

MANAGEMENT SUMMARY

## Brand Management in the Automobile Industry: The Brand is the Asset of the Future

- Convincing brand features form an integrated whole.
- The glut of models is stretching automobile brands to their limits.
- The brands of the future will take greater notice of the customer.

Many new developments in the automotive industry are forcing companies to rethink the conceptions of their brands. The increasingly identical technology makes it more difficult to achieve differentiation via the product, and customers are falling into an ever-increasing number of microsegments. The glut of models threatens to overextend the brands; new brands are being created and must be integrated into the portfolio; and the sales and service landscape is in a state of turmoil. These new developments have created a need for urgent action in automobile brand management. The picture of auto brands will change radically over the next few years. Auto brands will become "mobility brands" that derive half of their image from services. Today's broad-based brands will revert back to their roots. All in all, the automobile brand landscape will become richer and more variegated, but also more sharply defined and woven into a tapestry of umbrella brands, sub-brands, and co-brands.

Brand management is one of the major factors of success in the automotive industry. In the past, German companies in particular have created strong automobile brands that consumers rank among the most prestigious brands of all. This also finds expression in value, of course. Brand value studies place Mercedes directly after Marlboro in tenth place, with a value of US\$ 21 billion. BMW ranks nineteenth at US\$ 15 billion, while even lowly VW manages to place forty-second with almost US\$ 7 billion in brand value.

To maintain and expand this value, automobile manufacturers have set up their own brand management boards and spare neither time nor money to plan and further their brand development. The results speak for themselves, as the example of Opel shows: thanks to its new comprehensive brand strategy based on Opel's time-honored strengths, the company was able to swing back onto the growth path.

### Industry-wide Trends Create a Need for Action

A number of developments are causing all automobile manufacturers to put the brand at the top of their management agendas. Traditionally, **brand differentiation** was defined via the product. Now this approach is in danger. The consolidation of the equipment supplier industry, joint development and production projects, and the interchangeable parts policies of manufacturers allow practically no room for technological differentiation, or when they do, over shorter and shorter periods of time. In other words, differentiation has to take place via other dimensions perceivable to the customer. The new watchword is "from the product to the customer," that is, from purely technological differences to the customer's world of perception, e.g. service. The pioneer in this field is Audi, which has set new standards in customer care with its workshop and service centers.

Mass society is giving way to the "**me society**." Traditional customer segments are getting smaller and smaller while many new ones spring up every day. The automobile industry is responding with a huge range of models, stretching their brands to their limits while enormously intensifying the competition among brands. Since not everything can be positioned under the existing brands, new brands such as smart and Mini are mushrooming, while old brands such as Maybach and Bugatti are being revived. The brand strategies of the big conglomerates, already complex enough, are becoming even harder to coordinate.

**Sales and service structures** are in a state of turmoil. The reorganization of the automotive retail sector, called for by Germany's Group Exemption Regulation (GVO), will merely accelerate a process that is already taking place. In the near future, free multi-brand dealers such as Schwabengarage, and independent workshop franchises such as PitStop, Autofit, and Bosch Car Service will produce lasting changes in the sales and service sector. The consequences for the brands will be far-reaching, and their impact won't stop at sales and service strategies. Before long even non-industry brand article manufacturers will be in a position to put a car on the market: developed by Porsche, built by Valmet, sold by Auto Nation, serviced by Autofit. Land Rover may face the "Camel Car," and Mercedes may have to square off against the "Gucci Car."

**Equipment supplier brands** are increasingly pushing their way into the consumer's consciousness. Co-branding has existed for a long time, as witness Recaro seats in VWs or Bose HiFi in Audi. The future will see more and more co-branding approaches of the same sort, perhaps even extending to automotive technology ("board electronics by Bosch," "air conditioning by Behr").

## Back to the Beginnings

Brands are traditional points of orientation in the product world. As such, they help customers to quickly make the right decision. But they have also evolved into cultural symbols that people use specifically to project their social status or lifestyle. For most buyers the decision between Golf or Astra, say, is far less a question of which car handles better, costs less, is more reliable or better equipped. Rather, their decision hinges on the central issue of what image they will project in their personal world as owners of the car in question.

To function on a broad basis, the brand must have maximum clarity of profile. Most people have firm notions of what a VW or a Porsche, say, has to be.

For car brands, this means paying closer attention to customer expectations. The brand may very well broaden those expectations, but first it has to meet them. One negative example is the Opel Speedster, a convertible from a brand whose main features are described by its buyers as "practical, sensible, rock-solid." The conclusion is obvious: emphasize your brand's core features before stretching them beyond recognition.

At present the Porsche brand is being stretched above all by the Cayenne. Unlike VW's equally brand-stretching Phaeton, which doesn't seem to bother the brand's traditional customers, the Cayenne may transform Porsche's former sports car image - and thus jeopardize its base of steady customers with the 911. A good example of step-by-step brand evolution, claims Kalmbach, is Audi, which has slowly worked its way up from the 100 and 200 series up to A8 in the luxury class.

## **The Brand Needs an Overarching Concept**

After returning to the brand's core values, the natural next step is to implement them in a fine-tuned and universal brand orchestration. An overarching concept of this sort takes every relevant aspect into account in order to form a brand personality: not only do the product, advertising, and sponsoring have to form an indivisible whole and project the brand personality, so do sales and customer service. Here, at the points of contact, is where direct branding assumes its most credible form: from person to person. However, current Oliver Wyman analyses of customer satisfaction reveal that some 20 to 40 percent of customers are dissatisfied with the range of offerings in sales and customer service. Here the future belongs to brand adventure worlds. Many manufacturers are already moving in the right direction, such as VW with its AutoCity or the Glass Factory. The goal has to be a comprehensive brand-specific conception of the sort already emerging in young auto brands: the lifestyle approach from Mini, for example, or the personal care concept from Maybach.

In the future, vehicle technology and quality will no longer be center stage. The gradual leveling in technology and quality will make it more and more difficult to differentiate cars by these factors. They will be taken for granted.

Equally important is the coordination of brands among themselves. This applies first and foremost to the brand portfolio inside a conglomerate. After all, not every corporate brand should cluster around the known "sweet spots" in the product range, as this will only lead to mutual cannibalization. On the contrary, clear lines have to be drawn to ensure that the total spectrum of markets and buyers is systematically covered. Moreover, cooperations with equipment supplier brands should be systematically examined: some co-brandings such as Audi/Bose and VW/Recaro are extremely successful, while others, such as Mercedes-Benz/Becker, have been discontinued.

## **Seven Theses on Brand Management in the Automotive Industry**

1. The foundation of every brand personality will continue to be basic features such as quality and reliability. However, these features will increasingly be taken for granted and will no longer suffice by themselves to differentiate a brand from its competitors.
2. Every department of an automotive company, from development and production to dealer to workshop, plays a part in the brand personality. Brand management is thus an all-encompassing task.
3. In addition to the product, the future focus must fall more squarely on the customer. Although many automobile manufacturers already recognize this need, they are only beginning to put it into practice.
4. Customers have firm expectations of an auto brand. They derive these expectations from the brand's history and its basic values, and are disappointed when the brand leaves this familiar terrain. Any brand that does so sacrifices its authenticity and credibility.
5. A brand personality is not infinitely expandable, for a strong brand needs sharp contours. The number of automobile brands will thus continue to increase while broad-based brands narrow in focus.
6. Equipment supplier brands are on the move and will increasingly appear in the automobile under their own names. Manufacturers must thus find ways to tie these brands into a fine-tuned overarching concept.
7. Customized and integrated communications via dealers, workshops and direct marketing will become increasingly important for automobile brands in the future. In contrast, mass communications will become less important.

## **The New Brand Management Book from VDA and Oliver Wyman**

In September 2003, the IAA witnessed the appearance of a new book dealing with the full spectrum of brand management in the automotive industry: *Management in the Automobile Industry: Success Strategies of Top International Executives*, edited by Professor Dr. Bernd Gottschalk, President of Germany's Automotive Industry Association (VDA), and Ralf Kalmbach, head of Worldwide Automotive Practice at Oliver Wyman.

The first section of the book looks at the automobile brand from various outside perspectives. The articles deal with such subjects as brand strategies, brand value, and brand loyalty. In the second section, twelve top executives talk about their brands and the work being done on them. Readers are treated to the views of CEOs, managing directors, brand executives and directors from Audi, BMW, Bosch, DaimlerChrysler, Ferrari, Jaguar, Opel, PSA Peugeot Citroën, smart, VW, Volvo, and ZF. The third and final section summarizes the key elements of successful brand management and uses them to deduce specific plans of action for the industry.

*Brand Management in the Automobile Industry* is a book written by business people for business people. It provides case studies of success strategies. Major thinkers from business, consulting, and science summarize the core elements and provide much food for thought on the alignment and management of automobile brands. The result is a definitive study of automobile brand management on the national and international levels.

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