



MK 475 – Sector Analysis

LUXURY CARS

Taylor Whiteman, Simon Ko,
Tianna Gallinaro, Serena Wu

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Introduction

What defines a luxury car? Thirty years ago, luxury cars would have been defined by their wood and leather interiors; however, the concept of luxury is always progressing and a walnut finish on top of cowhide leather is just the tip of the iceberg. Nowadays, wood is becoming obsolete for car trims with carbon fiber being the new trend. The Bentley Bentaygaⁱ has front seats that have a massage function and an option for a refrigerator in the back. Rolls Royce showcased their Serenity customization of the Phantom where the seats are made of silk and hand painted with inspiration from Japanese cherry blossom trees. And now with 3D printing on the rise, the bar for car interiors will be set even higher. Luxury has moved in all different directions pressuring companies to think more outside-the-box to thrive in the luxury arms race.

Luxury cars account for 18% of all car sales revenue, which was approximately \$100 billion in 2015. The luxury automobile industry is currently dominated by the three German giants: BMW, Mercedes, and Audi. The Big Three are responsible for 80% of global luxury automobile sales with Mercedes and BMW neck and neck in the global luxury sales race. Audi is currently the largest German luxury car in China, but the other two giants have been rapidly catching up to Audi's sales. China became the largest automobile market in 2009 and is estimated to be the world's leading market for luxury cars by 2020. In China, premium cars were estimated to be 24,000 units in 2000 and over a million in 2012ⁱⁱ. By 2020, the U.S. is estimated to sell 2.3 million luxury cars while China sells 3 millionⁱⁱⁱ. China is a huge player in the luxury automobile industry and is turning the heads of major players in the auto industry.

The luxury automobile industry is competitive and well-established. Although there is a low threat of new entrants because of the colossal, initial investment, companies currently in the automobile industry could sub-brand and create a luxury line like Toyota and their child brand, Lexus. Because of the long history of the automobile industry, car companies are inclined to compete with each other in order to grab more market share which creates high rivalry between brands. In order to remain relevant in the highly competitive market, many car brands are tapping into new opportunities and trends to gain competitive advantage and market leadership. Luxury car manufacturers are focusing and investing significant energy and resources to develop sustainability and driverless technology. Recently, carmakers have discovered huge untapped potential in the luxury SUV segment^{iv}. In order to stand out for rivalry, luxury car manufacturers as well as their dealerships are focusing on the customers' in-stores sales experiences as well as the after-sales service experiences.

Major Luxury Car Manufacturers North America

Lincoln

The Lincoln Motor Company, who is a subsidiary of Ford Motor Company, is currently going through one of the most drastic rebranding moves in the luxury car industry. After a full brand launch into the Asian market in 2012, they have spent quite a large amount of their resources to capture the luxury market both in the US and abroad. In 2014, they experience sales of about 95,000 units, which was a 15.1% increase over the year prior. Currently Lincoln is focused on two major concepts: Marketing the brand's rebirth to domestic consumers & Introducing Lincoln as a premiere luxury brand in overseas markets where foreign automakers are taking market share^v.

Cadillac

A subsidiary of General Motors, Cadillac originally was Henry Ford's second failed company before creating the wildly successful Ford Motor Company. Cadillac, while most well known domestically for its SUVs, has a wide line of luxury sports cars and high-end coupes. While these cars haven't done well in the US market, they have generated extremely high growth for Cadillac in overseas markets. These overseas markets have helped Cadillac gain a 44.2% increase in sales from 2016 to 2017^{vi}. Their sales growth has helped to bolster a struggling GM, but serves to show how US luxury vehicles seem to be doing better abroad than they do domestically.

Tesla

Tesla Motors is a car company that is significantly disrupting the car market. With their all electric car creation, non-traditional dealership model, and luxury position, their success has sounded the alarm for established, traditional luxury car manufacturers. Founder Elon Musk uses advanced technology as their competitive luxury advantage. With only two models currently in production, their sedan “Model S” and their SUV “Model X”, Tesla Motors has waiting lists for their cars and a dedicated fan base.

Tesla’s inventive look on what it means to be both a car producer and a luxury car producer has provided customers with amenities that other car manufacturers had never thought of. With their creation of a free charging network across the globe, Tesla understands they have an uphill battle to fight when getting consumers used to a car that runs on electric power. While they have yet to turn an operating profit, which is unheard of for a luxury car manufacturer, Tesla hopes to become a more prestige or mainstream car producer. Currently they are working on releasing the “Model 3” which will retail for around \$30,000. This car will not have many of the luxurious accoutrements that Tesla is known for, this model will still be sold under the Tesla marquee. Only time will tell if Tesla foray into more affordable automobiles will dilute the brand or help to boost its market share.

Europe

United Kingdom

Jaguar / Land Rover

Jaguar & Land Rover, while two different brand marquees, are actually the same car manufacturer. Since being sold by Ford Motor Company in 2008 to Tata Motors, who is based in China, the Jaguar brand and the Range Rover brand have somewhat merged into one. They now share dealership space and most of their parts and product architectures. Jaguar Land Rover has positioned themselves as a high-end luxury car manufacturer, with their most famous client being the Royal Crown of England.

Jaguar, upon release to the United States in the mid 20th century was seen as an unreliable sports car manufacturer. With their purchase by Ford in 1989, they began to turn that image around only to have it changed to Jaguar being a stodgy car producer whose vehicles lacked the features for their high price tag. With their sale to Tata Motors in 2008, they have worked hard to totally revitalize their brand with high-end cars while trying to be on the cutting edge of driver technology. Recently they have launched their first SUV the “F-Pace” which was universally well received and Jaguar seems to be having a very positive comeback since the Great Recession.

In terms of Land Rover, their brand has always existed as a car that could traverse the desert, a glacier, or the shopping mall parking deck. Land Rover, a car manufacturer that only produces SUVs and large off-road vehicles, are known for their extreme capabilities and are primarily sought after for their lavish interiors and state-of-the-art technology. Land Rover has always been seen as one of the most luxurious SUVs in the market and with their new management under Tata Motors, this image has maintained its significance in the market.

Aston Martin

Founded in 1913 by Robert Bamford and Lionel Martin, Aston Martin is an iconic British sports car brand most well known for their placement in the James Bond movies. Their Iconic wings badge synonymous with Aston Martin since 1927, that represents their racing heritage and speed of their vehicles^{vii}. Their cars are mainly produced in Gayton, Warwickshire, England but recently they have opened second manufacturing plant in 2016 at St. Athan, Wales^{viii}. While owned by Ford at the turn of the century, they have regained full autonomy with only 5% of their business owned by Daimler.

Bentley

Founded in 1919 by W.O. Bentley, this definitive luxury car manufacturer is well known around the globe for their entirely hand crafted vehicles. Every Bentley is, crafted in Crewe, England by expert craftsmen and engineers. After being purchased by Volkswagen in 1998, Bentley began to make cars in Germany to meet demand but has since ceased operations anywhere but their primary factory in England^{ix}. With their lines of ultra-luxurious coupes and sedans, and more recently SUVs, Bentley is known for being one the globes more luxurious car manufacturers.

Rolls Royce

This car and airplane engine manufacturing company founded by Charles Steward Royce and Sir Frederick Henry Rolls in 1906. Their signature element, the “The Spirit of Ecstasy” which is attached to the hood of every Rolls Royce has been a prominent feature on every Rolls Royce since 1911. After being acquired by BMW in 1998, Rolls Royce worked to reform their image as a luxury lifestyle car, providing features that no other car manufacturer has ever provided. One of these features, a Teflon coated umbrella in every door, is just one of many examples of how Rolls Royce thinks beyond a customer's needs and into their wants^x.

McLaren

Founded by New Zealand Formula-1 racer, Bruce McLaren, in 1963, McLaren is known for producing ultra-fast sports car with iconic and innovative designs. Traditionally a racing organization, they produce consumer vehicles in three different classes: Sport, Super, & Ultimate. Their premier car the P1, is known around the world for having only 1 seat in the vehicle. These cars are designed to be focused on the driver and in that mission, they positioned their driver’s seat in the center of the car for an optimal driving experience. These British racing cars show that even though the U.K. is a small country it has a lot of innovation and engineering excellence behind it.

Italy

Ferrari

Founded by Enzo Ferrari in 1929, he devoted his whole life to designing and building sports cars. With Ferrari cars having over 5,000 victories on various tracks and roads, these cars embody the passion and determination of Enzo Ferrari. Manufacturing sports cars for consumers since 1947, they have maintained their status as a premier racing organization ever since. All of their cars are produced in their famous Maranello factory located in Italy. Ferrari works to combine the passion of racing with the latest technology for their ultra-high end consumers.

Lamborghini

Ferruccio Lamborghini began by building tractor engines after World War II, and had a very successful business in the 1960s. He owned Maserati’s and Ferraris but was never satisfied with the performance, so he decided to build his own sports car. The first car he created, the Lamborghini 350 GTV started the legacy of hand building Lamborghinis at Sant’Agata Bolognese, Italy. While Lamborghinis are still hand-made with the potential launch of their SUV model, they are looking into moving their production to a different country, possibly Slovakia. Lamborghini directly competes with Ferrari with both of these car manufacturers being known for their Italian racing excellence.

Maserati

Founded in 1914 by the Maserati (Alfieri, Ettore, Ernesto, and Bindo) brothers in the heart of Bologna, Italy. Their origin relates directly to Ferrari and Lamborghini, in that they were originally designed just for racing. Their “Trident” logo has been used on every racing car in Maserati’s history, was actually inspired by a fountain in their hometown of Bologna. Right now, the Maserati marquee is owned by Fiat Motors, and they have started to move their brand into more of a high-end premium line, more comparable to Mercedes and BMW, than Ferrari and Lamborghini. Whether this move into high-end premium will help Maserati or dilute its brand, only time will tell.

Pagani

One of the newest Italian car manufacturer, Pagani, founded in 1992, combines the power of German engineering with Italian racing pride. Using Mercedes-Benz AMG V-12 DOHC engines, they hand craft the bodies of their cars to be both powerful and aerodynamic. With no car under \$1,000,000 their limited production models are known for making waves in an industry that is dominated by older, larger brands that might have rested on their laurels for too long.

Sweden

Volvo

Volvo, like Tesla, is working hard to reposition itself as a luxury brand. Since its inception as a brand, Volvo has been known as a safe car producer. Since being sold by Ford Motors in 2009 to Geely Motors in China, Volvo has very recently undergone a brand revolution. Volvo has started marketing

their advanced safety features as luxury, while also upgrading their interiors and exteriors to appeal to high-income consumers.

Starting with the release of their XC90 model in 2015, Volvo has started to dramatically revolutionize their product line. With semi-autonomous driving features, Orrefors crystal gear selector, and a 10" touch screen Volvo understands that their consumers want a type of refined elegance that only this Swedish brand can create.

Koenigsegg

Founded in 1994, Koenigsegg made big waves for being the first Swedish hyper car manufacturer. With their first prototype vehicle released in 1996, and their first production car released in 2010, Koenigsegg is most well-known for creating and producing the world's second fastest car. With a 0-100km/h time of 2.8 seconds and an overall top speed of 280 mph, the Koenigsegg "Agera One:1" is the first, and only car ever produced that for every kg of weight the car has it has an accompanying horsepower; the car weighs 1360 kgs and has 1360 hp. Their innovation in ultra-high-speed car production has turned them from a can producer in a country unknown for automotive excellence to one of the world's premier ultra-luxury car manufacturers.

France

Bugatti

Founded by Ettore Bugatti in Molsheim, France 1909, this famous car manufacturer actually went defunct in 1962, and was revived by Volkswagen A.G. in 1998. After their purchase by Volkswagen, they produced their first car in 2005, the "Veyron". The Bugatti Veyron holds the honor of being the fastest street-legal road car in the world with a top speed of 267.856 mph. What makes Bugatti's cars special is how they use two V8 engines next to each other to create a custom W16 motor. Recently Bugatti has discontinued the "Veyron" and on March 1st, 2016 they released the "Chiron" which will retail for 2,880,000 EUR and has a top speed of 288 mph. For being a newer car manufacturer, they have worked hard to make their brand one of the most sought-after in the world.

Germany

Daimler

After splitting from Chrysler in May 2007, Daimler has regained its focus on building its Mercedes-Benz & SMART brands^{xi}. Credited as being the 'creator of the automobile', Daimler has focused on creating "the best or nothing"^{xii}.

Mercedes-Benz

Mercedes-Benz has a long history of innovation and luxurious design. With their iconic Tri-Star logo, Mercedes-Benz is known for its range of luxury sedans, sports cars, and SUVs. Directly competing with BMW and Audi, Mercedes-Benz has drastically expanded its product line to include cars ranging from \$30,000 to over \$250,000. By creating a type of "access product" car, Mercedes-Benz is trying to hook young consumers on their brand and create a strong brand loyalty with their consumers from a younger age. On top of this, they have also recently announced their "X-Class" pickup truck that seeks to fill a gap between convenience and luxury^{xiii}. With over 25 different products, Mercedes-Benz tries to offer their luxury consumer any type of car they could possibly want.

Bavarian Motor Works

Producing over 2,500,000 vehicles per year, Bavarian Motor Works (BMW) is known for creating high-performance vehicles. Also, brand manager of Rolls-Royce & Mini Cooper^{xiv}, BMW strives to craft an expert customer experience for their loyal customers. Their headquarters, shaped like a 4-cylinder engine, is a testament to their dedication to the gasoline engine. That does not mean they don't care about sustainability though, and that can be seen with their new "BMW i" line of cars. Working to be on the cutting edge of innovation, BMW has maintained a position of being a world-class luxury car manufacturer.

BMW

With their iconic, "angel-eye" headlight design and kidney grill, it is impossible to not recognize a BMW from the road. With a range of sedans, SUVs and sports cars, BMW has an extremely loyal

follower base. Most widely known for their “M3” sports car, BMW combines a luxurious interior with extremely high-performance engines that both comfort and excite their consumers.

Volkswagen

Volkswagen A.G. is the world's largest automotive manufacturer. With over 5 different high end luxury brands in its portfolio^{xv}, Volkswagen has positioned itself as the premier creator of lavish automobiles. While not all of their brands are native to Germany, and Volkswagen itself is not a luxury brand, their subsidiaries Audi and Porsche sit in the category of everyday luxury. These brands, that will be discussed later in this paper, sit below Volkswagen A.G.'s ultra-luxury brands like Bentley and Bugatti, but act as the main profit drivers for this massive conglomerate.

Audi

Founded in 1929, with the merger of four small automotive manufacturers, Audi became a part of the Volkswagen portfolio in 1964. Audi exists to Volkswagen as their brand for advanced automotive innovation. What's unique about Audi is that they are technically the parent company for Lamborghini, so these two companies share many parts. With their excellence in racing and modern design, since 2000 Audi has become a major player in the everyday luxury automotive sector; they have taken quite a large number of sales from BMW & Mercedes-Benz. Audi continues to innovate in the market with providing more features for their consumers while simultaneously undercutting the prices of other comparable car manufacturers.

Porsche

Founded by Ferdinand Porsche, the same man who designed the original Volkswagen cars, created Porsche Automotive in 1931. Porsche has always existed with Volkswagen, with many Volkswagen parts being used by Porsche. This brand with its iconic design and strong ties to Volkswagen, serves as Volkswagen's way to push the limits of performance and design.

Asia

Japan

Lexus

A subsidiary of Toyota, the second largest car producer in the world, Lexus is known for their innovative in-car technology. Most sought after for their luxury sedans, in 2012 Lexus decided to move into the sports car market with the LFA, a car that was horribly received. With a starting price of \$375,000 USD, consumers did not associate the LFA's high price with its relative feature set. Lexus has positioned itself as the most luxurious Asian car manufacturer in the US market, but has struggled to carry that image to Europe and its home market.

Acura

A subsidiary of Honda, Acura is known for its premium luxury SUVs and sedans in the North American market. With the Acura brand, not being available for sale in Japan, all of their cars are produced in Lincoln, Alabama. Even though an Asian car company, they have strong ties to the North American market and producing cars to meet this market's needs.

Infiniti

A subsidiary of Nissan, the Infiniti marque of vehicles are only sold in the US market. Unlike Acura, who does not sell any of their models in their home country, Infiniti does sell their models in Japan but under the Nissan name with Nissan badging. With all of their luxury vehicles built off of their economy Nissan models, Infiniti is proof that adding high-end finishes and features to a stable economy car is what premium luxury consumers look for when shopping for cars.

Vintage Luxury Cars

Vintage luxury cars often cost 10x more than their modern successors. Vintage cars have a wide fan base and due to that many “car shows” have formed as a consequence. The most famous of these is the Concours d'Elegance which has been held since 1929. Originally started as a competition for horse carriages, the “Competition of Elegance” is a gathering of the world's most luxurious cars, predominantly

older models that have been kept in pristine condition. These Concours d'Elegance are held across the U.S. and Europe where luxury cars of all ages are welcomed to be seen.

One example of how luxury cars increase in value can be seen with the Mercedes-Benz 300SL. This car produced in 1954, was the first car ever to have “gull-wing” doors and won many racing awards during its production time. The comparable successor to this car is the 2013 Mercedes-Benz SLS. While the price for a new SLS is \$250,000, the price to buy a used 300SL is currently \$2,090,000^{xvi}; this car originally retailed for \$6,820.

Luxury cars, if kept in pristine condition can greatly appreciate in value to the right collector. To many people, luxury cars are a type of art; a beauty that exists in a functional form.

Luxury Car Tuning & After-Market Customization

A growing trend in the luxury car market is manufacturer sanctioned after-market customization. Some of these modifications include, customizing the body of the car, reprogramming the engine computer, and adding upgraded suspension & exhaust systems to these vehicles.

Brabus

Founded in 1977, Brabus is an officially sanctioned car tuner for Mercedes-Benz. Brabus works outside of Mercedes-Benz's jurisdiction to provide its customers a fully customized experience. They have custom body kits for all Mercedes-Benz vehicles and also will replace the interior leather and wood finishes and customize them to their consumers wishes. Brabus will also do customization on their client's airplanes and yachts, but their level of understanding of the Mercedes-Benz brand allows them to leverage themselves and the premier Mercedes-Benz aftermarket customization firm.

Alpina

Alpina, like Brabus is an officially sanctioned car tuner. Working with BMW, they have a tighter relationship where their modifications are actually advertised on BMW's website. The Alpina B7 is a highly modified 7-Series BMW that includes custom exhaust, suspension, tires and interior finishes as well as a full engine reprogramming. Their services are not as vast as Brabus' but the unique relationship with BMW allows them to position their services to a larger audience than Brabus every would be able to.

Trends

Sustainability

One important luxury consumer car trend in the past few years has been the rise of electric vehicles. As global warming becomes an increasing threat to our society, politicians and businesses have been racing to find ways to decrease air pollution. The electric vehicle market has become more mainstream in recent years due to improvements in electric batteries that have steadily decreased prices and increased in mileage. In 2010, the global average of a battery was about \$1,000 per kWh compared to just \$350 per kWh in 2016. By the end of last year, 30 models across various luxury and non-luxury car manufacturers including Tesla, Chevy, and Nissan had their own electric vehicle model^{xvii}.

According to the Argonne National Laboratory report, electric vehicles could make up about 58% of the US light vehicle market by 2030^{xviii}. Other industries outside of the car manufacturing industry are also offering complimentary goods that will help aid the rise of electric vehicles. Global hospitality brands Marriott and Hilton are working to build more electric car charging stations in their parking lot to tap in on government tax incentives and to cater to the rising needs of guests. As the market for electric vehicles continues to expand, it will become necessary for luxury car manufacturers to find new ways to differentiate their electric vehicles from non-luxury brands.

Driverless Cars

Another growing trend that is rising in the luxury car industry and electric vehicle market is driverless and autonomous vehicles. Driverless cars are becoming less of a futuristic dream and more of a reality with many luxury cars on the market touting semi-autonomous features. One example is the Tesla Autopilot that is an electric vehicle with self-driving features like automatic steering, lane change, and parallel parking due to several cameras, radar, and ultrasonic sensors that work in conjunction. Recently,

Tesla has been criticized for overhyping the car's autonomous features and claims to "help the car avoid hazards and reduce driver workload" and has since pulled back from marketing the car as self-driving moving forward. Additionally, a series of crashes including one that resulted in a fatality has raised challenges for Tesla and other car manufacturers about the safety of driverless vehicles.

In 2015, 94% of the 35,200 road fatalities in the US were caused by human error or choice. Many driverless manufacturers believe their cars could help reduce the number of car accidents and fatalities; however, the cars also bring up other conflicts. Many believe future driverless cars will be programmed not to speed, run red lights, or commit other common traffic offenses; however, if the vehicle fails and breaks a law, is the driver or vehicle at fault^{xxix}? There are also other ethical dilemmas that can ensue from lack of driver control. For example, Mercedes recently claimed that their driverless car features could run over a child to prevent the death of the occupants^{xx}. These gray areas have turned some people off from driverless features at the moment until the court decides to set new regulations that are more black and white. In a recent survey by AAA in March, 78% of respondents were afraid of driving in a self-driving car.

Despite the controversies, the driverless car industry is expected to be worth over 100 billion dollars globally by 2025, with an estimated 16% growth annually. Currently, many luxury and non-luxury car manufacturers have been entering the market with semi-autonomous vehicles including GM, Mercedes, Toyota, and Tesla, but there have been other non-car manufacturers entering the market as well. For example, Lucid Motors was originally a battery company founded by the former Vice President of Tesla, and has recently been showcasing its new luxury semi-autonomous Lucid Air^{xxi}. Besides the semi-autonomous driving features, the vehicle also has an electric battery with a 315-mile range, panoramic sunroof, ambient color-changing light system, and 55 degree reclining seats controlled by a touchscreen that just screams luxury in addition to its price tag that can range from a base of \$52,500 to over \$100,000^{xxii}. Compared to competitor Tesla's semi-autonomous models, the Lucid Air is also cutting edge with its revolutionary sculpted battery that allows the vehicle to have more inside space and a more compact exterior^{xxiii}.

In addition to Lucid Motors, various tech companies like Apple, Google, and Uber have all been in an arm's race to expand the scope of their products and services with a self-driving car. Two weeks ago, Apple became the 30th company in California to be approved for testing of driverless cars on public roads. For years Apple has not openly commented on this secretive Project Titan^{xxiv}, but there has been news that they poached engineers from an electric self-balancing motorcycle company and were exploring an investment in the British luxury car manufacturer McLaren^{xxv}. Google has been more transparent about its driverless car Project Waymo (way forward movement), but has not reached a reliable model yet^{xxvi}. Uber also launched its own tests for driverless vehicles last fall^{xxvii}, but reports have also shown they their models are unreliable and frequently disengage resulting in the driver having to take over control^{xxviii}.

Luxury Car Subscription Services

As Millennials begin to come of age and replace the Baby Boomer generation, many companies are starting to tap into the trend of subscription based services. Luxury car manufacturers are also just starting to dip their toes in this business model as more Millennials become more reliant on the mindset of acquisition versus ownership. Cadillac recently started beta testing Book by Cadillac, an app-based service where users can rent a car from a curated list of Cadillac models for \$1,500 a month. A concierge delivers the car directly to you and does not require any insurance, has no mileage restrictions, and can be exchanged for a different model up to 18 times a year^{xxix}.

Car Customization

Due to the growth of the luxury car industry and increasing number of vehicles sold, the exclusivity of cars has been somewhat diluted. This pushed for the surging trend where luxury carmakers are providing more unique designs and opportunities for customers to personalize cars to be one-of-a-kind. "The wealthy don't like buying something that is a quarter of a million pounds and see someone else with the same car." In order to maintain an exclusive edge, carmakers are offering more bespoke and

customization services. Luxury carmakers are reporting a record number of people requesting customization that at times, double or even triple the base price tag^{xxx}. For the wealthy, being rich isn't enough. The super-rich want to be wealthy and unique. For example, one customization of the Roll Royce Phantom, a version known as "Serenity", cost approximately \$1 million. The seats are made of silk that is hand-woven and hand-dyed. Each crimson blossom is hand-painted by artisans in China and each silk panel cost approximately 600 hours to create^{xxxii}.

Contrary to the ALM "Do not pander to your customer's wishes", the customer's way dominates at high-end automakers. Luxury carmakers such as Porsche, Bentley, and Rolls-Royce offer a wide variety of specialized parts, unique leather interiors, and special amenities. Due to the high demand for customization, many luxury car brands have established in-house design houses that offer customers bespoke personalization services. Aston Martin opened "Q by Aston Martin" in April, 2013 and McLaren has its "Special Operations" division. Q by Aston Martin employs dedicated designers who not only help clients personalize vehicles, but also design any luxury item from yachts to houses^{xxxiii}.

There is, however, an exception to the customization trend. Customization does not apply to the ultra-exclusive and limited "works of art". Customization is available for car models that are readily sold to the public who have the financial capability and connections to purchase such cars. However, for cars such as the Ferrari Sergio, with only six units available, customers have no power in determining any aspects of the car. The Ferrari Sergio is a true work of art, so exclusive that only people who have been deemed worthy by Ferrari and extended an invitation can qualify to purchase it. When purchasing the Sergio, the owners have no idea as to what the car looks like. Ferrari will design an ultra-exclusive vehicle and the owners will have to accept the vehicle as a work of art and learn how to appreciate it when they receive it, even if it has no windshield or rearview mirrors.

Luxury SUVs

According to a research conducted by Edmunds, for the first time ever, luxury SUVs outsold luxury passenger cars in 2016. Luxury SUVs hold 55% of the luxury car market share; this number is predicted to increase to 60% in 2017^{xxxiii}. The luxury SUV segment is one of the fastest growing segment in the luxury car industry, growing 19.4% since 2014. It currently holds 21.4% of the luxury car segment. There are several reasons for the shift in focus from passenger cars to SUVs. The first reason is that government-mandated fuel economy rules have encouraged growth in luxury SUVs. With lower gas prices overall, consumers are open to purchasing bigger cars without having to worry about financial consequences. Another reason is that many carmakers are enthusiastically venturing into the luxury SUV segment as it is a relatively niche market that can attract new target markets that many carmakers have yet to capture. Interestingly, this market shift is largely driven by women. The research conducted by Edmunds illustrate that 57% of women who purchased a luxury vehicle in 2016 purchased a SUV. Currently, over 40% of the market's SUV is sold to women^{xxxiv}.

Entering the luxury SUV segment offers a strong competitive advantage. In 2016, both Jaguar and Volvo launched luxury SUVs, the F-Pace and XC90. Data shows that as result, Jaguar's sales grew 81.4% and Volvo's sales grew 25.9%^{xxxv}. For traditionally niche carmakers such as Jaguar and Volvo, luxury SUVs help to bring growth and help the brands to become more relevant players in the industry. The luxury SUV trend also helps to save many companies' struggling sales performance. In July, 2016, Bentley was on track for one of the worst US sales year since 2010. The average monthly sales from January to July 2016 was approximately 113 units. However, Bentley launched the Bentley Bentayga (luxury SUV) in August of 2016 and the average monthly sales skyrocketed to 399 units. The Bentayga generated 56% of Bentley's sales^{xxxvi}.

To illustrate the prominence of the trend, several brands have either released or are about to release its luxury SUV line. Both Bentley and Maserati have released their SUV lines: Bentayga (\$223,000) and Levante (\$73,000). Mercedes will soon be launching its 2018 Mercedes Maybach G650 Landulet (\$400,000), currently the most expensive SUV in the market. Mercedes will only be releasing 99 units; this is one of Mercedes' efforts to foot the bill for of developing electric cars, auto-driving features, and ride-sharing platforms^{xxxvii}. Rolls Royce is also planning to release is 2018 Rolls Royce

Cullinan SUV (\$330,000). Jumping on the trend abroad, Lincoln will be releasing its luxury SUV abroad in China to capture the huge sales potential there with the growing wealthy population.

Factory Relocation

For luxury products and brands, the place of origin and production location can not only be indicative of the quality of the goods, but is more importantly central and core to a brand's heritage and reputation. For example, when one sees a Ferrari on the streets, he/she will know for certain that it was handmade in Italy, specifically in Ferrari's famous Maranello factory. Ferrari, Maserati, and Lamborghini all are strong Italian brands with deep roots and a proud Italian heritage. Similarly, Rolls Royce and Aston Martin are strong British brands with deep roots in the British history. Recently, Aston Martin's top management decided to establish a second manufacturing plant in Wales, UK^{xxxviii}. Wales was among 14 other global sites considered; however, in the end, management chose Wales in order to retain the strong British heritage that represents Aston Martin.

Unfortunately, due to the expansion into premium markets, many brands have corroded its strong brand identity in order to meet worldwide demands. BMW, Mercedes and Audi are all proud German brands. However, these brands have lost the exclusivity and charm of being a German brand with their global manufacturing sites. Audi actually advertises itself as "based in Germany, global manufacturer.". This has corroded the strong brand reputation and as result, many begin to perceive brands such as BMW, Mercedes and Audi as premium luxury brands rather than true luxury brands.

Contrary to the ALM "Do not look to group synergies", Volkswagen has been utilizing its networks in order to provide economies of scale to its brands. Although the economies of scale help the companies to reduce significant production costs, it has compromised many brands' strong brand heritage. A Porsche could share many similar parts with a Volkswagen: sharing similar parts with an economy brand definitely diminishes the luxury standard. With the growing trend of SUVs, Volkswagen is urging its brands to launch luxury SUVs as soon as possible. In order to address the high demand and to produce large quantities rapidly and cost-effectively, Volkswagen plans to move many of the brands' production lines to Bratislava, Slovakia. The Porsche Cayenne, Bentley Bentayga SUV as well as the upcoming Lamborghini SUV will all be produced in Slovakia. This is beneficial for sales and profitability; however, in the long-run, this will hurt luxury brands' image and reputation.

Service as a Point of Distinction

Today, many carmakers and dealerships are struggling to stand out as competition become more and more intense. As result, there is an increasing emphasis on providing personalized services to improve the in-store purchase experience as well as after-sales service experiences to establish unique competitive advantages. At the end of 2012, Ford set out to rebrand and reestablish Lincoln as a luxury brand to regain lost market share from German category leaders such as BMW and Mercedes. Not only did Lincoln announce to release four brand new vehicle models, but it also established brand new customer service initiatives. A newly established team of 200 people was intent on establishing Lincoln as a boutique luxury line known for personalized services^{xxxix}. Every customer who reserves a Lincoln MKZ, then brand new, will receive a gift upon receipt of car. The gifts range from selection of wine and Champagne, custom-made jewelry or sunglasses, or stay at the Ritz-Carlton hotel. All of Lincoln's dealers across the country all have to be trained on the new tenets of luxury service at training sessions known as "Lincoln Academy." A 108-page manual details specific instructions on procedures such as how to pamper potential buyers or how to welcome customers back for anniversary of purchase.

Similarly, many dealerships are now catching on to the hospitality trend and are offering lavish perks to create VIP experiences which encourages sales and establish loyalty. Dealers are providing perks such as free breakfast at local diner or free manicures and pedicures at nearby salons while customers wait for repairs^{xl}. Some dealers promise to efficient services and will drop charges if the routine maintenance exceeds 45 minutes. Luxury brand dealers also goes to customers to pick up cars for routine maintenance and provide equivalent vehicle for duration of the maintenance process. All of these service offerings are strategies to increase customer retention as well as improve customer satisfaction to remain competitive and relevant.

Luxury Car Advertising & Marketing

Throughout the years, the marketing and advertising landscape has changed dramatically. Consumers today are constantly bombarded with advertisements left and right on various media platforms. No longer is it enough to launch a simple advertisement that highlights the features and specs of a vehicle. In order for companies to make an impact and stand out from competitors' advertisements, brands need to engage the customer and highlight the unique brand heritage as well as invoke thoughts and emotions from consumers.

Deviating from traditional TV advertisements, luxury car brands are shifting their focus and budgets to online digital advertisements. Luxury car brands are utilizing the digital medium to reach larger masses of target market, especially the millennials, as people are spending more time on mobile devices. With the rising popularity of social media platforms comes the increasing presence of popular influencers. Today, most of the content is not generated by the brands, but rather by car enthusiasts on platforms such as YouTube^{xli}. ZEFR, a technology platform that tracks online influencers, determined that there are "6.5 million videos with auto themes on the platform that have accounted for 35 billion views."^{xlii} Brands that can identify the correct influencers are able to reach create content that reaches their ideal consumers.

Anti-Law Implications

Upon deeper analysis of the luxury car industry, it is apparent that there are several anti-laws of marketing that does not apply to this industry. For the most part, all luxury car manufacturers offer models that have direct competition and substitutes. This directly goes against the anti-law that "luxury is not comparative." Due to the overwhelming number of players in the industry, a consumer can easily compare specs and benefits of various models and select one that is the most suitable.

The luxury SUV trend alone breaks at least four anti-laws of marketing: "Do not respond to rising demand"; "Do not relocate factories"; "Do not look for cost reduction"; and "Do not look after group synergies." Due to the rising demand for SUVs, many car manufacturers are rushing to capitalize on the newfound opportunity. The rising demand for SUVs not only present profit opportunities but also opportunities to become a dominant brand and leader in a niche segment. As mentioned earlier, Volkswagen is utilizing all of its networks and resources in order to provide its brands with economies of scale in order to drive down costs and meet the rising demand for SUVs. This resulted in plans to relocate factories of traditionally strong British (Bentley), German (Porsche), and Italian (Lamborghini) brands to Slovakia, where labor costs are extremely low.

The customization and luxury service trends also break the anti-laws "Do not pander to your customers' wishes", "Dominate the client", and "Do not sell". It can be argued that these anti-laws of marketing do not strongly apply to services. For the most part, if a car manufacturer is selling a car model that has over 100 units available, there needs to be some form of customization in order satisfy customers' needs. No customer would want to pay quarter of a million dollars to share the same car as someone else. The wealthy wants to be both wealthy and unique. The luxury services offered by car brands and dealerships are ways for brands to stand out from one another in the fierce competition in order to attract and retain customers. In these cases, the car brands are bending to the will of the customers in order to satisfy them and retain them as loyal customers in the long-run.

Conclusion

The luxury auto industry is growing and healthy. There are major players within the industry creating a competitive environment between brands. Car manufacturers are pressured to think more laterally in order to create their unique selling point. Luxury brands are hopping on the sustainability, driverless car, and other trends to create their competitive advantage and grow their target market reach. The anti-laws of luxury marketing are becoming less and less relevant in the luxury auto industry which suggests a change in luxury products. The ALMs becoming outdated signals a new trend in customizability for luxury goods especially in the luxury car industry. The concept of luxury is that it is not timeless but it is defined by what is unattainable at the moment.

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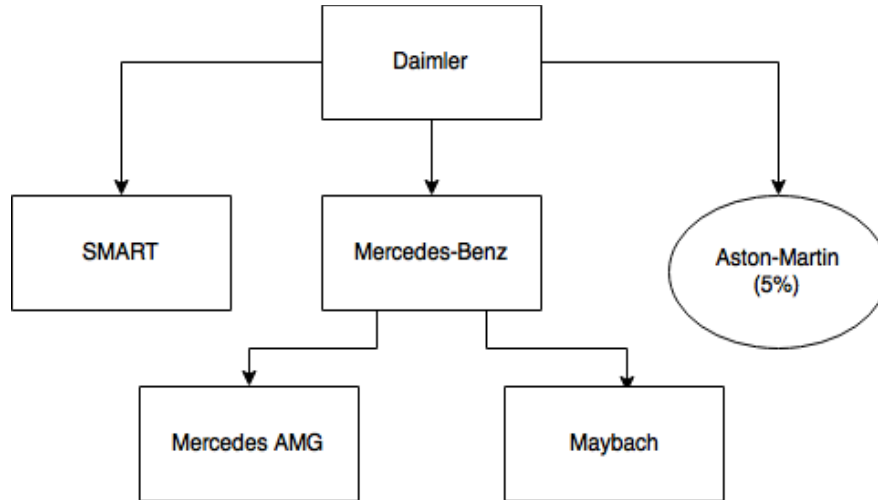
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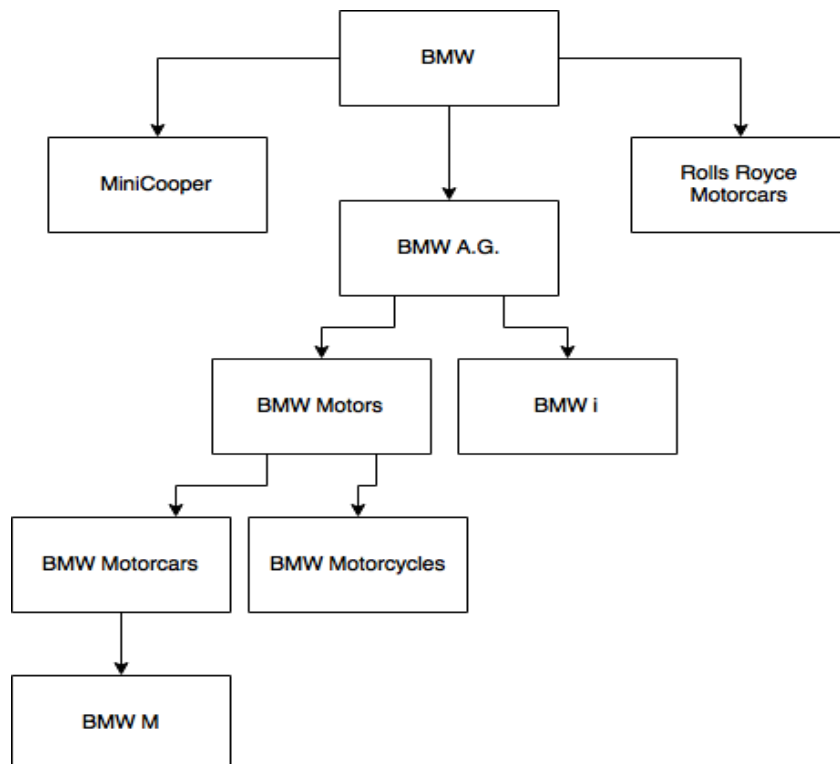
Appendix

Appendix A - Daimler Corporate Structure	F
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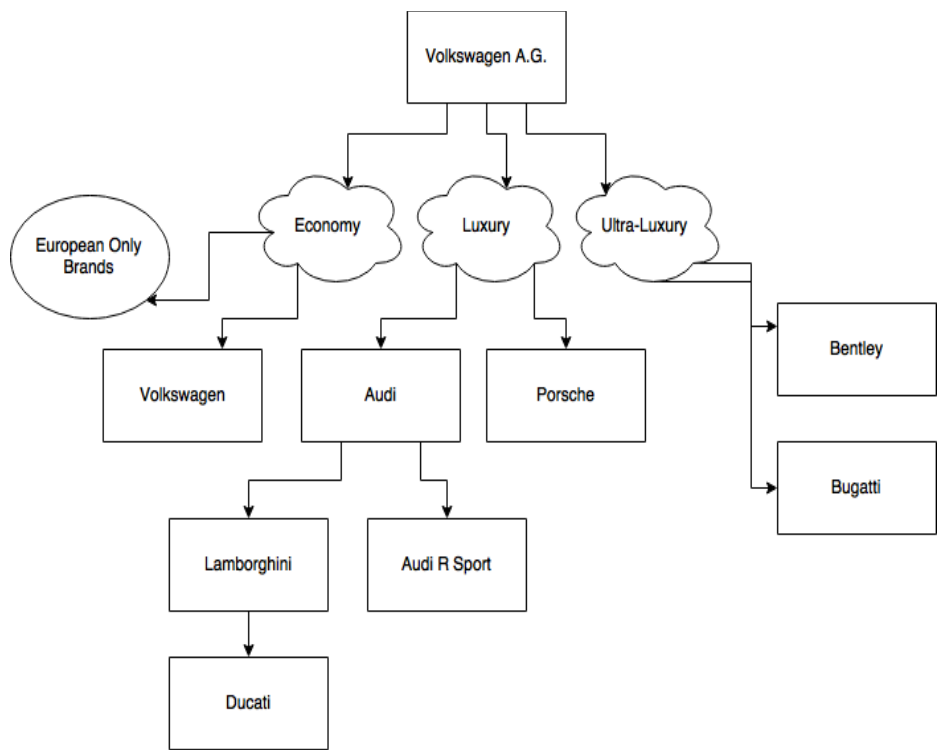
Appendix A - Daimler Corporate Structure



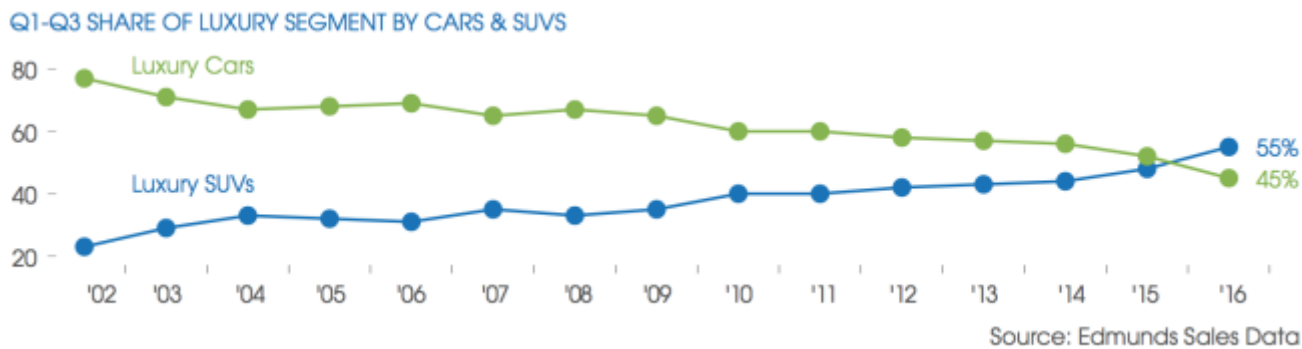
Appendix B - BMW Corporate Structure



Appendix C - Volkswagen Corporate Structure

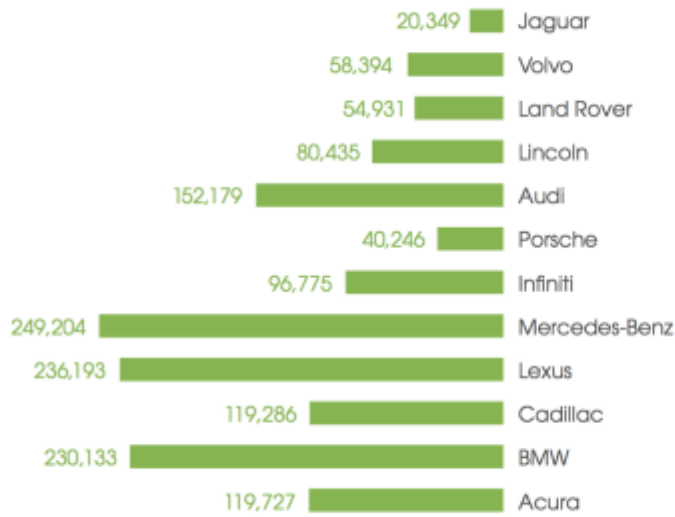


Appendix D - Comparison of Luxury Cars & SUVs

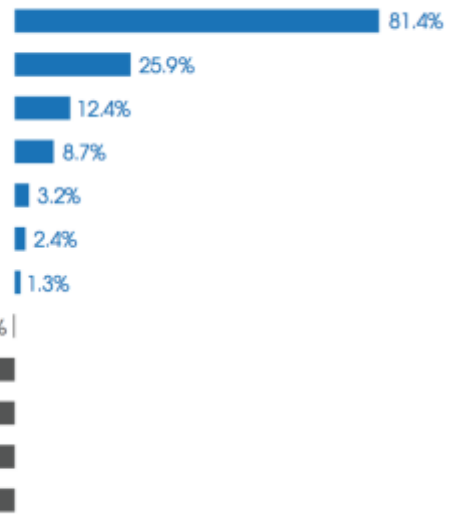


Appendix E - Luxury Brands & Sales Growth

2016 Q1-Q3 TOTAL SALES



2016 VS. 2015 Q1-Q3 SALES GROWTH



Source: Edmunds Sales Data

Endnotes

- ⁱ Cain
- ⁱⁱ Rapoza
- ⁱⁱⁱ Bekker
- ^{iv} "New Report from Edmunds.com ..."
- ^v "The Lincoln Revival: ..."
- ^{vi} "Cadillac Global Sales Rise 44.2% in January."
- ^{vii} "Heritage - Our Wings."
- ^{viii} Trotman
- ^{ix} CarsDirect, n.d. Web. 23 Apr. 2017.
- ^x "Rolls-Royce's Supremely Custom Rides: Luxury Cars Tailored to the Ultra-rich."
- ^{xi} Appendix A
- ^{xii} "Mercedes-Benz Has New Global Slogan: The Best or Nothing."
- ^{xiii} "Mercedes-Benz Concept X-CLASS."
- ^{xiv} Appendix B
- ^{xv} Appendix C
- ^{xvi} "Mercedes Benz 300 SL Gullwing & Roadsters."
- ^{xvii} Rapoza
- ^{xviii} Muoio 3
- ^{xix} Cassidy
- ^{xx} Li
- ^{xxi} Guilford
- ^{xxii} Muoio 3
- ^{xxiii} Bhasvar
- ^{xxiv} Liberman 1
- ^{xxv} Assis
- ^{xxvi} "Google's Driverless Cars Make Progress."
- ^{xxvii} Muoio 2
- ^{xxviii} Liberman 2
- ^{xxix} Brandon
- ^{xxx} Eisenstein
- ^{xxxi} Muoio 1
- ^{xxxii} "Rolls-Royce's Supremely Custom Rides: Luxury Cars Tailored to the Ultra-rich."
- ^{xxxiii} Appendix D
- ^{xxxiv} "New Report from Edmunds.com ..."
- ^{xxxv} Appendix E
- ^{xxxvi} Cain
- ^{xxxvii} Behrmann
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- ^{xxxix} "Where Are Audi Cars Built?"
- ^{xl} Vlasic
- ^{xli} Maeda
- ^{xlii} Castillo