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Three Brands at the Crossroads

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Globalizing Luxury Automobiles through Mergers: Three Brands at the Crossroads

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Abstract:

The stewardship of premium automobile brands by the major multinational car manufacturers has been motivated by the latter's desire to profit from the luxury image ascribed to these brands – yet the design and production strategies adopted by these global firms run the risk of destroying the appeal of the luxury makes, indeed of turning them into mass-market, higher-volume, lower-priced (and possibly profitable) shadows of their former selves. Our study, utilizing the lens of administrative heritage theory and conceptualizations about luxury brands, focuses on particular current manifestations of this struggle, namely three car brands – Jaguar, Mercedes-Benz, and Saab – which have recently gone through merger or acquisition processes.

Keywords: Multinational Companies, Brand Management, Automobile Industry, Jaguar, Mercedes, Saab

JEL Classification: F23, M31, M19

1. Introduction

Acquisition of established luxury brands including premium marques such as Rolls Royce, Bentley, Ferrari, Maserati, Lamborghini, Bugatti, and Lotus, as well as somewhat less exclusive makes such as Jaguar, Aston Martin, Volvo, Alfa Romeo, and Saab, became a central part of the strategic game among the world's biggest car manufacturers beginning in the mid-1980s. Substantial brand acquisition, and even some shuffling, has occurred over the past twenty years (the history of automobile brands is obviously vibrant throughout its entire hundred-plus years, but our focus will be on the recent market consolidation featuring luxury brands).

Brand management at Detroit's Big Three (General Motors, Ford, Chrysler) became a focus of interest in the early 1990s (Lienert, 1998). Recognition arose that automobile brands were less developed than brands in other sectors, e.g. the fast-moving consumer goods (FMCG) sector (Goodyear, 1996). They came to the belief that the strategic game of premium brands should be played according to rules dictated by the nature of luxury markets. Luxury items are typically expensive (both in relative and absolute terms), somewhat "trivial", and without any clear functional advantage over their counterparts (Dubois & Duquesne, 1993).

This working paper integrates three otherwise separately presented fields – brand development, luxury brands theory, and administrative heritage of large transnational companies. The latter term builds on Bartlett and Ghoshal's (2000) suggestion that multinational corporations (MNCs) are captives of their past and therefore their administrative heritage can significantly inhibit their attempts to change. We utilize three premium brands – Jaguar, Mercedes-Benz, and Saab – as case studies, examining relevant aspects of their corporate and brand histories preceding and following mergers with and/or acquisitions by mass-market corporations. While Jaguar and Saab were acquired by the two largest American firms, the parent of Mercedes-Benz reversed this situation by effectively taking over the third of the US Big Three. All three situations represent a clash between American and European perceptions of brand management, and (at this point) are experiencing divergent outcomes. The nature of premium brands is not based purely on their boutique status (Jaguar and Saab), as demonstrated by the annual million-vehicle sales of Mercedes-Benz, supporting the optimistic sales growth expectations

of the two American parents. However, the distinctiveness of exclusivity must be maintained, as illustrated in all three cases.

This working paper is organized as follows: First, we briefly introduce the history of luxury automobiles, indicating why they differ and what is occurring in the premium brand market. Next, we overview the brand development model introduced by Goodyear. Three subsequent sections are devoted to in-depth analyses of our three case brands (in alphabetical order): Jaguar, Mercedes-Benz, and Saab. The paper concludes with a discussion of lessons that may be learned from these three stories, providing links to both theory and practice.

2. Luxury Automobiles

The notion of a luxury car varies widely in the literature. Rosecky & King (1996) cite five different definitions and limit their study to owners of Mercedes, BMW, Jaguar, Cadillac, Lincoln, Lexus, Infinity, and Acura brands. Is a \$40,000 Škoda a luxury? What about a \$20,000 BMW? It is probable that no strict financial criterion can be applied. Dubois and Duquesne (1993) found that important features of luxury products include superb quality, aesthetic design, and excellent service. Additionally, luxury brands must be perceived as luxurious, because they act not only as standards of excellence but as social codes. Luxury car drivers are usually status seekers, older or retired males, highly educated, and high income people (Choo & Mokhtarian, 2004).

The combined market share for all luxury brands in the world's largest car market (the USA) is estimated at approximately 13 %. The U. S. premium car market has been increasing steadily since 1986. Up to 1996, total sales accounted for 5–7 %, but unit sales grew by 17 % annually between 1997 and 2002 (Intel, 2003), lifting luxury brands' market share to 10.2 % in the first half of 2003 (Ward's Auto World, 2003). Several luxury brands (including Lexus, Acura, and Infiniti) were originally developed for and marketed only on the U.S. market. This may be attributed to both cultural adolescence and a generally shorter memory among American consumers (Simister, 2004b).

Our examination of the recent dramatic changes of ownership of luxury automobile brands highlights the past two decades. Toyota made its first move into

the premium segment by purchasing Lotus in 1984. This brand was sold to GM in 1988, once Toyota had absorbed Lotus' multivalve engine technology and adapted it for mass production. GM subsequently shunted the brand into near-bankruptcy before taking its hands off in 1996, happily leaving the company to be acquired by Proton of Malaysia (which is now using Toyota engines in some Lotus models). From 1988 to 1993, GM-owned Bugatti experienced a similar troublesome story. Bugatti became a part of the Volkswagen (VW) Group, together with Lamborghini, in 1998. Lamborghini was originally purchased by Chrysler (1987), but sold off to Indonesian investors in 1994. Fiat began its luxury acquisitions in 1969 with a 50% stake in Ferrari, purchased from its founder Enzo Ferrari; buying an additional 40 % in 1988 gave it nearly complete control. Fiat gained further experience with the sporty brand Alfa Romeo, obtained in 1986, before purchasing Maserati in 1993.

Ford has accumulated specialty brands consistently since 1987, when it purchased Aston Martin. More recent acquisitions by the Premier Automotive Group (a division of Ford) include Land Rover (2000), Volvo (1999), and Jaguar (1989). Since 1998, the Volkswagen group has owned Bugatti, Bentley, and Lamborghini. In 2000, BMW withdrew from its six-year marriage with MG-Rover, retaining the right to produce an upwardly re-priced Mini. BMW added Rolls Royce to its portfolio in 2003 (from 1998 to 2003, this brand was managed by Volkswagen). Such acquisitions and their management have been far from trouble-free, since their inception (Feast, 1998).

3. The Situation Today

As described in this paper, the major problem is the inherent aim of luxury acquisitions – creating mass demand for niche products by capitalising on large-scale production efficiencies – a task which is inherently illogical for luxury brands, although it appeals economically. Losing a niche orientation by sharing platforms and engines with humdrum sister marques at Ford and GM has led some customers to express concerns that new models are not real Saabs or Jaguars (Stones, 2004). For example, it is believed that the Jaguar X-Type relies too much on the much cheaper Ford Mondeo, while the Saab 9-3 reminds one of the lower-grade Opel Vectra. A parallel situation has occurred at the luxury car-maker DaimlerChrysler, where some

Mercedes-Benz models have been perceived as too similar to Chryslers or Mitsubishis due to shared features and components.

From January to June 2004, GM and Ford used only 73.2 and 78.1 % (respectively) of capacity in their North American plants (PricewaterhouseCoopers, 2004a). Jaguar’s worldwide sales nearly tripled from 50,000 to 130,000 between 1998 and 2001, but then slipped back to 120,000 in 2002. Although 2003 sales recovered to the 130,000 level, this was insufficient to please Ford, which in 2004 announced a further 1,150 redundancies in the UK at Jaguar and Land Rover; the cradle of Jaguar in Coventry will lose its production facility. Ford is in somewhat better shape with Volvo, although not entirely free of problems. Volvo’s sales in Germany, traditionally its [second?] largest export market, dropped from 41,000 in 2002 to 30,000 in 2003. Profitability will have to climb substantially from the current \$300-to-400-million-a-year level to provide a suitable return on the US\$ 6.5 billion purchase price.

Table 1: Premium brands of the top 11 auto manufacturers (2004)

Company (Parent, Alliance, or Group)	Production * (million, 2003)	Origin	Premium Brands
General Motors	12.1	USA	Cadillac, Hummer, Saab
Ford	7.7	USA	Aston Martin, Jaguar, Land Rover, Lincoln, Volvo
Toyota	6.7	Japan	Lexus
Renault-Nissan	5.5	France & Japan	Infiniti
Daimler-Chrysler	5.4	Germany & USA	Mercedes, Maybach
VW Group	5.1	Germany	Audi, Bentley, Bugatti, Lamborghini
PSA	3.3	France	–
Honda	2.9	Japan	Acura
Hyundai-Kia	2.7	South Korea	–
Fiat	1.2	Italy	Alfa Romeo, Ferrari, Maserati
BMW	0.94 **	Germany	BMW, Mini, Rolls Royce

* Light vehicles assembly data from PricewaterhouseCoopers (2004b)

** BMW production data from BMW (2004)

Apparent in Table 1 is an emerging relationship between country of (group) origin and treatment of premium brands. It seems that over the past twenty years US automotive multinationals have preferred to acquire established premium brands rather than developing their own. However, they force their luxury divisions to share

platforms with the mainstream divisions. This is consistent with the findings of Bartlett and Ghoshal (2000), who describe U.S.-based MNCs as coordinated federations, where formal control procedures over subsidiaries are in place. A major bottleneck affecting this type of organization is hypothesized to be “a parochial and even superior attitude towards international operations, perhaps because of the assumption that new ideas and developments all came from the parent” (Bartlett & Ghoshal, 2000: 509).

European MNCs typically configure themselves as decentralized federations, with national subsidiaries loosely controlled and primarily focused on their local markets. They also display distinctively national characteristics. In the case of German-American DaimlerChrysler and German BMW, the parent company is the birthplace of the group’s luxury brands, fostering a perception of credibility and originality. The German VW group supports individual development of Bentley, Bugatti, and Lamborghini models, but the engines and platforms of its Audi models are shared with its other core brands, Volkswagen, Seat, and Škoda. Neither of the two remaining French manufacturers, PSA (Peugeot and Citroën) and Renault, offers its own luxury brand, which is interesting considering that Moët Hennessy, Louis Vuitton, Chanel, Dior, and many other distinctive luxury marques originate in France. Fiat’s approach can be seen as a continuation of Italy’s famous sports car tradition, where Ferrari and Maserati share hardly anything with their cheaper siblings (although Fiat has called for greater parts sharing between Alfa-Romeo and Maserati, perhaps following suggestions from Fiat’s erstwhile strategic partner GM); Italy doesn’t produce non-sporty luxury vehicles. In this context, Yamawaki (2002) differentiates the pricing strategies of European car makers based on their country of origin.

MNCs of Japanese origin tend to exhibit the organizational structure termed centralized hub (Bartlett & Ghoshal, 2000). Centrally controlled units produce global products, aiming at efficiency and quality, with a strong emphasis on engineering design (through quality function deployment and similar approaches) at their headquarters. Although Japanese cars of the 1970s were patterned after American limousines, their manufacturers did not introduce upscale versions, developed internally, until 1986 (Acura) and 1989 (Infiniti and Lexus). All three brands maintain a sharp distinction from their parent companies in the North American market, although

Lexus is still sold in Japan under the Toyota badge, while Infiniti and Acura are marketed as models within the Nissan and Honda range elsewhere. It is expected that Infiniti will be introduced to European customers in 2008.

Since the initial announcement of the merger, the situation at DaimlerChrysler has been reported as a classic example of a potentially successful merger in terms of minuscule internal cannibalism threats, although as a flipside of this argument it was deemed hardly economically viable due to minimal overlap in models and markets. DaimlerChrysler was established on the belief that purchasing power would reduce overall operational costs. However, the two companies were producing vastly different products – Daimler focused on the upper end of the international market while Chrysler produced vehicles targeted at the middle of the US market. “Although the expensive parts of Daimler’s vehicles could be used for more affordable Chrysler cars and the cheaper Chrysler parts be used on Daimler vehicles; both these moves were likely to reduce the competitive advantage on each of the markets in which the original companies operated. Chrysler cars could have become less affordable while Daimler’s brand might have lost its reputation for quality” (Rugman and Collinson, 2004, p. 478).

Car brands currently represent almost ten percent of the world’s most valued and respected global brands (see Table 2). Toyota is presently the most valuable car brand, ranking ninth among all brands worldwide; in 2004 it passed Mercedes, which held the top spot among car brands for the two preceding years. Prior to that, Ford was far and away the leader, peaking at the world’s seventh most valuable brand in 2000 before dropping to 19th in 2004. Volkswagen also faced a sharp brand value decrease, although its luxury Audi brand more than offset the loss while entering the chart in 2004 in 81st position. Among luxury car brands (Table 2), only four (all German) ranked among the top 100 most valued global marques of 2004. Mercedes maintained its absolute value while BMW added substantially to its brand value. The German origin of the most valued global luxury car brands supports the importance of administrative heritage and possibly country of origin effect. Toyota’s and Nissan’s gains may be connected to the rising reputation of their luxury divisions, which badge cars under the main brand, whereas Ford’s Premier Automotive Group vehicles are sold under their own brands and therefore do not affect the value of the Ford brand itself (although they do affect the value of the company).

Table 2: Most valued global car brands (2000–2004, US\$ millions)

Brand	2004	2003	2002	2001	2000	2004/2000
Toyota	22,673	20,784	19,448	18,578	18,824	+ 20 %
Mercedes ^a	21,331	21,371	21,010	21,728	21,105	+ 1 %
BMW	15,886	15,106	14,425	13,858	12,969	+ 22 %
Honda	14,874	15,625	15,064	14,638	15,245	- 2 %
Ford	14,475	17,066	20,403	30,092	36,368	- 60 %
Volkswagen	6,410	6,938	7,209	7,338	7,834	- 18 %
Porsche	3,646	*	*	*	*	
Audi	3,288	*	*	*	*	
Nissan	2,833	2,495	*	*	*	

* Not featured among top 100 global brands for the year.

Source: Annual research compiled by Interbrand and published in *Business Week* (2001, 2002, 2003, 2004).

^a The notation “Mercedes” is used to match the *Business Week* original style in this instance, rather than the more accurate “Mercedes-Benz.” Unless otherwise noted, when used separately in this paper, “Mercedes” refers to the division rather than the brand.

Korean and Chinese car makers will probably have their luxury say in the near future. The Koreans are now selling locally their President, Equus, Chairman, and similar (licensed and un-licensed) emulations of American, German, and Japanese limousines, and the drive to establish their own luxury makes is strongly evident. China, as the third major auto market in terms of volume, is beginning to show both the intention and capability of producing its own luxury brands, as evidenced at the Beijing Autoshow 2004. Daimler-Chrysler plans to sell in China 1,000 Maybachs per year, which is greater than its recent production capacity. Ferrari expected to open 11 outlets in China by the end of 2004 and Cadillacs are soon to be manufactured in GM’s Shanghai joint-venture (CNN, 2004; Bodeen, 2004).

4. Contextualizing Brand Development

Development of a brand usually takes three to five years and is of critical importance for the success of car manufacturers (A.T. Kearney, 2001). Goodyear (1996) recognized six stages in brand development (see Table 3), which we apply to luxury car marques. According to Goodyear, perception and strength of a brand will depend on the maturity of consumerism in the market, on brand marketing, and on

the level of customer loyalty. We believe that customer loyalty depends on both market maturity and brand marketing (which in turn includes aspects such as customer service and trust) (Delgado-Ballester & Munuera-Alemán, 2001; Andreassen & Lindestad, 1998). Empirical research has shown that luxury car purchasers are more loyal to the segment at large than to any particular luxury brand (Colombo et al., 2000).

Table 3: Six stages of brand development

Stage	Attributes	Luxury car brands *
Unbranded	Commodities, packaged goods Major proportion of goods in non-industrialized contexts Minor role in Europe/USA Supplier has power	–
Brand as a reference	Name used for identification Any advertising support focuses on rational attributes Name over time becomes guarantee of quality/consistency	Acura, Hummer, Infiniti, Land Rover, Lexus, Lincoln
Brand as personality	Brand name may be ‘stand-alone’ Marketing support focuses on emotional appeal Product benefits Advertising puts brand into context	Alfa Romeo, Aston Martin, Jaguar **, Maserati, Mini, Saab **, Volvo
Brand as icon	Consumer now ‘owns’ brand Brand taps into higher-order values of society Advertising assumes close relationship Use of symbolic brand language Often established internationally	Audi, BMW, Cadillac, Lamborghini, Mercedes-Benz **
Brand as company	Brands have complex identities; consumer assesses them all Need to focus on corporate benefits to diverse ‘customers’ Integrated communication strategy essential though-the-line	Bentley, Bugatti, Ferrari, Maybach, Rolls Royce
Brand as policy	Company and brands aligned to social and political issues Consumers ‘vote’ on issues through companies Consumers now ‘own’ brands, companies and politics	–

*Source: Adapted from Goodyear (1996), pp. 114 and 119 (car brands column added); * = Only brands from Table 1, belonging to the top 11 companies, are included; ** = As the focus of this study, the placement of Jaguar, Mercedes-Benz, and Saab is examined in greater detail within the text*

The designated position of Jaguar on the Goodyear brand development scale indicates that the company focuses more on emotional aspects and benefits of its products. “Brand as personality” implies that customers (as well as brand managers) think about the brand as a person (Bernstein, 2003). Such brand targeting is apparent for instance in the recent S-Type self-description as “race-bred, passionate,

alive” (Jaguar UK, 2004). Similarly, Urde (2003) discusses how Volvo attempts to implant the company’s core values into customers and create the brand through personal identification of buyers with the brand. In the case of Jaguar, it seems that the brand has been personally identified with old upper-class male drivers (Stones, 2004) and that this perception has not changed significantly since the company was acquired by Ford.

Our interest lies in exploring the impacts of a change in the form of ownership of luxury brands, from independent firms targeting top-end markets to global giants intent on capitalizing on the brand while gaining economies of scale. The number of luxury automobile brands today is relatively small, and each has a unique story to tell; three will be addressed in our case studies here. First, Jaguar’s fluctuating sales, divergent model releases, and recently announced plant closures (with redundancies) are only the most evident issues Jaguar has had to deal with. Second, Daimler-Benz’s acquisition of Chrysler continues to produce unforeseen consequences and periodic reversals of fortune. It also represents the nearly unique occurrence in the automobile industry of a luxury brand buying a mass-market manufacturer. The dramatic decline in consumer evaluations of Mercedes-Benz automobiles and speculation that cross-brand sharing is to blame adds tension to the situation. Finally, Saab is of particular interest as its acquisition by General Motors began relatively early, and remains an ongoing saga with direct links to our research focus on the impacts of administrative heritage on luxury branding. The announcement that General Motors will relocate manufacturing mid-size and development of all Saab cars away from Sweden, leading to speculation about the possible discontinuation of the brand, adds immediacy and tension to the situation.

5. The Case of Jaguar

Since its founding in the 1920s, the name of Jaguar has been inextricably linked with high performance, as exemplified by its championships beginning in the 1930s at Le Mans (seven times), the Monte Carlo Rally (twice), and countless other events. Luxury and performance intertwine to form the personality of the marque, sometimes described more as a mystique or a phenomenon than “just” another brand. Treated as an iconic brand in its English homeland, Jaguar has attained the

status of “brand as personality” (based on Goodyear’s classification) in the United States, its major market by volume, since its acquisition by Ford in 1989.

5.1 History of Jaguar

Believing that the world needed their newly-invented sidecar, two young motorcycle enthusiasts, William Lyons and William Walmsley, obtained a bank overdraft of £1,000 and registered the Swallow Sidecar Company in Blackpool, England on 4 September 1922 – the date of Lyons’ 21st birthday (and hence the first date on which he could legally register as a company owner). The production facility was located at Coventry, near Triumph Cycle Company’s massive 500,000 square feet motorcycle plant.

The recognized quality of its manufacturing led to an expansion of its activities and its name, with the Swallow Sidecar and Coachbuilding Co. (1926) producing custom car bodies for makes including Morris, Fiat, and Standard. The launching of Herbert Austin’s 1927 model Austin Seven spurred Lyons to create a stylish two-seater body, for which the company soon received an order for 500. This success with custom bodies and growing engineering capabilities led to an ambitious but logical step forward: production of an entire vehicle. The company’s first cars, SS1 and SS2 coupes, were presented at the London Motor Show in 1931. The SS1 featured a six-cylinder engine by Standard on a modified Standard chassis. The smaller SS2 had a four-cylinder, also by Standard. Both vehicles were conspicuous due to their low ground clearance and very long bonnet (hood).

William Walmsley, who did not have driving aspirations and was losing interest in the company, limited his contact with the firm in 1934 and sold his share to Lyons in 1936. Two key engineers, Harry Weslake and William Haynes, joined the company in 1934 and 1935 respectively, resulting in new products only a few months later. In 1935, Lyons baptized the new saloon and sports car range with the name “Jaguar”, incorporating a new chassis by Heynes and a sharply enhanced Standard engine pushed from 75 hp to 105 hp by Weslake.

The drive for more power peaked with the 3.5-litre SS 100 model, the most famous pre-war Jaguar, which could accelerate from rest to 60 mph in 10.5 seconds and offered customers the real possibility of speeding along at 100 mph. The car won several races including the International Alpine Trials, RAC Rally, and the Monte

Carlo Rally. The outbreak of World War II refocused production on military needs, with the company concentrating on the manufacture of sidecars for military motorcycles.

In 1948, Jaguar Cars Ltd. (the company was renamed in 1945) amazed journalists at the Earls Court Motor Show, where the Jaguar XK120 Roadster demonstrated it could easily exceed 120 mph, the speed for which it had been named. The XK120 placed first and second in the subsequent Production Sports Car Race at Silverstone.

By the mid-fifties Jaguar concentrated only on luxury and sports vehicles and was successful in foreign markets. The combination of a need to concentrate its engineering capabilities, the Le Mans tragedy where 80 people were killed (1955), and the 1956 withdrawal of Jaguar's only market rival Mercedes from the championship led Jaguar to quit racing in 1957. Much of the six-year-old Browns Lane plant in Coventry was destroyed in a large fire in the same year and the company suddenly faced a lack of sufficient production facilities. The large Daimler factory in Coventry seemed a perfect fit, and in 1960 Jaguar purchased the company, transferring its engine manufacture there. Since then the top models of Jaguar have borne the Daimler nameplate. The highly successful E-type sports car, launched in 1961, was assembled at the refurbished Browns Lane factory. The S-Type saloon was offered from 1963.

In the late sixties Jaguar offered a rather broad lineup to a relatively small sector of the market. Narrowing the product range and some industry consolidation were logical consequences. Jaguar Cars and British Motor Corporation merged in 1966; another merger with Leyland in 1968 formed the largest British car conglomerate in history, British Leyland. In that year, Jaguar introduced and focused on the XK6 saloon model. The search for affordability led to something previously unthinkable: leather seats and fog lights became optional, rather than standard.

The seventies commenced with the retirement of Sir William Lyons in 1972. The company suffered under the bureaucracy of British Leyland. The last E-type rolled off the production line in 1974. Starting in 1975, Jaguars were manufactured by the newly named Leyland Cars and presented during auto shows in shared displays. Jaguar started to battle to retain its identity. A large and painful strike in 1980 was

calmed by John Egan, a former Massey tractor middle manager, stepping into the position of CEO.

Jaguar separated from Leyland in 1984. Launched in Europe in late 1986 and in the United States in 1987, the new XJ6 met with widespread approval. Three model derivatives were offered - the XJ6, Sovereign, and (at the top of the range) Daimler. John Egan was knighted for his contribution to Jaguar. In 1988, a partnership between TWR and Jaguar returned the brand to motor sports for a brief two years (the joint venture producing XJ-S coupes and modified XJ limousines remained in operation until 1994). Jaguar gained back its own distinctive position and the brand recovered.

5.2 Jaguar in the Ford Era

Jaguar was reasonably profitable after separation from Leyland and it reported record sales of 49,500 vehicles in 1988, the year before its acquisition by Ford. The workforce numbered twelve thousand. A widely recognized and real problem was the infamous sloppy quality and outdated work practices throughout the company (Feast, 1998). Quality issues permeated public anecdotes about the brand (see Box 1 for an example). Difficult trading conditions led Jaguar to consider potential collaboration with a larger car manufacturer. General Motors and Jaguar discussed cooperation in manufacturing and marketing, and acquisition of a minority stake in Jaguar by GM.

At the time, Ford was racking up experience with second-hand sports car brands. In 1970, it acquired Ghia (producer of Ghia and De Tomaso cars), a famous design studio in Torino, Italy – and promptly downgraded the brand into a mere label for Ford's own top lines. In 1987, it purchased three quarters of sports car maker Aston Martin, completing the acquisition in 1993. In September and October 1989, Ford decided to play off General Motors in negotiations with Jaguar and repeatedly announced its intention to make a full bid for the company. The outlandish sum of \$2.55 billion was hard to resist and swiftly extinguished the prospects for GM.

Box 1: Anecdotal Evidence of Jaguar Quality

You know you've owned a Jaguar too long when:

- § You always park downhill.
- § The guy at the parts house is listed as a dependent on your income tax form.
- § You get in a car and are surprised when all of the instruments work.
- § You tell your wife that you were out until 3 a.m. because the car broke down. And she believes you.
- § The family is no longer upset in having to share the dinner table with a bunch of SU parts.
- § You don't trust anyone named Lucas.
- § When your generator dies, you just pull another out of your Lucas pile of bits.
- § You wash your hands before working in the engine compartment.
- § You'd rather give the family pit bull a bath than tune your SU carburetors again.
- § You allow four hours for a trip, 3 for repairs and 1 for driving.
- § You can unstick a jammed starter in the dark, in the rain, in 5 minutes and don't think it's a big deal.
- § There's no oil on the garage floor so you know the car's completely empty.
- § Your car makes a funny sound and you immediately know what's wrong, how much it will cost, and what tools you will need to repair it.

Source: Jag Lovers (2004)

In 1992, Jaguar sold just 22,478 cars, half of the pre-Ford-takeover number. In August 1993 the new owner installed a new assembly line at Browns Lane. Jaguars started improving in quality and reliability. However, production figures did not recover to the 1988 level until 1998, and then shot upwards to attain 120,570 vehicles sold in 2003. The challenging era for the Jaguar name began with Ford's \$1.3 billion development of the S-Type and X-Type models, which would lead the brand into the 21st century.

The S-Type, mid-sized sports saloon joined the Jaguar fleet in 1998 as the first model fully developed under Ford's stewardship. Before this model, Jaguar sourced about 65 % of its parts within the UK, a figure which dropped to 40 % for the new model, showing the larger share of foreign (Ford) components (DTI/SMMT,

1999). The vehicle shared its platform with sisters Lincoln LS, Ford Thunderbird, and the new Ford Mustang (announced for 2005). Jaguar crossed the magic line of 50,000 units sold in one year and sales were predicted to climb to 85,000 in 1999 and 90,000 in 2000 (Bruce, 1998). Anticipating the arrival of the X-Type, sales for 2002 were forecast to skyrocket to 200,000 units (Jaguar USA, 2004).

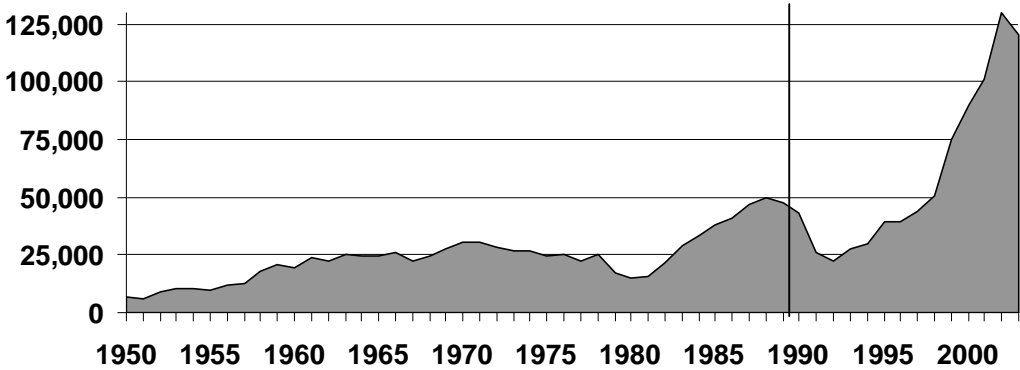
In October 1999, Jaguar returned to motor sports, seeking to rebuild the brand's excellent performance reputation achieved before and after World War II. Jaguar announced its intention to enter the FIA Formula One World Championship, and bought the team established by racing legend Jackie Stewart two years earlier. However, in its first season, Jaguar Racing placed last in the constructors' ranking. In the following seasons it never ranked higher than seventh out of ten teams.

Ford's Halewood (UK) plant was built in 1962 and assembled its last Ford Escort in June 2000. The plant underwent a large scale transformation to support the new X-Type, which was unveiled during the Geneva Motor Show in 2001 and promptly labeled "baby Jag". The X-Type shared its platform with the markedly cheaper Ford Mondeo and was the first model for the brand featuring four wheel drive technology. The X-Type has suffered build quality issues since its launch (Richards-Carpenter, 2003). The model should have attracted younger buyers and should have opened up a bright future for the established make (Burt, 2001b). However, elderly customers downsized to the cheaper car and the perception of Jaguar being an old man's car was not lifted (Stones, 2004).

A few months later, the 1.5 millionth automobile bearing the Jaguar badge was celebrated in Browns Lane. Not far away, a new 40-hectare design and development centre opened in Whitley, accommodating an additional 2,500 engineers. In 2002, the company admitted it had over-estimated the sales volume for the X-Type (Grant, 2002) and production was slowed for several weeks in September and October to clear unsold stock. The 2002 model year featured another new arrival to the product range; the traditional body-type XJ saloon replaced the previous XJ8 model. The new XJ made heavy use of aluminum parts, resulting in a light, strong chassis. An extension to the regular sedan series, the S-Type R was believed to be one of the most powerful mass-produced saloons in the world, featuring a 4.2 liter eight-cylinder turbocharged engine capable of accelerating from 0 to 60 mph in just 5.3 seconds.

Jaguar sales surged from around 50,000 at the time of Ford’s acquisition to 130,000 in 2001, but then began to contract (Figure 1). The cardinal change in the sales pattern was achieved with introduction of the S-Type and X-Type, the first Jaguar vehicles attracting mass attention. However, tripling sales logically implies less distinctiveness and exclusivity for the marque...

Figure 1: Jaguar car sales (units, 1950–2003)



Data sources: Beck-Burridge & Walton (2001), Ford Annual Reports (2001, 2002, 2003)

5.3 Jaguar Today

Jaguar has facilities located at Castle Bromwich in Birmingham (production of S-Type), Whitley in Coventry (engineering), Halewood on Merseyside (production of X-Type), and Browns Lane in Coventry (production of XJ limousine and XK sports coupe). Some engines are produced in the Ford engine factory at Bridgend, South Wales. Jaguars are marketed in over 70 countries with the most important single market being the United States followed by domestic sales within the United Kingdom.

The year 2004 was particularly colorful and critical for the British marque. Two Peugeot-engineered diesel engines were introduced in the X-Type (four-cylinder) and S-Type (six-cylinder). Ford relinquished its own engineering efforts targeting such engines, which previously occurred at the Whitley development center. As diesel fueled vehicles have become increasingly popular, these models should boost the company’s coffers by attracting more European customers.

Box 2: Recently published statements by Jaguar representatives

“In my view, by 2010 Jaguar will have the reputation as the most modern car on the road.”

(Jaguar’s designer Ian Callum in Williams, 2003)

“While modernization is part of this commitment, we will not lose sight of our traditional values. Our customers are those who seek out and demand excellence.”

(Jaguar’s CEO Bibiana Boerio in Jaguar USA, 2004)

“I don’t want a situation where year-over-year sales are up, but we have substantial losses. We don’t want to wind up with unsold stock because that leads to residual value issues and other reputational issues.”

(Joe Greenwell, president of Jaguar and Land Rover in Rechten, 2004)

“I think our view continues to be that if we continue to make killer products, iconic products that customers fall in love with, we can probably overcome the manufacturing issue and the currency issue. We can probably overcome it.”

(Bob Dover, the managing director of Land Rover and the chief operating officer of Jaguar and Aston Martin in Brown, 2003)

In order to boost sales of the X-Type, Jaguar introduced its first-ever station wagon in the 2004 season. Originally, this vehicle was not intended to be marketed in the USA, but lower than expected sales of the X-Type there reversed this decision, and the X-Type sports wagon faced American customers starting in October 2004. The Jaguar S-Type received extensive exterior modifications as well as a new aluminum hood, a more luxurious interior, and a new suspension system (Hammonds, 2004).

In the second quarter, Ford reported a \$362 million loss for its Premier Automotive Group (consisting of Jaguar, Land Rover, Volvo, and Aston Martin), out of which Jaguar accounted for about half, \$178 million. In September, Ford announced a drastic \$450 million restructuring plan for Jaguar, featuring closure of the Coventry factory. 400 voluntary redundancies were expected as a result of shifting production to Castle Bromwich. 750 white collar jobs would be lost at Coventry and in other parts of the company. 300 jobs would shift to the Aston Martin factory in Gaydon. Jaguar’s headquarters and wood veneer manufacturing (with about 310 staff in total) would remain at Browns Lane. General secretary of the

Amicus labor union Derek Simpson claimed that “Ford’s decision may kill off Jaguar” (BBC, 2004). Ford also considered closing the Land Rover plant in Solihull. Some industry experts suggested that Jaguars should be made at only one plant, potentially outside the UK (BBC, 2004).

Coventry’s new city stadium, under construction, was intended to be named Jaguar Arena, given the company’s approximately £7 million pound sponsorship. However, three months after announcing the closure of its factory there, Jaguar withdrew from the deal, leaving some locals with a bitter impression. One wrote the following on a BBC “Have Your Say” website: “When jaguar announced it was to sponsor the arena it appeared they were leaving a legacy in the city after announcing the closure of the Browns lane factory, withdrawing this sponsorship is a kick in the teeth to the people of Coventry, though why should Ford care, I suggest that everyone associated with the city SHOULD NEVER BUY A FORD AGAIN” (Sutherland, 2005)

As part of the intended brand revival, Ford also announced its exit from the Formula One championship starting with the 2005 season. Following the last race of the 2004 season in São Paulo, the Jaguar Racing team placed seventh in the constructor’s championship with 10 points, far behind first-place 262-point Ferrari (as well as BAR-Honda, Renault, BMW-Williams, McLaren-Mercedes, and Sauber-Petronas) (Formula1, 2004). Nonetheless, engagement in Formula One was seen by some customers as a major factor in recreating the Jaguar brand as it symbolized performance and technological superiority.

It was believed that Jaguar cost Ford more than \$6 billion by 1998 in terms of purchase price, investments, loans, and accumulated annual losses (Feast, 1998). The rise in sales figures is attributed to the downmarket X-Type model, which some believe has destroyed the brand’s values without increasing its long-term sales potential (Stones, 2004). The S-Type and X-Type were both reported among the least reliable cars on the market (Garsten, 2002), but performed well in some quality rankings. Since 2001, studies by J.D. Power (2004) cited Jaguar among the three top brands sold in the USA, together with Lexus and Cadillac, in terms of initial quality.

6. The Case of Mercedes-Benz

The history of Mercedes-Benz constitutes the history of the automobile in significant ways. Two inventors – Gottlieb Daimler (1834–1900) and Karl Benz (1844–1929) – laid down independently of each other the foundations for some 680 million motor vehicles running worldwide by the year 2000 (Soubotina and Sheram, 2000), with another 40-plus million added annually since then. It was Karl Benz who, on 29 January 1886, applied for a patent for his three-wheel gas-engine vehicle – a patent considered as the birth certificate of the automobile. Daimler’s four-wheel motorized carriage patented on 28 August in the same year followed immediately in his tire tracks.

6.1 History of Mercedes-Benz

Karl Benz developed a two-stroke engine (1879) and patented many other original solutions including an engine speed regulation system, axle-pivot steering, and a battery ignition system for combustion engines. After hard times, when his company almost fell into bankruptcy and was saved first by his wife’s dowry and later on by additional business partners, Benz & Co. Rheinische Gasmotoren-Fabrik emerged in 1890 with Benz owning less than 5 %. Between 1894 and 1901, Benz & Co. produced 1,200 Velo cars, its most successful model at that time. In 1895 it introduced its first “Benz Motor Omnibus“. The initial success of its vehicles and engines fostered growth, and the company converted into a joint-stock company in 1899, when the workforce reached 430 and Benz built 572 vehicles.

Gottlieb Daimler devoted his early years to engineering studies at a gunsmith’s and at the technical college in Stuttgart. In 1872 he became a technical manager with Gasmotorenfabrik Deutz, a local company which pioneered a four-stroke engine in 1877. In 1882, Daimler developed (in the back yard of his villa) and patented an uncooled, heat-insulated engine with unregulated hot-tube ignition. This one-horsepower engine was capable of 600 revolutions per minute (rpm), while previous engines could achieve a maximum of 180 rpm. This engine was installed in a wooden-framed motorcycle, under the seat. After his 1886 invention of a four-wheel carriage, Daimler came up with a boat engine in 1887. As research and testing shaved Daimler’s personal fortune, a joint-stock company named Daimler-Motoren-

Gesellschaft was established in 1890. In 1896, engineer Wilhelm Maybach came up with the first Daimler-branded truck.

At this point, the well-educated and successful high-society figure Emil Jellinek (1853–1918) intervened in the establishment of one of the most valued brands of today. He bought a Daimler car in October 1897, but considered its top speed of 24 km/h too slow. Jellinek became the first dealer of Daimler cars, promoting automobilism in high society. By 1900, Jellinek had sold 29 vehicles and entered into a more comprehensive deal with Daimler, selling vehicles under the name of his daughter – Mercedes – beginning in 1901. The name of the luxury marque was born, and was registered by Emil Jellinek in 1902. Seven year later, the three-pointed star appeared as a Daimler trademark and from 1910 it has been a distinctive feature of Mercedes cars. The three-pointed star (later enclosed in a circle) was supposed to symbolize a passion for motorization “on land, on water and in the air”.

From 1904 until a fire in 1907, Daimler’s vehicles for the U.S. market were manufactured by Steinway, which retains its fame as a producer of world-class pianos. However, increasing competition both internationally and domestically made life difficult for both the Daimler and Benz companies. By 1923, over 80 % of the 15 million cars existing worldwide were registered in the USA, and over half of these were Fords (Wright, 2001). Production of Benz’s and Daimler’s cars remained relatively low-scale at 1,382 for the former and 1,020 for the latter. Eighty-six German car manufacturers and the emergence of Ferdinand Porsche (who later became chief engineer at Mercedes) forced Daimler-Motoren-Gesellschaft and Benz et Cie. to form a strategic alliance in 1924. They ceased product duplication and initiated cooperation in research and development.

On 28 June 1926 the two companies merged into Daimler-Benz AG, adopting the three-point star for all subsequent vehicles. Mercedes-Benz production rose to 7,918 vehicles in 1927, when the company manufactured the world’s first diesel truck. A few up-market models were introduced and succeeded as Silver Arrows in racing competitions before World War II. The biggest and most prestigious model was launched in 1930 – the 770 Grosser featured an 8 cylinder, 7.6 liter engine mounted in a 5.6 m long body weighing up to 3.7 tons. At the lower end of the market, it was the four-cylinder 170V introduced in 1931 that helped the company to survive and recover from the war when it was re-launched in 1947.

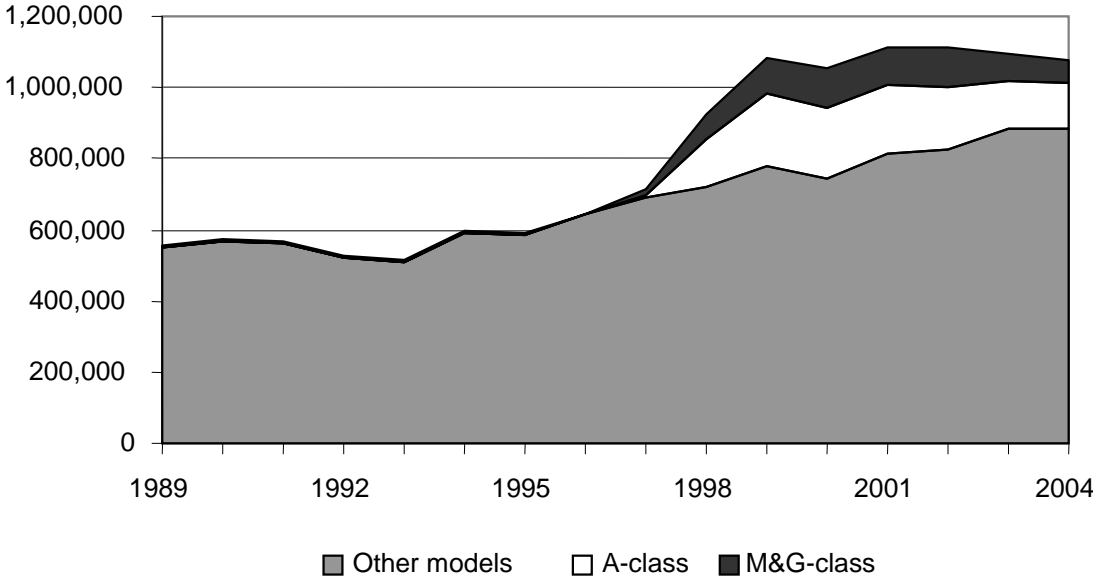
In 1949, Daimler-Benz presented its first post-war designs – 170S and 170D models. The real revolution came in 1951 when the 300, the largest and fastest car produced in Germany at that time, became very popular among political and industrial figures. In the same year, Daimler-Benz registered a patent for the occupants' safety cell invented by their chief designer Béla Barényi. 1950s models first bore some of the standard features of the present Mercedes-Benz brand – a large grill and round head lamps. The 1954 gullwing coupe with vertically-opening doors was the first post-war sports car developed by Daimler-Benz. The 1959 Mercedes-Benz 220 with tail fins became another Mercedes classic.

Throughout the 1960s and 1970s, Daimler-Benz produced 100, 200, and 300 series cars, which were regularly re-modeled and improved. A typical series consisted of a coupe and a sedan. The company assembled its millionth post-war vehicle in 1962. In 1963, Daimler-Benz introduced the 600 model, specifically designed for captains of industry and government. Later, some of the models from the 100 series were upgraded into 400 and 500 series variants. In 1979, the company entered a new segment with the G-series, an off-road vehicle combining high all-terrain performance with exclusivity. In 1982, Daimler-Benz supplemented its passenger car range with the 190 and 190 E, which were relatively affordable and shortly became bestsellers. At the 1982 Geneva International Motor Show, the company inaugurated the airbag and seatbelt tensioner as world firsts. In 1988, the post-war production total of Mercedes-Benz vehicles reached ten million. (The preceding section is based on Mercedes-Benz (2005), Boesen and Grad (1981), and Owens (1998).)

Daimler-Benz began to study smaller cars in the early 1990s. In 1994 it set up a joint venture with the Swiss watchmaker Swatch to build a mini-car. On 24 May 1995, Jürgen E. Schrempp became chairman of Daimler-Benz AG and a colorful new era for the company commenced. In 1997, Daimler-Benz survived a catastrophe as the long-awaited small A-class vehicle was flipped by a Swedish journalist during the infamous “elk test” (swerving around an elk or moose on a slippery road), prompting significant design adjustments. The A-class was re-launched a few months later and has not yet become a financial success. (Sales figures for Mercedes-Benz cars for 1989 through 2004, distinguished by major category, are shown in Figure 2.) The press labeled the new A-class the “Baby-Benz”. In the same year, Daimler-Benz

started to produce its first sport-utility vehicle (SUV), named M-class and manufactured in a new plant in Tuscaloosa, Alabama. Swatch left the mini-car partnership in 1998, and Daimler-Benz launched the Smart two-seat mini-car to European customers later that year. However, its 9,000 euros price tag did not prove overly appealing.

Figure 2: Mercedes-Benz branded automobile sales (units, 1989–2004)



Source: Autointell (2003); DaimlerChrysler (2004, 2005b)

6.2 Mercedes-Benz in the Age of DaimlerChrysler

In 1998, Chrysler, one of Detroit’s Big Three auto makers, was just returning to financial stability; its models (such as the retro-stylish PT Cruiser and four-wheel-drive Jeep Cherokee) were again popular, and lean production and a new, friendly approach to customers finally made an impact. Lee Iacocca, the uncrowned king of Chrysler, installed a successor – Robert Eaton, coming from 29 years of experience with General Motors. However, vulnerability to a hostile takeover proposed by shareholder Kirk Kerkorian was high. Schrempp’s Daimler-Benz was actively seeking expansion opportunities, particularly beyond the European horizon where the company’s traditional strength lay. This unusual combination of circumstances, managerial egos, and dynamism of the automotive sector pointed towards future consolidation on both sides of the Atlantic.

6 May 1998 gained fame as the date of the biggest industrial merger ever, with the new company valued at \$75 billion. Shortly after the announcement, analysts pointed out that in theory the merger would lower costs through volume purchases and slashed redundancies. On the other hand, it was evident that Daimler-Benz's key advantage lay in quality, innovation, and exclusivity while Chrysler's success was based on size, rapid decision-making, and flexibility (Smith, 1998). Additionally, American and German ways of running an auto maker are based on different administrative and cultural heritages.

DaimlerChrysler was incorporated in Germany, with Daimler-Benz shareholders receiving 58 % of the new firm while Chrysler shareholders received the remaining 42 % of shares plus a cash premium of 28 % of their shareholding's value (Vlasic and Stertz, 2001). On 17 November 1998, DaimlerChrysler introduced the first-ever global registered share (GRS) under the symbol DCX, launched simultaneously on 21 world markets (Karolyi, 2003). Both CEOs Jürgen Schrempp of Daimler-Benz and Robert (Bob) Eaton of Chrysler became co-leaders of the newly established company.

Within a few months Bob Eaton vacated his role of co-chairman, leaving Mr. Schrempp as sole emperor. Two years after the merger, Jürgen Schrempp told *The Financial Times* that "he never envisaged the merger as a partnership of equals" (Burt and Lambert, 2000). Chrysler's original management team had been dispersed and key positions had been occupied by German expatriates. Chrysler's renewed financial difficulties provided ample argument for such an upheaval. The merger has been retrospectively labeled a cultural fiasco (Priddle, 2000).

In 2000, DaimlerChrysler acquired a controlling 34 per cent stake in enormously indebted Mitsubishi Motor Company for \$2.1 billion. In the same year, Mitsubishi revealed that it had hidden customer complaints for 30 years; the firm was forced to recall some 2.5 million vehicles. Meanwhile, the Mercedes Car Group became a special division of DaimlerChrysler responsible for production and marketing of the Mercedes-Benz, Maybach, and Smart brands, while the Chrysler Group handled Chrysler, Dodge, Plymouth, and Jeep (Plymouth was discontinued at the end of 2000).

The merged company reported its first-ever quarterly loss due to the poor performance of its Chrysler division in 2001. Consequently, DaimlerChrysler

announced one of the largest restructuring plans ever undertaken by any company. 26,000 employees were “downsized” and 6 plants shut in the Americas. There were rumors that the CEO might be replaced and the company broken into parts and sold. “If Schrempp was ousted, there is little doubt we would be interested in parts of the business. Of course, Mercedes and some parts of Chrysler are very attractive to any buyer,” a GM executive was quoted in Hickey (2001). However, Mr. Schrempp survived as CEO and in 2002 DaimlerChrysler revealed a 10-year plan to integrate more closely the Mercedes-Benz, Chrysler, and Mitsubishi brands, which would cut the number of different engines and transmissions.

6.3 Mercedes-Benz Today

The overall impact of the merger on Daimler-Benz has been reported as negative due to the loss of talent it had to divert to both Chrysler and Mitsubishi (Chambers, 2003). A media leak that Mercedes bought leather from Bulgaria brought fears that its cost-cutting strategy could result in substandard products. In terms of consumer satisfaction, Mercedesb ranked first in 1999 and 28th in 2005 out of 37 brands (Simon and Makintosh, 2005). In the most recent J. D. Power customer satisfaction survey of British executive and luxury car owners, it was revealed that the Mercedesb E-Class finished next to last and barely made the top 100 overall, with the C-Class being only two places above the E in this sector (What Car, 2005). Mercedesb cars scored well below industry average and shared 21st place with Seat of Spain. Customers were particularly unhappy with the M-Class SUV and S-Class sedan (Kelly, 2003). In 2004, DaimlerChrysler ran into troubles again. It refused to help bail out Mitsubishi Motors as new problems surfaced. Currency effects, product changes, and quality improvement efforts were blamed for financial difficulties in the Mercedes Car Group. Profits coming from the Mercedes-Benz brand slid to 20 million Euros from 784 million in 2003 (Smith, 2005). However, the number of passenger cars with the three-pointed star sold that year decreased only slightly (by 18,000, or about 1.7 %).

Table 4: Initial mechanical quality of selected Mercedes^b models

Model	1998	1999	2000	2001	2002	2003	2004
C-Class	****	****	****	***	***	****	***
E-Class	*****	****	*****	*****	*****	**	***
S-Class	*****	*****	*****	*****	****	***	**
M-Class	****	****	****	***	**	***	****
Total *s	18	17	18	16	15	12	12
Maximum possible = 20 *s; minimum possible = 8 *s							
*s above minimum possible	10	9	10	8	7	4	4

*Key: ***** among the best, **** better than most, *** does not really stand out, ** the rest (there is no single * rating).*

Data from J.D. Power Consumer Center (2005).

b The original commentary refers to "Mercedes" rather than "Mercedes-Benz".

The quality shift which resulted from closer integration in later stages of the merger is illustrated in Table 4, which shows a steady decline in initial mechanical quality since 2000. (The Initial Quality Study looks at owner-reported problems in the first 90 days of ownership; this score is based on problems reported with the engine, transmission, steering, suspension, and braking systems).

To regain its reputation, Mercedes announced in 2004 that it would aim to top the J. D. Power U.S. survey in 2006. However, this goal has been under review as admittedly the J.D. Power survey may too closely reflect American tastes, which might not be desirable for a global car brand (Reuters, 2005). In early 2005, the new B-class sports hatchback was introduced, increasing the number of Mercedes-Benz passenger models to 13 (smaller hatchbacks A- and B-class, classic C-, E-, and S-class, roadsters and coupes SLK, SL, CLK, CL, SLR, and CLS, and off-roaders M- and G-class). It is expected that the company will launch its R-class sports station wagon in 2006. Mercedes-Benz' star decorates the grill of multi-purpose-vehicles, campervans, vans, buses, trucks, and Unimog vehicles for extreme conditions.

Box 3: Recently published statements by and about Mercedes-Benz

“This trademark ... still adorns Mercedes-Benz vehicles and has come to represent quality and safety on roads everywhere. And throughout the world the name Mercedes-Benz is synonymous with tradition, innovation and the future of the automobile.”

(Mercedes-Benz USA, 2005)

“We have to understand that Mercedes customers are asking for things they would not accept in a Toyota, or they would not accept in some other car because they paid much more money.”

(Mercedes-Benz CEO Jürgen Hubbert in Kelly, 2003)

“We are now producing the best product quality ever and our aim is to ensure that those vehicles in the hands of customers which are the cause of complaints achieve a standard of quality that reflects our highest expectations.”

(Head of Mercedes-Benz Eckhard Cordes in DaimlerChrysler, 2005b)

“Why not combine parts departments, workshops and things like that where you can get fantastic scale effects without affecting the brand?”

(Jürgen Schrempp in Burt and Harnsichfeger, 2002)

“With wobbly profits and quality problems, the luxury car brand is struggling to retain premium status”

(Business Week, 2004)

Smart cars have had a significantly negative financial effect on the Mercedes Car Group (Smith, 2005). In April 2005, it was announced that the Smart division would eliminate two out of its four models and lay off 700 employees. It was believed that Smart’s problem was not the vehicle’s lack of appeal but its high cost (Landler, 2005). At the same time, Mercedes recalled the largest number of vehicles in its history – 1.3 million – to modify braking systems on E-, SL-, and CLS-class cars built since July 2001, the voltage regulator in alternators in six and eight cylinder vehicles built between June 2001 and November 2004, and the battery unit software in E- and CLS-class models made from January 2002 to January 2005.

7. The Case of Saab

Since December 1949, when the first bottle green Saab 92 left the production line in the Swedish provincial town of Trollhättan, almost 4 million Saab cars have

cruised roads worldwide, symbolizing luxury, safety, and innovativeness. Saabs were the first cars with standard turbocharged engines (1978), heated front seats (1971), dual-circuit brake systems (1963), halogen headlights (1969), side-impact bars (1972), CFC-free air-conditioning (1991), and headlamp washers (1970). Since then, many things have changed; nowadays the marque is battling to retain its very nature.

7.1 History of Saab

In April 1937, a new company, Svenska Aeroplan Aktiebolaget (Swedish Aeroplane Stock Company), later to be known as Saab, was founded in Trollhättan in response to governmental support for the establishment of a national defense industry in Sweden. Within a few months, the company launched licensed production of the German-designed Junkers medium-heavy bombers for the Swedish army.

The company rapidly established itself as a success in the military aircraft industry. However, the approaching end of the Second World War implied that if the company wished to continue operations, a search for new market opportunities in civilian sectors would be in order. In 1944, Saab proposed creation of two passenger aircraft – Saab 90 Scandia and Saab 91 Safir, the latter becoming a major success with 323 airplanes sold to 21 countries.

In 1946, the company introduced a passenger car, the Saab 92. One year later, on 10 June 1947, a second improved car (Saab 92.002) was unveiled to journalists in the personnel cafeteria at the Saab premises in Linköping. By the late spring of 1949, production preparations for the Saab 92 were sufficient to launch a pilot production of 20 vehicles. Saab initially allocated one large hall in the Trollhättan factory for automobile production. These 17,700 square meters were sufficient to accomplish all 6,330 operations involved in producing finished cars, from engine assembly through painting, upholstering, and testing.

The first Saab car was a true eye-opener, both technically and aesthetically. The roof of each Saab 92 was pressed as one unit from the windscreen right back to the rear bumper. The two-cylinder 764 cc engine generated 25 bhp. The car had exceptional aerodynamics with a drag coefficient of 0.35. The engine and gearbox were integrated into one unit and, just like all subsequent Saab models; the car featured front-wheel drive. When Saabs finally appeared in showrooms in the beginning of 1950, they attracted enormous interest. Up to 35,000 prospective

buyers were queuing to obtain one. However, initially only four cars a day left the factory and only 1,246 bottle green, De Luxe version cars were produced in 1950. Manufacturing of the advertised Standard version was delayed due to the enormous demand for the luxury variant.

By 1953, output had ramped up to thirteen cars a day, but this dropped to seven on Saturdays (a regular working day in the 1950s). Saab crossed its own “magic line” of 10,000 annual units in 1958. The later three-cylinder models 93, 95, and 96 won several rallies and became highly popular among certain social groups, notably including academics.

Saab automobiles were produced by a separate division of the company. In 1969, the Saab automotive division merged with Scania, Sweden’s second-largest truck maker (after Volvo). Utilizing its link with Scania, Saab became a rarity in developing its own turbocharged engines. The company also became famous for collecting data from road accidents to ensure that its cars are safe not only during crash tests but also under real traffic conditions.

Production in the 1970s peaked at 90,000 annually before falling back to 65,000 in 1980 (see Figure 1). A new, still-standing annual record was reached in 1987, when 134,112 cars rolled off the production lines. In addition to Trollhättan, by 1990 Saabs had also been assembled in Linköping, Arlöv, Malmö (all in Sweden), Mechelen (Belgium), and Nystad/Uusikaupunki (Finland).

At the end of the 1980s, the high-end car market was increasingly important, profitable, and attractive. Smaller car manufacturers were on the block worldwide. Fiat bought Alfa Romeo; Chrysler bought Lamborghini; GM acquired Lotus. Jaguar was ready for a deal with GM, which offered 1 billion USD for half of the British manufacturer, but Ford Motor countered with an offer of \$2.6 billion for the whole company. Ford’s offer was accepted at the end of 1989.

Simultaneously, the Saab-Scania division of the Saab Group declined negotiations with Mazda over possible cooperation in 1989. The Wallenbergs, major shareholders of the company, decided to sign an agreement with Fiat. Disappointed but enlightened by its failed Jaguar courtship, GM started secretly dating Saab. Surprised and bewildered Fiat was suddenly left out of the game and GM became a half-equity partner in the newly-established joint venture Saab Automobile AB in

1990. Saab Automobile AB was placed under the directorship of General Motors Europe in Zürich (Switzerland).

The original non-automobile Saab Group is well known for production of supersonic fighters including the JAS 39 Gripen as well as for other projects in the aviation, defense, and space industries. The major shareholders of the Saab Group are British BAE Systems and the Wallenberg family, through Investor AB, the family-controlled and managed investment fund. Through various Wallenberg foundations, the family also controls and holds significant shares in companies such as AstraZeneca (pharmaceuticals), Scania (trucks), Ericsson (mobile technologies), and ABB (heavy industry).

7.2 Saab in the GM Era

After GM purchased half of the Saab joint venture, the Wallenberg family agreed to relinquish all management responsibilities and to leave the future direction of car making in GM's hands. However, events did not proceed according to plan. Both joint venture partners subsequently claimed continuous disappointment with company performance and corporate governance. By the end of 1998, Saab Automobile AB's cumulative deficit had reached 2 billion USD, and additional infusions of capital and loans from its two shareholders totaled \$1.45 billion. In January 2000, GM decided to exercise its option to buy the remaining 50% share from Investor AB. The acquisition was completed for \$125 million, which indicates just how sharply the company's value had dropped when compared with the first half bought by GM for \$500 million ten years earlier.

GM, as a new owner, chose to target a new kind of customer, broaching the significant risk of losing old customers prior to ensuring it had new ones. GM's idea was to build another BMW, but 18 months after acquisition, GM admitted that Saabs would never be like the vehicles from Munich in Germany, head office of BMW (Flint, 2002). Instead, it decided to ramp up production. At the commencement of GM's involvement, in 1990, Saab employed almost 17,000 people to produce fewer than 100,000 cars. GM set the annual production target at 250,000 units to reach a 'critical mass' at which production would be economically viable.

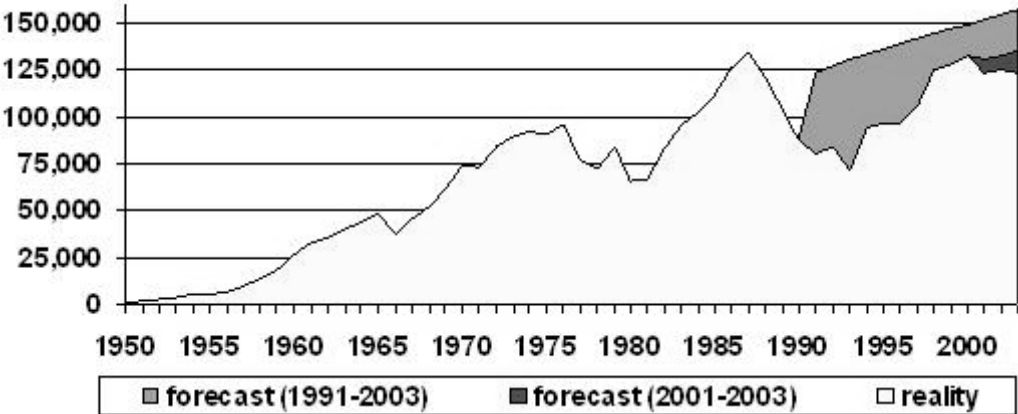
Under GM ownership, the Saab 900 was introduced in 1994, based on the Opel Vectra. It "handled clumsily, suffered alarming quality lapses and was later

reported to have done poorly in Swedish crash testing” (Kitman, 2004). A refurbished Saab 900, designated Saab 9-3, was introduced in 1999 with over 1,100 improvements and changes in reaction to the previous non-Saabish model.

The 9-5, introduced in 1997 and still being manufactured in 2004, is based on Opel platforms as well. Some of the 900’s reported problems have been solved; however the six-cylinder Opel engine is less developed than Saab’s four-cylinder turbocharged aggregate. The 9-5 retained the company’s classic center-console ignition switch – which some critics scoffed was the sole remaining distinctively Saab characteristic in this model.

Hopes to lift annual production were voiced several times during the GM era. In 2001, Peter Augustsson, president of Saab, predicted an annual output of 230,000 to 250,000 vehicles by 2006 (Burt, 2001a). In 2002, GM revealed 135,000 to 200,000 as an optimal target for the next five years. However, annual production remained steady with an average of 124,000 units assembled annually from 2001 to 2003. Figure 3 shows the production statistics for 1950 to 2003, along with forecast production using a linear trend and least squares method commencing with GM’s partial acquisition in 1990 and completed acquisition in 2000. Both of the projections picture higher expected production than was achieved.

Figure 3: Saab car production – Reality and forecasts (units, 1950–2003)



Data sources: *The Web for Automotive Professionals (2004)*; *International Organization of Motor Vehicle Manufacturers (2004)*; own forecasts

From the innovation point of view, since 1990 Saab introduced seats with active head restraints, which move forward in a rear-end crash to reduce whiplash injuries, and later added fans inside the seat to enhance ventilation. Another new safety feature being tested in mid-2004 was the Alcokey, which prevents ignition when the driver's breath indicates that too much alcohol has been consumed.

In 2003, GM eliminated the 1,300 engineers and designers at Saab's headquarters. Saab lost the ability to develop its own products. The engineering department merged with GM's Opel-Vauxhall operations and was relocated to Rüsselsheim (Germany). As a result, Saab's head designer Michael Mauer quit, joining Porsche (which remained an independent, performance-focused, luxury brand). In the broader picture, GM Europe confirmed integration of its sales and marketing offices for Opel, Vauxhall, and Saab in several European countries at its Zürich headquarters in mid-2004.

The entirely new Saab 9-3 was designed mainly by Opel, and released in 2003; it shares a common platform with the Opel Vectra, Pontiac G6, and Chevy Malibu. The 9-3 sedan lost Saab's distinctive and spacious hatchback configuration. It features a unique rear suspension which makes driving sportier; this seems to be a substantial engineering differentiation, but within GM it is treated as an example of how things should not be done (Simister, 2004a). The planned 9-6, based on the Opel Signum, is expected to keep the Opel suspension, to abandon the traditional Saab center ignition (which locks electronically), and to have turbocharged standard GM engines.

In the same year (2003), GM decided to shift production of the Saab 9-3 Convertible from Finnish Uusikaupunki to Austrian Graz. The contracted manufacturer in Finland, Valmet Automotive, quickly found a new production program due to its longstanding reliability and experience with convertibles. Nowadays, the Porsche Boxster is assembled in Uusikaupunki. GM contracted Magna Steyr AG & Co KG for Saab convertibles, handing over to Graz the responsibility for the entire development and volume production process. This was the first convertible produced by Magna Steyr, which had purchased the production facility in Graz from Daimler-Chrysler just a few months earlier. The plant has already assembled Jeep Grand Cherokee, Chrysler PT Cruiser and Voyager, and Mercedes Benz E-, M-, and G-class automobiles for Daimler-Chrysler.

Saab's lineup was traditionally limited to sedans, station wagons, and convertibles. Like most luxury brands, it had never offered sport utility vehicles (SUV) or four wheel drives – which are driving demand in the U.S. Because that market is the most important one for the Saab brand, the small four wheel drive Saab 9-2X was introduced to the US market in June 2004 as a reaction to the similar Audi A3, BMW 1 series, Volvo S40, Mercedes A-class, and Jaguar X-Type, the entry-level models of otherwise upper-class manufacturers. The 9-2X is a slightly upgraded Subaru Impreza WRX sedan and wagon built in Japan by Fuji Heavy Industries (of which GM owns 20 percent). It is a good example of a car that Saab might have offered today if it had had enough finances in the 1990s – light weight, quiet, high powered, with excellent road holding capabilities and firm handling. Journalists promptly relabeled the new model 'Saabaru' – it has a Subaru engine, a Mitsubishi turbocharger, and a five-speed manual transmission, yet manages to maintain a kind of Saab solidity and style (Ford, 2004).

An SUV, labeled 9-7X, is slated to join the Saab fleet in the U.S. in early 2005. This model is a restyled Chevrolet TrailBlazer built in Ohio; it dubiously cannibalizes on other GM SUVs such as the Buick Rainier, Cadillac Escalade, GMC Jimmy, GMC Envoy, and Isuzu Ascender. The 9-7X will feature a thirsty eight-cylinder engine with heavy carbon-dioxide emissions and the obligatory Saab-style center ignition.

The anticipated success of the 9-2X has two implications. GM's European design centre announced the development of a new "genuine" 9-2 Saab, not based on a Subaru, which will be produced starting in about 2007. The other key outcome is the commencement of a new joint project with Subaru, to design a crossover based on shared components but resulting in vastly different finished products. The future 9-7 will be a successor to the Subaru Forester and the Saab 9-7X (Justin, 2004). The proposed vehicle is intended to stem the financial bleeding and should utilize Fuji Heavy Industries' plant in Lafayette, Indiana when capacity becomes available through discontinuation of other models. The fact that the 9-2X and 9-7X are not marketed in Europe signifies that the credibility of the brand cannot be stretched quite that far on the old continent; the redesigned models should allow their dissemination in that market.

In 2003, Saab Cars USA recorded sales success with 47,914 Saab 9-3 and 9-5 sold. It was the best year in Saab's history in the U.S. auto market, surpassing a

previous best in 1986. The number of dealerships increased from 212 to 238. However, the 2004 sales records do not look good at all – sales during the first eight months of 2004 were down 22 percent in comparison with the previous year, and the 9-2X sold only 410 units in its first three months (Automotive News, 2004).

Under GM, Saab Automobile AB has recorded almost only losses (except for 1994 and 1995, when small profits were achieved). In 2002, GM's estimated total bill for Saab was around 4 billion USD (Flint, 2002). Various free trade arrangements (notably the European Union) made it difficult to charge customers more in certain markets – for instance, in the United Kingdom the price of Saabs dropped 15 percent in the late 1990s. Pricing policies also had to reflect increased competition and the lowered attractiveness of Saabs. Saab lost much of its own identity, technological superiority, and competitive edge. The brand quietly made space for more luxury-oriented manufacturers such as BMW, Audi, and Jaguar to move into the entry level high-end market with their smaller and friendlier-priced cars. In addition, the dominant Japanese automakers – Toyota, Honda, and Nissan – launched their own luxury brands (Lexus, Acura, and Infiniti) at that time.

7.3 Saab Today

Principal production today is concentrated in Trollhättan and Graz. The transmission plant and company global sales office are in Göteborg, logistics are based in Nyköping, and the four-cylinder petrol engines are manufactured in Södertälje (all in Sweden). In Austria, the Saab 9-3 Convertible is manufactured by Magna Steyr Company.

In 2003, Saab manufactured 123,627 autos with 7,032 employees. The product range consisted of 9-5 Sedan, 9-5 Wagon, 9-3 Sport Sedan, 9-3 Convertible, and 9-2X. The company sold 131,641 vehicles (including non-Saab manufactures such as the 9-2X). Saab offered its cars in more than 60 countries. The most important markets were the USA, the United Kingdom, Sweden, Germany, Switzerland, Italy, Australia, France, the Netherlands, and Norway (in order of sales quantity).

In May 2004, Saab Cars USA announced that its head office would relocate from Norcross, Georgia, to GM's world headquarters in the Renaissance Center in Detroit (Atlanta Business Chronicle, 2004). Debra Kelly-Ennis, President of Saab

Cars USA, commented: "As is true for Cadillac or Hummer, Saab will retain its unique brand identity and heritage, and continue to provide its customers the same excellent ownership experience".

In September 2004, GM announced further downsizing of its European operations with the most vulnerable plant identified as the Saab plant in Trollhättan. Production was believed to be transferring to GM's Rüsselsheim plant, where workers manufactured 141,000 Opel Vectra, Signum, and Omega models in the same year (English, 2004). Subsequent announcements in October indicated that Opel would take the brunt of GM Europe's cuts of 20% of its 60,000 workforce; perhaps 500 jobs would be lost in Trollhättan. However, the likelihood remained that a choice would be made within five years to close either Trollhättan or Rüsselsheim; the survivor would manufacture both Opels and Saabs (AFP, 2004b). When the knife finally fell in March 2005, Rüsselsheim won manufacturing of all mid-sized Opels and Saabs, with a reduced Trollhättan factory retaining other Saab models and gaining a new model Cadillac (BBC, 2005; Deutsche Welle, 2005). Some dissenters would prefer that GM rid itself of the Swedish carmaker, as BMW did with the financially-troubled MG-Rover.

GM's willingness to invest in new development has been minuscule so far. "Saab is the only brand GM has that is marketed worldwide. But until GM invests serious sums in Saab... a second decade of misguided and half-hearted tinkering will send this brand over the edge" (Channel 4, 2003). The authenticity of the brand is diminishing. Almost all of what used to be Saab's culture and brand is under serious threat. However, GM's latest press releases promise an expanded lineup of Saab models and more commitment to the brand. Only time will tell...

8. Discussion and Conclusion

Luxury car brands and luxury car buyers cannot be treated as mass-market goods and consumers; the distinguishing feature of both the cars and their purchasers is that they are "not average". While mass-market owners salivate at the potential for profiting from the de-customization of their luxury brand acquisitions, the buyers of such vehicles automatically reject any attempts to impinge on the distinctiveness and quirkiness of "their" brands. Platform sharing is seen as one of the greater evils (termed "prostitution" by one commentator (Kerwin, 2004)), but even

logo dissipation is a danger (explaining why there is no Mercedes star on Smart cars).

It seems difficult to justify acquisitions such as those of Saab by GM or Volvo by Ford. “Saab was a niche player and not regarded as a worldwide luxury brand. With a lot of work Saab might break even. And can Ford expand Volvo enough to recoup all its costs, and can it avoid encroaching on Jaguar’s customers?” (Flint, 2004). Saab is not merely an example of mismanagement of a luxury brand. Aston Martin has been recently strongly advised to switch from a boutique to a mass-production strategy and increase volume significantly (Priddle, 2004).

GM seems to have only a short-term memory. The Bugatti and Lotus stories probably didn’t provide the company with an in-depth learning experience. Combining mass and niche products would presumably result in losing the niche image. Similarly, GM’s assumption that re-badging Daewoos as Chevrolets will double sales in Europe in 2005 (English, 2004) is highly speculative, although the base is admittedly low. The president and CEO of GM Daewoo, Nick Reilly, has been reported as claiming that “going to market as Chevrolet will help GM Daewoo overcome negative perceptions of the brand in Europe” (AFP, 2004a). However, this move will doubtlessly extinguish the possibilities for GM to fully utilize existing European perceptions of Chevrolet, which have been much higher than in the U.S. (Chang, 2004; GrandPrix, 2004).

The marketing strategy of offering discounted or heavily incentivized cars worldwide is GM’s typical approach. A popular example of the effects of this discounting strategy is the Toyota Corolla/Chevrolet Prizm. In calendar year 2000, Toyota sold 230,000 Corollas in the United States, while General Motors sold 52,000 Chevrolet Prizms. The net price of a Prizm was 4 % less than that of a Corolla, but after two years it was worth 13 % less than the Corolla. The models are comparable – which is not surprising, considering that they are essentially the same car wearing different badges. Both were designed by Toyota; both are made in California by NUMMI (New United Motor Manufacturing Incorporated); both are comparably equipped and finished (Chatterjee et al., 2002).

Chrysler and Jeep capitalized on European market perceptions by deliberately promoting their Americanism subsequent to the merger of Daimler and Chrysler in 1998. This strategy has enabled DaimlerChrysler to charge a premium and capitalize

on distinctiveness in Europe, but not for Chrysler in its home market, the USA, where it is running a distant fourth and applying GM-style marketing tactics such as the current 'employee discount' for everyone.

How much has Ford learned from its experiences with Ghia and Jaguar? In 1960, a brand new Mark II (the smallest saloon produced by Jaguar at that time) was sold at one-third the price of a Ferrari (sole model), while the 2004 X-Type is priced at less than one-fifth of the least expensive contemporary Ferrari (the Modena). Devaluation of a brand through a lower pricing strategy will result in image erosion and will decrease the brand's potential (Greyser, 1999). However, Ehrenberg et al. (2004) argue that in the case of luxury cars (as well as some other products), a brand will typically attract diverse buyers who are not loyal over a sequence of purchases. This leads to the assumption that attracting new customers while losing existing ones should not necessarily be seen in a negative light – an opinion clearly subscribed to by Ford.

From tens (or even hundreds) of car producers in each industrialized country at the beginning of the 20th century, through fewer than one hundred major manufacturers in the 1960s, there remain only about a dozen global players today. The manufacturer of the first patented automobile is still in business, a survivor in a graveyard littered with once-famous, once-profitable, once-independent symbols of industrial power. Its Mercedes-Benz brand has traditionally been the car of preference for heads of state, the rich, and the famous. Nowadays, the Mercedes division accounts for the bulk of the value of DaimlerChrysler, the fourth-largest car maker in the world by value (fifth by volume). However, Mercedes-Benz is in trouble. Quality and reputation difficulties have tarnished the brand, and it is becoming conceivable that arch-rivals BMW and Audi will surpass the three-pointed star in sales volume in the near future. Much of the problem has been blamed on after-effects of the Daimler-Chrysler "merger", in particular the sharing of platforms, major components, and suppliers across brands. The underlying reason for sharing is cost reduction through enhanced scale and scope efficiencies, which appear advantageous until examined from a luxury branding perspective. Exclusivity and compatibility may well be mutually exclusive.

Why are the images of European premium brands (including Saab, Volvo, Jaguar, and Land Rover) languishing under the stewardship of the American giants

(Ford and GM) – despite widely-acknowledged quality improvements in makes such as Jaguar? Why do Japanese carmakers prefer to develop their own luxury badges instead of acquiring or merging with an established make? Why do German car companies apparently excel at creating luxury models and brands (and what really ails Mercedes at the moment)? Why do the French – the world headquarters of luxury brands (Dubois and Paternault, 1997) – neither acquire nor offer any luxury automobile brands at all? Which path will the Chinese and Korean choose, once they stop copying foreign models? We intend to target these questions as our research develops.

Car buyers are increasingly market literate. The lump sum expenditure for a car forces them to be wise, to compare, and to distinguish among diverse marques in their search for real value and quality. Component sharing brings production and purchasing efficiency but dissipates uniqueness. This is threatening for distinctive smaller brands, which are subsumed in the portfolios of giants who intend to charge a little extra for nothing more than image. Volkswagen customers have realized that they can buy the same features and quality for less money if the car is branded as a Škoda or Seat (Stones, 2004). The same logic must inevitably apply to dyads such as Saab and Opel, Jaguar and Ford, or Mercedes-Benz and Chrysler, where some of the latter brand's top models now sport the vaunted engines of the former (and are selling accordingly).

Struggling between reaching a critical mass and still appealing to customers as special, distinctive, and unique is a difficult dilemma. Luxury brands must fascinate one group of customers and give legitimacy to another (Dubois and Duquesne, 1993). As identified by the head of Ford's Premier Automotive Group, "mass-market luxury is an oxymoron" (Kerwin, 2004). Premium car makes cannot be treated as average companies by mass-producers, since they attract non-average buyers. Every attempt by mass-market owners to adjust a new model to the prevailing flow and to diminish some of the traditional quirkiness is perceived as an attack on the very nature of the brand.

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