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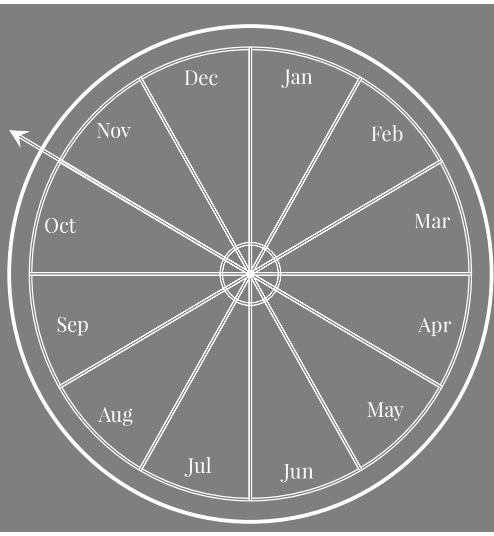

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Notes

Driving change

Brand reorientation in motor vehicles

Sector updates

Recent news and commentary


Knowledge.
Perspective.
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DRIVING CHANGE

It wasn't that long ago that electric cars were largely seen as the playthings of the very wealthy. Those with the cushioning of resources to pay for an experimental vehicle, an experimental *brand*, were the only ones to take the risk.

As a result, electric vehicles – and in particular the pioneer brand, Tesla – were perceived as luxury, something for the elite. Whilst not inexpensive, they were significantly cheaper than marquee combustion engine vehicles from luxury stalwarts such as Bentley, Porsche and Rolls-Royce, and so it was not their price point that determined their status but the kind of people that drove them.

As the electric champion, Tesla had every expectation to remain the dominant brand to beat in the sector, but in the long run, its strategy has always been to offer more affordable vehicles. This runs counter to the philosophy of luxury marques who, like watch brands, are careful to burnish their exclusivity credentials even when, in the case of Porsche, their production volume tells another story.

For high-end brands such as Mercedes-Benz, BMW and Audi, the move to electric soon became inevitable with the regulatory environment forcing their hands. Tesla had a head start in manufacturing terms, with its Gigafactories created purely to build electric vehicles. However, the German giants were confident and perhaps even complacent, that their highly desirable and long-established brands would win out in the end. In May this year, Mercedes Benz's North America CEO had a message for Tesla: *"We want to be the most desirable electric vehicle luxury brand. We don't see Tesla as a luxury competitor."*

This is a classic fallacy of legacy brands when confronted with a usurper. The belief is that after the initial excitement of the introduction of a new product by a disruptive brand, early movers experiment, followers wait, and most of this latter group simply revert to their original brand orientation.

The trouble with this theory is that it never really works out like this in practice because evolution of the consumer's brand orientation is also impacted by the evolution of the sector as a whole.

The Apple iPhone is a great example of this. Even amidst the amazing technological revolution that the iPhone 3G offered back in 2007, there was widespread belief amongst legacy phone manufacturers, such as Nokia and Ericsson, that Apple would still be a minority player in the market, only bought by a relatively small population of the wealthy and that ordinary consumers wouldn't spend significantly more on phones than they had done to date. We can all see how that turned out. Even as Apple has increased the price of its phones, their market share has grown. In 2008, the year of the launch of the

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iPhone 3G, Apple's global market share was just 9%. In 2022, their market share was 18%. What is happening in motor vehicles isn't exactly the same, but inventive steps in technology have upset the ordered nature of the brands in the market.

China has been one of the most profitable markets for luxury motor vehicle brands in the pre-electric years and the German brands have fared far better than many others in sales and surveys, with their reputation for reliability, build quality and engineering easily winning over newly wealthy Chinese consumers, with around one in three German cars made being sold in China.

And yet in the nascent electric vehicle market in China, Tesla has two of the top three selling electric vehicles in China. Despite the big three of Mercedes, BMW and Audi having an array of high-end electric models available, mainly in the most popular SUV and SUV crossover formats, the expectation that they will easily regain their traditional market share in electric vehicles is subsiding. Globally, Tesla delivered 889,015 cars in the first half of this year, more electric vehicles than Volkswagen AG, BMW AG, Mercedes-Benz Group AG and Porsche AG sold combined.

One of the reasons for this is that in disrupting a sector in engineering terms, Tesla also disrupted a market in brand orientation terms. Just because an electric car happens to be a car, or an iPhone happens to be a phone, this won't necessarily mean this is how the consumer views it. Consumers are acutely aware of seismic changes in product development and they subconsciously mark these as yardsticks of broader change that they adapt to.

When it is a single brand that leads this change, that brand often gains a special status that is unique to that brand and one which is inaccessible to other brands. This is very often the case with brands that have research and development and innovation at their core, but it isn't all tech-focused brands. Luxury goods brands, although less well known today for innovation, are rewarded in the same way. Chanel never invented the concept of women carrying handbags, but she did, in 1955, invent the concept of carrying a quilted handbag with the long chain to be worn on the shoulder – a revolution at the time as it freed up a woman's hands.

Since then, almost every luxury goods brand under the sun has attempted to occupy the same celestial spot as Chanel with mixed and inconsistent results, whereas the desire for Chanel's products has remained constant and significantly increased the value of its goods. The 2.55 bag has returned 174% in value since 1955, when it originally cost $220. Converting this to today's dollars, $220 is now worth $2118.85. It currently sells for around $6000.

The future of electric vehicles, of course, is far from certain. New drivetrains, such as hydrogen fuel-cells, are receiving huge funding as the issues with electric vehicles beneath the surface – such as battery life or the impact of rare-earth mineral mining – are revealing that mass adoption may not be as simple as it once seemed. German auto supplier Bosch announced this year they will invest almost 2.5 billion euros ($2.8 billion) in hydrogen fuel cell technology from now to 2026 and expect to generate roughly 5 billion in sales from it by 2030

It is also true that Tesla has traditionally not fared well in its reputation for build quality. In JD Power's 2022 US Build Quality Survey, Tesla was in the bottom six manufacturers, tied with Mitsubishi. However, even this cleaves to the notion that high-end consumers still maintain the same viewpoint on build quality in a vehicle that has far fewer moving parts, fewer physical buttons and knobs and operates largely as a moving computer. This is not to say that build quality is irrelevant but the sector evolution forces an evolution in consumer expectation and prioritization.

The object lesson from the motor vehicle industry could simply be that the big three from Germany have also occupied the same celestial spot for innovation, not for being the first but for making things better, for going further in parts quality and endurance, for not doing the minimum, for premium interior experiences that showed care and effort, for building more enjoyable experiences than French, American, Japanese or Italian rivals that were at once exciting, comforting, easy and safe. Each of these brands fed off each other's success and origin identity as brands of quality. As they now clamber up to the summit that Tesla's flag is planted on, they are given to the less attractive practice of copying, of industrial conservatism, lacking their own ideas and confidence to adapt to a changed sector. Their timidity and protectiveness is at great risk of marking them as the brands of yesterday.

Sector updates

Image: Reuters

Is there a luxury slowdown? That was the reason Kering gave for a bigger than expected drop in third quarter sales. A 9% drop in sales was significantly more than the 6% envisaged, forcing the share price down by 4%, as the Gucci-owner continues with its overhaul of the erratic Italian brand. But it wasn't just Kering, as rival French group LVMH shares plunged by 8% on news of slower revenue growth in the third quarter, with a message that "growth is converging toward numbers that are more in line with historical average." However, Barton noted that Hermes beat sales expectations with growth in Q3 of 15.6%. Moncler also beat sales estimates for the period, despite it being less important for the brand due to the summer season. Once again, brand tribes are what matters here. Groups like LVMH and Kering are more exposed to less wealthy aspirational consumers who are more likely to buy luxury purchases on credit – credit that is now significantly more expensive – and who are more affected by inflation. Hermes, by comparison, consistently reveals itself to be a brand of the elite.

Mandarin Oriental was recently ranked by Luxury Travel Intelligence as the number one luxury hotel brand in the world. Each year, LTI assesses luxury brands that own or manage 10 or more properties according to a number of touch points relevant to the luxury hotel sector. This year, LTI's algorithm used 130, each with its own weighted value, to give a possible total maximum score of 4,663. The touch points relate to brand performance, not collective property performance, with a focus on the brand's ethos, values, quality of management and staff, collected from a range of sources including CEOs of the brands, its staff and guests. With a score of 81.4%, Mandarin came slightly ahead of Oetker Collection in second place (81.3%), which had climbed into second place from sixth last year. Auberge came in third with 79.6%, Six Senses – last year's number one – at number four (79%) and Aman at five with a score of 78.8%. Belmond, Four Seasons, One & Only, Rocco Forte and Rosewood (in order) completed the top 10 brands.

Image: Mandarin Oriental

Image: Vistajet

It's arguable that wellness isn't merely a component part of luxury travel – it's an entire subsector. And as the great spa towns of 19th century continental Europe show, wellness isn't exactly a new fixation for the wealthy. Vistajet, the private aviation airline, has recently launched a new Wellness 360 Program integrating wellness practices into every stage of the journey – pre-flight, in-flight and post-flight. Before flying, Vistajet nutritionists consult on their in-flight meals, in-flight dynamic daylight technology synchronises the body clocks to the destination time zone and for post-flight experiences VistaJet Private World provide access to worldwide wellness journeys via private jet, such as a 21-day spiritual expedition through Nepal and Bhutan with prayer sessions, a helicopter ride to Mount Everest base camp, hiking, monastery visits, and traditional rituals for body health. "Our goal" says Matteo Atti, CMO of Vistajet, " is to redefine what it means to fly, turning every journey into an opportunity for personal growth and well-being." If anything, positioning private as the healthiest way for the wealthy to fly is certainly original.