leadingIDEAS

strategy+business

Convincing Consumers to Spend Again

by William J. Holstein

04/07/2009

a strategy+business exclusive

booz&co.

Convincing Consumers to Spend Again

In a brutal sales environment, retailers and manufacturers, led by the auto industry, are finding that smarter marketing — not better products — may be the best way to a customer's heart.

by William J. Holstein

Joel Ewanick's job as vice president of marketing for Hyundai Motor America put him on the front line last year in the effort to determine, in a bleak economic climate, what motivated people to buy cars and what frightened them away. As early as the summer of 2008, he began noticing in focus groups that more and more consumers were putting off vehicle purchases because they were worried about losing their jobs. "We had a consumer insight," Ewanick recalls. "People were pulling back because of their long-term financial outlooks."

Around the same time, Ewanick recalled getting unsolicited flyers in the mail from mortgage companies offering consumers relief from their monthly payments if they were to die or lose their jobs. He began to wonder if car companies could do the same thing.

He got the chance to test this possibility in the fall of 2008, as economic difficulties quickly deepened and credit dried up. It became clear "that this was no longer a garden variety recession," Ewanick says. The industry's sales plunged from what experts consider a healthy level of about 17 million units a year to a pace of about 9.2 million a year. Hyundai's sales fell 41 percent in the fourth quarter. Traditional marketing clearly wasn't enough.

Ewanick found a company called Walkaway USA, a subsidiary of EFG Companies in Irving, Tex., that specializes in helping auto dealers improve their sales. Walkaway was testing the concept of allowing financially troubled buyers in Canada to escape their purchase agreements. It was precisely the kind of innovation that Ewanick was looking for.

Ewanick signed Walkaway to manage a program in the U.S., called Hyundai Assurance, promising buyers that if they lost their jobs within a year, they could return their vehicles with no negative impact on their credit ratings. Walkaway would administer the program, which entails documenting that a customer has really lost his or her job. The program was launched in January 2009 via television commercials that feature an announcer soothing viewers: "These are tough times. We're all going to get through it together."

It seems to have worked. Hyundai's sales in North America were up 4.9 percent in the first two months of 2009, when the overall market declined 39.4 percent from the comparable period in 2008.

Marketers today in all industries are forced to come up with similarly innovative ways to entice consumers to part with their money. Clothing retailers are offering two for the price of one sales, electronics stores are making extended warranties free, and airlines are offering deep fare discounts. But the auto industry has had to be

William J. Holstein
(bholstein2001@yahoo.com) is the author of *Why GM Matters: Inside the Race to Transform an American Icon* (Walker, 2009). For more on his work, see www.williamjholstein.com.

particularly creative. Buying a big-ticket item like a car is a major commitment, and in difficult economic times consumers are more likely to avoid or delay such a purchase unless they can be convinced that they are getting a deal too good to turn down.

To make this case, in March, Ford Motor Company launched a two-month incentive program, the Ford Advantage Plan, that covers auto loan payments for up to a year if a customer loses his or her job. On the same day, the General Motors Corporation announced its Total Confidence plan, which picks up the tab on auto loans for laid-off customers for up to nine months. This program also provides up to US$5,000 to customers buying new GM vehicles to close out existing car loans if the value of the trade-in automobile has fallen below the loan payoff.

And last January, the Chrysler Corporation rolled out a program called Employee Pricing Plus, which expands on a marketing gimmick used before that offers customers the same price available to employees. In this twist, buyers also get cash rebates ranging from $3,500 to $6,000 and zero percent financing. Chrysler was also the first U.S. automaker to offer car buyers fuel cards that guaranteed fixed gasoline prices of no more than $2.99, with its Let's Refuel America program.

That program was particularly popular when gasoline prices hovered near $4 a gallon. But now that prices have plunged, Pricelock Inc., the company administering the program, is adapting the offer to market it to companies that, for example, own fleets of commercial vehicles, says Robert Fell, Pricelock's founder and chief executive officer. "In times of high gas prices, consumers are really interested in this product because they want peace of mind," he explains. "But with lower prices, businesses are most interested because it's a very effective cost insurance program." Fell's company, 20 percent of which is owned by the Goldman Sachs Group Inc., relies on Goldman to use derivatives to lock in gasoline prices.

Auto manufacturers also are being smarter about how they spend their hundreds of millions of marketing and advertising dollars, says Stephen Berkov, senior marketing analyst at the popular automotive Web site www.edmunds.com, based in Santa Monica, Calif. "When budgets are extremely constrained and the economy is in such dire straits, they are not going to market to people who are not in the market," says Berkov, who is former head of marketing for Audi of America Inc.

One part of that effort is an attempt to use television advertising to drive potential buyers to Web sites, on the assumption that people who seek out information on the Internet have higher education levels and are more intent on actually purchasing a car, as opposed to merely browsing. Honda Motor Company, for example, is expected to launch an advertising effort in April to drive viewers to www.edmunds.com, which attracts 12.5 million users per month. The ads will urge customers to look at the "true cost to own," an Edmunds-trademarked specialty, in considering whether to buy a Honda. The true cost of ownership, as the phrase suggests, adds up all the costs of operating and maintaining a vehicle over its lifetime, and the Edmunds site helps shoppers compare different models.

Companies are also spending more to engage with customers once they reach their Web sites. GM has increased the percentage of its advertising budget going to online outlets to 18 percent of its total, says Berkov, whereas a luxury and performance brand such as

Porsche has hit the 50 percent threshold.

Overall, even luxury marques such as Mercedes-Benz USA Inc. and the BMW Group are stressing the value of their cars and financing packages. Some BMW dealerships in the New York metropolitan area are offering to pay the first three months of their customers' leases. Berkov says it's smart for the German luxury makers to offer such deals, at the risk of tarnishing their upscale images, because wealthy buyers now also need to validate their decision. "The luxury buyer needs to be able to justify to his friends why he pulled the trigger" and purchased or leased an expensive vehicle, Berkov explains.

Of all the new marketing efforts, the Hyundai Assurance program has attracted the most attention. In fact, the trend is already expanding beyond autos — Jet Blue Airways Corporation and home builders Toll Brothers Inc. and Lennar Corporation are offering similar programs. Hyundai does not require that a customer have a certain credit rating to enroll. If the buyer has a job and finances the purchase of a new Hyundai, whether through a bank or credit union or Hyundai itself, he or she qualifies. (Buyers who pay cash do not.) Until April 30, 2009, the company is also offering Assurance Plus, which covers the first three installment payments.

How long will automakers — and marketers in all industries — have to keep offering special marketing programs and incentives? "We hope we don't need this forever," Ewanick says of Hyundai Assurance. "I look forward to the day I can take it off." Yet industry-wide annual car sales would have to reach the 12 million or 13 million unit-a-year level before marketers could even begin to ease back. From today's perch, that seems a long way off; marketers are going to have to get used to seeking out solutions that are ever more inventive. +

Resources

Pete Batten, "Key Innovations from the World of Auto Marketing," iMediaConnection.com, May 30, 2008: How dealers are enhancing their dialogue with customers. www.imediaconnection.com/content/19405.asp

Patrick Forsyth and Frances Kay, *Tough Tactics for Tough Times: How to Maintain Business Success in Difficult Economic Conditions* (Kogan Page, 2009): Fifty practical ways to increase sales effectiveness and maintain marketing initiatives in today's environment. www.amazon.com/dp/0749455217

Stephan Schiffman, *Selling When No One Is Buying: Growing Prospects, Clients, and Sales in Tough Economic Times* (Adams Media, forthcoming): Suggestions for how to sell in hard times from an author of multiple books on sales techniques and online marketing. www.amazon.com/dp/1605506605

strategy+business magazine
is published by Booz & Company Inc.
To subscribe, visit www.strategy-business.com
or call 1-877-829-9108.