MYTH VS. REALITY OF THE LUXURY CAR PURCHASE

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Myth vs. Reality

An automobile is the second largest purchase most people will ever make. For some, it is the very largest. The influences on buyers' choices vary — from friends to family, *Motor Trend* magazine to *Consumer Reports* or warranty to monthly payment. These factors conspire to make the audience segment very elusive.

Historically, luxury cars have been designed, built and marketed according to distinct lifestyle segments in which some form of psychological impact played a key role in purchase. For example, segments such as Elite Hipsters, Self-aggrandizers, New Entrepreneurs, Old Money, Gadget Geeks, Self-starters and others suggest that luxury car ownership satisfies different psychological needs and wants. However, unlike the apparent precision of these lifestyle segments, the "switch" to turn on advertising and target media is often excess inventory, whether in the showroom or pipeline.

Lifestyle segments and the desire to simply move inventory quickly may be the underlying reasons why other potential motivators of luxury vehicle sales are often excluded, for example, the driving experience, dealer service and features and maintenance cost. Do these factors make lifestyle segmentation obsolete or is the concept of psychological impact still useful?

WHY PURCHASE OCCURS

To determine the drivers and decision processes underlying luxury auto purchase, the Behavioral Science Lab (BSL) interviewed[1] African American luxury car owners using MINDGUIDE℠. Results suggest that this subset of the U.S. market is motivated to buy luxury vehicles for a variety of reasons, but most expect a common psychological effect. The table below shows the primary ownership decision drivers, the percentage of African Americans using each and the expected outcome of their purchase decision. The study discovered that eight key elements affect an African American luxury vehicle owner's decision to purchase a luxury car. The study also was able to describe how individuals use these elements differently in their decision-making process to execute their luxury car purchase decision.

The following sections describe in detail each of the eight decision segments summarized in the table above. The purpose of such detail is to explain how each segment makes decisions about new vehicle purchase differently and how the demographics and nameplate preferences aid in our understanding of each segment's decision process.

% OF POPULATION	PRIMARY OWNERSHIP DECISION DRIVER	DRIVER DESCRIPTION	EXPECTED OWNERSHIP DECISION OUTCOME
32	Safety & Security	Projection from injury & hazard	Self-image & Social Impact (Self-affirmation)
28	Features	Amenities available on a luxury car	
9	Value	Benefits of the vehicle vs. price paid	
9	Maintenance	Frequency & cost of repairs/ service	
6	Dealer Service	How am I treated & quality of work	
4	Driving Experience	Comfort & enjoyment in driving	Dealer Service
9	Self-image	Confirmation of self-image	Social Impact
3	Social Impact	How others perceive me because of the vehicle I drive	Features

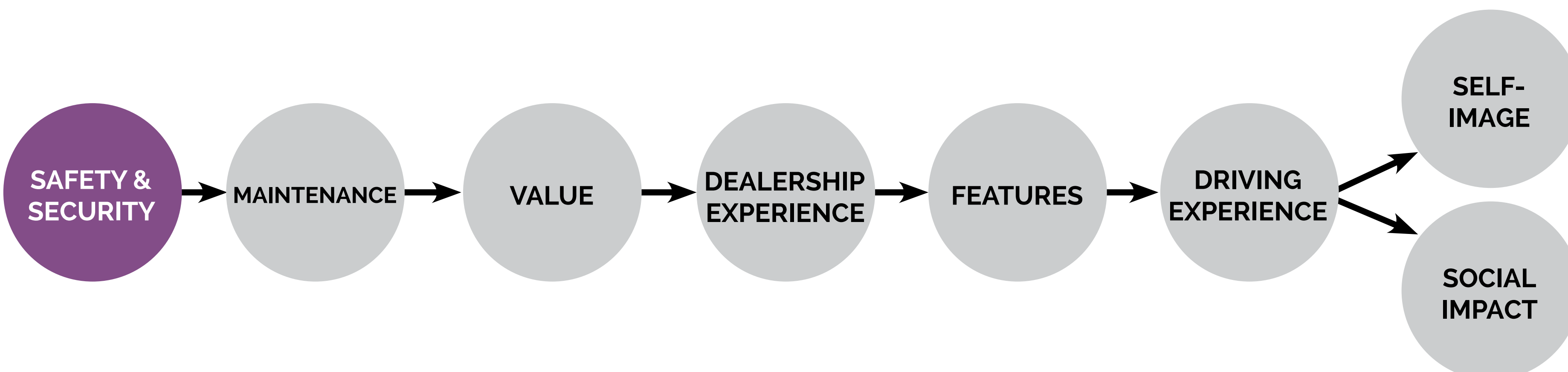
[1]This MINDGUIDE study was executed in two steps — one qualitative and one quantitative. The qualitative step included two MINDGUIDE sessions with luxury car owners who purchased or are considering purchasing a luxury vehicle within six months. The session was comprised of 12–14 African American respondents and provided the decision elements and how luxury car owners used them to make decisions about purchase. In addition, 253 online interviews (half male, half female) were conducted with African Americans who had purchased or were considering purchasing a luxury car within the next six months in the U.S., were high school graduates and reported an annual household income of at least $75,000. Data were collected in the first quarter of 2013.

DECISION SYSTEMS ENDING WITH THE EXPECTATION OF SELF-AFFIRMATION

The following five decision segments account for 84 percent of the total sample and end with the expectation of Self-image and Social Impact (Self-affirmation) proceeded by Driving Experience. So for each of these five segments, Non-driving related components PROCEEED their output, Self-affirmation. However, buyers in each of these segments require a far different hierarchy of non-driving experience criteria to be satisfied BEFORE Self-affirmation is achieved.

SAFETY & SECURITY SEGMENT (32 PERCENT)

The largest single decision segment contains 32 percent of the total MINDGUIDE study participants. In this segment, the decision-making process, or "journey," to purchasing a luxury vehicle begins with Safety and Security. Shown below is a graphic description of the decision process used by these owners. The Primary Decision Element (Primary Driver) is shown at the far left, followed by the Secondary Driver and so on, until the output of this system, Self-image and Social Impact (Self-affirmation), are shown at the far right. Buyers in this segment proceed from satisfying Safety & Security to assessing whether a reasonable cost and frequency of Maintenance is present and whether an acceptable Value results, followed by the Dealership Experience, Features and Driving Experience. This segment's decision process ends with Self-image and Social Impact (Self-affirmation), as does 84 percent of the sample, thereby accounting for nearly 40 percent of those whose systems end with Self-affirmation.



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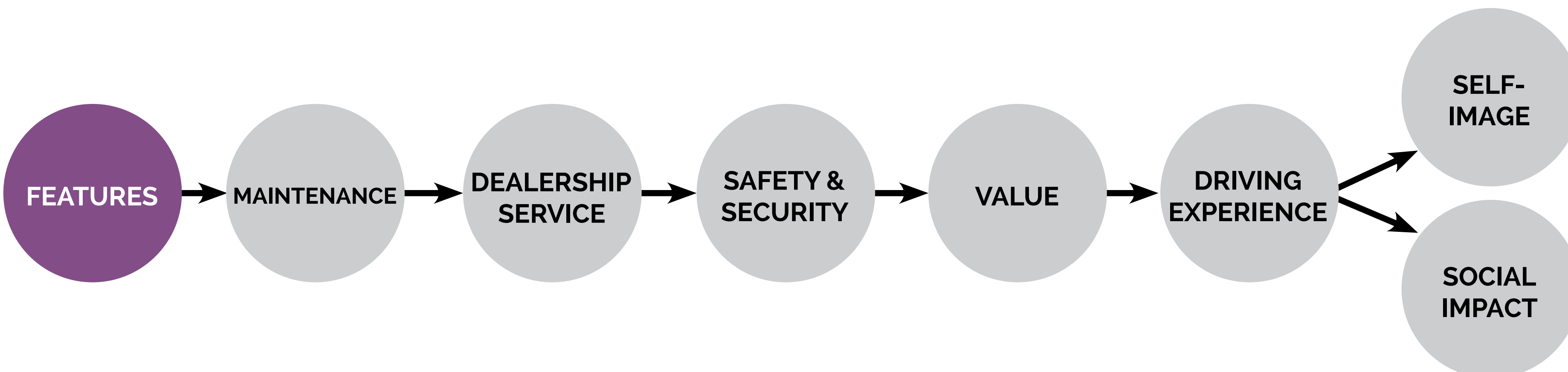
FEATURE SEGMENT (28 PERCENT)

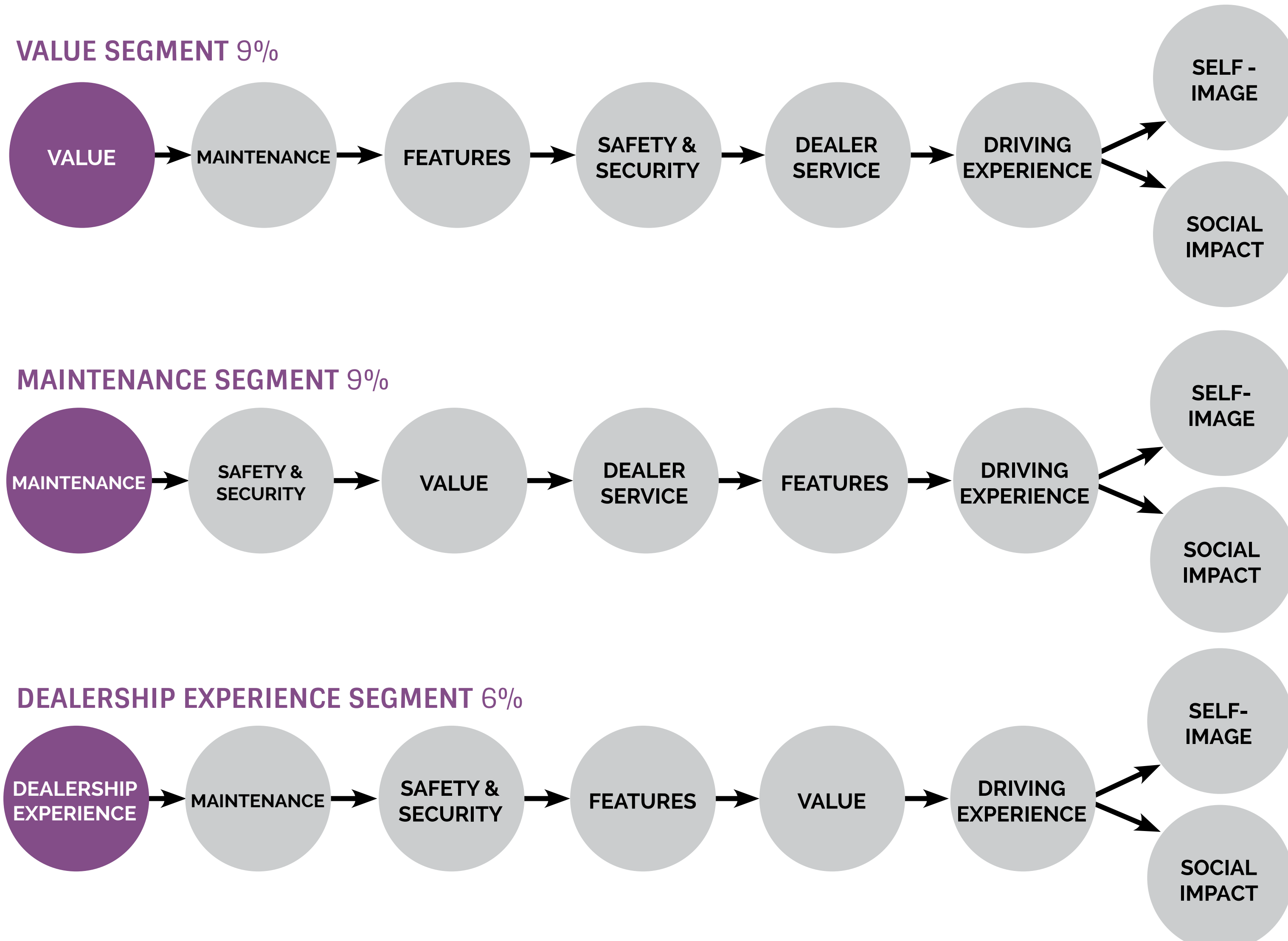
The second largest decision segment consists of 28 percent of respondents in the study. They begin their decision process with vehicle Features as their Primary Decision Driver, as shown below. The Primary Driver is then followed by Maintenance, as in the prior segment, but then moves to Dealership Experience, Safety & Security and then Value. Buyers in this segment “wait” for the assessment of the brand and vehicle on four elements (Features, Maintenance, Dealership Service and Safety & Security) before assessing the brand/vehicle on Value. This, in effect, allows all of the prior elements to impact the Value assessment. Although the starting element is different and the decision-making elements are slightly rearranged, the buyer’s journey is motivated by how these elements affect one another. Please note that the position of Driving Experience in the system allows the results of all prior brand/vehicle assessments to impact it.

For this segment, if the Features and the Maintenance of the brand/vehicle are satisfactory, but the Dealership Service does not appear to meet the buyer’s standards, the journey to purchasing the vehicle ends and another brand/vehicle is evaluated.



VALUE, MAINTENANCE AND DEALERSHIP EXPERIENCE SEGMENTS (24 PERCENT)

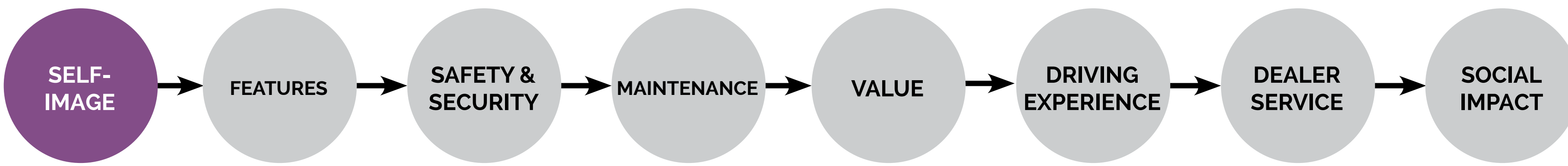
Each consisting of 9 percent, 9 percent and 6 percent of total respondents, segments with the respective Primary Drivers of Value, Maintenance and Dealership Experience also end in Driving Experience, Self-image and Social Impact (Self-affirmation). In the Value and Dealership Experience segments, Maintenance is the Secondary Driver.



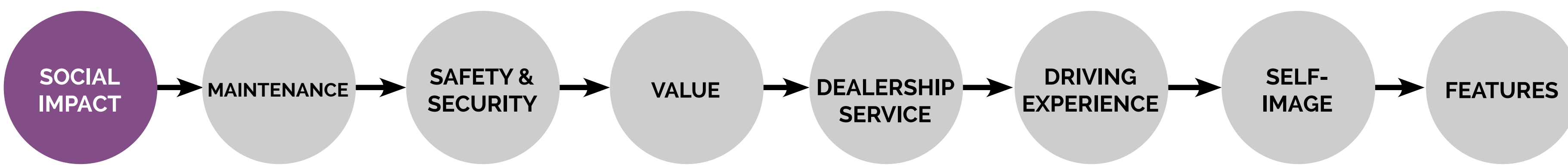
SEGMENTS DRIVEN BY SELF-IMAGE AND SOCIAL IMPACT (12 PERCENT)

These are driven by psychological needs, not by the performance of the brand/vehicle or dealer. For this reason they are quite different than other segments. In psychological terms, members of these segments appear to "project" their needs onto the vehicle. If, in the case of the Social Impact segment, the Features of the brand/vehicle are found wanting, they "reset" their decision process and "begin" again with Safety & Security. Interestingly, the expected end result of the Self-image segment is also a psychological need, Social Impact, in which the brand/vehicle functions as the mechanism with which to achieve it.

SELF-IMAGE SEGMENT 9%



SOCIAL IMPACT SEGMENT 3%



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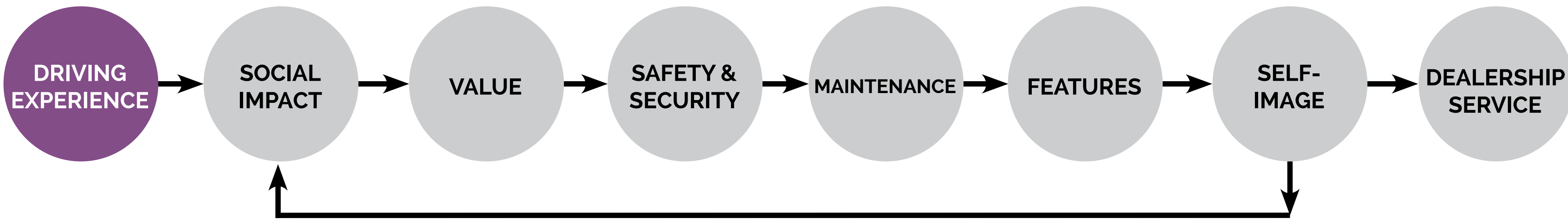
DRIVING EXPERIENCE (4 PERCENT)

This last decision segment, although one of the smallest, is perhaps one of the most interesting. With Driving Experience as the Primary Driver, these buyers "begin" all other brand/vehicle assessments with this in mind. Also, interestingly, if the vehicle does not deliver in terms of Self-image, their decision process is "reset" to the only other psychological variable in the decision process, Social Impact. Buyers in this segment appear to use the Driving Experience as the "currency" which "pays off" against both Self-image and Social Impact.



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DEMOGRAPHY

Demographics of the decision segments differ in logical harmony with WHY luxury vehicles are purchased; for example, Safety & Security and Value Primary Driver respondents are older, whereas Self-affirmation and Social Impact Primary Driver respondents are younger. Those driven by Dealer Service are more likely to be less well-educated women. Those whose purchase decisions are driven by the Driving Experience are highly educated high-income men.

<table>
<tr><th colspan="9">PRIMARY DRIVER OF THE DECISION SEGMENT</th></tr>
<tr><td>Total Sample</td><td>SAFETY & SECURITY</td><td>FEATURES</td><td>VALUE</td><td>MAINTENANCE</td><td>SELF-AFFIRMATION</td><td>DEALER SERVICE</td><td>DRIVING EXPERIENCE</td><td>SOCIAL IMPACT</td></tr>
<tr><td>Median Annual HH Income ($000’s)</td><td>113</td><td>138</td><td colspan="4">113</td><td>175</td><td>138</td></tr>
<tr><td>% Gender Male</td><td>41%</td><td>56%</td><td colspan="2">50%</td><td>44%</td><td>27%</td><td>100%</td><td>57%</td></tr>
<tr><td>Median Age</td><td>42</td><td>34</td><td>40</td><td>35</td><td>27</td><td>35</td><td>35</td><td>29</td></tr>
<tr><td>Median Education Degree</td><td colspan="5">BA</td><td>AA</td><td>MBA/MA/PHD/JD</td><td>BA</td></tr>
</table>

BRAND PREFERENCE

For the African American luxury car owner/intender, only four luxury brands appear to deliver against their primary decision process drivers: Lexus, Mercedes-Benz, BMW and Cadillac. Simply stated, Lexus and Mercedes dominate the Value, Maintenance, Self-affirmation and Driving Experience decision type segments accounting for 31 percent of respondents (shown in dark green in the table below). The remaining four segments, Safety and Security, Features, Dealer Service and Social Impact, account for the remaining 69 percent of respondents and are split between Lexus, Mercedes-Benz, BMW and Cadillac (shown in dark and light green in the table below).

PRIMARY DRIVER OF THE DECISION TYPE SEGMENT								
% Best Delivers on–	SAFETY & SECURITY	FEATURES	VALUE	MAINTENANCE	SELF-AFFIRMATION	DEALER SERVICE	DRIVING EXPERIENCE	SOCIAL IMPACT
LEXUS	17%	16%	58%	60%	69%	11%	58%	19%
M-B	18%	27%	34%	36%	30%	36%	31%	16%
BMW	25%	17%	7%	3%	2%	19%	8%	21%
CADILLAC	16%	13%	1%	–	–	11%	2%	16%
AUDI	8%	11%	–	–	–	11%	–	7%
INFINITY	3%	6%	–	–	–	3%	–	5%
ACURA	6%	5%	–	–	–	4%	–	11%
LINCOLN	6%	5%	–	–	–	4%	–	5%

CONCLUSIONS

The psychological impacts on the African American owner continue to be key elements in the purchase of a luxury vehicle. For most of the sample (84 percent), these elements are the result of components of ownership, not the driving force for ownership (12 percent).

The belief that the lifestyles and demographics of the owner/intender are indicative of their motivations for purchase appears unfounded. Lifestyles may suggest the physical vehicle requirements (body style, passenger capacity, economy, etc.), but not the decision elements and process on which a final nameplate decision will be made.

Only a relatively few number of nameplates (Lexus, Mercedes-Benz, BMW and Cadillac) appear to satisfy the decision processes of the African American luxury vehicle owner/intender. No one nameplate is believed to fulfill all the requirements of the two largest decision segments, Safety & Security and Features. BMW is not believed to be the nameplate that best delivers on Driving Experience.

RECOMMENDATIONS

1. Rationalize the full luxury market in terms of the decision "habits" already in place among owner/intenders and develop a strategy capable of optimizing each decision segment within the vehicle line-up.

2. Develop a nameplate strategy which builds on existing brand strength and co-opts existing decision habits and exploits competitive weaknesses.

3. Cannibalize competition by attacking weaknesses most likely to generate the largest number of new nameplate owners.

About MINDGUIDE

MINDGUIDE from the Behavioral Science Lab generates a model of the human decision process. This model includes the elements used in the process of decision making, how these elements are used and the process by which multiple elements lead to a decision. Decision elements may be social, economic, psychological, environmental or physiological in nature; often, one or more are not available to the decision maker without the development of the MINDGUIDE model.

Individual decision makers can be grouped on the basis of similar decision models. The size and market value of these MINDGUIDE decision audiences can be estimated using the Behavioral Science Lab's proprietary quantitative techniques.

MINDGUIDE is used to:

- Optimize marketing communication
- Drive product innovation
- Develop market share growth strategy
- Predict purchase and shopping behavior
- Rationalize the consumer market

MINDGUIDE is delivered through the Behavioral Science Lab and is powered by SentienTech.

FOR MORE DETAILS ABOUT THE STUDY, CONTACT

Ron Mundy ron@behavioralsciencelab.com
Tim Gohmann tim@behavioralsciencelab.com

behavioralsciencelab.com