

The Key to Successful Development of the High-End Car Market in Newly Emerging Nations

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The passenger car markets in newly emerging nations are charting conspicuous expansion. Clearly, furthermore, the reason that most automaker, which not so long ago were posting red-ink results in the wake of serious market contraction, have seen their sales get back track of late is due to the support of the rapid-paced recoveries of the passenger car markets in these emerging economies. In the shadow of the expanding passenger car markets driving this recovery, meanwhile, can also be found intensifying battles being waged by “high-end” luxury-class car brands. In markets like China and India, for example, almost all major high-end brands have established local operations, with those market players eager to capture the business of steadily growing affluent classes. In this report, we focus on the emerging nations, primarily those in Asia, in an attempt to define the true state of automobile customers in these markets, and in doing so draw conclusions relevant to the process of building up business brands in these environments.

Expanding Passenger Car Markets in Newly Emerging Nations

With hardly a glance back at the developed nations, markets that continue to lick their wounds from the now infamous “Lehman shock” that triggered the global economic crisis in 2008, in newly emerging countries the passenger car markets have geared up to a serious expansion tone. Forecasts are that the presence of these developing countries in the passenger car sector will continue to grow from here on as well, rising to account for some 40% of the global passenger car market by 2030.

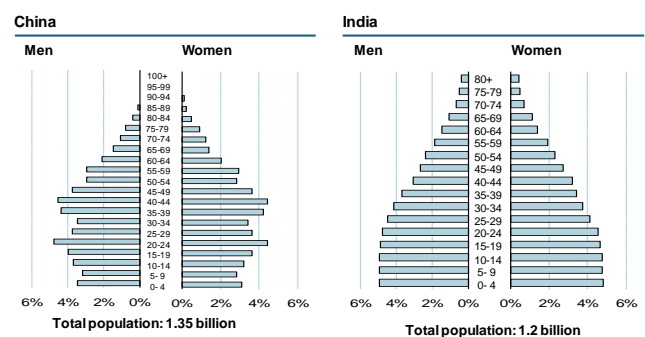
Earning the greatest attention as a newly emerging market is China, with the second nation on that list being India. It is hardly surprising, therefore, that behind this keen interest can be found the following key factors.

- ① Increased passenger car ownership rates accompanying economic development.
- ② Overwhelming population size (both working and consuming sectors) in these countries.

It is generally said that full-fledged motorization begins in countries when the per-capita gross domestic product (GDP) rises above the US\$3,000 line. In China, however, the per-capita GDP is already far over that level at US\$5,962. The economic development there is also moving beyond the coastal areas, noted for the large number of high-income earners, into the inland regions as well. Riding this trend, the wave of motorization is already rapidly expanding in the interior of China. In India, while the per-capita GDP remains below that of

China at US\$2,762, it is clear that the once wide gap between these two rising powers has narrowed to a considerable degree. There is also no doubt that the rate of Indian automobile ownership will continue to climb, hand in hand with that nation’s economic juggernaut.

Population Composition in 2010



Source: United States Census Bureau

Next, examining the sheer scale of the hefty populations in these countries, China is currently tracked at 1.35 billion persons and India at 1.2 billion. In other words, these two nations alone now account for over 40% of the world’s total population. Next on the list is the United States at 310 million, followed by Brazil at 260 million and Indonesia at 210 million. It is no exaggeration, therefore, to say that the Chinese and the Indians comprise an overwhelming presence compared to any other given country. A closer examination of these two giants, however, also reveals major differences. China, which has now carried on its “one-child” policy for

several decades, has attained the type of bell-shaped population curve frequently seen in developed countries. Based on this, the nation is destined to enter a period during which both its working and consuming populations will gradually decline over the medium to long term. For its part, India has attained the pyramid-shape structure typically seen among newly emerging nations, with its labor and consuming populations to conversely expand in dramatic fashion over the years to come.

In this way, with the rapid advance of motorization certain to accompany their economic development, both China and India are undeniably promising markets for the future. Viewed from a longer perspective, however, we can conclude that the growth potential of the Indian market can be expected to increase in importance to a greater degree from here on.

The High-End Car Market in Newly Emerging Countries

While the newly emerging economies have served as the locomotive powering the recovery of the passenger car market, for the high-end car sector the share accounted for by these developing nations remains small. Examining the market structure in 2009, the high-end car market for the BRICs countries (Brazil, Russia, India and China), along with Asia and Latin America, was at the 631,000-unit level (or only some 16% of the overall pie).

At the same time, however, the markets for high-end cars in the developed countries are beset with bad news. Examples include the shrinking markets for such vehicles against the backdrop of the prolonged economic slump and shrinking populations, the shift to purchases of smaller cars along with environmental regulation and changing values and other factors. For this reason, the emerging countries are being treated as a presence that cannot be ignored for their growth potential in the high-end car sector as well. In India, in fact, the past several years have seen advances by a large number of luxury car brands, making that country one of the high-end car markets demanding truly keen attention at present. Mercedes Benz first expanded operations to India in 1994, and has further grown its sales network there in recent years (reaching 17 retail outlets in 2009). BMW moved into India in 2006 and was followed by Audi in 2007, with both of those automakers now operating a dozen or more showroom outlets there. These companies have also launched knocked down local production operations in India, thereby advancing approaches that effectively integrate production and sales operations. Behind such robust investment in a country with a high-end car market only some 10,000 units strong lies the view of automakers that India harbors potential on a par with China, prompting serious efforts to develop the market there.

High-End Car Brands Advancing to the Indian Market



Source: Newspaper and magazine articles, automaker websites.

Customer Images in Emerging Country High-End Car Markets

It should be pointed out, however, that there are gaps between the images of customers in newly emerging countries viewed through the Japanese perspective and the customers found in the actual marketplaces. There is no shortage of cases, furthermore, in which this disparity impedes efforts to cultivate brands and develop markets in those nations.

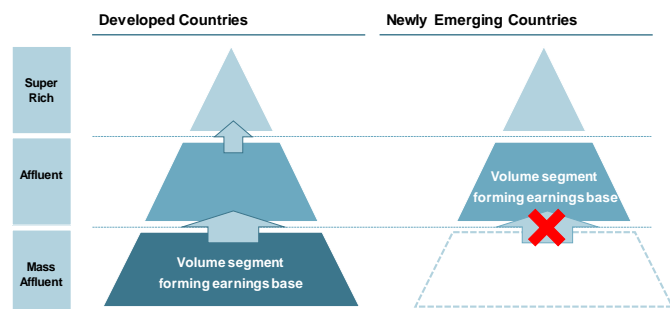
Generally speaking, the so-called “wealthy class” may be broadly divided into three levels: “Super rich,” “affluent” and “mass affluent” subgroups. Major differences exist, however, between the composition of this class in the developed and the developing countries.

In developed countries attaining a certain economic level, substantial middle-ranked (mass) affluent classes exist and form the main support base for the high-end car market. In newly emerging countries on the other hand, due to the fact that wealth tends to be concentrated and income gaps are wide, the super-rich and affluent segments support the limited markets for these cars. This means that the market environment for nurturing a shift to the luxury class models tends to be weak.

In short, when discussing unit sales and earnings, the key focus in developed countries is placed on the mass-affluent class, while in newly emerging countries it is normally on the affluent class.

Developed and Newly Emerging Country Market Structures

~ Support of Mass-Affluent Class Weak in Emerging Countries with Sharp Income Gaps ~



Source: Roland Berger

While it is impossible to casually lump these three segments together, a brief explanation of the situation produces the following profiles of each class.

- Super Rich: Persons of money based on family wealth passed down over the generations
- Affluent: Successful people who have made fortunes in a single generation, physicians, lawyers and other professionals.
- Mass Affluent: High salary earners

The majority the super rich comprising the first tier listed are business magnates owning a number of enterprises, who in addition to the industrial world also have connections in politics, state power and other areas. Being the recipients of family wealth handed down for generations, they continue to perpetuate the true cycle under which money begets more money, and can likewise be described as an affluent class born into prosperity. Backed by family-based efforts to give their offspring gifted education, most children of these classes study at overseas universities. As evidence of this, literally all customers in the super-rich class encountered in Thailand, Indonesia, the Philippines and other Asian countries are bilingual or trilingual (including fluency in English). The majority of the children of such individuals, furthermore, are also educated and/or live overseas.

Along with their phenomenal wealth, such super-rich individuals also tend to own several high-end cars. Some have assembled the same models in a rainbow of available colors, drive a different car every day of the week or engage in other purchase and use patterns inconceivable to the general populace. However, because these people are famous to the degree of being recognized by name and face throughout their countries, they have no great penchant to frequent public places or engage in behavior that truly flaunts their wealth. As a result, because these people tend to congregate with persons of the same ethnic background, they pursue relationships at that level in one shape or form, and are normally mutually known in their own inner circles.

The second tier group, the wealthy class, consists of entrepreneurs who have achieved wealth in their own generation, physicians, lawyers and other professionals and so forth. Persons in this group are also fabulously rich, owning multiple numbers of luxury cars and also widely educated overseas. Because they are persons of influence who have achieved their current status largely due to personal prowess, more often than not they are also self-confident individuals who do not hesitate to flaunt their wealth. As a reflection of such orientations, they are also characterized by strong brand loyalty. Yet they also strongly aspire for the lifestyles of the “super rich” – highly educated persons who belong to refined communities – and thus are keenly sensitive to the trends of the members of that spectacularly wealthy class.

As mentioned, the third tier group of the mass affluent consists of high-level salary earners. In most cases, the members of this segment have not attained the level of being able to purchase luxury-class cars. Even if individuals in this category do reach that echelon, with the wide disparities of wealth that characterize newly emerging economies it would be impossible to anticipate major volume purchases from this group (as would be case in most developed countries).

This leads us to the question of wherein lies the true key to success in forging viable business brands targeting these customer classes.

Sustainable Brand Development as the Key to Cultivating the Super-Rich Market

When viewing business success in terms of unit sales or earnings, the key to victory in newly emerging countries naturally lies in nurturing the “affluent class” that comprises the main volume segment. The super-rich class, in contrast, is a market extremely limited in number, and thus cannot be counted upon to generate large business volume. Having said that, though, strategies that overlook the super rich will also render it impossible to build business models sustainable into the future. This is particularly true in pushes to achieve redoubled penetration of a certain brand in the market in question, during which erring in the order of such strategies is an absolute taboo. At any rate, the first target to be placed in the sights for market offensives is, in fact, the super-rich class. Development must commence, for example, from customers such as those listed in the Forbes magazine ranking of the 100 richest persons in Asia.

When commencing market development from this super-rich segment, it is important to earn ample recognition among the super rich of the brand in question as a “status brand” that can only be owned by them. This approach will lead, in turn, to cultivation of customers in the affluent class – the true volume segment of the market. As noted, the affluent class contains many followers who are largely enamored with the lifestyles of the super rich. Therefore, if a product line earns recognition among the members of the super rich class as a status brand, it is a foregone conclusion that those in the affluent class will also be driven to get their hands on it. Having the brand steadily permeate the market in top-down fashion from the wealthiest classes in this way, therefore, will pave the way to the establishment of an even more robust brand presence. Accordingly, the quest to forge followings for brands in newly emerging nations requires the time and patience to pursue that work in slow but sure fashion.

Next, let’s examine the approach of launching market development from the volume-oriented affluent class. In such cases, it will prove extremely difficult to cultivate the super-rich segment further on down the road. Simply stated, the products involved will become a brand largely confined to the affluent class level. The super rich, in

other words, will not go to all the trouble of purchasing products previously branded in this way, meaning that the opportunity to approach buyers in that segment can be lost for good. As a result, the chances of utilizing adoration of the super rich as a means of attracting the affluent class to the brand will also be minimized. Under this scenario, in order to achieve sustained business development within the affluent class, a segment characterized by strong brand-oriented loyalty, it will naturally be necessary to establish a following for that brand among affluent customers. That, however, creates the need to generate a yearning for that brand among general (mass) consumers. This basically refers to establishing a position as a luxury brand known by everyone in the country, including the general buyer class, thereby giving the affluent class a reason to purchase and own such products. Then again, appealing to the mass market also triggers the need for major investments in commercials, outdoor advertising and other publicity. Though this may be feasible in developed countries where the mass-affluent class forms the foundation of the high-end car market, in newly emerging countries where the scale of that market is small the resulting sales cannot be expected to cover the costs of such major outlays. When setting out in pursuit of scale, therefore, the correct approach is not to demand large scale from the outset. Rather, the resignation to put scale on the backburner at first is what truly holds the promise of hearty success in the end, with this in fact being the way to compete in the high-end car market. Ultimately, therefore, the market strategy of narrowing the target to the mass-affluent class, an avenue generally prone to be adopted when launching new brands, is not a feasible option in this case.

Product and Sales Strategies for Developing the Super-Rich Market

We have stated that the development of the super-rich market holds the key to establishing the brand business in newly emerging countries. But what types of product and sales strategies are needed to succeed on this front? Such efforts must be approached from two different phases. The first involves the work through the establishment of a position as a status brand among members of the super rich, while the second phase refers to the expanding of product sales to the affluent class.

<Products>

Though dealing with the high-end car market, the normal tendency in newly emerging countries is to think in terms of developing the lower end models, comparatively low in price, from among the product lineup available in developed countries. This, however, is a mistake. Members of the super-rich class, persons educated in developed nations who have constantly been in contact with high-caliber products, cannot be convinced to purchase lackluster models. In addition to this, the very aim of marketing to the super-rich class is

to collectively establish the products as a status brand. In view of this, it is vital not to market the low-end models, but rather to opt for top-of-the-line or flagship models. For Mercedes Benz, this would be the S-Class, for BMW the A-Series or the X6, and for the Audi the A8 or Q7. With Lexus, the LS and LX would be the models of choice (and the Hybrid versions of those cars at that). True to this formula, the products most likely to be purchased by this class are focused on the topflight selections. Examining the sales composition of one dealer that has established an operation specializing in the super-rich segment in a certain Asian country, we found that close to 70% of its total sales consisted of flagship models.

In this way, after raising recognition as a status brand among the super rich, gradual moves should be organized to market lower-end models in making the move to the second phase (development of affluent-class customers).

<Promotion>

It is no exaggeration to say that any type of promotion at the first phase is almost entirely meaningless. This is because the members of the target super-rich segment believe strongly in word-of-mouth communication within their own community, with the impact of the mass media on their purchase behavior negligible at best. In view of their distaste for venturing out into public, furthermore, it is virtually impossible to reach this segment through the development of general events alone. Taking this logic to the extreme, we believe that mass media advertising is not even necessary at the initial branding stage. In place of that, there is a need for sales people to devise proactive approaches targeting a limited number of prospective customers, with word-of-mouth communication cultivated by establishing relations of trust with those targets offering the best and most prevalent means of sales promotion. At the aforementioned dealer that set up a business operation specializing in the super-rich segment, few if any promotions or events were organized, with that dealer’s business focused on the activities of its salespeople themselves. As a result of this approach, approximately 40% of that dealer’s sales can be traced to the source of word-of-mouth communication from existing customers.

At the stage of making the transition to the second phase, sponsoring a certain amount of advertising makes sense, while it is also not terribly difficult to attract prospective customers in the affluent class by organizing events. Although a brand image effectively penetrating the super-rich community ultimately provides the single greatest promotion tool, it is also recommended that advertising and event activities be steadily expanded in making the shift to the next phase.

<Sales Outlets>

Just because the target is the super-rich class doesn’t create the need for large and extravagant showrooms. It will naturally be necessary to locate near areas where

these elite tend to congregate, but there is little to be gained by going the route of building deluxe facilities. Even if using high-priced marble, gold, silver and other materials in building the sales outlets themselves, the residences of the super rich can be expected to be far more luxurious. Attempting to compete at that level, therefore, will result in excessive investment in the outlets, prompting high depreciation costs that can keep dealerships from ever turning a profit. Moreover, as noted in the promotion section, using mass media advertising structured to target the super rich as a means of developing outlets dependent on visits by prospective customers will also doom the businesses to commercial failure. Based on these realities, the dealer outlets themselves do not need to be all that large in size. This is not to say, however, that the facilities themselves rank low in importance. For salespeople, the outlet offers an excellent medium for relating the brand's special saga, which in turn points to the need for the venues themselves to be designed from that outlook. The demand here, in short, is for schemes that help empower the salespeople to explain why a product has been given a certain configuration or style, naturally communicating to customers the vision instilled by the brand has in its products to help win over those customers as fans of that brand.

<Price>

Though price setting is an extremely tricky area, in a certain sense prices are a reflection of the brand. If the first priority is to establish a stronger brand, it is advisable that prices be set higher than those of competing brands. The super rich can generally be seen as a segment with low price sensitivity. If the judgment is reached that the customer will reap satisfaction commensurate with the asking price, it is inconceivable that price itself will act as a deterrent for sales. From the seller's perspective, in contrast, insofar as the target segment is limited in volume pressure will come to bear to secure the maximum profit per each unit sold. This means that the proper option is pricing designed to generate an adequate profit margin. At this level, however, the greatest issue is the aforementioned "satisfaction commensurate with price." The road to success in the product and sales strategies described up to this point lies in sales operations that are in fact capable of generating this "satisfaction." As a differentiation factor, the strength of such operations continues to act as a key in support of competitive strength from the second phase on as well.

Adapting to Personal Needs as a Vital Key

While the products are important, it is difficult to please satisfy the super rich, people known to put together collections of the world's most luxurious models, with product power alone. The price is viewed as compensation for satisfaction, and simply being set low is no grounds for success. When priced low, in fact, the tables can be turned with the sales targets actually losing

interest. The same holds true of dealer outlets and promotions, neither of which are capable of becoming elements that truly charm and satisfy the super-rich class. As such, the sales operation strength discussed above can be expected to play an extremely important role. At the Ritz-Carlton as well, a renowned member of the hotel industry patronized by the super rich around the world, the source of the ability to differentiate itself from the competition is attributed to the quality of its service and the competency of its operations. According to the results of a study conducted by Roland Berger in Asia, the super rich place the greatest importance not on "things" as such, but rather on trustworthy "people" and "service." Among the affluent class, meanwhile, a trend to consider brand loyalty as a sign of status was identified. In interviews directly conducted with consumers as well, comments were heard from the super rich targets to the effect: "Requirements for a brand include the ability to trust both the vehicle itself and the salespeople as well." Among members of the affluent and mass-affluent segments, meanwhile, some reported: "Recognition and admiration from those in the immediate vicinity are the key factors, while there is a desire to acquire brands that others own." What this indicates, therefore, is that to forge a position as a status brand at the first phase, it is critical to attract the super rich with satisfaction based on the service supplied by the brand in question. The "service" we are talking about here, moreover, is not limited to so-called car sales service. By constantly supplying services tantamount to the concierge amenities at top-rate hotels, personal bonds will be cultivated between salespeople and customers. Car sales are an extension of the formation of such relationships of trust. Unit sales, therefore, when all is said and done are little more than a barometer of those results.

What, then, are the prerequisites for operations capable of convincing the super rich to pay out money as compensation for their perceived satisfaction? Briefly stated, the need is for sophisticated degrees of ability to meet the needs of each individual customer, supported by "speed" and "flexibility" at the operational frontlines. A concept frequently used to explain the success of Disneyland is expressed along the lines of "service outside of the manual." What we are talking about here, therefore, is a level of operation that further evolves this idea and demands the supply of personalized services grounded in profound understanding of the needs and situation of each individual customer.

Let's visualize the actual sales process. At normal dealers, the customers will first pay visits to the actual outlets. The salespeople ask them what they are looking for, and immediately begin sales pitches for the cars so identified. We also naturally assume that these sales engineers deduce the reasons that customers are thinking of buying a car, how they will use it and other information capable of leading to more precise and effective proposals. But even so, the contents of the conversations and explanations tend to remain focused

on the vehicles themselves throughout the process. In contrast, when developing the type of operation described above, the salespeople strive to share private time with existing customers, as well as become acquainted with new potential targets in extremely natural means in the midst of individual activities. Understanding of each customer is further enhanced through discussions of family members, hobbies and other more intimate subjects, thereby cultivating genuine relationships of trust. As a result, in addition to the anticipated requests for advice about cars, customers will also increasingly turn to their salesperson for consultations and questions about various other areas of their lives as well. The requirements for a salesperson, therefore, exceed the category of being involved merely in car sales. The demand, rather, is for “competent human resources” able to instill even just a little extra added value into the lifestyles of the super rich. In the case of a dealer mentioned above frequently as an example of achieving dramatic sales results with super-rich customers, to secure such “talented resources” dealership managers reportedly personally interview over 100 candidates for each opening. Then they hire people without prior experience. Following this, training to deepen product knowledge, brand understanding and relations of trust and other education is conducted from scratch, in moving to realize operations supported by high levels of ability to adjust to the needs of each individual customer.

Conclusion

The type of model we have discussed in this article is a method of devoting considerable time and effort to strategically forging brand presence at the initial stage, thereby seeking to establish a strong business model sustainable over the medium to long term. In newly emerging countries, however, brand loyalty is extremely strong among the affluent class, members of which comprise the volume zone in those markets, as well as among the mass-affluent class that offers the potential to become a large volume zone over the medium to long term. Effective branding from the early phase for these classes, therefore, holds the key to sustainability on a mid- to long-term horizon.

Waiting in the wings after China and India, nations that are already continuing to expand their markets, are Vietnam, Indonesia and other next-generation newly emerging economies. The market offensives waged by those countries will soon grow full-blown in force. It is our studied judgment and conclusion, therefore, that the approaches mobilized in the battles destined to be fought on those new markets will be rooted in the perspective of building up brands over the medium to long term.

Profile



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