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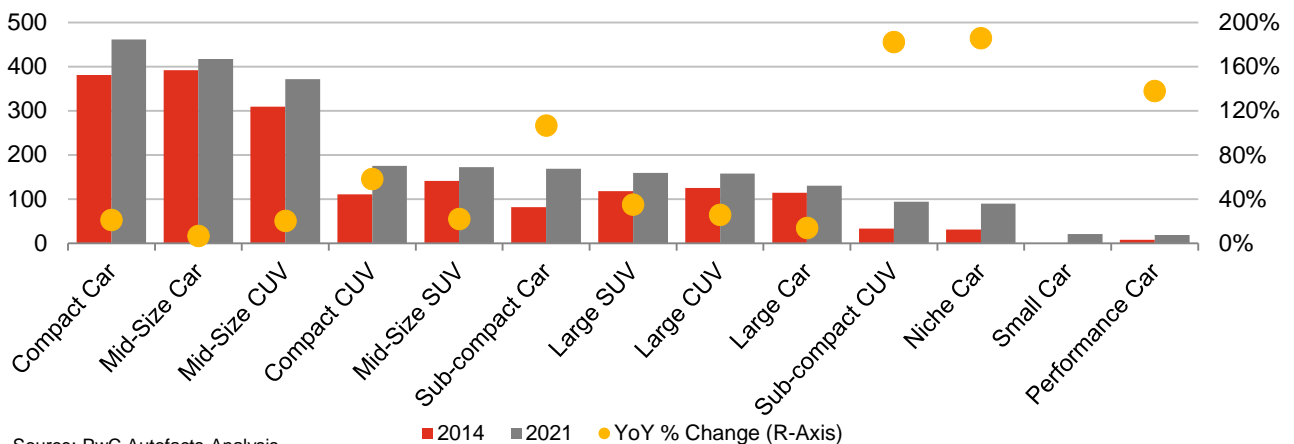
US: The (growing) lap of luxury

A look at the increasingly competitive luxury segment

With a highly competitive market and already saturated vehicle segments, will the top three luxury OEMs be able to retain their top spots going forward, or will the luxury vehicle landscape shift to a more diverse arena, much like the current non-luxury vehicle market?

Luxury Sales Growth by Segment

2014 vs. 2021 (thousands)



Source: PwC Autofacts Analysis

Battle at the top

Recent luxury sales numbers in the US indicate that the top three luxury OEMs have been battling for the lead, and with a growing number of products, the sales gap is quickly closing. A mere nine thousand units of sales separated the top two spots, suggesting that the race will be tighter than ever. Last year there was only about a nine thousand unit difference in sales between the number one and number two luxury OEM.

With the luxury market expected to increase by 32% from 2014 to 2021, it is no wonder that OEMs are clamouring for a bigger piece of the pie. Last year, the top three luxury OEMs controlled about 53% of the US luxury market sales and year to date (through April), that figure has hovered around 48%. Much of this can be attributed to an expanding product portfolio, with the total number of luxury

nameplates in the US expected to increase by 27% from 2015 to 2021. Given at least 27 new luxury segment entrants entering the market, there's no telling which OEM will earn the top sales spot by 2021.

Making the switch to luxury

Luxury brands have managed the tricky task of lowering entry-level pricing without tarnishing brand image and value in recent years. Entry-level luxury vehicles are now priced between \$31 and \$35 thousand, allowing buyers to consider luxury nameplates at an earlier point. These smaller, more budget-friendly vehicles are now offering similar size, equipment options, and comparable fuel economy with brand cache that their non-luxury competitors are lacking. With the availability of longer loan terms as well as historically low interest rates, purchasing a luxury vehicle has become easier

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than ever. Leasing is also a very attractive option as it allows access to high end vehicles with hefty price tags with low monthly payments.

A slew of new products have resulted in more extensive luxury product portfolios, and much of the success for the top three luxury OEMs can be attributed to their presence in nearly every competitive segment – in some cases, with multiple entrants within a segment. On top of what seems like an already saturated product lineup, many of the top three luxury OEMs also offer a plethora of trim levels, in some cases over ten packages, providing the buyer with a vehicle that is equipped with everything they could possibly want or need – and then some.

The domestic push

Domestic OEMs have long struggled to outsell non-domestic OEMs in the luxury vehicle market, as many Americans equate that the quality, performance and exclusivity with foreign luxury brands. Sales figures confirm this, with non-domestic luxury vehicle sales increasing 59% from 2000 through 2014, while domestic luxury OEMs brand sales declined by 31% during the same period. The tide could be turning though, as year-to-date 2015 sales for domestic brands are up 7% year-over-year while non-domestic sales have increased 10% (through April).

Indeed, domestic OEMs should be able to capture more luxury market share going forward, with the number of models expected to increase by 50% by 2021 while non-domestic OEM nameplates are only forecasted to grow by 23%. The rise in the number

of nameplates for domestic OEMs will help fill gaps in growing segments like compact car and compact CUV.

Looking ahead

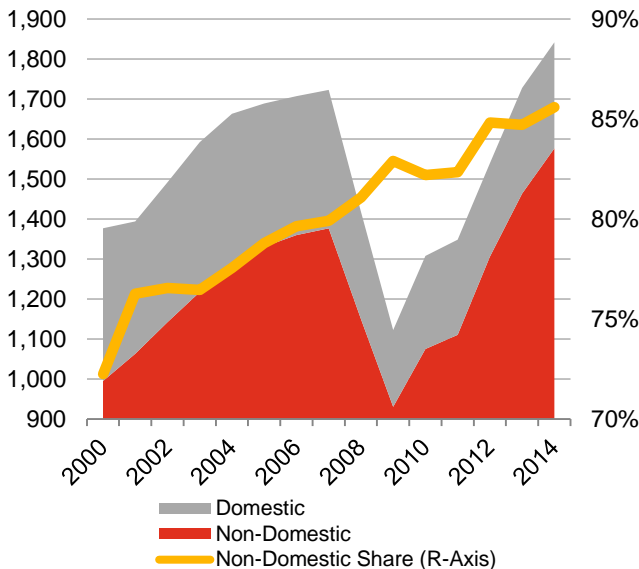
With size no longer one of the key definitions of a luxury vehicle, there is a growing appetite for smaller, fuel-efficient luxury cars. Small car and sub-compact car segment are expected to represent the fastest growing segments going forward, but based on Autofacts analysis, no luxury OEMs currently have a small car offering, and only two luxury OEMs are expected to introduce small cars by 2021. Select German luxury OEMs may struggle to fill the void in these segments as they have separate brands that already compete in these two segments.

In the large luxury SUV segment, buyers who are willing to pay over \$80 thousand are not likely to make purchasing decisions based on saving a few dollars at the pump; however, there is no doubt that this segment, up 37% through April, is booming. Domestic luxury OEMs have long been capitalizing on this segment, and still there is room for growth in the future. Small volume, ultra-luxury brands that have stayed out of the SUV landscape are now coming out of the woodwork, announcing several new high-end SUVs by the end of the decade.

As new vehicles are introduced into the luxury vehicle market and OEMs fill product gaps, the luxury market is becoming increasingly stratified. Competition amongst luxury brands will more closely reflect the non-luxury market where market share is more evenly distributed with smaller gaps between the top players and the rest of the market.

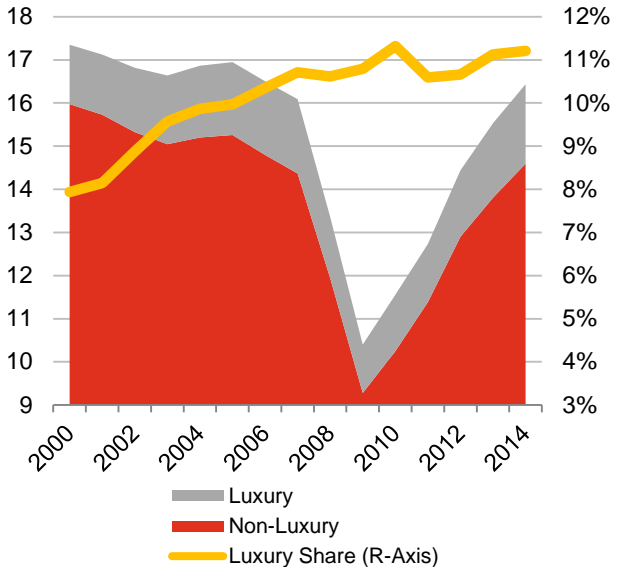
Domestic vs. Non-Domestic Brand Sales

2000 – 2014 (thousands)



US: Luxury vs. Non-Luxury Brand Sales

2000 – 2014 (millions)



Source: PwC Autofacts Analysis