

Marketing Luxury Automobiles to Affluent Ethnic Consumers: Strategic Insights for Generating Sales

Industry Overview

In the US, approximately 7.0% (1,500 of over 20,000) of new car dealerships sell mainly luxury cars, with combined annual revenue of about \$50 billion. Luxury cars (those costing more than \$40,000) account for 10 to 15 percent of all cars sold. Major luxury brands sold in the US include BMW, Lexus, Cadillac, Mercedes, and Lincoln.

Sales of luxury autos are primarily driven by consumer income and wealth. The profitability of individual dealers depends heavily on volume because so many costs are fixed. Large dealers have an advantage in economies of scale and the ability to provide post-sales car service. Small dealers can compete by providing better customer service. While a typical non-luxury car dealer may sell 800 new cars per year, a luxury dealer usually sells far fewer.

Car dealers usually have four profit centers: new car sales, used car sales, service and parts, and financing (including insurance and service contracts). Because their customers must make a greater effort to comparison shop, luxury dealers are more likely than regular dealers to make a good profit from new car sales. Luxury car buyers also are more likely to order high-margin optional features and extras that add to dealer profits, and are less interested in price than in good service. Car buyers may buy what is on the lot, but often specify options that force the dealer to order a custom-made car from the manufacturer.

As consumers begin to enter their retirement years, their incomes normally decline as they move from full-time employment into retirement. As their spending patterns change, their wealth may decline based upon their lifestyle. During this lifecycle phase, *mature Americans* (those over age 55) may choose to purchase a luxury automobile. However, the combination of lower incomes and rising costs of living may deter such purchases in the future. This situation has the potential to significantly erode luxury car dealers' profits. Based upon the US Census Bureau's 2005 American Community Survey (ACS), there are now more than 68 million people over the age of 55, with 37 million (12%) over the age of 65. This trend is projected to increase at a very steep rate, as the population of US senior citizens will double over the next 25 years. Thus, leaving marketers with a very big and very real problem.

Market Opportunities

Faced with the situation of changing market demographics, a marketer can react in one of four ways: (1) They can create new products that would appeal to their current markets' changing lifestyle, (2) They can find new markets for their existing products, (3) do nothing or (4) undertake a hybrid strategy of numbers 1 & 2. The best-case scenario is strategy number 4. However, new product development in the automobile industry has been focused on fuel-efficient vehicles. In January 2007, the Bush administration proposed to dramatically boost the fuel efficiency of the nation's automobiles in response to heightened concerns about the greater dependence on foreign oil. The proposal resulted in a series of protests by US automakers. The Bush proposal calls for automakers to raise fuel economy levels by about 4%, beginning in model year 2010 for cars and 2012 for light trucks. Fuel economy standards usually have a major impact on the profits of automakers. To comply with tougher efficiency rules, automakers have had to make costly changes to their vehicle lineups that can potentially neglect the luxury segment.

Furthermore, marketers can not afford any missteps when entering new markets because they run the risk of losing credibility. Successful marketing depends upon building and maintaining profitable customer relationships; a bad first impression can ruin any chance for future success. This can be done on many levels but the basic level is to create a superior value proposition for the customer. Product development and marketing is a series of consistently meeting customers' wants and needs. These needs and wants differ by each customer's situation. The successful marketer accomplishes this by understanding their market and formulating their marketing strategy (product, place, price and promotion) around this basic premise.

That being said, it is vital for luxury auto marketers to fully understand where these new opportunities lie and how to effectively reach these new customers. Ethnic consumers are a rapidly growing market that is a viable target audience of easy to reach influencers. Within the three main ethnic groups (African Americans, Asian Americans and Hispanic Americans), there is a growing and influential group, dubbed **Royaltons™**. **Royaltons™** are members of these three groups that earn more than \$100,000 in income individually or more than \$200,000 as a household. Based upon Diversity Affluence research, the Royalton™ population in the US totals approximately 1.4 million and has over \$110 billion in buying power.

These consumers possess great potential for marketers, and are uncluttered space that contains great potential for marketers to carve a niche early and create a strong presence for their brands. But they must be extremely careful when crafting their strategies to target these consumers. With any effective marketing strategy, having a solid understanding of your potential market, and who the market influencers are, is the first step towards success. Additionally, if sales and marketing are not fully integrated, a well thought strategy could backfire, costing a company hundreds of thousands of dollars.