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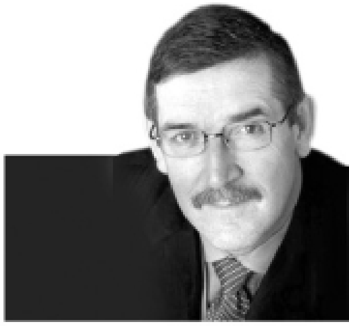

OBSERVATIONS

Dennis DesRosiers

Luxury Vehicle Review for 2014

The luxury vehicle market set yet another sales record in 2014 with 187,786 units sold and for the first time accounted for over 10 percent of the overall Canadian market. The luxury market has set new sales records five years in a row and has grown over the previous year's sales in twenty of the last twenty-five years. Over this time-frame it has grown from only 3.3 percent of the Canadian market to the current 10.1 percent share. We also expect volume AND share growth to continue to the end of the decade as almost all the brands move both up and down market, demographics continue to move in favour of luxury vehicle sales and distribution across Canada continues to grow with the addition of dealers in all the larger markets and a number of secondary markets.

Indeed, farmers will tell you that you don't sell many vegetables if you don't have a vegetable stand. Well the luxury brands in Canada are solving that problem very quickly adding 10 stores in 2014 on top of 8 stores in 2013. This is the largest two year increase in luxury dealerships since 2003 when the luxury brands increased their store count by 23 points over the previous two years. And since the luxury market remains one of the fastest growing segments in the Canadian marketplace we expect there to be more open points awarded over the next few years. Mercedes-Benz has the largest number of stores at 58 followed by Acura at 50 stores and BMW at 46 stores. Infiniti actually added the most stores in 2014 (five) in addition to the three they opened in 2013.

This growth in stores is directly related to the growth in the market. Over the last decade the luxury market for new vehicles has increased by about 50 percent, for used vehicle by about 100 percent and for parts and service by about 150 percent. Some brands have grown by twice these levels. We expect ongoing growth over the next decade which means that some brands could quickly find themselves under-dealered unless they add more stores fairly quickly. Overall sales is linked to this expected increase in distribution with luxury dealers appearing in secondary markets where it has historically been difficult to buy most of the luxury brands.

These secondary markets are now better suited to supporting a luxury dealer because the luxury market itself has moved substan-

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Luxury Vehicle Sales in Canada by Brand - Units

		1990	2000	2010	2011	2012	2013	2014	Change
1	Mercedes-Benz	4,065	12,457	28,062	28,582	30,102	31,356	33,928	8.2%
2	BMW	4,002	11,022	27,202	29,773	31,402	31,710	32,805	3.5%
3	Audi	1,385	5,992	14,333	16,867	20,000	20,506	24,514	19.5%
4	Acura	2,455	8,376	15,276	13,477	17,127	19,005	19,533	2.8%
5	Lexus	607	5,257	14,249	13,364	15,101	15,949	17,565	10.1%
6	Cadillac	5,105	6,042	7,194	7,360	6,466	9,389	10,532	12.2%
7	Infiniti	283	4,340	8,233	6,936	7,993	8,947	10,291	15.0%
8	Lincoln	4,361	6,417	8,630	8,162	6,140	5,814	6,819	17.3%
9	Land Rover	65	1,015	2,547	3,228	4,268	5,136	6,283	22.3%
10	Porsche	327	1,288	2,036	2,214	3,003	3,680	4,933	34.0%
11	Chrysler	910	5,501	4,180	3,045	5,760	5,375	4,119	-23.4%
12	Volvo	5,583	8,658	5,795	6,133	4,971	4,363	4,466	2.4%
13	Ford	0	0	3,847	3,264	4,938	4,238	3,505	
14	VW	0	0	706	1,618	1,975	2,087	2,332	11.7%
15	Hyundai	0	284	814	932	1,322	1,145	1,578	37.8%
16	Jaguar	1,005	2,323	755	776	644	1,263	1,460	15.6%
17	Chevrolet	823	1,181	364	352	250	324	1,181	264.5%
18	Toyota	1,827	1,771	502	496	427	1,264	996	-21.2%
19	Nissan	813	1	961	525	606	577	536	-7.1%
20	Kia	0	0	37	0	0	195	183	-6.2%
21	Subaru	0	0	536	460	390	234	120	-48.7%
22	Dodge	0	152	54	33	7	52	107	105.8%
	All Other	5,811	4,995	305	337	68	1	0	
	Total Luxury	**45,238**	**92,067**	**146,923**	**148,271**	**163,028**	**172,611**	**187,786**	**8.8%**

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tially down market and expanded heavily into the light truck segments. When the luxury market was primarily high end vehicles there was little opportunity for dealers in the smaller secondary markets. This move down market also has changed the nature of the luxury buyer with implications for the number of dealers required in traditional large metro markets. Owners of high end luxury vehicles and particularly high end sports cars obviously needed dealers in their market to service their vehicles but were less dependent on close availability of a dealer … a nice to have not necessarily a “NEED” to have luxury as the sports car was usually not the primary household vehicle. More down market luxury products are now penetrating households where the luxury vehicle is the workhorse of transportation in many households. Thus there is a critical need for ready and close access to a dealer for regular maintenance and service of the vehicle. A market like Toronto that previously could be serviced with two or three/four stores now may need double or in some cases triple the number of stores because of the higher volume of luxury vehicles AND most importantly the types of use of the luxury vehicle today versus a decade ago.

As the luxury brands continue to move into more and more segments and luxury vehicle volumes continue to grow we would expect a further growth in the number of luxury dealerships across Canada. The move down market is very evident when you break sales down by ‘engineering architecture’ of the vehicle. In 1990 only 19.9 percent of luxury vehicles were “C” size vehicles, in 2014 50.0 percent of luxury vehicles were this size of product. On the other side of this, “E” sized vehicles have dropped from 33.3 percent to 12.3 percent of the market and full frame vehicles have dropped from 20.5 percent to 4.2 percent of the market. The other growth segment has been “D” size vehicles which have grown from 23.2 percent of the market to 33.5 percent of the market.

Mercedes-Benz won the best-

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Luxury Vehicle Market by Engineering Architecture

	1990	2000	2010	2011	2012	2013	2014	Change	Share
Total Luxury Market									
A	0	0	0	0	0	0	0		
B	1,132	419	23	116	15	0	0		
C	7,235	22,148	60,931	64,066	71,790	81,767	93,840	14.8%	50.0%
D	8,425	30,819	59,843	59,251	61,340	60,552	62,872	3.8%	33.5%
E	12,104	24,272	19,555	17,692	23,349	23,738	23,110	-2.6%	12.3%
FF	7,458	9,414	6,266	6,809	6,466	6,553	7,964	21.5%	4.2%
TOTAL	36,354	87,072	146,618	147,934	162,960	172,610	187,786	8.8%	100.0%
		-							
Total Luxury Market									
A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%		
B	3.1%	0.5%	0.0%	0.1%	0.0%	0.0%	0.0%		
C	19.9%	25.4%	41.6%	43.3%	44.1%	47.4%	50.0%		
D	23.2%	35.4%	40.8%	40.1%	37.6%	35.1%	33.5%		
E	33.3%	27.9%	13.3%	12.0%	14.3%	13.8%	12.3%		
FF	20.5%	10.8%	4.3%	4.6%	4.0%	3.8%	4.2%		
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%		

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selling luxury brand crown with 33,928 units followed by BMW at 32,805 units. BMW however had the highest volume per store at 713 units per store with Mercedes Benz second at 606 units per store (679 per store if Sprinter is included). Audi was very close in third place with 570 units per store. Dealers will argue that this is a more important metric than the overall sales crown.

At the brand level there continues to be a distinct tiering of players in the luxury market with Mercedes-Benz and BMW the two top tier players a clear 8 to 10,000 units ahead of all other players. Audi is getting very close to top Tier status with sales of 24,514 units but we still consider them a second Tier player along with Acura and Lexus. Then we drop down significantly to a third tier where there are seven brands with the resurging Cadillac brand leading the group. With the exception of Jaguar all nine of the forth Tier players are mass market OEMs who sell a luxury vehicle under their banner. VW for instance sold two thousand luxury vehicles over and above Audi, their luxury marque.

The battle for best-selling luxury brand is hotly contested each year and has one of the more interesting longer term trends. We started tracking this in 1989 and in 89 and 90 Volvo was the best-selling luxury brand in Canada. Cadillac took the position between 1991 and 93 and then it went back to

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Number of Dealers in Canada - Primarily Luxury

		2000	2010	2011	2012	2013	2014
1	Mercedes-Benz	51	53	53	53	55	56
2	Acura	42	48	49	50	50	50
3	BMW	32	41	44	44	45	46
4	Audi	36	41	41	41	42	43
5	Volvo	44	41	41	39	38	38
6	Lexus	22	34	34	36	37	38
7	Infiniti	23	29	29	30	33	38
8	Jaguar	21	22	23	23	23	23
9	Land Rover	16	22	23	23	23	23
10	Porsche	11	14	14	14	15	16
	Total	298	345	351	353	361	371

Sales per Dealer in Canada - Primarily Luxury

		2000	2010	2011	2012	2013	2014
1	BMW	344	663	677	714	705	713
2	Mercedes-Benz	244	529	539	568	570	606
5	Audi	146	350	411	488	488	570
3	Lexus	239	419	393	419	431	462
4	Acura	199	318	275	343	380	391
6	Porsche	117	145	158	215	245	308
8	Land Rover	63	116	140	186	223	273
7	Infiniti	189	284	239	266	271	271
9	Volvo	197	141	150	127	115	118
10	Jaguar	111	34	34	28	55	63

Canadian Light Vehicle Market - Luxury Vehicles

Year	Total Market	Small Luxury Car	High Luxury Car	Luxury Sport Car	Compact Luxury Sport Utility	Intermediate Luxury Sport Utility	Large Luxury Sport Utility	Total Luxury	Luxury Share
2010	1,557,121	66,807	12,545	3,657	18,806	39,001	5,802	146,618	9.4%
2011	1,585,519	62,540	13,028	3,460	24,658	37,974	6,274	147,934	9.3%
2012	1,675,675	66,808	13,808	3,965	30,844	39,121	8,414	162,960	9.7%
2013	1,744,567	71,761	12,708	4,328	33,634	40,789	9,390	172,610	9.9%
2014	1,851,373	75,072	13,492	5,399	40,160	43,533	10,130	187,786	10.1%
Change	6.1%	4.6%	6.2%	24.7%	19.4%	6.7%	7.9%	8.8%	

Share of each Luxury Segment within the Luxury Market

Year	Total Luxury	Small Luxury Car	High Luxury Car	Luxury Sport Car	Compact Luxury Sport Utility	Intermediate Luxury Sport Utility	Large Luxury Sport Utility	Luxury Share	Total
2010	146,618	45.6%	8.6%	2.5%	12.8%	26.6%	4.0%	9.4%	100.0%
2011	147,934	42.3%	8.8%	2.3%	16.7%	25.7%	4.2%	9.3%	100.0%
2012	162,960	41.0%	8.5%	2.4%	18.9%	24.0%	5.2%	9.7%	100.0%
2013	172,610	41.6%	7.4%	2.5%	19.5%	23.6%	5.4%	9.9%	100.0%
2014	187,786	40.0%	7.2%	2.9%	21.4%	23.2%	5.4%	10.1%	100.0%

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Volvo between 1994 and 1998 with Cadillac always a close second. Mercedes Benz took their first title in 1999 while BMW dominated between 2000 and 2013 although MB did win the title once in 2010 and was tied with BMW in 2002. Mercedes Benz was the leading luxury brand in 2014. We are not sure the consumer cares about these superiority contests but the OEMs obviously do care. The German brands now capture over 60 percent of the luxury market and Volvo has fallen back to 12'th place and Cadillac to 6'th place … times certainly have changed.

While on the best-selling theme, BMW led the small luxury segment with Mercedes-Benz a close second, Mercedes-Benz led the high luxury segment with BMW a close second, Porsche led the luxury sports car segment with Chevrolet a close second, Audi led the compact luxury SUV segment with BMW a close second, Lexus won the intermediate sport utility segment with BMW a close second and Infiniti led the large sport utility segment with Mercedes-Benz a close second. So six different brands can claim superiority in the various luxury segments. Mercedes-Benz won the over-all luxury brand crown by being a solid top tier player in all segments and increasing their share in four of the six luxury segments.

The luxury market has moved quite rapidly to light trucks. In 1990 virtually all luxury vehicles were passenger cars (99.8 percent). In 2014 for the first time, an equal number of luxury light trucks were purchased in Canada as luxury passenger cars. The fastest growing segment was compact luxury sport utility vehicles up 19.4 percent in 2014 and now accounting for 21.4 percent of the luxury market. Small luxury passenger cars remain the largest segment with 40.0 percent of the luxury market. The small luxury share continues to fall each year dropping to the forty share level for the first time and down from its peak share of 54.3 percent in 2006. This decline in share, however, is being driven exclusively by the growth of other luxury segments with volumes of small luxury cars continuing to increase with 75,072 units sold in 2014. DAR