

A review into the motor company daimler ag marketing essay



DaimlerChrysler, presently known as Daimler AG, is one of the world's most successful auto manufacturers. Its divisions include Cars, Vans, Buses, Trucks, and financial services. In order to understand the nature of competition and the industry context in which Daimler AG operates, let's analyze the auto manufacturing industry using Porter's five forces model:

In the auto manufacturing industry, the risk of entry is substantially low. The industry is very mature and consists of large established companies, thus barriers to entry are high. Due to mass production and globalization, the industry has successfully reached economies of scale. Since automobiles are mass produced (cost advantages) and therefore fairly affordable to customers, a new entrant needs a high amount of startup capital to mass produce its vehicles. It takes a lot of capital to establish a specialized manufacturing facility and to produce innovative vehicles through substantial research and development (especially in today's innovative market of emission free engines).

Brand equity, distribution, and government policies are also high barriers for new entrants. Buying a vehicle is a significant financial investment for the consumer, thus brand equity is an important factor. A new entrant might have no established brand equity and would therefore lose sales to brand loyal customers. Distributing a new entrant's automobile throughout the market is difficult due to limited space in distribution channels (such as dealerships). Since dealership space is costly, it is usually more profitable to market a well known brand rather than a new entrant. Government policies such as safety and emission standards could also make it increasingly difficult for a new (less experienced) company to enter the industry.

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Although the barriers to new companies are substantial, established companies are entering new markets through strategic partnerships or through buying out or merging with other companies.

Intensity of rivalry among established companies within an industry

Competition among established firms within the auto industry is fierce. Most major auto manufacturers have successfully globalized their operations, thus intensifying the pressure to gain market share. As a result of globalization, the diversity of a competitor's culture and business model has increased and further intensified rivalry. The high fixed costs of manufacturing automobiles and the low switching cost for consumers keeps competitors closely balanced and rivalry very strong. The industry lacks somewhat of a product differentiation, as every company makes similar products (cars, vans, trucks, busses and SUV's). Since the automobile is essentially a commodity product across the industry, rivalry is further heightened. Companies can only establish a competitive advantage through various aspects such as price, quality and innovation. Market growth in established markets is fairly slow (hence a strong rivalry for market share), whereas growth in developing countries (such as China and India) is significantly higher. Companies can gain profitability by taking advantage of the subordinate competition in rapidly developing countries.

Bargaining power of buyers

The bargaining power of buyers (consumers) is relatively high. Customers can literally bargain with a sales person for a lower price on a brand new vehicle. The consumer has greater power over the manufacturer due to the <https://assignbuster.com/a-review-into-the-motor-company-daimler-ag-marketing-essay/>

standardized nature of the automobile industry. Vehicle types slightly differ among companies, thus giving the consumer a low switching cost when selecting a certain type of vehicle from a competitive auto market. Similar to other industries, auto manufacturers heavily depend on their consumers as they are their main source of revenue. As a result of the low switching cost, if a company cannot keep its buyers satisfied, they easily risk losing them to a competitor. However, auto manufacturers still remain authoritative over their buyers due to the relatively small number of auto manufacturers in comparison to the large consumer base.

Bargaining power of suppliers

The bargaining power of suppliers (materials, services, and auto unions) is considerably low. Auto manufacturers are large buyers who have the power to easily negotiate deals in their favor. Manufacturing an automobile requires a multitude of different parts. For mass production purposes, these parts are standardized and can only be assembled on automobiles. Since so many specific parts are needed to produce an automobile, it takes numerous suppliers to manufacture and ship these parts to an assembly/manufacturing facility. Due to the high number of suppliers, auto manufacturers have low switching costs since they can easily switch to a cheaper supplier. Since the auto industry consists of a few large established companies, suppliers heavily rely on manufacturers as demand in the industry is usually elastic.

Closeness of substitutes to an industry's products

The threat of substitutes is rather mild. There are a variety of different forms of transportation (walking, biking, riding the bus/subway), but none are

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comparable to owning and driving a car. Depending on a consumer's geographic location, transportation substitutes may be less expensive but not as reliable and convenient as a car. If living in a city with a high population density, owning a car might be unnecessary due to a more affordable and efficient public transit system. If living in a suburban area that is widely spread out, owning a car might be essential to get around. When substituting an automobile with a different form of transportation, some of the switching costs might include efficiency, utility, independence, and value. Although many other forms of transportation are accessible, nothing can really substitute the value of a car.

Are any changes taking place in the macroenvironment that might have an impact, positive or negative, on the industry in which your company is based? If so, what are these changes, and how might they affect the industry?

The automobile industry is a dynamic being that is constantly evolving and re-inventing itself. In the past century, technological advancements and political forces have been transforming the industry and driving it to higher standards and innovations. Since the invention of the automobile, the industry has changed tremendously and will always continue to change. An industry's success depends on its ability to adapt to external forces. Since macroenvironmental forces are uncontrollable, they may pose opportunities or threats to a company, or even an entire industry. The macroenvironmental forces of the auto industry have been experiencing sweeping changes that have directly impacted auto manufacturers:

Global forces

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A global concern for the future of our planet has caused businesses to fortify their focus on eco-friendly developments. Due to the phenomenon of global warming, consumers now place a great value on a company's effort to be "greener". Minimizing the impact on the environment has also sparked the demand for alternative fuels with less/no emission. The increasing cost of oil and the rising demand for emission-free transportation has created an entirely new division of vehicles - zero emission vehicles.

An increase in inflation rates, gas prices and raw materials costs has made business in the auto industry more expensive for the manufacturer as well as the consumer. To remain profitable in a troubled industry/economy, some auto manufacturers have been operating their facilities below capacity. Many large auto manufacturers have increased their profits by expanding exports into developing countries (such as India).

Technological forces

The technological environment is the most important factor affecting the industry; it shapes and constructs the future of the automobile. Auto manufacturers have recently placed a greater emphasis on research and development in hopes of gaining a competitive advantage over competitors; lower emission outputs and higher gas mileage. The competition for fuel efficiency has sped up the pace of a changing industry. As engine technology advances, the product life cycle of older (less efficient) models becomes shorter. Battery technology has become more reliable and less expensive, thus complimenting the increasing demand for hybrid cars. IT (information technology) has become more important, as it adds value to a vehicle by

making it more intelligent (ex: safety systems) and consequently giving the company a competitive advantage. IT has also started to fully robotize assembly lines, making the outsourcing of labor less attractive.

Demographic forces

As the baby boomer generation is retiring, the auto manufacturers are starting to focus more on the younger generation (generation x). Young consumers in America show more interest in passenger size vehicles rather than larger vehicles. Multiple factors can be responsible for this change, but the most logical one is the trend toward a more fuel efficient and environmentally friendly vehicle fleet. A relevant example would be the Daimler Smart car (a highly popular European car), which became a huge success when imported to America. Another highly attractive demographic change is the rapidly rising Indian population. The auto industry in India is still maturing, thus low competition. Entering the stable and rising Indian economy would be a great potential for profit.

Social forces

As discussed under global forces, the major social movement affecting the auto industry is the trend toward sustainability. Environmental concerns have pushed the industry away from oil consumption and closer to renewable resources. Developing alternate fuel vehicles takes extensive and expensive research/development costs, but the road to zero emissions is inevitable; the auto industry needs to adapt to today's values. Despite the expensive development costs, the profit margins on new vehicles will remain high and the innovations will become the new standards.

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Political and legal forces

Strict laws and regulations have always enclosed the auto industry. Most substantial regulations have been passed years ago and focus on a vehicles safety and air pollution via CO2 emissions (clean air act). Today, political forces are mainly concerned with emissions and help with the rapid development of lower emission vehicles. Environmental regulations that have a tighter control on emission outputs are being passed today (ex: California). In addition, safety standards are also being highly regulated. Political forces encourage advancements in safety technology since they cause safety standards to go up, thus benefitting both the manufacturer and the consumer.

Identify whether your company has a competitive advantage or disadvantage in its primary industry. (The primary industry is the one in which it has the most sales.)

In its primary industry, automobiles and commercial vehicles, Daimler AG has a long standing and respected competitive advantage in “ outstanding safety, powerful engines, innovative technologies and quality design” (Daimler. com). Daimler AG is a world leader in the auto industry and the most innovative auto manufacturer in the world. Daimler AG takes great pride in being the inventor of the automobile. Over the years, the company has shaped and invented most automobile standards, and the company will continue to shape and structure the automobiles future. Daimler AG thrives on diversity and centers its foundation on four pillars: “ global presence, strong brands, broad product range, and technology leadership” (Daimler. com). The company’s vehicle types are sold across all world markets and

range from economy vehicles to highly praised luxury vehicles. Its auto brands are well known and span across all price ranges and model types. Through its strong brands, efficient processes and innovative technologies, Daimler AG has formed a competitive edge among global markets. Since the birth of the industry, Daimler AG has been a major player who, over years of experience, has mastered and perfected the craft of manufacturing automobiles. In the following section, I will further evaluate Daimler AG's competitive advantage.

Evaluate your company against the four generic building blocks of competitive advantage: efficiency, quality, innovation, and responsiveness to customers.

Efficiency

Daimler AG is a publicly traded company with a global presence. Its products are virtually sold in every country and manufacturing facilities are present on every continent. Through the use of specialized manufacturing facilities and outsourced assembly plants, Daimler AG optimizes its efficiency. Its divisions are present in 200 countries, each suited with its own country specific headquarters and customer services department. By utilizing globalization, Daimler AG has successfully gained a worldwide presence. Furthermore, through "safety, quality, innovation and design" (Daimler.com), Daimler AG has gained international success.

Talk about vehicle efficiency?

Quality

Daimler AG automobiles are known for their outstanding craftsmanship and superior quality. No other company in the industry has such an extensive experience in the development of automobiles. Daimler AG is considered one of the most internationally respected companies, specifically for its product quality. Its detail orientated and hand crafted product design is unrivaled among the industry. Daimler AG automobiles are not just vehicles; they are valuable objects that are produced through extensive research and development. Its vehicles boast a signature design with a high focus on safety and comfort. Its engines are top of the line and each vehicle is equipped with patented technological advancements. With its luxury divisions, Mercedes-Benz and Maybach, Daimler AG is the number one manufacturer of premium automobiles. Daimler AG's indisputable quality is present in every line of vehicles, even in the least expensive model.

Innovation

Daimler AG is the industry leader in research and development of technological advancements. Being the most innovative automobile manufacturer, Daimler AG has more registered patents than any other company in the industry. Most technological and safety developments that have become a standard among the industry (such as the airbag) were invented by Daimler AG for the collective improvement and safety of the entire industry. " Be it the crumple zone, airbags, ABS, ESP®, the sandwich frame or the ABC active suspension system - Daimler Chrysler has throughout the ages been an industry leader with a strong commitment to technological progress"(Daimler. com). Daimler AG's top of the line engineering department continuously focuses on how to make the <https://assignbuster.com/a-review-into-the-motor-company-daimler-ag-marketing-essay/>

automobile safer, more comfortable and increasingly environmentally economical.

Daimler AG is also the leading innovator in vehicle design. Currently, Daimler AG is the only auto manufacturer focusing on hydrogen fuel cell technology. Although hybrid technology might be a transition to other fuel sources, hydrogen is considered to be the future driving force of the industry. Daimler AG has implemented the most research and development in the new technology. Once alternative fuel sources are used, it is hoping to revolutionize the industry.

Responsiveness to customers

Daimler AG's top priority is customer satisfaction. Customer service centers are spread around every country in which Daimler AG automobiles are sold. Every vehicle comes with an extensive warranty and approved dealerships and repair shops are located within every major city. Unlike other auto manufacturers, Daimler AG has entire division dedicated to financial services - Daimler Financial Services. This division provides customers with a full range of financial services, such as: Loans (to help finance a single car or an entire showroom in a dealership), vehicle leases, car insurance, and bank accounts. These financial services add convenience for the customer by having everything provided by the same company.