

A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova School of Business and Economics.

**Paradigm shift in the automotive market: How will premium brands deal with the innumerable challenges they will face?**

Current strategy overview

Pedro Miguel Maia Jacinto

Student Number 25839

Work project carried out under the supervision of:

**Professor José Miguel dos Santos Hortas Pita**

## **Abstract**

This work project focuses on the analysis of the automotive industry, more specifically, the premium segment. This assessment includes, not only the current outlook of the market, but also the future challenges that the industry will face.

The motivation for this research lies in the key point in time which the market is, and in figuring out how brands can keep up with the revolutionary technological changes and challenges. Although the premium sector may seem a specific piece of the automotive industry, it appears like the one that not only can push forward the premium segment needs and desires but also the one that can better surpass future technological drivers and challenges and, in the end, influence the market as a whole.


The automotive industry faces an unprecedented transformation, as such, there is the need to look at the current strategies, anticipate future changes, and elaborate a new strategy able to accommodate all challenges. The trends covered range from new engines to autonomous driving, connectivity, and new mobility solutions. In order to understand the current panorama and the main challenges the industry faces, the group started by conducting intensive secondary data research as well as expert interviews.

The final goal of the Work Project is to develop a set of recommendations for premium brands to stay relevant in this industry.

## **Keywords**

Automotive industry, Strategy, Premium segment, Mobility, Connectivity, Autonomous driving, Electric vehicles, Internal Combustion Engine vehicles, Strategy, OEM, Luxury, Supercars, Performance, Challenges, Regulations, Policies, Partnerships

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Paradigm shift in the automotive market: How will premium brands deal with the innumerable challenges they will face?  
An analysis of their strategy, main challenges, and a strategic roadmap to maintain relevance

**Market Research Field Lab**

**Group Members:** Diogo Figueiredo #29021 | Luís Lopes #29022 | Pedro Jacinto #25839

**Academic Advisor:** José Miguel dos Santos Hortas Pita

**NOVA**  
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# Glossary

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**ACES** - Autonomous Driving, Connectivity, Electrification and Smart Mobility (also referred to as “new growth areas”)

**All-electrics** – Companies like that only manufacture electric vehicles

**CAGR** – Compound Annual Growth Rate

**CG** – Center of Gravity

**DCU** – Domain Control Unit

**ECU** – Electronic Control Unit

**Established OEMs/ Brands** – Automakers that have been in the market prior to trends discussed (Mercedes, BMW, ...)

**Euro5** – Group of European countries composed by France, Germany, Italy, Spain and United Kingdom

**EV** – Electric Vehicle

**E/E** - Electrical and electronic

**Generation Y** – People born between the early 1980s and the first half of the 1990s (also known as Millennials)

**Generation Z** - People born between the second half of the 1990s and late 2000s

**ICE** – Internal Combustion Engine

**IoT** – Internet of Things

**MaaS** – Mobility as a Service

**M&As** – Mergers and Acquisitions

**OEM** – Original Equipment Manufacturer

**Risk Modelling** – Mathematical model used to understand the probability of a risk event occurring

**SUV** – Sport Utility Vehicle

**SW** – Software

**Tech giants** – Large technological firms (Amazon, Alphabet, Facebook, among others)

**V2X** – Vehicle To Everything

## Methodology – Literature Review

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To address the Work Project topic, *Paradigm shift in the automotive market: How will premium brands deal with the innumerable challenges they will face? An analysis of their strategy, main challenges, and a strategic roadmap to maintain relevance*, the team adopted the **SCQA framework**. This framework was followed to ensure a clear and structured reasoning, starting with the current panorama of the premium market, followed by an analysis of the challenges and doubts that arise from that assessment, and, finally, the development of a set of key recommendations that will answer the questions raised.

For this market research, the team utilized **qualitative and quantitative research methods** to strengthen the value of the recommendations and the construction of the storyline. The **qualitative research** was based on **secondary data and expert interviews**. The interviews were constructed following the topics that were covered in the project. To provide insightful, diverse perspectives on the different themes, the interviewees worked for different premium brands and had different areas of expertise. As Yin (2014, p.90) mentions: “case study interviews are of an open-ended nature, in which you can ask key respondents about the facts of a matter as well as their opinions about events. (...) Such persons not only provide the case study investigator with insights into a matter but also can suggest sources of corroboratory or contrary evidence – and also initiate the access to such sources”. In what regards **secondary data** (both qualitative and quantitative), it comprehends academic and non-academic articles, books, consultancy reports, and news articles that generate valuable insights regarding the topic in question.

After conducting the expert interviews and evaluating secondary data research, the team constructed a **survey** (quantitative research) according to the information gathered, combined with the overall structure of the study. This survey's main goal was to retrieve data from consumers and analyze all the challenges and trends covered in this project, bringing new insights to the industry.

To comprehend the environment around the automotive industry with a special focus on the premium car sector and its potential growth, the team performed a **PESTLE analysis** to assess the Political, Economic, Social, Technological, Legal, and Environmental aspects of the ecosystem. This framework, firstly introduced by Aguilar (1967), is meant to describe the opportunities and impact of the beforementioned six macro forces in the projected business model. Finally, **Porter's Five Forces analysis**, created by Porter, M (1979), was performed to evaluate the present industry structure and its competitive environment. This provided a deeper understanding of the market players and allowed OEMs to understand how these five forces can be used to build a strong corporate strategy.

# Disclaimer

## Work Project Structure

The automotive market is witnessing several structural changes. Consequently, in order to have a complete and relevant analysis of the premium vehicle segment, the project required the inclusion of a **wide array of areas** that will play a significant role in the future of this industry.

For that reason, **instead of choosing to be exhaustive** in the research of a limited number of subjects, the team decided to **accommodate all the main subjects** that could have an impact within the segment.

Therefore, **given the topic broadness** at hand as well as its **overlapping areas it was not possible to be mutually exclusive**.

Bearing the aforementioned in mind, the team decided to adopt **SCQA framework** to deliver a structured and clear storyline to this project.

## Main Limitations

The first limitation of this project was the **survey's lack of geographical coverage**. Despite team efforts to reach international clients, 95% of the responses came from the national market.

The high number of topics examined determined the need to evaluate a comprehensive range of secondary data making it more **complex to extract the intended information**.

Furthermore, the **constant industry turmoil** (specifically since the start of the pandemic), allied with the everchanging OEM's strategies, made the monitoring of information increasingly difficult.

## Further Research Directions

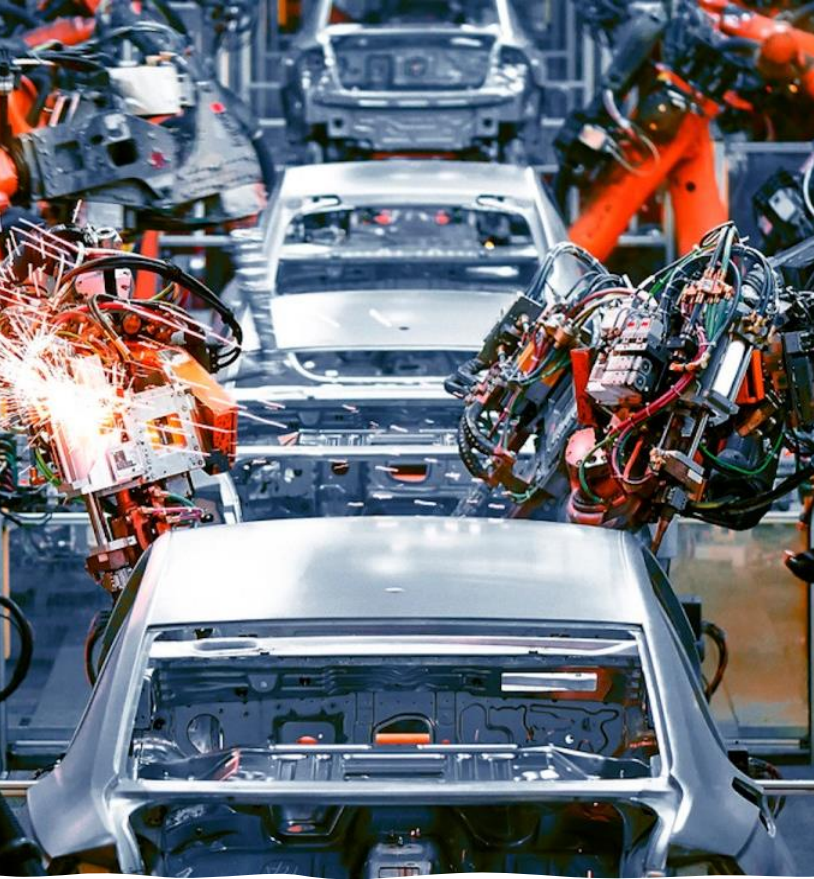
**Cybersecurity and software architectures** were not taken into account in this Work Project. Their technical complexity together with a less relevant role in the industry inhibited the team from including them in this study. Nonetheless, with increasing connectivity and the arrival of full autonomous driving, their importance will grow significantly.

**Financial services** were also disregarded as, in most cases, these are not controlled by automakers. With the shift to a service-oriented industry, its relevance may be worth reassessing.

Considering that most OEMs turned to batteries as the main propeller of electrification and disregarded fuel-cell for the time being, the team decided not to include this topic in the Work Project. Although the potential of **hydrogen-powered vehicles** is still untapped, they may become an attractive solution in the near future.

For the reasons listed above, the named issues should be considered for further research on this topic.

Sections	Chapters	Research Questions
Context	0. Motivations and Scope	<p><b>Why is the premium car segment relevant for OEMs and what is the scope of this project?</b></p> <ol style="list-style-type: none"> <li>History of the automotive industry: How was the inception of the premium segment in this market?</li> <li>What were the motivations to conduct this project?</li> <li>What is the scope of the Work Project?</li> </ol>
Analysis	1. Realities of the premium segment	<p><b>Which characteristics of the auto industry have a considerable importance for premium segment?</b></p> <ol style="list-style-type: none"> <li>How can consolidation affect premium brands?</li> <li>Why does customer service have an exceptional importance for the segment?</li> <li>What is the role of customization in upper-end vehicles?</li> </ol>
	2. Emerging Trends	<p><b>What are the main trends in the automotive industry that demand a strategy shift?</b></p> <ol style="list-style-type: none"> <li>How are firms dealing with the challenge of electrification?</li> <li>How is technology/software shaping the industry? (technology aboard, infotainment, digital cockpit)</li> <li>Are new competitors changing market dynamics?</li> </ol>
	3. Environmental Concerns	<p><b>How will environmental awareness modify the development of premium brands?</b></p> <ol style="list-style-type: none"> <li>Will regulation be the main driver of change in the foreseeable future?</li> <li>How will brands deal with the increasing pressure to become eco-friendly?</li> </ol>
	4. Mobility	<p><b>Why is it important to pay attention to other mobility solutions?</b></p> <ol style="list-style-type: none"> <li>Is Smart Mobility the future of the auto industry?</li> <li>What opportunities will autonomous driving bring to the premium segment?</li> </ol>
	5. Revenue streams	<p><b>How will new products and digital solutions shape revenue streams?</b></p> <ol style="list-style-type: none"> <li>What will be the sales panorama in the next few years?</li> <li>How will trends affect the aftermarket structure?</li> </ol>
Recommendations	6. Path to success	<p><b>What are the main actions that premium brands can take to stay relevant in the industry?</b></p>



## Context

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Automotive development has been accelerating over the decades and, in the last 30 years, this revolution has become even more preminent. The resilience displayed by premium brands in the Covid-19 pandemic highlighted the importance of higher segment vehicles for OEMs.





Context

Analysis

Recommendations

## Chapter 0. Motivations and Scope

### Why is the premium car segment relevant for OEMs and what is the scope of this project?

#### 0.1. History of the automotive industry: How was the inception of the premium segment in this market?

#### 0.2. What were the motivations to conduct this project?

- What is the relevance of the premium segment in the auto industry?
- Why is it important for firms to have more information regarding this segment?

#### 0.3. What is the scope of the Work Project?

- Within the whole market, which segments will be addressed in this Work Project?
- What is the relevant time frame and geographic coverage of this study?
- PESTLE Analysis: What are the main factors that affect premium brands' performance?

### Methodology

- **Secondary data:** Jardine Motors Group, TitleMax, History, Sharp Magazine, Supercars, Autocar UK, BMWBLOG, TheSupercarBlog, McKinsey, European Commission, Euro NCAP, CMS Law, UN Environment, PESTLE Analysis, Business Insider, Atwal 2009, Bartikowski 2017, Brunello 2015, Bloomberg, Cox Automotive
- **Literature Review:** Pestle Analysis

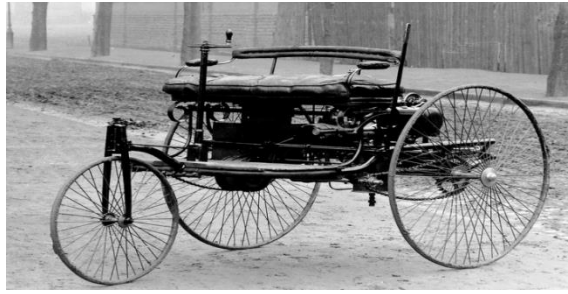
# The birth of the luxury transportation dates back to the 16th century

The automotive sector has witnessed several changes, especially in the last 30 years

## Beginning of Luxury Transportation



## Birth of the automobile



## Innovation Driven by Stagnation



## Fast Disruption



### 1600's

- Appearance of the first charets in Europe only available to noble families and royalty

### 1886

- First car built by Carl Benz

### 1888

- First electric car introduced by Andreas Flocken

### 1913

- Beginning of mass production (Ford Model T)

### 1920's

- GM introduced model diversification and price gaps
- GM creates the concept of planned obsolescence

### 1930's

- Stylish and aerodynamic designs

### 1950's

- Comfort and safety innovations
- Engine power and speed

### 1960's

- Gas prices rise
- First supercar of the modern era (Lamborghini Miura)

### 1970's-1980's

- Technological innovations

### 1990's

- First car with a GPS device
- First modern electric car (GM EV1)

### 2000's

- Rise of the SUV in the US
- Boom of driver assist features

### 2010's

- Autopilot is introduced
- Luxury brands start to prioritize electric cars
- New brands (electric-focused) enter the market

1600

280 years

1880

50 years

1930

60 years

1990

30 years

2020

# The premium segment presented positive results even during a severe economic recession

Faced with unmatched challenges it is time to reshape strategies and plan the future

The premium car segment has been achieving record sales in the recent years, and managed to keep good results in an unprecedented economic recession

## Bentley Sells More Than Ever In 101-Year History

## BMW M achieves record sales in 2020

BMW Group fall 8,4% but success of performance, premium and electrified cars mitigates impact

BMW Group posts record sales for 2019, remains world's leading premium car company

## Supercar Sales 2018: Another Year of Record Numbers

In addition to recent market trends, there were other factors that justified the selection of the topic under study

 Brands do not have the **required information to strategize** and plan for the upcoming years that are still very uncertain

 This industry is facing **unparalleled challenges that require a fast response**

 A major driver of this Work Project is also the members' **personal interest** in working in the automotive industry in the future

In the last 10 years, the luxury car market size has been increasing

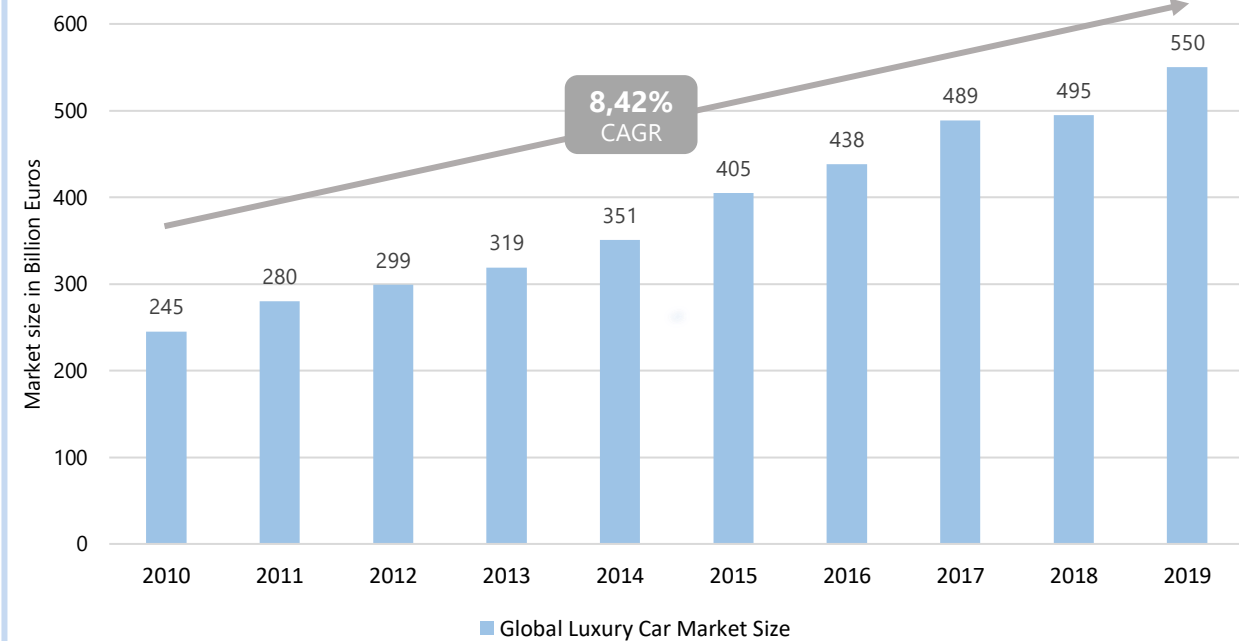


Figure 1: Global Luxury car Market size since 2010. Source: Statista

  
\$ 208,6B

Revenue of the premium segment  
in 2019

# The share of profits flowing from premium brands displays their importance for OEMs

In the last decade, this segment has presented growth in revenue and volume of sales

## The premium segment constitutes a significant part of the OEM profits in the automotive industry

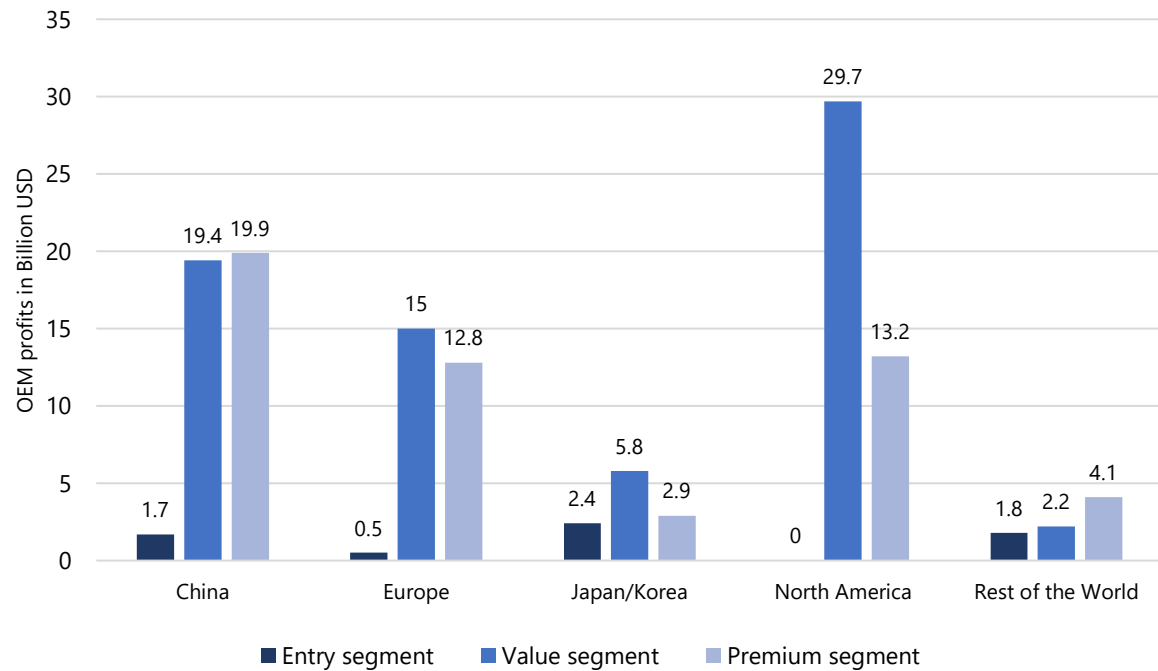


Figure 2: Distribution of OEM profits in segments across major geographical locations in 2017. Source: McKinsey

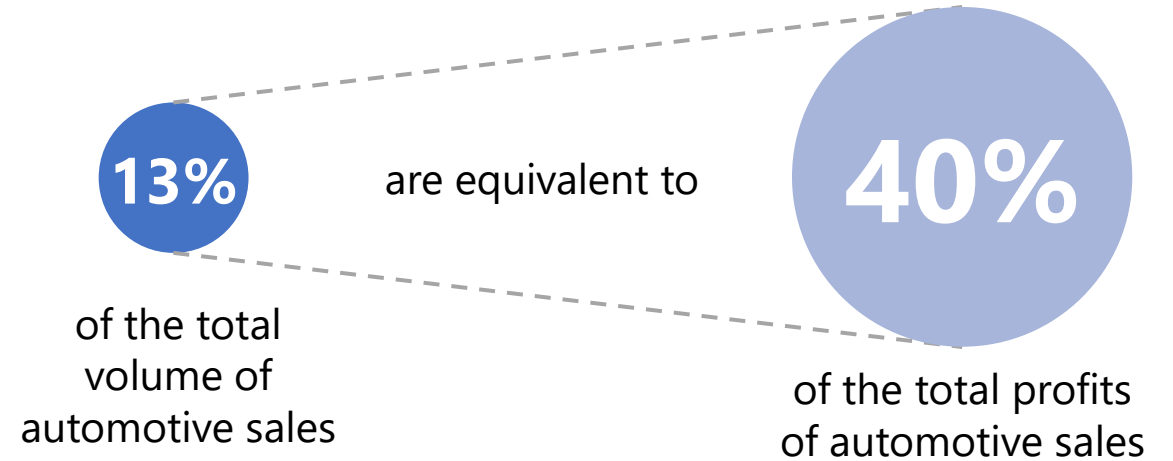
Totals in Billion USD:

\$6,4B

\$72,1B

\$52,9B

## Although sales volume is underwhelming, when compared to other segments, premium brands represent a large slide of the total profit in the industry



## Growth of the premium segment between 2009 and 2017



The **main reasons** behind these **growth** rates are:

- Multiplication of **premium vehicle offers**
- **Increasing consumer wealth** in key geographical regions
- Set of **different available features** aimed at appealing to diverse consumers within the premium segment

# The premium segment comprehends luxury vehicles, performance cars and SUV's

The next 15 years will be critical to the strategies of premium brands

The increasing number of car models changed the panorama of segmentation, so there are vehicles that fit in more than one category. To simplify the distinction, the group developed a segmentation based on Euro NCAP classification

**Car segments** according to the European Commission (based on size and weight)

- **Microcar**
- **A-segment (Mini cars)**
- **B-segment (Small cars)**
- **C-segment (Small family cars)**
- **D-segment (Large family cars / Compact Executive)**
- **E-segment (Mid-size luxury)**
- **F-segment (Full Size luxury)**
- **S-Segment (Sports Coupés)**
- **M-segment (Multi purpose vehicles)**
- **J-segment (SUV's)**

**Segmentation** done by the group (based on size, design, price and performance)

### OUT OF SCOPE

- **Standard Vehicles**
  - ✓ Microcar
  - ✓ Mini cars (A-segment)
  - ✓ Small cars (B-segment)
  - ✓ Small family cars (C-segment)
  - ✓ Multi purpose vehicles / Minivans (M-segment)
  - ✓ Standard SUV's (J-segment)

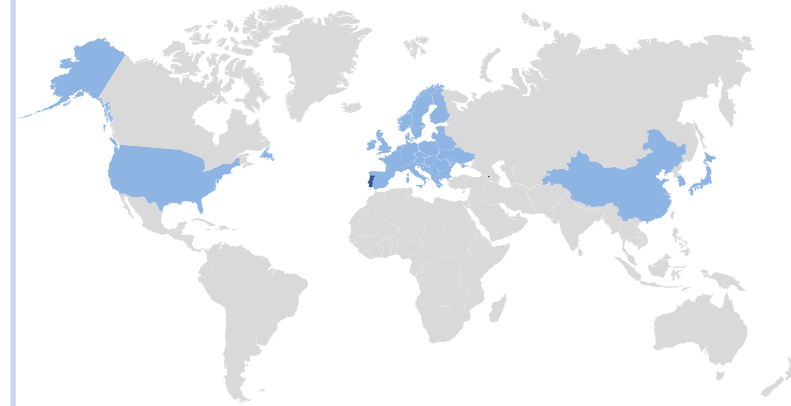


### IN SCOPE

- **Luxury Vehicles**
  - ✓ Luxury compact (D-segment)
  - ✓ Mid-size Luxury (E-segment)
  - ✓ Full-size Luxury (F-segment)
- **Performance Cars**
  - ✓ Sports Cars (S-segment)
  - ✓ Sports Sedan (E-segment and F-segment)
  - ✓ Supercar (S-segment)
- **SUV's**
  - ✓ Premium SUV's (J-segment)



## Geographic Coverage of the premium segments under study



**Figure 3:** World map containing the countries that are more relevant to the premium segment. Euro Area, UK, USA, China, Japan and South Korea.

**Portugal was the main source of primary data** in this Work Project. However, to have a more consistent and broader perspective on the industry, the project will also have **secondary data from other relevant markets** in the premium automotive industry.



**15 years**

Considering the **changes that are happening in the segment**, and the emission targets that will be into place in 2030 and 2035, we have decided that the **most appropriate time span of the Project would be 15 years.**



## Themes not covered in this Work Project:



**Cybersecurity**



**Software architectures**



**Hydrogen (Fuel-cell)**



**Chassis and powertrains**



**Financial services**

## Premium segment includes various subsegments

There are numerous models from different brands that target each individual category

### Luxury Vehicles

#### Luxury compact



**Description:** BMW 3 series. Other examples of this segment: Mercedes C-Class and Audi A4.

#### Mid size luxury



**Description:** Mercedes E-Class. Other examples of this segment: BMW 5 series and Volvo S90.

#### Full size Luxury



**Description:** Maserati Quattroporte. Other examples of this segment: BMW 7 series and Mercedes S-Class.

### SUV's

#### Premium SUV



**Description:** Porsche Cayenne. Other examples of this segment: Lamborghini Urus and BMW X4.

### Performance Cars

#### Sports Car



**Description:** Porsche 911. Other examples of this segment: Alfa Romeo 4C and BMW M2.

#### Sports Sedan



**Description:** BMW M5. Other examples of this segment: Mercedes E63 AMG and Porsche Panamera.

#### Super Car



**Description:** Ferrari SF90. Other examples of this segment: Lamborghini Aventador and Bugatti Veyron.

In this Work Project, "premium" is defined as the segment of the car industry that is focused on design, comfort, performance, quality of construction and that offers a driving and riding experience that other OEMs cannot match. The premium vehicles are categorized in Luxury, Performance Cars and Premium SUV's

## PESTLE analysis signal that the main setbacks may arise from the Political, Legal and Environmental spectrums

Despite some challenges, the premium car sector shows signs of viability and growth



### Political

- Qualification for **tax credits when buying electric vehicles**
- Governments' pledge with Paris Agreement
- Policies to ban certain cars have been implemented in some cities around the world
- **Eco-friendly policies are hurting the combustion engine industry**



### Economic

- Higher resistance to recessions than other segments
- **Economic trends indicate steady growth in sales of both premium and electric vehicles**
- Highly consolidated market translates into economies of scale for most of the brands



### Social

- **Higher quality of life** due to higher comfort and less CO<sub>2</sub> emissions
- Complying with Sustainable Development Goals
- **Status that comes with ownership**
- Increase in the number of millionaires and their individual fortunes



### Technological

- Always on the **forefront of the latest technology assets**
- Competition amongst brands to deliver the latest technology
- Threat/Opportunity of **autonomous driving**
- Increase on **safety features** thanks to **connectivity**



### Legal

- Necessity of **being up to date with latest patents**
- Respecting **new environmental regulations** and rules
- Protection through IP rights
- Increase of speed radars on the roads and freeways may generate a small disinterest in driving faster cars



### Environmental

- **Reduction of CO<sub>2</sub> emissions**
- Reduction of emissions of other Green House gases
- Brands are now more than ever striving for recognition as eco-friendly
- Premium brands are shifting their priorities towards **the use of eco-friendly materials**

The macroeconomic environment analysis established the guidelines upon which the topics under study were chosen.



## Analysis

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The Automotive market is witnessing unprecedented structural shifts. Prior to COVID-19, the industry landscape and the way of selling vehicles were already changing. The pandemic only brought more uncertainty to the already unforeseeable future of the market. Moreover, electrification and the adoption of innovative technologies are distressing OEMs. Meanwhile, the threat of new competitors proves to be an ever-growing concern.

Besides the financial and social difficulties raised by the pandemic, other issues have been raised, and the time to act up on them is now. New demand needs, technological advances and policies are shaping the automotive industry, and no one wishes to stay behind.



# The information retrieved from expert interviews and the survey was the main pillar of this Work Project

## Interviews

- The group started by conducting **several expert interviews to organize information and to be able to start the construction of the survey.**

**13**  
Industry  
Experts

**1h30**  
min

Average  
time of each  
interview

**40**

Questions across the five main  
chapters of the Work Project

**100%**

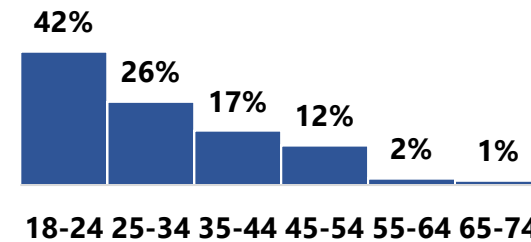
Of the industry experts interviewed  
believe that this **Work Project is  
relevant for premium  
manufacturers**

**154**  
Clients

## Survey

- Our Survey was **directed at premium car buyers.** Its distribution was done mainly through premium car vendors, industry experts and social media groups where members were owners of performance and luxury vehicles.

### Age of the respondents



### Gender



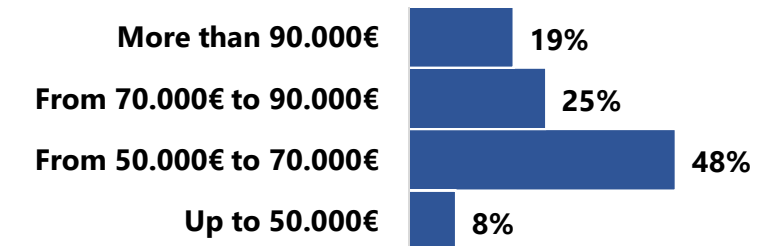
- In order to **facilitate the tracking of the data** from the survey and interviews used throughout the Work Project, the following box will be displayed: 

- Next to each piece of **information retrieved from the surveys and interviews, this symbol will be presented:** 

**95%**

Of the  
respondents  
were **from  
Portugal**

### Price that respondents are willing to pay for a premium vehicle



In order to provide a comprehensive overview of the premium segment, the team divided the survey and interviews by the topics covered in our Work Project. As such, the results of these two research methods will be shown in the different chapters.



Context

Analysis

Recommendations

## Chapter 1. Realities of the premium segment

### Which characteristics of the auto industry have a considerable importance for premium segment?

#### 1.1. How can consolidation affect premium brands?

- What is the panorama of consolidation in the automotive market?
- Why is there a pressure to consolidate in this industry? How did Covid-19 affect this trend?
- All considered, what are the advantages and disadvantages for the premium segment?

#### 1.2. Why does customer service have an exceptional importance for the segment?

- What are the characteristics of the premium buyer? Why should brands continue to invest in customer service?
- How can we describe the customer journey in this segment?

#### 1.3. What is the role of customization in upper-end vehicles?

- Does personalization have a future in the automotive industry?

### Methodology

- **Primary data:** Surveys and Expert Interviews
- **Secondary data:** Deloitte, BCG, CounterPoint, Focus2move, KPMG, ACEA, WEF, Accenture, Nielsen, PWC, Gartner, Google, Refinitiv, Euler Hermes, Cox Automotive, Porsche, Mercedes, Rolls Royce
- **Literature Review:** SCQA framework

## Market Consolidation has been a trend in the automotive market

The new challenges that OEM face, may present different ways to cooperate with other sectors

### In the auto industry market consolidation includes several types of agreements

- Despite the general idea that consolidation means only acquisitions, in the automotive industry this is not the case.
- Historically, in this sector, consolidation included **cross-supply of powertrains, manufacturing joint-ventures, shared platforms, and R&D partnerships.**
- In recent years, automotive companies are **increasingly looking at alliances in specific components.** The reason to **favor strategic alliances and partnerships** in the future is that, given all the transformation and challenges in the industry, these types of agreements allow OEM to have **more flexibility** and **choose the most strategic partner** for each element of the car.
- In addition, the **ACES** (Autonomous Driving, Connectivity, Electrification and Smart Mobility) **trends** in the automotive market, allied with the increasing market capitalization of technological firms signal us to a future of **cross-sector alliances.**

### Firms operating in the automotive market have relied on M&As to prepare for the uncertain future

In the **last three years** there were:

**1500**  
M&A  
Deals

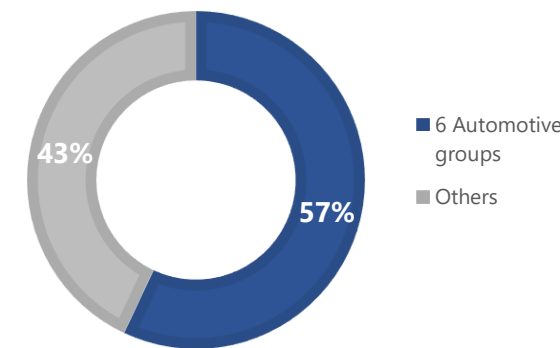


**€332B**  
Value of the  
Deals

- In the **beginning of 2021**, we assisted to the formation of the **third largest automotive group** that resulted from the **merger between Fiat Chrysler and Peugeot SA.** It was a **€41B deal** that created a group of **14 brands.**

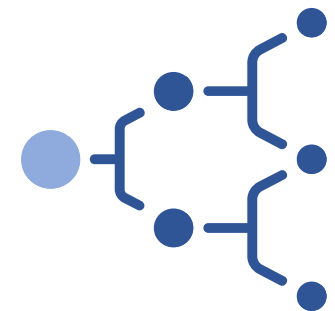
### The automotive Market has already a high degree of consolidation

**6 automotive groups** claim **57%** of the total **market share in volume of sales.**



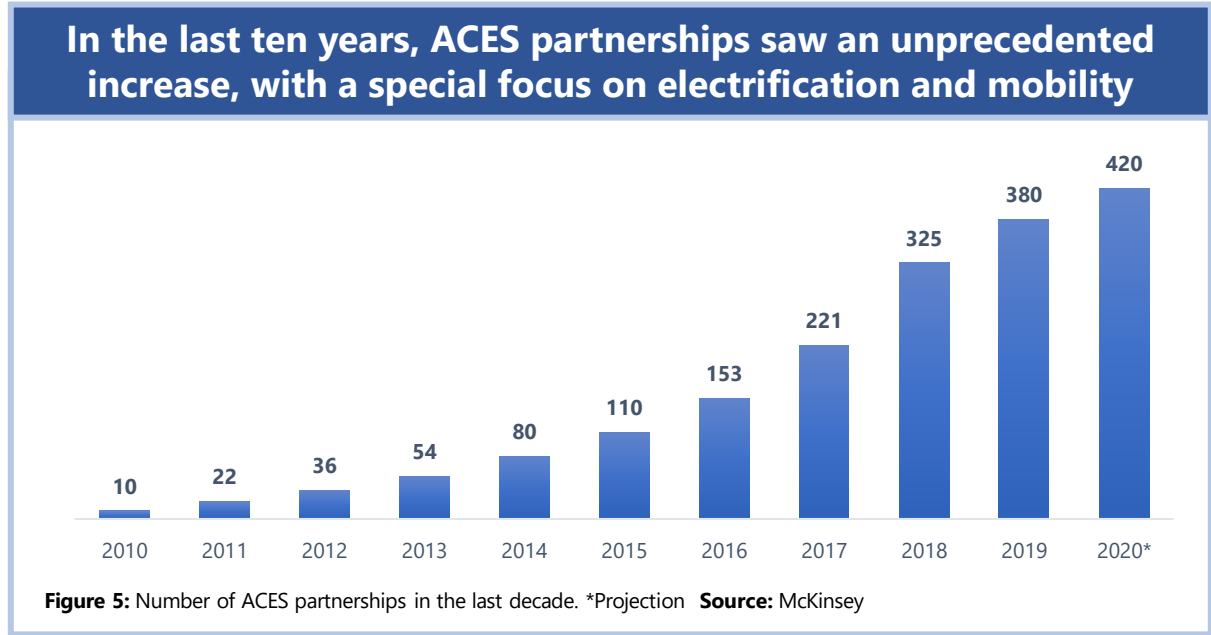
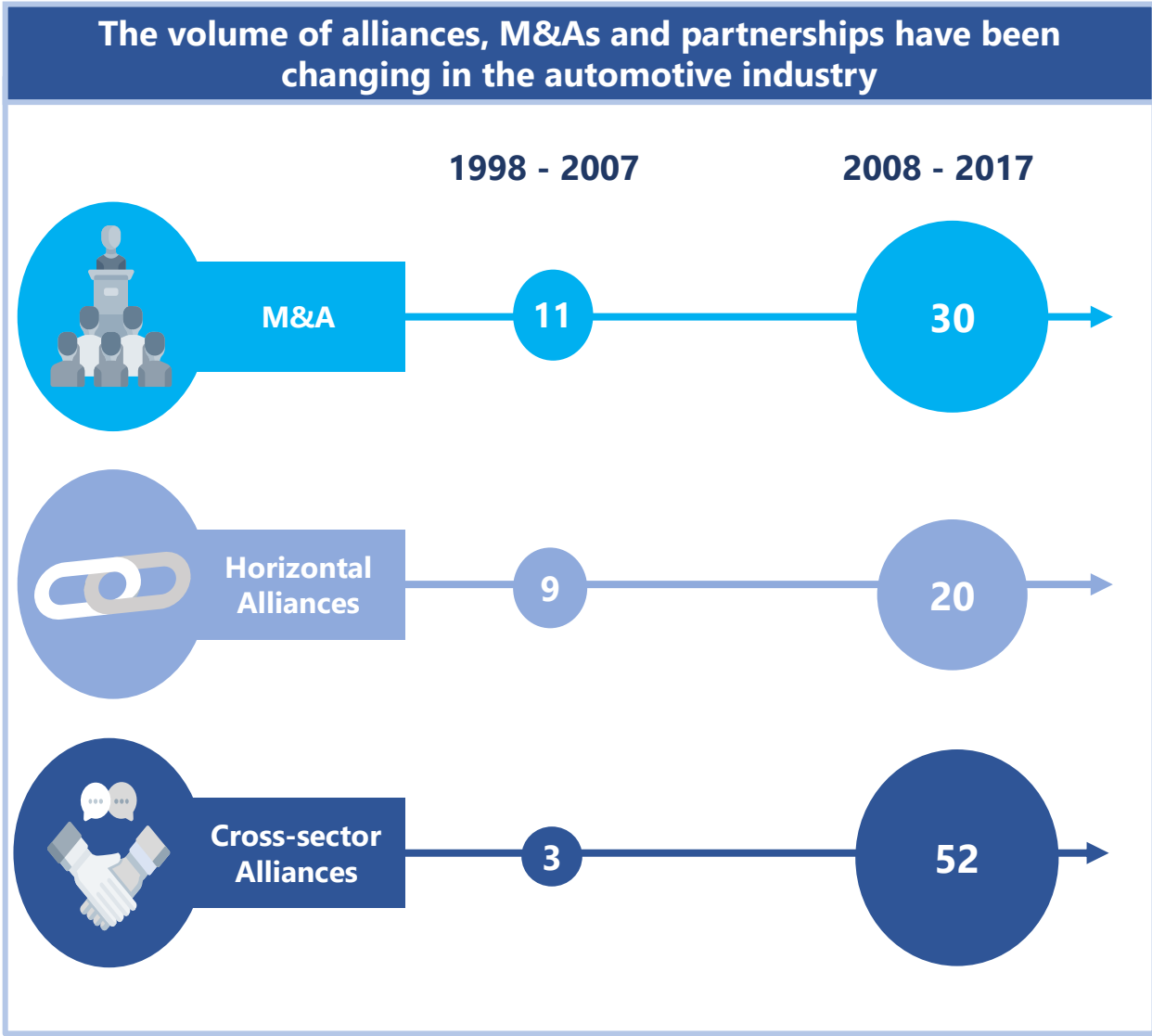
**Figure 4:** Market share of the biggest 6 automotive groups (VW, Toyota, Stellantis, Renault-Nissan, GM and Hyundai). **Source:** Car Sales Statistics

**13 automotive groups** control a total of **62 brands.**



# The tendency for cross-sector alliances will continue to grow due to the increasing use of technology

OEM are avoiding huge investments and using deals as a shortcut to innovation, scale, and growth



- Taking into account the new trends in the automotive market (Autonomous driving, Connectivity, Electrification and Smart Mobility):
  - ✓ Over the last decades the industry witnessed an **increasing trend for cross-sector alliances and partnerships**
  - ✓ **Auto tech deals** are being utilized by automotive groups to **develop new business models** and find **new revenue streams** in a faster way (In **2010 auto tech deals represented 8,5% of industry deal volume**, in the first half of **2019 this value was 18,4% - 2,2x higher**)

# The characteristics of this industry, allied with the new landscape, demand the maintenance of consolidation

An increasing need for investment with declining profit margins pose a huge obstacle to the industry



Reassessment of supply chain and key suppliers



Readaptation of the production lines (EV)



Capital Intensive industry, especially in the current panorama



Resources needed for ACES



Inefficient Industry



Need for economies of scale



Strong Competition

Industry related issues that urge consolidation

## Investment needed to unlock the promised value of mobility technology in 2030 and 2035

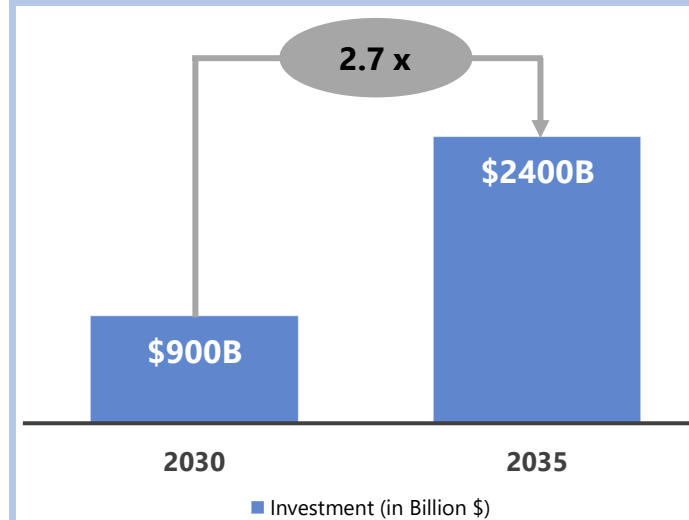


Figure 6: Required investment for mobility technology in 2030-35  
Source: Car Sales Statistics

## Profitability Margin for the top 25 listed automotive manufacturers in the 3 years preceding Covid-19 pandemic

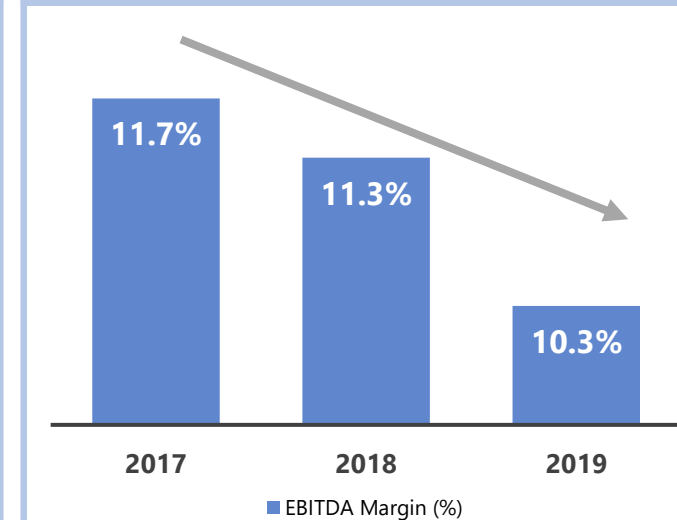
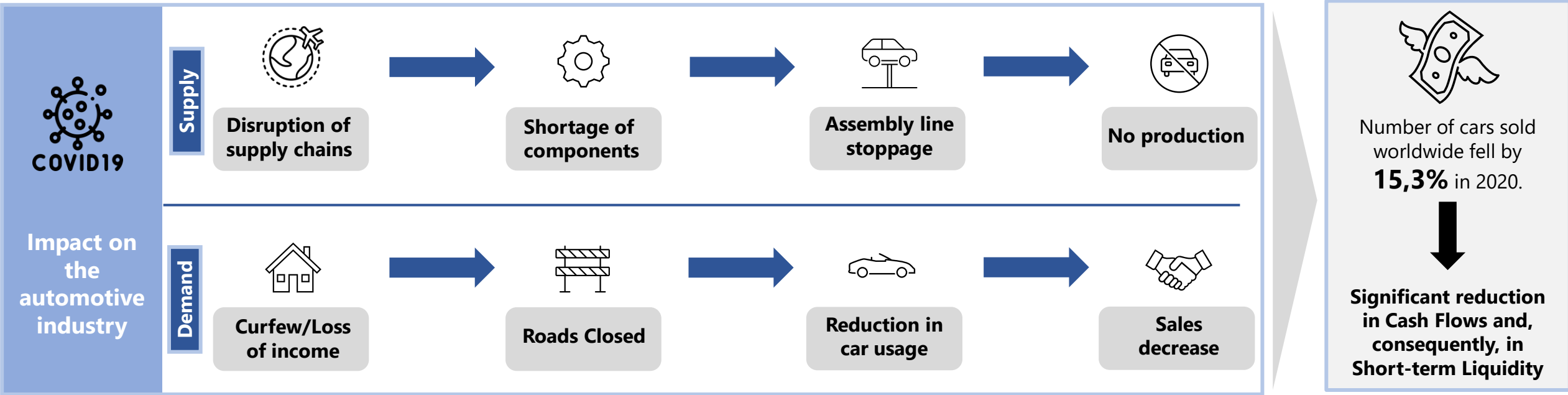


Figure 7: Profitability margins of the main OEMs 2017-19  
Source: Car Sales Statistics

- Automotive groups are facing the double challenge of needing to **invest in new growth areas** and, at the same time, having **declining profit margins** in the sale of cars
- In a **low to no-growth environment** with punitive regulation, pressure on profit margins, and technology disruption, OEMs struggle to **reduce costs** and **re-strategize**, leading them towards **partnerships or full mergers**

# Consolidation will be accelerated thanks to the financial distress of the pandemic

Covid-19 exposed more weaknesses on OEM and created new problems for the industry



## The sequels of the pandemic will be very damaging for manufacturers, dealers and suppliers

- Reassessment of supply chain** and key suppliers
- Decreasing market capitalization** and increasing **inability to invest**
- Dealers and supplier's **vulnerability** increased significantly
- An economic recession signals a **slow recovery**

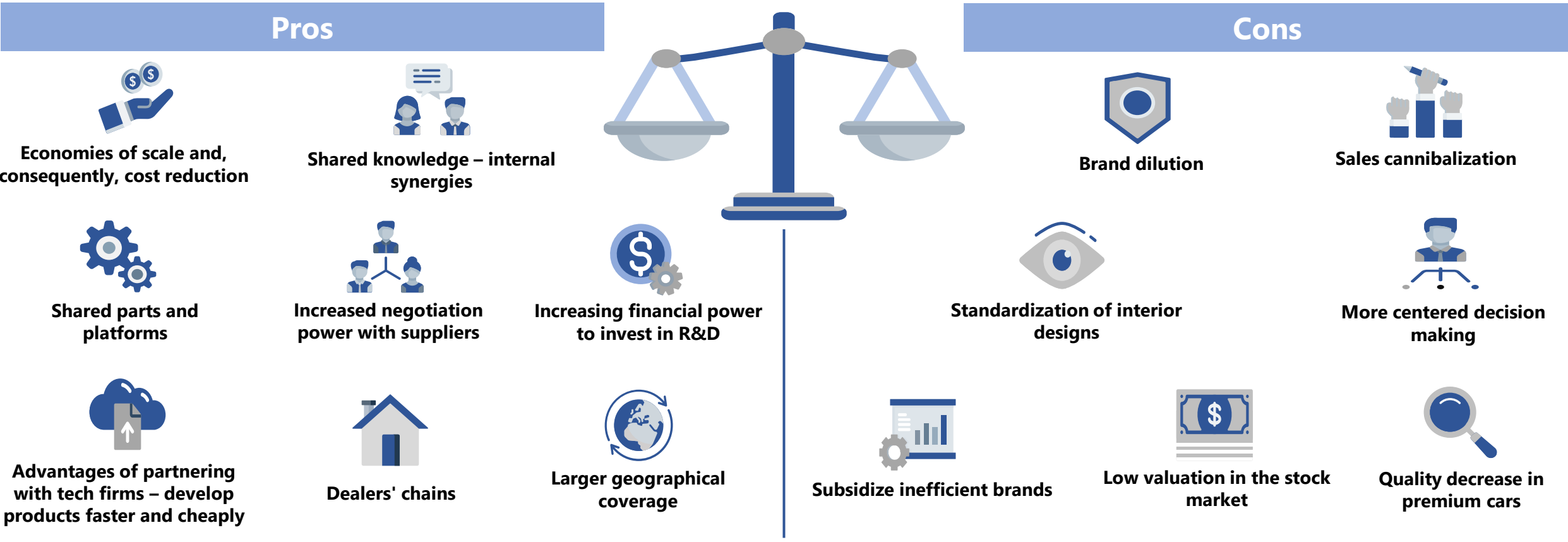
## Consolidation as a solution

- **Lack of liquidity and the urgent need to invest incentivizes firms to make partnerships in order to have more capital available to invest**
- **Small size suppliers that risk bankruptcy are purchased by bigger and more efficient groups**

# Measuring pros and cons of consolidation is essential for car brands



For premium brands there is more to gain by being in a partnership or in a big conglomerate



**100%**  
Of the industry experts interviewed affirmed that **consolidation is beneficial for premium brands**

**53%**  
Of premium car buyers confirmed that the fact of a **brand being included in a large automotive group affects their decision when buying a car**

**79%**  
Of the people surveyed defend that **belonging to a large automotive group does not take exclusivity and quality of premium brands**

**Considering all the information retrieved, the team concluded that high end brands have more to gain than to lose with consolidation**

# Premium car buyers have special characteristics that differentiate them from standard clients

The importance of customer service has been growing in every industry and the automotive is no exception

## Premium Buyer profile



- High purchasing power
- Well informed customer
- Car as a status symbol
- Attention to detail
- Especially value customization
- Personalized service has high importance – differentiated treatment
- Driven by emotional triggers
- Quality and performance as a goal

**2x**

More importance to **design**

On average **60%** of their time is spent **focused on the car** (Searching, test-driving, customizing)

**3x**

More likely to believe that the **car reflects who they are**

**40%** Of the time is **spent on the deal** (negotiation and paperwork)

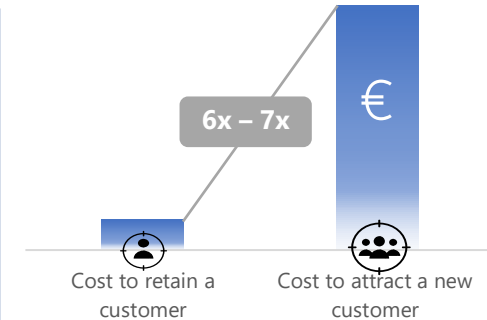
## In the recent years, the importance of customer service has been highlighted in different industries

**81%** of marketers consider customer service as the main challenge for firms

Before the pandemic **74%** of companies were expecting to increase customer service budgets

**86%** of buyers are willing to pay more for a great customer experience

A **positive emotional relationship** with a customer can make his/her **value rise** from **27% to 103%** (50% on average)



**Figure 8:** Difference in cost of retaining a customer and attracting a new one. **Source:** Deloitte

## The car industry is no exception in what concerns the importance of customer service

- Providing good customer service is crucial for car brands and dealers to **create loyalty**.
- Consumers expect car brands to **engage with them beyond the point of sale**.
- According to Mercedes US, the likelihood of an **existing customer buying a new vehicle** was 29% with satisfied customers but **86% with delighted customers**.

**45%** of clients **stick with a car brand** or a dealership if they get a **good customer service**

**42%** of buyers after purchasing a car **place high value in good after-care and maintenance services**





# The complexity of the customer journey is increasing with omnichannel usage

Firms need to leverage the information available to improve the ability to capture and retain clients

## Awareness

The beginning of customer journey: A customer realizes that she/he wants to buy a new car.

Purchase Triggers	
Routine upgrade	Need more space
New Tecnology available	New car model

**54%**  
Of premium clients actively pay attention to innovations in prestige cars

**63%**  
Of premium car owners consider themselves car enthusiasts

Premium customers are more **driven by want** than need and are **more emotional** than standard clients. As such, TV ads, social media, friends, online articles or car magazines can enable them to want a new car model and initiate their customer journey.

## Research / Consideration

In this stage, consumers actively search car models and brands in different channels (Omnichannel). The search involves a blend of branded content and third-party reviews.

Channels Used		
Social Media	Friends & Family	TV
OEM and 3 <sup>rd</sup> party websites	Newspapers and magazines	Dealerships / Test drive

**97%**   
Of clients surveyed do online research on the car they want to buy, before visiting the dealership

**66%**   
Of clients surveyed believe that luxury brands should provide test-drives without the need of going to the dealership

During their research, buyers of high-end cars are mostly influenced by their friends and industry experts. The main characteristics assessed at this stage are the **car design, car features, type of engine, extras, models of vehicles, brand of the car and the drivability of the car.** Websites that offer the **option of configuring the car**, allied with **new ways of test driving it**, are imperative for customers.

## Decision / Purchase

This step concludes the first part of the customer journey: Clients make the decision of buying a specific car model that suits their demands.

Finalizing the deal	
Visit to the dealership	Price negotiation
Fill the contract	Car customization

**8 out of 10**  
Clients need to see, and test drive the car before they buy it

**69%**  
Of the customers want minimal paperwork

Brands and dealerships need to focus on **customer experience** at this stage. Premium buyers can be easily swayed by the dealer relationship and shopping experience. They can be persuaded until the last minute based on a **positive or negative experience.** Customers expect **differentiated treatment and a tailor-made experience.**

# The purchase stage is not the end of the customer journey

A delighted customer will be more loyal and valuable for a premium brand

## Service

The service starts in the delivery of the car and includes the maintenance until the owner decides to buy a new vehicle.

### Relationship enabler for premium clients

- Personalized car delivery
- Maintenance service
- Personalized contacts
- Presentations of new SW/ products

**68%**  
Of the customers are interested in maintenance updates

**87%**  
Of the experts said that good service is the most important tool to retain a customer

Aftersales and maintenance services are an important tool, not only to **retain customers**, but also to **capture new clients**. Premium customers that buy used cars and perform maintenance at OEM garages, may feel compelled to buy a car at that dealership if they get a good service. This stage is also very important to build a **strong customer relationship** and, consequently, **create loyalty**.

## Advocacy

Final stage that portrays the level of satisfaction of the client during or after his customer journey.

### The value added of a satisfied customer

- Client reviews on websites
- Share opinions on social media
- Positive word-of-mouth
- Referrals

The lifetime value of a referred customer is **25%** higher than the value of other customers

People are **4x** more likely to buy a new product when referred by a friend

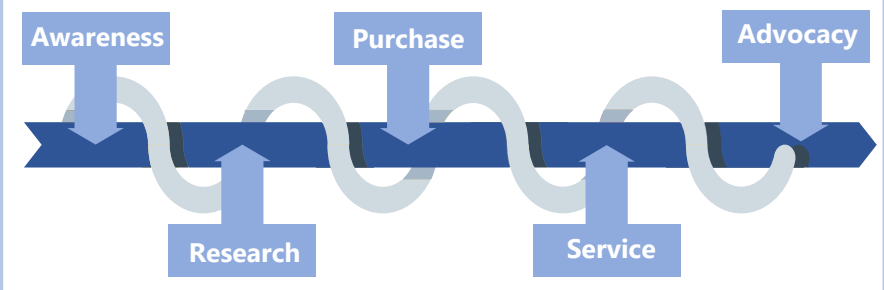
Customers of the premium car segment are **highly active online** after the purchase and service, since it plays into the status symbol aspect of their buy. Studies show that **referred customers have a higher value and are more loyal** than the average client. As such, firms need to ensure that they understand the needs of these type of clients and that they **exceed their expectations to create customer delight**.

## The importance of the customer journey for the premium clients cannot be overlooked

- Every step in the customer journey must be evaluated carefully to ensure that, in each stage, all the **client expectations are exceeded**.
- **Customer journey is increasingly becoming more complex and fragmented** with the switch between online and offline channels.
- To ensure a seamless customer journey the **balance between high tech and high touch** it's mandatory for OEM and dealerships.

**89%**  
Of consumers stop doing business with a firm after experiencing poor customer service

**63%**  
Of the clients are more willing to share their data if they truly value the service of a firm





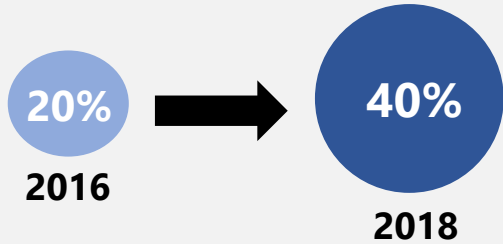
# Premium clients place a high value on giving their personal signature to their car

High-end car firms leverage personalization to attract clients and to differentiate their offers

The special case of Rolls Royce

- More than 90% of all Rolls Royce sold are customized and one of a kind
- In some models this percentage is even higher:
  - ✓ 99% of the Phantom sold are personalized
  - ✓ 100% of the Cullinan sold are personalized

## Weight of extras in the final purchase price



Faced with this trend, Rolls Royce decided to:

- Increase the number of extras available
- Reinforce the department of personalization with more employees

## Customization and premium clients go hand in hand

**15%**  
Of premium car owners see **personalization as the main reason to buy a new vehicle**



The ability to customize a car gives premium clients a **sense of exclusivity** and allows them to put their own **personal signature** on the product

⚠ According to our survey, on average, premium clients are willing to **spend 25% of the total price of the car on extras**



Personalization is a **deciding factor** when choosing between different premium brands ⚠

## ⚠ Industry experts are unanimous regarding customization



**Customization is essential** for their clients



**Sport packages** are very **popular**, especially in Mercedes (AMG) and BMW (M)



The number of **cars sold without any extras** is **residual** and extremely rare



**Digital equipment** aboard will allow **new ways of customization**



In the higher segments there is more customization and exclusivity. According to specialists, **extras can represent between 20% and 40% of the car total price, reaching 50% in extreme cases.**

Other Examples

### Taycan Turbo



- Basis version
  - ✓ Price : **159 000€**
- Customized Turbo version
  - ✓ Price : **245 000€**

**54%**

### Mercedes E-Class Coupé



- Basis version
  - ✓ Price : **64 000€**
- Customized E-Class version
  - ✓ Price : **118 000€**

**84%**



Context

Analysis

Recommendations

## What are the main trends in the automotive industry that demand a strategy shift?

### 2.1. How are firms dealing with the challenge of electrification?

- What created the push for electrification?
- Why are consumers doubting EVs despite their potential and OEMs' commitments?
- Currently what are main limitations of EVs?

### 2.2. How is technology/software shaping the industry? (technology aboard, infotainment, digital cockpit)

- Why is technology extraordinarily important in the premium segment?
- How can connectivity propel automotive innovation?
- Why can technology be a demanding problem for premium vehicle manufacturing?

### 2.3. Are new competitors changing market dynamics?

- How did Tesla open the door for new entrants in the automotive industry?
- What are the strengths and weaknesses of new entrants relative to established premium OEMs?

## Methodology

- **Primary data:** Surveys and Expert Interviews
- **Secondary data:** IEA, EV Volumes, Deloitte, Autocar, McKinsey, INSIDEEVs, Zainuri et al., 2019, Financial Times, Volkswagen, Oliver Wyman, WardsAuto, Business Insider, Wollshlaeger, et al., 2015, Statista, IHS Markit, Jabil, Design Council, AutoCar, The NY Times, Chen & Perez, 2018, Clayton Christensen, Yahoo! Finance, The Driven, Forbes
- **Literature Review:** SCQA framework, Porter's Five Forces

## Chapter 2. Emerging Market Trends