



Are you making your customers feel special?

The psychology behind buying premium



Introduction

Why are consumers prepared to pay more – sometimes a great deal more – for particular brands and services? And why do they keep buying from those same brands, over and over again?

Building on Daniel Kahneman's research on human irrationality, this white paper will reveal that premium purchases are less about the product and everything about how we feel while we're buying it.

We will be outlining Kahneman's theory about our two minds, System 1 and System 2, and how they influence our buying decisions. We'll highlight some examples of System 1 in action, before moving on to the unique experience of buying a luxury car.

We'll then define what workshops and OEMs should focus on to recalibrate their customer relationships and encourage loyalty. We believe you should aim to:

- Build a fully customer-centric business model
- Distinguish your offering
- Embrace sustainability initiatives
- Invest in new technology
- Be more flexible

“
We can be blind to the
obvious, and we are also
blind to our blindness”

Daniel Kahneman
Psychologist and economist

1. How we make decisions

Kahneman's quote eloquently expresses the fundamental unreliability of the human mind. His brilliant book, "Thinking, Fast and Slow" demonstrates that we tend to make decisions based on instinct rather than reason. When faced with a difficult question, Kahneman suggests, we answer an easier one, usually without realising.

He goes on to describe the mind in terms of two agents that represent fast and slow thinking respectively: System 1 and System 2.

System 1

Operates quickly and automatically, with hardly any effort and without our conscious awareness.

- Completing the phrase "Chalk and..."
- Noticing aggressive body language
- Seeing how far away objects are
- Laughing at a funny video
- Understanding basic sentences

System 2

Kicks in during more demanding mental activities and is often associated with the subjective experience of agency, choice and concentration.

- Remembering your phone number
- Walking faster than you're used to
- Filling out a tax return
- Counting yellow cars on the motorway
- Searching for friends in a crowded pub

We typically identify with System 2 – the rational, logical thinking that we believe controls our decision-making. Our self-awareness, is somewhat limited, however; as Kahneman demonstrates through numerous examples, it turns out that involuntary, bias-prone and instinct-led System 1 is the real influence.





2. Instinct in action

An awareness of our two minds, System 1 and System 2, gives us valuable insight into why we buy premium products. Even when these luxury items are virtually the same as, or sometimes inferior to, cheaper alternatives.

If we like the actual process of buying something – because it’s more enjoyable, easier, and makes us feel good – we are more likely to make a repeat purchase. The product itself might not be objectively better, but how we feel when buying it ultimately sways us.

Essentially, we’re responding to gut instinct (System 1), even while we convince ourselves we are deciding based on a thoroughly thought-through, rational approach (System 2).

Some examples of premium brands that people instinctively favour include:

 **Apple:** priced considerably higher than its competitors, Apple still manages to dominate the smartphone market in the UK, with just over 50% market share from December 2018 to December 2019. Fans gush over how easy their iPhones are to use, that they get all the latest apps first, and that the customer service is more personal and easier to access than Android’s.

 **Volkswagen:** in September 2015, VW admitted it had installed software on around 11m cars worldwide, designed to dupe regulators testing for emissions. Despite well-publicised criminal proceedings and \$25 billion paid in fines, penalties and compensation, VW achieved record group sales in 2016. It sold 10.3m vehicles, before going on to sell 10.74m vehicles in 2017 – an increase of 4.3%.

 **Absolut:** while it’s not generally considered to be the best vodka on the market, Absolut’s unique bottle and commitment to memorable marketing campaigns has kept sales buoyant. Iconic print ads by the likes of Andy Warhol, as well as collaborations with Deadmau5 and Lizzo helped the brand go from selling 10,000 bottles in 1980 to more than 11m nine-litre cases globally in 2019.

3. The Tesla experience

Buying a premium product is all about the experience. And nowhere is this more apparent than when buying a Tesla. The luxury car manufacturer differentiates itself with a unique customer focus, which has resulted in an army of devoted Tesla fans across the globe.

Indeed, with an overall satisfaction rating of 90%, Tesla has the highest customer loyalty of any car brand: 81% of Tesla customers say they would buy or lease another Tesla for their next car.

Customers love the unique designs, as well as the buying process. And while it hasn't always been plain sailing – in late 2018, there were 80 issues for every 100 cars sold – Tesla's willingness to quickly improve and act on feedback has paid off. So what makes Tesla such a customer experience champion?

Consistent experience: unlike most car manufacturers, Tesla manages everything, from design and production to delivery. This means it can create a consistent customer experience from the get-go.

Brand purpose: Tesla's mission statement is "to accelerate the world's transition to sustainable energy." Customers relish being part of a meaningful movement that aims to reduce our impact on the environment by driving electric.

Responsive: CEO Elon Musk, a prolific Twitter user, often responds directly to customer complaints. In one instance, he introduced an idle fee within six days of acknowledging a complaint about Tesla owners hogging Superchargers when their cars were fully charged.

Empowering: Tesla encourages customers to educate themselves during the online buying process. A far cry from the pushy sales pitch many customers will have experienced when choosing a car in person.

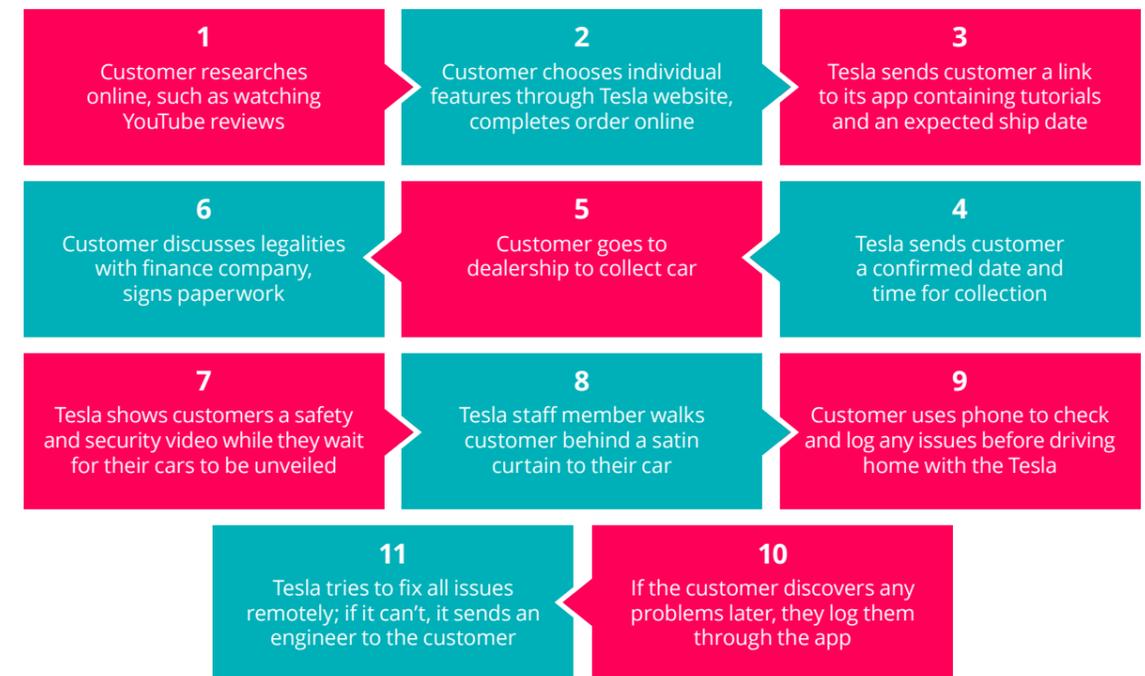
Custom built: once customers are ready to buy, they customise the model to suit their taste and requirements; there's no more "subject to availability." Options include: exterior and interior colours, trim, number of seats, wheel type and self-driving capability.

Tesla hasn't so much improved customer experience, but completely redefined it. Just as Apple redefined the experience of using (and buying) a personal computer.



“ 81% of Tesla customers would buy or lease another Tesla for their next car – the highest level of loyalty in the industry. ”

The Tesla buying process



What Tesla's customers think

"You get the feeling you're not buying a car, but a principle. I was buying into a revolution."

"I did feel this anticipation, this cult-like status. That you're buying into something different."

"You walk in, and it's very Apple: everyone is in jeans and T-shirts. Not like any car dealer I'd ever been to."

"They put subtle hints like, if you don't buy this now, it could get more expensive. So for the first time ever, I was buying a car that might get more valuable."

"Would I buy another car from Tesla? Based on product, I wouldn't. But based on the technology, I would – it's exceptional."

"Would I go back to buying a car the old way? No. Absolutely not."



4. Transforming customer relationships

Tesla, Apple, Absolut and other premium brands excel at meeting unacknowledged needs. They know exactly how to create a winning buying experience, so that customers wouldn't countenance shopping with a competitor.

Clearly, it's worth investing in customer relationships: it increases retention, limits negative feedback and distinguishes a company from its competitors. It can even transform products; by acting quickly on customer comments, OEMs and workshops have the opportunity to learn and improve from any oversights.

Automakers that prioritise customer needs, then, enhance the way they deliver products. Focusing on customers not only improves an offering but also creates more job satisfaction for employees. Seeing the world through the customer's eyes creates a better buying cycle.

We may think we're generally rational, logical beings, but as Kahneman's research has demonstrated, humans tend to be driven by instinct and emotion. As long as we are aware of these tendencies, we can embrace them to build memorable customer experiences.

The challenges across the sector are real. OEMs and workshops are weathering falling profits, rising costs and reduced margins. Changes to regulations, technology and customer expectations mean automakers are often left scrambling to stay current. Failure to keep up simply isn't an option.

When it comes to customer experience, we're reaching a turning point, where convenience, innovation and the feel-good factor becomes the norm. The nascent next phase takes a longer-term view. The automotive sector is becoming divided between those who dive into innovation and put their customers first, and those who rely on the way they've always done things.

OEMs and workshops must embrace every benefit of building solid customer relationships, powered by innovation and sustainability, or risk being left behind as we enter a new, heavily regulated, tech-focused decade.

5. Our top 5 customer pleasing criteria

Ready to adopt the wide-ranging benefits of making your customers feel special? Start with our rundown of the actions you should take to give your automotive business the edge:

- 1.** Build a fully customer-centric business model: with slow and stagnating market growth across premium and mass market cars alike, OEMs and workshops must find new ways to meet customer needs. They will need to move away from one-time transactions and towards a long-term relationship that goes beyond simply servicing cars.
- 2.** Distinguish your offering: automakers that stand out in today's competitive, changeable market offer distinctive products and services that consistently make customers feel good while they buy them.
- 3.** Embrace sustainability initiatives: governments across the world are introducing stricter emissions standards. This creates a golden opportunity for OEMs and workshops to distinguish themselves through EV expertise and more charging stations for customers.
- 4.** Invest in new technology: customers expect more digital services, including maintenance alerts and aftersales offerings, as well as advice and recommendations. To produce customer behaviour insights and develop these profitable new services, OEMs will need to work with experienced technology partners.
- 5.** Be more flexible: customers are no longer content to accept a standard 9-5 service. Convenience is everything, so automakers should consider a more flexible approach to access and delivery that fits better with the busy lives of customers.

Harnessing the potential of a customer-focused approach is an exciting and rewarding move that is nonetheless new territory for many automotive businesses. As you face questions and challenges, a knowledgeable, experienced and trusted partner can work with you to find the answers and set the wheels in motion.

For more information, or to speak to us directly, visit



About Autino

Since 2003, consumers and businesses across the automotive spectrum have turned to Autino for software development and advice. As a consultancy and cloud-based solutions specialist, we empower OEMs, franchised dealerships and indie workshops to create world-class customer interactions.

We advise and build tailored solutions, working closely with our clients to help them outshine the competition and transform the way they do business. Headquartered in Reading, UK, we are a passionate team of 80 who combined have 600 years' of software and 250 years of automotive experience, and counting.



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