



**Série MEMO RECHERCHE**

## **Catering to Clients' Expectations**

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# **Customization as a Product Differentiator in the Indian Luxury Car Market**

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As part of her MBA curriculum at ISC Paris, Preeti Pandey decided to write her professional thesis on the luxury car industry, with a focus on the Indian market. More specifically, she was interested in understanding the relationships that Indian consumers hold with customization in this sector of activity, and what would be the various triggers to seduce them. This thesis was supervised by Ms. Maman Larraufie (Ph.D.), Founder and Owner of SémioConsult®, and lecturer at ISC & ESSEC Business Schools. We let you discover in this Research Memo the main points of her thesis. Should you need any further information or should you have any comment to her, please do not hesitate to contact us!

### ***Exclusivity: driving the need for customization in luxury industry***

Luxury clients have always wanted to be in possession of a good which is not only expensive but also one of a kind. Desire for 'unique' and 'exclusive' products has pushed the luxury brands to outdo themselves and each other since time inception. In the early days, ateliers set the foundation of carefully crafted made to measure garments. This fad spilled on to various other luxury products, including travel bags, hand bags, shoes, watches, etc. Today, luxury brands continue to offer their clients products which are different from what their competitors offer, products which have an element of uniqueness and rarity.

Though the cornerstone of the luxury industry lays on the key element of 'exclusivity' of the products, the growing corporatization of the luxury sector has pushed the luxury sector to maximize their profits. This increasing need of making profits has driven many luxury brands to deviate from their core area of

manufacturing exclusively tailored goods to manufacturing less expensive, mass goods, like accessories, perfumes, etc. To cater to this growing segment of clients and to stimulate mass consumption some companies have adopted a system of mass production.

### ***Customization – bringing back luxury in Luxury Industry***

While mass production is successful in catering to instant gratification of clients, most of times clients end up sacrificing some of their expectations towards products since they do not completely meet them. Thus, they either forego with their purchase or shift to a brand that is closer to their expectations. The automobile industry is a good example of this growing disparity, where the salesperson is keener to sell a model to achieve his monthly target, and the client is looking for a car that best fits his/her expectations. No longer are the demanding clients satisfied with the models made and introduced into the market: they want more variety and individuality.

This growing disparity between demand and supply compelled manufacturers to once again put their clients at the centre of the decision making process and to manufacture goods keeping their desires and expectations in mind. They have started reconsidering their strategies on production and marketing, leading to the advent of ‘mass customization’ through which manufacturers bring to their clients products manufactured in line with their choice.

The automobile industry is saturated with companies claiming to be the best in the field; it is not the dominion of any one brand. Customizing automobiles is appealing to prospects since it gives the impression of luxury through designing one’s own car. The growing effect of information technology pushed the automobile industry to embrace the concept of customization of cars online and deliver it to their clients in the shortest span of time.

While customization in the car industry is not new, it used to be a “luxury” affordable only by some happy few who could afford to spend huge money on the visits and private sittings with the ateliers. Mass customization removed this barrier and brought the luxury of designing one’s own product to the homes of the clients, the internet playing a huge role in this.

### ***How customization works in the automobile industry?***

In the automobile industry, the supply chain works on a given set of patterns, which is greatly determined by the flexibility of the supply for the different car components and parts. Most of the manufacturers of customized cars follow the system of build-to-order, with companies such as Mercedes, BMW or Audi resorting to this. Toyota was actually a pioneer in manufacturing cars to meet clients’ precise expectations and desires.

The production system in the automobile industry works either on the push or on the pull manufacturing system. An OEM (Original Equipment Manufacturer) ’s supply chain based on assemble-to-order involves both push and a pull system of manufacturing. In the push system, standard components are

manufactured in response to market projections. On the other hand in the pull system the final product is assembled only after the manufacturers receive the exact requests from their clients.

Since the build-to-order system is determined by the needs of a client, a manufacturer finds it difficult to assemble the final product before the final order is received. The websites of the great majority of car manufacturers currently provide their prospects with various options and features to select from and to customize the car according to their wish.

Once a client has selected the desired features on a company's website, he/she is directed to the nearest dealer of the select model/car, who then will pass on the request of the client to the manufacturer. The assembly of the car begins only after the order is recorded in the system of the OEM. Accordingly, the bill is generated based on the cost of production and the place where the car is manufactured. All components are then brought in and assembled on the assembly line in a time-bound manner. After the car is assembled, it is delivered to the dealers to be sent to the client.

### ***Key factors driving the need for customization in cars***

It can be said that beyond a point most luxury cars are similar in quality and performance, at least within a given category (family cars, sports cars, etc.). A company can gain competitive advantage over its competitors only if it pays attention to what its clients expect from its product when they choose it over another brand. This is also valid for car customization. It is only once they understand the key drivers of customization that car manufacturers can actually start aligning their customization options with their prospects' expectations. By reflecting them in their products, they can not only increase their sales, but also their consumer-based brand equity.

It was the objective of the present study to address such issue. To achieve it, 15 in-depth interviews with Indian prospects leaving in Mumbai were conducted in October 2014.

Sampling was convenience-based, standing for owners of high-segment/luxury cars and people desirous of purchasing one in a close future. The majority of participants were proficient with the use of the Internet and regular visitors of the websites of car manufacturers to research on latest models or be updated with the auto industry. One common factor noted with all individuals was that they all rely on the Internet to compare brands and models to help them decide on making a purchase. To understand clients' approach to customization, the questions were formulated under two headings: (a) how clients perceive customization, and (b) the role of the Internet in customization.

#### **(a) How clients perceive customization**

The interview generated four chief factors that determine the desired level of customization in a car. The below grid outlines verbatim from the interviews which can be categorized as:

 desire for exclusive and unique cars

- increased cost of customization
- ease/complexity of the process of decision making
- added value and symbolic benefit of customization

<i>car is an extension of your personality</i>	<i>functional aspect increases, because then it is made to order</i>	<i>easier for a knowledgeable client to handle complex and technical information on cars</i>	<i>more features means longer delivery time</i>	<i>intimidated with so many options available</i>
<i>exclusively configured products satisfy a client's needs and wants better</i>	<i>more options in colors and interior increases the chance of one having a more unique car</i>	<i>value for money adding more features to the base model result in greater costs</i>	<i>'paradox of choice'</i>	<i>added value</i>
<i>cognitive effort noticeably better and different</i>			<i>more customization means a more unique and exclusive product</i>	<i>basic knowledge on cars and the available features sometimes the brand is not enough</i>

**(b) Role of internet in customization**

Below grid outlines the verbatims from the interviews determining the practice of online configuration of cars:

<i>prefer to research the cars and the brands online before purchase</i>	<i>"build your own car" or "configurator" option</i>	<i>option to choose from several different packages in various categories</i>	<i>configuration is user friendly because</i>	<i>image of car being customized online in real-time</i>
<i>easy to navigate or confusing?</i>	<i>option to see how a chosen colour for the car looks in the daytime and at night</i>	<i>updated information on the price of the model and of the various options and packages available</i>	<i>layout of the webpage – cramped or liberal use of space?</i>	<i>user directed to nearest dealer that has a car that comes closest the features selected</i>
<i>no closing hours on the internet, so you can research at your convenience</i>	<i>separate websites for different countries - options on models and customization are different on these pages</i>	<i>how regularly is the website updated</i>	<i>local websites offer limited models and variations in customizations</i>	<i>saves them the time of visiting a dealer to know about what features and options are available</i>

Regardless of the benefits that mass customization has, companies continue to face some obstacles in implementing this strategy. Mass customisation requires change in a company's management, its business model and incorporation of innovative skills. It relies extensively on the effectiveness of a company's e-commerce strategy. A successful mass customization strategy can be achieved only if all these aspects work in tandem and not in contradiction to each other. A lapse in any one of these factors can incur serious costs to a company.

### *Is it truly customization?*

While we do know that mass customization seeks to supply clients with cars built under their specification, one also has to keep in mind that this system of production is broadly founded on lines of mass production. Though automobile industries use the build-to-order strategy of production to provide a client with a car built as per their need, what it essentially does is to assemble the various pre-made features and supply it to the client. Once a client selects from the given set of features and options, and places the order for a customized car, the car is simply assembled accordingly and then supplied to the nearest dealer. Thus, in effect these companies only create an illusion of customization, where clients feel that they have contributed in co-designing the car, or that it has been designed for them...



*Preeti Pandey (India) graduated in December 2014 from ISC Paris with an MBA in International Management of Luxury Brands. A former real estate lawyer, she had previously worked at Amarchand & Mangaldas & Suresh A. Shroff & Co., India's leading law firm. She is currently looking for opportunities in the luxury car business, in the Middle-East or Indian areas.*



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