

Papersubmitted for theInternational Marketing Trends Conference 2016:

Key Success Factors for Automotive Premium Brands in Answer to the Change of Luxury and Societal Changes

Nadine Adam

University:

University of the West of Scotland (UWS)- School of Business and Enterprise
Paisley Campus, Paisley PA1 2BE, UK

Supervisors:

Dr. Declan Bannon, University of the West of Scotland, Paisley, UK
and Prof.Dr. Franco P. Rota, M.A., University of Media – Stuttgart, Germany

Current Position:

PhD student at the University of the West of Scotland, UK and
Full-time employee in the German automotive premium industry

Contact Details:

Postal address: Danneckerstr. 18, 70182 Stuttgart, Germany
E-Mail: nadine_adam@gmx.de

ABSTRACT

Mature markets, a new status landscape, and the change of values have led to a new way of luxury especially in industrialised, Western democracies like Europe, Japan, and the USA. More and more people in these mature societies are searching for a more sophisticated, more private, less material, and more value driven way of luxury than status cars convey. On the contrary emerging countries are showing rather ostentatious luxury consumption behaviour and developing their own luxury concepts.

Apart from that the sustainability trend, new power-train technologies, new mobility concepts, and a new way of communication in the web 2.0 age are challenging the traditional positioning of automotive premium brands. Except for the energy sector no other industry consequently seems to be changing at the pace of the automotive and the luxury industry today.

In view of the aforementioned amount and extent of changes analysing the change of luxury and implications thereof for the premium car manufacturers is an unsolved question and more up-to-date than ever before.

To clarify this question this paper presents a research study based on the approach of grounded theory. For this interdisciplinary study a literature review and a qualitative expert interview poll with 34 experts from 9 different countries and 8 different industries as well as science were performed. In addition in order to test the academic and the expert perspective three focus groups with young trendsetters between 25 and 35 were conducted.

The results this paper presents support a paradigm change in luxury consumption and the understanding and usage of premium automobiles. Based on the findings conjectures regarding the change of luxury, the future of automotive luxury, and future success factors for automotive premium brands in this context are introduced.

KEYWORDS: Luxury, premium automobiles, marketing, change, success factors

1 | Introduction and Objectives

Especially mature, industrialised, Western democracies like Europe, Japan, and the USA show signs towards a **more immaterial and more value driven way of luxury** (cf. American Express, 2006; Enzensberger, 1996; Kapferer and Bastien, 2009; Merten, 2009; Opaschowski, 2008; Opaschowski, 2009). In contrary **emerging countries are showing rather ostentatious luxury consumption behaviour** and developing their own luxury concepts (Grzanna, 2010a; Grzanna, 2010b). So the objective of this paper is to clarify if these developments will go on and **how automotive luxury will develop** in the future.

Apart from that there are a number of **further trends currently reshaping the automotive industry**: The sustainability trend (American Express, 2006; Ernst & Young, 2010; Lubin and Esty, 2010; Otto (GmbH & Co KG), 2011), new power-train technologies (Herz, 2010), new mobility concepts (Rees, 2010), and digital communication (Kapferer and Bastien, 2009; Kotler, Kartajaya and Setiawan, 2010). To find a sustainable new understanding of automotive luxury **the role of the automobile** consequently has **to be rethought** in this changing value and technology environment. This paper discusses the **major future success factors for automotive premium brands** in this context.

2 | Research Question

Based on the described research problem the **main research question** is: How should automotive premium brands be positioned and how should they operate in terms of their marketing in the years 2015 – 2030 due to the changed perception of luxury?

3 | Literature Review

The **literature review** led to the following summary of the current **state of knowledge**:

The cornerstone of luxury research (Bruhn, Kirchgeorg and Meier, 2007) was laid by Thorstein Veblen's book "The Theory of the Leisure Class" of 1899 (Veblen, 2007), in which he presented a critical testimonial of the still clearly status driven luxury concept of his time.

From a semantic view the term "luxury" etymologically originates from the Latin word "luxus" meaning "luxury, excess" (Merriam-Webster, 2012). In general, the term luxury stands for:

1 archaic: *lechery, lust*

2: *a condition of abundance or great ease and comfort [...]*

3 a: *something adding to pleasure or comfort but not absolutely necessary [...]* **b**: *an indulgence in something that provides pleasure, satisfaction, or ease [...]* (Merriam-Webster, 2012)

So its definition contains both **positive and negative connotations**.

Luxury is always associated with something which is **"not absolutely necessary"**, i.e. more than someone needs. What someone actually needs is very subjective and **changes over time** depending on cultural, societal, and social standards, the level of income, consumption habits, changing social-ethical standards of a society or era (Esch, 2009; Kapferer and Bastien, 2009; Merten, 2009) and one's personal value system (Merten, 2009). Based on **Maslow's** well-known "hierarchy of needs" (Kotler and Keller, 2006) the idea about different phases of luxury (see e.g. Merten, 2009) is prevalent, in which a human being's understanding of luxury develops from acquisitive luxury behaviour to a finally immaterial understanding. However, as will be presented in the following, the findings of this study suggest that reality is not as linear as this model proclaims.

Due to this **relativity and individuality** there is no such thing as one ultimate definition of luxury.

Further major basic and enduring characteristic of luxury are **exclusivity and desirableness** (Berry 1994, Ricca 2012).

From a historic-societal perspective luxury has always fought moral criticism (see e.g. Berry, 1994; Enzensberger, 1996; Roos, 2009). This is also the reason why especially in times of economic downturns and under the impression of environmental crisis (cf. Lubinand Daniel 2010; Ernst & Young 2010) in particular a product as public as a luxury or premium automobile has to face a **social acceptance discussion**. Nevertheless, luxury was also always regarded as **a driver of refinement and societal wealth** (see e.g. Berry, 1994; Kapferer and Bastien, 2009; Meyer, 2003). Today, it has lost much of its function as a social marker (Kapferer and Bastien, 2009).

The global luxury market is booming since the 1990s (Truong et al., 2008). And this is expected to continue. (Ernst & Young, 2010; Sandmaier, 2010). The probably most significant luxury trend today is the **democratisation of luxury** (Silverstein and Fiske, 2008). Today historical social stratification has dissolved. Kapferer and Bastien (2009) therefore hypothesise that today any individual can - within his or her purchasing power - freely choose luxury goods for creating one's personal image of his or her status and social stratification. Moreover, luxury is also **diversifying** e.g. mixed with mass products (Silverstein and Fiske, 2008; Merten, 2009).

So luxury is assessed more positively and dealt with more democratically today than ever before.

As a consequence the **consumption habits** of today's luxury customers are becoming increasingly **hybrid** (Silverstein and Fiske, 2008; Merten, 2009).

At last, there are **cultural differences** in luxury consumption, too. While European customers tend to pay a lot of attention to tradition and details, U.S. customers rather associate luxury with comfort and size. (Rosengarten and Stürmer, 2005; Adam, 2010a) Moreover, it is generally accepted among philosophers, social researchers, but also many economists that the value orientation is increasing and that immaterial luxury values will become more important in relation to material luxury in mature markets in the future (Enzensberger 1996; American Express 2006; Kapferer 2008; Opaschowski 2008; Opaschowski 2009; Roos 15/10/2009; Kotler 2010; Phönix 02.01.2013). In contrast **emerging markets** show tendencies to a more demonstrative way of luxury. (Grzanna, 2010a; Grzanna, 2010b).

Consequently globally operating automotive premium manufacturers are facing the **unprecedentedly complex challenge** of catering to ever more **hybrid customer demands** and to **different cultural preferences**, which currently seem to develop into opposite directions.

Regarding the classification of premium brands for instance Esch (2009) described a **brand pyramid** according to Jean-Noël Kapferer. Thereby premium products are below luxury brands but above mass products (Esch, 2009). Diez (2006) and Rosengarten & Stürmer (2005) agreed in defining not only **Mercedes-Benz, BMW, and Audi**, but also **Porsche** as the major European automotive premium brands. However, the **luxury and premium segment in some models overlap** (Rosengarten and Stürmer, 2005).

Looking at the traditional role of luxury and premium automobiles as status symbols there are indicators that the automobile might have lost its **power as a status symbol** today (cf. Ebel, Hofer and Al Sibai, 2004; Bratzel, 2010), which is another major question to be discussed in the following.

4 | Conceptual Framework and Major Conjectures

Based on the literature review the following theoretical conjectures were derived:

1. The luxury and the premium car market are **booming** and holding enormous potentials.
2. A consistent **diversification and democratisation** of luxury is taking place.
3. Luxury concepts are highly **individual and relative and change over time**.
4. Luxury in a long-term perspective is **more democratised and accepted** than ever before.

5. Luxury is less ruled by income or status than by **value milieus and lifestyles** today.
6. A general **paradigm change in mature markets** towards a more immaterial, and sustainable luxury is noticeable, while emerging markets still tend to ostentation.
7. However there are **also enduring principles of luxury** like the relativity and individuality of luxury, the pursuit of exclusivity and differentiation, and the desirability of luxury.

→

Major Conjecture: Luxury and premium manufacturers must better respond to the new consumer demand for spiritual enrichment in mature markets, while they must keep a status and performance driven marketing in emerging markets.

5 | Research Methodology

The presented research study is based on the principles of **grounded theory** (cf. Glaser and Strauss, 2007; Remenyi et al., 2010). Its research methodology followed **three steps**:

1. Research step 1 was an interdisciplinary **literature review** on luxury covering the semantic, the economic, the psychological, the historic-societal, and the philosophical perspective. The three strategies for the literature review were a free search for basic works according to relevant key words, a systematic review of relevant academic papers published over the past years, and a review of any further relevant current literature the researcher came across.
2. Research step 2 were 34 structured, qualitative **expert interviews** in 9 countries (i.e. Germany, UK, France, Italy, Spain, Switzerland, USA, China, Singapore) and 8 industries (i.e. aircrafts, automobiles, consulting, fashion, hotels, jewellery, publishing, watches) as well as science (e.g. Prof.Dr. Willi Diez, Prof.Dr. Volker Trommsdorff). Thereby the criteria for the classification as an expert were academic degree, expert knowledge about the luxury and premium business, a minimum of 10 years of relevant experience.
3. Research step 3 were 3 **focus groups** (with 35 and 2x 10 participants) with young trendsetters between 25 and 35 with the economic potential to become the next generation of premium car buyers. Thereby the participants were classified as trendsetters since they showed all major characteristics of the 'postmodern segment' and the 'progressive modern mainstream segment' as defined by the customer segmentation model SIGMA Milieus[®], which are known for their early adoption of societal trends.

Based on the findings but also the gaps between the academic, the expert, and the consumer perspective **conjectures** regarding the change of luxury, the future of automotive luxury, and **future success factors** for automotive premium brands in this context were developed.

6 | Findings and Discussion

The research led to the following major results:

Finding no. 1: The expert interviews identified **three trends in contemporary luxury in mature, industrialised markets**:

1. The endurance and reinforcement of classic luxury values like exclusivity, quality, design, authenticity, heritage, craftsmanship, innovation, and connoisseurship
2. The pronunciation of the modern values self-expression, individuality, and co-creation
3. The emergence of the new luxury values immaterial luxury, sustainability, social responsibility, and experience orientation

While many of the above mentioned luxury values had individually been described before, the expert interviews led to the above scientifically grounded categorisation, which is new in the context of the automobile.

Finding no. 2: With regards to **emerging markets** both the literature review and the expert interviews confirmed a general preference for rather conspicuous luxury consumption and status vehicles. However, although certainly not in the mass some of the interviewed experts had also observed a turn towards more value driven luxury concepts among certain urban sub-milieus of the upper societal segments in emerging countries as well.

Finding no. 3: Both the experts and the focus groups identified **time, experiences, and quality of life** as the most important immaterial luxuries in mature industrialised markets, followed by e.g. silence, privacy, and purity.

These rather immaterial luxury values had traditionally not been much emphasised in the automotive industry. The consequent question for automotive premium manufacturers will be: How to convey these immaterial values in a product which had traditionally rather pronounced its material characteristics, its status, and its performance?

Finding no. 4: Strikingly the focus groups showed how well reflected **younger generations** in mature, industrialised markets already are and **how pronounced** the above mentioned **new luxury values** are especially in these younger segments, who will become the next generation of potential premium car buyers. The comparison of the findings from the expert interviews and from the focus groups detected that there exists insecurity and lacking insight among the experts with regards to the understanding of luxury and also environmental consciousness among younger target groups.

Finding no. 5: Despite contrary public opinions based on studies like e.g. “Youth and Automobiles” by Prof. Dr. Bratzel (Bratzel, 2010), **cars are still status symbols** – however, their power as status symbols has decreased in wealthy, mature markets due to the increased accessibility of cars, the competition with other status symbols and other purchase factors of similar influence today. As Prof. Dr. Willi Diez put it: “In summary this means that the car is losing significance as a status symbol, but it is winning significance as a lifestyle object.”

7 | Conclusions

To conclude the following can be said: Luxury is and has always been changing. What is **new** is the **increased rapidity, diversification, and democratisation of luxury** in the globalised, connected world of today. Furthermore, luxury in mature, Western democracies with a tendency towards less demonstrative luxury seems to develop in an **opposite direction** from emerging markets with their still high tendency towards demonstrative luxury.

These changes come together with further societal changes like the relativisation of social structures, as well as the trend towards multi-variant mobility concepts and sustainability. They are leading to a **paradigm change in the concept of luxury and the role of the automobile** especially in mature, industrialized markets and are representing a probably **unprecedented complexity in the global automotive premium business**.

The high relevance of the above identified “**new luxury values**” already among younger target groups suggests that their significance is likely to even **gain rapidly in the coming 10 – 15 years**. The partially controversy expert opinions on the significance about luxury among younger target groups also proofed the **insecurity and insufficient insight of the experts** into the attitude of **younger target groups**. This is an area the automotive premium manufacturers should therefore put a higher focus on and invest into further research.

8 | Limitations and Demand for Further Research

Since the presented research was of qualitative nature and the sample size of the expert interviews and the three focus groups compared to representative studies rather small, **none** of the research methods chosen lead to **statistically representative** data. However, they generated well-grounded theories and qualitative consumer insights about the future of the premium car business (cf. Saunders, Lewis and Thornhill, 2009; Easterby-Smith, Thorpe and Lowe, 2002).

The majority of the research was conducted in Europe. Therefore, the results of the study can **only partially be generalized** to countries outside of Europe. However, the comparison of Europe with global market figures and expert interviews with researchers and managers operating also outside of Europe gave insight into the major differences in luxury consumption and premium car buying behaviour between European and other societies like e.g. the USA and China. In addition the high similarities in luxury consumption behaviour found between Western, mature vs. emerging markets suggest that major findings about e.g. a Western, mature market like Europe can to a major extent also be applied to other Western, industrialised nations such as the USA.

The presented findings suggest a number of fields for **further research**. If luxury further diversifies and democratizes then current luxury and customer segmentation models are far too linear and one-dimensional to describe future luxury. An interesting question to further investigate will also be: What comes after Maslow? What's the next step after the top? Or will it be a return to former luxury ideas? Another question which asks for further research based on finding no. 2 (see above) is: How likely are emerging markets to eventually follow the trend towards immaterial luxury and in which probable time horizon? Since there were conflicting expert opinions on the luxury concepts of younger target groups (i.e. at the age of 25 – 35 years) further research in this area is also required.

9 | Managerial Implication

The managerial implications of the findings are the following: If automotive luxury becomes less material then the concept of the automobile must be redefined in a less material way based on its **new role as a mobile lifestyle object**. This means **automotive premium manufacturers need to adapt** the positioning of their brands and products to the described new way of contemporary luxury.

In summary the **future success factors** in this context identified during the study are a consequent orientation to the consumer needs, a more comprehensive positioning e.g. as a mobility service brand, a consequently holistic approach to sustainability covering not only new technologies but also traffic management or ethical business processes, a changed way of communication addressing the identified, dominant motives of contemporary luxury in mature Western democracies like immaterial luxury, sustainability, individuality, lifestyle, experiences, and moderate, intelligent status concepts, the positioning of new models as lifestyle rather than status symbols, a review of the retail network with a significant improvement regarding the experience and service orientation, the willingness to learn from modern, faster moving industries like the communication technology, the Internet trade, the luxury travel or the service industry, a further intelligent, manageable portfolio diversification satisfying the demands of different value segments or different international markets, and at the same time an enhancement of the original DNA of the brand and more limited editions as exclusive offers to the top segments.

The big **challenge** for the automotive premium brands is to adapt while neither compromising their authenticity nor stretching their brands too far or losing sight of their profitability targets.

REFERENCES

- American Express. "21st Century Living Report: The Trends changing our perception of luxury in the 21st century." 2006.
- Berry, Christopher J. *The Idea of Luxury: A Conceptual and Historical Investigation*. Cambridge: Cambridge University Press, 1994. <http://www.worldcat.org/oclc/431502974>.
- Bratzel, Stefan. "Jugend und Automobil 2010: Eine empirische Studie zu Einstellungen und Verhaltensmustern von 18 bis 25-Jährigen in Deutschland." *Automotive Markets*, 2010.
- Bruhn, Manfred, Manfred Kirchgörg, and Johannes Meier, eds. *Marktorientierte Führung*. 1st ed. s.l: GablerVerlag, 2007.
- Diez, Willi. *Automobil-Marketing: Navigationssystem für neue Absatzstrategien*. 5th ed. Landsberg am Lech: mi-Fachverlag, Redline, 2006.
- Easterby-Smith, Mark, Richard Thorpe, and Andy Lowe, eds. *Management Research: An Introduction*. 2nd ed. London; Thousand Oaks; New Delhi: SAGE Publications, 2002.
- Ebel, Bernhard, Markus B. Hofer, and Jumana Al Sibai, eds. *Automotive Management: Strategie und Marketing in der Automobilwirtschaft*. 1st ed. Berlin: Springer, 2004.
- Enzensberger, Magnus. "Reminiszenzen an den Überfluß: Der alte und der neue Luxus." *Der Spiegel* 51 (1996): p. 108 - 118. <http://www.spiegel.de/spiegel/print/d-9134042.html>.
- "Business redefined: A look at the global trends that are changing the world of business." 2010.
- Ernst & Young. *Business redefined. A look at the global trends that are changing the world of business*. London, 2010.
- Esch, Franz-Rudolf. "Glänzend markiert: Luxusmarken." *Marketingprofile* 2009, 11/12 (2009): 10–12.
- Glaser, Barney G., and Strauss, Anselm L. *The Discovery of Grounded Theory: Strategies for Qualitative Research*. New Brunswick: Aldine Transaction, 2007.
- Grzanna, Marcel. "Ein Land im Kaufrausch: Nirgendwo werden so viele Autos erworben wie in China. Die Konsumlust ist ganz im Sinne der autoritären Führung." *Süddeutsche Zeitung*, September 30, 2010a, p. 23.
- Heine, Klaus. *Luxury & Sustainability: Implications of a Consumer-Oriented Concept of Luxury Brands: (Extended Abstract)*. Istanbul, Turkey, 2010.
- Herz, Carsten. "Die zweite Erfindung des Automobils." *Handelsblatt*, December 31, 2010, p. 37.
- Kapferer, Jean-Noël, and Bastien, Vincent. *The Luxury Strategy: Break the Rules of Marketing to Build Luxury Brands*. London; Philadelphia: Kogan Page, 2009.
- Kotler, Philip, Kartajaya, Hermawan, and Setiawan, Iwan. *Die neue Dimension des Marketings: Vom Kunden zum Menschen*. Frankfurt am Main [u.a.]: Campus-Verlag, 2010.
- Kotler, Philip, and Keller, Kevin Lane. *Marketing Management*. 12th ed. New Delhi: Prentice-Hall of India Private Ltd., 2006.
- Lubin, David A., and Esty, Daniel C. "The Sustainability Imperative." *Harvard Business Review*, 05/2010 (2010).
- Merriam-Webster. "luxury." 2012. <http://www.merriam-webster.com/dictionary/luxury>, accessed June 2012.
- Merten, Hans-Lothar. *In Luxus investieren: Wie Anleger vom Konsumrausch der Reichen profitieren*. Wiesbaden: GablerVerlag / GWV Fachverlage, Wiesbaden, 2009.
- Meyer, Torsten. "Zwischen sozialer Restriktion und ökonomischer Notwendigkeit: Konsum in ökonomischen Texten der frühen Neuzeit." In *"Luxus und Konsum"*, edited by Reinhold Reith and Torsten Meyer. Münster: Waxmann Verlag, 2003.
- Opaschowski, Horst W. *Deutschland 2030: Wie wir in Zukunft leben*. Gütersloh: Gütersloher Verl.-haus, 2008.
- Opaschowski, Horst W. *Wohlstand neu denken: Wie die nächste Generation leben wird*. 1st ed. Gütersloh: Gütersloher Verlagshaus, 2009.
- "Otto Group Trendstudie 2011: Verbrauchervertrauen - Auf dem Weg zu einer neuen Wertekultur: 3. Studie zum ethischen Konsum." 2011.
- Phönix, "Das Glück," January 02, 2013h.
- Rees, Jürgen. "Autobauer müssen Premium-Segment neu definieren: Studie." 2010. <http://www.wiwo.de/technik-wissen/autobauer-muessen-premium-segment-neu-definieren-423447/>, accessed August 2010.
- Remenyi, Dan, Williams, Brian, Money, Arthur, and Swartz, Ethné. *Doing Research in Business and Management: An Introduction to Process and Method*. London: SAGE, 2010.
- Roos, Martin. "Die Lust, anders zu sein.: Die Vorstellungen von Luxus wandeln sich. In der Wohlstandsgesellschaft taugt Protzerei nicht mehr zur Selbstdarstellung." *Handelsblatt*, October 15, 2009, p. 7.
- Rosengarten, Philipp G., and Stürmer, Christoph B. *Premium-Power: Das Geheimnis des Erfolgs von Mercedes-Benz, BMW, Porsche und Audi*. 2nd ed. Weinheim: Wiley-VCH-Verl, 2005.
- Saunders, Mark, Lewis, Philip, and Thornhill, Adrian. *Research methods for business students*. 5th ed. Harlow: Financial Times Prentice Hall, 2009.
- SIGMA Gesellschaft für internationale Marktforschung und Beratung mbH. SIGMA EuroSensor 2014: Milieu Manual. Mannheim, 2014.
- Silverstein, Michael J., and Fiske, Neil. *Trading up: Why consumers want new luxury goods - and how companies create them*. New York: Portfolio, 2008.
- Truong, Yann, Simmons, Geoff, McColl, Rod, and Kitchen, Philip J. "Status and Conspicuousness - Are They Related?: Strategic Marketing Implications for Luxury Brands." *Journal of Strategic Marketing* 16, no. 3 (2008): 189–203.
- Veblen, Thorstein. *The Theory of the Leisure Class*. Oxford; New York: Oxford University Press, 2007.
- Own research: Expert interviews with experts like e.g. Dr. Franco Cologni, *Non-Executive Director of Compagnie Financière Richemont SA*; Prof. Dr. Willi Diez, *Hochschule für Wirtschaft und Umwelt Nürtingen-Geislingen, Director of the Institute of Automotive Economy*; Nick Foulkes, *journalist, author, historian*, Anders Sundt Jensen, *Daimler AG, Vice President Brand Communications Mercedes-Benz Cars*, Georges Kern, *CEO of IWC*, Vittorio Missoni, *Director Institutional Affairs and owner of the brand Missoni*, Manfredi Ricca, *Interbrand, Managing Director Italy and luxury author*, Prof. Dr. Volker Trommsdorff, *Technische Universität Berlin, Director of the Marketing chair*, between 2010 – 2012.