

# Who is the real premium player in SA?

By [Lance Branquinho](#) 28 Jan 2020

As traditional luxury brands diversify their product line-ups in pursuit of ultimate sales volumes, can they still claim to be "premium" manufacturers, at least in the true sense of the word?

The one constant with anything expensive is that it must also be rare; in other words, demand for it must comfortably outstrip supply. There is absolutely no pricing power in abundance: premium watches are perhaps the best example...



Traditional European luxury-car companies base much of their price justification on the promise of their products being of a premium standard, and therefore, justifiably expensive. But, what is premium really? And, can you apply the notion of premium to a brand whose products have become more easily attainable

At the start of every year, there is excitement about new-model launches and special-edition surprises, but we also look forward to seeing who sold what (and how much of it) the year before. After unpacking the 20 new vehicle sales statistics, you may want to reconsider which manufacturers are the true premium car brands...

## What is true premium?

For the past two decades, every German brand that claims to be premium has massively expanded its portfolio. With access to scalable platforms and unrivalled engine technology, German automotive companies have been able to bring niche products to market where all others have failed. But surely there is a huge risk with such a strategy: the dilution of that premium billing, due to more affordable pricing. The logical question is: how can a brand be premium if an increasing percentage of its sales volume comes from the lower end of that brand's price structure?

An excellent example of a luxury brand that is undoubtedly premium, but perhaps risking too many sales, is Bentley. Volkswagen AG chief executive officer, Herbert Diess, was recently quoted as saying that Bentley 2019 model-year sales volume (of 10 000 vehicles) is not really what he wants. Amazingly, he would prefer

half that volume, with greater profitability per unit sold.

When we consider traditional German luxury car brand rivals, Mercedes-Benz and BMW, their growing sales numbers have potentially become a real issue.

### **The problem with being premium and popular**

Mercedes-Benz and BMW are fierce rivals, and the competition between them has given customers an array of strange and wonderful new vehicle segments and fantastically advanced turbocharged petrol and diesel engines.

Product strategists at Mercedes and BMW can rightfully show that they have successfully broadened their larger luxury vehicle offering with an expansion of SUVs and crossovers. This is true, but the traditional luxury sedan/coupe business has suffered as a result...

There is no rule that says that having luxury SUVs in your product line-up precludes you from being a true premium brand. The Range Rover and Land Rover Discovery were instrumental in promoting once utilitarian off-roader firm Land Rover to the status of premium adventure vehicle brand, one with true luxury and image appeal.

Where the doubt starts building around Mercedes-Benz and BMW's absolute claims to being completely premium brands, are their sales volumes. Both companies claimed 2019 unit sales of more than 2 million and there is no way that you can claim scarcity and premium product value at those volumes.

If you unpack the numbers in terms of units sold per model range, it is even more problematic. Mercedes-Benz makes no secret of the fact that of its record 2 339 562 units delivered in 2019, 25% were compact vehicles (cars built on the A-Class chassis). That is an amazing reality for a brand that has always been associated with large luxury cars and (for many people) still is, to this day.

Before Mercedes-Benz started its compact vehicle strategy back in the late 1990s, the company's baseline option was the C-Class. Yet in 2019, a quarter of Mercedes-Benz's business was below its traditional C-Class product hierarchy.

### **More cars and less money in the bank**

The issue is that despite selling more cars than ever in 2019, Mercedes-Benz's profits collapsed by half. And that is a problem: when you are moving more products, but making a lot less money by doing so.

BMW ended 2019 just short of its Stuttgart-based archrival, with 2 168 516 vehicles. Again, a significant volume of these were units from below the company's historic product baseline, which, for decades, was the 3 Series.

We don't have the benefit of detailed sales statistics for Mercedes-Benz in South Africa (it only delivers a total sales number), but BMW does release its individual model numbers. If we take July 2019, which is halfway through the year and provides quite a settled demand sampling, BMW sold 1,112 cars, of which 19% were smaller than the 3 Series. And that percentage excludes Mini.

That means BMW's business, if you included Mini, is now also more than a quarter compact vehicles. And those would never have been considered premium in a traditional BMW portfolio in which the 3 Series was

the entry-level range and front-wheel-drive BMWs with transverse engines (like the 1 Series) were unheard of.

We might not have the local Mercedes-Benz model breakdown, but if the same comparative sampling is applied for July 2019, total local sales were 945 units for the Three-pointed Star. And those numbers are trading off the largest Mercedes-Benz product portfolio yet.

Mercedes-Benz CEO, Ola Källenius, has admitted that every 4th Benz sold in 2019 was a compact vehicle. And that means the world's original premium car company now trades 25% of its business in cars that it would never have imagined putting a Three-pointed Star emblem on 3 decades ago.

### **Does Toyota quality as real premium?**

Perhaps the biggest counter-argument against traditional German brands that claim to be "premium", despite having a broader spread of product than ever before, is Toyota.

The pricing departure point for Mercedes-Benz and BMW in South Africa, if we dismiss Smart and Mini, is about R499,000 for the most affordable A-Class and R485,000 for the entry-level 1 Series. At any road-going production specification, one could round those prices to R500,000.

If you look at Toyota's South African product and the demand numbers for vehicles that are priced beyond R500,000, it makes for a very uncomfortable comparison. In July 2019, our sample month, Toyota sold a lot of vehicles within the pricing bandwidth of Mercedes and BMW.

Fortuner pricing starts at R500 000 and Toyota sold 810 of those. The Land Cruiser 200 is priced well beyond R1 million and Toyota moved a solid 79 of them. The Prado is also effectively a R1-million SUV. Toyota retailed 90 of its junior Land Cruisers in our July 2019 sample month. All the remaining Land Cruisers (FJ and 70 Series), combined for a total of 281 – and you could not buy any of those for less than R500,000.

In terms of pure medium- to large SUVs and Land Cruisers (priced beyond R500,000), Toyota averages more volume than BMW or Mercedes-Benz's entire South African business. That is without Supra, all the double-cab Hilux bakkies (few of which are under R500,000), Quantums (also touching R500,000) or even considering anything from Lexus. Just the RAV4 attained 584 units in July 2019 and if you buy a decent one it is a R500,000 vehicle.

What those numbers tell us is that a significant number of South Africans are willing to spend so-called premium segment money on... Toyotas. As traditional premium brands have expanded their product portfolios to capture younger customers with more affordable models, they have also unwittingly diluted the exclusivity of their brands. And, they've begun competing with traditional volume carmakers, such as Toyota, which was unimaginable a few decades ago.

In the mid-1990s, South Africa's default image-conscious family car was a 3 Series or C-Class. The Camry could not compete with them. In 2020, it is inarguably a Fortuner, which is priced in direct competition to a 3 Series or C-Class.

If Toyota is selling a lot more vehicles in the same price bracket as Mercedes-Benz and BMW, what does that do to claims of those 2 brands being "premium"?

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