ALG Perceived Quality Study (PQS)

Perception is a powerful force in consumer buying behavior. Consumers often base their beliefs about quality on the emotional connection they have with a brand, regardless of the actual quality. Alternatively, a brand that experiences an instance of bad publicity may take years to shake off the negative effects, even if the actual quality is good. Automobile brands are no different. A negative belief about a brand based on the opinion of friends or family, or a high-profile incident, can sour a consumer on that brand’s complete model lineup. Alternatively, a positive belief about a brand can sometimes trump poor quality.

Now in its 5th year, ALG’s Perceived Quality Study (PQS) is a semiannual consumer survey of perceived automobile brand quality. The PQS report highlights the survey results of 3,000 - 4,000 U.S. consumers in order to gauge perceptions of mainstream and luxury brands. PQS is one of the metrics ALG examines in calculating our industry benchmark residual values, helping companies and consumers understand the future value of their vehicles.

For nearly 50 years, ALG has been the industry benchmark for vehicle value information. Please contact marketing@alg.com for more information.

Perceived Quality Long-Term Trends

Ford, Hyundai, and Kia Show Long-Term Perception Improvement

Changing consumer perception has often been compared to turning an aircraft carrier. Despite being in an era where information is available on-demand, changing one’s perception continues to be a long-term proposition. Since our inaugural report five years ago, nineteen automotive brands have been measured in every report we’ve conducted. Of those brands, three have made meaningful perception of quality improvements relative to other mainstream brands among the consumers we surveyed.

The biggest mover during that five-year period is Ford, which increased in perception by 18.9 index points and moved up from being below the mainstream average in 2008 to ranking in the top five in our Spring 2012 measurement. Hyundai has risen 12.5 index points and into the top 10 mainstream brands, ranking 8th in this spring’s measurement and is now better than the mainstream average. While fellow Korean brand Kia remains well below the mainstream average, Kia’s improvement is nonetheless noteworthy. Of the 19 mainstream brands continuously measured, Kia ranked last in the inaugural survey. Though the brand continues to have a perception challenge among consumers, they posted a noteworthy 12.7-point improvement.

What is driving these gains in perception improvement? Certainly one consistent thread among the three brands is improved product. With Ford, the gain has been linked to the brand’s renewed attention on cars—after years of attention to its high-margin trucks—with the launch of the new Taurus, Focus, and Fiesta, and significant refreshes to the Fusion and Mustang. With a new global Focus and completely redesigned Fusion cited for its design and purported fuel economy, we wouldn’t be surprised to see that trend continue.
Hyundai overtook the average in the Spring 2010 survey, a big payoff for the many years of investment in its quality, image, and marketing including a warranty designed to raise buyers’ confidence. Exciting product like the redesigned Sonata and two-time consecutive Residual Value Award recipient Hyundai Elantra have certainly benefitted the brand.

Kia remains below average, however an influx of new products like the well-received Kia Optima and redesigned Sportage have been steadily closing the gap, moving from 17.6 points below average in 2008 to 6.8 points below today. In these examples we find a clear message.

2012 Perceived Quality Study (PQS) - Mainstream Brands

**Toyota Rebound Continues; Chrysler Brands Gaining Steam**

While Honda continues to lead the way among mainstream brands, ranking highest since the Spring 2010 survey, Toyota stays on a corrected course from its setbacks in 2010. Overall rankings remain similar to the previous measurement, particularly for highly rated brands. Of the 10 top-rated brands there was only one change in rankings, with Ford moving up one spot. That said, Honda and Toyota still represent the top tier of quality perception, with the second tier consisting of Subaru, Ford, Nissan and Volkswagen. For Toyota, a thirty-year history of good will has helped close the gap after declining by 16 points relative to Honda. Our spring report shows the gap reaching just 1.2 points.

On a year-over-year basis, Toyota is the biggest gainer, up by 6.4 points, followed by Fiat rising by 6.1 points. Also demonstrating improved quality perception over last year are Chrysler Group brands, Dodge and Chrysler. While Chrysler Group brands remain among the lowest rated in our report, they show upward momentum.

After showing gains in Spring 2011 PQS, GM’s Chevrolet, GMC and Buick brands all show a downturn in their quality perception year over year. This is a troubling trend, suggesting that GM’s new generation of products, which has refreshed much of its lineup, has not sustained the upward momentum it had been building.
2012 Perceived Quality Study (PQS) - Luxury Brands

Lexus remains on top of a static Luxury group of brands

Lexus holds the top spot in the luxury sector of ALG’s PQS for the second year in a row after sliding a bit – along with Toyota – during 2010. Similar to the mainstream sector, the highest-rated luxury brands all maintained their relative positions. The only change in rank was Land Rover, which rose above Jaguar for the first time since the survey has been conducted.

However, unlike the mainstream category, where Japanese brands hold four of the top five spots, German brands Mercedes-Benz, BMW and Porsche rank behind Lexus as the dominant brands in terms of quality perception.

Luxury rankings have remained fairly consistent when comparing longer-term trends. Since the inception of the survey, Porsche is the only brand that has gained significantly in the survey, improving three rank positions and moving into the top 5 of Luxury brands on the strength of its Panamera introduction and Cayenne redesign. During that same time period, Volvo has declined two rank positions.

The perception of where these luxury brands stand relative to one another seems to be more solidly cemented in the minds of automotive shoppers, in comparison with the mainstream brands, making differentiation that much more critical among luxury brands.

ALG INSIGHTS: Separating Perceived Quality from Familiarity

Some well-known brands face an uphill battle

Familiarity is an important component of brand image; manufacturers with high awareness are also more likely to be reviewed favorably on quality. Causation works both ways, with quality influencing awareness, as well as awareness impacting the perceived quality.

When asked to rank each brand’s quality, survey respondents were also given the option of responding that they were unfamiliar with the brand. A plot of quality vs. familiarity reveals a positive correlation between quality and awareness. Infiniti is the only brand with above average quality and below average familiarity, showing how rare it is for a high-quality brand to go unnoticed.

On the other end of the spectrum, there are many brands with high awareness, but low perceived quality. This quadrant has a high percentage of domestic manufacturers, with Dodge, Chrysler, Chevrolet, Buick, Jeep and GMC all in this space. Hyundai is the only foreign brand with above average recognition that scores below average on quality—though it has been steadily gaining, and relative to other mainstream brands it is has above average quality. Kia is adjacent to this quadrant, illustrating that the younger Korean brand could very well follow the path of Hyundai, which has been building its brand in the U.S. for over 25 years. Kia started sales nearly a decade later, but with its recent slate of new products, is already close to the industry average in familiarity. Japanese brands like Mitsubishi and Suzuki have severely curtailed their product and marketing efforts in the U.S., and have therefore dropped off the radar of many buyers, young and old. Rebuilding their images will be a difficult task, however that lack of familiarity may be helpful by introducing competitive product and supporting that product with targeted messaging.
This analysis also suggests that for many domestic manufacturers, gains from additional marketing aimed at building awareness may be limited though the potential for marketing improved products is immense. However, for brands with below average familiarity, such as Fiat and smart, there are likely some gains to quality perception that can be made increasing brand awareness. Fiat had some lingering quality concerns from its last U.S. foray, which ended in the mid-1980s. But the brand has a big opportunity to raise its profile with a new generation of drivers, some of whom have been drawn to the diminutive Fiat 500 minicar. Interestingly, because of its history and aggressive marketing campaign, Fiat still has higher overall awareness here than does MINI, which returned to the U.S. 10 years ago. Fiat’s Alfa Romeo sporty brand, which plans to return in 2013, may be in a better position to rebuild its reputation, due to its lower familiarity, but higher quality perception.

**ALG INSIGHTS: Experience Counts, But So Do Expectations**

**While some brands exceed expectations, several brands show vulnerability to defection**

It’s not surprising that, on average, owners are significantly more likely to rate their own brands higher when it comes to perception of quality. On average, there was a 16.9-point gap between the quality perception of owners and non-owners. The difference between owner and non-owner perception can give clues to the future direction of brand perception, as owners may have more intimate knowledge of a make’s quality.

For very highly rated brands (depicted in the upper right-hand quadrant of the chart on the next page) such as Lexus, Mercedes, and Honda, the gap in perception between owners and non-owners is small, as both have very favorable views of quality. Also of note is the extreme satisfaction of Subaru owners. With a perceived quality score of 93.5, Subaru owners rate their vehicles as higher quality than owners of any other brand. And while Subaru’s familiarity among buyers is right about the segment average, only a small fraction of drivers have actually owned one. If its volume were higher, Subaru would have a larger set of brand advocates to rave about its quality to potential buyers, the way the Honda and Toyota do.
For those brands in the lower right-hand quadrant, the news is positive, as they appear to exceed their owners’ expectations. The two Korean manufacturers, Hyundai and Kia have the largest gap in perception between owners and non-owners, at 30.1 and 32.4 points respectively. This is consistent with general industry consensus that their quality has improved substantially, while public perception has lagged. With an owner perceived quality score of 91.1 Hyundai is near the top of all brands, while their non-owner score ranks roughly in the middle. Similarly, when reviewed by owners Kia falls in the middle of all brand rankings, contrasting their score near the bottom when all surveys are taken into account.

For those brands in the lower left-hand quadrant, owners and non-owners are also somewhat in agreement, but not necessarily in a good way. Brands in this area show owner perception lower than average. This quadrant is dominated by domestic brands, where regardless of improvements of product, there is a legacy of poor perception to overcome.

Finally, the upper-left quadrant may be the most troubling for automakers. These are owners who report a below average perception of quality, while non-owners have better-than-average perception. These brands rated highly within PQS, however owners of the product are less enthusiastic. Nissan likely benefits from its association with other high-quality Japanese brands, however owners seem to indicate that Nissan has not lived up to those quality expectations.

Obviously this attitude among owners has tremendous implications when it comes to loyalty. These brands are in danger of alienating owners, losing brand advocates and are highly vulnerable to defection of buyers where quality is an important factor in their decision making process.