

# LEXUS: A Premium Brand

Sonia Isabel MIÑO AVILA

## I. INTRODUCTION

## II. A HISTORICAL CONTEXT

## III. THEORETICAL FRAMEWORK

## IV. LEXUS AS A PREMIUM BRAND

## V. CONCLUSION

**Abstract:** The purpose of this article is to analyze Lexus as a Premium Brand based on Competitive Strategy Theory by Michael Porter, Brand Theory by David A. Aaker and Premium Brand Theory by Rosengarten and Stuermer. This article is written because in the book *Premium Brand* by Rosengarten and Stuermer it is established that Japanese Automobile Brands are not Premium Brands. Lexus is a differentiated, innovative and leading Japanese brand that has acquired a good reputation and high level of sales in some markets, mainly in the United States, which was the main target market from the inception of this brand.

## I. INTRODUCTION

In recent years brand management has become one of the most important variables in marketing and in the whole business strategy of a company. The main purpose of brand management is to increase the product's perceived value to the customer and thereby increase brand equity. A brand is like a promise made to the customers of the level of quality they can expect with future purchases of the same product. When the brand strategy is well done it may increase sales, profit, market participation and the overall reputation of the company's products.

Paul Temporal in his book *Branding in Asia* stated that recently Asian companies have increased their interest in branding because they have begun to think strategically, in other words, in a long-term view. However, he states that Japanese companies are an exemption to this fact, because most of them have been concentrating on brand building for the last two or three decades. Therefore, this study focuses on a Japanese brand that has achieved a good reputation and become one of the highest-selling makers of luxury cars in the United States market: LEXUS.

Lexus is the luxury vehicle division of the Japanese automaker Toyota Motor Corporation. Lexus brand name vehicles are sold in North and South America, Europe, Asia, Oceania and Africa. It started its operations in 1989 selling only in the United States; it was finally introduced in Japan in August 2005; where the brand reputation did not succeed as well as in the United States market.

The main objective of this research is to analyze the Lexus brand as a Premium Brand. The first part will provide an overview of the history and present situation of Toyota and Lexus. The second section will present a summary of the theories on which this article is based on. In the final section, this paper will discuss how the Competitive Strategy, the Brand Theory and Premium Brand Theory are applied in respect to Lexus.

## II. A HISTORICAL CONTEXT

### 1. TOYOTA

Toyota Motor Company was established in 1937 by Kiichiro Toyoda. However, it started the production of automobiles some years later as a division of Toyoda Automatic Loom Works, in 1933.<sup>1)</sup>

Kiichiro Toyoda was interested in automobile production, so in 1929 he traveled to Europe and the United States where he studied gasoline-powered engines in 1930. Toyoda Automatic Loom Works was supported by the Japanese government (which needed domestic vehicle production) in order to develop Automobile production. In 1934, the division produced its first Type A Engine, which was used by the first Model A1 passenger car in May 1935 and the G1 truck in August 1935. The production of Model AA passenger car started in 1936.

Although the founder family's name is Toyoda (豊田), the company's name was changed in order to separate work life from home life, to simplify the pronunciation, and to give the company a happy beginning because in Japan Toyota (トヨタ) is considered luckier than Toyoda (豊田) due to the number of strokes that it takes to write Toyota in katakana.<sup>2)</sup> However, since January 8, 2008 the Corporation has changed its name from katakana to kanji and withdrew the word "Motor".

---

1) Toyota history was summarized from the book *Toyota: a History of the First 50 years*; Toyota Motor Corporation, *Toyota annual report 2006-2007*; Toyota web page: [www.toyota.com](http://www.toyota.com)

2) The Japanese writing system is composed by kanji, hiragana and katakana. Katakana are sometimes used for transcription of Japanese company names. Kanji are characters of Chinese origin.

After World War II, in 1947, the production of commercial passenger car started. In 1950, Toyota Motor Sales Co. was founded and in April 1956, the Toyopet dealer chain was created.

The first export order was one hundred units of Model FXL large trucks to Brazil in 1952. In 1956, the Brazilian government announced a local policy, and Toyota could not export completed vehicles to the country. It decided to cooperate with the Brazilian government and in order to develop the automobile market in Brazil it established a local company, "*Toyota do Brasil S. A., Industria e Comercio*" in 1958.

In August 1957, two Toyota Crown sample cars arrived at Los Angeles, becoming the first Japanese passenger cars exported to the United States. In October, Toyota Motor Sales U.S.A Inc was founded as a California-based corporation.

Toyota began to expand in the 1960s with different activities, such as building a new research and development facility, establishing a commercial presence in Thailand and creating a Deming Prize, and forming partnerships with Hino Motors and Daihatsu. By the end of the decade, Toyota had established a worldwide presence; the same time the company exported its one-millionth unit.

Toyota Motor Company was awarded its first Japanese Quality Control Award at the beginning of 1970 and began participating in a wide variety of motor sports. Due to the 1973 oil crisis, consumers in the lucrative U.S. market began turning to small cars with better fuel economy. American car manufacturers had considered small economy cars to be an "entry level" product, and their small vehicles were not made to a high level of quality in order to keep the price low. Japanese customers, however, had a long-standing tradition of demanding small fuel-efficient cars that were manufactured to a high level of quality. Because of this, companies like Toyota, Honda, and Nissan established a strong and growing presence in North America in the 1970s.

In 1982, the Toyota Motor Company and Toyota Motor Sales merged into one company, the Toyota Motor Corporation. Two years later, Toyota entered into a joint venture with GM called NUMMI, the New United Motor Manufacturing, Inc, operating an automobile manufacturing plant in Fremont, California. The factory was an old General Motors plant that had been closed for several years. Toyota then started to establish new brands at the end of the 1980s, with the launch of their luxury division Lexus in 1989.

In the 1990s Toyota began to branch out from producing mostly compact cars by adding many larger and more luxurious vehicles to its lineup. This included a full-sized

pickup, the T100 (and later the Toyota Tundra), several lines of SUVs, a sport version of the Camry, known as the Camry Solara, and the Scion brand, a group of several affordable, yet sporty, automobiles targeted specifically for young adults.

In 1997, the Corolla became the bestselling car in the world, and Toyota began the production of the first mass-produced hybrid car: the Toyota Prius.

Toyota has grown to become a major multinational corporation through expanding to different worldwide markets and countries and thereby becoming the largest seller of cars by the beginning of 2007. The headquarters of Toyota are located in its home country; Japan, in Toyota City, Aichi Prefecture. Its subsidiary, Toyota Financial Services sells financing and participates in other lines of business. Toyota brands include Scion and Lexus, which are also part of the Toyota Group. Toyota also owns majority stakes in Daihatsu and Hino, and 8.7% of Fuji Heavy Industries, which manufactures Subaru vehicles. They also acquired 5.9% of Isuzu Motors Ltd. in November, 2006.

Toyota has introduced a range of new technologies including one of the first mass-produced hybrid gas-electric vehicles, of which it says it has sold 1 million globally. Also, it

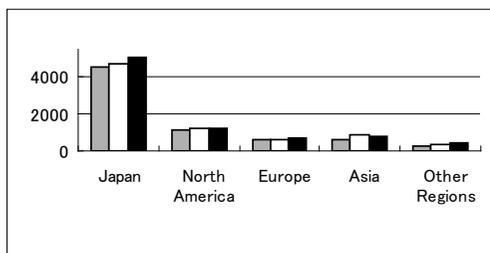


Figure 1. VEHICLE PRODUCTION BY REGION

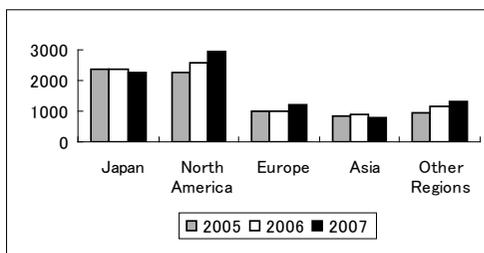


Figure 2. VEHICLE SALES BY REGION

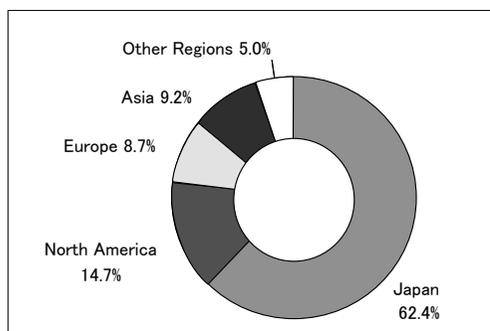


Figure 3. VEHICLE PRODUCTION 2007

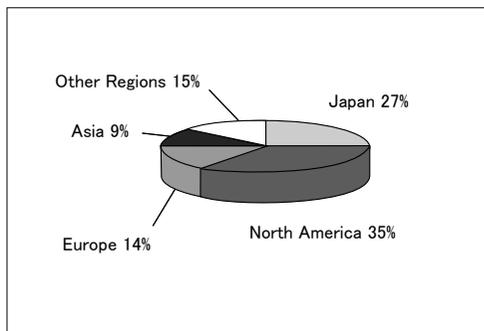


Figure 4. VEHICLE SALES 2007

Data Source: Toyota Motor Corporation, Annual Report 2007

has developed an advanced parking system and an eight-speed automatic transmission.

Toyota, Lexus and Scion automobiles, regularly rank near the top in certain quality and reliability surveys, primarily in J.D. Power and Consumer Reports. In the Fortune Global 500, Toyota Motor is named the 8th largest company in the world.

In 2007 vehicle production and sales set a new record, increasing substantially from the previous two years. In 2007, 8.18 million units were produced and 8.52 million units sold. Sales by region increased in all regions except in Asia, including Japan. The percentage difference between 2006 and 2007 was +6.1% in vehicle production and +6.9% in vehicle sales. Vehicle production by brand also increased except for the Hino brand which remained almost the same. All these facts are shown in the figure 1, 2, 3 and 4.

## 2. LEXUS

In 1983, Toyota started a project named F1 (“Flagship” and “No. 1 vehicle”). The F1 project, which eventually became known as the Lexus LS 400, aimed to develop a luxury car that would expand Toyota’s product line. The F1 project was inspired by the success of the Toyota Supra sports car and the luxury Toyota Cressida models.<sup>3)</sup>

In 1985, Toyota researchers visited the U.S. in order to conduct focus groups and market research on luxury car consumers. They observed many characteristics of the lifestyles and tastes of North American upper-class consumers. Toyota’s market research concluded that a separate brand and sales channel were needed to present its new luxury flagship, and plans to develop a new network of dealerships were made.

In 1989, after an extended development process involving 60 designers, 24 engineering teams, 1,400 engineers, 2,300 technicians, 220 support workers, around 450 prototypes, and over \$1 billion in costs, the F1 project was completed. The resulting flagship, the Lexus LS 400, had a unique design.

The LS 400 debuted in January 1989 at the North American International Auto Show in Detroit. The following September, Lexus vehicles officially went on sale through a network of 73 new Lexus dealerships across the U.S. The launch of Lexus was heralded by a multi-million dollar advertising campaign in both television and print media. The LS 400 was widely praised for its silence, well-appointed and ergonomic interior, fine engine performance, outstanding quality, aerodynamics, fuel economy, and value.

---

3) Lexus history was summarized from the book *Lexus the Relentless Pursuit* by Dawson Chester; Toyota Motor Corporation, *Toyota annual report 2006-2007*; Lexus web page: [www.lexus.com](http://www.lexus.com)

In 1990, during its first full-year of sales, Lexus sold 63,534 LS 400 and ES 250 sedans in the U.S. (in order to avoid introducing the nameplate with only one model, Lexus debuted also the ES). By 1991, sales had increased to 71,206 cars in the U.S. market, making Lexus the top-selling luxury import in the U.S. Also, it earned the first place in J.D. Power's studies on initial vehicle quality, customer satisfaction, and sales satisfaction. Lexus also introduced two new models in 1991, the SC 400 coupe and ES 300 sedan. In 1996, Lexus introduced its first luxury sport utility vehicle, the LX 450. In 1998, Lexus presented the first luxury crossover SUV, the RX 300.

Lexus was finally introduced to the Japanese market on July 26, 2005. The compact IS sedans, convertible SC, and mid-size GS sedans became available in Japan in the 2006 model year.

Recently, Lexus has been a pioneer in the field of hybrid vehicles. In 2005, Lexus introduced the world's first hybrid luxury SUV, the RX 400h.

In 2007, Lexus sold approximately 490,000 vehicles, with more than 60% of worldwide sales in North America. The market share for Lexus in the U.S. luxury brand segment rose to 16% in 2006 and earned the rank of best-selling luxury brand for the seventh straight year. In Japan, the network of Lexus dealers were expanded from the initial 151 to 163 and sold more than 36,000 vehicles. In Europe, Lexus sales jumped to 48%, representing more than 50,000 vehicles, due to the expansion of the Lexus dealer network and the introduction of diesel and hybrid models. In Asia, sales rose to approximately 67,000 vehicles, particularly in China the dealer network was expanded from 10 to 23.

Lexus sales in the United States from 2002 to 2005 are shown in Figure 5. It is the

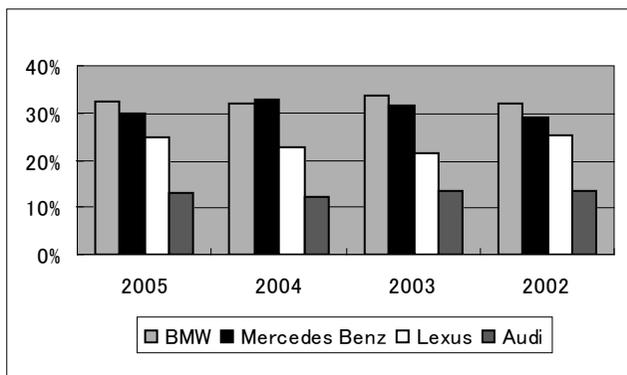


Figure 5. U.S. LUXURY CAR SALES 2002-2005

Data Source: Ward's Motor Vehicle Facts & Figures 2006

third best selling brand after BMW and Mercedes Benz.

### III THEORETICAL FRAMEWORK

The analysis of Lexus Brand as a Premium Brand in this article is based on Competitive Strategy Theory by Michael Porter, Brand Theory by David A. Aaker and Premium Brand by Philipp Rosengarten and Christoph Stuermer.

#### 1. COMPETITIVE STRATEGY THEORY

Michael Porter in his book *Competitive Strategy* established that every firm competing in an industry has a competitive strategy whether explicit or implicit. The competitive strategies for a company to create a good position in the long run are: overall cost leadership, differentiation and focus.<sup>4)</sup>

Implementing any of the generic competitive strategies successfully requires different resources, organizational arrangements, control procedures, inventive systems and different styles of leadership.

Michael Porter stated that if a company does not focus on one of the three strategic base types – differentiation, cost leadership or focus strategy – it is likely that its profitability will be low.

The three generic strategies are alternative, viable approaches to dealing with the prevailing competitive forces. The converse is that if the firm fails to develop its strategy

Table 1. GENERIC STRATEGIES

		STRATEGIC ADVANTAGE	
		Uniqueness Perceived by the Customer	Low Cost Position
<b>STRATEGIC TARGET</b>	Particular Segment	DIFFERENTIATION	OVERALL COST LEADERSHIP
	Industrywide	FOCUS	

Source : *Competitive Strategy*, Michael Porter, 1980, p.39

4) This article is based on *Competitive Strategy* by Michael E. Porter, 1980, pp. 34-46.

in at least one of the three dimensions – a firm that is “stuck in the middle” – is in an extremely poor strategic situation. This firm will subsequently lack market share, capital investment, and resolve to play the low-cost game, while avoiding the industry-wide differentiation necessary to obviate the need for a low-cost position. It may also focus on creating differentiation or a low-cost position in a more limited sphere.<sup>5)</sup>

A competitive advantage exists when a company can deliver the same benefits as competitors but at a lower cost (cost leadership), or delivers better benefits than those of competing products (differentiation).

To achieve a competitive advantage, the firm must perform one or more value creating activities in a way that creates more overall value than do competitors. Superior value is created through lower costs or superior benefits to the consumer (differentiation).

## 2. BRAND EQUITY THEORY

According to David A. Aaker<sup>6)</sup> a brand is a distinguishing name and/or symbol (such as a logo, trademark, or package design) intended to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of its competitors. A brand thus signals to the customer the source of the product, and protects both the customer and the producer from competitors who would attempt to provide products that appear to be identical.

The power of brands, and the difficulty and expense of establishing them, is indicated by what firms are willing to pay for them.

The value of an established brand is in part due to the reality that it is more difficult to build brands today than it was only a few decades ago. First, the cost of advertising and distribution is much higher. Second, the number of brands is proliferating.

Brand Equity is a set of assets such as name awareness, loyal customers, perceived quality, and associations that are linked to the brand and add value to the product. If the brand's name or symbol should change, some or all of the assets or liabilities could be affected and even lost, although some might be shifted to a new name and symbol. The assets and liabilities on which brand equity is based will differ from context to context. However, they can be usefully grouped into five categories:

---

5) Porter Michael E., *Competitive Strategy*, 1980, The Free Press, p.45.

6) This article is based on the theory established by David A. Aaker in his book *Managing Brand Equity*, 1991

1. Brand Loyalty.
2. Name awareness.
3. Perceived quality.
4. Brand associations in addition to perceived quality.
5. Other proprietary brand assets-patents, trademarks, channel relationships etc.

Brand assets will be most valuable if they inhibit or prevent competitors from eroding a customer base and loyalty.

Brand-equity assets generally add or subtract value for customers. They can help them interpret, process, and store huge quantities of information about products and brands. They also can affect customers' confidence in the purchase decision. Potentially more important is the fact that both perceived quality and brand associations can enhance customers' satisfaction with the usage experience.

Brand equity has the potential to add value for the firm by generating marginal cash flow in at least half a dozen ways. First, it can enhance programs to attract new customers or recapture old ones. Second, the last four brand equity dimensions can enhance brand loyalty. The perceived quality, the associations, and the well-known name can provide reasons to buy and can affect usage satisfaction. Third, brand equity will usually allow higher margins by permitting both premium pricing and reduced reliance upon promotions. Fourth, it can provide a platform for growth via brand extensions. Fifth, it can provide leverage in the distribution channel. Finally, brand equity assets provide a competitive advantage that often presents a real barrier to competitors.

Brand equity assets require investment, and there is the possibility they might dissipate over time if they are not maintained.

### **(1) PREMIUM BRAND THEORY**

A premium brand is distinguished as a quality brand with a significant brand equity that may demand a premium price for the perceived quality.

Rosengarten and Stuermer in the book *Premium Power* established three aspects to the success of premium brands. First, the Design-Innovation-Sector matrix (DIS matrix) which defines strong premium brands as those brands which are positioned in the upper area of a segment in terms of technology, image and price. The premium brand DIS matrix specifies

the premium characteristics: Design, Innovation, and Sector.<sup>7)</sup>

Design suggests that a premium brand should have a brand-specific design expected by their customers. The Innovation dimension has to be compatible with the core of a brand and the brand tradition. And, the last dimension, Sector relates to a prominent differentiation capability within an industry. In the automotive industry this factor deals with “Speed” of the vehicles and their individual interpretation.

Secondly, these authors have defined five factors for the success of premium brands:

1. Developing and fostering an innovative and desirable premium brand. In order to develop a premium brand, it is not only important to offer product innovations, but also to communicate these innovations to customers not only through marketing strategies like advertising, public relations, etc but also by sponsorships. In the automotive industry, innovations are normally demonstrated to customers by motor sports victories.
2. Hiring and holding on to the best talent in the industry. The brand founders and the most important people around them are decisive for the success of a premium brand. It is very important to acquire the best people in the industry.
3. Limiting product offering to below demand. The worst that can happen to a premium brand is that demand is satisfied too quickly and then collapses. Therefore, the aim of a premium brand is always to limit the offering to below demand and to increase demand continuously over the years. It is important to synchronize the different product lines in such a way that the fluctuations of the model life cycles balance each other out, thus leading to strong revenue, investment and less profit volatility.
4. Close cooperation with the best suppliers. Only if suppliers feel that they are being treated in a fair way will they work for the customer in the future and offer this customer exclusive premium innovations.
5. Flexible and cost-effective production. The plants of premium car brands are laid out for flexible production in order to be able to produce different models depending on demand. Cost-efficient production means better production capacity utilization.

And third, they established that the process of becoming and remaining a premium brand consists of four foundations:

1. Premium customer orientation: A premium brand can only be successful in the long

---

7) This article is based on Premium Brand Theory written by Rosengarte Phillipp and Stuemmer Christoph, *Premium Power*, 2006, pp.119-167.

run if the brand is continuously setting standards in one of the dimensions which are important to its premium customers.

2. Premium innovations: It has to focus on the improvement of benefit, without deteriorating any of another product characteristic.

3. Premium marketing: It is important that premium marketing is based only on values with positive connotation. It should concentrate on the characteristics of the premium product and take on account the non product dimensions as service, guarantees, distribution network, and brand image.

4. Premium corporate culture: At the beginning phase of a premium brand there is an entrepreneur who creates and finds an innovative corporate culture. As time passes, from successful premium innovations, its own premium corporate culture is formed. With successful premium brands, the corporate culture is so strong that it attracts those employees who identify themselves with the innovative premium corporate culture and act in its interests.

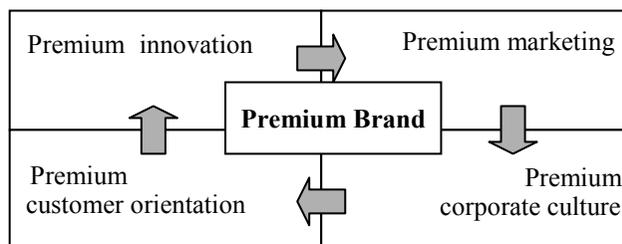


Figure 6. PREMIUM BRAND FOUNDATIONS

Source: *Premium Power, Rosengarten & Stuermer, 2006, page 160*

## IV. LEXUS AS A PREMIUM BRAND

### 1. LEXUS COMPETITIVE STRATEGY

When Lexus was introduced in 1989, according to the abovementioned competitive strategy theory, it used a focus strategy because they presented a unique product (differentiation) produced using a lean production system (cost leadership) in a specific market: the United States.

At the present time, among the three generic competitive strategies established by Michael Porter; Lexus has chosen a differentiation strategy because it is a brand that presents its uniqueness between its competitors and customers choose this product among

the competition because of its incomparable characteristics. According to the article "Lexus: in the Lap of Latent Luxury?" by Miro Pacic editor of *AutomoBear Magazine*; Lexus uniqueness is shown in two aspects: its interior and its customer service.

About the luxurious interior, Miro Pacic states that the Lexus interior shows its refinement and is often described as cushier and warmer than German cars, but firmer and more purposeful than a Cadillac. Since the first LS400, ergonomics have been taken into account and there was a policy adapted for determining the size, shape, and position of controls and displays by how often they were used. The driver can choose between many driving position seat adjustments.

The Lexus vehicles are equipped with a Navigation System that can set the course for a destination quickly and easily, an Automatic Climate Control function that keeps the cabin in a perfect temperature, a Backup Camera that automatically allows the driver to view most objects in the vehicle's path when driving in reverse, DVD-Audio Systems and Bluetooth Technology. With this latter feature, compatible Bluetooth mobile phones are able to interact wirelessly with the Navigation System.

Observing Lexus' customer service, Pacic describes it as "second to absolutely none. The Lexus dealer network, which started just 70-strong in 1990, was established purely for the Lexus division. This, and the consistent, caring attitude common to all the dealerships, has been as important to Lexus' success as its products."<sup>8)</sup>

The focus on improving customer service is especially important because Lexus competes in a market where product innovations provide competitive advantage in shorter time. For example, while it adds new safety features, competitors do not take long to introduce similar product improvements. Therefore, nowadays the most sustainable competitive advantage is continuously giving exceptional customer service.

Lexus' dealerships included amenities such as refreshment bars, business centers with computers and fax machines, some of them also have on-site cafes, boutiques, a children's play area and other recreational services. All these efforts are based on the *Lexus Covenant*, which states that "Lexus will treat each customer as we would a guest in our home."<sup>9)</sup>

Lexus automobile repair shops are characterized of having large windows which allow

---

8) Pacic Miro, "Lexus: in the Lap of Latent Luxury?" *AutomoBear Magazine*, September 23<sup>th</sup> 2004.

9) The Lexus Covenant. Lexus web page ([www.lexus.com/about/corporate/lexus\\_covenant.html](http://www.lexus.com/about/corporate/lexus_covenant.html)) (2008-03-31)

customers to see the service provided to their vehicle. Dealership services often include free coffee and car washes, courtesy rental vehicle and convenience shuttles. At the end of each service appointment, Lexus clients may receive follow-up surveys about the rating of their service experience.

Pacic states that Jonathan Mahler in his book *The Lexus Story* wrote that the service department was “positioned next to the driveway on the side of the building, so technicians could spot customers as they approached. The service people could punch the license plate number into Lexus' central database and have the whole history of the car in front of them before the customer walked through the door - and be able to greet them by name too.”<sup>10)</sup>

Some Lexus dealerships have sent some of their employees to experience the level of service of high-end establishments known for their attentiveness and hospitality, such as Ritz-Carlton hotels, in order to improve customer service.

Lexus has also recently added an additional owners' privilege, the use of exclusive parking lots at major sporting arenas, entertainment events, and shopping malls, reserved only for Lexus vehicles.

Over many years, Lexus has been ranked first in many Customer Service Surveys in the U.S. and in different countries. For example, according to an article published in Britain's *Motortrader Magazine* “Lexus has the best car dealers in the UK. The luxury brand has topped the latest *Auto Express* survey rating the country's best and worst car retailers. It is the fifth year in a row that Lexus has come first after its dealers were commended for their customer service and level of technical knowledge.”<sup>11)</sup>

In the U.S., Lexus offers a 4-year or 50,000-mile (80,000 km) basic warranty, by default. The powertrain warranty has a 6-year or 70,000-mile (110,000 km) coverage plan. Corrosion protection has a 6-year warranty as well. Lexus' Certified Pre-Owned program, features a 161-point inspection of pre-owned vehicles, a 3-year or 100,000-mile (160,000 km) limited warranty, and is now available in multiple countries.

Some additional services that customers can afford are Lexus Pursuits Visa Card launched in 2005 by Lexus Financial Savings Bank (a trade name for Toyota Financial Savings Bank) through Lexus Financial Services (LFS), which is a provider of automotive financial services that offers financing plans and insurance products to Lexus customers and dealers. In addition, there is a quarterly publication that features automotive and

---

10) Pacic Miro, “Lexus: in the Lap of Latent Luxury?” *AutomoBear Magazine*, September 23th 2004.

11) Lexus car dealers are Britain's best, *Motortrader*, April 25th 2007 ([www.motortrader.com](http://www.motortrader.com)) (2008-03-31)

lifestyle articles – Lexus Magazine.

## 2. LEXUS BRAND STRATEGY

In 1986, an image consulting firm was hired to manage the new luxury brand. The team in charge of it developed a list of more than 200 prospective names, among them “Alexis” was chosen, changing later to “Lexus”.

Lexus name has been attributed to the combination of the words "luxury" and "elegance." Also it is considered that when the word 'LEXUS' was created, it was derived from "Luxury EXport to the US". However, according to Toyota the name has no specific meaning and it was chosen because it is easy to remember.

The original Lexus slogan was developed after the image consulting firm representatives visited Lexus designers in Japan and noted their obsessive attention to detail, coining the slogan: "*The Relentless Pursuit of Perfection.*" This was therefore, not only a slogan but also a philosophy of continuous improvement that the company lives by in everything it does. In 2000, it was changed to "*The Passionate Pursuit of Perfection.*"

The final design for the Lexus logo featured a stylized “L” within an oval:



Figure 7. LEXUS LOGO

### (1) LEXUS DIS Matrix

Applying the DIS Matrix established by Rosengarten and Stuermer to Lexus, could be as follows:

Table 2. LEXUS DIS Matrix

Design	Innovation	Sector
Simplicity elegance	Essence of Luxury	Soundless

Concerning the ‘Design’, Lexus employs its design philosophy of "L-finesse" and all Lexus vehicles share the five development concepts that form the "I.D.E.A.L." values: Impressive, Dynamic, Elegant, Advanced, and Lasting.

Lexus established that L-finesse refers to three essential qualities: Intriguing Elegance, Incisive Simplicity, and Seamless Anticipation. In conceptual terms, each L-finesse design is intended to combine elegance with simplicity, while anticipating the needs of the driver and passengers.

“L-finesse stands for ‘Leading edge with finesse’. Yet to Lexus designers, it means even more. They speak of ‘incisive simplicity’ in describing the clean lines devoid of extraneous elements. An ‘intriguing elegance’ sees the coming together of seemingly contrasting design themes; simplicity and complexity, which attract the eye to the sheer artistry of the bodylines. The car’s spirit of hospitality is expressed through a ‘seamless anticipation’ in the way numerous elements welcome the driver into the cabin, in readiness for the journey ahead.”<sup>12)</sup>

The ‘Innovation’ focus at Lexus is in the pursuit of the essence of luxury, because this has been the core principle of the brand.

Toyota reported that “‘The essence of luxury’ means providing the highest-quality products and an unparalleled purchasing and after-sales service experience, as well as superior excitement and comfort when driving in a Lexus vehicle. Lexus is a premium car that is the product of a fusion of typically Japanese characteristics such as “hospitality” with unrivalled technological capabilities that are based on a single-minded dedication to perfection and outstanding manufacturing skills. Today’s Lexus has inherited the pursuit of perfection cultivated in the development of the inaugural Lexus model—the LS 400. The relentless pursuit of perfection of the first-generation LS 400’s development team enabled it to surmount numerous challenges. And, all Lexus models since then have been built with exactly the same tireless, uncompromising effort and commitment.”<sup>13)</sup>

The “Speed” dimension of the DIS matrix is interpreted at Lexus in the form of soundless. According to Chester Dawson, the production of each Lexus vehicle is individually test-driven at high speed, and subjected to vibration tests to ensure a smooth and quiet ride. Additionally, the concern about quietness and smoothness is shown also through the gears in the Electronically Controlled Variable Transmission of the LS 600hL that are micron polished. This is a process that reduces friction, and further lowers noise levels in what is already a whisper quiet car<sup>14)</sup>.

---

12) “L- Finesse, the Art of Lexus design” , Lexus Australia web page ([www.lexus.com.au](http://www.lexus.com.au)) (2008-03-31)

13) “Focus: Lexus brand” , Toyota Motor Corporation, 2005 ([www.toyota.co.jp](http://www.toyota.co.jp)) (2008-03-31)

14) “Lexus innovations” , Lexus Australia web page ([www.lexus.com.au](http://www.lexus.com.au)) (2008-03-31)

## (2) Analysis of LEXUS success factors of Premium Brands

Applying to Lexus some of the factors of premium brands established by Rosengarten and Stuermer could be as follows:

### ①. *Developing and fostering an innovative and desirable premium brand*

Lexus is a technologically advanced automobile in constant innovation that strives for perfection according to its slogan “*The pursuit of perfection*”, which is not only its tagline but also its core brand principle. As such, the Lexus flagship sedan has been upgraded in four successive generations, resulting in the LS 460 being named Car of the Year in 2007.<sup>15)</sup>

In 2005, Lexus introduced the world’s first hybrid luxury SUV, the RX 400h. This vehicle combined gas and electric motors for increased power, improved fuel efficiency, and lower emissions relative to traditional gas-powered equivalents.<sup>16)</sup> Also, Lexus has introduced an advanced obstacle-detection system, emergency-steering assist and rear pre-crash systems.<sup>17)</sup>

Lexus first entered motor sport events in 1999 with two GS 400 race vehicles in the Motorola Cup North American Street Stock Championship. It has participated in many events and won most of the races. For example, after entering the Rolex Sports Car Series in 2004, Lexus has won over 15 Rolex Series event races.<sup>18)</sup> In 2007, in the Rolex 24 Hours of Daytona event Lexus was a repeated winner with a Lexus-Riley prototype driven by Scott Pruett, Juan Pablo Montoya, and Salvador Durán.<sup>19)</sup>

In event partnerships, since 2005, Lexus has been a primary sponsor of the US Open Tennis Grand Slam event, awarding a GS sedan to the men's and women's singles champions.<sup>20)</sup> In January 2007, Lexus became the first exclusive automotive sponsor of the United States Golf Association,<sup>21)</sup>

Also, some ideas generated by Lexus about the automotive future have appeared in

15) Road & Travel magazine, “Past Award Winners” web page ([www.roadandtravel.com](http://www.roadandtravel.com)) (2008-03-31)

16) Armstrong, L (2005), “Lexus RX 400h”, *BusinessWeek*, April 25

17) Automotive Engineering International Magazine Names Lexus LS 460 As 2007 Best Engineered Vehicle, *SAE International*, April 10th, 2007.

18) “Utah: Lexus race report”, *Motorsport.com*, September 2nd 2006 (2008-03-31)

19) Rolex 24 at Daytona: final results, *Associated Press*, January 28<sup>th</sup>, 2007.

20) Scott, A, “Lexus Drives Promos Courtside for US Open”, *Promo Magazine*, August 30<sup>th</sup>, 2006

21) “USGA Signs Corporate Partnership With Lexus” , January 25th, 2007. ([www.usga.org](http://www.usga.org)) (2008-03-31).

a number of films. In 2002, Lexus was requested by Steven Spielberg to design a vehicle which would fit the requirements of year 2054 for his movie *Minority Report*.<sup>22)</sup>

Moreover, Lexus was cited by the New York Times columnist; Thomas Friedman; as an example of the drive for prosperity and development in his book "*The Lexus and the Olive Tree*".

### **②. *Hiring and holding on to the best talents in the industry***

According to Lexus, in the Tahara Plant in Japan, the quality of every LS 460 is closely supervised by an elite team of 10 Master Craftsmen or 'Takumi', a centuries-old tradition of artisans in Japanese manufacturing. Each Takumi possesses a unique skill and meticulously checks 10 criteria, from engine casting and assembly to the body welding so as to maintain Lexus' impeccable standards. Lexus engineers describe their role as 'achieving a synergy that links our technological edge with the years of experience and finely honed senses of our experts, resulting in an advanced sense of motion grounded in linear stability.'<sup>23)</sup>

### **③. *Flexible and cost-effective production***

Many Lexus vehicles are manufactured in Toyota's Tahara plant, a highly sophisticated, computerized manufacturing plant in Japan. Lexus manufacturing techniques include methods and standards of quality control that differ from regular Toyota models.<sup>24)</sup> In 2005, J.D. Power and Associates gave its Platinum award for worldwide plant quality to the Tahara plant, stating that it has the fewest defects of any manufacturing plant in the world.<sup>25)</sup>

The North American-market RX 350 (since the 2004 model year) is produced in the city of Cambridge, in Ontario, Canada, and is the first Lexus plant located outside of Japan. Lexus vehicles are produced at the Araco, Kanji (Iwate), Kanji (Kanto Jidosha), Katashiki, Kyushu, and Tahara plants in Japan.<sup>26)</sup>

---

22) Lexus Concept from "Minority Report", January 14th, 2002. ([www.newcarnet.co.uk](http://www.newcarnet.co.uk)) (2008-03-31)

23) Lexus Australia web page ([www.lexus.com.au](http://www.lexus.com.au)) (2008-01-31)

24) Tierney, Christine, " Robot-filled Tahara sets standard for Toyota", *Detroit News*, February 22nd, 2004

25) Toyota, "GM Garner Most Awards in 2005 Initial Quality Study" , J.D. Power and Associates. May18th, 2005

26) Lexus Manufacturing. ([www.lexus.com](http://www.lexus.com)) (2008-03-31)

## V. CONCLUSION

Lexus as a customer-oriented brand has an excellent reputation for providing premium customer service, which has been demonstrated by this brand being awarded several J. D. Power and Associates' Customer Satisfaction Awards. J. D. Power and Associates evaluates a product utilizing four key criteria: vehicle quality/reliability, vehicle appeal, ownership costs and service satisfaction from a dealer. Premium customer orientation leads to premium innovations, which in fact, sits at the core of the Lexus brand in its "Pursuit of Perfection". Lexus' efforts do not focus on a specific set of characteristics but on all facets of premium brand sedans, from design to service quality, driving pleasure, environmental performance and safety. Lexus innovations are introduced to the market through premium marketing efforts in order to create a well-known and strong brand where its employees comprehend exactly what their customers expect from the brand. It continually lives up to these expectations creating a premium corporate culture.

Even though Rosengarten Phillipp and Stuemmer Christoph in their book "Premium Power" state that "Japanese luxury brands are far from any premium positioning" this paper argues that at best this is an overstatement.<sup>27)</sup> More specifically, they wrote that "Lexus is still a good distance away from being a true innovative or global premium brand, as it has not been sold in the home market of its mother company, in Japan." According to them, this is because a premium brand "...is not just a luxury brand, it shows great strength in its home market."<sup>28)</sup>

Lexus is a dedicated, differentiated and innovative brand and even though it did not start selling its product in the country where it is produced (Japan), it can be considered that the home market of LEXUS is the United States and not Japan. This is chiefly because it is a product especially designed and created for the U.S. market. Therefore, the statement that "a premium brand shows great strength in its home market" also applies to LEXUS and thus emphasizes the fact that it is a premium brand.

Contrary to what Rosengarten and Stuermer have stated, according to Michael

---

27) Rosengarten Phillipp and Stuemmer Christoph, *Premium Power*, 2006, p. 134

28) Rosengarten Phillipp and Stuemmer Christoph, *Premium Power*, 2006, p.6-7

Porter and David Aaker, and applying their theory of premium brands through creating a LEXUS DIS matrix and analyzing some of the success factors of premium brands, it can be concluded that the Japanese brand LEXUS is in fact a premium brand.

#### REFERENCES

- Aaker, David, *Managing Brand Equity*, 1991, The Free Press
- Aaker, David, Joachimsthaler, Erich, *Brand Leadership*, 2000, The Free Press
- Armstrong, L, "Lexus RX 400h", *BusinessWeek Magazine*, April 25 2005
- Dawson , Chester, *Lexus: The Relentless Pursuit of Perfection*, 2004, Jon Wiley & Sons.
- Gerdes, Lindsey, "The Real Reason To Buy A Lexus", *BusinessWeek Magazine*, July 18th 2005
- Lichti, Shirley, "Customer Service - the relentless pursuit of perfection", *The Record*, May 16, 2001
- Pacic Miro, "Lexus: in the Lap of Latent Luxury?", *AutomoBear Magazine*, September 23th 2004.
- Porter, Michael E., *Competitive Strategy*, 1980, The Free Press
- Rosengarten Phillipp and Stuemmer Christoph, *Premium Power*, 2006
- S.C. Gwynne, "Zen and the Art of Automotive Maintenance", *Time Magazine*, September 17<sup>th</sup> 1990.
- Schweinsberg, Christie, "Lexus Kicks Up Service", *Ward's Dealer E-newsletters*, September 1<sup>st</sup>,2005
- Temporal Paul, *Branding in Asia*, 2004, Jon Wiley & Sons.
- Toyota: a History of the First 50 years*, Toyota Motor Corporation, 1988
- Tierney, Christine, "Robot-filled Tahara sets standard for Toyota world" *Detroit News*.
- Vasilash, Gary, "Introducing the '06 IS", *Automotive Design & Production Magazine*, 2006
- "Lexus car dealers are Britain's best", *Motortrader*, April 25th 2007 ([www.motortrader.com](http://www.motortrader.com))
- "Lexus Design Exhibition at Milan Design Week", *WorldCarFans*. ([www.worldcarfans.com](http://www.worldcarfans.com))
- "Lexus L-finesse design philosophy", Lexus Japan Web Page ([www.lexus.jp](http://www.lexus.jp))
- "L-Finesse, the Art of Lexus design", Lexus Australia Web Page ([www.lexus.au](http://www.lexus.au))
- "Focus: Lexus brand", Toyota Motor Corporation, 2005.
- "Utah: Lexus race report", *Motorsport.com*, September 2<sup>nd</sup> 2006.
- "Past Award Winners", *Road & Travel magazine* ([www.roadandtravel.com](http://www.roadandtravel.com))

