Contents

CHAPTER 1

What is a Premium Car Brand?

At 210 kph we glide along the Autobahn in Germany, to meet an automotive industry client in Stuttgart, the home town of Mercedes-Benz and Porsche. The speed of almost 130 mph feels like a comfortable cruising speed, which allows passengers to read, work, or doze awhile to recharge. Our colleague from the sales department masterfully commands the steering wheel of the new 5-Series BMW station wagon, which sits comfortably on the road even at this high speed. Hardly any other BMWs, Mercedes, or Audis pass us, only the occasional Porsche roars past. These four brands encompass a special sector of the global motor industry, which we will subsequently attempt to analyse and discuss.

Origin and history of premium car brands

The premium brands of the automotive industry originated in the sixties and seventies of the twentieth century. Mercedes-Benz and BMW played a major role in the establishment of the German premium brands, as we will elaborate below.

In the postwar period, the automotive markets were structured quite clearly. On the one hand, there existed traditional luxury brands such as Mercedes-Benz, Rolls-Royce, Bentley and Cadillac, while on the other hand, there were the so-called mass-producers such as Volkswagen (VW), Chevrolet, Ford and Fiat. The luxury producers served the luxury segments, such as chauffeur-driven limousines, sports cars, and convertibles, while the mass-producers provided the basic means of transportation for everybody else. These produced the much-loved VW Beetle, Ford Taunus, Opel Kadett, and Fiat 600.

Luxury and mass segments were separated from each other in several distinct ways. Price, comfort and quality showed marked differences, which were visible to any automotive expert, and evident to any passer-by. In the times of a strongly growing demand for mobility in the vigorous economic growth after World War II, there was sufficient growth potential in both segments of the car market, so that each manufacturer could develop their products gradually within their accustomed competitive and customer environment. Through the developing concentration of market power, customer expectations were successfully controlled and managed.

The simple and seemingly obvious separation of the automotive world into ‘top’ and ‘bottom’ was fundamentally shaken in the oil crisis of the early seventies. All of a sudden, it was no longer the case that luxury vehicles were ‘better’ in every conceivable way, because they showed significant weaknesses and deficits in consumption, safety and employment of up-to-date technologies. The ensuing attempts of the car manufacturers to cope with these allegations led to different strategies: while Rolls-Royce and Bentley opted for the absolute super-elite niche, it was primarily Mercedes-Benz that took on the challenge with a technological response.

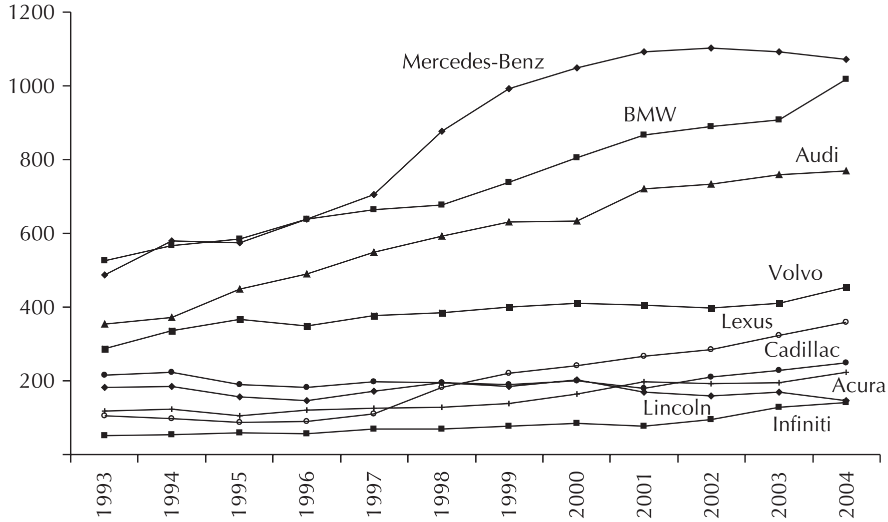
This Suebian company developed a host of vehicles and vehicle concepts which one by one addressed the evident weaknesses of former luxury-class cars. Innovative concepts were developed for passenger safety, fuel consumption and new technologies. Legendary and unforgettable car safety concepts, dating from the late seventies, attempted to provide increased safety for passengers and others on the road by boasting huge black rubber bumper bars. The demand for less consumption was quite radically countered by Mercedes-Benz with the suite of C111 prototypes, which in the guise of a racy sports car tested different engine concepts including an early turbo-diesel for performance and efficiency.

Although the strategy of countering product weaknesses by means of engineering and technology paid off for Mercedes-Benz as a single brand, it ultimately led to a technological justification of the unchallenged social prestige associated with luxury brands until then. In addition to that, innovative brands such as BMW challenged the luxury reign with a sportive edge in the late sixties, while Audi strove to showcase technological superiority in the early eighties. Today, both of these brands are significant competitors to Mercedes-Benz.

While before there had been an almost entirely social separation of the luxury brands as expressed in the products offered and segments served, from the eighties on the value of a vehicle would also have to be justified through its concrete and visible properties. With the oil crisis of 1973, which had a major impact on purchasing-power levels, the Western consumer became increasingly critical – and increasingly demanded real value for their money from the car manufacturers.

German premium car brands – a decade of growth

The ten years from 1994 to 2004 were marked by strong worldwide growth of the German premium car brands (see Exhibit 1.1). Due to this growth,



Notes: Group ownership of brand: DaimlerChrysler: Mercedes-Benz; Ford: Lincoln & Volvo;

GM: Cadillac; Honda: Acura; Nissan: Infiniti; Toyota: Lexus; VW: Audi.

Sources: National Statistical Registration Offices, inc. cars, SUVs, MPVs.

Exhibit 1.1 Worldwide sales of the German premium brands grew more strongly than the premium or luxury competition over a ten-year period

Mercedes-Benz, BMW and Audi have gained unchallenged superiority in global sales over their Japanese, European and American competitors.

Viewed in absolute sales figures, Porsche plays only a minor role among the four premium brands analysed here. In relative terms, though, Porsche has achieved the strongest increase in turnover in the past ten years – by a factor of five, to be precise, as can be seen in Exhibit 1.2. The brand also managed a strong catch-up in overall profit margin after the record loss of 122 million Euro (approx. $150 million) in the business year 1992/93, due to the global recession induced by high oil prices resulting from the invasion of Kuwait, which increased inflation and led to higher interest rates, which choked off the global economy. In 2001/02, a gross margin of 17 per cent was achieved, literally meaning that out of every $100 sales, $17 were kept as operating profit. In percentage terms, Porsche is therefore the most profitable car maker on earth – closely followed only by BMW. In 2002/03 (the Porsche business year runs from 1 July to 30 June), Porsche was able to keep its gross operating margin at 17 per cent, while net profit was increased to 10 per cent of turnover – yet another absolute top value in the motor industry. And in 2003/04 Porsche achieved a gross margin of 17 per cent – again.

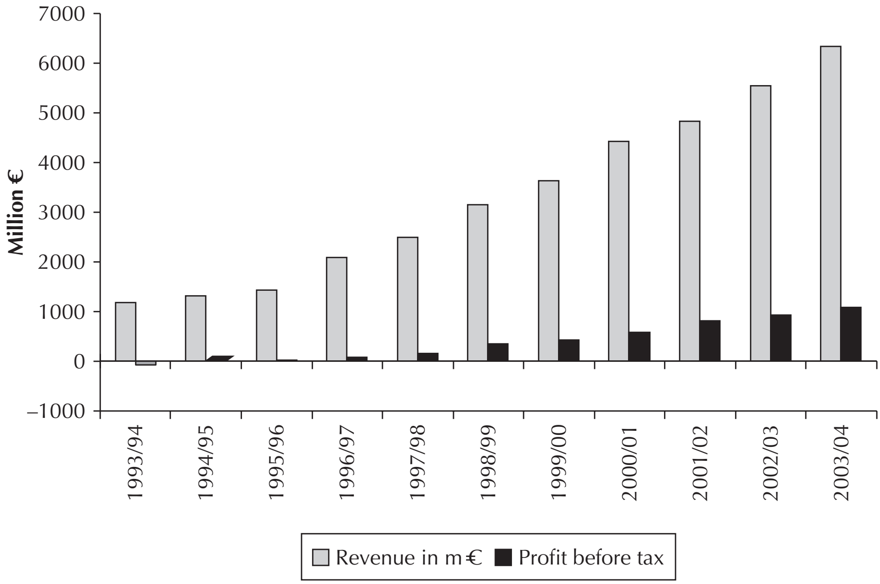


Exhibit 1.2 From business year 1994, Porsche's revenue grew more than fivefold, with gross profit at 17 per cent of turnover in 2001/02, 2002/03 and 2003/04

The successful growth of the four German premium car brands Mercedes-Benz, BMW, Porsche and Audi has attracted a great deal of attention in recent years. In the early nineties, a shock went through the German motor industry: the Japanese manufacturers had successfully attacked the German brands on the US market. In 1990, the Toyota derivative brand Lexus, after only two years on the US market, overtook BMW, and another year later even Mercedes-Benz. Just to make it absolutely clear: Toyota had launched Lexus on the US market only in 1988, with no previous sales and a small retail network. The established competition such as Mercedes-Benz and BMW, with their decades-long experience in the market, had not taken the threat very seriously in the beginning. But only two years after its introduction this newcomer brand topped the sales figures of BMW, and another year later those of Mercedes-Benz. The German automotive industry was shattered.

It is therefore no wonder that in 1993 the head of Mercedes-Benz, Werner Niefer and the CEO of BMW, Eberhard von Kuenheim agreed that the greatest threat to the German motor industry came from Japan. This shock did not fail to change the German manufacturers from within, and with a great offensive in quality, cost and product the German manufacturers have not only succeeded in defending their position in Europe, but also on a worldwide basis.

In the years after publication of the book *The Machine that Changed the World*, which made the dogma of *lean production* for the enhancement of quality and efficiency commonplace, the global motor industry in contrast also showcases a continued shift towards premium products. Instead of being sold as a commodity at the lowest possible market price, these premium products command significantly higher prices and therefore higher profit margins. Can the establishment and management of a premium brand be made commonplace today, like *lean production* more than ten years ago? This book will attempt to lay the foundations for answering this question.

Definition and explanation of premium car brands

The word 'premium' is derived from the Latin adjective *primus*, which simply means 'the first, the best'. Any product that rightly claims to be 'the best' will also be regarded by customers as justifying an exceptional price, significantly higher than that of any average product. Therefore, the word 'premium' has also taken on the meaning of 'more expensive than others' – but that is clearly a different, merely derived notion, which stems from the Latin noun *praemium* (price, reward). The example of the German premium car brands illustrates both meanings of the word.

A premium brand is best described by its properties, as well as its strengths: it is not just a luxury brand, it shows great strength in its home market, and its products have exceptionally high residual values.

Premium car brands vs luxury car brands

This chapter is crucial to the understanding of the very notion of 'premium' and may challenge the views of many experienced car enthusiasts and branding specialists. However, the premium car brands segment establishes an independent third segment of the car market, which can be separated clearly from the volume segment on the one hand, and the luxury segment on the other hand. The luxury segment itself can be separated into American luxury on the one hand, and European luxury on the other hand – a frequently overlooked differentiation. A premium brand is fundamentally defined through innovation and innovative capabilities, which are clearly communicated by means of marketing and corporate appearance. Thereby, a premium product brand will acquire a premium brand image.

A luxury brand, however, will draw its status mainly from the past, i.e. a brand 'heritage', or from strong marketing efforts, i.e. 'image', which will mostly be conveyed through tremendous price positioning. While both premium and luxury brands will offer expensive products, the positioning of a luxury brand will be established almost exclusively on product price. Contrary to the purely arbitrary and discriminatory price-setting strategy of luxury brands, the price position of a premium product is explicable by means of enhanced classic free-market pricing mechanisms, as will be explained in the appendix to this book. The superior effective price position of a premium product is explained through the fact that it will not only appeal to the buyer by means of pure product properties, but also through superior image values. In addition to the right hemisphere of the brain (processing mostly emotions, and aspects of qualitative appeal such as image and prestige) which is appealed to by the luxury brands, a premium brand will also appeal to the left hemisphere (which processes more rational aspects, such as technological innovations, or numerical values such as top speed or performance figures), the latter being the main driver of an 'everyday' car-purchasing decision. While both luxury and volume brands only appeal to one hemisphere of the potential buyer's brain – luxury brands to the right hemisphere and volume brands to the left hemisphere – a premium brand product will appeal to both brain hemispheres. This will evidently make the appeal of such a product much wider and deeper than that of any other product, which will also make it more valuable – and will therefore enable it to achieve a higher price (see Exhibit 1.3).

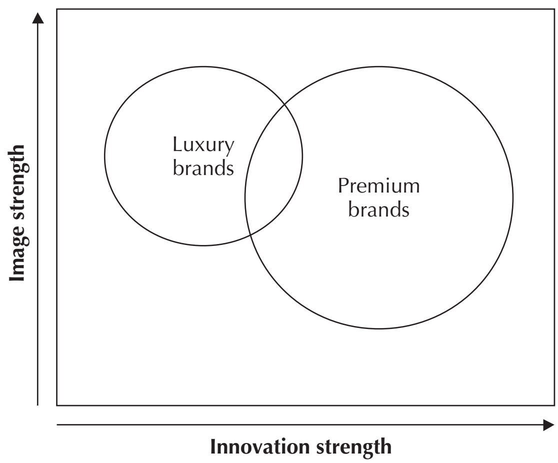


Exhibit 1.3 With their innovation and image strength, premium brands appeal to a wider audience than luxury brands, which mainly offer image strengths (© 2004/05 Philipp G. Rosengarten & Christoph B. Stuermer)

Luxury brands have become much more commonplace in the period analysed in this book. While the European end of the luxury market has remained fairly restricted in sales volume through the concentration of brand values on hand-crafted detail and retail exclusivity, a new kind of 'affordable' luxury has been developed for the US market by Japanese and American manufacturers, concentrating more on physical comfort and absolute vehicle size. It is therefore not surprising that Lexus, Toyota's 'affordable luxury' brand, is highly successful on the US market with sales of over 200,000 units in 2002, while a mere 20,000 had found their way to European consumers (most of them in the UK). Lexus clearly appeals to American luxury values, but commands neither extraordinary technological finesse nor a long and glorious brand history.

Premium brands are global, but strong in the home market

Lexus is still a good distance away from being a true innovative or global premium brand, as it has not been sold in the home market of its mother company, in Japan. There, the products known globally as Lexus are still being offered under the Toyota brand, but only through two of the five retail sales chains used for Toyota products. Since this strategy has been identified as an impediment to long-lasting global success, the Lexus brand is being offered in Japan from August 2005.

Premium brands are always global brands, but have a strong position in their respective home markets. Success in the home market – which in most cases is a highly competitive one – really enables the globalization of the premium brand. Furthermore, premium brands have their strongest appeal with an elevated customer segment with internationally similar preferences, which shows mostly in the elevated income, but also age, of the buyer groups.

The home market plays a decisive role for the premium brands: only through intense competition in the home market do companies gain the strength needed for their success in the international market. The four German premium brands indirectly profit from the relentless competition in the German market, which has led to superiority of the German motor industry in many fields. The fact that the German market is the most competitive car market in the world has also made the German car brands the most competitive in their specific premium segment.

Of course, the German brands will profit from certain advantages in their domestic market. For example, in Japan and in the USA, the top speed on motorways is generally limited, while the German Autobahn has gained its almost mystical appeal from the fact that top speed is unlimited, except in designated areas. The German Autobahn therefore forms a natural high-speed testing ground, with the largest number of high-speed test pilots available: any car driver in Germany has immediate experience of high-speed driving, and will be a relentless critic if the products will not stand up to the challenge of the Autobahn. This forms a natural environment for any innovation which will make high-speed driving more efficient, safer, or easier – any country with a general speed limit will limit this natural innovation resource. If the German government were eventually to enact long-kept plans for introducing a general speed limit in Germany, it might slightly improve road safety, but it would certainly throttle the constant flow of innovations emanating from the German motor industry. Among other things, the German Autobahn is one of the natural prerequisites of the home market of the premium brands and a necessary condition for the impressive innovations and convincing marketing of the four German premium car brands.

Premium brands profit from qualitative growth

In the industrial and fully developed countries there is a strong and visible trend to qualitative instead of quantitative growth. This means, for example, that the absolute number of new vehicles sold per year will not grow by large amounts, but the value and price of any individual car sold will rise significantly year-on-year, by means of increased performance and power, higher levels of safety and technology, and higher equipment levels. But in developing countries also, such as China, the demand for high-end and high-tech premium cars is rising strongly. For example, in 2003 the Chinese market became the third-largest sales country for BMW's 7-Series and Audi's A8, after Germany and the USA. In comparison to the volume brands, premium brands permanently increased their share of the global car market, from 7 per cent to almost 10 per cent in the ten years analysed here. As we have explained above, this level is still far away from any 'natural' limit to the global success story of premium car brands (see Exhibit 1.4).

Today, premium brands have the natural advantage of a relatively small and concentrated product portfolio, which still allows for the establishment of new niches in lower segments (i.e. smaller and cheaper cars) as well as neighboring segments (i.e. new and innovative vehicle concepts such as SUV and MPV). Volume brands – with their fully developed product portfolio and restricted pricing scope – are basically limited to sideways growth, i.e. into more and more specialized vehicle concepts, such as crossovers or 'niche vehicles'. Also, due to the success of previous years, the premium

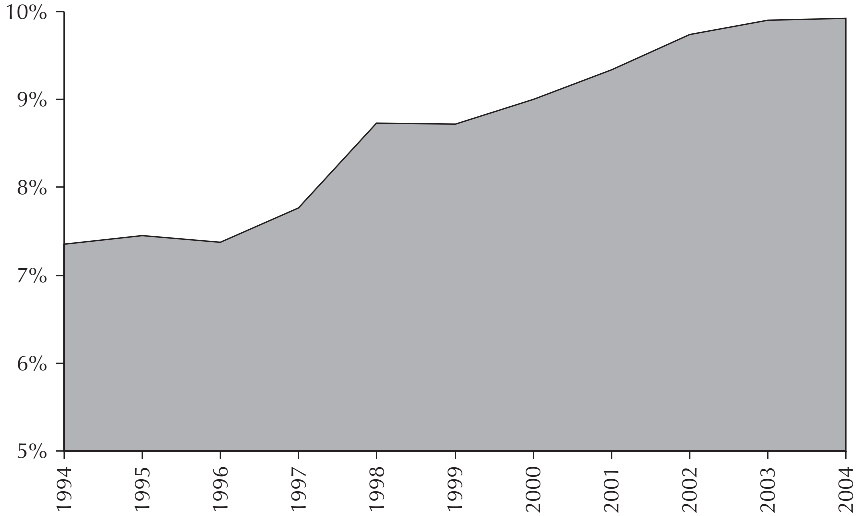


Exhibit 1.4 The premium and luxury world market share of global car, SUV and MPV sales grew continuously in the ten years to 2004

brands can mostly rely on a healthy financial underpinning, as their superior position in their accustomed premium segments will allow for healthy profit margins. While the premium brands will now be able to reinvest some of the reserves acquired over the ten years to 2004, many of the volume producers have suffered significantly from the relentless onslaught of cut-price competition from new international competitors. Some of the more prominent volume manufacturers are restricted to quarter-to-quarter survival efforts, even at the expense of product and technology investment programs.

Used-car prices and leasing rates

A significant difference between premium brands on the one hand and volume and luxury brands on the other hand is visible in the role and level of the price of used cars, i.e. residual value. The higher the residual value of a car, the lower the difference between the used and a new car will be for any repeat buyer, and the more attractive the purchase of a new car will become versus a used car. The low loss of value in the first few years of the vehicle's life also has the significant advantage of lowering leasing and finance rates, as these rates will be mostly determined by the final amount to be covered by monthly rates and down payments. Especially for company cars, the leasing rate will play a significant role, as corporate fleets tend to be offered with inclusive financing packages. The lower the expected loss of vehicle value in the period covered by the leasing agreement, the lower the leasing rate will be – and the more competitive against other, non-premium competition. In Germany, for example, the leasing rate of a BMW 3-Series compares favorably with the payments due on a Ford Focus – no wonder the 3-Series ranks among the three most popular vehicles sold in Germany.

The Mercedes-Benz SLK folding-roof convertible is the vehicle with the highest used-car residual value in Germany in percentage terms, even before Porsche's Boxster model. Juergen Hubbert, head of Mercedes-Benz until October 2004, is quite aware of the importance of used-car prices for a premium brand: 'Value retention is also of the highest priority. Those who are willing to purchase a Mercedes, will also be interested in keeping its value as long as possible.'

Premium brands are fundamentally opposed to artificially inflating sales through incentives offered by manufacturers (such as price reductions, give-aways, money-back offers or subsidized financing), as they will have an disproportionate effect both on company profits and on residual values. Any incentive will not only harm the company offering it, but also any assets of customers who possibly bought the vehicle at a higher price. It is therefore not only a sign of corporate self-interest, but also of respect for customers that premium brands regard incentives as an unlikely and dangerous strategy. This again helps to keep residual values up, which in turn helps to keep leasing and finance offers at competitive levels. It is a widely known truism of the motor industry that any rebate given on a new car will immediately lower the used-car residual by at least the same amount.

It should, however, be pointed out that manufacturer incentives given to the end customer are completely different from the incentives and margin options agreed between manufacturers and retailers. The retailer will be able to use this support at their discretion in the course of the negotiating process, and will make sure not to harm thereby the long-term client relationship on which their personal financial success rests. The manufacturer will not be involved in the way that dealers use their room for maneuver within their client portfolio. Apart from the retail organization of the 'smart' brand, which works under absolutely fixed retail prices, any dealer is expected to counter direct competitive offers flexibly, especially when another competing premium brand is involved.

This differentiation of customer incentives – into those given by the manufacturer, and those given by the dealer – is strategically important, as local dealer activities will impact on overall resale values only to a fairly limited degree. In one of his first statements as head of Ford's Premier Automotive

Group (PAG), Mark Field did not differentiate clearly between these two areas and thereby upset a number of valuable customers. In particular, Jaguar in the US exhibited a number of desperate makeshift activities such as cash-back incentives and lowering of list prices to increase new-car sales, but at the same time put tremendous pressure on already battered resale values, and thereby on financing competitiveness.

Even Porsche, in view of the critical development of sales in the US market in the fall of 2003, was once forced to consider lowering the affordability hurdle for its products – but through extremely subtle means. Instead of lowering new-car prices through direct incentives – and thereby endangering used-car value – Porsche decided on the opposite strategy of subsidizing used-car trade-ins by some $2000–3000 – but only if the used car was a Porsche, and the customer bought a new Porsche off the lot. Through this strategy, Porsche was not only able to offer a good deal on new cars, but also to support the residual values of the existing Porsche fleet. As opposed to other strategies, this approach even has a positive impact on residual values, and is therefore by no means comparable to a direct rebate or money-back offer, with their negative impact on residual value. Again, Porsche has developed a showcase example of successful premium brand management.

BMW, on the other hand, is almost legendary in the management of residual values of its products, especially of the 3-Series. In 2002 a new system was introduced for the management of residual values. This strategy of concentrating on the increase of residual values in the US was later adopted by Porsche and Audi in 2003. For Audi, this approach has already paid off: on average, the residual value of an Audi on the US market increased by 2 per cent in the course of only one year.

Premium brand volume development in Western Europe

Premium brands' share of the new car market in Western Europe has been increasing constantly and strongly since 1994, mostly independently of the ups and downs of total European market development. While the volume manufacturers occasionally lost significant market share, the premium brands successfully achieved permanent growth (see Exhibit 1.5). According to our expectations, this development is likely to continue for the foreseeable future.

The main reasons for this development lie in manufacturers' strategies as well as in surrounding macroeconomic and social developments. Starting from the original luxury segments, the premium brands have been expanding their product portfolios into other relevant segments of the market.

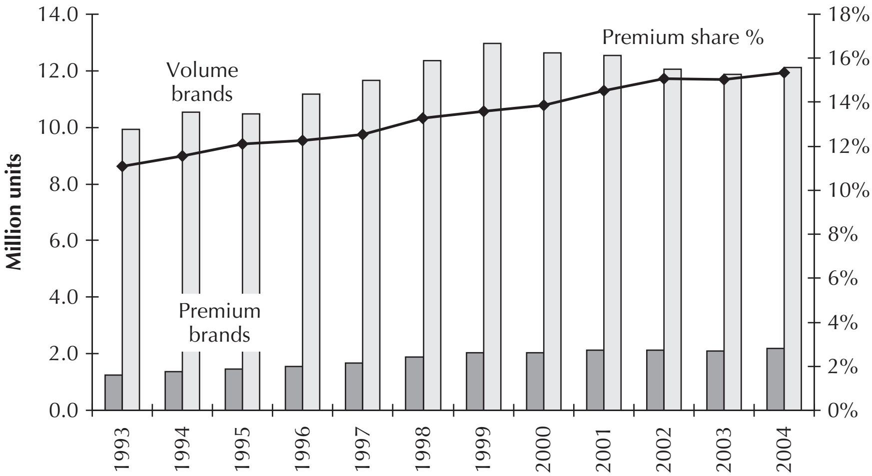


Exhibit 1.5 Premium brand market volume in Western Europe grew continuously over ten years from 11 per cent to over 15 per cent

In addition to that, some manufacturers from lower segments have managed to establish themselves as premium offers, and have brought additional customer potential into the premium segments.

More vehicles on offer as well as newly established import brands have been making the product offer significantly more complex and unwieldy, so that the 'orientation function' of any individual brand is becoming more and more important. This development works almost exclusively in favor of the stronger brands, which already provide almost 100 per cent brand recognition and full market coverage as well as global product availability. The customer's decision in favor of one of these established brands is likely to be even more natural, the more complex the surrounding market environment becomes.

The exceptional economic and financial growth in the nineties led to a strongly increased availability of liquid capital ('cheap money') which was turned into ostentatious, prestige-oriented consumption – especially of high-tech goods, and preferably of premium brand cars. The demographic development of an increasing old-age population together with ever-improving health care and the more active lifestyle of the 'young aged' led to an increased mobilization of capital assets, which at the same time became increasingly concentrated, with a homogenous demographic profile. This development played especially in favor of the most established premium brand, Mercedes-Benz, over the past ten years.

Due to the development and structure of the premium brand segment it is no surprise that almost 75 per cent of the total segment volume is made up of just the top three brands. In the mid-nineties, Mercedes-Benz took the first decisive initiative for the growth increase of the premium brands – but due to the long decision-making and development processes of the automotive industry, the foundations for this development had already been laid years before, at the beginning of the decade. Therefore, Mercedes-Benz must be regarded as the true 'inventor' of strategic brand management – which, in a paradoxical turn, may enable other competing brands to break into the realm of premium brands later. Against this backdrop of global strategic brand development, Toyota and especially Honda should be watched quite closely, while Volkswagen has already gone far down the road of being recognized as a possible premium brand contender.

This latter development would mark the completion of the turning of the market structure from a hierarchical into a properties-based brand separation, because with the inclusion of Volkswagen within the premium brands, the segment – at least in Germany – would almost reach 50 per cent of the total market. After this, another widespread misunderstanding of the automotive industry would have to be corrected, which associates 'premium' in the sense of superior product properties merely with 'premium' in the sense of overblown and superficial price tags.

The extremely high share of premium brands in the German market (see Exhibit 1.6) is explicable in part by the high overall wealth levels and available capital, but also by the high social acceptance of these products. Another significant reason is the mere fact that Germany is simply the home market of the most significant premium brands. Due to the home-market advantage, five relevant factors come into play:

(1) *Density, structure, and management of sales networks* are most highly developed, especially by means of manufacturer-owned direct sales points.
(2) Employees of the premium manufacturers are entitled to *special terms on new vehicles*, which in turn will be resold through highly effective private distribution networks, constituting a very powerful support for new-car sales.
(3) The enormous *company car fleets* are available for company-owned used-car sales, significantly increasing choice and liquidity in the secondhand market.
(4) The *fleet business*, i.e. the centralized sales of vehicles to major corporate clients is a very important part of the premium brands' business and will be conducted mainly on the home market – sometimes even

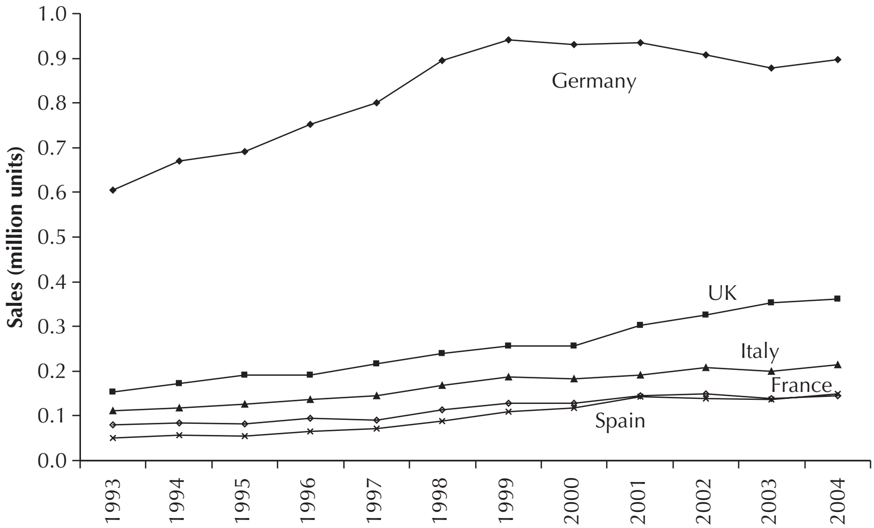


Exhibit 1.6 Premium brand market volume by country clearly shows Germany in the lead: strength in the domestic market is important for international success

through direct sales activities of the manufacturers, which are operated separately from any other sales channel.

(5) Due to the *high availability and widespread social acceptance* of these vehicles, the average specification and price of a premium car will be significantly lower in the home market than in any other country.

In spite of the high market share and impressive number of vehicles sold, the business of selling premium cars in Germany is not excessively profitable, because a large share of these sales is heavily subsidized by the manufacturers. Still, the German market has great strategic relevance by means of guaranteeing a certain base load for the production infrastructure. Even in the premium segment, high sales volumes are becoming increasingly important, because they help to amortize the immense investments needed for development and production. These volumes are needed for countering ever-increasing price and profitability demands by means of volume digression – yet another indicator of the move of the premium segment away from the realm of excessively high prices and unaffordable luxury.

The concentration of sales volume in the German market is of crucial importance, especially for Mercedes-Benz. Almost every second Mercedes sold in Western Europe will be accounted for in Germany. Audi and BMW, however, show a much more even regional sales structure, which on the one hand points to a less steep image differential between the countries, and on the other hand to a more homogenous, i.e. evenly developed distribution network structure.

Since October 2003, the legal framework for car retailing in Western Europe has been changed drastically by means of the new ‘Block Exemption Regulation’; premium manufacturers were confronted with a much higher pressure to equalize retail network structures in Europe. In the mid-term, this may lead to a more even distribution of sales across the now 25 countries of the European Union. This would again support yet another decisive element of the classic definition of a premium product: not only permanently uniform and superior product quality, but also uniform and ubiquitous availability and marketing. Premium brands, especially, have a strong dependency on a differentiated marketing concept using all available channels, as shown by the example of the German market. In addition to the quality of the product, the image and success of a brand are mainly determined by a targeted approach to the respective customer groups.

Ever since the invention of the premium segment by Mercedes-Benz, there has been a permanent development away from luxury values, which has been mainly promoted by BMW and Audi. Thus the premium segment, while proving to be exceptionally dynamic in sales volume growth, is also permanently changing in structure and competitive positions – and is certainly good for some more surprises and radical changes in the near future.

Premium – what is behind it?

‘Premium’ in the sense of ‘price’ means that customers seem willing to pay more money for a functionally similar product. The problem is only – what is ‘functional’ in this sense? Apparently, a customer attributes more properties to such a product than can be measured by number, weight or scale – but these evidently immeasurable properties seem to be important enough for the attribution of value. At first sight, this may seem a paradox, especially for companies which take great pride in technological excellence, and are used to attributing most of the attraction of their products to their objective and measurable qualities. When such an engineering-driven company is confronted with new competition and the need to enhance the ‘premium capabilities’ of its products, a logical short-circuit emerges. As it is not only the product properties that determine ‘premium’, how can any improvement to the products enhance it? When those properties that actually drive ‘premium’ are not functional, no functional optimization can support it, but only innovation. It is really not possible to develop a product that is inherently ‘premium’, but merely one that is highly innovative – and then it is necessary to convince the customer that it is really this product and these innovations that constitute a ‘premium’ value for him or her. Evidently, the reason for ‘premium’ is not primarily in the product itself, but in the way that it is looked upon, which is frequently determined by the innovations a company has developed over a extended period of time, but also by some marketing efforts.

While modern psychological and sociological communication theories agree that the factual content of a message is only a small fraction of the information conveyed in a statement, this simple fact seems still not to have found its way into the product and portfolio strategies of many major car manufacturers. In the mechanistic views of these engineering-driven companies, this non-functional information is regarded – if at all – as falling mainly into the negative categories of manipulation or marketing, which in turn helps to explain the tremendous advertising budgets of the motor industry.

Of course, customers will have to be informed about the permanently growing product offer of manufacturers, and this should also be done in an original way which appeals to the selected target groups – but the mere information function is nothing that would justify the billions of dollars spent by the automotive industry every year on advertising, marketing, PR, and other forms of campaigning. Effectively, these budgets are usually regarded as the only means used to fill the gap between the objective properties of the product and the all-encompassing information and valuation needs of customers. Much more than just explaining what is there, communication really makes the products tangible for the audience, gives them social and intellectual value, sorts them into ethical categories – and eventually adds real life to the sheer technology.

If the psychologically tested proportions of importance of the components of a message were really applied to the ‘message’ that a new car is, the communication budgets of the automotive industry would exceed by far those for development and production – which in fact they are short of by a huge margin. So it seems that in addition to the mere product properties and the messages put across by professional communication, other – possibly much less controllable – layers of information exist, which play into the total customer awareness of a product and influence its perception and value attribution, but will finally determine its market price and therefore its ‘premium’.

As explained above, the easiest way of establishing such a ‘premium’ brand and a portfolio of ‘premium’ products is to start off with an existing and well-recognized luxury brand, and by a permanent supply of outstanding and innovative products make it increasingly acceptable and available to a wider audience. Apart from Mercedes-Benz, BMW is also a good example of such a strategy, which we will further analyse in Chapter 2.

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