

## PREMIUM SEGMENT IN THE AUTOMOTIVE INDUSTRY. OVERVIEW OF THE DYNAMIC CHARACTERISTICS THRU ANALYSIS OF BRAND VALUE AND CONSUMER BEHAVIOR.

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### Abstract

*The existing link between brands and individuals represents an ongoing challenge for both implied parties given the high complexity of involved elements, actions, experiences or required knowledge processes. In the case of the automotive industry the situation is no less intricate. To be accounted into attention are both the high dynamic of consumer's needs or demands towards lifestyle simplification thru any possible procedure or instrument as well as the constant involvement demonstrated by the brands in this area which's main goal remains the leadership on market, while having in vision consumers as central elements, along with environment imprint and a fundamental strong, unique and values-based company culture. The decluttering process of the convoluted dependency appeals for a better understanding of the peculiar premises that generate certain situations with impact on social, economic, financial or psychological patterns. The current preliminary study generates an insight into the direct relationship existent between the two participants: companies, as brand representatives and major role players within a market state of being at a point in time and consumers, as final elements in the business model, with a similar high importance part, in shaping traits of successful interaction models. The interdependency of the two mentioned factors generates remarkable variations which authorizes flexibility and proactivity to contribute to objectives attainment, while sharing the common ground that allows a proper functioning of commercial activities within the studied field, automotive industry for this case.*

Keywords: automotive industry, premium, quality perception, consumer behavior.

JEL classification: M31

### 1. Introduction

The automotive field's complexity has determined the appearance of a high variety of segments within the market, distributed after meticulous descriptive characteristics. One of these components is the premium segment in the automotive industry which is characterized by a high variety of attributes amongst consumer's perception nowadays. The two mentioned areas, consumer behavior and premium standards are connected by a direct relationship of dependency. An analysis on the relationship between the elements may reveal a cause and effect state, starting from the premium segment towards the consumer, with multiple descriptive reasoning. At the same time, being a bilateral relationship, it can also be viewed starting from the mental representations amongst heterogeneous consumer segments that generate possible or ideal attributes of what premium should represent.

In the cause and effect relationship generated by the usage as a trigger of the descriptive aspects of a premium segment, both tangible and intangible attributes contribute to the successful positioning. As a building point, general brand characteristics, followed by proper product development, are essential to consider when shaping criteria required for a premium element to be in accordance with the existing universal vision on the topic.

At the base of the second possible relationship, given the high dynamic over time of consumer needs and demands, thru the evolution of technology, increasing areas of interest knowledge, open access to information, strong emotional and rational analysis in behavior as well as very high communication possibilities has facilitated the appearance of a great impact on shaping what the closest to the best available option a product or type of service should be described. The influence of the mentioned factors appears even to be natural because it is part of the environment wherewith consumers come into contact on a regular basis. Therefore, in ensuring

the competitive advantage that allows a company to gain segment share up to reaching leadership in the area of business requires in-depth analysis on the interconnection between the attributes of the brand that reflect its premium character for the target audience.

## 2. Consumer behavior

### 2.1.1. *Conceptual Background*

The study of consumer behavior has represented an area of interest for many decades now, given the dynamic characteristics of findings on this topic which allow a comprehensively knowledge of different processes and even a better understanding of human psychology.

Satisfaction in superior conditions of consumption needs represents one of the key objectives in the marketing activities (Balaur et al, 2003), therefore a continuous analysis is necessary in order to attain the most relevant results at a certain point. Although marketing is one of the most common fields where consumer behavior is studied, there are several other sciences which focus research on this topic. Psychology is developed around the individual and studies its behavior thru phenomenon such as values, attitude, experiences or needs. Sociology is the science which studies the interactions between individuals, the analysis unit usually being represented by a group. Cultural antropology focuses on studying the human culture thru analysis of culture of origin, subcultures and social class (Onkvisit, Shaw, 2004). Other authors (MacInnis, Folkes, 2009) view consumer behavior as being in direct connection with eight other fields that generate different perspectives: anthropological, financial, neurological, historical, marketing, economical, communication and psychological.

In time, multiple definitions have been developed thru the above-mentioned studies of consumer behavior. The definitions reflect complex perspectives of approaching this topic and its subareas. One example of a definition belongs to the author Sabine Kruester (in Perner, n.d.) which describes consumer behavior as the study of individuals, groups or organizations, the processes these use in order to select, secure, use and dispose of goods, services, experiences or ideas in order to satisfy needs and the impact of these processes on consumer and society.

In direct relationship with external factors, such as culture, which influences consumer behavior directly and with a strong implication, aspects such as cross-cultural research on consumer behavior based on national culture dimensions (deMooij, 2015), impact of cultural factors on consumer buying behavior (Yakup, Mücahit, Reyhan, 2011) or country-of-origin impact on purchase intention (Wang, Yang, 2008) have been studied.

### 2.1.2 *Perception and premium quality associations*

Communication represents a powerful link between all marketing activities and the variations of consumer behavior. In a marketing plan, the communication, thru all specific branding and advertising strategies, may contribute to different roles such as stimulation of consumer demand, perception formation, transformation of demand into purchase, loyalty development, positive image and most certainly differentiation from competitors. Therefore, assuring the proper message is delivered is of very high importance.

As a basic stage in interacting with a specific brand, consumer perception has been studied overtime from multiple perspectives being one of the most complex components driving the consumer behavior. The psychological implications are defining the possible challenges when analyzing this aspect, given the subjective character of one's perception that generates numerous variations on a similar trigger, be it a product or a brand, are encountered when studying individuals.

Consumer choices may be subject to two different types of internal forces with impact on the outcomes: personal characteristics, such as age, education, occupation, income, lifestyle or gender and psychological attributes including motivation, attitude, perception, learning and personality. Among the latest, perception represents the system which allows selecting, organizing

and interpretation of information in order to generate an informed picture on the surroundings. The three tools that shape perception are selective awareness - focusing on what is relevant, selective distortion - misunderstanding an information or transforming it to being accordance with existing beliefs and selective retention - placing in memory only stimuli that support existing beliefs and attitudes on a product or brand (Marshall, Johnston, 2015).

Applied to a specific area of study, consumer's perception of quality reflects the highly above-mentioned variations of the subjective interpretations. Quality, as part of the “value driver” along with price and convenience may be described as the objective perception of both physical and nonphysical attributes of the offering (Lemon, Lemon, 2010), is considered in strong connection with perception on the country of origin (Czinkota, Ronkainen, 2013) or price level (Keller, 1993).

The correlation between perception and quality has been a studied topic for multiple years. Different developed perspectives have contributed to identifying possible connections defining quality. Garvin (1984) describes five major approaches on describing quality thru transcendent approach, used based, manufacturing based, value based and product based. Another study connects elements like price, quality and value (Zeithaml, 1988), where perceived quality is treated in separation from objective quality. Later developed as an interconnection on the former, author David Aaker (2009) by differentiating perceived quality from objective quality, product-based quality and manufacturing based quality.

### **3. Premium segment in the automotive industry. Case study of four premium brands: Audi, BMW, Mercedes-Benz and Volvo**

The general characteristics of quality perception are also transferred to the high-end quality perception of brands, products or services which are synchronously described by specific aspects.

In regard to the automotive industry, when analyzing quality as a descriptive aspect of the high-end brands, research (Law, Evans, 2007) emphasizes that there are two concepts which require differentiation: luxury and premium. The study of the terms reveals in this case that while luxury stands as an internal, personal concept, an affect answering the question “how does it make me feel?”, premium reflects external components, as for example product quality, associated marketing and the perceptions of others on one's ownership of a certain product. Either if a brand is regarded as being premium or luxury there are a number of common features, specific characteristics demanded to describe it for the classification.

Regarding the different areas where luxury represents an aspect of interest, six dimensions have been identified in time, as a result of multiple studies (Kapferer, Laurent, 2015). Luxury is described as being characterized by:

- a very qualitative hedonistic experience or product made to last;
- at a price that exceeds what functional values command;
- tied to a heritage, know-how and culture;
- available in restricted and controlled distribution;
- offered with highly personalized services;
- acting as a social stratifier, giving a sense of privilege;

Conceptual models have also been developed for a better understanding of the perceived quality in this industry. Some authors (Stylidis, Wickman, Söderberg, 2015) have analyzed perceived quality in terms of study on the Value Based Perceived Quality (VPQ) and Technical Perceived Quality (TPQ), it's subcategory, which along with external factors contribute to the appearance of the conceptual terminology. The research has been further expanded (Stylidis et al, 2019) thru the development of the perceived quality framework.

Each with unique descriptive features in terms of brand legacy or product related information, the four selected brand are strong pillars of the present automotive industry with leadership on different areas and valuable further development perspectives.

In practice, different researches have been conducted, in order to rank attributes related to quality perception in the automotive field. “Consumer’s Report” is an example of such research which reflects the objective or ranking car brands by the total customer perception level. The measurement is done once a year, on the American market, and measures seven categories of attributes, each with particular components: quality, safety, performance, value, fuel economy, design or style and technology or information.

Results for the four analyzed brands – Audi, BMW, Mercedes-Benz and Volvo are available below, reflecting total consumer ranking for the period 2010-2014. The results include data for the entire period in the case of three brands, except Audi, for which the only information which has been accessed and included specific figures is for years 2012 and 2013.

Table 1: Overall car-brand perception survey score 2010-2014.

Brands	2010		2011		2012		2013		2014	
	Points/Ranking	Rank	Points/Ranking	Rank	Points/Ranking	Rank	Points/Ranking	Rank	Points/Ranking	Rank
<b>Audi</b>	N/A	-	N/A	-	42	13	47	13	N/A	-
<b>BMW</b>	90	7	93	5	69	6	66	8	73	10
<b>Mercedes-Benz</b>	92	6	90	6	84	5	77	5	82	7
<b>Volvo</b>	92	5	84	7	67	7	77	6	80	8

For each brand the leadership varies within the studied categories (e.g. for the 2013 research, the result reflected the following ranking: Safety – Volvo, Performance – BMW, Design or Style – Audi, Technology or Information – Mercedes-Benz).

Another example is represented by a business study conducted in the USA by one of the four above mentioned brands, Volvo, together with The Harris Poll (2018) which purpose was to identify what the modern luxury is featured in terms of consumer’s vision. In terms of perception on the traits of modern characteristics of a luxury vehicle the below features were included, each with a different percentage generated by the total preference in consumer’s choice (figure 1). Being found in more than 50% in the total number of answers, the following features ranked highest in the final results: interior design, in-vehicle technology, brand name and price.

Figure 1: Perception of luxury indicators with regards to a vehicle



Each brand in the automotive field is characterized by particular aspects reflected in brand equity components. In theoretical studies, brand equity (Aaker, 2009) is described as including brand awareness, perceived quality, brand associations, loyalty and other actives that the brand owns (which contribute to the competitive advantage of a brand). Each of the five dimensions includes specific elements that, when studied, support reflecting the current status of a brand.

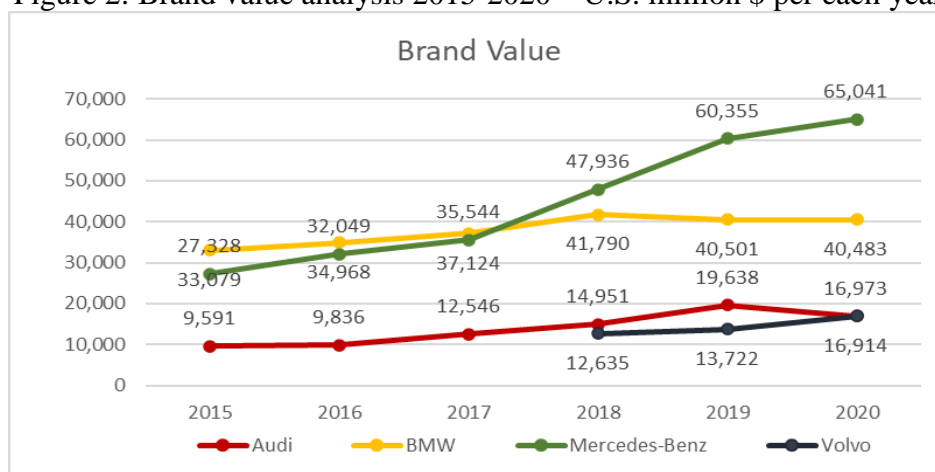
A constant investment in product development as well as brand image aspects and proper communication and advertising techniques contribute to the overall positioning of a company within the market. This positioning may be viewed as being a successful action of a brand from

two angles: on one side, there is the specialist’s analysis of brand value (in terms of business and financial insights that best describe the market situation) and another is represented by the consequence of consumer behavior reflected in the actions taken towards the company (in this case for example represented by the total sales of the four automotive brands).

In terms of brand valuation, a ranking for the automotive industry is reflected by the annually measurement of different studies. The Brand Finance Automotive Industry includes a top 100 brands in terms of a brand value analysis scale. All four analyzed brands – Audi, BMW, Mercedes-Benz, Volvo are found amongst the top 10 most valuable brands in the 2020 ranking. The below figure reveals the trend for each of the brands during the last three years. Highest ranking is held by Mercedes-Benz which for third year in a row is leader of the automotive industry according to the current study. The figures show a positive trend for Mercedes-Benz (+7.8%, 1<sup>st</sup> ranking) and Volvo (+20.3%, 10<sup>th</sup> position) while Audi brand decreased compared to previous year (-13.6%, 9<sup>th</sup> position) and BMW remained almost stable (4<sup>th</sup> place, as previous year). In determination of brand value, the study takes into consideration aspects like research & development investments, new business models, customer service or technology development (Brand Finance, 2020).

Another business study ranks top 100 global brands by different aspects such as customer experience, data-driven decisions and reaction to unexpected crisis situations which contribute to growth of brand value (Kantar, 2018-2020). From the four selected brands, only two are found in the 2020 top, Mercedes-Benz (ranking 56/100) and BMW (ranking 61/100). The same applies for the 2019 and 2018 situation, where the two brands rank as following: Mercedes-Benz 2019 - 54<sup>th</sup> position and 2018 – 46<sup>th</sup> position, BMW 2019 - 55<sup>th</sup> position and 2018 – 47<sup>th</sup> position.

Figure 2: Brand value analysis 2015-2020 – U.S. million \$ per each year

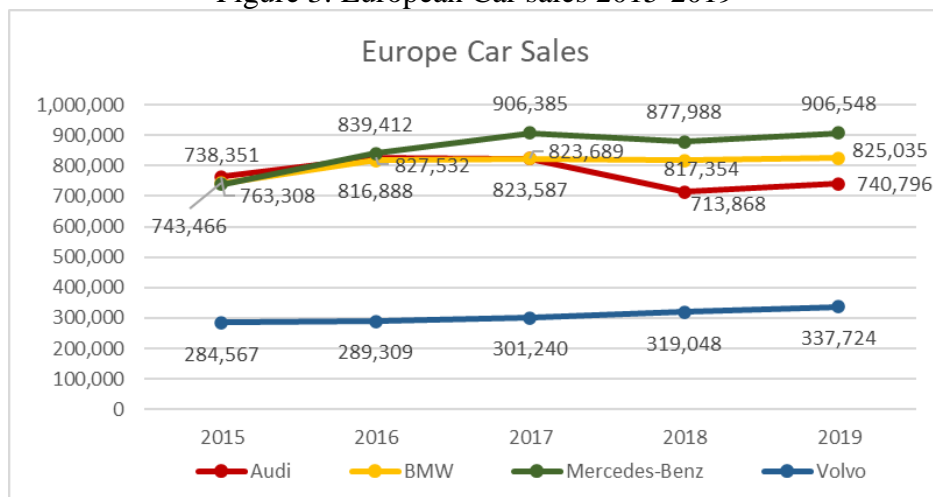


Source: Brand Finance Automotive Report 2015-2020

From the other perspective, the transformation of one’s perception of a product into actual behavior may be reflected by the purchase decisions with regards to that product. This argument also applies in the case of automotive industry where the decisional process of this type of long-term investment relies on the intensity and complexity of one’s perception at a certain stage of the process.

The entire experience from first interaction, be it thru marketing communication or directly with the products, shapes the future consumer behavior towards the owner brand. Therefore, analysis on brands sold volumes may be used to reveal the current state of a brand when consumer behavior is studied. The situation below reflects the evolution of the four brands thru the European figures for a period of five years.

Figure 3: European Car sales 2015-2019



Source: <https://carsalesbase.com/>

The total sales volumes for the four studied brands and the selected period, are in accordance with the brand value measurements done by Brand Finance and Kantar. Leadership is held by Mercedes-Benz with a total of approx. 4.3 million units, followed by BMW with 4 million sold units, Audi 3.9 and Volvo 1.5 million units. Amongst the four automotive companies, Volvo is the only brand that shows a positive and incremental sales trend during the analyzed period, even for 2018 when all other three brands have experienced sales drop up to -13% (the case of Audi). In the case of the two German origin leading brands, elements such as the strong heritage developed during time or the performance or high-quality aspects associated with the products still represent active selling points which the brands to maintain first class position. In the case of emerging brands such as Volvo, the process reflects a more challenging trait, given the implied actions in terms of brand value and culture, product innovation, logistics and communication of unique descriptive characteristics that position the brand in the premium sector and allows a constant growth in time. For both cases, the numbers reflect as well the above-mentioned vehicle characteristics which are described by consumers as being the most important when reflecting on luxury indicators: interior design, in-vehicle technologies and brand name. Each element is highly rated by the four brands and represents a key aspect with concern to company investments and focus.

Still, the reasoning behind the total volumes reflected in the above chart is different for each of the selected brands. Even if direct competitors in the premium segment of the automotive industry, the particularities for each brand, offered products and company business model determine certain variations within time. Reflected as well in the core values for each case, the strongest arguments which form the base of consumer's attitude and even the entire behavior towards a brand require an in-depth analysis for a more complex understanding.

#### 4. Conclusions, implications and further research

The present study aimed to assemble a generic descriptive perspective of individuals' behavior in terms of the preferences reflected by the automotive industry. The analysis has taken into consideration the Premium Segment in the automotive field, with four brands as analysis items: Audi, BMW, Mercedes-Benz and Volvo.

Two types of existing studies have contributed to the current article, in order to emphasize both similarities and differences between these two lenses thru which this type of analysis may be detailed. On one side, the business practitioners research has been selected, in order to determine possible ranking of the analyzed brands, in terms of quantifiable brand value. Constant data examinations are performed in this area of study, both by independent research agencies as well as

directly by brands in the market, in order to reflect a certain positioning at a point in time and the reasons that determine that particular situation.

On the other hand, data attained directly from traits of consumer behavior was selected, in this case sales volumes for the selected brands in the automotive field. This type of information helps describe the current market situation, in terms of brand leadership thru products acquisitions ranking.

Interposing the two perspectives allowed a prior determination of the common ground that the studied information shares. The ranking reflected by the business area was confirmed by the numbers that describe decisional processes transformed into purchase. Leadership in both areas is held by the same partaker while the developing figures for the case of a rapidly emerging brand are also in direct relationship.

At the same time, when considering direct consumer perception (in this case the Consumer's Reports Car Brand Perception Survey) a different ranking is shown, with particularities for each brand reflected in the results, with measurement at a different point in time.

The current situation only offers a preview, forming the starting point for in-depth studies, in order to better understand the complexity of existing or possible relationships between consumer behavior, business actors in the market and research units. The mutual influence that these components may perform on each other and to what extend the characteristics of the influence are determined by both unique or common descriptive factors represent future inquiry directions. The benefits of such topics might be extrapolated at the same time to both the business field and scientific research.

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