CENTER FOR AUTOMOTIVE RESEARCH MANAGEMENT BRIEFING SEMINARS

DUCKER WORLDWIDE

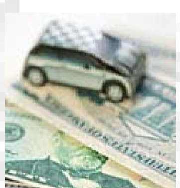
TRANSPORTATION ❖ CONSTRUCTION ❖ INDUSTRIAL ❖ MATERIALS ❖ FINANCIAL

Profitable Personalization OEM, Dealer & Aftermarket Collaboration

How OEMs, Dealers and the Independent Aftermarket are Profitably Addressing the Consumers Expectation for Personalization

M. Scott Ulnick
Ducker Worldwide

August 12, 2008



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OEMs I Dealers Specialty Equipment

The Automotive Industry…. Experiencing Significant Change

- **Housing Market Collapse**
- **Oil Price Escalation**
- **Incentives and Leasing Pull-Back**
- **Automotive New Vehicle Sales Collapse**
- **Consumer Decrease in Discretionary Spend**

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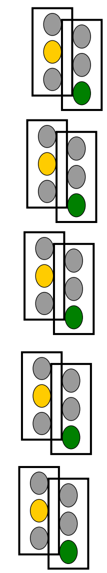
OEMs I Dealers I Specialty Equipment

But it is not all doom and gloom

- **Restructuring of Automotive Industry**
- **Vehicle Mix Change/Shortened Product Life Cycle**
- **Consumer Disposition To Personalize**
- **Consumer Disposition for Branded Products**
- **OEM/Dealer Collaboration with Specialty Equipment Market**



Automotive Restructuring

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Current restructuring and reinvestment offer opportunity for Specialty Equipment never seen before

Capacity
Employment

Redefine Labor Relationship
Rationalize Brand Portfolios
Consolidate Distribution Network

Focus on Core Brands in North America Redefine Key Relationships (Labor, Dealers, Suppliers)
Pursue Growth Markets Globally
Pursue New Products
Personalization to Differentiate
Collaboration with Specialty Equipment Market

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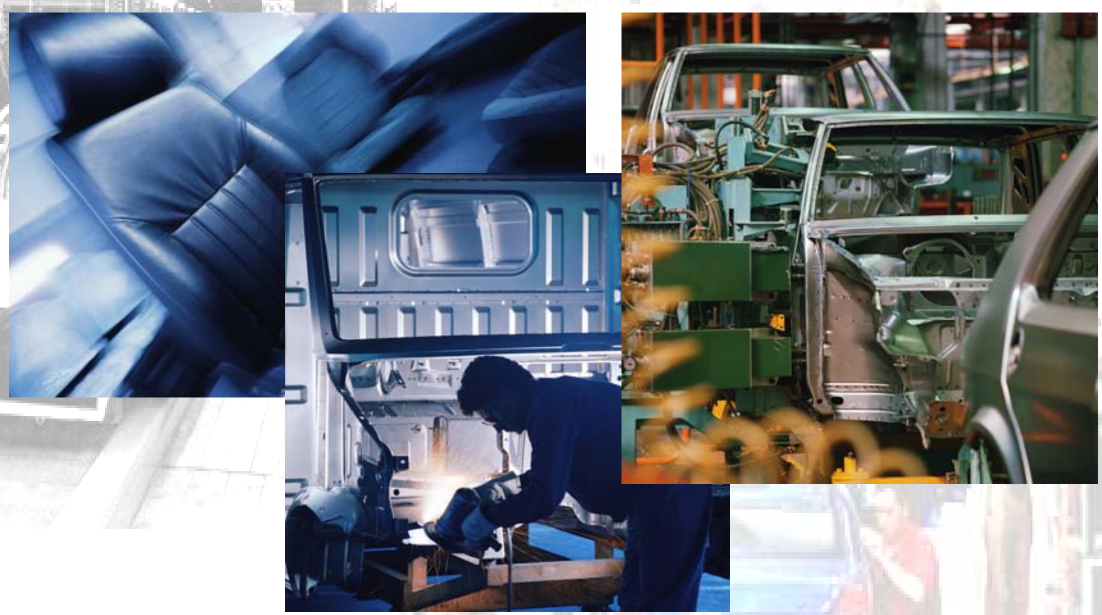
Product Cadence to compete…..Pointing to a trend of Cadence to sell vehicles

35 models / year
1987-2005

2006 – 46 models
2007 – 67 models
2008 – 47 models
2009 – 36 models



Source: Merrill Lynch.

This also has impact on the Dealer group

OEMs replacing models faster

Average Showroom Age Trend

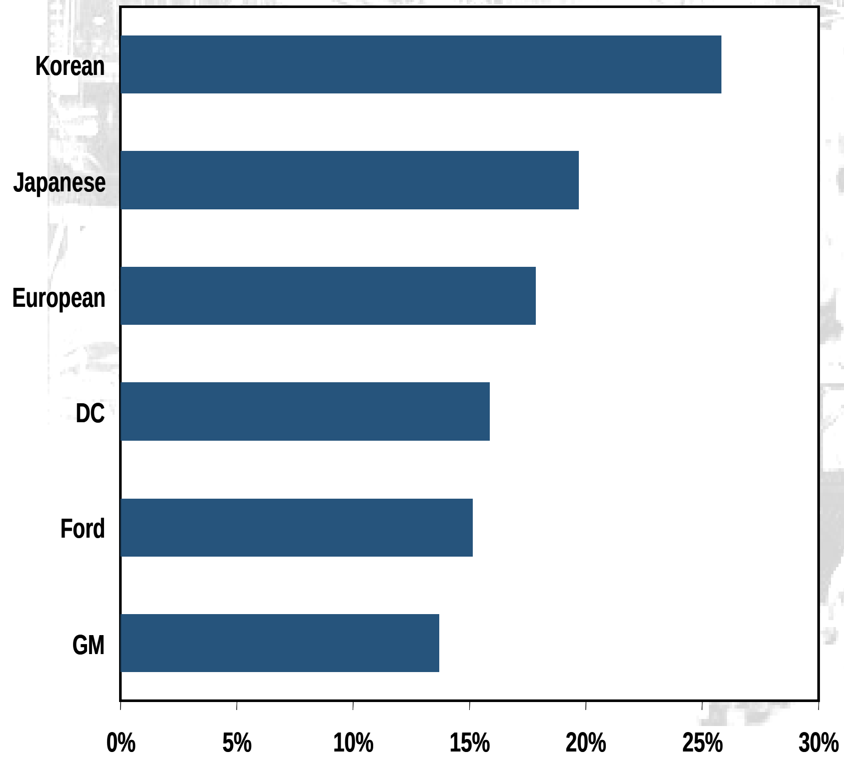
1987	**4.0 years**
1997	**3.1 years**
2007	**2.5 years**

Source: Casesa Shapiro Group

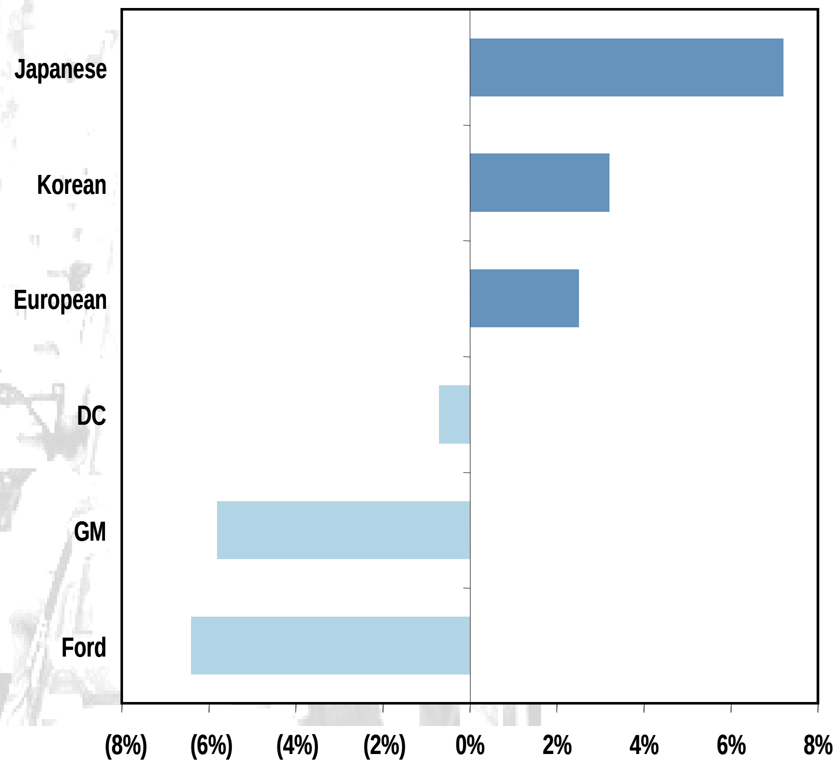
Market Share Changes are Significant and will Continue

Asian OEMs have strong product flow ahead

% Sales Replaced Annually, 1995-2007



Market Share Point Change, 1995-2007



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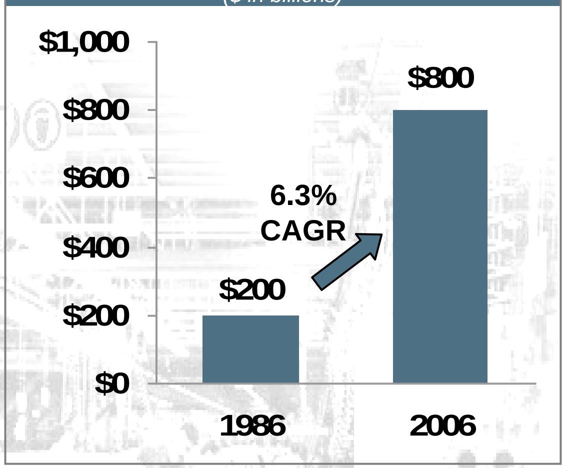
Dealers are hungry to use their floorspace to sell more. Successful dealer case studies on embracing accessories.

M&A activity has slowed from robust pace in the late 1990's, but will continue to change the playing field

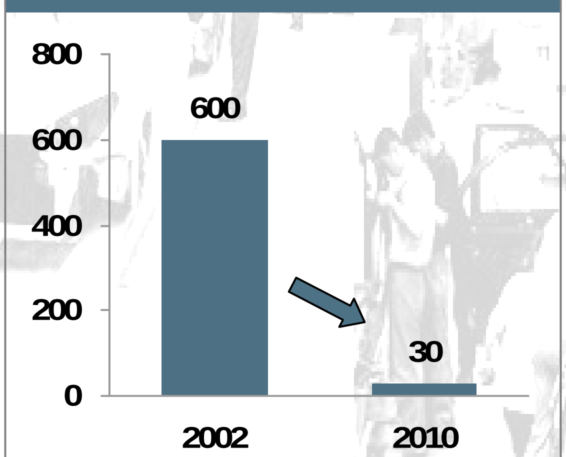
Total Supply Base (1)
($ in billions)



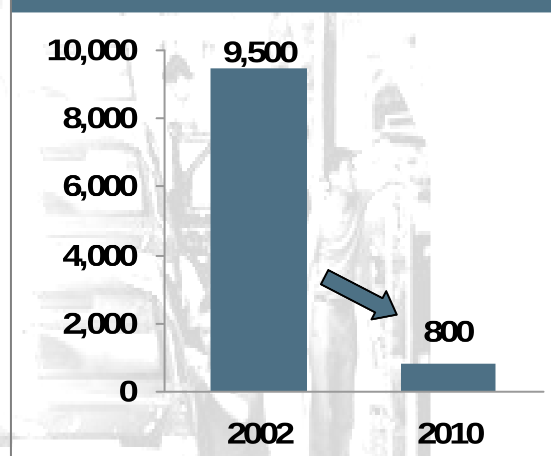
- OEMs have increasingly outsourced systems and demanded their suppliers deliver larger "chunks" of the vehicle
- To provide these systems and modules, suppliers are required to have greater product capabilities and global manufacturing resources
- OEMs will consider Specialty Equipment manufacturers to differentiate their vehicles

OEMs will consider Specialty Equipment as way to compete and develop customer satisfaction & Loyalty

Tier One Suppliers (2)

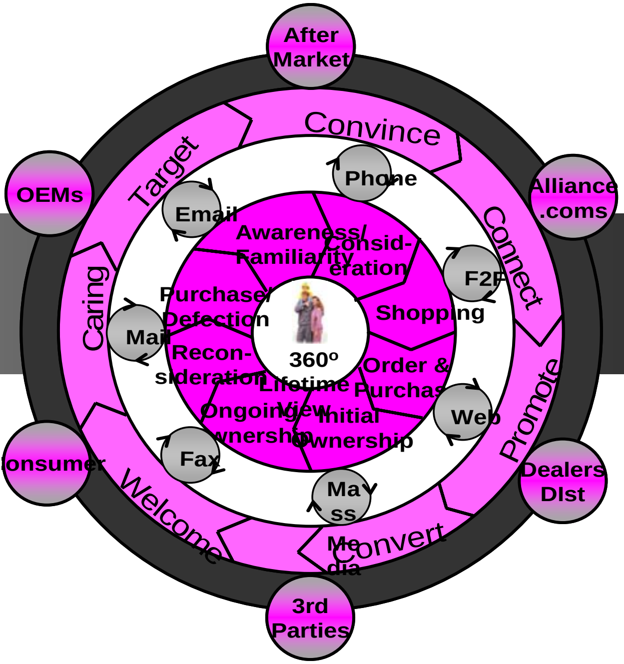


Tier Two Suppliers (2)



(1) Automation World, May 2005.
(2) Bain & Company, June 2002.

Consumer Disposition Toward Personalization



Personalization and choices is prevalent and expected by today's consumers

Harley Davidson is still an American icon

But Harley no longer owns segment

Competition is coming fast … from 7 to 32 models in < 4 years

The next generation of Consumers will Expect personalization

Consumer Disposition Toward Personalization

- Tostitos now comes in 11 different flavors, including the latest, Tostitos with lime. Not to mention the six flavors of Tostitos salsa.
- Wheat Thins - 11 different flavors, including such weirdoes as Parmesan Basil.
- Gatorade - 23 different flavors and varieties.
- Grey Poupon - 7 different varieties including, Harvest Coarse Ground.
- Edge shaving gel - 13 different varieties, some of which have exceedingly long names like Edge Active Care Shave Gel Natural Cool, with Eucalyptus.
- V8 - 9 different flavors, including V-Fusion (3 flavors), a mixture of vegetable and fruit juice, and Splash which is all fruit juice. I should also mention that Campbell has just introduced V8 soup in five flavors.
- Goldfish crackers - 16 different flavors, including odd combinations such as "Pretzel Goldfish" and "Blazin' Buffalo Wing Flavor Blasted Goldfish." Those are just the flavors, of course. Goldfish crackers also come in bags, boxes, cartons, multipacks and 100-calorie pouches.
- Five years ago, a typical Coca-Cola bottler handled 200 SKUs. Today that same bottler has more than 530 SKUs. And is facing the addition of more than 65 new SKUs a year

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A Case Study:

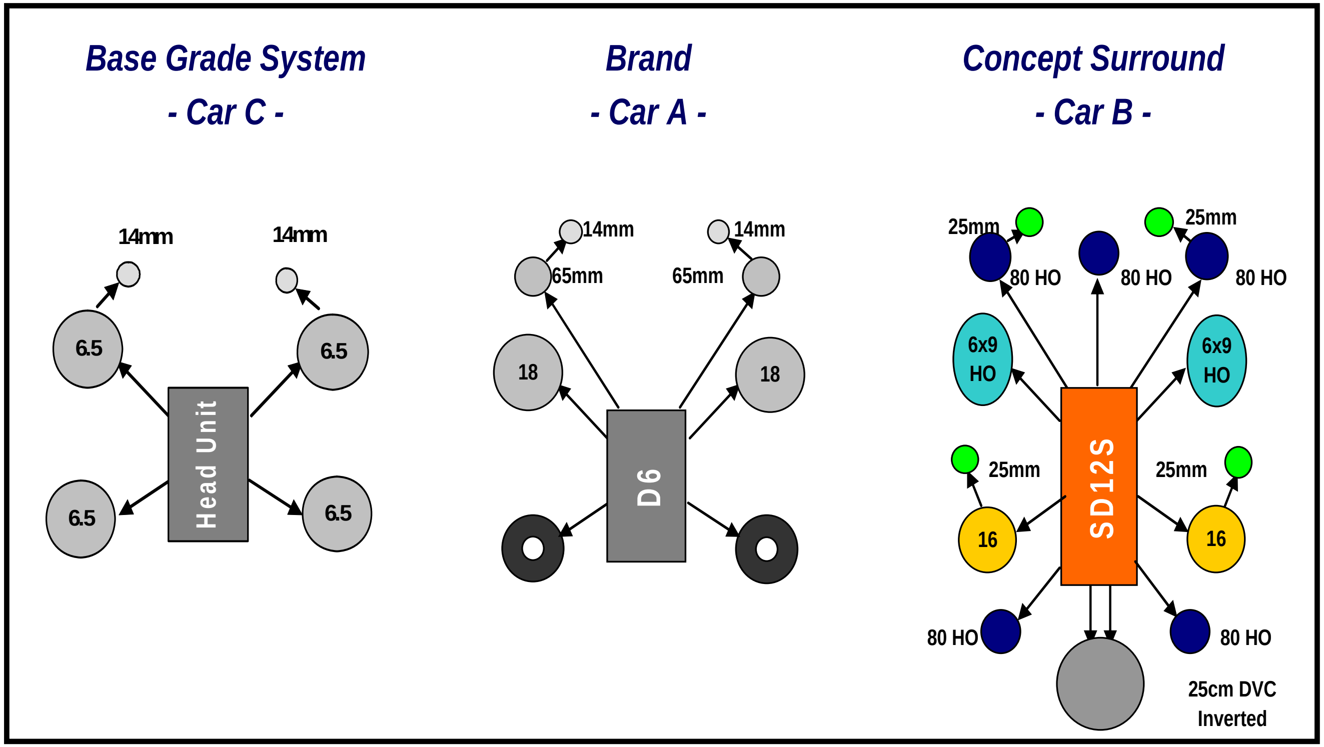
How Dealers and Specialty Equipment have collaborated and profitably grew business

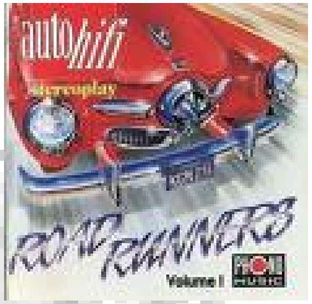
OEM Dealer Collaboration with Specialty Equipment Market Infotainment Case Study

Conjoint Analysis based upon listening clinics was utilized to understand;

Product Performance…could the consumer distinguish sound?

Brand Preference…what was the awareness and brand equity among brands offered/considered What were the price points based upon features, performance and brand

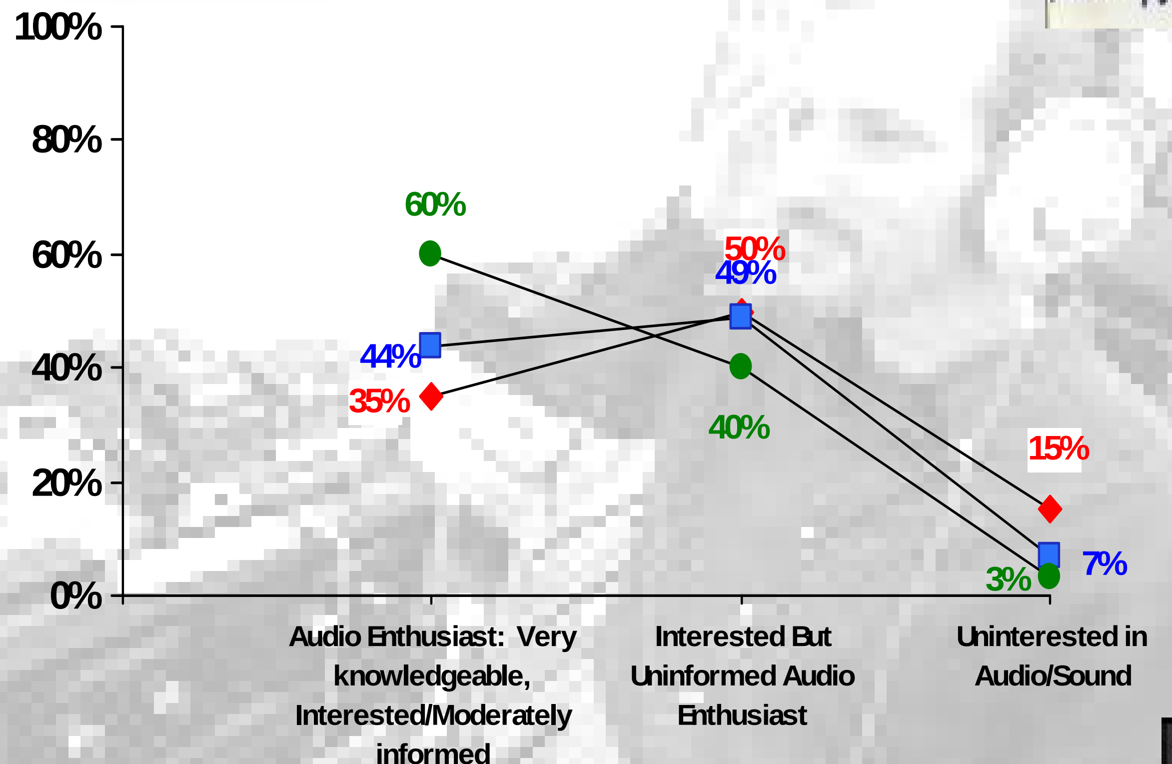




Consumer disposition toward brand has evolved significantly over the decade

Consumers consider themselves audiophiles and expect branded audio in their vehicles

Expectations is based upon home and office experience…i.e., lifestyle experience



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Research conducted to understand opportunity for branded automotive sound and infotainment

Comparisons for share of "wallet" for other accessories was analyzed

The OEM, Dealer & Specialty Equipment Audio supplier collaborated on the effort

CONSUMER SURVEY

Desirable Options

- Aided Response: Prompted with a List -

Option	*Percent of Respondents**
★ **Rear-seat entertainment system**	**53%**
Leather seats	45%
Automatic climate control	44%
Audio controls on steering wheel	44%
★ **Surround sound audio system**	**39%**
Sunroof/moonroof	38%
★ **Premium branded sound system**	**33%**
★ **Moving map - navigation system (GPS)**	**26%**
Memory seats	26%
★ **Voice turn-by-turn- navigation system (GPS)**	**24%**
★ **Rear-seat audio system**	**20%**
Satellite radio	19%
Engine upgrade	19%
On-board embedded telephone system	16%
Internet access	12%
MP3 player	12%
4-wheel drive	11%

Match Dealer with Consumer Sentiment

★ = *Potential New Product*

**Total exceeds 100 percent due to multiple selections.*

DEALER SURVEY

Dealer Perceptions of Options Desired by Sequoia Drivers

- Forced Ranking -

Mean Ranking

Most Important

Mean Ranking	Option
1.00	
1.56	Air Conditioning
3.94	Power Windows
4.52	Remote Keyless Entry
5.03	Leather Seats
5.14	Power Seats
5.86	Anti-Lock Braking System
6.25	Engine Size
6.93	Sunroof/Moonroof
7.17	Premium Branded Sound System
9.41	Navigation Systems
10.01	Passenger Entertainment System
11.00	

Least Important

Brand Awareness and brand equity are important factors in consumer selection, satisfaction & loyalty

Measuring brand awareness and equity across different brands also is important

EXAMPLE

Importance of Dimensions

Segment	50% Multi-brand	30% Mono-brand	20% Specialist
	%	%	%
Technical sales support	33	40	30
Products	20	30	20
Marketing support	25	10	5
Delivery	15	5	10
Innovation	10	2	5
Pricing Policy	5	3	5
Troubleshooting	2	10	25
	100	100	100

Segmentation based on customer expectations allows for fine-tuning of strategy, be it in defense (loyalty) or attack

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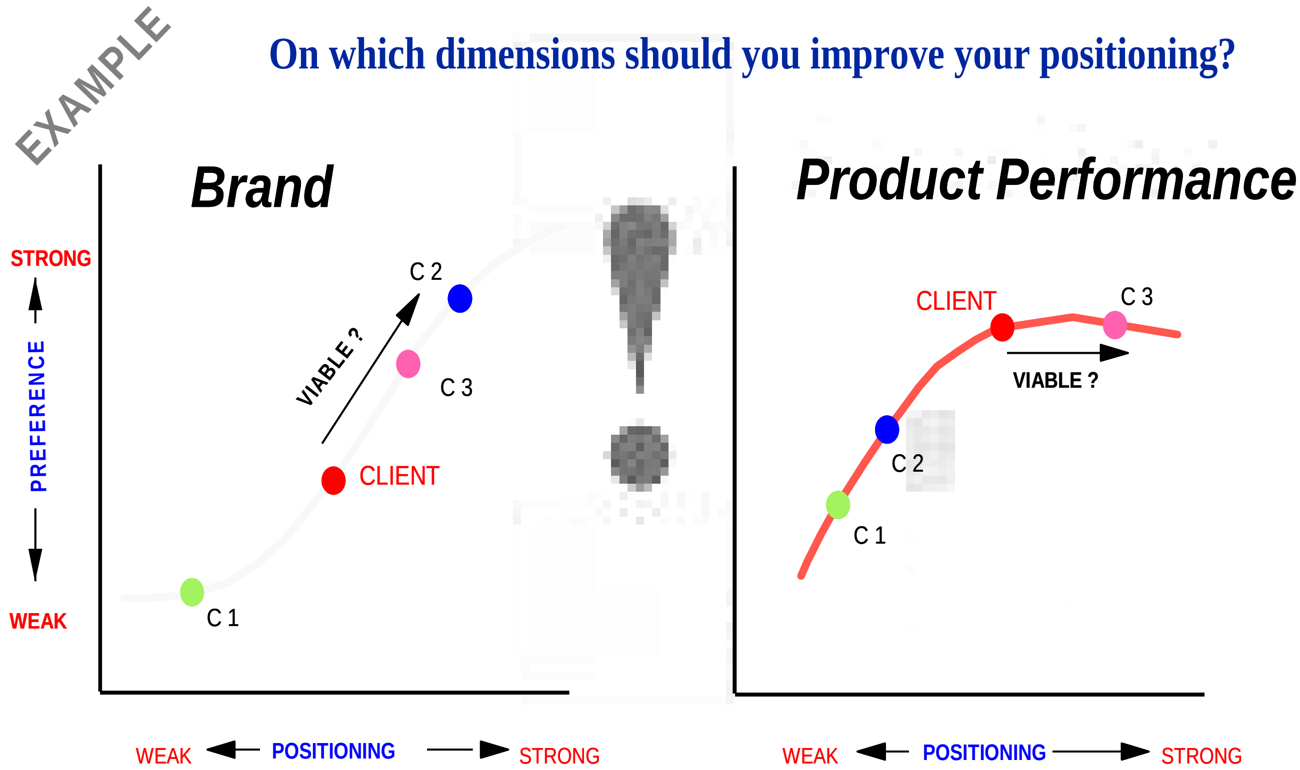
Brand and product performance drive penetration rates and pricing

Understanding consumer and dealer value proposition allows for correct product positioning

OEM region managers ordering vehicles utilize information for order mix

On which dimensions should you improve your positioning?



The Effect of Brand Equity

Antecedents

Brand Awareness

Tangible Attributes

Intangible Attributes

Customer Service

Brand Equity

Effect

Customer Satisfaction/ Loyalty

Price Resilience

Competitive Differentiation

Repeat Purchase

Long Term Market Stability

OEM Dealer Collaboration with Specialty Equipment Market

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Segmentation---where are your opportunities

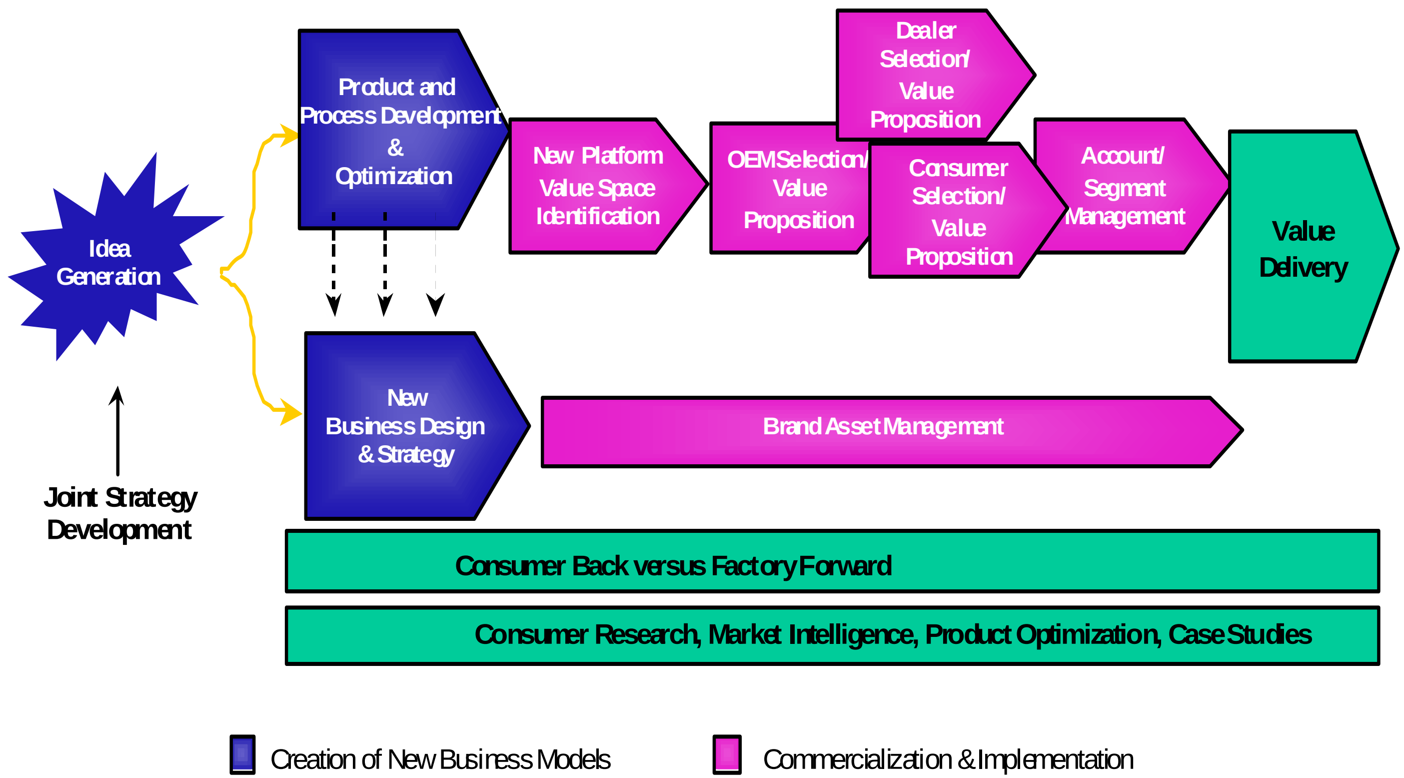
OEMs, Dealers and SEMA Suppliers all involved in the Supply Value Chain

Consumer “Pull” versus Factory “Push” is embraced by leading participants

Strategies:
Customer
Product
Channel

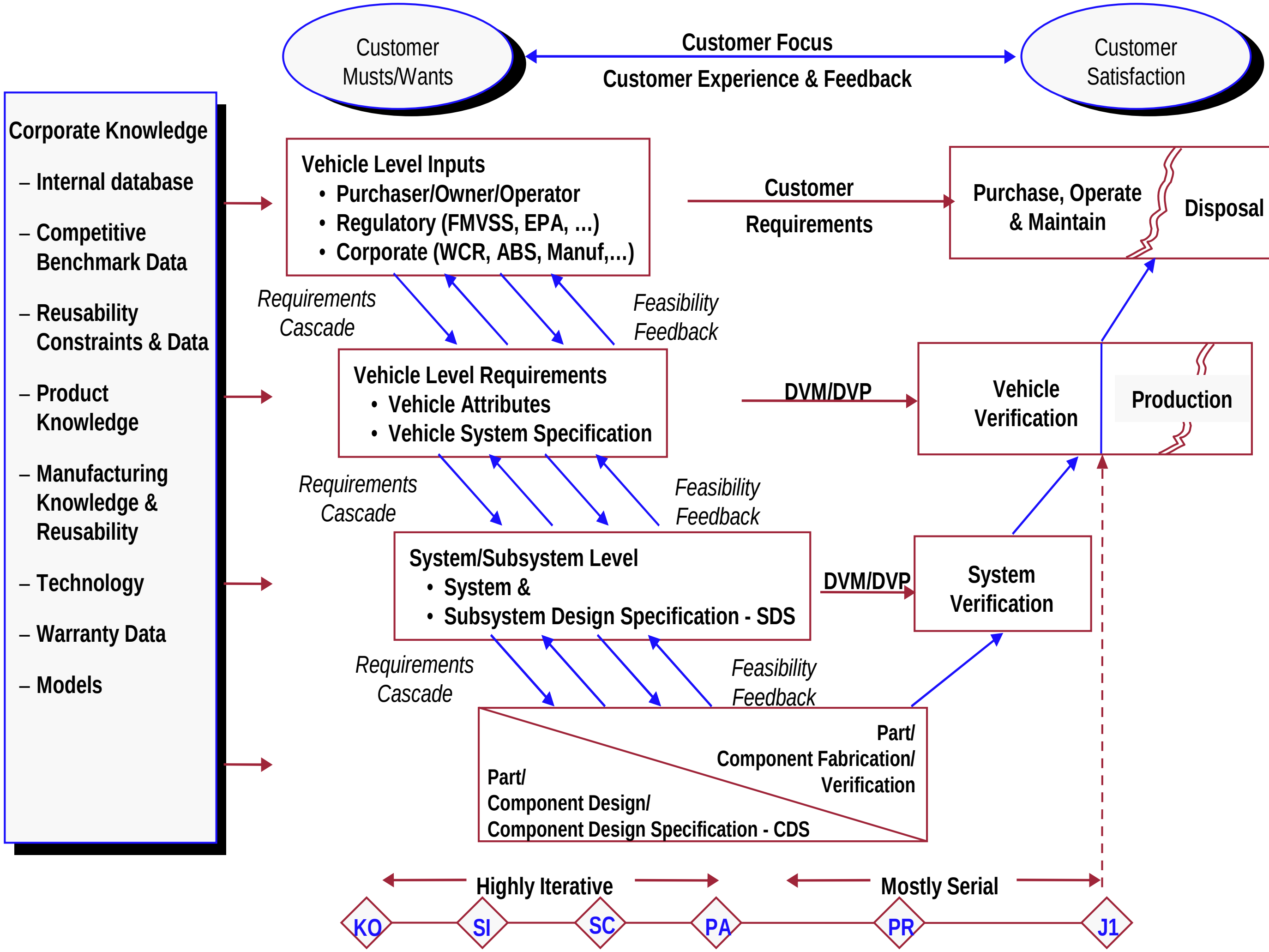
Pricing and Brand

Develop the Strategy



Segmentation---where are your opportunities

Collaboration of customers, dealers and the OEM in the product development process



Infotainment and the Connected Vehicle offer significant opportunity

Consumer Electronics if used as a proxy shows ample opportunity for contenting vehicles

"U.S. CONSUMER ELECTRONICS INDUSTRY TO REACH $173 BILLION IN 2008, $183 BILLION IN 2009
CE Shipment Revenues Withstand Lagging Economy
CEA Smartbrief
7/22/2008

The consumer electronics industry will see overall shipment revenues top $173 billion in the United States in 2008, according to new data released today by the Consumer Electronics Association (CEA)®. The semi-annual U.S. Consumer Electronics Sales and Forecast shows CE shipment revenues will grow by 7.3 percent this year, reaching more than $183 billion by 2009.
"The CE industry is a backbone of economic activity in this country," said CEA President and CEO Gary Shapiro. "In a tough economy, consumers turn to CE products for many reasons – from entertaining in the home to telecommuting to save gas. Such factors – and access to global consumers through free trade – help the CE industry to flourish while growth rates of other industries have either stalled or declined. Source: Reuters, 15 February 2008

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OEMs embracing branded audio

The Market Opportunity for Infotainment is Growing

OEMs will collaborate with specialty equipment audio suppliers to content vehicles

2006

	Options	Penetration rate	Light Vehicles	Unit price ($)	Opportunity Size ($)
1	Analog AM/FM, Cass, CD	0.90	15,000,000	250	3,375,000,000
2	Handsfree phone + Telematics(voice)	0.50	15,000,000	300	2,250,000,000
3	Navigation	0.10	15,000,000	200	300,000,000
4	Rear Seat Entertainment	0.05	15,000,000	300	225,000,000
5	All of the Above	0.10	15,000,000	1050	1,575,000,000

2012

	Options	Penetration rate	Light Vehicles	Unit price ($)	Opportunity Size ($)
1	Digital AM/FM, Cass, CD	0.90	16,000,000	125	1,800,000,000
2	Handsfree phone + Telematics(voice)	0.90	16,000,000	200	2,880,000,000
3	Navigation	0.15	16,000,000	125	300,000,000
4	Rear Seat Entertainment	0.20	16,000,000	175	560,000,000
5	All of the Above	0.20	16,000,000	625	2,000,000,000

Assumptions

1. Penetration rate extrapolated from 06-07 N. American vehicle production data
2. Navigation data may be skewed - customers may opt for mobile nav systems like Garmin! By 2012 Nav may be part of telematics device at the same cost
3. Telematics device = cell phone, GPS / cell antenna, hardware/software and microphone
4. Vehicle Segments may be getting fuzzy by 2010. Vans, SUV may be overlapped by cross over vehicles.
5. Volumes may not increase significantly, there will be shifts between segments with overall demand unchanged
6. The unit price is assumed to be decreasing due to scale and learning (e.g. process, technology, assembly)

Results of Collaboration a win/win for ***both*** OEM

&

Specialty Equipment Manufacturer

NEWS

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IMMEDIATE RELEASE

FORD TEAMS WITH SONY ELECTRONCS
FOR AUDIO SYSTEMS IN NORTH AMERICAN VEHICLES

- Ford signs long-term agreement with Sony Electronics for Sony-branded audio systems in Ford and Mercury brand vehicles in North America.
- Move part of broader strategy at Ford to equip its North American vehicles with clearly identifiable signature technologies.
- Agreement also allows Ford and Sony to collaborate on marketing initiatives.

DEARBORN, Mich., March 26 – Ford Motor Company [NYSE: F] and Sony Electronics today announced they have signed an agreement to offer Sony-branded audio systems across the lineup of Ford and Mercury branded vehicles in North America starting in 2008.

"We have enjoyed a very successful partnership at Ford of Europe with Sony-branded audio," said Derrick Kuzak, group vice president of global product development at Ford Motor Company. "Customers tell us that good audio systems are high on their list of priorities. Sony-

Navigation

BlueConnect Phone

iPod Overhead Dock

Overhead Rail DVD

Connected F-150 & Packages

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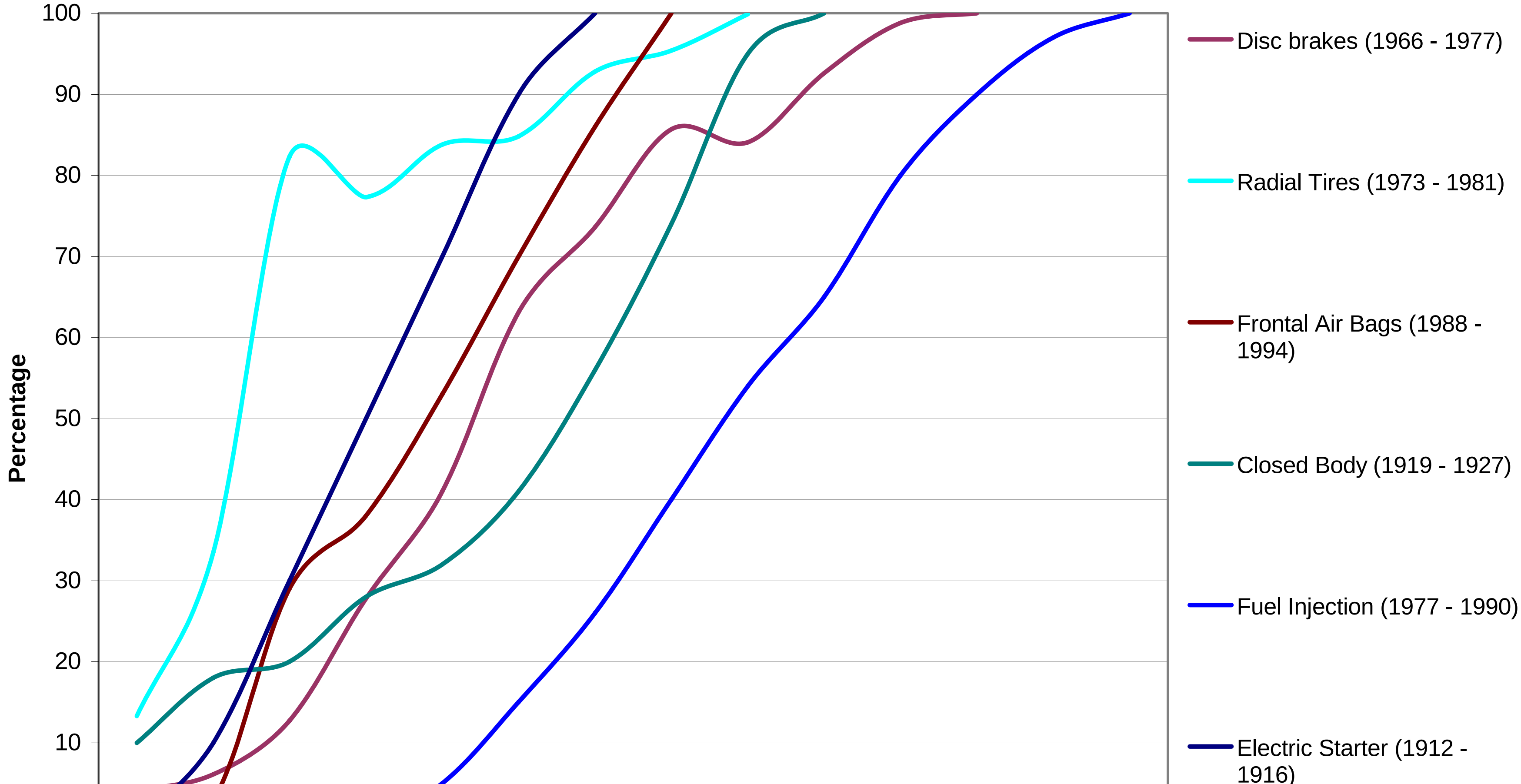
Results show up in residual values. Vehicles that are contented correctly have the best residual values, the best resale, the best Customer Satisfaction, the best Loyalty

CHANGEIN 36-MONTH RESIDUAL VALUES
(As a percent of MSRP)

Model Average	2007	2008	YOY Change
Honda Fit	46.0	56.0	10.0
Chevrolet Aveo	33.5	42.8	9.3
Hyundai Accent	33.3	41.8	8.5
Kia Rio	32.3	39.2	7.0
Toyota Yaris	43.7	50.3	6.6
Suzuki SX4	39.5	45.3	5.8
Nissan Versa	43.3	48.4	5.1

Source: Automotive Lease Guide

Automotive Technologies: Market Penetration



Source: Ducker Worldwide

This concludes our presentation. Thank you.

For more information regarding Ducker Worldwide,
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