IS PREMIUM FUTURE PROOF?

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BRAND AND PRODUCT STRATEGIES.
BMW GROUP PREMIUM STRATEGY.
QUESTIONS ABOUT CUSTOMERS.

What characterizes customers in the different regions of the world?

What are expectations and requirements regarding “premium”?

What are the external conditions he / she has to deal with?

Which values / attitudes drive his / her decision?

Which future trends can be detected?
WHAT IS PREMIUM?

Why?
Psychologic needs

What?
- Social acceptance
- Increased quality
- Enhanced comfort and convenience
- Individuality
- Lifestyle
- More beautiful design
- Pampering Customer Care
- …
LUXURY IS A €1 TRILLION GLOBAL GROWTH INDUSTRY.

Investment & charity

Luxury products: cars, boats, airplanes

Luxury services: travel & health

Soft and hard luxury
EXAMPLES.

Revenue in € millions

LVMH

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>2011</th>
<th>Change</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>20,320</td>
<td>23,659</td>
<td>+16%</td>
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Richemont

<table>
<thead>
<tr>
<th>Region</th>
<th>2010</th>
<th>2011</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5,176</td>
<td>6,892</td>
<td>+33%</td>
</tr>
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Revenue by region 2011

For LVMH:
- Europe: 33%
- Asia: 8%
- USA: 22%
- Japan: 10%
- Others: 10%

For Richemont:
- Europe: 38%
- Asia Pacific: 37%
- Americas: 14%
- Japan: 11%
- Others: 11%

Source: Annual Reports 2011 LVMH, PPR Luxury Goods, Richemont
Growth is fueled by:

- demographics,
- urbanization,
- worldwide communication and travels,
- increase of purchasing power (higher wages, lower costs of basic goods).

Growth is non-linear:

- Willingness to spend more is higher for luxury goods than for basic goods.
CUSTOMER PREFERENCES DIFFER FROM REGION TO REGION – BUT PREMIUM BRANDS WORK GLOBALLY…
...AND THE CURRENT CUSTOMER UNDERSTANDING OF PREMIUM CARS IS GLOBALLY ALMOST IDENTICAL.
THESES ABOUT CHANGING AUTOMOTIVE MARKETS:
NEWSPAPER HEADLINES.

Umweltfreundlichkeit bei Autos immer wichtiger

STUDIE Auto ist Prestigeobjekt Nummer eins

Positive sentiment drives premium vehicle sales in 2011

Global carmakers to go greener at India auto show

GREENTECH At Risk, the Core of a Car’s Identity

It’s Electric. Should It Look Electrifying?

THE ULTIMATE SELF-DRIVING MACHINE

So cool wie ein iPhone
Das Auto als Statussymbol hat ausgedient: iPhone und Luxusurlaub haben laut einer Umfrage den gleichen Stellenwert. Hier gibt’s das Status-Ranking der Automarken1
AUTOMOTIVE PREMIUM UPPER CLASS: DIFFERENT DISTINCTION REFLECTS LOCAL SPECIFICS.
HEALTHY OUTLOOK FOR PREMIUM SEGMENT IN ABSOLUTE TERMS AND MARKET SHARE.

Source: STAR Registrations, IHS Global Insight
LOCAL SPECIFICS OF ESTABLISHED MARKETS: EUROPE.

– Ageing, wealthier
– Small households, core families
– Premium seen as refinement, low prestige (show-off) orientation
– Sophisticated brand understanding
– Car ownership is standard
– Political key target to reduce CO₂ emissions

Premium Car Expectations
– Convenient; intelligent communication, comfort & safety technologies
– Small Premium is well understood. Premium brands need heritage
– Economical and ecological benefits, technology fascinates
ESTABLISHED MARKETS: EUROPE. STABLE PREMIUM MARKET PROGNOSIS.
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Source: STAR Registrations, Global Insight
LOCAL SPECIFICS OF ESTABLISHED MARKETS: USA.

– Slightly ageing society, midsize households
– Very sensitive regarding short-term events
– Often low brand understanding
– Premium seen as expression of power, relatively high prestige orientation
– Alternative drives have to offer economic advantages
– Political vision of zero emission mobility, independence from oil imports

Premium Car Expectations
– Roomy, convenient, easy to use, safe
– Premium closely linked to bigger cars and do not necessarily need (brand) heritage
– Economical benefits, technology has to be easy to operate
ESTABLISHED MARKETS: USA.
ESTABLISHED MARKETS: USA.

**Modes of Automotive Distinction**

- **Premium Vehicle**
- **Superior Performance**

**Favorable Body Design Features**

- **Impressive**
- **Triggers Admiration**

USA
Europe
LOCAL SPECIFICS OF ESTABLISHED MARKETS: JAPAN.

- Heavily ageing society, small households
- Front runner regarding multi-modality
- Premium is seen as refinement (technology), also prestige orientation
- High brand understanding
- Very open towards alternative drives (due to incentives)
- Policies without clear technical visions, but jap. OEM with clear strategies towards Hybrid

**Premium Car Expectations**

- Distinction, differentiation from the mass market
- Small Premium is somewhat understood
- Connectivity, economical benefits (also by government incentives)
ESTABLISHED MARKETS: JAPAN. GROWING PREMIUM RELEVANT INCOME GROUPS.
ESTABLISHED MARKETS: JAPAN.
GROWING PREMIUM RELEVANT INCOME GROUPS.

Sources: Capgemini/Merrill Lynch, IHS Global Insight, BMW
LOCAL SPECIFICS OF FAST GROWING MARKET: CHINA.

– On the way to car-orientation
– Very many first-time-car-buyers. Car ownership is indicator of success
– Premium is seen as prestige and defined by size
– High demands regarding brand reputation. Low trust in local brands and OEMs
– High innovation openness and fascination, but rather low openness towards alternative drives
– Sustainability policies with technical vision: E-Mobility

Premium Car Expectations
– Prestige, convincing in every respect
– Big and luxurious cars (sedans) and SAVs fit the Premium definition best
– Fascinating, eye-catching, innovative elements
CLEAR BRAND DESIRE: CHINA TOP 10 LUXURY BRANDS. GLOBALLY ORIENTED PREMIUM CUSTOMERS.

1. BMW
2. Cartier
3. Rolex
4. Apple
5. Microsoft
6. Salvatore Ferragamo
7. Nintendo
8. Mercedes
9. Tiffany
10. Four Seasons

Source: China Clear Brand Desire 2011
FAST GROWING MARKET: CHINA. MOVING UP = MOVING INTO PREMIUM.
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Current Car Concept:

Next Car Concept:

Large Sedan: 11%
Premium Share: 100%
Avg. Age: 37

Medium Sedan: 58%
Premium Share: 65%
Avg. Age: 35

Small Sedan: 11%
Premium Share: 3%
LOCAL SPECIFICS OF EMERGING MARKETS: BRASIL.

– Highest grade of urbanisation (87%)
– Juvenile car market
– Premium is seen as power and status, prestige orientation is limited (due to security concerns)
– High demands regarding brand reputation
– Moderate openness towards alternative drives (bivalent ethanol drives)

Premium Car Expectations
– Distinction and Prestige (with limited extroversion), convincing in every respect
– Small Premium is somewhat understood
– Reasonable and functional, fit the everydays needs
EMERGING MARKETS: BRASIL. YOUNG, WELL EDUCATED AND LOOKING FOR PREMIUM.
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PREMIUM IS FUTURE PROOF!

1. Premium segments grow globally
2. Customer needs regarding premium are stable and well understood
3. The Premium principles work all over the world
4. Nevertheless: Transfer into products, services and brand building needs to reflect volatility and bandwidth of local requirements