Case Study

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Vauxhall Motors — Engineering profitable long-term customer loyalty

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Abstract

Vauxhall's outstanding approach to customer relationship marketing (CRM) earned one of the UK's top car brands a shining Silver Award from this year's IDM business performance awards judging panel. For the last decade, Vauxhall has been the UK's number two for new car volume sales.

Vauxhall have adopted an integrated relationship marketing programme that delivers what so many others only promise. Scrupulous attention to monitoring and evaluation has enabled Vauxhall to show the generation of genuine incremental business and a positive impact on their already established brand.

The judges were particularly impressed that 'the research undertaken enriched the outcome'. This case study is an exemplary one regarding data collection, tracking and evaluation of the impact of a customer relationship management programme. The case study is intended to convey an appreciation of how a CRM programme can return genuine incremental sales; an understanding of how an integrated, multichannel campaign is managed; an appreciation of the importance of linking acquisition and retention activity; an understanding of the importance of collecting complete customer and prospect data; an insight into the importance of ensuring key stakeholder commitment to your programme; an understanding of the importance of research for planning and monitoring a CRM programme; and an appreciation of how permission marketing can create a healthy dialogue with stakeholders and customers.

Keywords: customer relationship, marketing, research, integration, tracking, return on investment, communication loop

Background to the CRM programme

Vauxhall was founded as a coachworks in the 1900s, and developed as a mass-market manufacturer during the 1960s after being purchased by General Motors in 1925. In 2001 Vauxhall had 12.5 per cent of the UK new car market, 5 per cent behind Ford.¹

For the last five years British-based car manufacturers have had to compete against cheaper European and other foreign imports. This has resulted in the closure of much of the UK production capability in favour of European factories. The exchange rate disparity with Europe has been a major factor in reducing profits for manufacturers in spite of a continued rise in the volume of new cars sold. Since April 2000 most

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manufacturers have reduced the price of new cars by an average of £2,000 per unit.

Such downward pressure on margins has predictably brought pressure to bear on the funding available for dealership programmes. Vauxhall's retail distribution strategy relies on independent dealers, and the partnership nature of the relationship between Vauxhall and its dealers was important in the development of the customer and prospect management programme. Traditional marketing and sales support for dealers included finance programmes and subsidised insurance offers. Direct marketing programmes had also proved effective in encouraging customers to visit their local dealers.

By 2001 UK consumers enjoyed, on average, 5 per cent more disposable income than in 1998. They were faced by the largest ever choice of car manufacturers, featuring a bewildering range of new categories and sub-categories of car.

Objectives

Setting programme objectives

The main objectives for the programme were financial. The programme had to demonstrate a genuine uplift in sales and improved return on investment. A secondary objective aimed to strengthen the relationship between customers and local Vauxhall dealers. The programme was also required to assist with the delivery of key attitudinal shifts towards Vauxhall's brand image.

An integrated, multichannel, multimedia CRM programme

The Vauxhall CRM programme is based on one simple premise: everyone in the market for a new car shares the same basic life cycle. The qualitative research that led to this conclusion continues to support it. Some consumers move through the life-cycle stages faster than others, but the overall pattern remains the same.

Customer life cycle

The programme makes full use of the principles of permission marketing to engage potential and current customers in a constructive dialogue. The programme is channel-neutral, employing paper-based, online and telemarketing together.

As can be seen from Figure 1, the programme consists of two intersecting loops. The prospect loop, known internally as the enterprise prospect management (EPM) loop, takes people who are new to Vauxhall through from their first contact with the brand to the point of a potential sale. The other enterprise customer management (ECM) loop follows a Vauxhall purchaser through the ownership cycle to repurchase. Owners who defect at the purchase point are retracked back to the EPM loop.

The EPM loop

Prospects find their way into the EPM loop from a variety of sources. These include leads from trade shows, direct mail and advertising. Leads are generated to fill specific gaps within Vauxhall's database and are matched with profiles of customers likely to make a new model purchase.

For example, prospective purchasers of Vauxhall's growing range of micro and small car models were targeted from the DVLA (Driver and

Figure 1: Vauxhall's CRM programme

Vehicle Licensing Authority) list cost-effectively. Use of profiling data resulted in the two-stage dialogue-building campaign achieving an initial 15 per cent response, followed by an 8.2 per cent response, which included prospect information such as intended car renewal date.

Profiling

From the point of initial contact, potential customers are invited to enter a dialogue with Vauxhall. The approach follows classic permission marketing principles and solicits increasingly precise information from the prospects, in exchange for regular copies of the Vauxhall magazine. Non-respondents are moved on to a periodic requalification programme that, on average, generates a 12 per cent response to e-mail and direct mail communications.

The *VM* magazine fulfils the role of an effective brand communication and, in addition, delivers 100,000 database information updates from each issue. The updates represent an impressive response rate of 15 per cent. Prompted recall of the magazine reaches 96 per cent.

The conversion phase

The conversion phase begins five months prior to the prospect's planned car renewal date. The timing of all communications has been extensively researched. Profiling data are now used to persuade prospects to visit a Vauxhall showroom. The initial communication solicits further data concerning family profile and annual mileage. This information is used to personalise the next communication, making it as relevant as possible.

Research

Three months prior to the renewal date, prospect segments receive a targeted, incentivised invitation to visit their local showroom for a test drive. The communication achieves an average response rate of 8 per cent, and a mail-to-sales rate of 5 per cent. Model-specific

communications were abandoned following tests that showed a significant number of prospects could be upgraded.

The ECM loop

Once the prospect has become a customer there is a seamless join as the customer enters the ECM loop. The objective for the next series of communications is to increase the customer's loyalty towards Vauxhall and their local retailer.

Loyalty building

A welcome pack is despatched two weeks after the purchase date. Its purpose is to combat post-purchase dissonance and continue to enhance Vauxhall's image. The pack includes a free AA guide, *Days Out in Britain*.

A survey enquiring into the customer's satisfaction with their new car and their delivery experience is despatched within three months of purchase. This is rapidly followed by a 'care' pack. This communication contains the first suggestion as to how the customer can develop their relationship with Vauxhall. Two free gifts are enclosed; a £5 emergency fuel voucher and the offer of an emergency duplicate key which can be collected from the supplying retailer. The relevance of these gifts is known from some AA research identifying fuel shortages and lock-outs as the two main causes of call-outs by Vauxhall drivers.

The customer is also invited to apply for a GM card. Those already in possession of one are sent a recommend-a-friend offer. A centrally administered reminder call follows up non-collection of spare keys and provides another opportunity for data enhancement.

As part of ongoing loyalty building, customers continue to receive the quarterly *VM* magazine throughout their ownership cycle and an annual, centrally administered service reminder call. Vauxhall's information concerning the customer's intended vehicle replacement date and vehicle preference data are kept up to date as part of this cycle.

To avoid a knowledge gap when a customer fails to repurchase, Vauxhall follow up with a communication that asks what the customer intends to do regarding their planned new car purchase. This element of the programme achieves a 16 per cent response rate.

Pilot test for important stakeholders

The willingness of retailers to become stakeholders was central to the success of the programme. Retailers are responsible for converting EPM-generated prospects into purchasers. They also supply vital purchaser information via the owner sales certificate. This fills an important gap in Vauxhall's data collection.

Data collection

A six-month pilot test was held in close consultation with dealer principals and sales staff. In addition, a quantitative study was conducted to evaluate retailer confidence in the programme. The results of the study were very encouraging:

- 94 per cent of participating retailers said they would recommend the programme to their peers

- 70 per cent reported medium to high confidence in the programme’s ability to deliver increased new car sales
- 80 per cent believed that the programme would also deliver increased after-sales business.

Feedback loop

Following the success of the test, a national roll-out commenced. To keep dealer commitment in a good state of repair a continuous dialogue is maintained. The dialogue enables dealers to feed back customer comments about the programme. This feedback has led to improvements in the creative approach.

Tracking programme impact

The use of individual data to refine targeting and timing of communications underlies the whole programme. Key data identified and collected include intended car renewal date, preferred model and the budget available for the car purchase. A strategic control cell (see Figure 2) was established with a remit of providing comparative data from customer and prospect test and control segments.

Control cell

The Vauxhall team sought to establish the real effect of their programme by quantifying the incremental sales that occurred only as a direct result. Various approaches were evaluated, each of which had flaws. Even the establishment of a control cell of people who would not receive the trigger mailing was not entirely reliable. It showed mailing recipients who did return incremental sales but, because of random consumer behaviour in relation to a planned car replacement date and the cumulative effect direct marketing can have on future consumer behaviour, this was not considered conclusive.

The strategic control cell of customers and prospects was established, constituting 10 per cent of the customer base. The records were removed from the EPM and ECM elements of the communication programme. The

Programme tracking grid

Figure 2: Evaluation matrix for the ECM programme

Programme tracking

loss of potential sales was considered to be an allowable cost for demonstrating the effect of the programme.

The size of the control cell was sufficient to allow the sample to be truly representative of the database. The cell was sent no communication from Vauxhall. The behaviour of control cell members was monitored using owner sales certificates, which tracked customer behaviour even when customers did not participate in the programme.

Vauxhall has proved that it is possible to track the often-invisible long-term effects of CRM programmes on customer purchasing patterns. This innovative approach is believed to be the first time that a controlled attitudinal study has been carried out to evaluate a major direct marketing programme. The objectives were to measure the programme's influence on the following:

- brand consideration and preference
- customers' relationships with their retailer
- shifts in brand perceptions in line with the marque brand strategy.

The attitudinal study continuously tracked the control and ECM/EPM cells. As both cells were subject to the same environmental effects, any differences between the cells could be attributed to the effect of the programme.

Conclusive programme results

For 2001 the results showed a net return on investment of 120 per cent. There was a 25 per cent increase in the number of prospects putting Vauxhall at the top of their shortlist for a subsequent purchase and 8,155 incremental new car sales.

Return on investment

Return on investment is defined as total incremental profit divided by total programme cost (all programme set-up and running costs inclusive of agency fees).

The results from the attitudinal tracking survey, carried out by Hire Purchase Information (HPI, the UK vehicle information firm), were equally impressive. Prospects exposed to the programme were found to be 25 per cent more likely to put Vauxhall at the top of their shortlist than equivalent unexposed prospects. Exposed customers were found to be twice as likely to consider only Vauxhall for their next purchase than unexposed customers.

The customers' feelings about their relationship with the dealer were also explored. Exposed individuals were 41 per cent more likely to rate their relationship with their retailer as 'very favourable' than equivalent unexposed individuals. The programme was found to have had a positive influence on Vauxhall marque imaging. The positive effect on marque imaging was defined as customer agreement with Vauxhall's marque brand attributes.

References

1. See Society of Motor Manufacturers and Traders Ltd (www.smmmt.co.uk).