

Understanding Quality

Product quality is one of the most important issues in the automotive industry. Data consistently show that a reputation for quality offers the most direct means to earn consumer trust, to increase customer retention, to grow market demand, and even to set a premium price. All of which, in turn, determine automakers' sales and profits.

What is quality?

In their effort to understand and address product quality, automakers ask the all-important question: what do consumers understand as *quality*? According to research data, quality takes several forms, and each form plays a different role in the business.

How quality manifests itself

At the most general level, quality manifests itself in two forms:

1. **Rational manifestation.** The primary examples of rational manifestations of quality are *reliability* and *durability*.
 - **Reliability** has been the cornerstone of *car* segments, particularly *sedans*, as exemplified by Toyota Camry and Corolla, Honda Accord and Civic. In its most fundamental form, *reliability* provides consumers an assurance of low-risk, hassle-free ownership.
 - **Durability** has been the cornerstone of the *truck* segments, as evidenced by Ford F-Series, Toyota Tacoma, Jeep Wrangler, Chevrolet Silverado and Ram pickup. Unlike *reliability*, in its most fundamental form *durability* speaks of the capability to do tough work (e.g., pulling, towing, off-roading) and of the ability to withstand punishment. These vehicles tend to be body-on-frame, although there are exceptions, like Jeep Grand Cherokee. Subaru offers an interesting case because it has carved a unique market positioning in the US based on *durability*, with what is essentially a car-based lineup. And by bridging *cars* and *trucks*, Subaru has benefited from the current shift to CUVs.
2. **Emotional manifestation.** Exemplified by the product *look-and-feel*, such as *quality of the materials*, *quality of assembly*, *paint quality*, *fit-and-finish*, etc. In its most fundamental form, emotional quality speaks of the *level of craftsmanship*.

Luxury buyers require evidence of emotional quality right in the showroom if they are to be convinced to get into a \$1,200/month lease. Emotional quality gives them the justification to pay \$80,000 for a Mercedes E-Class, and for Audi to charge more money than VW. Acura is an example of a luxury brand that is perceived to come short demonstrating emotional quality and, thus, it struggles to command prices above \$55,000 – NSX notwithstanding.

Insights on Quality

Roles of *rational* and *emotional* quality

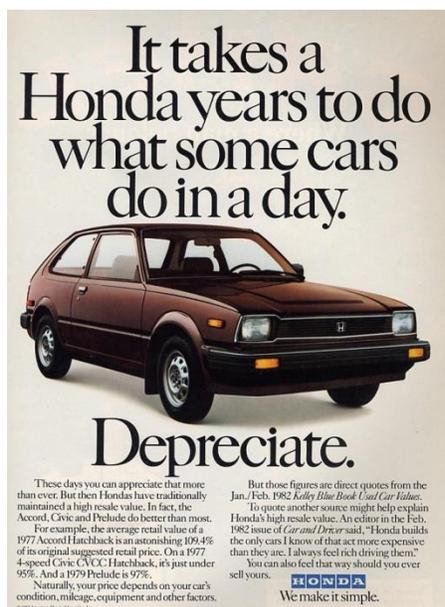
All consumers, luxury and non-luxury alike, require evidence of rational quality because they need their vehicles, as the durable goods that they are, to deliver a risk-free, hassle-free ownership and to last a long time. Given such a fundamental role, the perception of rational quality helps establish market trust and customer retention, helps grow and sustain demand, and by extension, sales. On the other hand, emotional quality has limited influence on growing demand (or sales); its primary role is to help consumers justify paying a price premium.

Not surprisingly, emotional quality is a must-have for luxury brands and for any brand with premium aspirations. However, emotional quality alone doesn't suffice. Jaguar and Land Rover are good examples of brands with well-established perceptions for delivering emotional quality, with their long tradition for using real wood, high-grade leather, hand stitching, and a British reputation for fine craftsmanship. On the other hand, these brands are perceived to lack *reliability*. The end result is that Jaguar and Land Rover have no trouble justifying their premium price, but struggle building demand -- and thus, sales. By contrast, Mercedes-Benz, BMW and Lexus offer a better balance between rational and emotional quality (whether perceived or actual), allowing these brands to do both: justify their premium price, and generate the necessary demand to top the luxury sales charts.

Planning for success with a focus on quality

Non-luxury consumers expect auto brands to demonstrate a commitment to rational quality

As we discussed, rational quality is the cornerstone of demand for all auto brands. The successes of Toyota and Honda in the US, based on a strategy that focused on quality, is well documented. On the other hand, a strategy that ignores rational quality has fewer chances for success.



It takes a Honda years to do what some cars do in a day.

Depreciate.

These days you can appreciate that more than ever. But then Hondas have traditionally maintained a high resale value. In fact, the Accord, Civic and Prelude do better than most. For example, the average retail value of a 1977 Accord Hatchback is an astonishing 109.4% of its original suggested retail price. On a 1977 4-speed Civic CVCC Hatchback, it's just under 95%. And a 1979 Prelude is 97%.

Naturally, your price depends on your car's condition, mileage, equipment and other factors.

But those figures are direct quotes from the Jan./Feb. 1982 *Kelley Blue Book Used Car Value*. To quote another source might help explain Honda's high resale value. An editor in the Feb. 1982 issue of *Car and Driver* said, "Honda builds the only cars I know of that act more expensive than they are. I always feel rich driving them."

You can also feel that way should you ever sell yours.

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Honda has cultivated an enviable reputation for rational quality over the years

For instance, Nissan publicly stated its goal to overtake Honda in US sales. Following a strategy that assumes Americans are already familiar with Nissan's rational quality, the campaigns have focused on more aspirational messages like *fun to drive*, *acceleration* and *design*. Nevertheless, consumer data continue to show that Nissan trails Honda across all rational quality metrics by a significant margin. The end result has been that, despite twice as many product offerings as Honda, and the heavy use of incentives, Nissan has struggled to achieve its goal.

When Fiat left the US and the Canadian markets 20 years ago, it left behind a perception for questionable reliability. When the brand re-launched in the US and Canada, Fiat focused on more aspirational messages like *fun to drive, style*, while ignoring the perception of lingering issues with rational quality. The result has been a tough struggle to regain a foothold in the market, to the point that Fiat is even having trouble selling the 500X, which competes in the hot CUV segment and should be selling well.



Fiat USA strategy focused primarily on style and fun to drive, skirting the lingering perception of rational quality issues, with limited success.

VW of America provides a unique case. Over the years, VW had carved a niche among American buyers who wanted something different from the more common Toyotas and Hondas. These customers were willing to pay a little more for a slightly premium experience in terms of design, performance and quality of materials. In the US, VW lacked the reliability perception of Japanese automakers, constraining VW demand and sales for years. So VW set a target of 800,000 units to be reached by 2014, a manifold increase in sales. In 2012 VW proceeded to reposition itself from the premium-niche space it had occupied for years, into a volume brand of the likes of Toyota and Honda. In the process, VW de-contented its products and slashed prices by up to \$7,000; with marketing communications focusing primarily on price. Sales surged initially, but then they entered into a long, steady decline. The sales declines were caused, on the one hand, by a product de-contenting strategy that alienated shoppers interested in a more premium product; on the other, by a price-slashing strategy that did not address mass buyers' need for *reliability*. In the aggregate, VW was unable to generate the levels of demand it needed to meet aggressive objectives, resulting in sales declines for the following few years.

Luxury consumers expect auto brands to maintain a balance between rational and emotional quality

In luxury, success also comes from a focus on quality. However, in addition to rational quality, luxury automakers are also required to maintain a balance between rational and emotional quality in order to support both, sufficient demand to generate sales, and the justification for the price premium.

We already discussed what happens when luxury brands like Land Rover and Jaguar focus too much on one type of quality at the expense of the other. From this perspective, the Alfa Romeo launch appears to have relied too much on emotional quality and not enough on rational quality. This gives us an early indication that Alfa Romeo won't have trouble justifying its premium price, but it will likely struggle to

Insights on Quality

build the demand required to meet sales objectives. Hyundai's all-new Genesis luxury brand has had a slow start, but it appears to be establishing a solid reputation for both rational and emotional quality on the market, which, barring major unforeseen events, presages steady growth.



The Relentless Pursuit of Perfection campaign was brilliant: it helped Lexus established a solid reputation across both, rational and emotional sides of quality, serving Lexus well for over a decade.

Other segments

To date, fullsize pickups have relied on the perception of *durability* to build demand. However, as automakers increasingly turn their pickups into luxury vehicles and drive up prices, these pickups will need to deliver levels of emotional quality commensurate of luxury vehicles –possibly including the dealership experience. So far, early indications suggest that, from a product perspective at least, Ford, Chevrolet and Ram are up to the task.



Early photos suggest upcoming Ram pickup will add the levels of emotional quality required to help support premium pricing.

Understanding the consumer as the center of your business

Panalytics has a combined 50 years of experience in designing, collecting, analyzing, reporting and interpreting consumer information. Panalytics can help you better understand your customers and prospects.

Please don't hesitate to contact us at info@panalyticsgroup.com to find out how we can help.