

# **Strategic Management**

## **Report on Daimler's Consumer Vehicle Division**

## **Executive Summary**

*This report is dedicated to providing a critical analysis of the car industry, through the strategic assessment of the consumer vehicle division of the Daimler group. In the first part of the report, a macro-level analysis presents the most recent developments in the industry. Then, the report evaluates whether and how these changes are likely to influence the industry's future in the short- and the long-term. Then, the internal analysis outlines the firms' resources and competencies to develop viable strategic directions to attain a greater fit between the firms' internal and the external environment. The report found several strategic opportunities for the Daimler group to respond to changes effectively and to reduce its vulnerability to external threats. More specifically, despite the Daimler group's slightly delayed entry into the electric vehicle market, the expected economic recession of the industry may provide more options for traditional firms than for those firms solely concentrated in one particular (resource intensive) technology. In parallel to the exploration of different strategic directions, particular attention is placed at gauging Daimler's strategic weaknesses, which may, in the long-term, undermine the organisation's success at the very benefit of emergent rivals more responsive to changes in the business environment.*

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## **Introduction**

The automotive industry is facing unprecedented uncertainty. While industry analysts have predicted an overall positive outcome for the future of the industry, recent developments in 2020 (in particular, the COVID-19 outbreak) have substantially altered the industry's strategic directions (Szymkowski, 2020). Although very little is known regarding the long-term implications of current economic problems, it is generally understood that it may take several years for the industry to recover. However, in the long-term, common strategic problems, such as sustainability and the industry's reliance on fossil energy sources remain topical (AIAG, 2020). For this report, the author has chosen the Daimler group for the analysis. The Daimler group sells in many markets, including commercial trucks and passenger cars (Daimler, 2020). Due to limitations inherent to this report, the analysis solely covers the market for passenger cars, though many of the themes observed also apply to other market segments as well. Different strategic options for Daimler are also evaluated and critically justified based on the comprehensive secondary research.

## **Strategic Analysis**

### **Macro Environment – PESTLE**

#### **Political**

The last couple of years have been characterised by a degree of political stability in most markets. The only immediate problem in 2020 is the increasing tendency among global leaders to turn to protective measures, which could substantially disturb supply chains, especially for those organisations sourcing parts from China (Muller, 2020). The US-China trade war is a good example, though tensions in the aftermath of the COVID-19 pandemic are likely to intensify further, at the very detriment of the car industry (Bloomberg, 2020).

## **Economic**

Economic issues are closely tied to political developments. As it was suggested in the introduction, industry analysts maintained an overall positive outlook for the next couple of years, only expecting a minor economic slowdown in major markets. However, the industry is now facing an entirely new reality (Madhok, 2020). With a pending global crisis on the horizon, automotive sales are likely to remain well below expectations due to the ensuing economic uncertainty caused by the COVID-19 pandemic and further exacerbated by resultant political tensions.

## **Social**

Many younger consumers no longer prioritise car ownership; instead, consumers tend to prefer car-sharing applications, and as the number of urban citizens rapidly rise, the demand for individually owned automobiles decline (McKinsey & Company, 2017). Across a range of consumer segments, there is a palpable pressure for car manufacturers to incorporate sustainability issues into long-term strategies, hence the surging demand for hybrid and electric vehicles (such tendencies, however, may be significantly weakened by the pending economic recession).

## **Technological**

Industry analysts shared a consensual agreement on the salience for manufacturers to heavily invest in new engine technologies to diversify away from fossil-fuels slowly (Campbell, 2019). As of now, almost all prominent manufacturers have either released or are planning to release vehicle models with hybrid and/or electric powertrain technologies. The digitalisation of the customer experience is another defining trend of the industry (Zigurat, 2020).

## **Legal**

The car industry has been significantly regulated in recent decades, covering emission and safety standards. The scale of these regulations is not likely to change (Mikler, 2016). In fact, as more governments turn to the enforcement of more stringent environmental standards, legal

changes continue to challenge the industry. This also implies the strategic significance for industry incumbents to heavily invest in new engine technologies to avoid fines.

## **Environmental**

The rise in vehicle ownership is one of the major causes of carbon-dioxide emission (Nieuwenhuis and Wells, 2018). To protect the environment, governments are progressively turning to curb out polluting technologies (e.g. diesel engines), in response to intense stakeholder pressures to protect the environment (Nieuwenhuis and Wells, 2018). Likewise, a strategic examination of the industry's environmental consequences is paramount to ensure business continuity in an era characterised by an unprecedented level of uncertainty.

## **Resource-Based View of Strategy (RBV) and SWOT Analysis**

Firms' capacity to formulate strategic directions and to respond to shifts in the business environment is heavily dependent on internal resources and key competencies (Collis and Montgomery, 1998). These elements of strategy can be best captured in the RBV framework that categorically lists firms' resources (both tangible and intangible) and competencies (internal processes and/or activities to make the best use of a particular resource (Collis and Montgomery, 1998). To simplify the analysis, a table first summarises Daimler's key resources and competencies, which are then augmented through an in-depth analysis as to whether and how these so far have propelled Daimler's success in an industry subject to intensive rivalry.

| <b>KEY RESOURCES</b>  | <b>Key Competencies</b>  |
|---|--|
| <b>Skilled workers</b>  | An outstanding organisational approach to training and development |
| <b>Daimler's brand equity and reputation<br/>(e.g. the Mercedes Benz brand)</b> | Excellent marketing and brand building                             |

|   |   |
|---|---|
| <b>Patents and proprietary technologies</b><br>(over 4,000) | In-house R&D facilities   |
| <b>Financial strength</b>                                   | Prudent management of finances  |
| <b>Global network of production</b>                         | Logistics networks, connections, and competencies to coordinate global production           |
| <b>Broad product offers across a range of markets</b>       | In-house R&D, excellent consumer insights to remain responsive to changes in consumer taste |

**TABLE 1 –DAIMLER'S KEY RESOURCES AND COMPETENCIES (CREATED)**

Based on the RBV analysis, Daimler has been able to maximise its market presence and share by remaining highly responsive to market dynamics. Its comprehensive product portfolio and highly diversified SBUs (strategic business units) also reinforce Daimler's competitive strategy, though as the SWOT analysis below reveals, merely being a diversified company may not always be the most suitable response in a market facing many challenges on the macro level. Through the combination of major macro-level trends, the table on the next page briefly outlines the main points in the organisation's SWOT analysis.

| <b>Strengths</b>  | <b>Opportunities</b>   |
|---|--|
| <ul style="list-style-type: none"> <li>✓ A recognised, strong brand</li> <li>✓ Global reach (distribution and production)</li> <li>✓ Wide product range</li> <li>✓ A significant share in the passenger vehicle market</li> </ul>   | <ul style="list-style-type: none"> <li>✓ Develop new EV models</li> <li>✓ Invest in battery technology</li> <li>✓ Partner with other brands to share resources and expertise to minimise risk</li> </ul>   |
| <b>Weaknesses</b>   | <b>Threats</b>   |
| <ul style="list-style-type: none"> <li>✓ Lack of investment and success in the EV market</li> <li>✓ Resources and capital tied-up in existing, but mostly obsolete technology (e.g. diesel engines)</li> <li>✓ The elasticity of the premium car segment, minimal presence in lower-tier markets (less exposed to economic cycles)</li> </ul> | <ul style="list-style-type: none"> <li>✓ The industry is expecting difficult times ahead (due to COVID-19)</li> <li>✓ Tightening laws restricting and/or banning internal combustion engines (e.g. the diesel plan in several cities and countries across Europe)</li> <li>✓ Supply and distribution chain disruptions (especially in the far east)</li> <li>✓ Escalating competition in the EV market (Daimler's has a minimal presence in these markets and almost non-existent technological capacity to compete with more established rivals, such as Tesla).</li> </ul> |

**TABLE 2 –DAIMLER (MERCEDES BENZ) SWOT ANALYSIS**

## **Recommendations for Future Development**

### **Ansoff Matrix**

The Ansoff Matrix is a strategic planning framework with four options for firms to address strategic challenges (Proctor, 2014). The two axes are existing/new markets and existing/new products. Each option (quadrant) carries a different amount of risks firms need to consider prior to committing themselves towards any strategic directions (Proctor, 2014). The options in the Ansoff Matrix incorporate market penetration (existing markets with existing products), market development (new market and existing products), product development (new product and existing markets) and diversification (new market and new markets). Based on the internal and the external analysis of the firm, options for each quadrant are summarised below.

## **Market Penetration**

The automotive industry has been rather successful in recent years. With increasing disposable incomes, many manufacturers (including Mercedes Benz) realised a record number of car sales. However, most consumer car markets are becoming increasingly saturated, with a high risk of commoditisation (Holmes, 2016). Sellers with a substantial brand equity may be able to differentiate themselves in competitive markets, though this option is not only expensive (if price-based rivalry occurs), but also unrelated to major trend lines in the macro environment.

## **Market Development**

Market development is one of the most popular options for firms wishing to diversify away from saturated home country markets to tap into growth opportunities elsewhere (Candelo, 2016). Whilst the COVID-19 pandemic may entirely redefine market structures both in developed and developing markets, emerging markets are the most likely to produce a stable growth trajectory in the market for premium and luxury vehicles (Daimler has a significant interest in such markets) (Iems, 2020).

## **Product Development**

Environmentalism is a critical trend in the automotive industry, and by 2020, almost all car manufacturers have either announced the launch of new models or have already commenced the sale of the first generation of electric vehicles (Allied Market Research, 2020). In high-income and established markets, there are abundant opportunities for manufacturers to sell vehicles with alternative powertrain technologies (electric, hydrogen...etc.).

## **Diversification**

Diversification entails the development of a new product in a new market with no prior experience, hence the general agreement on the high-risk nature of this strategic direction (Proctor, 2014). Car ownership may shift in the near future towards collective ownership and digitalisation of the customer experience, a direction Daimler may want to explore in the future

with medium priority. Other forms of major, unrelated diversification do not appear to be immediate necessity for Daimler in the short- and the medium-term.

## Evaluation of Two Options Against the SAFE Criteria

The SAFE framework, once used in combination with other strategic analysis models can further gauge the effectiveness of recommendations and the fit thereof with external demands and constraints (Proctor, 2014). The acronym stands for Suitability (match between the internal and the external environment of the firm), Acceptability (by external stakeholders and internal shareholders) and Feasibility (the viability of suggestion under current resource constraints and market structures). Two options (new product and market development) are assessed against the SAFE criteria in a tabular format below.

| <b>Strategic Options /Criteria</b>           | <b>Suitability</b>   | <b>Acceptability</b>  | <b>Feasibility</b>   |
|--|--|---|--|
| <i>New Product Development</i>               | Internal combustion engine technology is facing many regulatory and market constraints, placing immense pressure on incumbents to innovate                 | Clear alignment with the macro environment  | Feasible – Daimler possess internal resources and competencies to ramp up its EV innovation process  |
| <i>Market Development (Emerging Regions)</i> | Growth in established (western) markets are flattening; societal changes in emerging markets bolster consumer spending power (India, China, Africa...etc.) | An apparent business case to capture growth opportunities to satisfy stakeholder expectations | Daimler has a global production network with ample capacity to serve new clients in emerging regions |

**TABLE 3 – AN EVALUATION OF STRATEGIC OPTIONS FOR DAIMLER AGAINST THE SAFE CRITERIA**

## Recommendations and Conclusions

Within this strategic report, a combination of a macro- and micro-analysis outlined the key challenges facing the industry. As a limitation, the recently ensued uncertainty in 2020 might destabilise the predictions until the industry fully recovers. Nevertheless, many of the

suggestions clearly apply in relation to the long-term horizon (in particular to the shift towards sustainable development). Within the PESTLE analysis, the escalating global political and economic tensions are the key themes with the highest potential to disturb the industry. Daimler's key resources and competencies can be seen as stable foundations for Daimler's strategic renewal. Two strategic options were also evaluated against the SAFe criteria to justify the recommendations further to equip the organisation with the necessary degree of strategic agility to absorb and capitalise upon changes in its business environment.

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