



2006 TOTAL VALUE STUDY SUMMARY

Prepared by Alexander H. Edwards, President Automotive Division, Strategic Vision, Inc.

Amidst new warranties, unexpected fuel prices, and new competition (e.g. Hyundai scores in Total Value over strong brands like Toyota), who is positioned to be the Total Value Leaders of the future?

The purpose of the summary is to recap the results of Strategic Vision's eleventh-annual Total Value Study which will be released publicly on October 9, 2006.

It is intended to augment the press release and provide deeper perspective on the subject of Value which is much discussed in the automotive press and by the companies. Value for Strategic Vision starts first with what is important in customer-reported ownership experience and then considers what is important in immediate and expected economic factors. Value is much more than a cheap price or deal.

The calculation of Total Value clearly incorporates the explicit statements that owners make about value, but those statements do not alone provide sufficient differentiation to give us the diagnostic power we want or to be able to herald one brand or vehicle as the leader in a segment. By incorporating the importance of the variables that make up the experience and the economic factors which impact the perception of value we find convergent, stable indices of "True Value."

The Total Value Study surveyed over 64,000 new-vehicle buyers who purchased their vehicles during the October 2005 to March 2006 time period. Buyers were asked an extensive array of questions about their complete ownership experience including buying, owning, and driving their new vehicles. They were then asked about factors related to their economic experiences and expectations (e.g., price paid, fuel economy, reliability and resale value, etc.). In all instances the importance of the variables from the owner/driver's perspective is taken into account.

Strategic Vision first released its Total Value Study as follow-up to its Total Quality Study in 1996. The value metric (Total Value Index) was developed by Dr. Darrel Edwards, a psychologist in San Diego and expert in human values, consumer motivation, and experience measurement. Dr. Edwards, creator of the Total Quality Index (TQI) developed a year earlier, built the value metric using a broader definition of quality which quantifies all aspects of the ownership experience weighted by the relationships with behavioral markers like retention as well as the emotional outcomes associated with the experience.

Automotive manufacturers excel in the value equation in a variety of ways. Strategic Vision has more detailed summaries available upon request that address these differences.

2006 TOTAL VALUE KEY FINDINGS

The following developments provide an overview and put the 2006 TVI results into an industry perspective. This summary discusses manufacturer strategies to sell vehicles, as well as provides a larger context to interpret the results of other studies that only count problems or address a vehicle's appeal without ever measuring it. A list of segment winners and the top-ten models in Total Value are provided in Exhibits 1 and 2.

1. BMW and MINI lead all other brands as the Total Value leaders.

BMW of North America has increased the Total Value provided for their customers consistently over the past three years, placing the MINI brand as the industry leader, followed closely by the BMW brand. BMW had three first-place segment winners (BMW 3-Series, MINI Cooper and MINI Cooper convertible). Although other BMW models did not take top leadership positions, most BMW models were just behind the leaders by a few points.

BMW and MINI buyers had the highest levels of believed resale value. This is validated via other current sources of how BMWs retain their original value more than most other vehicles. This leverageable position is noted in their current advertising campaign where BMW boasts of being 'Slow'; having the slowest levels of depreciation. On a separate note, only Hyundai's 100,000 mile warranty is seen as delightful as BMW's Ultimate Service which clearly differentiates BMW from other luxury brands.

Overall, it is clear BMW owners recognize and appreciate the many benefits of BMW ownership.

2. General Motors is the only Domestic brand to have vehicles leading in top positions. GMs new 2007 Warranty announcement strengthens their future position.

Although behind the import competition, General Motors was the top Domestic Corporation in the 2006 Total Value Study with four first-place winners (Corvette Coupe, Corvette Convertible, Saturn Vue and the Chevrolet Silverado 2500/3500).

In 2005, we noted that General Motors introduced its Total Value Promise (TVP) program with the intentions to realign pricing in line with actual transaction prices, thus, eliminating the need for what could be brand wrecking incentives in the eyes of potential GM customers. This was an important first step that has kept GM the only Domestic brand to have Total Value leaders at the top of their relative segments.

Continuing with GMs commitment to Value, GM announced that their 2007 model warranty plan will enhance their 3-year, 36,000-mile coverage to five years, 100,000-mile warranty coverage. Such a move can replace traditional incentives (which are associated with the erosion of brand equity in the eyes of non-owners). In addition the new direction can build Trust and Confidence in the brand. Then, the enhanced ownership experience leads to advocacy and future loyalty as consumers see that the brand believes in itself.

In the next year, this warranty should build the foundation rooted in Security, Trust and Confidence. The new warranty program will retain customers who may have been lost to other brands where the foundational equity is currently stronger (e.g. Honda or Toyota). In addition, owners who could be lost to brands like Kia and Hyundai which offer strong warranties would have reason to stay as GM attends to its foundational Security needs.

This new warranty program also has the potential to conquest new buyers to GM vehicles who otherwise might have believed that the quality and durability of a GM product was inferior to the competition. If GM can show that they stand behind their product and demonstrate the quality of their current and future vehicles, they will have a stronger position of conquest.

3. American Honda is the top full line corporation in Total Value.

When you consider corporations that have several models like American Honda (Honda and Acura) or Volkswagen of America (Volkswagen and Audi), leadership is tested; but strong key models can create a strong position. In 2005, we predicted that the new Honda Ridgeline and Honda Civic would add to the Total Value of American Honda. Their Innovative design and function clearly was helping to serve as a foundation in delivering the overall Value for money. We were right.

American Honda's strength was carried into 2006 when American Honda was the top rated full-line corporation and had four segment winners: three cars (Honda Civic, Honda Accord Coupe and Acura RL) and two trucks (Honda Pilot and Honda Ridgeline).

Overall, Honda has one of the highest expected reliability scores among its owners with each Honda model excelling greatly in this area. The owners' expectations about long-term economic factors for the Acura RL was less than for other American Honda models. However, a strong position in its affordability combined with its innovation allowed the RL to remain among the top models in this highly competitive segment. The Ridgeline also delivered superior product experience with innovative features and standard equipment which got it over the hurdle of being one of the highest priced mid-sized trucks.

4. Hyundai & Kia continue to produce stylish, high-quality products combined with strong levels of Value putting its vehicles in four top leadership positions.

Although there were no Hyundai Motor Value leaders in 2005, we noted that they were poised to take top positions as they continued to excel with attractive pricing but, more importantly, continued to produce new vehicles with outstanding perceptions of quality. In 2006 Hyundai Motors has four leaders: two cars (the new Kia Optima and Hyundai Azera) and two trucks (Hyundai Tucson and Kia Sedona).

The Hyundai Azera and Kia Optima lead in all areas beginning with high quality vehicles which were made even more attractive with superior short-term economic factors which had modest impact on household income. Furthermore, quality cues lead buyers to strongly believe that the Azera would be durable, enhancing the sense of Security associated with the model. Durability was able to make up for the expected resale value which fell below the segment average. In time, quality vehicle by Hyundai at the right Value will increase the residual values.

The Sedona moved Odyssey out of the top position on Value among minivans by offering low costs combined with the standard equipment and features. As owners appreciate the levels of quality cues within the Sedona, the perceptions of Reliability and Durability in which the Odyssey excels will become more competitive.

The biggest challenge for Hyundai and Kia is still having buyers put the brand on their shopping list. This is daunting task in a market already crowded with good products and established brands with strong reputations. The competition is becoming even fiercer as others like GM introduce their own warranty packages. The key is to strongly establish cues of quality as an essential aspect of their communication. The task rests on communicating foundational issues about expected reliability and durability plus clearly seen cues of quality while having awards and ratings done incidentally speak for them in communication that can also address leverageable aspects of the vehicle.

5. Nissan steps into the domain previously dominated by Domestic brands, leading in three truck segments.

Nissan Motors delivered three first-place segment winners in 2006, replacing the Ford F-150 for the top position with the Nissan Titan. The Full-Size Pickup segment is the most tightly contested in Total Value. The highest rated model in the segment is the Titan at 707 with the lowest rated vehicle trailing by only 26 points on a scale in which differences of hundreds of points are possible. Innovation and the level of standard equipment helped nudge the Titan to lead the others who were so very close behind.

Nissan also continues to excel in the mid-size SUV and crossover categories with the brands affinity of adventure, fun and excitement while being a stylish, smart choice. With this affinity, the Nissan Xterra and Armada are also leaders in their classes.

6. Toyota remains a solid player in Total Value, but is being caught by the competition in 2006.

On the whole, Toyota Motor Sales (TMS) continues to offer Value to their owners wherever they have an entry. Most models deliver high Total Value Index scores. While being strong across most segments, TMS delivered only three first-place segment winners in 2006, down from seven in 2005. This ended their streak of having the most Value leaders of any other full line corporation since 1998.

The Scion continues in 2006 as the top TMS brand, ahead of both Toyota and perennial top brand Lexus, showing that even releases that are not new can be Value leaders. They lead by offering strong product experience, particularly in the emotional delivery of freedom, individuality, excitement and fun. Both the xA and xB were strong in most short-term and expected long-term economics particularly being extremely affordable, having excellent fuel economy and being economical to own.

A challenge remains for the Toyota brand. Indications from the manufacturer suggest that we should see improvement in the product experience with the overall product experience ratcheted up considerably with interesting new models like the FJ and significant improvements in existing big sellers, e.g., Camry. These developments should create a greater sense of excitement mixed in with the famous Toyota Security in the brand in the near future. If these developments materialize, perceptions of Toyota Value should increase significantly.

7. Other quick observations

- **Do incentives create or deplete Total Value?** Because of record incentives from the domestic manufacturers over the past few years (72% of domestic buyers said they received an incentive versus others like 23% for American Honda) it is easy to demonstrate whether true value is not being created for the consumer.

Higher levels of incentives are associated with lower Trust in the brand among those who are perspective buyers. (See Exhibit 3) Without sufficient Trust, brand consideration falls off even when the customer finds what the brand has to offer interesting.

High incentives were deemed necessary for the domestics because of softening retail demand over the past several years. Given equal prices, most consumers would pick a vehicle from a manufacturer that they Trust; however when the incentive significantly impacts the cost of ownership, some are swayed and choose the 'cheaper' brand.

7. Other quick observations (cont...)

However, a careful path analysis shows that when incentives are sold as the foundational reason to purchase one vehicle over another, this can reinforce the perception of lower Total Quality. This in turn leads to lower Security associations ending in lower consideration and Trust of the brand. Lack of perceived Quality and the associated lack of reliability and durability soften sales. Hence, high incentives create the “vicious circle.” These incentives shore up sales in an environment reflecting a lack of Trust or Security based on lower perceived Quality, but also miss the point. Perceived Quality cues, not incentives, are at the root.

Whereas for non-owners, incentives degrade Trust in the brand, for those who do make it to the point of purchase, incentives can become a very positive addition. When buyers of any brand, whether it be those brands with higher equities of Trust (e.g. Honda & Toyota) to those with lower equities of Trust (Isuzu), the feeling that customers are receiving that ‘special deal’ enhances Trust, increases Advocacy and Repurchase Intent. (See Exhibit 4).

You must sell cars and trucks. While you work on Perceived Quality, incentives may be deemed required to “move the metal,” but we need to keep careful track of the calculus: Where is the “sweet spot” or where do the two lines converge? When is Perceived Quality sufficient so that incentives are not as critical? How can the right warranty impact the positive perceptions of the ‘special deal?’ It takes a carefully crafted program addressing the right Quality Cues and targeted communications to conquest new buyers.

- **Total Value is integral to strong brands and needs to be the watchword for the domestics.** Total Value begins with strong overall product experience as measured by Total Quality. It is absolutely critical now in the US market. It is even important for brands with strong reputations like Toyota and Honda, but is critical for everyone else. In a mature market where consumers have a variety of excellent choices, the watchword must be “Delight with Total Quality or Die.”

Total Value is more than price paid or deal, and it is more than initial quality (TGW) divided by price - which some profess. Total Value encompasses the complete ownership experience with emotional components and priorities. Not all things are equal. Building Total Value is strongly related to brand reputation. It reinforces the notion of a “smart buy.” Value must be part of the cornerstone for the domestics in improving their brand reputations.

- **“Old” vehicles from strong brands can be value winners.** While new models usually do (and should) show up at the top of their segments in TVI, this is not always the case. We have seen older vehicles win this year as they are still well-executed models at the end of their product lifecycles. While new vehicles should be improvements – enhancing perceived Quality and Total Quality – past strong models can stand up to newcomers if they have the right Balance of factors that creates strong Total Quality and produces Customer Delight.

These models are often more expensive vehicles discretely discounted with subvented leases to reduce close-out inventories. Because the resale values of these models are high, the lease rates can become extremely attractive. Buyers who could not normally afford these vehicles find that they can now afford them, and they are often Delighted.

EXHIBITS

Exhibit 1: 2006 Total Value Segment Winners

2006 Total Value Award™ Winners

	<i>Award Classes:</i>	<i>Best in Total Value in Class</i>	<i>TVI</i>
1	Small Car	→ Honda Civic	801
2	Small Multi-Function	→ Scion xB *	781
3	Medium Car	→ Kia Optima	799
4	Medium Multi-Function	→ Mazda6 Wagon	767
5	Larger Car	→ Hyundai Azera	808
6	Near-Luxury Car	→ BMW 3-Series *	807
7	Luxury Multi-Function	→ Audi A4/S4 Avant *	787
8	Luxury Car	→ Lexus LS 430 ** / Acura RL * / Audi A8	780 / 779 / 779
9	Small Specialty Under \$25,000	→ MINI Cooper **	794
10	Small Specialty Over \$25,000	→ Chevrolet Corvette	798
11	Mid-Specialty	→ Honda Accord Cpe **	804
12	Convertibles Under \$30,000	→ MINI Cooper Convertible *	813
13	Convertibles Over \$30,000	→ Chevrolet Corvette	789
14	Minivan	→ Kia Sedona	758
15	Small SUV	→ Saturn Vue / Hyundai Tucson	758 / 757
16	Medium Crossover SUV	→ Honda Pilot	767
17	Medium SUV	→ Nissan Xterra	735
18	Large SUV	→ Nissan Armada	724
19	Near Luxury SUV	→ Lexus RX 330 **	771
20	Luxury SUV	→ Mercedes GL-Class	782
21	Compact Pickup	→ Honda Ridgeline	739
22	Full-Size Pickup	→ Nissan Titan	707
23	Heavy Duty Pickup	→ Chevrolet Silverado 2500/3500	686
24	Best model	→ MINI Cooper	813
25	Most improved brand	→ Honda	764
26	Best corporation	→ American Honda	767

* 2005 winners

** 2004 & 2005 winners

Exhibit 2: 2006 Total Value Top Scoring Vehicles

Top Ten List - 2006 TVI Scores

Highest scoring models in Total Value.

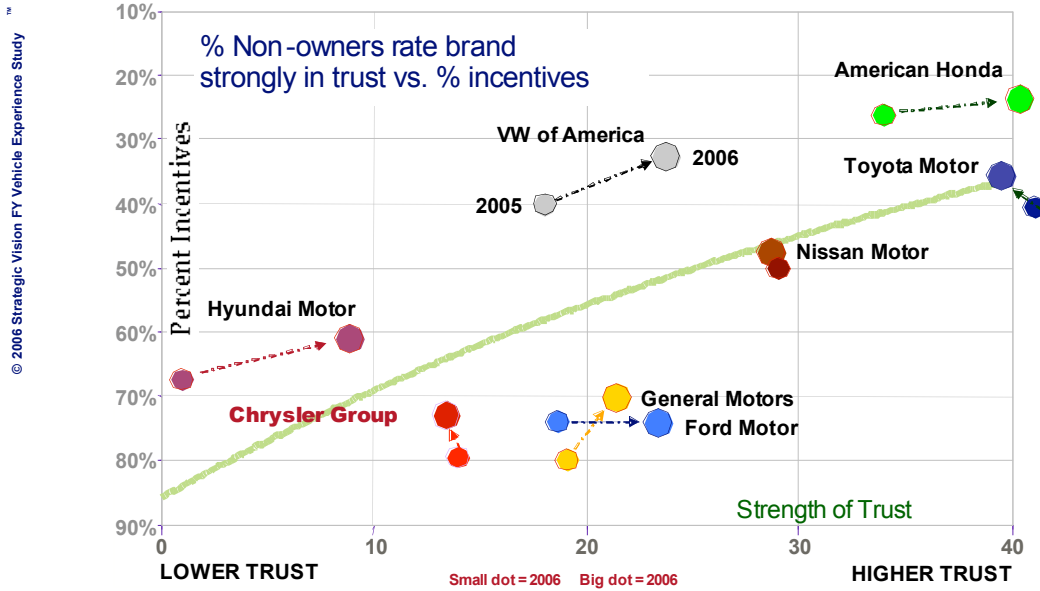
Models:	TVI	Transaction Price (Median)	Incidence Incentives (%)
MINI Cooper	813	\$25,000	4
Hyundai Azera	808	\$28,300	33
BMW 3-Series	807	\$38,000	24
Honda Accord	804	\$25,100	20
Acura TSX	804	\$29,300	16
Honda Civic	801	\$19,700	23
Lexus IS 300	800	\$40,000	25
Kia Optima	799	\$19,500	43
Chevrolet Corvette*	798	\$53,000	35
Toyota Prius	794	\$26,000	9
INDUSTRY	728	\$26,999	52

* Percent of buyers who said they received an incentive.

Exhibit 3: 2006 Incentives & Non-Owner Perceptions

2006 Trust Vs. Incentives – Non-owners

While incentives can increase interest encouraging purchase behavior, having Trust as a core brand value builds a better foundation for tomorrow's sales.



25

Exhibit 4: 2006 Incentives & Owner Perceptions

2006 Owner Perceptions					
	Definitely Recommend To Receive Special Incentive?			Definitely Will Buy Another Receive Special Incentive?	
	Yes	No		Yes	No
Acura	89	90		40	40
Audi	88	87		45	43
BMW	92	85		62	54
Buick	79	70		51	42
Cadillac	83	72		53	45
Chevrolet	80	72		54	48
Chrysler	86	73		45	42
Dodge	80	60		47	33
Ford	81	79		54	44
GMC	81	72		54	49
Honda	94	86		55	51
Hummer	78	77		56	52
Hyundai	86	77		45	41
INDUSTRY	83	80		51	46
Infiniti	88	85		41	31
Isuzu	80	50		26	14
Jaguar	88	77		49	41
Jeep	75	63		47	31
Kia	80	72		38	30
Land Rover	82	73		46	36
Lexus	90	85		58	55
Lincoln	82	69		53	45
Mazda	81	76		33	31
Mercedes	86	82		59	54
Mercury	78	62		49	39
Mini	97	92		54	43
Mitsubishi	75	69		39	34
Nissan	84	72		49	34
Pontiac	82	78		42	38
Porsche	93	90		59	60
Saab	86	72		39	27
Saturn	89	76		49	44
Scion	96	84		51	46
Subaru	89	84		43	31
Suzuki	69	55		29	23
Toyota	89	83		55	52
Volkswagen	88	77		44	40
Volvo	86	79		43	39