What makes a Bentley so coveted? For a start, it’s the exorbitant price that guarantees high exclusiveness,” wrote the “Spiegel” about the Bentley Azure. As this quote wisely observes, product price and brand are deeply entwined, especially in the automotive industry. The price is a component of the brand image, which in turn determines the price range. When analyzing price and brand, the following questions inevitably arise:

1. Do the price and brand match up?

2. Does the price fully reflect the brand premium?

3. Are price and brand balanced throughout the entire price cycle, i.e. in the list price, street price and used car price?

The match between price and brand

A car brand communicates a clear image – even more so than with other products. Aston Martin, Ferrari or Porsche exude exclusiveness and are rarely seen on the streets. The production capacities for these hand-crafted vehicles are limited – one reason for their rareness. But the main reason for their exclusiveness is their price.

The product price and the volume purchased are directly correlated. With very few exceptions, the higher the price, the fewer product units are sold.

This in turn leads to greater exclusiveness, as only a few customer groups can afford this car brand. If a high price position is maintained over a long time period, then the exclusiveness caused by the high price will become a component of the brand image. Owners of such cars belong to an exclusive circle and they themselves embody exclusiveness. The reverse argument can also be applied: a long-term low price positioning leads to high unit sales and low exclusiveness. The car is seen on every corner, and most people can afford to buy one. Opel, Ford, Renault and Toyota are brands that avoid exclusiveness through lower prices and thereby achieve a high market volume.

Both the strategies of high-priced, exclusive offers as well as those of low-priced, less exclusive offers can be successful, as the cases of Ferrari and Porsche or Toyota and VW reveal. All brands exhibit a strong match between brand and price. Yet, history has shown just how precarious this balance is and how
quickly it can be destroyed. Case in point: In 1975, Porsche introduced its low-priced 924 and 944 models and ended up paying bitterly for this decision. Many “die-hard” Porsche drivers saw this as an assault on the car’s exclusiveness. This topic came up again in the late 1990s when the Porsche Boxter and Cayenne were to be launched on the market. By then, however, Porsche had learned how to master the delicate balance between exclusiveness and expanding the product palette: both models were clearly positioned in the high-price range of their segments. When the Cayman was later introduced, Porsche went a step further. With a considerably higher price premium over its sibling model the Boxster, the Cayman represented even more strongly the concept of an exclusive (and more profitable) sports car. Only the Porsche 911 was able to boast the same at its launch. In contrast, Volkswagen has yet to successfully establish its high-priced “exclusive” models like the Phaeton or Passat W8 in the market. The brand and price are not well matched. The potential buyers of these cars do not gain the image of a high-priced car segment from the Volkswagen brand.

The examples here reveal two extreme positions of the automotive spectrum. The logic behind matching the brand image with the price can also be applied to individual vehicle segments. Mercedes is a good example of this: the company has managed to pursue a clear high-price strategy in all of its segments – from the A-class to the S-class –, and thereby conveys an exclusive image.

**Make the price reflect the brand premium**

The product brand communicates all critical value that a customer associates with the product. BMW, for example, is associated with the “Sheer driving pleasure” – i.e. high technical performance, but also the pure technology of independent factors like design, quality rating, dynamics, etc. If the total number of a product’s positive attributes associated with a brand is higher than other products, this must be observed in the price setting process. Why was a VW Sharan MPV able to demand a higher price than a Ford Galaxy, although both are technically nearly identical? How is it that a Porsche 911 Carrera is sold for almost 50% more than a Chevrolet Corvette, despite the fact that both have more or less the same driving performance? Answer: because VW and Porsche give customers a higher value than brands like Ford or Chevrolet. From a price setting perspective, the brand can be seen as the residual value that unites the attributes associated with the product. If the attributes of products are the same, then the brand decides which product can demand a higher price. The car brand premium can be precisely measured and used to professionally set the price. Figure 1 illustrates the brand value as a part of the total vehicle value.

In this example, both cars offer customers the same value and endow the same utility value, although car A rates lower in all attributes with a weaker engine, poor equipment and a higher price. The reason for this rating is car B’s brand value, which is double that of car A. Car B’s brand ensures that critical attributes like motor performance or price are balanced out. This also explains the difference between the VW Sharan and the Ford Galaxy. The cars are equipped the same and perform equally, but the stronger brand value of VW enables a higher price tag. Or, if offered at the same price, the Sharan generates a considerably higher sale volume.

Let’s compare the Porsche and the Corvette. The price of a Porsche is more than 40% higher and its engine power more than 10% lower – and yet it sells much better in Germany than the Corvette. The brand premium here is incredibly strong, and so are the possibilities to take advantage of the brand premium in pricing.

If the price premium is not captured in pricing, because, for example, the manufacturer’s strategy is focused on achieving the highest possible sales volume, then the risk is even greater that the brand premium will erode in the long run.
Balance out price and brand in the price cycle
So far, the discussion has focused primarily on the list price of cars. In the public’s perception, the list price is THE official car price. The first impression buyers have of the list price also manifests the exclusiveness of the car. The list price is first optimized under the influence of the brand premium. In the relationship between brand and price, however, the list price is definitely not the only decisive price.

Several components of the price cycle must be closely monitored: the list price, the street (transaction) price and the used car price, but also components like profit maximization – the main purpose of pricing – and how well brand and price match up.

The list price is basically the tip of the iceberg in pricing. However, for customers, dealers and manufacturers, the street (transaction) price – i.e. the final selling price – is the most important one. It is also the one that deviates most often from the list price. Automakers sometimes use price wars and discount battles in an attempt to stimulate sales. The current average discount for private buyers of new cars in Germany is almost 14%; for some models of Fiat or Citroën, the average is over 25%. Even some leasing and special financing offers contain considerable discounts. The effects of such discount strategies are dangerous for the long-term profit situation and brand image. High discounts undermine the exclusive (price) image of the brand conveyed by the list price. If the actual transaction price level in the market is leaked, this can quickly have negative effects on the image. For example, the car brand – despite the list price – is no longer classified as belonging to the exclusive price segment. Citroën is currently dealing with this problem in Germany. Its image as an exclusive French manufacturer of cars in the high price segment with top technical innovation (e.g. pioneer of hydraulic suspension) has been diminished by the increasingly known high discounts. The list price of a Citroën Xsara Picasso is about 25,000 Euros – on the same level of the comparable VW Touran. After deducting 7,000 Euros for the car (the current discount granted), the transaction price of the Xsara Picasso is clearly below that of the VW Touran (assuming a 15% discount for the Touran).

The considerable gap between the list and transaction prices is only one way a brand is degraded by poor management of the price cycle. The transaction price level equally influences the price level in the used car market. The used car price has two effects on the brand. First, it signals the value loss of the car. This value loss represents the relation of the used car price to the list price. A higher value loss is caused, however, by a low transaction price, which then negatively influences the brand image. Second, a low used car price level increases the unit sales volume in previously unreached customer segments. This may sound good at first – but it is deadly for the brand exclusiveness desired by new buyers. They want, as described earlier, to belong to an exclusive circle of car owners. If the car can be bought by other buyer segments after only a few years due to low transaction and used car prices, this endangers the exclusiveness.

To summarize, it is critical that automakers carefully manage their price cycle – the list, transaction and used car prices – in order to deflect possible damage to their brand. A strict discount and conditions policy, an extremely measured utilization of special promotions and active involvement in the used car market are all instruments that positively influence the price cycle and thereby uphold the brand image.

Price and Brand: Success Factors
To recap, here are three success factors that are essential in managing the balance between price and brand:

- **Ensure that the price and brand match up in the long term.** This requires knowing that growing sales volumes are not the answer to the current profit dilemma; in fact, it may even endanger the exclusiveness of the brand. What’s more, volume-maximizing prices are not usually profit-optimal.

- **Consistently utilize the brand premium in the price setting process.** Manufacturers must systematically calculate the premium, as brand values fluctuate.

- **Carefully manage the price cycle:** the transaction and used car prices influence the profit and brand image. A holistic approach is essential.

![Figure 3: Price Cycle of the Automotive Industry](image)