

Fall 2009

Perceived Quality Study

Mainstream Models

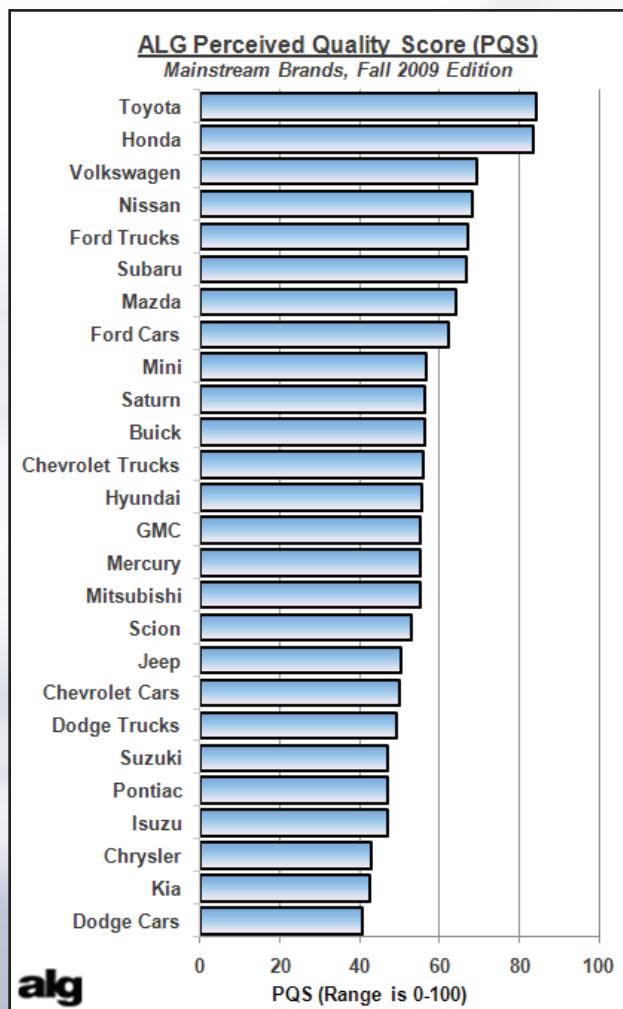


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Consumers often form perceptions about automobile brands based on very limited information, and hold on to these beliefs well beyond their relevance. While the situation is not always as cut and dry as this statement suggests, consumer data overwhelmingly supports it as a general rule. For example, if consumers form negative beliefs about a brand's quality based on opinions from friends or family, or from high-profile incidents in the press, they are more likely to believe that all models in that brand have poor quality. In contrast, some brands with strong emotional appeal, such as Volkswagen, have established a strong perception of quality for all their models even though manufacturing quality continues to significantly lag leading brands based on actual quality surveys.

ALG measures perceived quality by asking consumers to tell us what they believe about the quality of the vehicles associated with each brand. We do this by partnering with Zogby International, a well-known survey firm, to survey approximately 3,000 – 4,000 U.S. consumers biannually to gauge perceptions of mainstream and luxury brands.

The Perceived Quality Scores (PQS) – Toyota and Honda Retain Big Leads



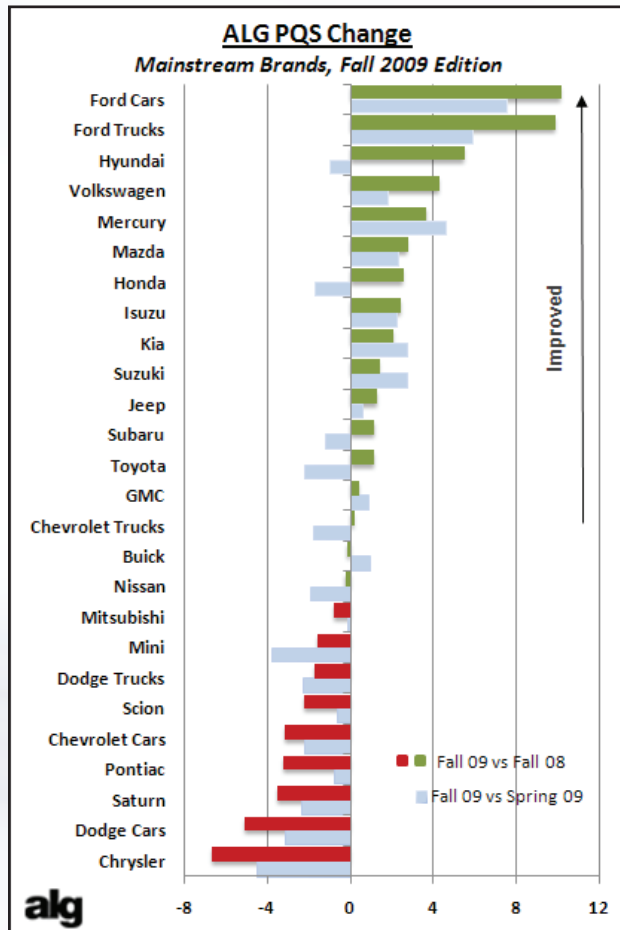
The table at right shows the latest ALG PQS results for mainstream brands. Toyota and Honda continue to top the list, with significantly higher scores than the next-highest manufacturer, Volkswagen.

The Honda and Toyota brands consistently score high in perceived quality, actual quality, and residual values because they have maintained a long history of quality with specific focus on durable and reliable powertrains. Powertrain reliability has proven to be critical in consumers' opinion of the overall quality of a model and also influences how they rate other quality metrics associated with the brand. Therefore, if a consumer believes a brand has reliable engines they will rate other characteristics such as safety or design positively as well.

Beliefs about actual quality are the most critical factor in consumer perception of quality; however, other factors about the brand also are important. The high scores achieved by Toyota and Honda illustrate the importance of following consistent lifecycle management, where significant redesigns occur every 5 years and mid-lifecycle enhancements to the models help stimulate sales by increasing demand. In addition,

both manufacturers historically have aligned production closely to demand to minimize incentive spending and fleet sales, which have proven to send negative signals to consumers about the strength of a brand.

Perceived Quality Trends – Ford Strong Gainer, Chrysler Cars Dropping Most



During the past year, there have been significant changes in perceived quality. As mentioned before, changes in perceived quality are significant because the perception of a brand has been proven by various studies to be a critical driver of new vehicle demand and consequently resale/residual value performance.

Ford’s strong year-over-year performance reflects the company’s renewed emphasis on quality and a product line with heightened consumer appeal. Moreover, Ford has stayed out of bankruptcy, unlike GM and Chrysler; this has probably generated more consumer confidence in the automaker. The 2009MY product launches, such as the new F-150 and the Ford Flex, have helped Ford survive the tough auto market without government assistance. Aligning production more closely with demand and reducing incentives and fleet sales have also helped perceptions of Ford. The highly anticipated launch of the new Taurus and the promising future introductions of the Fiesta and new-generation Focus are other possible reasons for the gain in Ford’s perceived quality.

Hyundai has also improved its perception ranking over the last 12 months. Consumer perception is now more closely aligned with actual quality, and products such as the new Genesis coupe and sedan – which heralded Hyundai’s entry into more premium market segments - have clearly helped the company achieve higher scores. A larger production presence in the US, successful and highly visible marketing efforts such as the Hyundai Assurance Program, and a strong showing in the government-sponsored Cash for Clunkers initiative, combined with visible sales growth, have elevated the company’s profile in the US market.

Volkswagen has also experienced strong year-over-year growth (4.3 points), lifting the brand two spots to number 3 in ALG’s PQS ranking. Even though the actual quality of Volkswagen models reportedly

is below the industry average, consumers view the brand as being much stronger than average; the company's emotionally appealing designs and highly regarded German engineering clearly resonate with consumers. Moreover, recently launched models such as the Tiguan CUV and the CC sedan (replacing the Passat) have helped to reinforce Volkswagen's image in the US market.

At the other end of the spectrum, the Chrysler brand has lost significant ground, with most of the perception loss occurring between Spring and Fall 2009. Even though Chrysler has emerged from bankruptcy and is now operating under the alliance with Fiat, the Chrysler line-up will not benefit from the addition of new Fiat-based products until 2012. Changes to the interior of the Sebring in 2010 and a redesigned 300 have been announced to help bridge the gap between the current line-up and the arrival of products based on the parent company's lineup. However, the uncertainty about the brand's future and the significant time lag between today and the arrival of the new products are obvious concerns for Chrysler.

Top 3 / Bottom 3 PQS Movers	Fall 09 vs Spring 09	Spring 09 vs Fall 08	YOY Change
Ford Cars	7.5	2.6	10.1
Ford Trucks	5.9	4.0	9.9
Hyundai	-1.0	6.5	5.5
Saturn	-2.4	-1.1	-3.5
Dodge Cars	-3.1	-2.0	-5.1
Chrysler	-8.1	-3.8	-11.9

The table at left summarizes the three top and bottom movers in ALG's Fall 2009 consumer perception survey on a year-over-year basis and relative to the last survey in Spring 2009. As discussed above, Ford and Chrysler have registered the greatest upward and downward movements, respectively. The Saturn brand was also in the bottom three, as its uncertain fate amidst GM's reorganization helped pull its PQS score down 3.5 points, year-over-year.