COMPETE, INC.
The Predictive Edge

AUTOINTELLIGENCE™

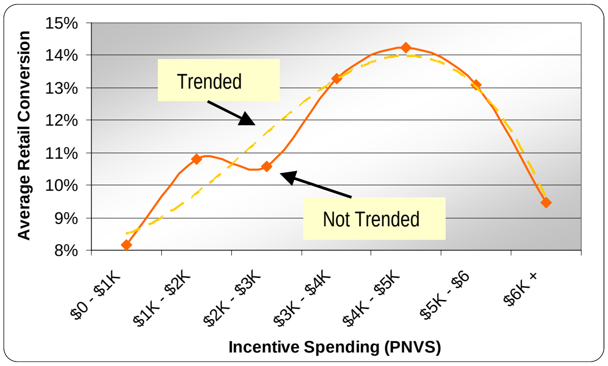
Monthly automotive competitive insights

By The Compete Automotive Team

CLOSING IN ON CLOSING EFFECTIVENESS

The auto industry is facing constant pressures to become increasingly cost-effective. At the same time, the industry's annual spend on incentives continues to run in the tens of billions of dollars. To gauge the recent effectiveness of incentives, Compete compared Q1 incentives per new vehicle sold (PNVS) by vehicle to conversion rates by vehicle (incentive levels from Autodata). Conversion is the percentage of in-market, lower-funnel shoppers who bought (similar to close rates at the dealership level). Polk retail registrations were used as a proxy for retail sales.

INCENTIVE EFFECTIVENESS – 1ST QUARTER 2005



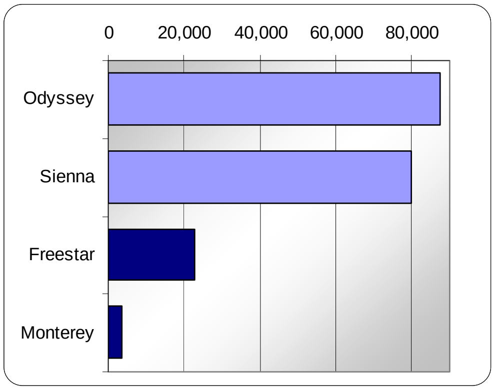
The trended line documents a decreasing marginal effectiveness of incentives above $4,000—meaning each additional dollar was less effective than the one before. The non-trended line shows two different peaks—one at about 11% conversion with incentives of $1,000-2,000 and the second at 14% with $4,000-5,000 per vehicle. The first peak indicates one set of vehicles for which a $1,000 higher incentive increased conversion by 38% (from 8% to 11%). The second peak represents vehicles with better conversion, but which are spending $3,000-$4,000 more per unit. The analysis shows a peak return on incentives at $4,000-5,000 per vehicle. Beyond that point, conversion worsened despite higher incentives.

To become more cost-effective, OEMs need to quantify the ability of incentives to convert shoppers to buyers (or in some cases, create buyers in tandem with advertising). This intelligence coupled with quantified demand levels can be used to (1) fine-tune incentives, (2) better align incentive budgets with retail sales plans, and (3) optimize spending by switching incentives from one vehicle line to another. It also sets the stage for comparing the cost effectiveness of incentives to that of advertising. The results presented here are excerpts from a pending White Paper which will be available shortly.

FREESTAR & MONTEREY LEAVE LITTLE ROOM

Ford may replace the Freestar and Monterey with non-minivan/cross-over products later in the decade. Compete assessed the extent to which Ford making this decision would create unique minivan shoppers available to other OEMs that continue to offer them or are adding them.

NUMBER OF SHOPPERS, APRIL 2005



In April, 22,600 in-market consumers shopped Freestar and 3,500 shopped Monterey. This compares to 87,500 for segment-leader Odyssey and 80,000 for Sienna. There were 292,500 *unique* shoppers in Compete's Compact Van segment in total. In addition, nine of the top 10 vehicles cross-shopped by Freestar shoppers in April were Compact Vans, with 28% considering Caravan alone. The lone non-Compact Van was Freestyle (#4, 20%).

The combination of shopper counts and cross-shop patterns indicate Compact Van rivals would gain few *incremental* unique shoppers from Ford replacing its current vans with cross-over products. It also indicates that Ford would need to change the number of Freestar shoppers as well as their characteritics to drive a significant increase in retail sales. Ford and all OEMs need to apply integrated analytics measuring several different aspects of demand and competitiveness to make the most informed and contextual decisions.

Above $4,000, each additional dollar spent on incentives becomes less effective than the one before

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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