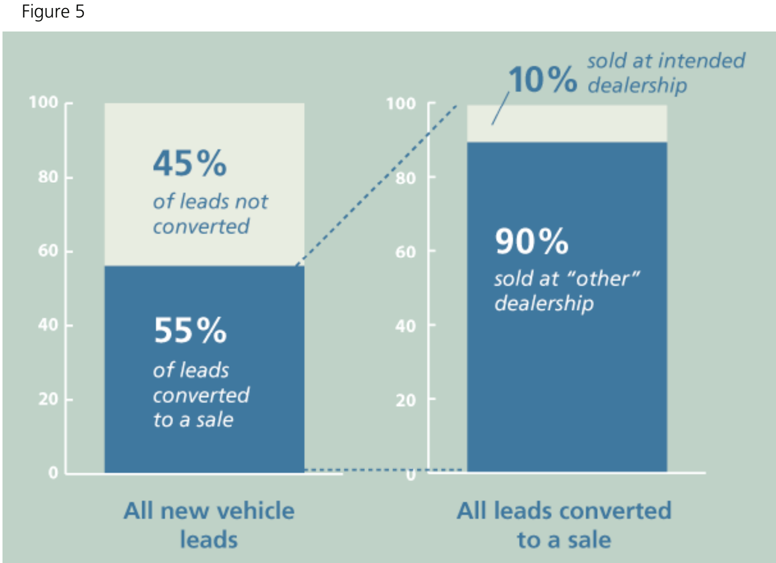
As discussed in the pre-selection phase, 67% of car shoppers are submitting purchase inquiries online. The dealer's initial response to a lead is a pivotal point of contact for a consumer. This initial dialogue represents the engagement phase. Dealer response — both in terms of time to respond and quality of response — is critical to keeping that consumer engaged, getting them into the dealership, and selling them a vehicle. To fully understand how consumers filter at this stage, an understanding of the current level of dealer sales performance is needed.

Lost opportunity for dealers remains high

The lead match analysis of approximately one million leads over a 15- month period was performed by R.L Polk & Co. and compared to the 2005 lead match analysis to reveal performance levels over time. The results showed that dealers are still converting a very small percentage of the leads they receive. Stated differently, the amount of "lost opportunity" dealers are experiencing is still high. In addition, brand defection has increased, meaning more consumers are purchasing a different brand than the one they initially submitted a lead for. Results of the lead match analysis and implications are discussed below.

Of the approximately one million de-duplicated new vehicle leads matched to DMV and RDR records, approximately 55% resulted in a sale of a new or used vehicle while 45% did not result in a sale. Of the 55% of leads that resulted in a sale, 10% closed at the "intended dealer" or the dealer to which the lead was initially sent. The other 90% closed at an "other"

Figure 5



Overall conversion and lost opportunity

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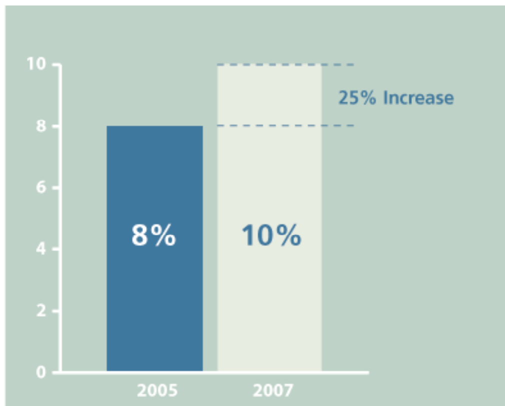
dealer than the lead was originally sent to (Figure 5, previous page). This 90% represents the amount of dealership "lost opportunity" dealerships are experiencing because they had the opportunity to convert the lead but lost the sale to another dealership.

The good news is the 10% that closed at the intended dealer is a 25% increase over the 2005 study (Figure 6). This means that dealers who received a lead are getting better at converting that lead to a sale. But with 90% closing at an "other" dealer, the amount of lost opportunity is still high.

Figure 6



Increase in intended dealer conversion

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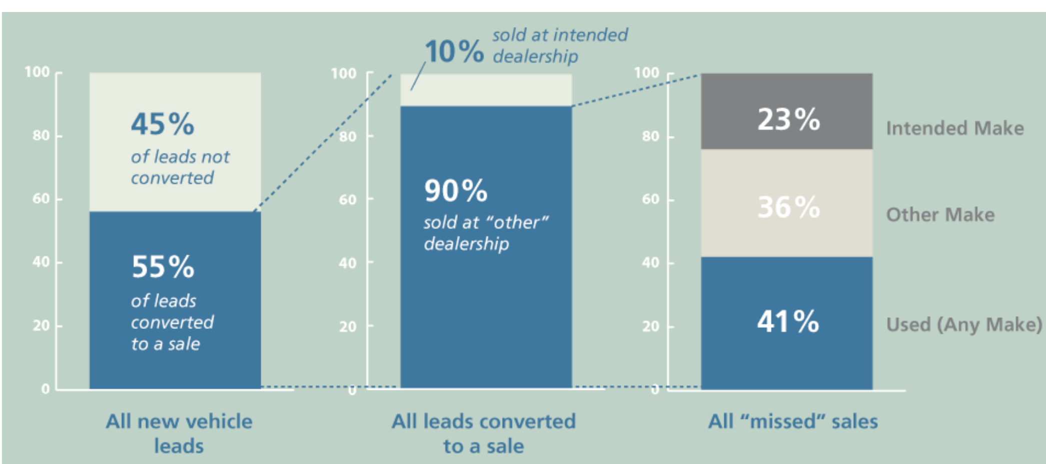
Looking at the amount of lost opportunity in more detail, of the vehicles purchased at a dealership other than the intended dealership, 23% bought a new vehicle of the same brand, 36% bought a new vehicle of a different brand and 41% bought a used vehicle from another dealership (Figure 7).

Figure 7



Complete view of lead conversion

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Brand defection is increasing

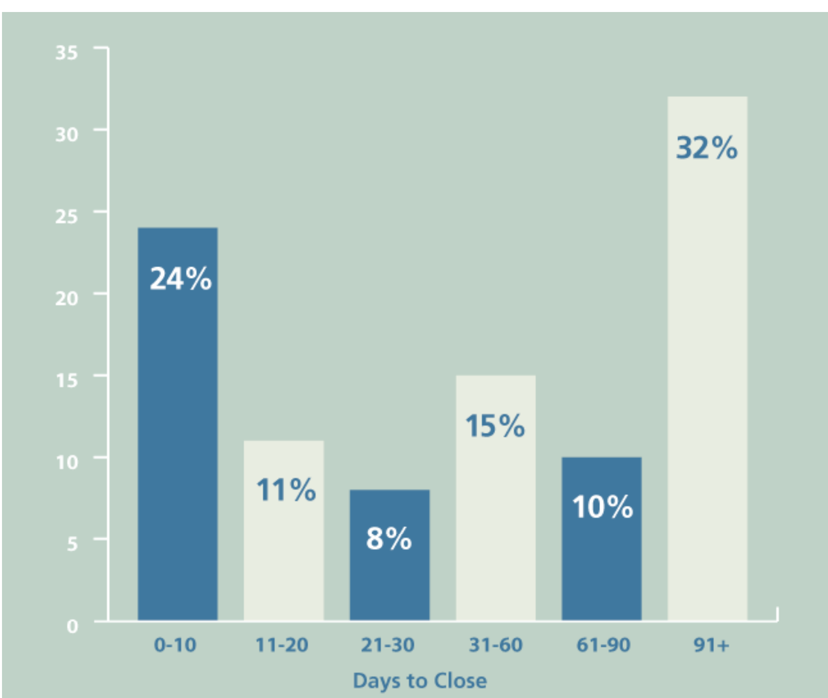
Of those people that submitted a lead, 36% bought a new vehicle of a different brand than specified in the initial lead. This represents a 6% increase in brand defection and supports findings discussed in the previous section that consumers are visiting multiple dealerships of different brands and can be swayed right up to the point of purchase.

The financial impact of brand defection on OEMs can be high. Based on 2007 NADA Data, aggregate brand defection across all brands represents $5 billion in lost sales or $298 million in lost gross profit.* While it is difficult to quantify exactly how much brand defection an OEM is incurring, considering the amount of lost opportunity at the dealer level is 90%, undoubtedly many OEMs are experiencing a significant amount of loss to other OEMs.

What consumers are buying and when

The 2005 Industry and Dealership eBusiness Performance Study analyzed sales conversion within 30, 60, 90 and 91+ day increments. In order to gain a greater understanding of how quickly leads are converting, additional increments were added within the 30-day purchase window as part of the 2007 study. Results showed of the leads that closed, 24% did so within ten days of lead submission. Forty-three percent closed within 30 days and 68% closed within the first 90 days. Thirty-two percent closed after 90 days (Figure 8).

Figure 8

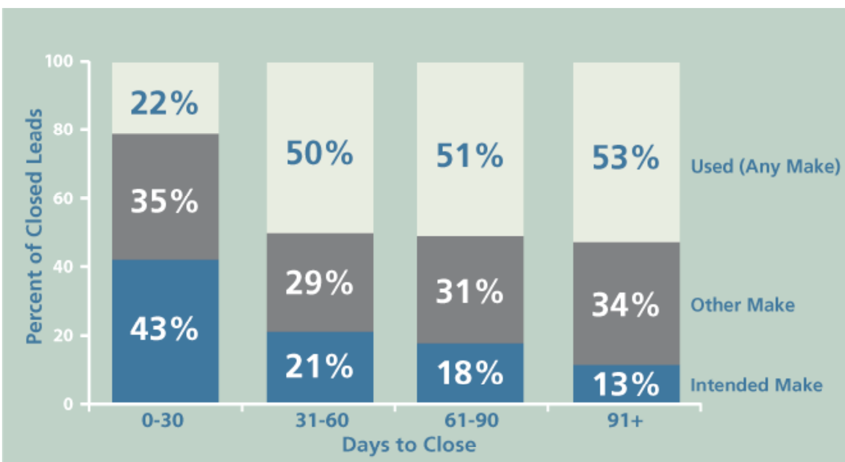


Time to close

* Based on average new vehicle price of $28,450 and average gross $1,482, NADA Data 2007.

Taking a closer look at conversion over time, 43% purchased a new vehicle of the intended make within the first 30 days of lead submission. After that, new vehicle of intended make conversion dropped more than half to 21% within 60 days while used vehicle sales of any make more than doubled during the same time period — from 22% within 30 days to 50% within 60 days. After 90 days, new vehicle of intended make conversion dropped to 13% while used vehicle sales of any make increased slightly to 53%. Sales of other make vehicles was 31% within 90 days (Figure 9). The longer a lead remains unsold, the more likely it is to convert to a used vehicle. Dealers should respond promptly to leads and have systems in place to market to car shoppers in a way that addresses what the consumer is likely to purchase based on the age of the lead. Suggesting a used vehicle alternative to a new vehicle lead as the lead ages could help convert the lead to a sale. Additionally, with a third of leads converting after 90 days, dealers who continue to market to consumers will benefit by selling to those with purchase timeframes beyond a three month period.

Figure 9



Detailed conversion over time

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What's contributing to the amount of lost opportunity and increase in brand defection? Part of the answer rests with how dealers are responding to leads they are receiving. The eMystery shop measured dealer responsiveness and the quality of the response by "blind" shopping 2,100 dealers and the findings correspond to the trends discussed in the lead match analysis above.

Dealer response to leads is poor

In the 2007 national eMystery shop, the response rate — which measures whether or not dealers respond to an email lead — was approximately 69% (Figure 10, following page). (Response rate counts actual email response by the dealership and does not count an auto-response.) Thirty-two percent of leads are not answered at all. In essence, dealers are ignoring in-market consumers by simply failing to respond to their email inquiries.

Of those leads that were answered, dealers averaged 5.4 hours to respond (Figure 10). While annual eMystery shop campaigns have shown a steady decrease in the time dealers take to respond to an email, 5.4 hours may not be fast enough for consumers. In a recent automotive study, 20% of consumers state they want a response within 4 hours or they'll go to another dealership.*

Figure 10

eMystery Responsiveness	2007
Overall responsiveness	68.7%
Response time average (hrs)	5.4

In addition to responsiveness and time to respond, the quality of the response to a consumer is another key indicator of performance. Previous Cobalt studies have shown that 90% of all initial inbound leads contain two key questions: "Do you have the vehicle I'm interested in?" and "How much is it?" Therefore, a dealer needs to respond with messaging that includes why to buy from them and why to buy the brands they sell.

The eMystery shop evaluates how frequently both of these questions are answered. Unfortunately, only a quarter of dealers are answering these two key questions (Figure 11). Seventy-five percent of email responses from dealers are not answering these pivotal questions. Dealers need to respond completely, relevantly and transparently to all consumer questions in order to have a chance of earning their business.

Figure 11

Quality of Responsiveness	2007
Answered the shoppers' questions	25.0%
Used brand or product highlights	19.5%

Approximately 20% of dealers are using brand or product highlights to differentiate their vehicles (Figure 12). With brand defection increasing by 6% since 2005, dealers need to include information that differentiates their product from likely competitive alternatives. Proactively including specific make and model information quoted from professional review sources like *Road and Track* and *Car and Driver* combined with compelling reasons to purchase from the dealership creates a persuasive "Why buy from me" and "Why buy my make" selling message that can minimize brand defection and help increase conversion.

*Cars Online 06/07: Understanding the Dynamics of Consumer Buying Behavior and Customer Loyalty, CapGemini.

While poor response to a lead can negatively impact the dealer, what is known now is that it can also cost the brand. In the Internet-based survey of 1000 car purchasers, of those that purchased a brand different than the brand they initially sent a lead for, 23% did so because of poor dealer interaction. Breaking it down, 14% switched because of poor or no response from the dealer and 9% switched brands because of a bad experience with the dealer. Both OEMs and dealers would benefit from instituting email response protocols that foster prompt, relevant and transparent communication with consumers.

Gap between dealer performance and consumer expectations

Comparing the 2007 national eMystery shop campaign to the 2005 national eMystery shop campaign, the data indicates a decline in how dealers respond to leads across almost all key performance areas (Figure 12). The only area of improvement is the average time to respond to an email improved — from 6.5 hours in 2005 to 5.4 hours in 2007. All other areas of measurement declined, most notably dealer use of brand or product highlights in an email response plummeted from 30.4% in 2005 to 19.5% in 2007. Most dealers are performing at levels below what consumers have come to expect from businesses that operate online.

Speed vs. Quality of Response:

Since the dawn of dealership websites, dealers have been getting the message to respond quickly to Internet leads. But speed has come at the expense of quality. The quality of response continues to decline because most dealers fail to answer the two basic questions consumers are asking, "Do you have the vehicle?" and "How much will you sell it to me for?" Additionally, dealers are neglecting to include valuable information about the desired brand/model and a compelling reason why the consumer should purchase from them. The result is consumers continuing to seek dealers who will respond completely and transparently.

Figure 12

eMystery Responsiveness	2005	2007	
Overall responsiveness	69.7%	68.7%	▼
Response time average (hrs)	6.5	5.4	▲

Quality of Responsiveness	2005	2007	
Answered the shoppers' questions	25.9%	25.0%	▼
Used brand or product highlights	30.4%	19.5%	▼

National eMystery Shop data - 2005 versus 2007

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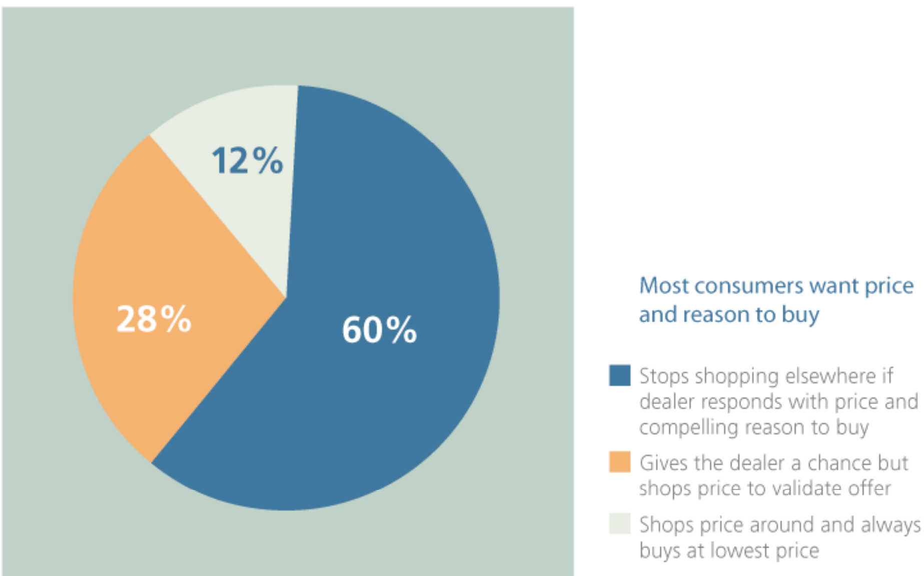
While dealer performance has declined, consumer reliance on the Internet has increased. With the Internet constantly evolving, new tools and information sources are developed, fueling greater adoption and user dependence. This increase in consumer use and decline in dealer performance has created a critical gap between consumers and dealers.

Dealers need to adopt policies and procedures to improve communication with consumers in order to close the gap. Sixty percent of car purchasers said if they received a response from a dealer and it included a competitive price for the vehicle they were interested in and a compelling reason to buy from that dealer, they would stop shopping elsewhere and give the dealer a chance to earn their business (Figure 13). Twenty-eight percent said they would give the dealer a chance but still shop the price around to validate it was a good deal. Only 12% said they always buy from the dealer with the lowest price. This data indicates that more than half of shoppers value complete and relevant communication with a dealer over a small minority that are motivated by the lowest price. Dealers who respond to leads promptly, completely and transparently and continue to nurture leads after a 90-day window will fill the void and begin closing the gap.

Figure 13



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Not all dealers are performing poorly. There are some who have the right processes, high level of professionalism and supportive management to address the needs of consumers. In-dealership interviews were conducted with 21 high-performing dealers to determine best practices. Their responses illustrate what successful dealers are doing to attract Internet consumers today.

What high-performing dealers are doing to succeed

When asked "What are the two things you do that contribute to your online success?" all high-performing dealers cited the importance of communicating with consumers and all have systems in place to execute thorough and efficient follow-up of email leads. Fifty-eight percent respond to each lead by email and phone. Eighty-three percent phone immediately after receiving a lead and 95% provide price and vehicle information as part of initial response.

These dealerships also utilize systems to ensure long term follow-up with each consumer. Forty-three percent use ongoing email and newsletters and 89% use a CRM tool for follow-up. This use of a CRM system is a 63% increase over the 2005 study. Referring back to the lead analysis where 32% of leads close after 90 days, following up over the long term pays off by keeping in touch and increasing the likelihood of turning prospects into customers.

"We strive to be as transparent as possible with these customers. We feel this is what sets us apart..."

- High-performing dealer

Internet sales representatives and dealership sales management were interviewed to determine their practices for success and many commonalities across dealerships came to light. The top practices heard most from Internet sales representatives include:

- Prompt, relevant and transparent communication by both phone and email;
- Tell the dealership's story and why they're unique;
- Honest and transparent communication that includes price and availability;
- Use of tools to maintain communication beyond 90 days.

Top common practices of dealership sales management include:

- Investing in the sales staff and instituting "best practices" processes;
- Training sales staff to respond fully to leads;
- Empowering sales staff to provide a competitive price up front.

When asked "Why do you think many dealers still struggle with the online customer?" more than three quarters of the of high performers stated that it was due to lack of management support for taking the Internet seriously and not providing a competitive price.

Many of these dealers cited the best practices released in the *2005 Industry and Dealership eBusiness Performance Study* as catalyst in how they changed the way they processed leads and targeted lead responses.

Experiences influence other buyers

Consumers are bombarded with marketing messages. A recent study noted that in the 1970s, a person living in a city was exposed to 500 to 2,000 messages a day. Today, it's between 3,000 and 5,000.* As a result, consumers are becoming desensitized to traditional advertising and increasingly turning to other consumers for input and advice on products and services. This demand for consumer insight regarding purchase experience has generated reviews and rankings of businesses and dealerships. These reviews and rankings are being displayed on major search engines and specific consumer-review websites such as Yelp, InsiderPages, and Dealer Rater.

Nowhere is this trend growing faster than the automotive industry. During the purchase phase, consumers use reviews and rankings from other shoppers to filter what vehicle and from whom they will purchase. While this technology is still very new, the impact on purchase decisions is already substantial and projected to grow quickly. Some analysts believe online reviews and rankings will change the automotive industry more than the introduction of the Internet did in the 1990s.

> "Advertising is so ubiquitous that it's turning people off, it's desensitizing people to the message".
>
> - Rance Crain, Editor-in-chief, Ad Age

Reviews and rankings becoming more pervasive

Of those consumers that submitted a lead to a third-party portal and purchased a vehicle, 55% were aware of sites containing consumer reviews of dealerships, 21% read reviews on a website while car shopping, 16% posted comments about the dealership they purchased from and 8% posted comments about a dealer they did not purchase from (Figure 14, following page).

*Product Placement—You Can't Escape It", October 10, 2006, USA Today.

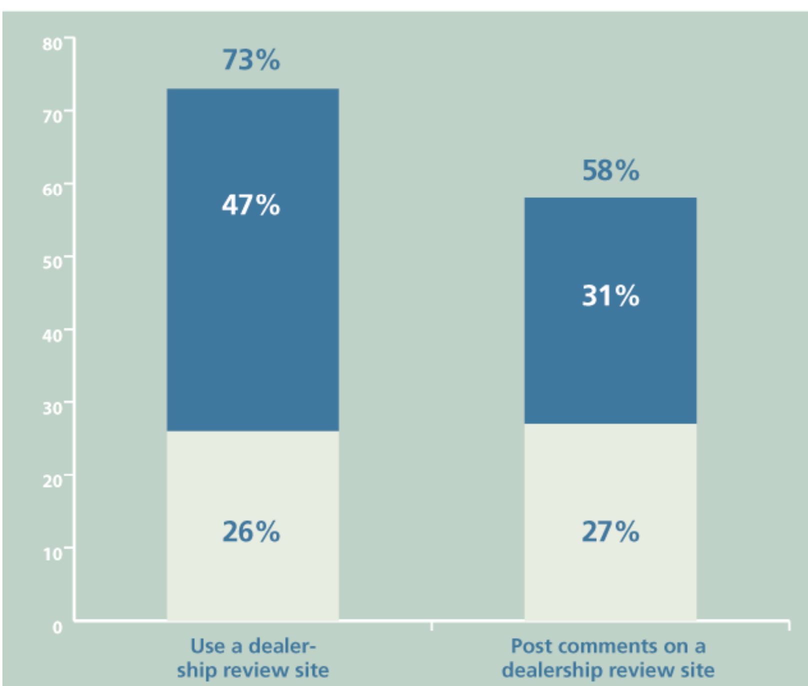
While current usage numbers may seem low, the technology is relatively new and adoption rates are high and projected to increase dramatically. When consumers were asked how likely they would be to use a website with dealership reviews and rankings in the future, 73% said they would be "somewhat likely" or "very likely" and 58% said they would be "somewhat likely" or "very likely" to post comments on a dealer review site (Figure 15).

Figure 14

Awareness/use of online reviews and rankings

The impact of reviews on purchase decisions is growing. Of those that looked at sites containing consumer reviews and rankings of dealerships, 21% changed dealership selection based on reviews they read, 23% decided to look at a different make/brand based on the reviews, 43% used

Figure 15

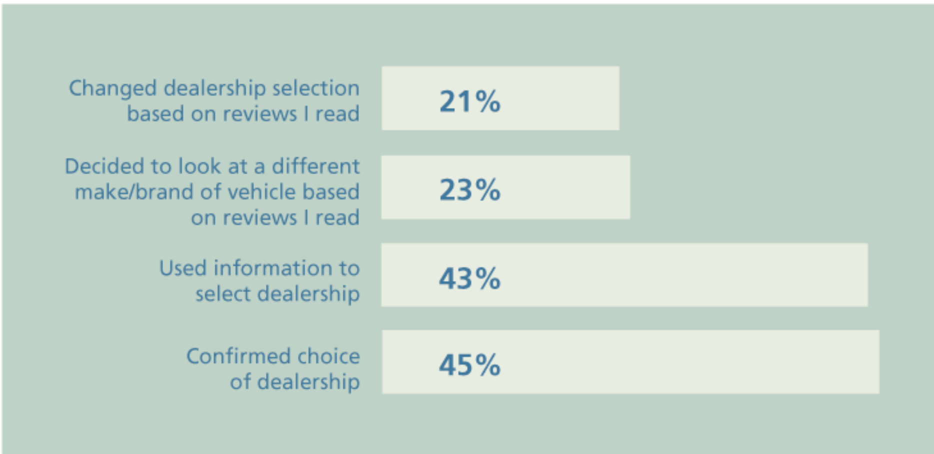


Likelihood to use online reviews and rankings

Very likely
Somewhat likely

the information they read to select a dealership and 45% said the information they read confirmed their choice of dealerships (Figure 16). Usage is growing and the effect on purchase decisions has a lasting impact on dealers that is available for everyone to see and read about.

Figure 16

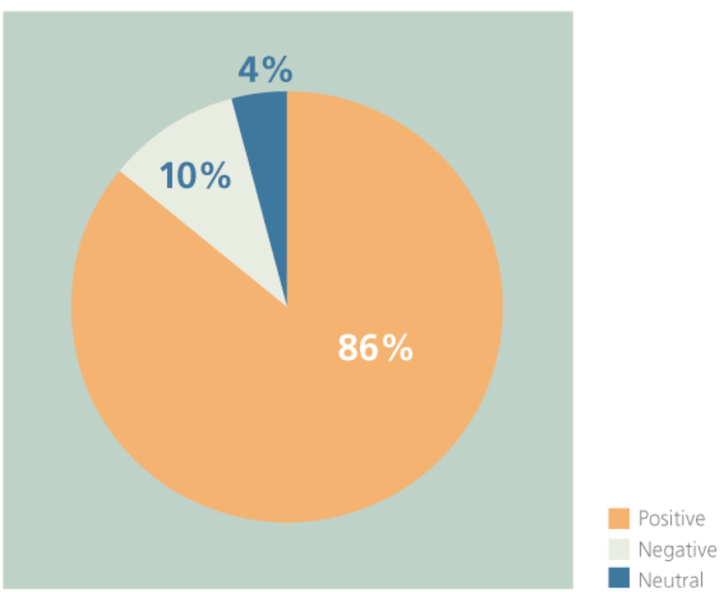


Impact of online reviews and rankings

Positive comments outweigh negative

The good news for dealers is people post positive comments more than negative. When asked, "What kind of comment did you post about the dealer where you purchased your vehicle?" Eighty-six percent posted positive comments versus 10% negative and 4% neutral (Figure 17). This shows that when people have a good experience, they want to tell others.

Figure 17



Consumer reviews and rankings can be a very powerful marketing tool for dealers allowing them to market their CSI virtually to consumers who value the input and experience of others. Dealers need to embrace this new tool by adopting the learnings discussed in the previous section—invest in sales staff and have systems in place to be able to respond promptly and transparently to all customer communication. The better the experience, the more likely consumers are to write a positive review.

Five attributes in dealership selection

Vehicle purchase decisions are based on a combination of factors. Consumers must trade-off some of one factor or attribute for more of another, depending on their personal preference, to arrive at the dealership where they ultimately purchase a vehicle. To gain insight into how attributes influence vehicle purchase decisions, a conjoint analysis was conducted using 1000 vehicle purchasers. This analysis simulates how consumers jointly consider the five primary attributes: price, quality of interaction with sales staff/level of professionalism, loyalty to the dealership, location of the dealership, and online reviews and rankings.

The conjoint analysis revealed the level of importance or "weight" of each attribute in contrast to each other as indicated by the 1000 vehicle purchasers. A higher weight signifies greater importance to consumers than a lower weight. At the top is price with a weight score of 7.75 followed closely by professionalism of sales staff with 7.23 (Figure 18). With these two top attributes almost equal in weight, it shows that professionalism of the sales staff is nearly as close to the same level of importance for consumers as price. Online dealership reviews and rankings, sometimes referred to here simply as dealer reputation, rank a strong third with 5.14 — lower than price and professionalism but significant enough to become the "swing attribute" as will be shown in the following examples. As discussed previously, while this technology is relatively new and growing in importance, this conjoint analysis weight shows the significant "pull" reviews and rankings can have on consumers. Location and loyalty, commonly thought to be major forces in attracting dealership business, were found to be minimally important with weighting of 1.85 and 1.32 respectively. Looking at the spectrum of all five attributes, price is six times more important than loyalty. This study indicates that automotive shoppers today value a good buying experience nearly as much as a low price and are willing to travel to a dealership that is not conveniently located to get it.

Lowest price versus competitive price:

It's important to note that while price is the most important factor in deciding whether to purchase a vehicle — contrary to commonly held beliefs — getting the lowest price for a vehicle is not the single most important determinant for most consumers. The conjoint analysis found most consumers are willing to pay a competitive price for a vehicle and not the absolute lowest price. A competitive price is higher than the lowest price but in contrast to a high price, competitive is considered a reasonable amount to pay for a vehicle.

Figure 18

Price	Quality of interaction	Online reviews	Location	Loyalty to dealearship
7.75	7.23	5.14	1.85	1.32

Attribute Weights

Higher weight signifies greater importance to consumer

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A conjoint simulator called the "Dealer Preference Indicator" was built to simulate how the five attributes work dynamically to show degrees of preference for different dealer profiles. Each attribute contains different variables (figure 19):

Figure 19

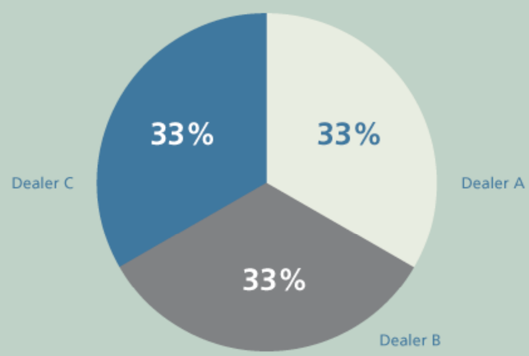
Price of vehicle	Online reviews	Quality of interaction	Location	Loyalty to dealearship
High price	Mostly excellent	Professional and friendly	Conveniently located	Loyal
Competitive price	Mostly good	Just okay	Not conveniently located	Neutral
Very low price	Mixed	Unprofessional and not helpful		Not Loyal
	Mostly bad			

Attribute Variables

To illustrate how the attributes work dynamically, three dealership profiles were compared to determine consumer preference. When all attributes are equal across the three profiles with "competitive price," "mixed" online reviews, quality of interaction "just okay," "conveniently located" and "neutral loyalty," preference for Dealer A, B and C are equal or in a neutral state with each dealer having 33% of consumer preference (Figure 20).

Figure 20

Dealer attributes being equal

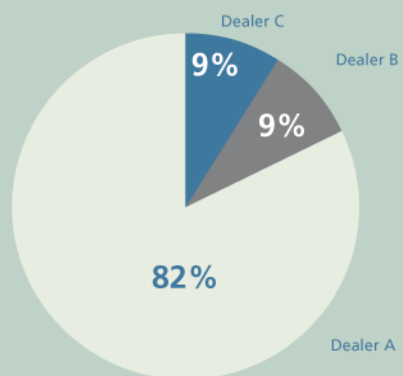


	Dealer A	Dealer B	Dealer C
Price	Competitive price	Competitive price	Competitive price
Online reviews	Mixed	Mixed	Mixed
Quality of dealer interaction	Interaction with the sales staff is just okay	Interaction with the sales staff is just okay	Interaction with the sales staff is just okay
Location	Conveniently located	Conveniently located	Conveniently located
Loyalty to dealership	Neutral toward dealership	Neutral toward dealership	Neutral toward dealership

As is the case in real-world purchase decisions, when one attribute variable is changed, the preference for one dealer over the others changes as well. With all other attributes remaining equal, changing Dealer A's price to "very low" increases preference for Dealer A to 82%. Dealers B and C get 9% respectively. Dealer A doesn't get 100% due to other factors of convenient location and neutral loyalty for Dealers B and C (Figure 21).

Figure 21

Dealer A with low price



	Dealer A	Dealer B	Dealer C
Price	Very low price	Competitive price	Competitive price
Online reviews	Mixed	Mixed	Mixed
Quality of dealer interaction	Interaction with the sales staff is just okay	Interaction with the sales staff is just okay	Interaction with the sales staff is just okay
Location	Conveniently located	Conveniently located	Conveniently located
Loyalty to dealership	Neutral toward dealership	Neutral toward dealership	Neutral toward dealership

To fully illustrate real-world vehicle shopping, realistic profiles with characteristics corresponding to the attributes are assigned to each dealer. As the attributes change to model these profiles, so will the preference indications (Figure 22, following page).

Figure 22

Dealer A

- High volume dealership as typically found in a large market
- Marketing focused on being the low-price leader
- Pricing strategy is aggressive with lower grosses offset by higher volume
- High-pressure sales practices
- Little focus on customer Satisfaction

Dealer B

- Medium size dealership
- Marketing focused on value
- Pricing strategy is moderate with average grosses
- Moderate investment on sales staff with medium turnover
- Typical sales practices
- Moderate focus on customer satisfaction

Dealer C

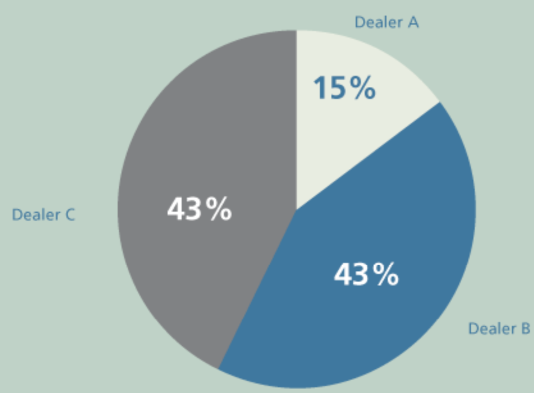
- Medium size dealership
- Marketing focused on high-quality customer experience and services
- Pricing strategy is higher with higher average grosses
- Professional, highly trained sales staff with low turnover
- No-pressure sales practices
- Focused on customer satisfaction and referral business

Dealer profiles

Dealer A is a volume dealership in a large DMA that offers the lowest price but with a sales staff that has a low degree of professionalism and therefore the quality of interaction with customers is poor. When interaction of sales staff is changed to "unprofessional/not helpful" Dealer A's preference drops from 82% to 15%. Dealers B and C, still having equal attribute variables reset at 43% each (Figure 23).

Figure 23

Dealer A with unprofessional sales staff

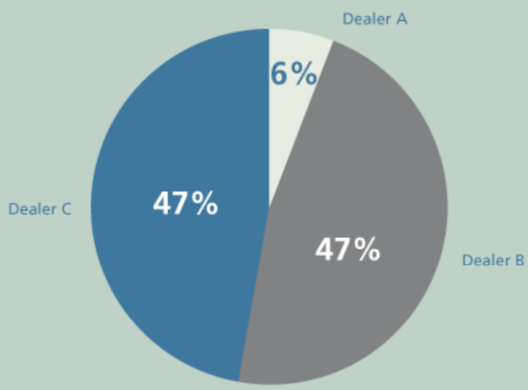


	Dealer A	Dealer B	Dealer C
Price	Very low price	Competitive price	Competitive price
Online reviews	Mixed	Mixed	Mixed
Quality of dealer interaction	Sales staff unprofessional/ not helpful	Interaction with the sales staff is just okay	Interaction with the sales staff is just okay
Location	Conveniently located	Conveniently located	Conveniently located
Loyalty to dealership	Neutral toward dealership	Neutral toward dealership	Neutral toward dealership

With the rising importance of dealer reputation, a natural consequence of an unprofessional sales staff will be unfavorable reviews and rankings. Changing this attribute of Dealer A to "mostly bad," preference for Dealer A drops further to 6% (Figure 24). This illustrates while price is important, it's not the primary factor on which consumers base their purchase decisions. More people are looking for a positive experience over the lowest price and are seeking this information from other people with experience at the dealership in the form of online reviews and rankings.

Figure 24

Dealer A with bad online reviews

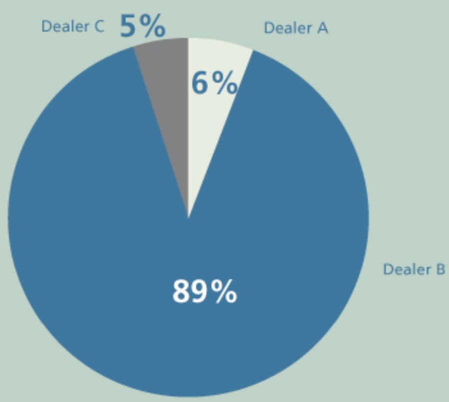


	Dealer A	Dealer B	Dealer C
Price	Very low price	Competitive price	Competitive price
Online reviews	Mostly bad	Mixed	Mixed
Quality of dealer interaction	Sales staff unprofessional/ not helpful	Interaction with the sales staff is just okay	Interaction with the sales staff is just okay
Location	Conveniently located	Conveniently located	Conveniently located
Loyalty to dealership	Neutral toward dealership	Neutral toward dealership	Neutral toward dealership

To draw further comparison between the dealers, Dealer C is focused on providing a quality buying experience but also has a higher average vehicle price in the market. With the price attribute changed to "high price" and quality of interaction changed to "professional & friendly" consumer preference for Dealer C drops to 5%. Dealer B, with "competitive price", "mixed reviews" and "okay interaction with sales staff," gets 89% of the preference. Dealer A, with the lowest price, poor sales interaction and bad reviews, retains 6% (Figure 25). This scenario shows that the lowest price is important for only a small percentage of the population

Figure 25

Dealer C with high price and and professional and friendly sales staff

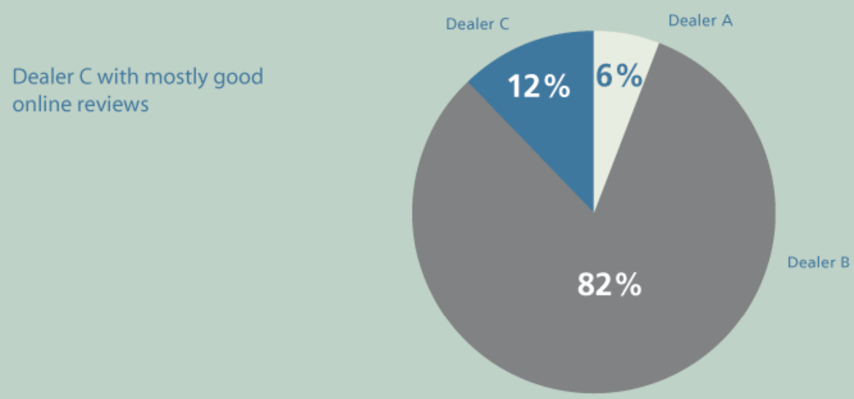


	Dealer A	Dealer B	Dealer C
Price	Very low price	Competitive price	High price
Online reviews	Mostly bad	Mixed	Mixed
Quality of dealer interaction	Sales staff unprofessional/ not helpful	Interaction with the sales staff is just okay	Sales staff professional and friendly
Location	Conveniently located	Conveniently located	Conveniently located
Loyalty to dealership	Neutral toward dealership	Neutral toward dealership	Neutral toward dealership

even if it translates to a less-than-ideal interaction with the sales staff. It also shows that most people are looking for an okay or medium level of interaction with the sales staff and are willing to pass on the lowest price and pay a slightly higher or competitive price for a better buying experience.

Dealer C's high quality of interaction would translate into good reviews. By changing Dealer C's online reviews from "mixed" to "mostly good" preference for Dealer C climbs slightly to 12%. Dealer B is still has the highest preference at 82%. This begins to show the sway online reviews and rankings have on consumer preference. Only 6% of the population would endure a poor level of interaction from Dealer A with bad reviews in order to get the lowest price (Figure 26). It also shows that paying a high price from Dealer C is still a deterrent despite good reviews and high quality of interaction at the dealership.

Figure 26



	Dealer A	Dealer B	Dealer C
Price	Very low price	Competitive price	High price
Online reviews	Mostly bad	Mixed	Mostly good
Quality of dealer interaction	Sales staff unprofessional/ not helpful	Interaction with the sales staff is just okay	Sales staff professional and friendly
Location	Conveniently located	Conveniently located	Conveniently located
Loyalty to dealership	Neutral toward dealership	Neutral toward dealership	Neutral toward dealership

Now revisiting Dealer C and changing high price to competitive price, Dealer C's preference level increases to 97% while Dealer B, up until now the dominant profile, falls to 0% and Dealer A's preference is only 3% (Figure 27). This illustrates that getting a competitive price is important to consumers but the quality of the interaction they receive from the dealership is pivotal and negates the argument that lowest price is the most valued factor in purchasing a vehicle. People are looking for a positive experience over the lowest price.

Figure 27

	Dealer A	Dealer B	Dealer C
Price	Very low price	Competitive price	Competitive price
Online reviews	Mostly bad	Mixed	Mostly good
Quality of dealer interaction	Sales staff unprofessional/ not helpful	Interaction with the sales staff is just okay	Sales staff professional and friendly
Location	Conveniently located	Conveniently located	Conveniently located
Loyalty to dealership	Neutral toward dealership	Neutral toward dealership	Neutral toward dealership

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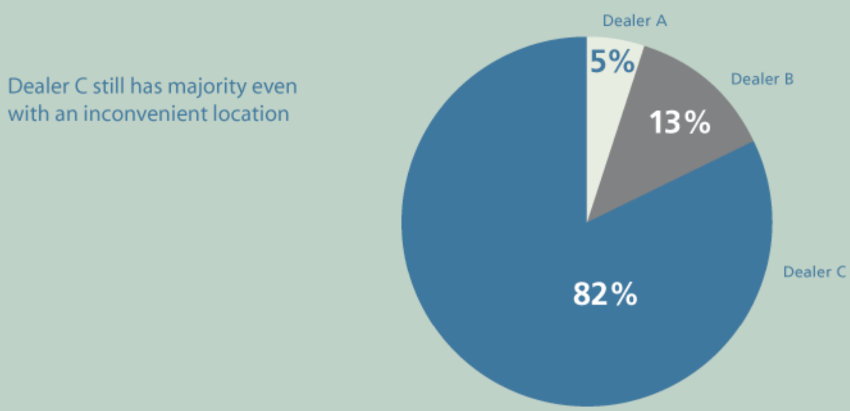
The above scenarios also illustrate the growing importance of dealer reputation. If a dealership promotes an environment of professionalism by investing in its sales staff and offering a competitive price, strong online reviews from customers will naturally result, thus establishing a system of reciprocity where strengthening one attribute will benefit the others.

Online reviews are a source for consumers seeking information from trusted sources to get an idea of what kind of experience they're going to have at a dealership. While these reviews don't make or break purchase decisions, they are increasingly becoming an important component in the dynamic of car shopping that dealers can't afford to ignore. More importantly, reviews don't have to be perfect in order to have an impact on dealer preference.

They just need to be mostly positive in order for consumers to be reassured they will be treated well and not regret giving the dealer their business.

Additionally, the indicator also illustrates the minimal importance of the location of the dealership as an attribute. Using Dealer C with 97% of the preference and changing the location attribute to "not conveniently located," Dealer C is still very high at 82%. Dealer B has rebounded, going from 0 to 13%, but clearly this shows consumers are willing to travel greater distances to buy from whom they feel is the right dealership providing the right experience (Figure 28).

Figure 28



	Dealer A	Dealer B	Dealer C
Price	Very low price	Competitive price	Competitive price
Online reviews	Mostly bad	Mixed	Mostly good
Quality of dealer interaction	Sales staff unprofessional/ not helpful	Interaction with the sales staff is just okay	Sales staff professional and friendly
Location	Conveniently located	Conveniently located	Not conveniently located
Loyalty to dealership	Neutral toward dealership	Neutral toward dealership	Neutral toward dealership

These findings dispel the commonly held belief that lowest price and a convenient location are the primary reasons consumers choose one dealership over another. The analysis also illuminates the importance of a dealership's investment in their sales staff and sales process. Dealers with positive online reviews have the ability to leverage those reviews as a very important dealership differentiator and thus have an extremely powerful, low-cost marketing tool.

Implications of Key Findings

Dealers need to invest in their online presence as much as their physical dealership

With most consumers using the Internet as a primary source during their shopping process, dealers should put as much effort and investment in maintaining their dealership website as they do their physical dealership. Leads sent from online sources are a valuable source of business opportunities. Dealers need to have processes in place to respond to leads promptly and transparently in order to have a better chance at converting these leads. Dealers also benefit by being well situated on search engines and reevaluating their advertising budgets to emphasize online media so consumers can find them online.

Lost opportunity remains high and brand defection is increasing

The extent of lost opportunity and the financial implications associated with it should be a red flag for all dealership management. A mishandled Internet lead needs to be treated the same way an unanswered phone call or a walk-up customer receiving no sales assistance would. Persuasive communication that differentiates their brand from likely competitive alternatives will also help stem brand defection.

Consumer reliance on the Internet is increasing while dealer performance is flat

A large gap exists with consumers relying more and more on the Internet as a resource for vehicle shopping and dealers under performing when responding to these consumers. Management that invests in their sales staff and training and institutes guidelines and processes to respond to these consumers will be able to close the gap.

Online reviews and rankings of dealerships are becoming more pervasive

The rapid adoption of online consumer reviews and rankings shows consumers are turning to other people for insight into the type of experience they can expect from a dealership. Dealers who invest in their sales staff and grow a strong, positive review base can build a very powerful marketing tool.

Positive buying experience is more important than lowest price

Most consumers are willing to pay a competitive price over the lowest price in order to get a positive buying experience. Loyalty and convenient location no longer have the "pull" they once did in attracting business. Dealers who foster a welcoming and respectful sales environment where the customer is treated respectfully and transparently may make more gross because they don't have to sell at the lowest price.

Manufacturer Comparative Data

The third-party lead analysis also includes comparative performance data of 35 manufacturers (OEMs) in the area of new vehicle lead conversion. This analysis shows there is a wide variance among brands and how third-party leads are converted to sales. Examples of these findings are provided below:

- When leads are segmented by manufacturer, there is a wide variance in the likelihood a lead will ultimately convert to a sale of the brand specified in the initial lead. This rate of conversion to the intended brand is also representative of the degree of loyalty consumers submitting a lead may have to a specific brand. The highest manufacturer intended brand conversion was 56% and the lowest was 19%. Average intended brand conversion across all 35 manufacturers represented in the study was 37%. For example, if a lead is submitted for a Brand A vehicle and converts to a sale, this data illustrates the percentage of those sales that are converted to a Brand A vehicle.
- Analysis of leads segmented by manufacturer also illustrates intended dealer conversion or the rate at which a lead is converted at the dealership to which the lead was initially sent. The highest manufacturer had a 6.8% intended dealer conversion rate while the lowest had 2.6%. Average intended dealer conversion across all manufacturers was 4%. For example, if a lead is submitted for new Brand A vehicle at Dealership A and converts to a sale, this data illustrates the percentage of those sales that converted to a new Brand A vehicle at Dealership A.
- There is also interesting insight into how well manufacturers are doing at winning new customers by selling a consumer a brand of vehicle different than the brand specified in the consumer's initial lead. There is a wide range of performance among manufacturers in achieving these "conquest sales" with the highest converting 15% and the lowest converting less than 1%. Average conquest sales across all manufacturers was 3%. For example, this data illustrates the percent of leads Brand A converted that were initially intended for another brand.

Additional manufacturer performance data is in the Cobalt report, *eBusiness Performance and the OEM — A Companion Report to the 2007 Dealer eBusiness Performance Study*. Manufacturers interested in this report should contact their Cobalt representative at 800-909-8244 for more details.

Appendix A:

Research Methodology

Lead Analysis

Approximately 1,500 new car franchise dealerships subscribing to a third-party lead provider were identified for inclusion in the study. Of the 1,500 dealerships, R.L Polk & Co. matched 1,140 representing 35 brands geographically located throughout the 48 contiguous states (map in appendix) with selling dealership data. These 1,140 dealers received a total of 1,087,287 purchase inquiries or leads during the study period of October 1, 2005 through September 30, 2006. Duplicate leads were removed in order to ensure an accurate match rate. Leads were considered duplicates if the make, model, dealership to which the lead was sent, consumer name, address and lead date were the same.

R.L Polk & Co. conducted a matching analysis of the leads to determine which leads resulted in a vehicle sale. The results of the lead match revealed close rates, time to close and whether or not leads were closed at the dealership receiving the lead. The methodology is closely aligned with the methodology used in the *2005 Industry and Dealership eBusiness Performance Study* in order to draw performance comparisons over time.

Additional measures were taken to validate the lead match results. A separate analysis was conducted on leads from dealership websites and revealed that close rates were similar to the third-party lead analysis. In addition, a select group of manufacturers reviewed the findings and concurred that their dealership close metrics were in the same range as the third-party lead match. Due to the high number of leads included in the third-party lead analysis, the error interval is +/- .06% and the confidence level is 99%. As a result of these validations, the lead match analysis is an accurate representation of industry performance today.

Criteria for determining duplicate leads:

· If John Doe sends two leads for a 2007 Ford Explorer on January 1, and provides the same address on each lead, only one lead from John Doe was included in the lead analysis.

· If John Doe sends a lead for a 2007 Ford Explorer on January 1 and a lead for a 2007 Ford Explorer on January 2, both leads are counted as unique leads and included in the lead analysis regardless of address provided.

Online surveys

Two Internet-based surveys were conducted by The Cobalt Group and Yahoo! to examine the consumer car shopping process including shopping behavior, marketing and media influences on shopping decisions, consumer behavior in response to dealership communication and what factors motivate people to physically visit a dealership. A total of 1,550 car shoppers participated in the two surveys.

The first survey was a 25 minute online questionnaire with 550 participants. The sample was made up of approximately half intending to purchase a vehicle within the next six months and half already purchased within the previous three months. All participants lived in major metropolitan areas and had physically visited a dealership during their shopping process.

The second survey was a 25 minute online questionnaire with a sample size of 1000. All participants in this survey submitted a new vehicle lead through a third-party automotive portal and had purchased a vehicle within the previous six months.

eMystery shop

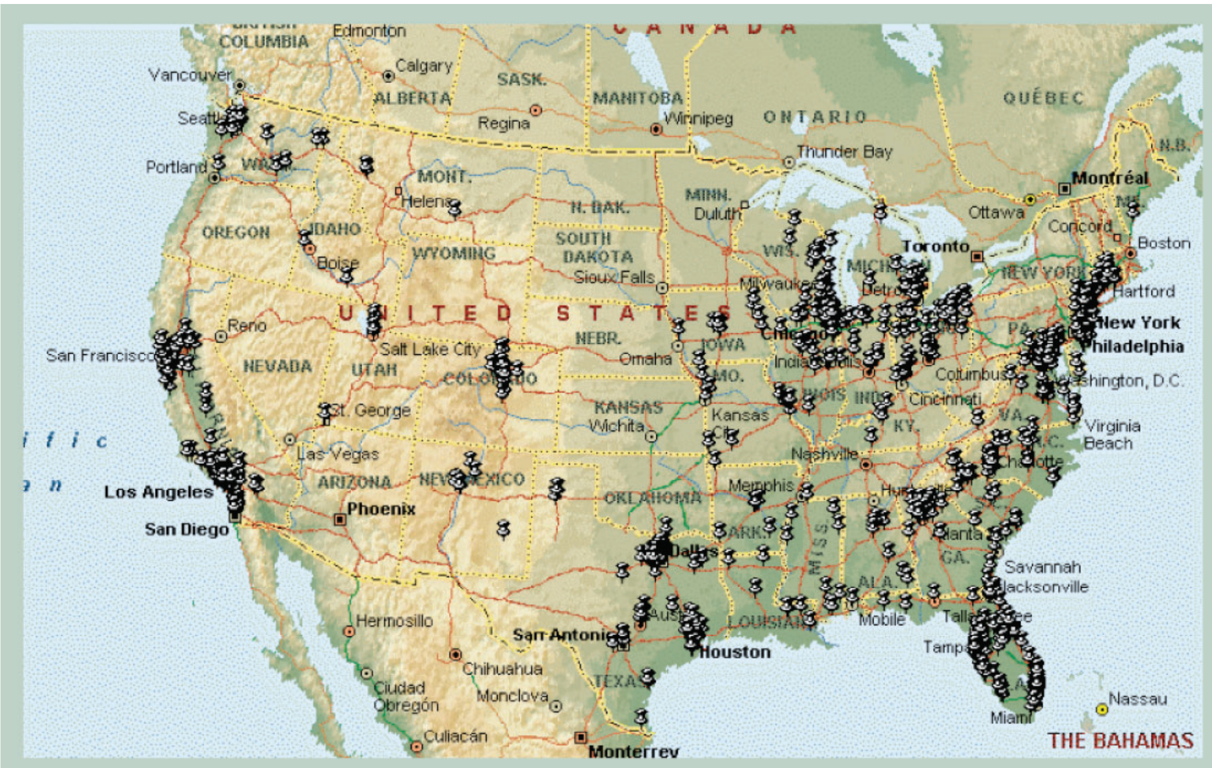
Cobalt conducted a nationwide eMystery shop campaign of 2,100 new car dealers representing 20 brands. Performance was determined by evaluating responsiveness, response time and the quality of the response in addressing shoppers' key questions: "Do you have the vehicle I'm interested in?" and "How much will you sell it to me for?" The 2007 national eMystery shop was compared to the 2005 national eMystery shop to assess performance trends.

Onsite dealership evaluations

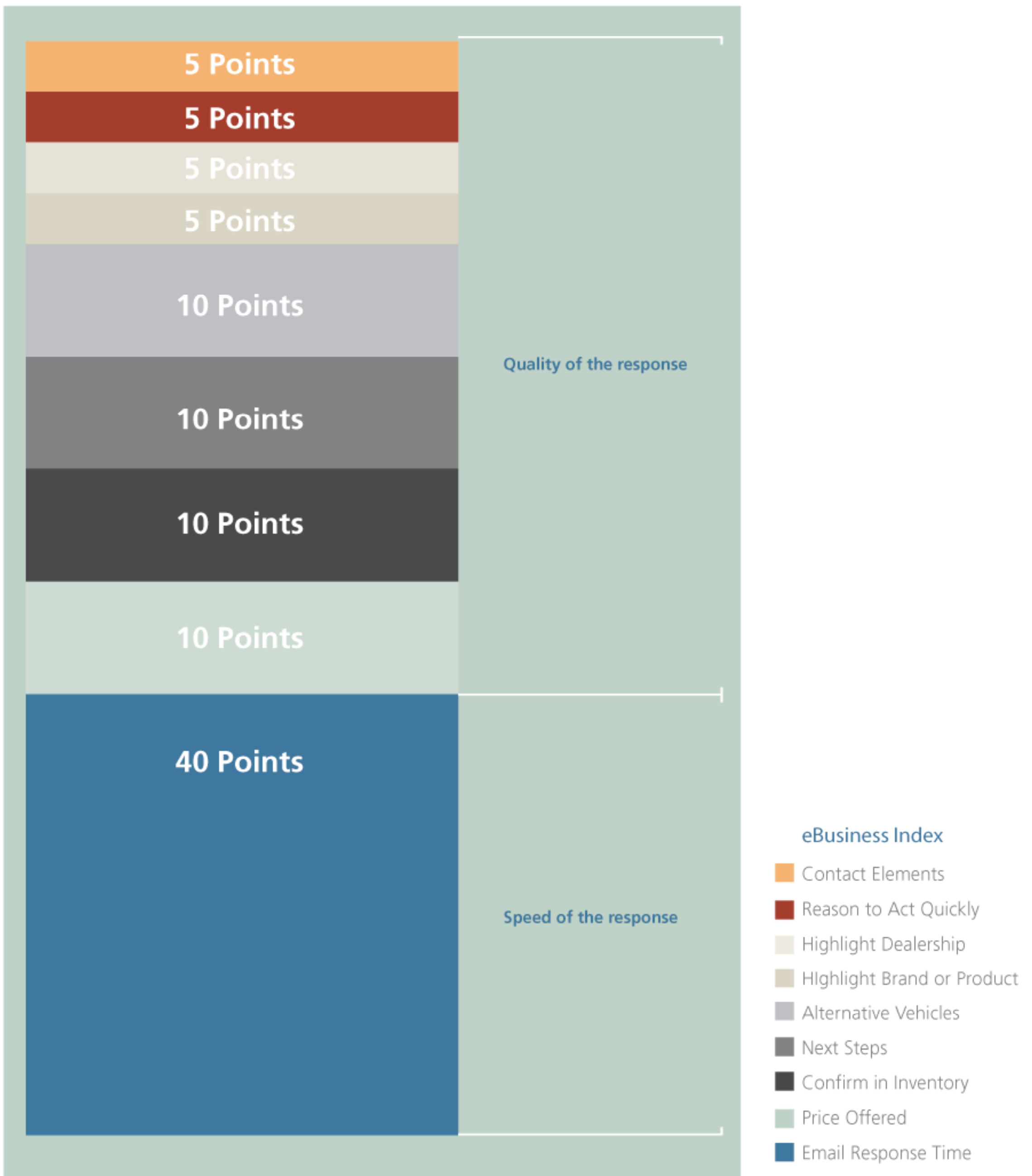
Of the 1,140 dealerships evaluated, Cobalt visited 21 of the high-performing dealerships as determined by dealership close rates in the lead match analysis and conducted interviews to better understand business processes and discover common practices that contribute to their success.

Appendix B:

Geographic Distribution of Dealerships in Lead Analysis



eMystery Shop Scorecard



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