

The Organization And Strategy Of Mercedes-Benz Group AG

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Abstract

The Mercedes-Benz Group AG As Legal Successor Of Daimler AG Is A Well-Known Company Around The Globe. Almost Everybody Knows The Name Of Their Brand Mercedes-Benz And Assumes It With The Logo.

In The Last Few Years, The Management Of Mercedes-Benz Group AG Made Several Decisions Regarding The Structure And The Organization Of The Company. The Aim Of These Decisions Was To Prepare The Company For Future Challenges Due To Technological Innovation In An Fast Developing Environment. Regarding These Decisions And Changes On The Organizational Structure And Strategy Of The Company, Mercedes-Benz Group AG Is A Good Example To Present Key Decisions And Organizational Changes To Develop An Organization, So That It Can Achieve Its Objectives In An Uncertain And Volatile World.

Key Words: Mercedes; Daimler; Strategy; SWOT

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I. Introduction

The objective of this work is to introduce the company and to give an overview about the current situation, key decisions and future challenges the company is faced with.

II. Mercedes-Benz Group AG

The company is looking back on a long history with several challenges and changes on the organization. In 1886, one of the founders, Carl Benz, applied for a patent for a “vehicle powered by a gas engine” (Mercedes-Benz Group AG, 2022). This may be seen as the first automobile worldwide. At the same time, the other founder, Gottlieb Daimler also invented an engine for a vehicle (Mercedes-Benz Group AG, 2022).

In the following years, both founders sold their cars in own companies. Gottlieb Daimler also sold his engine for aviation (Mercedes-Benz Group AG, 2022). During the first World War, production of both companies was focused on the needs of a war economy and the troops at the front (Mercedes-Benz Group AG, 2022). After the end of the war, the companies tried to re-increase their business.

In 1926 both companies merged to form Daimler-Benz AG (Mercedes-Benz Group AG, 2022). Before and during the second world war, the production of Daimler-Benz AG was focused on military requirements. The main focus was on aviation and trucks for military awareness (Mercedes-Benz Group AG, 2022).

After the end of the war Daimler-Benz AG was a huge part of the economic miracle of Germany with gaining its old position back and breaking the sales record with a turnover of more than 1 billion euros in 1954 (Mercedes-Benz Group AG, 2022). In the following decades the company retained its outstanding position in the automotive industry with continuous growth of sales and production (Mercedes-Benz Group AG, 2022).

As a result of the oil crisis in the 1970s, earnings in the automotive industry were down. To counter this trend, various companies were acquired to offset the volatility of the automotive industry through the electronics, aerospace and services business areas, as well as to gain access to key technologies. Daimler-Benz AG thus became an integrated technology group (Mercedes-Benz Group AG, 2022).

However, the earnings of the newly developed business areas were not satisfactory, which is why they were disposed again in the 1990s. In view of the ongoing globalization, Daimler-Benz AG merged with Chrysler Corporation to form DaimlerChrysler AG in 1998. The aim of this merger was to become the largest automotive group in the world. The merger didn't bring the expected increase of profits. In 2007 the company was named in Daimler AG and in 2009 it sold its stock of Chrysler Corporation (Mercedes-Benz Group AG, 2022).

Due to the upcoming challenges regarding new engines and changes in mobility behavior, in 2021 the board of management of Daimler AG decided to spin-off the truck division in an own company. This decision will be explained in detail in the fifth chapter of this work.

Today, Mercedes-Benz Group AG is operating in the branch of luxury cars and vans. Regarding the number of sold cars Mercedes-Benz Group was the 9th largest automotive company of the world and the largest company of the world in the field of luxury cars and vans (Statista GmbH, 2022).

The company's vision is to strive to be the best. This applies both to the development of advanced technologies, the production of high-quality vehicles and the provision of intelligent mobility solutions. This claim to excellence applies both within the company and to customers and business partners. In addition, Mercedes-Benz Group AG wants to live up to its social responsibility regarding socially acceptable working conditions and resource- and environmental-friendly vehicles and services.

The company is divided into the business units Mercedes-Benz AG and Mercedes-Benz Mobility AG. Mercedes-Benz AG is responsible for the global business of Mercedes-Benz as a supplier of luxury vehicles and premium vans. In addition, the company is active in research and development in the areas of connectivity, automated driving and alternative drive systems. (Mercedes-Benz Group AG, 2022).

Mercedes-Benz Mobility AG offers customers innovative financial and mobility solutions. The portfolio ranges from vehicle leasing and financing, insurance, rental and subscription offers, as well as charging and services related to charging and payment (Mercedes-Benz Mobility AG, 2022).

In fiscal year 2021, Mercedes-Benz Group AG achieved strong results despite the Covid pandemic and bottlenecks in the supply of semiconductors essential for vehicle production. Sales revenue amounted to €167.9 billion, an increase of €13.6 billion compared with 2020. In addition, earnings before interest and taxes (EBIT) increased by €22.4 billion to €29 billion (Mercedes-Benz Group AG, 2022).

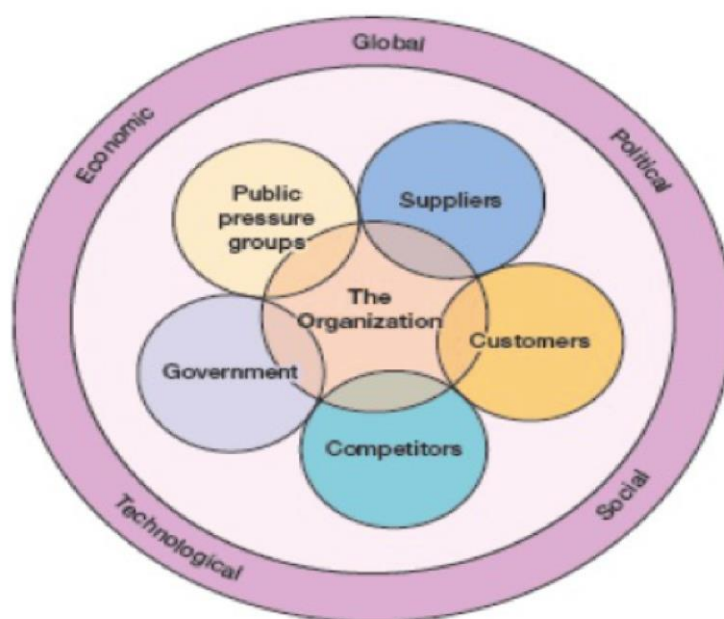
The year 2022 is also going very well for Mercedes-Benz Group AG so far. In the first three quarters of the year, sales revenues of €109 billion were generated, which corresponds to an increase of approximately €10 billion compared to the previous year.

EBIT after the first three quarters amounted to €15 billion, which is more than €3 billion higher than in the same period of the previous year (Mercedes-Benz Group AG, 2022).

The drivers for these very good results were consistently high demand and strong cost discipline. In particular, sales of electric vehicles increased significantly compared to the previous year. (Mercedes-Benz Group AG, 2022)

III. SWOT-Analysis

In the context of external analysis to determine the opportunities and risks of a company, it is suitable to distinguish the environment into the general environment, which is the same for all companies in all industries, and the specific environment, which is specific to this industry.



Picture 1: The external environment of an organization (Pearson Education Ltd., 2021)

Mercedes-Benz Group AG is a global player in the automotive industry. This industry is heavily dependent on economic developments, which are affected by the Covid pandemic as well as by geopolitical and trade policy developments such as the Russia-Ukraine conflict or the trade tensions between the two major sales markets of importance to Mercedes-Benz, the United States of America and China (Statista GmbH, 2022). For this reason, both the opportunities as well as the market risks, depending on the development of global economic growth and geopolitical and trade policy developments, are to be regarded as high. Persistently high inflation and rising energy prices also pose a risk, as they can influence consumer behavior on the one hand and on the other hand, they could increase production costs and reduce profitability as a result.

In addition, the automotive industry is heavily dependent on political decisions relating to the banning or promotion of certain types of engines and the setting of CO₂ emission limits.

Another risk is the uncertain future development with regard to technological innovations in alternative drives, but also in driving assistance systems or software solutions for vehicle efficiency control. This also represents both a high risk and a high opportunity.

The further development of suppliers could also have a negative impact on the extreme scarcity of raw materials required for vehicle production and the stability of the general supply chains. Supplier dependencies are generally very high in the automotive sector due to the complexity and versatility of the parts to be assembled.

It can also be said that the social acceptance of new drive technologies and the further development of changing mobility behavior and environmental awareness are very difficult to predict and also conceal both high opportunities and risks. In addition, new competitors are entering the market as a result of the new technological possibilities opening up in terms of powertrains and driver assistance systems, further increasing the already high intensity of competition. In particular, in the Chinese market, which is important for Mercedes-Benz, the company lost market share in 2022, as did all its German competitors. This is mainly caused by the increasing competition in this new market segment from companies such as Tesla or the Chinese manufacturers BYD or Nio (Hubik, 2022).

In summary, Mercedes-Benz Group AG, as part of the automotive sector, finds itself in a very volatile and fast-moving environment which offers high opportunities on the one hand, but also high risks on the other. The entire industry is subject to very high volatility. The internal analysis looks at the strengths and weaknesses of the respective company in order to be able to exploit or manage the opportunities and risks arising from the external environment (Hungenberg/Wulf, 2015, page 166).

The business system of the Mercedes-Benz Group AG consists of research and development, production, marketing and sales, and services.

In view of the current technological transformation of the automotive industry, research and development is particularly important. These can be identified as activities critical to success (cf. *ibid.*: page 208). Among other things, this is the focus of Mercedes-Benz Group AG, which is concentrating in this regard on the research and development of new drive options as well as driving assistance systems and software solutions for intelligent efficiency control (Mercedes-Benz Group AG, 2022, page 32 ff.).

One strength in this regard can be seen in the know-how of the employees, which has given Mercedes-Benz Group AG an innovative edge in the area of autonomous driving, among other things, with the world's first Level 3 approval for road traffic. In addition, the all-electric "Vision Cars" achieve very high ranges in their tests with just one battery charge (see Mercedes-Benz Group homepage). Another strength of Mercedes-Benz Group AG is the extremely strong image of the Mercedes-Benz brand, which can be leveraged across the company's entire product portfolio. Mercedes-Benz is also focusing on the development of its own battery network in order to become more independent of suppliers.

One weakness can be seen in the very cost-intensive production, in particular of new electric vehicles due to the still low volumes. This leads to lower profitability. In addition, scandals such as the diesel affair or the failure to meet environmental targets in countries such as the USA and China have led to a weakening of public perception.

IV. Current strategy

A separate business unit strategy has been developed for the divisions Mercedes-Benz Cars, Mercedes-Benz Vans and Mercedes-Benz Mobility (Mercedes-Benz Group AG, 2022, page 30 ff.). In the following, the strategy design at the business unit of Mercedes-Benz Cars will be examined.

The automotive market is characterized by a high number of suppliers. Within the framework of the changing technological diversity in terms of an intelligent mobility, additional companies are also entering the market (Astheimer, 2021). Mercedes-Benz Cars is facing a large number of competitors.

The goal of Mercedes-Benz Cars is to build the most desirable cars in the world (Mercedes-Benz Group AG, 2022, page 30). As a manufacturer of luxury vehicles, Mercedes-Benz Cars accordingly pursues a differentiation strategy. The goal of a differentiation strategy is to offer its customers a performance edge over the competition, as a result of which customers are willing to pay a higher price (Porter, 2013, page 77). The

differentiation can be achieved in particular through the aspects of quality, time, brand and customer relations (Porter, 2013, page 77).

With regard to quality, it can be said that the vehicles from Mercedes-Benz Cars have always been of high quality. However, no clear differentiation from the competition is possible here, as competitors such as Audi, BMW or Tesla, for example, also offer vehicles with comparable performance in product-specific features such as engine power or acceleration capability. Time is differentiated into the speed and innovation advantage. With regard to speed, no speed advantages can be identified over the competition in terms of order processing or other services.

However, Mercedes-Benz Cars has an innovation advantage in the area of autonomous driving. In 2021, Mercedes-Benz became the first manufacturer worldwide to receive Level 3 approval for autonomous driving (Mercedes-Benz Group AG, 2022, page 33). This technology is currently only available in certain Mercedes-Benz Cars models and can consequently only be tested and further developed by Mercedes-Benz Cars in road traffic. This innovation advantage automatically differentiates the company from the competitors.

Another important aspect of the differentiation strategy is the brand. However, this can only be evaluated subjectively and is expressed as a reduction in quality uncertainty or as an emotional experience for the customer (Hungenberg/Wulf, 2015, page 139). The Mercedes-Benz brand is considered to be the most valuable luxury automobile brand in the world (Mercedes-Benz Group AG, 2022). This has been established through the long and successful tradition of the company and customers associate an emotional experience with the cars with the star. At the same time, this very high brand image leads to a reduction in quality uncertainty, as customers have confidence in the quality of Mercedes-Benz Cars vehicles.

The last aspect of differentiation to be considered is the special customer relationship. Although Mercedes-Benz Cars is attempting to intensify customer loyalty as part of its strategy and thus exert a positive influence on the financial development of the company through recurring sales, no advantage over the competition is apparent here (Mercedes-Benz Group AG, 2022, page 32).

Accordingly, the competitive advantages of Mercedes-Benz Cars lie in the image of the Mercedes-Benz brand and the innovation advantage in the field of autonomous driving. These competitive advantages set Mercedes-Benz Cars apart from the competition and generate a willingness among customers to pay a higher price.

The Mercedes-Benz Vans business unit is also pursuing a differentiation strategy. Its goal is to “exceed customers’ expectations with the most desirable vans and services” (Mercedes-Benz Group AG, 2022, page 34). An analysis of the Mercedes-Benz Vans strategy is not included, as the Vans product category is very similar to the Cars product category and the same points and arguments can be made here.

The third business unit, Mercedes-Benz Mobility, is also pursuing a differentiation strategy with the aim of becoming the number one provider of financing and mobility solutions for customers. By establishing an all-in-one provider of mobility solutions within the Group, the aim is to strengthen customer loyalty to the company and at the same time increase profitability (Mercedes-Benz Group AG, 2022, page 37).

V. Leadership and key decisions

The Board of Management of Mercedes-Benz Group AG counts eight managers. The current chairman of the Board of Management is Ola Källenius. Born in Sweden in 1969, he studied at the Stockholm School of Economics and at the University of St. Gallen (Mercedes-Benz Group AG, 2022). He joined the former Daimler-Benz AG as trainee in 1993 and had several previous positions in the company. He was part of the Board of Management of former Daimler AG since 2015 and became the chairman in 2019. He is also chairman of the Board of Management of Mercedes-Benz AG.

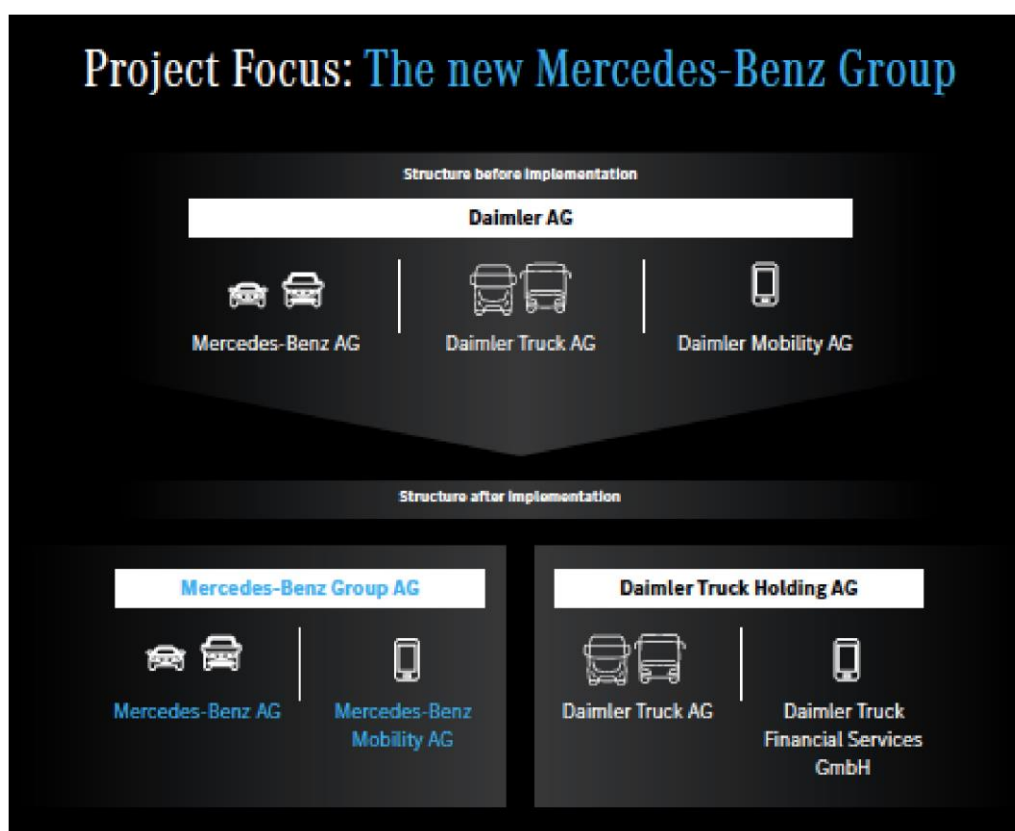
The management of Mercedes-Benz Group AG faces various challenges. Due to the fast pace of the automotive sector by regarding new competitors, new legal regulations, or technological innovations such as new drive options or software solutions for intelligent and efficient mobility, the organizational form of Mercedes-Benz Group AG requires a high degree of flexibility to respond to corresponding changes in the environment. In addition, it is also necessary to respond promptly to the currently very uncertain developments in the geopolitical and trade policy environment.

Furthermore, the mobility behavior and environmental awareness of potential customers has changed significantly in recent years and regarding this, further developments cannot be foreseen. For this reason, a high degree of market orientation is also required of the respective business area in order to be able to constantly adapt to changing customer needs.

In order to be able to make the high investments in future technologies such as alternative drive options, intelligent mobility and the CO₂-neutral restructuring of the company, it is necessary to increase efficiency so that falling costs increase the profitability of the company and create scope for investment.

In addition, the technological transformation of the automotive sector is also changing the way employees produce and work, and the number of employees required will decrease (Tatje, 2022). Therefore, the aspect of employee qualification and motivation also plays an important role in the choice of organizational form.

The management of Mercedes-Benz Group AG is attempting to meet these requirements by restructuring within the framework of the "Project Focus" and the associated spin-off of the commercial vehicles division as well as the reorganization of Mercedes-Benz Group AG.



Picture 2: Project Focus of Mercedes-Benz Group AG (Mercedes-Benz Group AG, 2022, page 28)

As part of the strategy design, the production and sales of commercial vehicles and the associated services were transferred in December 2021 to Daimler Truck AG, in which Mercedes-Benz Group AG holds a minority interest of 35% (Mercedes-Benz Group AG, 2022).

By focusing each division on their own products, greater flexibility is ensured in response to changing conditions than would be the case with a functional organization. In addition, the individual divisions can thus respond more easily to changing customer behavior in the respective target group. The specialization of employees in one product area also generates efficiency advantages, which lead to lower costs and higher profitability for the company.

In addition, the employees of the respective division can thus be more specifically qualified to meet the future requirements of the respective product group.

Another key decision to overcome the challenges mentioned above, is the decision of the Board of Management to convert the production of the vehicle fleet completely to electromobility by 2030 and to make the entire fleet production CO2 neutral by 2039.

As a result of the Russia-Ukraine conflict, prices in the European Union in general, but especially prices for energy such as electricity and gas, increased significantly (Statista GmbH, 2022). The management of Mercedes-Benz Group AG sees a savings potential of 50% for gas as an energy source at the German location. In order to save additional energy costs, the management is planning the construction of a wind farm which can cover up to 15% of the electricity requirements of Mercedes-Benz Group AG. This is another management decision that will prepare the company for the future and will have a positive effect on both the company's carbon footprint and financial results by saving energy (Gillmann/Sigmund, 2022).

The latest major decision was communicated by Mercedes-Benz management in December 2022, with key plants in Germany, Romania and China set to produce engines and batteries for electric vehicles from 2024, including the plant at the company's headquarters in Stuttgart. This is intended to significantly increase the

production and sales figures of electric vehicles in order to further advance the company in the luxury electric car segment and establish it as the market leader (Fasse, 2022).

By making these decisions, the company's management is ensuring that the production and sale of electric vehicles will become more profitable through higher volumes. In addition, this change in production takes into account changes in customer behavior and the need with regard to climate change.

VI. Conclusion

Mercedes-Benz is one of the best known and strongest brands in the automotive industry. As a result, the company has been able to achieve strong financial results and is in a good economic position despite difficult environmental conditions. However, the automotive industry is currently undergoing one of the biggest transformations in its history.

Overcoming the mentioned challenges and developments in the industry is essential for the continued existence of companies in the automotive industry. The management of MercedesBenz Group AG has recognized the necessity of these challenges and has made many strategically important decisions in recent years to prepare the company for these transformations, thus securing and strengthening the company's continued existence as a provider of premium mobility products.

Despite the company's strong development in recent years, however, management must remain vigilant, as the transformation is far from completion and competitors do not stand still either.

In particular, the uncertain further development of alternative engines as well as external factors such as Europe's energy supply or inflation will continue to raise new problems and challenges for companies in the automotive industry and thus also for Mercedes-Benz in the coming years.

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