Dreams on wheels

Why everyone wants to be in the top end of the market

BRITAIN'S ECONOMY MAY be heading for a triple dip, but for posh British cars the recession has long been over. Sales of Jaguar Land Rover (JLR) last year were 30% up on the previous year. Over the past two years JLR has taken on 9,000 people, and has just decided to near-double the size of the engine factory it is building in the West Midlands.

Rolls-Royce, which sold a record 3,575 of its ultra-luxury cars last year, is on a roll too. At the Geneva motor show it unveiled the new Wraith, a coupé for playboys with at least €245,000 ($320,000) to spare who want to leave the chauffeur at home and do the driving themselves. Bentley, which launched a new Flying Spur limousine at the Geneva motor show, enjoyed sales growth of 24% last year.

These days JLR is owned by India's Tata Group, Rolls-Royce by BMW and Bentley by Volkswagen, but the cars' appeal still relies on their quintessential Britishness. Similarly, the success of BMW, Mercedes and Audi cars rests on their German styling and precision engineering, both in rich countries and among the new wealthy of the emerging world.

The contrast between the luxury end and the mass-market part of the European car business is striking. BMW has recently been making operating profits of about €4,000 ($5,200) on each car it sells whereas Opel-Vauxhall, the European arm of GM, has been losing about €1,500 per car. And the global boom in premium-priced cars looks likely to continue. "One thing is for sure," says Rolls-Royce's boss, Torsten Müller-Ötvös. "You will see more rich people in the world." The group of "ultra-high net worth individuals" from which his customers are drawn is expected to grow by 3-5% a year in the years ahead. And in East Asia, where sales are growing fastest, it is more acceptable—expected, even—to underline your success in life by conspicuous consumption.

In a recent study of motor-industry executives from around the world by KPMG, those from rich countries said customers were scaling down to smaller, more efficient and greener models, whereas those from the BRIC countries reported that buyers wanted upmarket models. Even those who could not currently afford these seemed to be looking forward to the day when they would. Tata's super-cheap Nano has not sold well because India's first-time car buyers would rather wait than drive what they see as a poor man's car.

The feelgood factor

A survey by McKinsey of Chinese consumers found that after an initial burst of "if you've got it, flaunt it", motives for buying foreign luxury brands were becoming more subtle. Some respondents saw having the right car as a visiting card with which to impress potential business partners. Many considered a fancy car a delightful self-indulgence rather than something to show off to others. Mr Müller-Ötvös sees the same trend among Rolls-Royce buyers: they are less interested in exterior bling, more in interior comforts, "like having the fur inside your coat".

In China the market for luxury cars in the past decade has grown by an average of 36% a year, far outstripping the 26% annual rise in its overall car market. Even as growth slows down in the next few years, McKinsey expects the premium-car market to maintain a lead, expanding by an average of 12% a year to 2020, compared with around 8% for the car market as a whole. By then China will be the biggest market for luxury cars.

Nor is it just Chinese buyers who are keen on status symbols on wheels. JLR's sales chief, Phil Popham, says his company expects the global market for premium cars to increase by up to 45% over the next ten years. JLR is looking beyond the BRICs into the MIST: populous countries such as Mexico, Indonesia, South Korea and Turkey, whose middle classes are also expanding. Its cars, especially its Range Rover sport-utility vehicle, have joined the elite group of "Veblen goods", the sort that become more desirable as they get more expensive (named after Thorstein Veblen, a sociologist who invented the concept in 1899). The first incarnation of the Range Rover in the 1970s was a rugged, utilitarian beast ideal for farmers. The latest version, with its sleek styling, plush interiors, high-tech aluminium frame and impressive performance, caters to a different kind of customer. Prices range from £71,000 ($109,000) to well over £100,000.

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The key to success in the luxury market, explains Mr Müller-Ötvös, is that customers want to be able to tell their friends, family and business associates some good stories about what they have bought. For a brand as steeped in history as Rolls-Royce, that is no problem. One of its stories is that three-quarters of the cars the company has ever produced are still on the road: "It is a smart investment," he says. McLaren, a successful British maker of sports cars, is drawing on its heritage as a Formula 1 racing team. Tesla's Model S glories in being an advanced car made by a Silicon Valley start-up created by a tech billionaire.

This lucrative market is hard to get into. Even Mercedes recently failed in its attempt to revive Maybach, a pre-war ultra-luxury brand. It took VW's Audi three decades of steady improvements and skilful marketing to reach its current level of desirability. Japan's three biggest carmakers have put a lot of effort into creating premium brands of their own—Toyota with Lexus, Nissan with Infiniti and Honda with Acura—but have yet to catch up with Europe's most prestigious marques. KPMG's Mr Leech thinks they may do well with those Asian consumers on whom the finer points of German or British styling are lost, but McKinsey's Mr Kaas is not so sure. Chinese consumers are developing Western tastes, he says, and value the long history and brand cachet of European luxury marques.

Some of Europe's struggling volume carmakers, such as Peugeot and Opel, are trying to move upmarket too in order to get back into the black. Russia's president, Vladimir Putin, is calling for a revival of Soviet-era luxury brands such as Zil and Chaika. China's new carmaker, Qoros, may also be aiming to establish itself as a premium brand. Mr Kaas says they all need to hurry up. Although brand loyalty in emerging markets is less strong than in the West, tastes are maturing and new luxury brands will find it ever harder to grab a share of the cake.

Fonte: The Economist: Special Report Cars, London, v. 407, n. 8832, p. 14-15, 20th – 26th abr. 2013.