

AUTOMOTIVE

## Will luxury auto growth stall out?

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British automaker Rolls-Royce set a new sales record in the first quarter of 2021. Image credit: Rolls-Royce Motor Cars

By KATIE TAMOLA

While luxury auto sales are booming, supply chain and inventory issues could hit the brakes on growth.

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Brands including Lamborghini, Rolls-Royce, Mercedes-Benz and Audi have recorded strong sales growth since the COVID-19 pandemic stalled production. Despite this momentum, luxury automakers cannot avoid the challenges facing the entire industry is facing, including supply chain delays, shortages and other unpredictable events effecting production.

"Luxury automotive brands are subject to the same issues as other brands and may even be at greater risk because they tend to have more advanced-driver automation systems and infotainment content than other brands," said Dan Hirsch, a managing director in the automotive and industrial practice at consulting firm [AlixPartners](#) LLP, Detroit. "It is true that their risk is mitigated somewhat because they have lower volumes, but that also could change in a hurry if this disruption isn't brought under control.

"Luxury brands are not necessarily immune," he said. "They should be concerned as well."

Growth, shortage and the unpredictable beyond

Right now, luxury automakers seem to be living in two different facets of reality: many brands are seeing their sales surging, but supply shortages and other factors are prominently in the periphery.

Several premium and luxury automakers are seeing record sales, fueled by strong demand in key markets such as the United States and more interest in electric vehicles.



*The 2020 Q7 SUV from Audi. Image courtesy of Audi*

German automaker Audi experienced a strong second half of 2020, propelling its sales revenues to more than 49.9 billion euro, or about \$59.5 billion at current exchange, for the 2020 fiscal year. Audi saw a record 505,583 deliveries in Q4 2020, up from 488,471 in Q4 2019 ([see story](#)).

German automaker Mercedes-Benz saw double-digit growth in Q1 2021, selling almost 590,999 passenger vehicles due to sales in China and the U.S., as well as a strong demand for hybrid and electric vehicles ([see story](#)).

British automaker Rolls-Royce experienced a record-breaking first quarter of 2021, delivering more vehicles than any quarter in its history ([see story](#)).

Italian automaker Lamborghini saw record sales in the first quarter of 2021, with positive growth in the United States, China and Germany. Lamborghini delivered 2,422 sports cars from January to March 2021, up 22 percent from the previous first quarter record in 2019 ([see story](#)).



*The Urus SUV is the most popular model from Lamborghini. Image credit: Lamborghini*

While demand for luxury vehicles among affluent and high-net-worth individuals remains strong, the pace of production may be unsustainable for automakers due to several factors.

During the COVID-19 pandemic, consumers living in lockdown began to heavily rely on at-home entertainment in the form of video game consoles and other technology offerings, ultimately causing a huge increase in the demand for chips from the consumer electronics industry.

Now that automakers are once again finding their footing post-pandemic, they too need chips for certain vehicle offerings. Unfortunately, the demand for chips is seemingly exceeding the supply.

According to [CNBC](#), AlixPartners's new analysis of the current state of the auto industry predicts that the auto industry could suffer a \$110 billion loss to revenues this year due to the ongoing shortage of semiconductor chips. This is a significant increase from the firm's previous January estimate of \$60 billion.

Luxury automakers must be cognizant of the ways they can combat production challenges, according to Mr. Hearsch.

"Automakers can take a number of actions to mitigate the crisis," Mr. Hearsch said. "They include engineering changes to take advantage of the components that are available, creating relationships with chip foundries and chip makers they did not previously have, searching for short-term alternative sources of supply, agreeing to longer

ordering times and firmer order commitments, preferring high-margin vehicles over lower-margin ones, slowing down production-line speeds, and partially finishing vehicles and holding them until parts arrive to complete them."

Automakers are going to have to be adaptive and innovative in how they respond to supply shortages.

"The chip shortage has forced automakers around the world to get creative with how they work around the shortage," said David Undercoffler, editor in chief at [Autolist.com](https://www.autolist.com), San Francisco. "Initially, brands shifted production to focus on their highest-margin vehicles in an effort to minimize the financial impact.

"They've also worked closely with their suppliers to fine-tune exactly what types of chips they're getting, and automakers are standardizing the chips they need across different vehicles rather than relying on vehicle-specific semiconductors," he said. "Now that the shortage has worsened, you see automakers going to great lengths to cut out specific features on specific models that increase the brands' dependency on chips."

#### Keeping the wheels turning

Amid shortage concerns, many brands have committed to staying optimistic. Brands are looking to implement techniques that allow them to keep producing so that their sales can ultimately keep growing.

It appears the effects of chip and additional supply shortages are inevitable, however. Some challenges cannot be avoided, and brands will have to acknowledge and adapt.

"No one will be spared from the impact of this chip shortage," Autolist's Mr. Undercoffler said. "Not only is consumer demand and confidence increasing as COVID-19 cases drop nationwide, but the chip shortage has now hit every major global automaker, luxury brand or not.

"Brands like Mercedes-Benz and Volkswagen parent of Audi, Bentley and Porsche have paused assembly lines and cut profit and production forecasts," he said. "BMW has fared better than most but even it has had to pause some of its Mini vehicle lines."