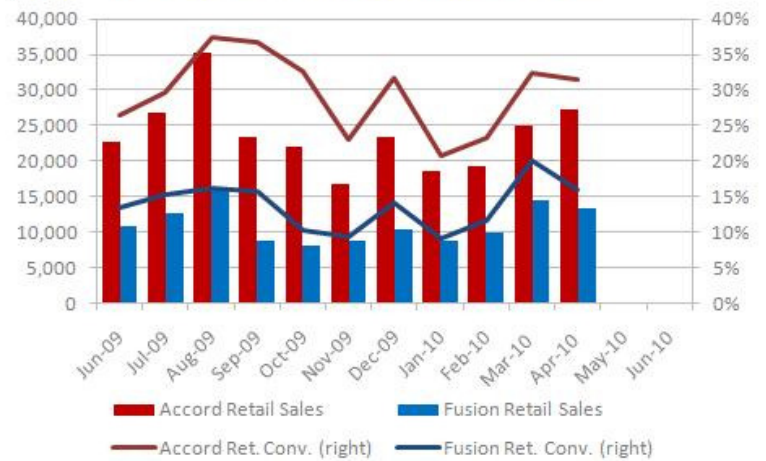


One of the key analytics in Compete’s arsenal of online tools is a measure of automotive demand, or how many in-market consumers are shopping for a particular make or model during a given timeframe. Automotive demand is critical in understanding the impact of marketing efforts as well as understanding a vehicle’s sales potential. But while demand improves the *potential* for sales, it correlates to sales only to the extent that automakers can convert shoppers into buyers. And there are countless things that influence conversion, like sticker pricing, incentives, vehicle inventory and supply.

Model Retail Sales and Conversion

(Monthly Retail Sales and Model Conversion: Equivalent to a Close Rate)



One way to think of the relationship between demand and sales is to think about clouds and rain. The presence of clouds indicates a potential for rain but does not guarantee it, just as the presence of shoppers means the potential for sales but no guarantee of sales. Likewise, if there are no clouds it’s a pretty safe bet it’s not going to rain. In fact, if shopper volume tracked exactly with sales, that would imply incentives have no impact. Of course they do: they typically drive conversion (i.e., produce more sales from a given pool of shoppers). That’s why automakers use them.

Model Demand

(Monthly Accord and Fusion Shopper Counts)



Let’s take a look at an example at how conversion impacts sales. The mid-size car segment is one of the most competitive in the industry. Two of the most popular vehicles in this segment are the Honda Accord and Ford Fusion. Demand for both models has trended similarly over the past year but sales differ because the Accord has better conversion.

Fusion was launched in the spring of 2009 and demand steadily built through Cash for Clunkers (August ’09). Following the post-Clunker hangover, demand continued to strengthen in Q4. But Accord demand has held its own relative

to Fusion over most of the past year. However, Accord sales have consistently outdistanced Fusion’s because its conversion was better. So while shopper volume was similar, Accord retail sales were, on average, approximately twice that of Fusion per month.

What drove higher Accord conversion? One contributing factor is incentives. Accord incentives, as reported by Autodata, have trended higher than Fusion incentives for much of the past year, especially in Q3 2009—and Q3 2009 is when the Accord/Fusion conversion discrepancy was its greatest. Since March '10, Accord incentives have trended near \$3,000 per vehicle compared to \$2,500 for Fusion.

What limited Fusion conversion? While most manufacturers struggled to reduce swelling inventories in response to the recession, Fusion inventory has been limited since launch. Over the past year, Fusion day's supply has trailed Accord's by an average of 20 days. A key factor behind limited inventories is production capacity. Through July 24, 2010 (via *Automotive News*), Ford had built 146,000 Fusions to Honda's 168,000 Accords. And in 2009, Fusion production even more severely lagged Accord, further limiting Ford's ability to meet and convert consumer demand. Independent of the cause, limited supplies inhibit converting shoppers to buyers.

Model Incentive PNVS and Days Supply
 (Monthly Incentives via Autodata and Days Supply via Wards)



Demand (shopper volume) is a critical component to driving sales—but it's not the only component. Fact is, sales are the product of shoppers (sales potential) and conversion (the ability to turn interest into a sale). Higher sales can be driven by more shoppers and stable conversion (the marketing approach) or better conversion from the same number of shoppers (the incentives approach).

Either way, by failing to take into account all the factors that drive demand and conversion, one could easily be lulled into a false sense of security about the potential for sales from any single market action (i.e., relying on one isolated measure to predict sales). But by accurately accounting for drivers of both demand and conversion, automakers can maximize sales potential by more effectively allocating resources between fixed and variable marketing.