

### Part 3 Designing a customer value-driven strategy and mix

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## Company case

### Volvo cars

The car industry is highly competitive. In terms of the global market share based on revenue, the market leaders are dominated by brands that are mainly targeting the mass market, including Toyota, Volkswagen, Ford, Honda, Nissan and so on. Those luxury brands generally associated with higher prestige, such as Mercedes, BMW, Jaguar, Land Rover and Volvo, tend to enjoy a smaller market share. Then there are those niche and exclusive brands, such as Lotus and Lamborghini. In terms of specific models, the best-selling cars in the world are mainly compact cars, including the Ford F-Series, Toyota Corolla, VW Golf, Nissan X-Trail/Rogue and Honda Civic.

Despite this fierce competition and turbulent external environment (e.g., tightening of regulation) in this sector, Volvo cars have been quite successful in recent years. For example, in 2017, Volvo's global sales increased 7 per cent versus 2016 to reach a record of 571,577 cars (the company's fourth consecutive year of record sales) in about 100 countries, which helped the company to record an operating profit of about £1,200 million and

revenue of about £18,000 million. Volvo Cars, employing about 38,000 full-time employees, is one of the most well-known and respected car brands in the world. It is headquartered in Gothenburg, Sweden and has been owned by Zhejiang Geely Holding (Geely Holding) of China since 2010. Volvo's main markets are China (20 per cent of its total sales volume), US (14 per cent), Sweden (13 per cent), UK (8 per cent) and Germany (7 per cent).

Volvo knows how to create value for customers by adopting a differentiated marketing strategy for some key segments. People buy cars for more than basic transport. Some people buy cars for status and prestige, but others for value for money. Some people buy cars mainly for family use, commuting, school run, travelling, or leisure and fun. Because cars are bought for various different purposes, in addition to the basic factor of pricing, people differ in their preferences regarding the product attributes of cars, such as the design, quality of styling, space, comfort, safety features, power and performance, reliability, fuel economy, engine type, greenness rating and so on. To compete

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effectively in this highly competitive and fragmented sector, Volvo needs to create strong brand value that will appeal to consumers with the appropriate segmentation, targeting and positioning strategy.

### Product range

In the UK and many other markets, Volvo Cars produce premium-segment car models in three classifications: saloon (S60, S90), versatile estates (V40, V60, V90) and SUV (sport utility vehicles) (XC40, XC60, XC90). In these model names, the letter represents the body type, such as S for the saloon; and the numbers represent the body size, in that the higher the number the bigger the size. The most expensive and the largest Volvo car model is XC90. The price starts at over £50k. It is positioned as a luxury SUV that competes directly with some very strong competitors, including the BMW X5 and the Audi Q.

The first generation of XC90 was introduced in 2002, with the second generation being introduced in 2014. The second generation is wider and longer, and this upgrade makes it more desirable to those drivers looking for bigger and more-luxury family SUVs. In addition, the new generation of XC90 offers new hybrid engines, while the first generation was mainly powered by diesel engine. To support the launch of the new generation of XC90 in 2015, Volvo launched a new global brand repositioning campaign, titled 'A New Beginning', to change its image from predictable to more 'progressive' and to mark the new generation of the brand. The campaign also aimed to support the future renewal of its other existing models. To reach a younger audience and project a more progressive image, the campaign partnered with Swedish DJ Avicii and relied more heavily upon social media, such as Twitter and YouTube.

The XC60 is smaller than the XC90 with a starting price of about £38,000. Due to the limited body length, it does not offer the seven-seater option. The XC60 competes mainly with BMW X3, Audi Q5, Range Rover Evoque, Land Rover Discovery Sport, and other similar vehicles. Because of the increasing popularity of compact SUVs, which have traditionally been dominated by non-luxury brands, including the Toyota RAV4, Honda CR-V, Mazda CX-5 and so on, Volvo introduced the XC40 in 2017 with a starting price of about £28,000 to enter the compact SUV market. The new XC40 has received a positive reception, including being named Car of the Year by *What Car?* magazine in 2018, and was awarded the European Car of the Year at the 2018 Geneva Motor Show. It was praised for being safe, good-looking, practical and very decent to drive.

Currently Volvo offers two saloon cars, the S60 and S90. The S60 is a compact executive saloon car, first introduced in 2000 and now in its third generation. It competes with the Audi A4, BMW 3-Series, Mercedes-Benz C Class, Jaguar XE and others, for customers who are looking for a more affordable luxury car. The S90 is a mid-size luxury saloon, a class higher than the S60. Accordingly, with a starting price of about £36,000 it competes with the likes of Audi A6, BMW 5-Series, Mercedes-Benz E Class, Jaguar XF and so on. Although Volvo produced the S40

(a sub-compact executive car) from 1995 to 2012, it was replaced by V40 (the estate variant). In terms of the estate range, Volvo also offers the V60 (estate variant of S60) and V90 (estate variant of S90). In general, an estate car (or station wagon) is a body-style variant of a saloon with a rearward-extended roof at the back. It is a popular type of car, particularly for family use, due to its enhanced luggage capacity. However, more recently its popularity has been weakened by the increasing acceptance of the SUV as a family car.

Besides selling to the consumer market, Volvo also invests heavily in the business market. The company cars market is highly attractive and lucrative, as it accounts for about 55 per cent of new cars registered in the UK. Company cars can be segmented by the size of the car and the associated price ranges in the UK. This kind of segmentation makes sense, as there are normally strict restrictions on the prices of company cars, and there are also tax implications. Volvo has done particularly well recently on the price range between £25,000 and £35,000 by introducing the new XC40 to the small premium SUV sector. It has won BusinessCar Awards in the New Company Car of the Year and Best Compact SUV categories. Under this price range, it competes directly with other premium brands such as Jaguar XE and Lexus IS. According to the head of business sales for Volvo Cars UK, 'The XC40 is our first ever model in the premium compact SUV market, but it has secured a place far ahead of the competition with multiple award wins and industry recognition within its first year.'

### Safety positioning

Over the years, some brands have built a strong brand reputation that is crucial to their brand positioning. For example, Toyota is known for reliability, and Volvo is a synonym for safety. Volvo knows very well the importance of maintaining and strengthening this most valuable and important brand asset, and embeds it in its segmentation and positioning strategy for all of its models.

Volvo confidently has a strong brand vision that nobody will be killed or seriously injured in, or by, its new cars by 2020. According to Volvo's vice president of global marketing, 'This 2020 vision is a really strong brand purpose for Volvo. . . We want to have a strong social message as if we just went down the same old route as our rivals [with celebrity campaigns] we would just be one of many, we wouldn't be adding anything new. I believe the public want brands to stand for something important.'

It also does not shy away from claiming and exhibiting its new cars' safety features. For example, its new XC90 features the world's first run-off road protection technology that addresses accidental road departure. According to its own description, it 'detects what is happening and the front safety belts are tightened to keep the occupants in position. . . To help prevent spine injuries, an energy-absorbing functionality between the seat and seat frame cushions the vertical forces that can occur when the car encounters a hard landing in the terrain.'

Another safety feature that really engages customers is that the XC90 model, in order to make life easier for parents and safe for their children, enables parents to swivel and lock a child seat counter-clockwise in a rear-facing position to face a parent sitting in the rear passenger seat. It has been reported recently that, according to the independent laboratory Thatcham Research, the Volvo XC90 is the safest car it has ever tested, in that not a single person has been killed while driving it, or as a passenger, in the UK since 2002. In introducing its latest model XC40 in 2017, Volvo worked hard to make sure that its safety features do not fall behind other more established models. Besides being named Car of the Year, winning the European Car of the Year award, it also received five stars and top ratings in its 2018 Euro NCAP (The European New Car Assessment Programme) tests.

### Looking into the future: sustainability

Although Volvo is known for its safety record and features, it does not have a particularly good reputation in terms of its contribution to sustainable development. However, in the current environment, sustainability should be a key area for all automotive companies. Volvo Cars has developed an ambitious programme with the aim of minimising its global environmental footprint and build its reputation in terms of sustainability and social responsibility. In 2018, it announced that it aims to use recycled material for at least 25 per cent of the plastics used in its new cars. As the president and CEO of Volvo Cars confirmed, 'environmental care is one of Volvo's core values and we will continue to find new ways to bring this into our business. This car and our recycled plastics ambition are further examples of that commitment.' In 2017, Volvo became the first major traditional car maker to set a date for the complete phase-out of combustion-engine-only models, by announcing that all new models released from 2019 will be available as either a mild hybrid, plug-in hybrid or battery electric vehicle. In 2018, Volvo publicly announced that it aims for fully electric cars to make up 50 per cent of its sales by 2025. In addition, from an operations perspective, Volvo Cars already has a climate-neutral facility (the engine plant) in Skövde, Sweden; moreover it aims to have climate-neutral manufacturing operations by 2025.

### Questions for discussion

- 1 What are the main segmentation criteria that can be applied to explain Volvo's segmentation strategy for its different models? What are their main target segments?
- 2 How feasible do you think are the segmentation and targeting strategies of Volvo with reference to the segmentation feasibility criteria discussed in the chapter?
- 3 How do you evaluate Volvo's positioning strategy in terms of its focus on safety?
- 4 What other segmentation, targeting and positioning strategies could Volvo implement, particularly in terms of ensuring future growth and competitiveness?

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