Dealers and the formation of premium brands in the German car industry: Audi AG (1990–2020)

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Abstract

This article discusses how dealers contributed to the formation of premium brands in the German car industry in the 1990s. Using literature on luxury business, it tackles the case of Audi to explore the changing role that dealers have played and their integration into Audi's brand management strategy when the company became autonomous within the Volkswagen Group. The article demonstrates that dealers were not mere sellers of vehicles but rather places that transmitted experience value to customers. Like mono-brand stores in the luxury industry, Audi dealers were strongly integrated in the firm and physically embodied the brand through a standardized, worldwide architectural model.

JEL classification: D22, L20, L62, L81

Keywords: Car dealership; Mono-brand store; Premium brand; Audi; German car industry

1. Introduction

Until the 1990s, the world automobile market was basically divided between luxury and mass-produced cars (Freyssenet et al., 1998; Boyet & Freyssenet, 2006). While luxury cars were a niche market, targeting wealthy people and dominated by a handful of British and Italian companies, the core of global competition focused on mass production. Competitiveness relied on the ability to manufacture high-quality and inexpensive cars. This led to process innovations such as Fordism and the lean production system (Womack et al., 2007). However, premium cars emerged as a new segment in the 1990s and experienced rapid development. Three German companies have dominated the premium-car arena: Mercedes-Benz, BMW, and Audi (Rosengarten & Stürmer, 2006). These firms established unique market positions that enabled them to challenge Japanese and American automobile companies and also led to the decline of the French car industry in Europe (Pardi, 2020).

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Their strategy has become a reference and has been imitated by their competitors, for example Toyota with its high-end subsidiary Lexus (Dawson 2011).

The automobile industry is not a unique case from this perspective. During the 1980s and the 1990s, in the context of the globalization of markets, some companies started to reposition their products as luxury goods with a target audience of a mass block of consumers. This trend is visible in nearly all consumer goods industries and represents what Silverstein & Fiske (2008) named a "new luxury," while Truong et al. (2009) proposed the concept of the "masstige brand" (from mass prestige). The luxury branding strategy makes it possible to add value to mass-produced goods and achieve high profit margins. Thus, one can interpret the new strategy that German car companies implemented to establish themselves as the dominant premium brands in their industry as the application of the "democratization of luxury" (Gutsatz & Heine, 2018) to automobiles.

Still, most of the extant literature on the competitive advantage of German premium car companies focuses on product innovation (new technologies to make cars safer, faster, and more comfortable). The objective of this article is not to deny the role played by technology in the making of premium cars. We argue, however, that this is only one aspect of the process and is not sufficient to discuss the sources of competitiveness in the automotive industry. Marketing strategy, including dealership management, has been largely underestimated. Works on luxury business, however, demonstrate the need to look out of the workshop and bring retail into the analysis in order to properly understand the making of a premium brand. In particular, numerous works have emphasized the major role of mono-brand stores in communicating with customers and increasing the brand's visibility (see the literature review below). Nevertheless, there are nearly no studies on the role of car dealers from this perspective. This article is thus an exploratory study that analyzes the ways in which dealers have contributed to the competitiveness of automobile manufacturers. Consequently, the objective of this paper is to explore the roles that dealerships played in the case of the successful development of German premium cars since the 1990s, using Audi as an example. We did not choose Audi because it was the oldest and most successful car in the premium segment – it is not, particularly in regard to Mercedes Benz – but because it is the brand that changed the most during the 1990s (Rosengarten & Stuermer, 2006). According to one of the first Best Global Brands rankings published by Interbrand in 1996, Mercedes-Benz and BMW dominated the automotive sector that year (7th and 19th global rank, respectively), while Audi was not even ranked (Kochan, 1996). While these two leaders remain the most valued brands in the automotive industry in the 21st century, Audi entered the rankings and improved its position from the 68th in 2007 to the 44th in 2020.[1] This dramatic improvement in Audis's brand value is the result of its transformation into an accessible luxury brand. Thus, understanding the profound change experienced by this company, from a manufacturer of good-quality classic automobiles to a producer of a branded car helps to highlight the patterns of transformation. Our

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[1] Interbrand's former Best Global Brands rankings are available since 2007 on the website https://www.rankingthebrands.com/ (accessed 25 May 2021). Older rankings are however unavailable.

goal is not to discuss the sources of the German automobile industry's competitive advantages, but to understand how a car manufacturer was able to position itself as a premium brand company. In particular, we argue that marketing innovations, including a new dealership management, played a major role, as well as the commonly emphasized technological innovation argument.

The remainder of this paper is organized as follows. Section 2 gives a review of literature related to our research, and section 3 presents our methodology. Next, section 4 exposes the historical development of Audi with a special focus on the reorganization of the 1990s. Section 5 then discusses the roles of dealers in this context and proposes an analytical framework for further research. Finally, sections 6 draws conclusions.

2. Literature review

This article builds on two major kinds of literature that have yet to be integrated: competitiveness in the car industry and retail of luxury goods. Here, we present their characteristics and discuss how works on luxury retail can contribute to renewing the understanding of the competitiveness of German car companies in the premium segment since the 1990s.

2.1 The competitiveness of the German car industry

The issue of competitiveness in the car industry has cultivated a broad range of literature in management, economics, and business history. As an exhaustive literature review on this topic would be beyond the scope of this article, this section focuses on scholarly works that explain how German automobile manufacturers were able to build a competitive advantage to challenge American- and Japanese-dominated world markets since the 1990s (Tolliday, 1995; Jürgens, 1998). Although Volkswagen AG established itself as the leading manufacturer in Germany, along with its subsidiaries Audi AG and Porsche AG, other companies such as Daimler-Benz AG and BMW Group experienced similar growth (Pries, 2009). One can thus approach the successful development of the German automobile industry at both the industry level and the firm level.

Works on German economic and industrial policy mostly concentrate on explaining the postwar growth of automobile companies in the domestic market. Abelshauser (1983, 1985) and Katzenstein (1989) argued that corporatist institutions such as labor-management relations or apprenticeship systems offered a stable environment and high-skilled labor to the German manufacturing industry. These institutions also supported the growth of German car companies during their first phase of internationalization, which took place in the 1970s and 1980s, although labor management took on a greater degree of flexibility (Streeck, 1987; Hodge, 1991). However, these works on the traditional foundations of the competitiveness of the German manufacturing industry fail to explain the rapid expansion of automobile companies in the global economy since the 1990s, as corporatist institutions actually underwent a deep transformation at that time (Beyer & Hoppner, 2003). Rather, EU policy had a major impact on the competitiveness of the German manufacturing industry, including automobiles. The introduction of the euro and efforts to expand into Central and Eastern Europe offered German companies access to cheap currency and cheap labor (Pavlinek, 2017). These conditions obviously nurtured their development but cannot explain exactly why German car manufacturers focused on the premium segment.

Next, research at the level of the firm tends to form its discussions around three major arguments. First, scholars have demonstrated that German car companies adopted a product-development strategy characterized by technological innovation and high quality (Pries, 2004). Audi, BMW, and Mercedes Benz were able to grow rapidly in world markets because they offered innovative cars for accessible prices (Tolliday, 1995; Pries, 2009; Rosengarten & Stürmer, 2006). This is the dominant argument in academic literature and also in general publications by journalists and analysts (e.g. Kiley, 2004). Second, numerous works have shown how car manufacturers transformed their supplier networks in the context of globalization. Their internationalization strategies have featured a shift of their production networks from Germany to the world, with a special focus on Central Europe, Eastern Europe, and China. Since 2010, foreign production has surpassed national production in the German car industry (Herrigel, 2015). These types of works contribute to an understanding of how German car companies could keep production costs relatively low for high-quality cars. Third, some management scholars have demonstrated that the core of German automobile companies' new competitiveness tied into a new marketing strategy: the premium segment (Eckardt & Klemm, 2003; Pries, 2009). Amid a global car market that was home to a polarity between mass-produced cars and luxury cars, German companies invented a new market that luxury management scholars call "accessible luxury" (Allérès, 1991). This strategy unfolded within the context of the formation of groups through the acquisitions of other car companies, thereby allowing firms to build a portfolio of focused brands, and to benefit from the use of common production platforms. For example, BMW took over Rover Group, with its brand Mini, in 1994 and then Rolls Royce in 1998. This enabled BMW to position itself between both (Pries, 2009). In the case of Audi, the integration into Volkswagen, one the of the world's largest car manufacturers, has had undeniable positive effects in terms of production costs, since its cars are built on the group's platform. However, premium cars are not only high-quality products but also branded goods that allow for high profit margins. Yet from this perspective, too, scholars have not tackled the role of dealerships in building premium brands for the car industry. Literature on luxury business can help construct a conceptual framework for addressing this issue.

2.2 Retail of luxury goods

The control of distribution and retail played a major role in the luxury industry's transformation into a global business in the 1980s and 1990s (Donzé & Fujioka, 2015). While the international distribution of haute couture and luxury accessories relied mostly on sales contracts with department stores in the world's main cities until that time (Doherty & Alexander, 2015), European fashion and luxury companies started to take control of retail in the 1980s. The objectives were both to internalize the profits from retailing and to ensure strict control over brand management (the display of goods, prices of items, and interior design of stores).

This change was particularly evident when companies expanded their sales in Asia. Building global brands required consistency, and controlling retail was a way to implement a global brand strategy.

The opening of mono-brand stores was largely a means of moving away from cooperation with department stores and toward direct operation in foreign countries (Hollander & Omura, 1989; Moore & Doyle, 2010). Christian Dior is an excellent illustration of this phenomenon (Donzé & Wubs, 2019). Until the early 1990s, the Dior couture house was a small firm (114 million euro in gross sales in 1992) that depended on independent retailers. It owned only a handful of boutiques, and retail accounted for just 28.2% of sales in 1992. The growth strategy adopted by the company's owner, Bernard Arnault, focused particularly on building a network of self-owned boutiques around the world. The number of the company's self-owned boutiques reached 73 in 1999, peaked at 237 in 2008, and slightly declined after the global financial crisis (to 200 in 2016). These shops helped propel the growth of the firm, whose gross sales came to 1.8 billion euro in 2016–and retail represented 93.3% of the total. In its 1994 annual report, Christian Dior's management detailed the role of these mono-brand stores: "The development [of these stores] is the response to the decision to offer Christian Dior customers luxury boutiques that strengthen the prestige of the brand and to expand the diffusion of exclusive products, especially for women's ready-to-wear and accessories sold only in company stores" (Christian Dior, 1994, p. 3). This strategy was also largely adopted by luxury conglomerates, such as LVMH (825 stores in 1998 and 4,592 in 2018) and Kering (196 stores in 2000 and 1,381 in 2019) (LVMH, 1998–2018; Kering, 2000–2019).

Scholars in fashion and luxury management have investigated the roles and functions of mono-brand stores. Hollander (1970) had already argued that the mono-brand store was a channel typical of luxury firms in the 1960s—although at a small scale—due to their aims of exerting control over their brand image. A similar explanation was provided by researchers who explained the successful international expansion of Louis Vuitton in the 1980s (Laulajainen, 1991; Hata, 2004). The years since 2000 have seen growing segment of literature on the function of mono-brand stores in luxury management, with authors stressing the shops' contributions to building an exclusive and creative image for the brand (Fionda & Morre, 2009; Jenilek, 2018), offering unique consumption experiences (Nierobish et al., 2017), and educating customers in new markets (Arrigo, 2015; Bai et al., 2017). Discussing flagship stores as a specific format of mono-brand stores, Moore (2020) qualifies them as "a device for exclusivity and market positioning."

These works on luxury retail and particularly the brand-management function of mono-brand stores offer an ideal framework to analyze how German car makers integrated retail into repositioning themselves as premium brands in the 1990s. Research on automobile dealerships focused primarily on the management of relations between car manufacturers and independent dealers, essentially discussing essentially best practices in terms of profitability, market share, and customer satisfaction (Ramrattan, 2001; Gonzales et al., 2015; Tsai et al., 2015; Xu et al., 2017). However, the question of how dealerships contributed to making premium and luxury brands in the automobile industry, particularly in Germany, remains an unaddressed issue.

3. Methodology

In order to discuss the retail strategies of German premium car manufacturers in the 1990s, this article tackles the case of the company Audi AG. Taken over by Volkswagen AG in 1964, Audi AG was repositioned in the premium segment during the first part of the 1990s and thereafter experienced rapid growth in global markets (Audi, 1998). The timing made Audi AG a latecomer in the German premium car business, as Mercedes Benz had already carved out its place as the traditional luxury brand by the 1950s, and BMW had started to challenge it in the following decade (Rosengarten & Stuermer, 2006). Audi thus had to implement a consistent strategy to enter the competitive existing market, a context in which dealerships played important roles. Of the three German premium car manufacturers, Audi is the company whose position has changed the most, making this case study particularly relevant.

Using a business history approach, our study analyzes the evolution of the company's dealership management, emphasizing temporal changes in the roles and functions of Audi's dealers, as well as their contributions to the building of a premium brand. In particular, we discuss the application of a mono-brand store strategy inspired by the fashion and luxury industries to the automobile industry. Our final objective is to shed light on the process of shifting from a traditional dealership based on functional value and vehicles (selling a product) to a new model based on experience value and services (selling a brand).

Consequently, the main research question addressed in this paper is: How did dealerships contribute to the premium brand strategy that Audi adopted in the 1990s? Secondary questions include: What was the first step to move out of the traditional dealership model (offering more services or more emotional value)? Was the new dealership strategy applied uniformly around the world or localized? Did digitalization disrupt the new model? Since most post-1990 corporate archives are not open to researchers, the main sources for this work consist of annual reports by Audi AG between 1992 and 2019, internal sources related to corporate design from the Audi Corporate Archives, and five interviews with Audi managers in Germany, Japan, and Switzerland between June 2019 and March 2020.

4. Audi's historical development

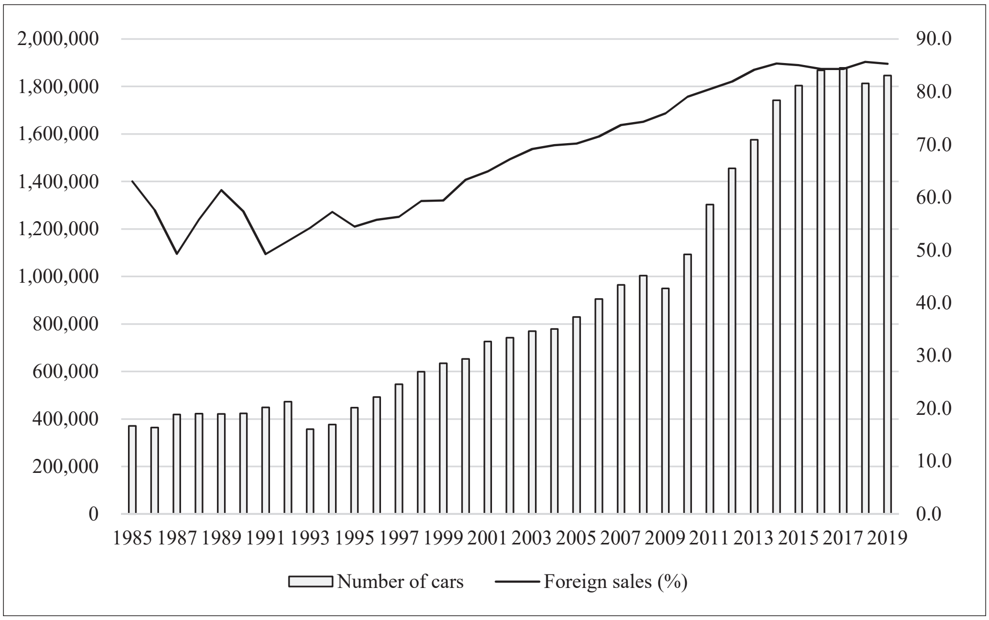
Understanding Audi's adoption of a premium strategy in the early 1990s requires a deeper exploration of the complex history of the company to that point. The company's new strategy was indeed not only a major rupture in terms of brand management but also a return to relative autonomy.

The roots of Audi go back to a small company, Audi Automobilwerke GmbH, founded in 1910 in Zwickau, Saxony. In 1932, in the context of Great Recession, it merged with three other small automobile makers to form a new company, Auto Union AG (Kirchberg et al., 1996). It was that new company that first adopted Audi's signature logo, a rendering of four interlinked rings. The company introduced an organization resembling that of General Motors: centralized production control with individual brand autonomy. During the 1930s, Auto Union was the second-largest automobile company in Germany after Opel, but the brand Audi represented only a tiny share of Auto Union's sales (1.9% in 1935). As an independent company, Audi sat in 14th place in the 1935 ranking of national automobile brands (Nishimuta, 1999). Audi was thus used as a brand throughout the interwar and wartime years, but it was not an important one.

4.1 Audi as a brand of the Volkswagen Group

After the war, Auto Union was moved to Western Germany and reestablished in Ingolstadt, Bavaria, as a new firm in 1949, with financial aid from the local government and the Marshall Plan. The company was then taken over in 1958 and 1959 by Daimler-Benz, which gradually sold it to Volkswagen in the years 1964 to 1966. For Volkswagen, the objective of the purchase was not to build a portfolio of different brands but rather to take control of Daimler-Benz's modern factory in Ingolstadt, an asset that could increase its own production capacity. Volkswagen's 1969 purchase of NSU, a manufacturer of motorcycles and small cars, created an opportunity for the reorganization of the Volkswagen group. NSU was merged with Auto Union under the name Audi NSU Auto Union AG, which was later renamed Audi AG in 1985 (Kirchberg et al., 1996). Audi, resurrected as a brand, developed a few new models in the late 1960s and early 1970s. However, popular perceptions saw Audis as conservative cars for older men, as the cars had low-performance engines and traditional designs (Kiley, 2004).
Moreover, Audi dealerships were tied to Volkswagen–all the Audi dealers in Germany and abroad were at the same time agents of all the Volkswagen Group's brands (Volkswagen AG, 2015). The stores focused on the functional value of vehicles: they displayed various models of cars and provided customers with technical information (Audi, 2020). The Audi brand was thus cannibalized by Volkswagen, which had a strong image and fast-growing sales. The number of cars sold by Volkswagen AG went from 1.0 million vehicles in 1975 to 1.6 million in 1980, 1.8 million in 1985, and 2.1 million in 1990 (Volkswagen AG, 2015). In comparison, Audi sales were much smaller and

Figure 1: Sales of Audi cars, number of vehicles, and proportion of foreign sales, as a %, 1985–2019



Source: Audi AG, *Geschäftsbericht*, 1985–2019.

experienced a slower increase. Sales figures grew from 371,048 vehicles in 1985 to 423,309 in 1990 (Audi AG, 1985-1990). Moreover, Audi was much more focused on the domestic market (which accounted for 47% of the brand's sales in 1985) than the larger Volkswagen Group (which got 30.1% of its sales from Germany, including Audi).

4.2 Making Audi a premium brand

In the late 1980s, the Volkswagen Group adopted a new strategy that focused on the building and management of a portfolio of different brands positioned in specific markets and targeting specific customers (Kirchberg et al., 1996). The takeover of other companies, like Seat (1986), Skoda (1994), Bentley (1998), Bugatti (1998), Lamborghini (1998), and Porsche (2012), was the driving force of the reorganization effort. That context is key: the strategy that Audi implemented in 1990 took place within Volkswagen's brand-portfolio management. Audi's objective was to establish itself as a premium car brand and challenge Mercedes-Benz and BMW in the corresponding segment. The former embodied the image of luxury cars for the traditional target of this segment: the wealthy classes. In the mid-1960s, BMW started to develop new engines to come out with cars powerful enough to challenge Mercedes Benz (Kiley, 2004). Launching the new 5 Series in the early 1970s, BMW used the release as part of its effort to position itself as a luxury brand with a sporty image. Audi, which still had a strong middle-class image in the 1980s, thus needed to find a new position to be able to enter the premium segment.

Although scholarship on the topic often associates premium brands with technological innovation and product development, the nature of the products was only one aspect of a multidimensional action. Audi's brand-management strategy hinged on four major elements during the 1990s. First, there was a need to define a new target, to abandon its image of a traditional brand for older generations. A premium product is similar to what Allérès (1991) defined as accessible luxury: mass-produced, high-quality goods sold at a large profit margin. Rather than super-rich people, the customers of premium align more with the upper-middle classes. In order to differentiate itself from Mercedes Benz (traditional wealthy classes) and BMW (luxury sport), Audi focused on marketing to younger generations, families, and women with high incomes.

Second, Audi developed new car models with a particular focus on these new target customers. In 1994, it launched three new models, each precisely positioned toward a specific upmarket segment: the A8 for the luxury segment, the A6 for the high-end segment, and the A4 for accessible luxury. As the annual report for 1994 noted, the complementarity between these models was a means of expanding the company's consumer base and sales: "The fascinating image of the A8 also carries over to the A6 and the new A4 and has reinforced the position of Audi in the middle and upper class" (Audi AG, 1994, p. 48). In the ensuing years, the company developed new models (e.g. A3 in 1996, Audi TT in 1999, A2 in 2000) and launched new versions of existing ones, but the hierarchical complementarity remained a core principle. In 2000, Audi produced 12,894 units of the A8, 169,276 of the A6 and 227,028 of the A4 (Audi AG, 2000, p. 57). The luxury model (A8) was important to building a premium brand. Moreover, all Audi new models were based on the same values: technology, security, design, and comfort. In particular, Audi distinguished itself in developing low-weight premium cars, using light materials like the aluminum it co-developed with Alcoa (Schretzenmayr, 1999). Audi decided not to launch any model heavier than a previous version, and lightness became one of the brand's distinctive features.

Third, Audi adopted a new communication strategy to emphasize and diffuse the values of its brand. The sponsorship of motor races and cultural events, such as classical-music festivals in Germany and Austria, anchored the brand as luxury. The company also started to provide A8 cars for transporting guests at some major international events like the summit of the World Bank and IMF in Dubai in 2003. Moreover, Audi launched a new corporate identity, developed in cooperation with the German architectural agency Schmidhuber & Partner and Meta Design, in Switzerland, in 1994. Also that year came the founding of a new Corporate Identity and Communication Department, which assumed the responsibility for implementing a standardized visual identity (logo, advertisement, motor shows, etc.) throughout the world. Dealerships took a new major role in this context, too. The objective of Audi stores was no longer to simply sell cars but rather to express the values of the brand and transmit them to customers at an emotional level. A 1996 internal document describing the objectives of the corporate identity set forth that "the dealer identity shows the high standards of the Audi brand. Exclusivity, technology, and tradition are reflected in the materials and design of the new identification" (Audi AG, 1996). Audi decided to transform all its stores around the world and build them on the basis of a standardized model. The first generation of Audi stores (hangar-model stores), launched in 1997, embodies the values of the company in its material personality: made of aluminum, steel, and glass, the locations evoke the lightness and strength of Audi automobiles. The 1996 annual report explained that "the new Audi architecture symbolizes the corporate philosophy." (Audi AG, 1996, p. 48) (see Figure 2).

Fourth, carrying out the premium brand strategy required a new approach to dealership management. Audi needed to build its own sales network and expand it internationally. In 1995, the Volkswagen Group decided to split the global dealer network between Volkswagen and Audi to enable each brand to position itself efficiently. Audi set up a Sales Network Planning Department in 1996 to supervise these activities (Audi AG, 1996) and set up a three-level dealership organization in each market. The framework comprised exclusive partners in metropolitan areas (Audi Centers); multi-brand stores with their own Audi showrooms, exclusive sales teams, and separate repair facilities; and universal dealers, as previously. Then, Audi gradually selected dealers for further development and introduced the hangar model. In markets where it already had a foothold (Germany, Western Europe, United States, Japan, and South Africa), Audi scaled back its sales network and refocused on dealers that could promote Audi as a premium brand. For example, in Japan, the number of dealers shrank from 250 to 100 by the year 2000 (Audi AG, 2000). In new markets, particularly in the Asia-Pacific and Latin American zones, the company began establishing and developing a new distribution system in 1996. Audi took over existing importers and started to control retail in each market directly. The opening of new stores was an opportunity to make a successful comeback on the American market in 1996 after the collapse of Audi and Volkswagen in the late 1980s (Kiley, 2002).

Figure 2: Audi Hangar

Source: Audi Corporate Archives

China played an important role and became the benchmark for Audi's expansion into new markets. Audi has been in China since 1988 through a joint venture established by Volkswagen that year (Volkswagen 2015). Audi's Chinese location initially produced cars for the global market and then gradually shifted toward production for domestic demand (15,110 cars sold in China in 1992). Increasing sales in China made Audi take notice of how China could be a driver for the transformation of the company's dealership network. By 2000, 12 of the 31 dealers in China had completed an Audi hangar, and 11 others were under construction. The annual report for 2000 emphasized that "the recently opened Audi dealer in Zhuhai, South China, is one of the five largest Audi hangar in the world. By the end of 2001, China will have a total of 51 companies exclusively representing the Audi brand. The establishment of an exclusive dealer network in connection with the successful launch of the A6 specially modified for China has clearly had a positive impact on Audi's position as a premium brand." (Audi AG, 2000, p. 51). The effort to reorganize the dealer was complete in 2003 (covering 89 dealers in 55 cities), and China became the benchmark for the global market (Audi AG, 2003, p. 42). As sales continued to boom, China overtook Germany as Audi's top market in 2011.

The premium brand strategy that Audi set in motion in the early 1990s was successful, enabling the company to move out of its low-growth pattern and strong dependency on its domestic market. The company's development has been impressive, with its annual sales volume going from 376,141 in 1994 to more than 1.8 million since 2015, while the share of foreign sales rose to 85.3% in 2019 (see Figure 1). Forming a core part of the new brand-management strategy from the mid-1990s onward has been the dealership component.

5. The changing roles of dealers

The previous section showed that the transformation of Audi into a premium brand during the 1990s was a multidimensional strategy in which dealerships played a central role. In this section, we open the black box of retail and discuss how dealers contributed to making Audi a premium brand. Beyond examining the organization of a specific network of dealers using a standardized architectural model that embodies the corporate identity, one must also probe stores to explore the actions that Audi used to transmit the values of the brand.

Until the mid-1990s, Audi's dealers focused essentially on elements of functional value (technical specifications and price). They sold material products (vehicles) rather than services or a brand, an approach that had characterized the automobile industry since the early twentieth century. The principles of dealership management relied basically on the extension of the retail network and, in Europe, on maintaining control over dealers through exclusive clauses (a practice that has been illegal in the United States since the 1940s).

Until the late 1980s, automobile manufacturers considered dealers as mere points of sales, and cost control was a major issue (Womack et al., 1990; Shioji, 2002).

Global competition led automobile manufacturers to move out of this product-functional based retailing to distinguish themselves from other brands (see Figure 3). There are two basic ways in which automobile manufacturers can attract consumers through dealerships.

First, dealers can offer new services to their clients, like credits and leasing, warranties, or car maintenance. All these services also have a functional value. For example, in Japan, where automobile manufacturers often own their dealerships directly, the objective of retail is not only to sell a product

Figure 3: Varieties of dealership management in the automobile industry

	Functional value (Specifications)	**Experience value** (Feeling/emotion)
Services (Things)	Finance Warranty Convenience	Dealer design Atmosphere Affection "Moments of Truth" Friendly and honest sales communication
Vehicles (Products)	Specifications Price Economy	Distinctive image Product identity Design Enthusiam Fun

Source: Designed by the authors.

but also to build long-term relationships with customers. Dealers offer additional services directly attached to cars, like doing home visits to highlight new models that correspond to the socio-economic profiles of the corresponding households or preparing vehicles for periodic official inspections (Womack et al., 1990); these services all provide functional value.

Second, it is also possible to offer customer experience related to the vehicle. This choice has been a particularly common approach for companies with a strong product identity and a community of fans, like Mazda after its relaunch with the Kodo design in 2011 (Nobeoka & Kimura, 2016). Dealers offer an interior design and distinctive image that both highlight the uniqueness of their products, delivering an emotional impact in connection to the vehicles. Finally, the luxury-business approach that has inspired efforts in the automobile segment centers on the deep integration of both experience and services. By offering a broad range of services and experiences not directly linked to the functional values of the vehicles, automobile dealers contribute to building premium and luxury brands.

The example of Audi shows that the shifts to experience value and services occurred in parallel. Since the mid-1990s, the company implemented a broad range of actions that led to offering something new to its customers.

Audi had already provided functional services before it became an autonomous company. When it entered the Volkswagen Group, it benefited from the financial services (loans, leasing, and insurance) that Volkswagen had organized as a separate subsidiary in 1949. Financial services were still coordinated within the group, even after Audi's management became independent (Volkswagen, 2009). In 1994, when Audi released its new vehicles and initiated its premium strategy, there was a need to offer "exclusive services for sophisticated customers" (Audi AG, 1994, p. 49). Addressing that need, the company adopted a variety of new functional services; for example, the customers of the luxury A8 were offered special services, including 24-hour assistance, free pick-ups in case of problems or accidents, and high-class replacement cars, throughout Germany.

At the same time, Audi also introduced new services not directly related to the functional value of its vehicles. In 1990, Audi launched, in cooperation with Volkswagen, Visa, and Mastercard, a credit card for its clients. Five years later, it introduced the A plus program. Through the program, holders of Audi credit cards benefited from new specific services, including information on traffic and road conditions by phone, ticket booking for sports and cultural events, and Audi Magazine, which included lifestyle-oriented articles (Audi AG, 1995, p. 41).

Experience value was also at the core of the premium strategy. In 1994, Audi introduced a new delivery policy for its new customers at its two main German stores in Ingolstadt and Neckarsulm (which together accounted for 25% of all deliveries in Germany that year). The objective was to give customers a unique experience in their first encounter with their new car. Moreover, the Ingolstadt Audi Center, which has its own restaurant and hosts jazz concerts and events for the local business community, embodies luxury for its regional clientele (Audi AG, 1994, p. 19). At the same time, some experiences were related to the product. In 1995, Audi started to organize driving courses in borderline situations: driving on icy lakes, for example. More than 5,000 people took part in these events, which Audi later introduced in foreign markets through its dealers (Audi AG, 1995, p. 41). The idea was that

Audi Centers around the world would showcase “the possibility to have a live experience of Audi’s world” (Audi AG, 1997, p. 40).

Consequently, at the end of the twentieth century, Audi had moved its retailing function toward providing experience value through services. The premium strategy was successful. Audi sold nearly 50% more cars in 2000 than in 1990, but still depended strongly on the domestic market (which held a 46.7% share of total sales in 2000). In order to carve out a place in the world’s markets, it had to strengthen its luxury image—and retail was a major part of that process. In 2006, Audi introduced a new program to ensure the service quality and customer-friendly attitude of its dealers around the world (Audi AG, 2007, p. 158). The following year, Audi stores underwent an architectural overhaul with the launch of the Audi Terminal, a new version whose exterior designs (using aluminum and glass along with curved spaces) and interior designs (black furniture, wooden walls, LED lights) express the luxury of the brand (see Figure 4). The first terminal opened in Sydney in 2007, and others followed throughout the world in the subsequent years.

Figure 4: Audi Terminal

Source: Audi Corporate Archives.

The luxury atmosphere was particularly important in emerging countries where Audi had to treat high-income customers as special guests. China again became a benchmark. The 2008 Audi annual report introduced the dealer Beijing DAD Automobile Sales as the best incarnation of Audi’s aims to position itself as a luxury brand. As “purchasing a vehicle is a truly important event in a Chinese customer’s life” (Audi AG, 2008, p. 42), senior sales staff welcome customers “like royalty.” Cars are “meticulously polished,” while the showroom is “immaculate.” On the second floor, the store includes beauty services (a hair salon and massage clinic, shoe repair shop, leather boutique, etc.) and entertainment (billiard tables, a cybercafé, and a movie theater). As for functional services, the dealer offers a three-hour orientation session with test drives of new vehicles. The company has expanded the luxury experience beyond emerging markets, however, and adapted it to local customs. For example, in Germany, Audi has been inviting its customers to collect their new cars personally at its two main retail centers in Ingolstadt or Neckarsulm since 2011–and that personal pick-up approach also lets the company communicate the values of the brand through experience: “Audi’s premium vehicle handover facilities demonstrate to the customer just how much care and precision go into building Audi vehicles. The program is rounded out by a look at the history of the Company and culinary delights. To make the experience even more special, customers can tailor the handover to their own individual preferences. Accompanied by a customer relationship manager throughout the entire day, they are given a personal tour of the factory, making the occasion a truly memorable one.” (Audi AG, 2011, p. 137). These two examples demonstrate perfectly how Audi inserts the product within a broader environment that contributes to making Audi a premium brand.

Finally, we must briefly discuss how digitalization is challenging the luxury model that took shape in the 2000s. New digital technology began making its way into German Audi stores in 2011 and Audi locations abroad in 2012 with the installation of 3D virtual showrooms, which give visitors new ways of seeing and experimenting with all the company’s models. A description of Audi’s main store in London, “the first cyber-store in automobile history” (Audi AG, 2012, p. 30), explains that it features not only touchscreen-controlled video walls that enable customers to configure their ideal car but also a 40,000-watt sound system. These types of cyber-stores next popped up in Berlin and Beijing. In 2015, Audi announced its plans to gradually equip all dealerships with digital technology (Audi AG, 2015, p. 40). Digitalization has thus become a component of the vehicle’s experience value. In 2017, digitalization swept into functional services. A digital service station opened that year in Munich, where customers can now drop their car for maintenance and bring it in any time for servicing whenever they want–all without actually meeting any operator. Digital services are essentially an extension of traditional dealer service, aiming to introduce “a seamless omnichannel sales and service experience, whether online or directly at the dealer partner.” (Audi AG, 2017, p. 97).

6. Conclusion

The premium strategy that Audi adopted in the early 1990s resulted from the reorganization of the Volkswagen Group’s brand portfolio, one based on strong brand differentiation managed by autonomous firms within a group. It benefited all the constituent entities in everything from the entry market to the luxury segment (Carlotti et al., 2004; Truong et a., 2008; Shah, 2015). In this context, Audi was entrusted with the premium segment. In 1994, while using Volkswagen’s platform for production, it adopted new brand management approach that involved defining a new target (high-income customers, including families and women), developing new products (A4, A6, and A8), adopting a new communication strategy (where the brand embodies the luxury lifestyle), and introducing a new dealership system (via the separation of Audi and Volkswagen). A new dealership network was thus organized from scratch to distribute Audi around the world.

The changes signified that Audi dealers were no longer mere sellers of vehicles and related services.

In 1994, they began to offer customers experience value—linked to vehicles (e.g. learning to drive in extreme conditions) or not (e.g. luxury atmosphere of stores)–that contributed largely to establishing Audi as a premium brand. The user experience and services that dealers offer, from the design of stores to jazz concerts and digital services, were consistent with their targets, namely young and modern customers. This role started in traditional markets during the 1990s and started to make its way into to new markets in 2000, as it was important to transmit “Audi values” to new customers who were unfamiliar with the brand, particularly in China. Dealers contributed strongly to making Audi a premium brand in a sense very similar to what has often occurred in fashion and luxury. The conditions on implementing the new dealership strategy within the group entail the adoption of control measures (introduction of new KPIs, financial incentives, training of salespersons and technicians, etc.), whose analysis was beyond the scope of this article. The conditions of control obviously differed between countries, depending especially on whether Audi had previous domestic partners or not. One important point is that the introduction of a standardized store model in the 1990s was the work of a special department that the company set up within its headquarters.

Audi’s trajectory is far from unique. Mercedes Benz and BMW also implemented experiential marketing to reinforce their premium image, and the use of luxury single-brand store principles was adopted by other automotive companies in the 1990s (Atwal & Williams, 2017). However, Audi’s uniqueness lies in the fact that the new brand management introduced in the mid-1990s contributed to the profound transformation of the company and its establishment as a premium car manufacturer. In this perspective, the case study analyzed in this article demonstrates the importance of the consistency of vision, which makes it possible to integrate target consumers, product development, and dealership management. In the world of premium cars, as is the case in other sectors of the luxury industry, the role of dealers extends beyond selling goods; dealers are also places to offer services with high experience value (see the upper-right quadrant in Figure 2). Moreover, this study has demonstrated that scholars should not approach the competitiveness of automobile companies in the global market at the beginning of the twenty-first century from a perspective that places excessive emphasis on product development (e.g. hybrid and electric vehicles, autonomous cars) and production systems (e.g. global value chains and producer-suppliers system); see, for example, the recent collection of essays edited by Covarrubias & Ramirez Perez (2020). Research should focus more on brand management, including portfolio organization and dealer networks, and integrate this dimension with product development and production technology in a systematic model, in order to obtain an adequate view of the conditions of global competition.

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