

## COMPETITIVE STRATEGIES IN PREMIUM AUTOMOTIVE SEGMENT

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### Abstract

This paper analyzes how leaders in premium segments adapt their competitive strategies to the radical restructuring of the automotive industry. The analysis is based on the case study of the BMW Group. The automotive industry faces disruptive innovations which threaten to radically change the competitive structure. Leaders' traditional competencies are no longer sufficient to satisfy the customers' changing preferences within the premium automotive segment. This research points out the new competencies in the digitalization and electrification that a premium automotive company has to abide by in order to survive the hyper competition and sustain competitive advantage. The study highlights the necessity of reshaping the existing competitive strategies within the premium automotive segment to cope with the rising technological uncertainty and fierce competition. Strong investment in new technologies, efficient, agile and flexible production systems and implementation of hybrid competitive strategy result in strong performance within the premium automotive segment. Findings show that the transformation from the traditional premium auto company to a mobility tech company represents a key to gaining and sustaining the competitive advantage within the premium automotive segment. The paper expands the existing research literature by providing a detailed analysis of how disruptive innovations affect competitive strategies of leaders within the premium automotive segment.

**Key words:** competitive strategies, disruptive innovations, premium automotive segment, digitalization, electrification.

## КОНКУРЕНТСКЕ СТРАТЕГИЈЕ НА ПРЕМИЈУМ АУТО-СЕГМЕНТУ

### Апстракт

Рад на примеру *BMW Group* анализира прилагођавање конкурентских стратегија лидера на премијум сегменту, као одговор на радикалне промене у ауто-

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индустрији. Ауто-индустрија се суочава са дисруптивним иновацијама које пре-те да радикално промене конкурентску структуру гране. Традиционални извори конкурентске предности лидера нису више довољни да би се задовољиле промене у преференцијама потрошача на премијум сегменту ауто-тржишта. Овај рад указује на нове компетенције у области дигитализације и електрификације које премијум ауто-компаније морају да развију како би очувале конкурентску предност и опстале у условима хиперконкурентности. Рад такође детаљно образлаже неопходност развоја нових конкурентских стратегија на премијум сегменту ауто-тржишта како би се одговорило на технолошке неизвесности и оштру конкуренцију. Висока улагања у развој нових технологија, ефикасан, агилан и флексибилан производни систем, као и примена хибридних конкурентских стратегија доприносе снажним пословним перформансама на премијум сегменту ауто-тржишта. У раду је показано да су трансформација од традиционалног произвођача возила ка високотехнолошкој компанији и пружаоцу услуга мобилности кључни за стицање и очување конкурентске предности на премијум сегменту ауто-тржишта. Рад проширује постојећа теоријска знања пружајући детаљну анализу утицаја дисруптивних иновација на конкурентске стратегије лидера на премијум сегменту ауто-тржишта.

**Кључне речи:** конкурентске стратегија, дисруптивне иновације, премијум сегмент ауто-тржишта, дигитализација, електрификација.

## INTRODUCTION

The auto industry was characterized by evolutionary changes, but currently it faces dynamic and disrupting processes. Changing industry structure is a considerable threat to some auto companies, while others consider these new processes as a business opportunity (McKinsey & Company, 2019a). Technological challenges such as ACES (autonomous, connected, electric, and shared/services mobility), stringent emissions standards, rising importance of Asian markets, and changing customer preferences have triggered a radical transformation within the auto industry (McKinsey & Company, 2016; McKinsey & Company, 2019c). The structure of the automotive industry has been unfreezed by the disruptive innovations in complementary industries. To meet the changing expectations of customers, it is necessary to develop new business models. Fierce competition within the industry and looming USA-China trade war are fueling business uncertainties. The auto companies have to develop new competencies and craft new competitive strategies as a response to the changing business environment. Traditional auto companies expand their business areas through strategic alliances with direct competitors and new partners from ITC industry (PWC, 2017).

The paper analyzes the strategies that market leaders within the premium automotive segment use under growing uncertainties caused by technological and market disruptions. The analysis is based on the BMW Group case study. The paper shows that the competitive strategy of a market leader within the premium segment must blend elements of low-

cost provider and a differentiation strategy, i.e. a **hybrid focus strategy**. The development of new technologies, customer-oriented approach and combination of traditional and new competencies are critical for gaining and sustaining the competitive advantage within the premium segment.

Beside the introductory part, the paper contains three more parts. The first part offers a comprehensive literature review of leaders' and pioneers' strategies in technology intensive industries. This part provides the theoretical background to competitive strategies used within the premium automotive segment. The research methodology is presented within the second part. The BMW case study is used to demonstrate how leaders within the premium segment have to adapt their competitive strategies to the new business reality. The final, third part summarizes the main results and concluding remarks. In accordance with the presented theoretical concepts, two research statements were tested.

1. Having traditional competences (agility, flexibility and production efficiency) is no longer enough to create and sustain competitive advantage within the automotive industry.
2. Leaders within the premium automotive segment have to develop new technology solutions (ACES) and apply customer-oriented approach in order to sustain competitive advantage.

### *LITERATURE REVIEW*

Supply chain management within the automotive industry is very complex and requires competencies of coordination and alignment of thousands of companies, both in upstream and downstream activities. It was thought that supply chain complexity and capital intensity were efficient entry barriers and that traditional competitors would continue to dominate the industry in the future (MacDuffie & Fujimoto, 2010). However, disruptive innovations in related industries (Downes & Nunes, 2013) have unfrozen the structure of automotive industry. Technological innovations have not directly affected the industry's structure, but they have indirectly changed the impact of five competitive forces (Porter, 2008), resulting in the decreasing profitability of the industry. Due to technological innovations, some late followers have managed to bypass entry barriers. On the other hand, threats of substitutes (car sharing and ride hailing services), powerful suppliers and customers have been growing in the industry. Late followers from emerging markets have used the turmoil in the industry to acquire troubled incumbents and challenge leaders in the premium segment (Marković, Rakita & Filipović, 2015). The emerging markets multinationals successfully combine traditional low-cost production capabilities with acquired technology, know-how, marketing knowledge and brands (Yadong, Su & Lu, 2011) to establish a foothold in the market.

Changes in the market are especially considerable in the premium segment, where technological disruptions are combined with the changing customer preferences. Fast-paced technology and market evolution in auto industry (Suarez & Lanzolla, 2007) places incumbents in a dilemma of whether to be a pioneer or a follower. To meet these challenges, companies have to balance the exploitation of the existing competencies, which guarantee their business efficiency, with the exploration and development of new competencies, which will affect business performance in the long run (O'Reilly 3rd & Tushman, 2004). Some auto companies have established independent business units in order to successfully balance out the exploitation and exploration activities. This approach frequently results in coordination problems and low synergies (Tushman, 2016).

Incumbents that decide to be pioneers have to own core competencies necessary to develop technological and marketing innovations. However, if the pioneers do not possess complementary resources, they will not be able to build entry barriers, and early and late followers can jeopardize their competitive advantage (Vidal & Mitchel, 2013). In highly uncertain business environments, such as in the automotive industry, rivals imitate leaders' strategy because there is a belief that leaders possess superior market knowledge (Giachetti & Torrisi, 2018). The pioneers' competitive position is weak if early followers have sources of competitive advantage that can be easily transferred from related industries (Fosfuri, Lanzolla & Suarez, 2013) and exploited in the market. This is the case of auto companies, which use their traditional competencies to enter in the segment of electric and autonomous vehicles. Due to the followers' rapid imitation and fierce competition which erode returns on investment, leaders often prefer to self-displace from industry leadership in order to preserve financial performance (Pacheco-de-Almeida, 2010).

Flexible and fast reactions to changing customers' needs are proven to be the source of competitive advantage in unstable business environments and during hypercompetition. In this kind of industries, companies are not able to sustain competitive advantage using traditional competencies, but have to constantly improve skills that will protect the companies from the threats coming from the business environment and competitors' activities (Kriz, Voola & Yuksel, 2014). Due to disruptive innovations, which have negatively affected the premium auto segment, companies have to differentiate their marketing mix and add value to customers (Xu & Liu, 2018). Traditional competitors within the premium auto segment have to work constantly on cost reduction, to neutralize threats from the Asian late followers, and blend low-cost production capabilities with the differentiation approach, applying the so-called hybrid strategy (Proff, 2000). Although the previous studies found opposite relationship between the hybrid strategy and business performance (Pertusa, Morina & Claver, 2009; Thornhil & White, 2007), the strategy is common in

technology-intensive industries. Multinational companies in these industries have established a wide network of production plants and R&D centers, so they are able to simultaneously achieve low production costs and differentiate themselves by creating innovations within different locations (Gabrielsson, Sepala & Gabrielsson, 2016). In addition, multinational companies team up in strategic alliances with direct competitors to achieve the economy of scale, while strategic alliances with partners from unrelated industries are used to create new sources of competitive advantage (de Man & Luvison, 2019).

### *METHODOLOGY*

The research methodology is based on an individual case study of a market leader within the premium automotive segment. The data presented in the official annual reports, corporate and investor presentations and factbooks delivered by the BMW Group, Daimler and Audi were used. The data released by individual auto companies are combined with the data released by professional associations and specialized institutions such as OICA, J.D. Power, Interbrand, PWC and McKinsey & Company. The combination of theoretical knowledge and business data resulted in some new and interesting findings, different from the results of the previous studies.

### *GAINING AND SUSTAINING COMPETITIVE ADVANTAGE WITHIN THE PREMIUM AUTOMOTIVE SEGMENT*

Passenger car sales recovered strongly after the great recession, reaching the historic pick of almost 71 million units in 2017. The sale in 2017 was 39% larger than the previous historic record in 2007. Passenger car sale declined to about 64 million units in 2019, due to market saturation and structural problems (OICA, 2020). Covid-19 pandemic in 2020 has caused global economic crisis, so the sales are expected to drop further. Accordingly, sales in mass market have fallen sharply. However, according to some analyses, average annual growth in premium segment will be 1.8%, and the segment will reach 11.8 million units by the end of 2031 (BMW, 2020). The premium segment has been characterized by higher growth rates compared to the mass market, higher prices and profit margins, greater resistance to demand fluctuations, high brand loyalty and brands with a long tradition (Vošta & Kocourek, 2017). In 2017, premium segment made up 13% of vehicle sales, but 40% of profits, which makes it extremely attractive (McKinsey & Company, 2019b).

Premium customers traditionally demanded high product performance, superior design, safety and driving experience. However, disruptive innovations in complementary industries are also changing premium

customers' expectations. Accordingly, in addition to all previously mentioned, modern premium auto brands' customers also expect digital integration and two-way communication through the digital channels. A threat for incumbents in the premium segment is the emergence of challengers who are able to satisfy changing customers demand and create strong brands (Xu & Liu, 2018).

The incumbents have to find a way to beat late followers and to neutralize threats from technological disruption. This can be achieved by: 1. expanding the existing market 2. preserving the existing market share and 3. increasing its own market share at the expense of competitors (Kotler & Keller, 2016, p. 360). This strategy must be executed in a way that high investments in R&D and marketing activities do not jeopardize financial survival (PWC, 2019).

*Market Expansion as a Reaction of Leaders and Pioneers  
to Disruptive Changes in the Automotive Industry*

The globalization of the business environment and the global economic crisis have significantly affected the demand for premium cars. Results of globalization have been the stagnation in western middle-class real income and strong increase in Asian middle-class real income (Milanović, 2016; Alvaredo, Chancel, Piketty, Saez, & Zucman, 2017), so demand for premium products in Asia has been growing steadily. On the other hand, during the global economic crisis many buyers postponed the purchase of durable consumer goods due to uncertainty, although they could afford to buy them (Flatters & Willmott, 2009). Faced with such trends, the leader in the premium vehicle segment, the BMW Group, has decided to expand demand by offering cheaper models to customers in the mass market who previously could not afford BMW vehicles. In addition, the BMW Group has decided to create new sub-segments in the premium segment. The strategy proved successful because the company managed to increase sales after the global economic crisis from almost 1.3 million in 2009 to 2.5 million units in 2019 (BMW Group Annual Report, 2009; BMW Group Annual Report, 2019). The company sustained the leading position in the premium segment, leaving behind its two closest competitors: Mercedes Cars and Audi Group (see Figure 1). Other premium brands (Volvo, Jaguar Land Rover, Tesla, Lexus, etc.) lag far behind this German trio in terms of sales.

The company entered the mass segment offering smaller models such as MINI, X1 and Series 1 in a higher price range. The launch of these models was supported by marketing campaigns. The aim of these campaigns has been to raise the awareness among the mass segment customers that they can afford BMW models. The extension of the brand towards the mass segment has been successfully realized without damaging profit margins and the brand value. The decision to enter the mass seg-

ment was also influenced by stringent CO<sub>2</sub> regulations. In order to comply with regulations, the company launched a larger number of smaller models with lower CO<sub>2</sub> emissions, which created additional pressure on mass producers. BMW predicts that by 2025 smaller models will make about 40% of sales (Hetzner & Ciferri, 2015).

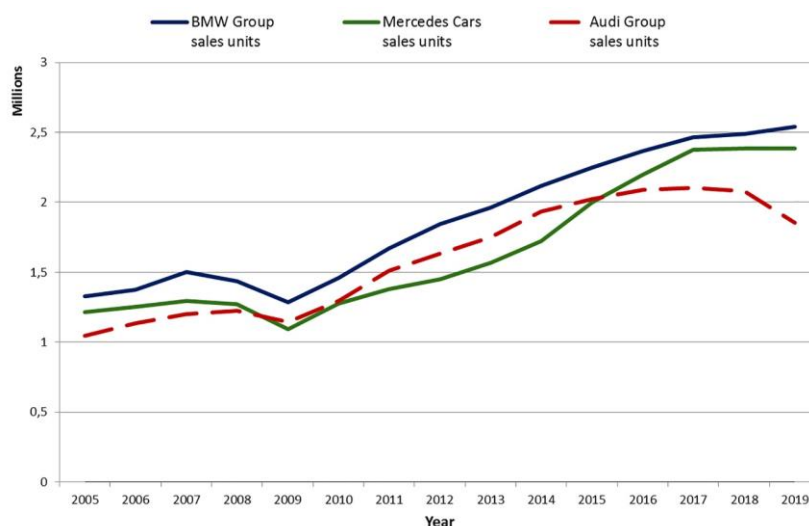


Figure 1. BMW Group, Mercedes Cars and Audi Group sales units, 2005-2019

Source: Official annual reports

BMW is trying to expand the premium segment by creating new sub-segments, especially crossover models, such as the BMW X6. The launching of new models results in a growing demand and attracts a new type of customers willing to pay more for something unique (Hetzner & Ciferri, 2015). The BMW Group has successfully created additional demand in the premium segment by expanding its portfolio of attractive products vertically (new Series 2, 4, X2, X4, BMW i) and horizontally (multiple derivatives in each series). Due to that, BMW covers almost all premium sub-segments. In 2019, BMW had in its range cars from Series 1 to the Series 8, Z4 and BMW i, while the SUV range was expanded to cover the X1 to X7 Series. The share of SUVs in the total sales of the BMW brand is constantly increasing, amounting to about 44% in 2019 (BMW Group Annual Report, 2019). Thus, the company leaves less space for competitors to penetrate the premium market.

The BMW Group has a pioneering role in sustainability. That is evident from the rapid expansion of the range of full electric and plug-in hybrid vehicles. By introducing “green” models BMW is trying to satisfy

the growing demand for eco-friendly products. Global sales of “green” vehicles reached 2.3 million vehicles in 2019, representing 2.5% of the whole auto market (EV-volumes, 2020). In the previous period, BMW did not need to experiment in this segment due to the strength of its brand, design and engineering competencies (Wesseling, Niesten & Hekkeert, 2015), but in recent years BMW has decided to expand into the premium “green” segment and come closer to environmentally sensitive consumers. The company has mastered the competencies to independently developing batteries and electric motors in order to compete in this segment. The company launched a separate sub-brand BMWi in 2013 to compete within the electric vehicles market. During 2019, more than 146,000 electrified vehicles were sold, which makes BMW one of the global leaders in electrified premium sub-segment, along with Tesla and BYD (BMW Group, 2020).

By entering the mass market and developing green models, the BMW Group has achieved multiple benefits. Firstly, due to growing production the company has reached the economies of scale. Secondly, by launching smaller models with smaller engines the BMW Group successfully reduces the average CO<sub>2</sub> emissions of the entire fleet, making it easier to comply with increasingly stringent environmental regulations (BMW Group Annual Report, 2018). Thirdly, the product portfolio has been adapted to meet the demands of younger environmentally sensitive users who will represent the main part of the market.

BMW provides premium services for individual mobility in order to boost the demand for premium products. In this manner, the company finds new ways to use the product and increases the total value of the package that customers receive. New digital solutions and stricter emission regulations are causing a growing, but still limited number of customers to give up ownership in favor of car sharing and ride hailing services. The users of this service are mainly premium costumers, small but profitable market segment, who live or work in large cities (Zipse, 2019a). Recent research shows that the demand for these services is growing slowly and that the willingness to use them does not depend on fleet models (Hahn, Ostertag, Lehr, Buttgen & Benoit, 2020). Despite these obstacles, BMW’s plan is to have 100 million active users of mobility services by the end of 2025 (BMW Group, 2019b).

We conclude that the BMW Group has successfully expanded market demand for its products. In the mass segment BMW has launched affordable luxury products, while in the premium segment the company has created new sub-segments and adapted its product portfolio to younger urban premium consumers.



*Market Share Protection as a Strategy Used by Market Leaders  
in Premium Automotive Segment*

Continuous innovations in products and processes have proven to be the best way to beat the followers in the market. By applying this approach, market leaders lead the industry in new product ideas, customer services and cost efficiency (Gilligan & Willson, 2009, p. 458).

The BMW Group frequently innovates and targets premium customers who can afford cutting-edge products and appreciate the masterpiece. These customers expect superiority, performance, reliability and top quality. The company is positioned as a symbol of quality and technological advance, exclusive brand with high performance (Kotler & Keller, 2017, p. 272). Such marketing strategy requires the application of a hybrid competitive strategy, so BMW combines differentiation and cost leadership strategies in the premium segment (Salavou, 2015). It was considered that simultaneous application of these two strategies results in poor performance, because these strategies need different competencies, but recent research proved that the hybrid strategy is applicable, especially in the automotive industry. In the case of the BMW Group, technological innovations enable the company to simultaneously achieve a greater degree of differentiation and cost efficiency.

Company differentiates itself from the competition by offering a more diverse product portfolio, with more derivatives, improved design, performance, reliability, safety and comfort. Greater product proliferation enables the firm to capture more customers, charge higher prices for customized versions, raise entry barriers and exploit the economy of scale and scope (Barroso & Giarratana, 2013).

Process digitalization, standardized modules and intelligent composite constructions have enabled the BMW Group to offer a high level of customization (BMW Group Annual Report, 2017). Customers are offered the right products and services at any time and every stage of product life cycle - this is what is called "customized premium mobility" (Krueger, 2017). Mass customization helps implement the differentiation strategy and improves the company's competitiveness (Khalek, Joseph & Nguyen, 2014).

In order to maintain premium brand status, a company must provide digital integration in cars because premium customers expect to be able to do the same things in their car as they do in their office or at home (Xu & Liu, 2018). The BMW Group has recognized this opportunity and is transforming from traditional car manufacturer into a high-tech auto company. The company is improving traditional competencies (flexible production, innovative development and efficient supply chain) and developing new ones in the field of digitalization and electrification with the aim to satisfy the changing demand. BMW cooperates with competitors

and ITC companies in order to create innovative solutions in the area of connectivity, autonomous driving and artificial intelligence.

Premium carmakers must invest significant resources in R&D in order to create product and process innovations and to achieve technological leadership. BMW's target R&D expenditure to sales ratio is between 5% to 5.5%. The value of this ratio reached a historical maximum of 7.1% in 2018. Increased investment in R&D, primarily in development of new models, electrification, digitalization and mobility services, will reduce profit margins in the short term. At this moment, it is the price of long-term sustainable growth (Peter, 2019a).

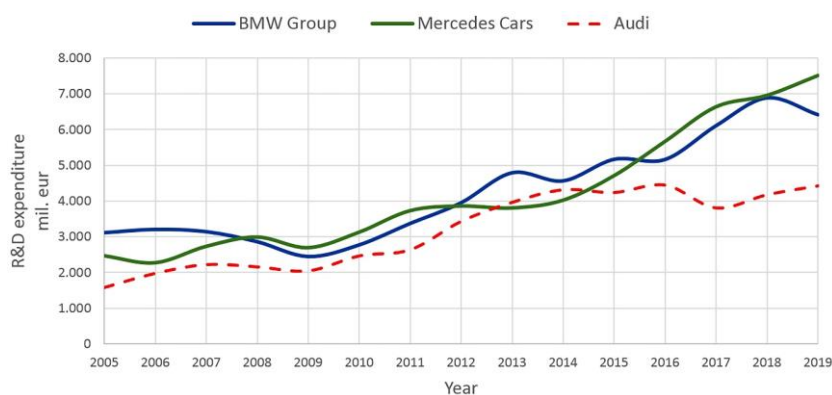


Figure 2. R&D expenditures, BMW Group, Mercedes Cars and Audi Group, 2005-2019

Source: Official annual reports

Figure 2 shows that the BMW Group and Mercedes Cars have had comparable R&D expenditures, while Audi has been lagging behind over the last 15 years. The companies have been increasing R&D investments which is the result of Tesla's penetration in premium segment and changing customer preferences toward digitalized and electrified models (hybrid plug-in and full electric).

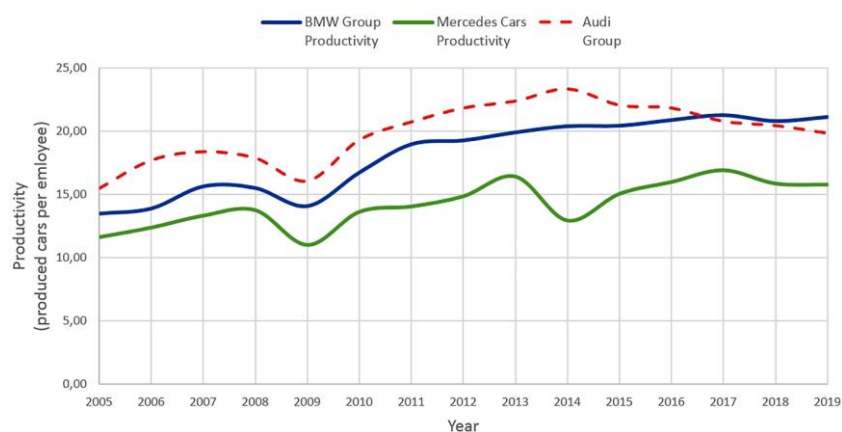
A long tradition of innovation is not only the basis of the BMW Group's economic success, but also an integral part of their corporate philosophy. R&D investments are focused on five areas: design, autonomous technology, connected cars, electrification and mobility services. The BMW Group aims to be a leader in all these areas. This refers to revolutionary design as a combination of aesthetics and technology, autonomous driving, digital connections of drivers and vehicles, the electrification of new models and individual mobility services. Numerous awards, primarily in the field of design, the use of innovative technologies and intelligent connectivity prove strong innovative competencies of the BMW Group (BMW Group Annual Reports, 2017-2018). BMW has focused its

efforts on obtaining software competencies necessary to digitalize vehicles and processes in different business functions: R&D, production, sales, product functionalities and lifecycle management (Zipse, 2019b).

BMW's competitive advantage in the field of R&D relates to faster digital processes, leaner structures, innovations and skills to develop and produce electric batteries. These competencies enable BMW to cut the development time of new models by one third by the end of 2022 (BMW Group, 2019a; Krueger, 2019). Shorter development period will result in faster rejuvenation of the product portfolio, differentiation and growth of performance (BMW Group, 2019a).

Three key areas for gaining competitive advantage in automotive industry are R&D, production and supply chain management. The BMW Group reduces operating costs through economies of scale, economy of scope and more efficient supply chain management. Production costs have been decreased through economy of scale in production and supply, technological innovations and better organization of production (BMW Group, 2020).

The BMW Group has established production facilities at 31 locations in 15 countries with the aim to improve production and distribution efficiency (BMW Group Annual Report, 2018). Tariff and non-tariff barriers are circumvented by local production in North America, Europe and China. High demand in the premium segment has resulted in a high capacity utilization (BMW Group Annual Reports, 2017 -2018). The number of produced vehicles per employee ratio is used to analyze capacity utilization and workforce efficiency in the auto industry. BMW's ratio is larger compared to direct competitors (see Figure 3).



*Figure 3. Labor productivity: BMW Group, Mercedes Cars and Audi Group, 2005-2019*

*Source: Authors' calculations based on data retrieved from official annual reports*

The company's production network is characterized by flexibility and operational efficiency. Flexibility is reflected in lean-thinking, ability to produce several models in one plant, competencies to transfer production of the same model from one production plant to another, and ability to produce the same models with ICE, plug-in hybrid and electric motors in the same plant. The operational efficiency is confirmed by high labor productivity, continuous production cost decrease and resource savings (Maidl, 2018). In order to achieve production efficiency, BMW has developed a UKL modular platform. The introduction of the new platform has resulted in greater effects of economy of scope compared to direct competitors (Lampon, Cabanelas & Frigant, 2017).

BMW has a plan to achieve additional savings of 12 billion EUR from 2017 to 2022. The savings will be realized in three areas: customer and sales (improvement of sales performance and optimization of customer interface), vehicles (reduction of complexity and variety of products with faster R&D process), process and structure (optimization of indirect purchasing and material cost reduction) and cooperations (project-based cooperation and joint ventures) (Peter, 2019b; BMW Group, 2020).

The high degree of differentiation and cost efficiency result in growing brand value. Brand loyalty is built by a wide product portfolio and superior customer service support. Survival within the premium automotive segment depends on understanding the different needs of customers in global regions and the fast reaction to technology disruptions, changing social trends and customer preferences. Digital communication makes up about 80% of interaction between a company and premium customers, helping to better understand business environment, customer needs and to increase brand value (Interbrand, 2018). BMW brand has crucial importance for the company's business model and represents a very important strategic resource. The brand strategy relies on excellent products and mobility services, and clear customer focus, resulting in high brand value. Since the great recession, the value of the BMW brand has almost doubled, reaching a value of over 41 billion USD in 2019 (Interbrand, 2019). BMW brand value has been stagnating since 2016, while Mercedes brand value has been growing constantly in the same period, reaching 51 billion USD value in 2019, which could be a sign of a potential marketing weakness. BMW will have to increase their marketing investments if they want to challenge the leading position of the Mercedes brand in automotive industry.

#### *Market Share Expansion as Leaders' Strategy in Premium Automotive Segment*

Market share expansion is the third strategy used by market leaders. This strategy is realized through international acquisitions, formation

of strategic alliances, geographical expansion and improvement of distribution (Gilligan & Willson, 2009, p. 460).

In the previous period, the BMW Group acquired MINI and the Rolls-Royce brands. Through this acquisition the company penetrated into new market segments, expanded their product portfolio and increased its market share. With the MINI brand, the company entered the premium sub-segment of small, urban cars, while with the Rolls-Royce brand, the company gained competencies to compete in the sub-segment of super luxury brands such as Bentley and Maybach. Through these acquisitions, the company entered small, profitable sub-segments and acquired competencies necessary to reshape its business model (Christensen, Alton, Rising & Waldeck, 2011).

Strategic alliances have been used frequently in automotive industry to improve market position (Mladen & Marković, 2019). They are used to deal with disruptive innovations, especially digital innovations, which threaten to endanger traditional players (Doz & Roover, 2019). Some companies do not have the necessary competencies to survive the industry restructuring, and therefore join forces to share the costs and risks of developing new technologies and know-how. Cooperation through strategic alliances often implies cooperation with direct competitors. At the end of 2019, BMW Group and Daimler AG formed a joint venture, thus joining their resources and competencies in the field of mobility services and autonomous driving. This cooperation is a response to looming late followers in the industry, stringent emissions regulations and changed customer preferences. The joint venture will improve the position of the two companies in global mobility service market, decrease R&D expenditures, boost development of new competencies, increase profitability and production agility (Daimler, 2019; Peter, 2019a).

At the beginning of the second decade of the 21<sup>st</sup> century, the BMW Group faced a high dependence on sales in Europe. In 2010, more than 54% of sales were realized in the domestic region, while the rest of sales was realized mainly in American region and China. The company applied a strategy of globalization - development of global products with minimal adjustments, targeting a small but profitable segment of the richest consumers, especially in emerging markets (Imelt, Govindarajan & Trimble, 2009). However, being aware that this approach has limitations, the company is striving for balanced delivery distribution worldwide. BMW has been applying a region-specific business strategy which results in significant growth in all regional markets (Krueger, 2019). The geographical expansion was primarily oriented towards growing Chinese market, which became the single most important market for the company. In 2019, the BMW Group realized 29% of sales in China, 43% in Europe and 18% in Americas (BMW Group, 2020).

The BMW Group entered Chinese market in 2003 through joint venture with Chinese partner Brilliance because Chinese government imposed 50% limits on foreign ownership in auto industry. The company constantly invests technology and design competencies, while the local partner provides low-cost production competencies and local marketing knowledge. This combination of competencies has enabled a successful implementation of a hybrid competitive strategy, which results in superior performance in Chinese market (Bingxin & Li, 2008).

Development and quality of dealer network have strong impact on competitive position in automotive market. In addition to the availability of dealer network, customer satisfaction is also influenced by sales experience and after-sales services quality. Enjoyable sales experiences and high quality after-sales service result in brand loyalty and attract new customers through a positive word of mouth (Chappell, 2019). According to J.D. Power 2019 U.S. Customer Service Index (CSI) Study, the quality of the BMW dealer network in the premium segment is at the bottom of the ranking list, behind direct competitors Mercedes and Audi (J.D. Power, 2019a). In order to deepen their relationships with customers, BMW established a new sales structure in 2019, where all automotive brands come together within one division. This way, customer-specific brand experience under one roof has been enabled (Krueger, 2019).

### *CONCLUSION*

Auto industry faced considerable restructuring in the second decade of the 21<sup>st</sup> century. Disruptive innovations, financial crisis and changing customer preferences force auto companies to craft and execute new competitive strategies. The analysis within the paper argues that traditional competencies (agility, flexibility and efficiency) are not sufficient to create and sustain competitive advantage in technology intensive industries, such as automotive industry. The BMW case study is used to prove this statement.

BMW traditional competencies result in high productivity, quality improvement and low production costs. The company's lean production system is characterized by high capacity utilization, high flexibility and efficiency that enable the company to respond quickly to fluctuating and changing global demand. A key indicator of competitiveness within the automotive market is labor productivity. The paper findings indicate that since 2017, the BMW Group has been the leader in the premium segment in terms of productivity. In terms of quality of vehicles, J.D. Power 2019 U.S. Vehicle Dependability Study (VDS) showed that MINI and BMW surpassed German rivals Audi and Mercedes-Benz (J.D. Power, 2019b). Standardized processes and structures ensure consistent premium quality throughout the production system of the BMW Group. The introduction

of new modular platform has enabled the company to lower production costs, cut the development time of new models and the time needed to launch new products, to achieve economy of scale and scope and to enhance flexibility in plants. The platform has allowed the company to have a more diverse model range with more derivatives compared to main rivals. The BMW Group is developing new competencies in the field of digitalization (software competence in engineering, automation, data analytics, etc.). Digitalization contributes to the further improvement of traditional competencies in processes and development of new products. The digitalization of processes has increased supply chain efficiency.

Premium carmakers have successfully expanded their business operations beyond traditional premium segment. They have developed smaller, differentiated models in higher price ranges for mass market, offering affordable luxury products for customers with middle income. Brand extension in mass market enables premium producers to achieve economy of scale and compliance with stricter emission standards, without compromising brand value and profit margins. In 2019, small BMW models Series 1, Series 2 and MINI cars accounted for 25% of BMW Group global sales (BMW Group, 2019), while Mercedes A and B class made 22% of Mercedes Benz Cars global sale (Daimler, 2019).

Due to radical changes in business environment leaders in the premium automotive segment have to develop new technologies (ACES) and apply a customer-oriented approach to sustain competitive advantage. Digital disruption and electrification drive premium customers demand. The BMW Group demonstrates its technological and innovation leadership in products, processes and mobility services. Additionally, it has capabilities to satisfy the changing customers' preferences. The company has been proactive and heavily invests in technologies which shape the industry.

The BMW Group is transforming from a traditional car manufacturer into a leading tech company for premium mobility. Cooperation with other auto manufacturers and ITC partners enable BMW to offer high quality vehicles and mobility services. To maintain technology leadership, the company invests significantly in R&D excellence which is the key to long-term business success. BMW competitive advantage is built on strong brand and understanding of customers' needs, excellent products (hardware) and high-quality mobility services (software).

Excellent and innovative design underlines focus on customers' needs and enhances brand value. BMW has been working with Daimler AG on the development of autonomous vehicles and has made significant breakthrough in this area. The company has invested more in connectivity technologies because it is expected that connectivity will be a switching factor for premium customers. BMW has revolutionized driving pleasure with the BMW Intelligent Personal Assistant and Connected

Drive services installed in more than 10 million vehicles (BMW Group Annual Report, 2018).

Strong global demand, stringent CO<sub>2</sub> regulations and changing premium customer preferences drive electrification in auto industry. This is a great opportunity for the BMW Group to increase global market share in this automotive segment. The BMW Group is focused on the systematic electrification of all brands and models, which will enhance vehicle performance as a premium differentiator. The company has competencies to independently develop and produce battery cells, electric drivetrain and high-voltage system for electric cars (Krueger, 2019). In 2019 BMW had 14% of EU electrified vehicle market, while its main rivals, Mercedes and Audi, lag significantly behind BMW in electric vehicles development, which resulted in their negligible market share, 3% and 4% respectively (BMW Group, 2020b). These companies have not valued the importance of investment in new technologies in the same manner, so they are transforming from traditional car manufacturers into high-tech companies with different pace and success. The paper revealed that flexible pioneers which heavily invest in electrified vehicles outperformed direct competitors in this small but growing market segment.

Despite uncertain and competitive global business environment BMW has managed to remain the market leader in the premium segment. The BMW Group increased its share in global passenger car market from 2.95% in 2007 to 3.95% in 2019 (BMW Group Annual Report, 2009; BMW Group Annual Report, 2019; OICA, 2020). The company gains and sustains competitive advantage by combining M&A growth strategy (MINI, Rolls-Royce) and the hybrid focus strategy. BMW turned the radical transformation in automotive industry into an opportunity, reshaped competitive strategy and increased market share with a balanced delivery distribution worldwide.

BMW is facing new challenges in 2020. The Covid-19 pandemic has caused a global economic crisis resulting in the plunge in the demand in auto market. It is hard to predict how long the crisis will last and what the consequences will be, so the auto companies have to be prepared even for the worst scenario. Only financially healthy and innovative auto companies, such as the BMW Group, will survive this crisis without a government's bailout.

The paper is the starting point for further research about leaders in the premium automotive market. Collecting data from potential customers in developed and emerging markets, further research could examine what are the customers' main motives to buy premium vehicles and how the customers value premium auto companies' competitive strategies.



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## КОНКУРЕНТСКЕ СТРАТЕГИЈЕ НА ПРЕМИЈУМ АУТО-СЕГМЕНТУ

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### Резиме

Истраживања о конкурентским стратегијама су бројна, али је веома мали број истраживања која настоје да утврде перформансе конкурентских стратегија на премијум сегменту ауто-тржишта. Овај рад анализира одговор премијум ауто-компанија на промене у пословном окружењу. Методологија истраживања заснована је на студији случаја BMW Group, која је лидер на премијум ауто-сегменту. Да би се доказале истраживачке хипотезе, у раду су коришћени подаци из годишњих извештаја и презентација намењених инвеститорима BMW Group, Daimler и Audi, уз комбиновање са подацима професионалних асоцијација и специјализованих институција као што су OICA, J.D. Power, Interbrand, PWC и McKinsey&Company.

Ауто-индустрија се налази у периоду брзе и радикалне трансформације, што је последица дисруптивних иновација, оштре глобалне конкуренције и промене преференција премијум купаца. Претходна истраживања наглашавају значај стратегије диференцијације као основе за стицање и одржавање конкурентске предности на премијум ауто-сегменту и истичу да је могуће конкурентску предност остварити само путем чистих стратегија (диференцирање или ниски трошкови). Резултати овог истраживања показују да стратегија тржишног лидера на премијум аутомобилском сегменту мора бити заснована на истовременој примени стратегије диференцирања и ниских трошкова, тј. хибридној стратегији фокуса. У раду је показано да компаније комбиновањем традиционалних и нових компетенција, које се одnose на развој нових технологија (ACES), и са фокусом на потребе купаца могу истовремено остварити диференцирање и ниске трошкове. У том смислу, закључено је да ће лидери на премијум ауто-сегменту морати да се трансформишу из класичних произвођача у високотехнолошке компаније, које поред производа нуде и врхунске услуге мобилности.

Студија случаја на примеру компаније BMW Group подржала је горенаведене ставове. Компанија је самостално или кроз партнерства осмислила иновације у области дигитализације, које су искоришћене како би се унапредила ефикасност процеса производње, али и да би се производи додатно прилагодили потребама купаца. Иновације у области електрификације возила развијају се како би се производи додатно диференцирали, али и како би се одговорило на поштравање регулативе у области екологије. Лидерска позиција компаније је доказана највећим тржишним учешћем на премијум аутомобилском сегменту, највећом продуктивношћу рада и иновативношћу у областима које ће дефинисати развој ауто-индустрије у будућности. Лидерска позиција је преточена у јаке финансијске перформансе, које су основа за значајна будућа улагања у истраживање, развој и маркетинг-активности.