1. Introduction

The strategy that slashes prices and competes on volume is one of the effective competitive strategies. However, companies in Japan particularly where the cost of the employment and the basic structure of industry are set high cannot survive in global price competition; they have no choice but to build a strategy to sell higher. In Japan, 80% of consumers are aware that they are willing to pay more for their favourite and loyalty products (Ministry of Economy, Trade and Industry 2008), thus there is a huge possibility to sell higher. In fact, luxurious automobile brand Lexus is in a good sales condition in Japan and other areas. In this paper, the implementation of premium product marketing is discussed based on the case study of Lexus.

2. Literature review

Problems in brand strategy

Branding is very popular as an effective competitive strategy. It is true that a strong brand enables to sell in high price and continue to sell to loyal customers. Though there have been many researches as regards brand, the way of building strong brand is still not clear at present. The definition of brand by AMA (American Marketing Association) is “A name, term, design, symbol, or any other feature that identifies one seller’s good or service as distinct from those of other sellers” (Bennett 1995, p.27). That is to say, brand depends on each consumer’s consciousness; thus it is difficult to definite or systematize the way to build strong brand.

What is premium product marketing?

In Japan, “Premium” is often used as modifying words such as “Premium car”, “Premium ice cream”, “Premium beer”, “Premium seat” etc. Its implication is high-end. There have not been many studies previously done regarding premium products or marketing in the world. In Japan, Endo (2007), Tanaka (2007, pp,2-9) and Ministry of Economy, Trade and Industry (2007) researched about premium products; they insist that emotional values are very important in premium products, thus manufacturers should provide consumers with those values in addition to functional values. However, this opinion coincides with what Aaker (1996) et al. has insisted regarding brand. Thus, the analysis of premium has the same problem as that of brand, that is, the ways to develop premium products are not clearly articulated. In this paper, to create premium product values, functional values should be more focused. Regarding the consumer survey; “What is the important element to select goods?”, many consumers answered the quality and function (Ministry of Economy, Trade and Industry 2008). On the other hand, few consumers picked the originality of concept and the name of the company that are related emotional values. In addition, marketing focused on functional values might be more practically systematized than that of emotional values.
**Sustention of the premium product value**

Once the premium products succeed in market, as is often the case, these products are caught in low price competition as time goes by. In this case, relationship marketing is important to avoid becoming a victim of low price competition. AMA has defined relationship marketing as “marketing with the conscious aim to develop and manage long-term and/or trusting relationships with customers, distributors, suppliers, or other parties in the marketing environment” (Bennett 1995, p. 242). The first use of the term “relationship marketing” occurred in 1983, when Leonard L. Berry used it at an AMA conference (Payne 2000). Berry (1983) insisted that marketing should focus on firming relationships with consumers, transforming indifferent consumers into loyal customers, and treating consumers as preferred customers. In the 1980s, the service and industrial-goods trading industries began focusing on relationship marketing (Håkansson and Snehota 2000) (Grönroos 2000). The consumer goods trading industry began to develop relationship marketing strategies in the 1990s. Pine et al. (1995) proposed one-to-one marketing. The one-to-one marketing style emphasizes the importance of collecting data on the needs and tastes of each consumer, using interactive communication, information technology, and efficiently providing customised products and services with flexible, IT-based production systems.

Manufacturers of consumer goods have recently tried to build long-term relationships with consumers in Japan. However, few manufacturers have succeeded in building long-term relationships or greatly increasing profit using this approach. Although there are various reasons to fail to build in the first place, many companies cannot even collect customers’ information including their needs.

3. Research objective

It is undeniable that companies in advanced countries such as Japan cannot beat competitors in developing countries such as China and India in price competition. It is not clear how to strategically implement branding strategy, popular and effective strategy to sell higher. Regarding the sustention of competitive advantages, relationship marketing has been focused. However, since relationship marketing has mainly discussed within service or/and BtoB areas, the implementation of relationship marketing in a consumer product’s area still has many difficult problems. This paper clarifies and systematized, through the case of Lexus in Japan, the manageable factors in premium product marketing, which develops and launches competitive products with high functional value in the market. It also discusses sustention of values of the premium products as a way to avoid continuing low price competition.

4. Research methodology

This research focuses on creation of functional values as a means to find manageable factors, which is for creating premium products, through the case of Lexus. Not only its marketing but
also its development, production and organizational structure are analyzed. Data and Toyota employees’ comments were collected from various journals, business magazines and websites. Also, the interview with the general manager of the Lexus dealer was implemented in 13:30-15:30, March 18th 2011 with regard to the case of Lexus in Japan.

5. The case of Lexus

What is Lexus?

Lexus is the series of premium automobiles manufactured by Toyota Motor Corporation, a Japanese automobile manufacturer. The company started Lexus in the U.S. in 1989. Since then, Lexus has been one of the top sales brands in the U.S. premium automobile market. Then, later in 2005, Lexus has begun its sale in Japan (Toyota Motor Corporation 2005d).

In Japanese market, six automobile models are introduced as of the end of 2012. The range of price starts from £25 thousands to £111 thousands. A sports model “LFA”, which was produced only 500 in the world market, was £268 thousands. Despite its high price, its order due date was moved up by two months because of the avalanche of the purchase orders.

In 2011, sales of BMW were 36 thousands and Mercedes Benz were 36 thousands, then Lexus were 42 thousands in Japan. This means that Lexus has achieved a great business performance in only seven years. Also, in 2011, Lexus was top in CS ranking of both sales (J.D. Power Asia Pacific 2012a) and services (J.D. Power Asia Pacific 2012b) in Japanese automobile market.

The birth of Lexus

The development project of Lexus was initiated by the order of the chairman at that time. The chairman of Toyota, Eiji Toyoda said “Develop the world-highest quality car that is much higher than Mercedes Benz or BMW.” (Toyo Keizai 2005). He, as a matter of fact, allowed unlimited inputs for the project.

Senior executive director of Toyota responded, “It should not be a problem at all. Just set the objective numerical goals and achieve these goals.” to the question “Can Toyota Motor Corporation whose main products have been popular cars really develop a luxurious car?”.

Many companies generally think that luxurious cars need high emotional value, thus they tend to spend lots on advertisements to build strong brand image including their history and tradition etc.. However, and first of all, Toyota Motor Corporation focused on functional values such as quality, and cleared these severe objective numerical goals.

Lexus centre

Lexus centre which assumed the role of product development of Lexus cars was separated from the main body of Toyota Motor Corporation, because Lexus brand is clearly distinguished from Toyota brand. Lexus centre is also financially independent from Toyota.
main body (NEC Wisdom 2008). Lexus brand manager commented “Though to separate Lexus from Toyota main body is no good in business efficiency, we understand as a manufacturer this decision is necessary to develop not popular cars but great luxurious cars.” (Toyo Keizai 2005). In Lexus centre, there are over a thousand experts who were collected from all over Toyota main body. In Toyota Motor Corporation, the spaces are normally separated by each functional division such as body and engine division. On the other hand, in Lexus centre, a system of big one-room is utilized like Honda Motor Corporation. This work environment generates active and friendly atmosphere.

Lexus product philosophy
Based on Lexus brief “The essence of luxurious will be pursued forever.”, L-finess - Design Philosophy and I.D.E.A.L - Development Consciousness are emphasized as follows;

**L-finess**: Design Philosophy
L-finess is design philosophy and a coined term consisting of “Leading-Edge” and “Finesse”. Emphasized ideas are “Incisive Simplicity, Intriguing Elegance and Seamless Anticipation” (Toyota Motor Corporation 2005a).

**I.D.E.A.L**: Development Consciousness

Lexus production management
In factory, every production system is implemented to attain the highest luxurious quality. “LPEACE” (LEXUS Production Engineering Advancement & Craftsmanship Evolution) is Lexus production philosophy based on L-finess and I.D.E.A.L (Nakamura et al. 2007). In “LPEACE”, production by data and sharpening experts’ craftsmanship are emphasized. Also all factory workers are trained to conceive the philosophy of Lexus through Lexus mind education system.

Lexus marketing
Lexus focused on the highest luxurious sales and service, and emphasized a staff, store and hospitality to achieve those as follows (Toyota Motor Corporation 2005c);

**Store**
Lexus opened 143 stores in Japan at the same time. All of the store interior and exterior follow gorgeous uniform design. The construction cost of each Lexus store is more than £5 million that is three times more than normal Toyota store. The number of staff including sales and mechanics is around 20 in each store. Selling 300 cars a year reaches break-even (Nikkei
Sales
Lexus established its only service training-use facility. Lexus staff can learn Lexus brand and Japanese traditional way of service. This facility is nearby Toyota race circuit; they can drive not only Lexus but also Mercedes Benz and BMW at the speed of 160 km/h (Toyota Motor Corporation 2005b). In this way, they deeply understand Lexus quality and carry conviction in sales. Regarding a style of sales, the general manager of the Lexus dealer said, “Though door-to-door sales are popular in Japanese car market, this way of sales are prohibited in Lexus”. Door-to-door sales is a good way for popular cars, however the style might decrease the image of Lexus. Lexus also prepares a gift that suit a favour of the new car owner, when a purchased car is delivered to the owner.

G-Link
G-Link is the Lexus telematics system and links to the 24-hour Lexus Owner's Desk hotline. By G-Link, users can receive various services: reservation of hotel and restaurant and airplane ticket, support in car trouble or acute disease etc. (Toyota Motor Corporation 2009). These services also make it possible to collect each owner’s needs and build a strong relationship with the owner.

Advertisement
Lexus invest a great deal of money for promotion such as TVCM, advertisement on newspaper, magazine, and Internet. However, the general manager of the Lexus dealer commented that the most effective media was WOM (Word of Mouth). Lexus highly focus on existing customers and try to maximize their CS (Customer Satisfaction). This leads to new customers who are introduced by these existing customers.

6. Conclusions
It is generally assumed that premium products consist of excellent materials, gorgeous package and advertisement etc. in order to provide consumers with emotional value, however, these are just superficial factors. The case of Lexus shows that it is important in creation of premium to have; strong top-down leadership, organization reforms, abundant investments including money and time, thoroughgoing development and production, also marketing including staff training.

To sustain the values of the premium product, G-Link, Lexus telematics system, is useful to collect consumer needs while providing services. These collected data can be utilized to provide more customized service for future. Also, focusing on existed customers to maximize their CS and generating good WOM is effective royal road to build long term relationship with customers, instead of mass advertisement.

The creation and sustention of premium are not mere product development but company-wide business development.
References


