



# **When Loyalty Isn't Enough: Industry Leaders Shift to Conquest Marketing**



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It's a classic marketing tenet: retaining a customer costs far less than acquiring a new one. Loyalty marketing and sales strategies have banked on this tenet for decades but now, faced with the challenge of an increasingly competitive market, automotive marketers are realizing it's not enough. While still a common practice, the returns on loyalty marketing seem to have run their course and competitive forces are driving the need for a new approach: Conquest Marketing.

The battle to retain and conquest automotive consumers is common to every major automotive market, but it is especially intense in the United States. After two decades of investment in customer relationship management (CRM) systems and loyalty programs, leading practitioners struggle to realize 50 percent of their annual unit sales from repeat customers. For the majority of industry players, the repeat customer sales rates struggle to reach 33 percent (see Exhibit 1).

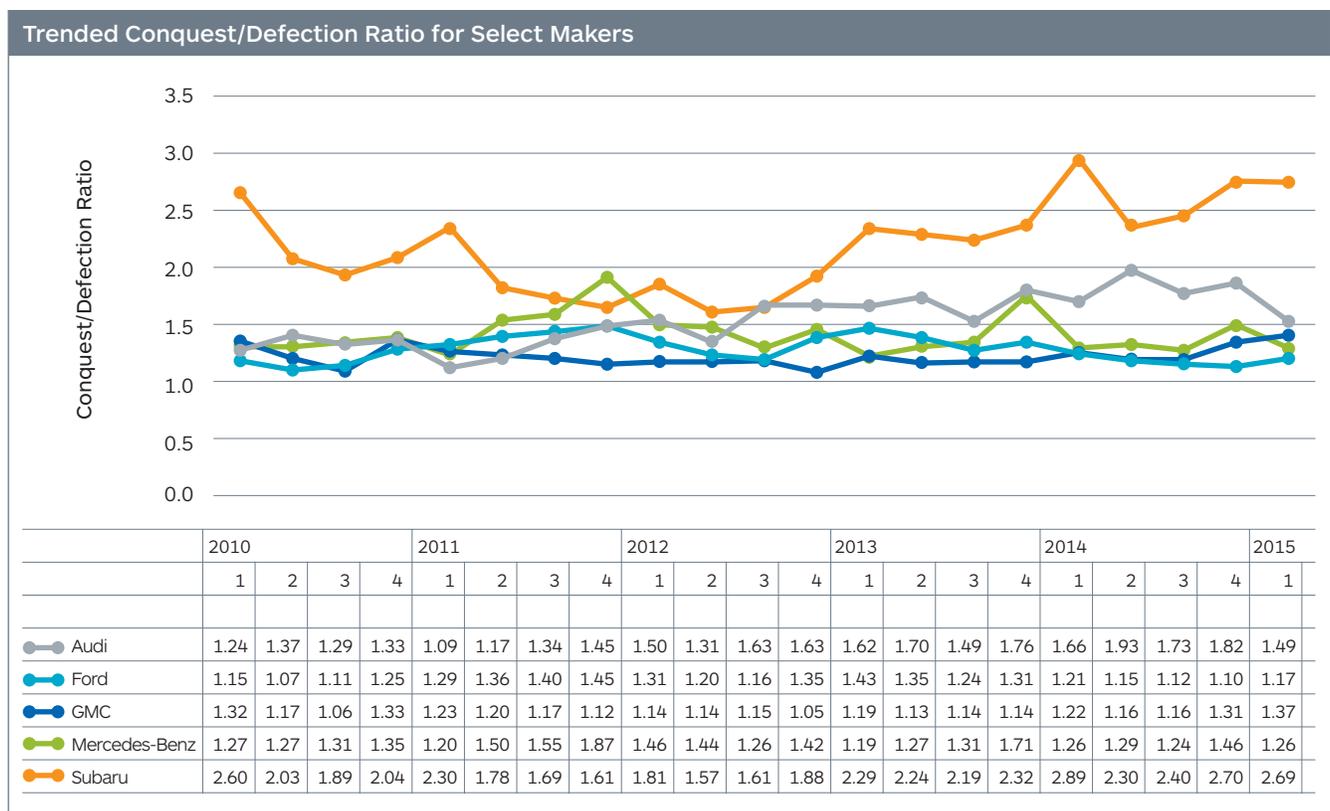


Exhibit 1: Where Conquests Outnumber Defections

Among the 42 brands for which IHS Automotive tracks brand loyalty, five have maintained a net inflow of new customers in each of the last 21 quarters. The five – Audi, Ford, GMC, Mercedes-Benz and Subaru – continue to attract more new customers than they lose to other brands.

The lagging performance of the majority of brands is not for lack of effort. Armed with a growing store of information on consumers who have purchased their vehicles over the years, automakers have honed the science of retention and lifecycle marketing – engaging consumers over the entire ownership experience. Seizing every opportunity and every channel to communicate, marketers entice their current customers with information on a new model launch, lease buy-back, special financing, rebates, service reminders and more.

In addition to the efforts of automakers, dealers layer on their own set of communications and promotions. Leveraging data out of their own CRM and dealership management systems, they cultivate owner loyalty through proactive reminders of aftersales service schedules, extended service offers and amenities like free shuttle service and on-site, Wi-Fi enabled workspaces.

Unfortunately, the return of these combined efforts are diminishing. With final numbers in, 2015 was a record sales year in the United States, and 2016 projections are pushing to the 18 million unit mark. Despite these high-water marks for sales, the annual growth rate is flattening (see Exhibit 2).



Exhibit 2: U.S. Light Vehicle Sales Levels Are High, But Growth is Flat

In the face of these trends, auto marketers who believe that they can continue to achieve share growth (or even parity) using conventional loyalty marketing and legacy CRM systems will need to reconsider. To attain 2016 sales goals and grow market share, the only path is to conquest consumers from the competition.

Conquest marketing starts with an ability to identify and engage with customers who are likely, or potentially likely, to switch brands. Conquest marketing requires a change in perspective and the use of insight-driven, systematic methods that transform traditional methods (such as broadcast media) and channels into a more precise, targeted approach that scales and drives better ROI (see Exhibit 3).

In this example based on IHS research, two competitive models in the luxury mid-sized sedan segment show the ways different automakers rely on sales from their existing customer base – and the correlated investments they will make in traditional marketing and conquest marketing. The maker of Model 1 plans to rely on loyal customers to meet its sales goal of 15,000 vehicles for the year – a steep challenge given that half or more of new car buyers are likely to switch brands. By contrast, the maker of Model 2 plans to attract new buyers from other makers to meet its target.

Model 1 Goal - 15,000 Retail Sales		Model 2 Goal - 46,000 Retail Sales	
Loyalists 72% 10,826	Conquest 28% 4,174	Loyalists 43% 19,780	Conquest 57% 26,220

Source: IHS Automotive data

Exhibit 3: The Conquest vs. Loyalist Marketing Calculation

Conquest marketing leverages technologies that analyze massive data sets encompassing the entire automotive market, identifying customers that are most likely to be receptive to a competing automaker’s marketing messages. Armed with this insight, marketers engage the conquest audience via “best” channel and message, monitoring and refining response via closed-loop measurement.

# An Increasing Emphasis on Digital Channels

More than 90% of today’s vehicle shopping activity starts in a digital channel with shopper behaviors (e.g., researching, price comparisons, inventory look-ups, virtual walk arounds, collecting opinions of friends and family) characterized by web, social and mobile interactions. Conquest marketing takes full advantage of these digital shopper signals and the industry’s shift to digital. According to eMarketer, the automotive industry will spend \$7.3 billion on digital ads in 2015, up 17.3 percent over 2014 (see Exhibit 4). This “shift to digital” is expected to continue over the next four years at a compounded annual rate of 14 percent.

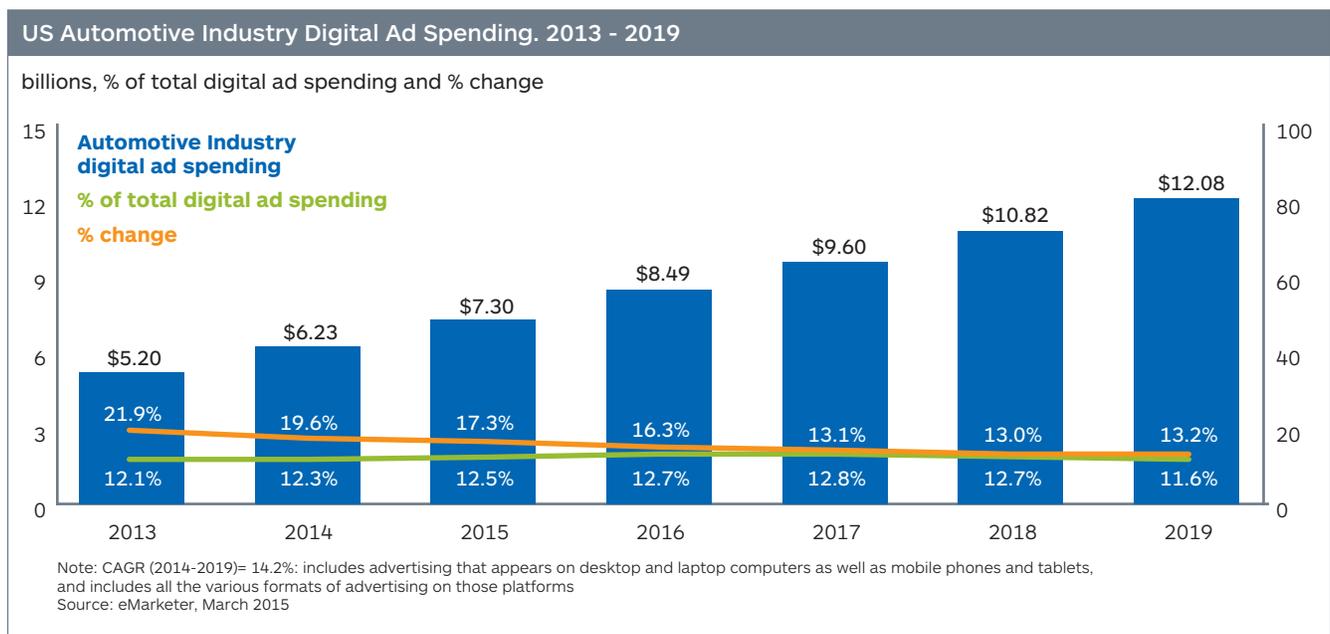


Exhibit 4: Auto Industry Digital Ad Spending on the Rise

The shift to digital also is reflected in a year-over-year decrease in average new vehicle advertising dollar spend (\$522), according to the National Automobile Dealers Association and Borrell Associates (see Exhibit 5). Of that amount, more than half (\$295) went to digital marketing in 2014, with the remainder spread across traditional channels such as TV and print.

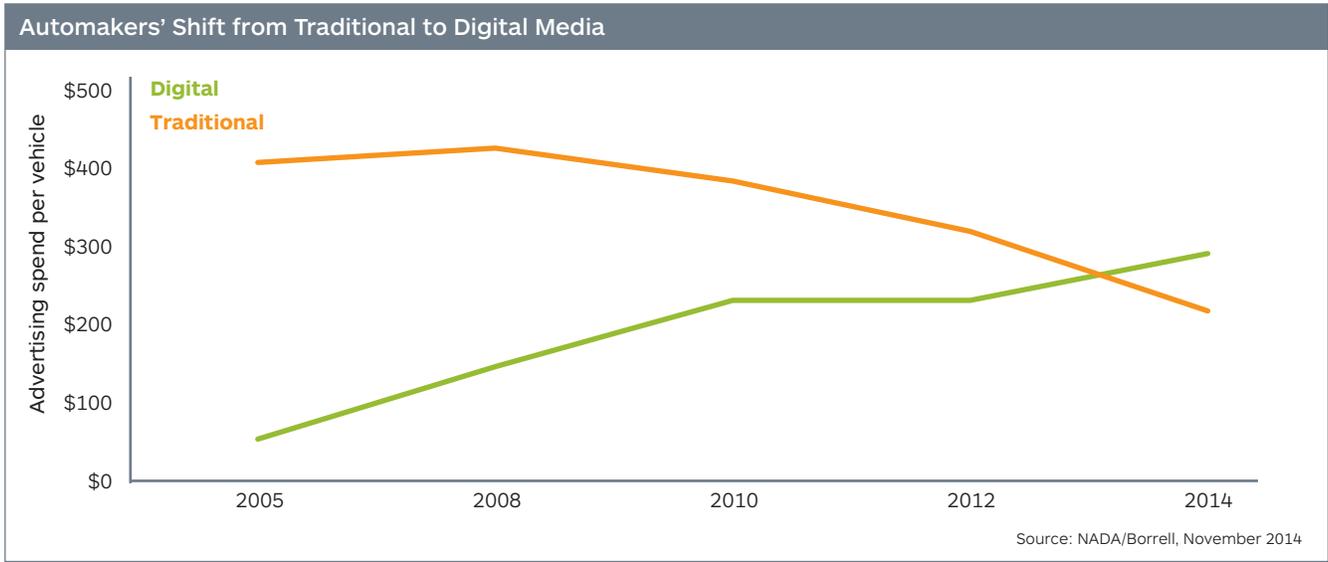


Exhibit 5. Automakers' Shift from Traditional to Digital Media

Complementing an automaker's CRM system that uses current and former customers' information, conquest marketing shines a series of spotlights on the wider market. It reveals consumers, not in an automaker's CRM system and not yet tied to the automaker's brand and model ("nomads"), but who are highly likely to be interested and in the market for a new car.

Conquest marketing systematizes the use of full-market insight and digital consumer behaviors (e.g., browser-based cookies, search results and social media streams) to deploy privacy-compliant communications to high-potential consumers.

The integration of insight-based analytics enables conquest marketers to identify serious and casual shoppers ("intenders versus pretenders") earlier in the shopping process. While the consumers are not known by name, cookie-based matches and analytic models enable more timely and precise messaging directed to more serious prospects in first-time engagements. The method also enables marketers to retarget prospects with marketing messages (i.e., re-engaging with a prospective consumer based on previous digital behaviors).

Tight integration with the digital marketing ecosystem enables conquest marketing scale, measurement and optimization (for example, by correlating sales to individual consumers with anonymized online activity then signaling when an unnamed consumer turns into a buyer).

# The Four Steps of Conquest Marketing

Conquest marketing follows a logical four-step progression:

- Identify high-potential consumers. Using a combination of full-market consumer insight to determine which prospective customers are interested in a certain brand, model or vehicle, correlated to the time when they will return to the market to make a purchase, conquest marketers develop an actionable target audience.
- Engage – Observed and derived shopper behavior is used to identify the best digital channels to engage across search, web, social (e.g., Facebook) and mobile, complementing traditional direct marketing and print channels.
- Closed-loop measurement – Tracking digital impressions and behaviors, pinpointing the best-performing tactics – for example, those that result in prospects’ proactive steps, moving from awareness to interest to consideration to buy – and how many prospects convert into buyers of the target brand and model, those that bought other brands and models and those that did not buy at all.
- Optimize marketing approaches. Using measurement data to refine the approach. Based on the results, marketers can tweak the target audience, test new tactics and deploy additional advertising inventory to focus on shopping “intenders.”

## Offline Conquest Marketing

Conquest marketing is not confined to online interactions and signals. Taking full advantage of offline data sources and communications such as direct mail, conquest marketing combines anonymized household-level data attributes to identify households with probable interest in a certain car model and the propensity of household members to consider certain brands. Typical attributes include demographics (e.g., age range, likely income range and size of household), purchase drivers, the household’s vehicle

ownership history (the number and kind of cars, make and model year of cars, how frequent the household buys a new car, how the household paid for its last car purchase) and advertising consumption patterns (e.g., participation in web and smartphone channels). Combined with online signals and attributes, marketers can launch online and offline conquest marketing campaigns aimed at those households rated as highly likely to respond.

## The Culture of Conquesting

For conquest marketing to work, the marketing and sales organizations have to be ready to resist the pressure of one-off campaigns and the view that “more is better” when it comes to audience selection and the use of media. Building trust in conquest marketing’s use of insight, closed-loop measurement, and a systematic approach requires strong leadership, a common view of marketing performance, rich communication across sales and marketing and personal incentives tied to its measures of success. A disguised example shows the potential payoff.

A luxury car marketer wanted to pursue a conquest marketing campaign that targeted households believed to own vehicles from a rival brand. Engaging a systematic, insight-driven approach, the marketer started with an analysis of full-market sales data to identify rival model owners who were susceptible to switching to their luxury model. The marketer created and tested a model using these traits of conquest prospects.

Next, the marketers analyzed anonymized data of households across the U.S., scoring them according to their propensity to be in the market for a new car, and if so, whether the household members were likely to consider the luxury automaker’s brand.

Leveraging these insights into media consumption and purchase drivers for the targeted households, marketers placed digital and traditional advertising buys targeting the high-potential households. The result: 1.5 percent of targeted households converting into new customers for the brand.

# Embracing Conquest Marketing

From our research, it is clear that conquest marketing is on the climb and, for some, it has become a weapon to drive revenue and market share growth in a highly competitive marketplace. Leaders have a culture that embraces the use of a full-market view of their potential audience to build loyalty (CRM) and gain customers from rivals (conquest). They employ the advanced use of online and offline consumer insight and have integrated analytics with their use of the advertising-technology ecosystem. They rely on closed-loop measurement and optimization to anticipate market shifts, improve precision, scale and responsiveness.

And because conquest marketing integrates and leverages existing customer data stores (CRM), it can unlock new potential in existing loyalty strategies (i.e., identifying potential defectors and, competitive brands seeking to conquest).

For automakers who are experiencing diminishing returns from their loyalty marketing efforts, the time for conquest marketing is now. As an emerging source of competitive advantage, conquest marketing requires investment, skill and perseverance. But given the alternative – lost sales and revenue, fewer total units sold – conquest marketing represents a strategy that will soon differentiate market leaders from market laggards.

By IHS Automotive



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