

# ***Change Process:***

## ***Mercedes Benz Australia***

**Name:** Name of the Author

Student ID:

Course:

Instructor:

Institute:

Date: 20 July 2017

MyAssignmentExpert.com

## Executive Summary

Mercedes Benz had been a leading player in luxury car market in Australia for past six years. However, the global financial crisis, coupled with the company's internal weaknesses contributed to a sharp fall in company's sales in first quarter of 2009. This acted as a wake-up call for Mercedes Benz and it initiated a change process during 2009 in its organization. The purpose of this report is to identify the drivers of change to evaluate the strategy adopted by Mercedes Benz. The internal and external environments of the company were studied using SWOT analysis and PEST analysis respectively. It was observed that internal issues like improper inventory maintenance and falling customer service levels and an uncertain external environment contributed to Mercedes Benz's fall. It adopted a top-down approach to change and involved its dealers and suppliers in the change process. Product innovation was an important element of the change strategy. Strategic planning tools like scenario analysis have been used to evaluate the alternate strategies. The authors recommend continuing the same strategy as the luxury car market improves.

## **Introduction**

The recent global financial crisis acted as a wake-up call for many organisations in Australia which had grown complacent during the preceding period of economic boom. The ripples of global financial crisis were felt in the luxury car market in Australia too. Even an organization like Mercedes Benz, the marquee automobile brand, faced a dramatic 42% fall in sales during the first quarter of 2009. This caused Mercedes Benz to lose its leadership position in the luxury car market in Australia to Audi. The automobile maker was forced to introduce a change process to stay competitive and revive sales. This report analyses the internal and external environment of Mercedes Benz which acted as the change drivers. The change initiative and the issues in its implementation are also discussed. Alternative strategies are recommended with the use of theoretical strategic planning tools.

## **Mercedes and the Changing Strategy**

### **About Mercedes**

The Australian Federal Government defines a luxury car as “a vehicle retailing at above \$57,000” which attracts a luxury car tax of 33% (Go Auto 2009). This segment constituted over 10% of all new car sales or 100,000 vehicles in Australia during the financial year 2007-08.

Many international players like Aston Martin, Audi, Bentley, BMW, Jaguar, Lexus, Mercedes Benz and Porsche form the majority of the market in this highly competitive segment. Mercedes Benz (14%) was the market leader in this segment during 2007-08 closely followed by BMW and Audi.

The global financial crisis, coupled with higher luxury car tax, resulted in a 24% fall in luxury car sales during the second half of 2008. Mercedes Benz was the worst hit as it registered a massive 42% fall in sales as compared to its rivals BMW and Audi which reported much lower fall (Go Auto 2009). There were reports of increasing customer complaints and stock outages at its dealers which contributed to the fall. This was a serious concern for the management at Mercedes Benz as it cost them market leadership. It forced Mercedes Benz to undertake a change process to revive fall in sales and retain market leadership.

## Problems of Mercedes

### Strengths and Weaknesses

**Strengths:** Mercedes Benz has strong brand equity in Australia. It has been built by sustained marketing campaigns like Drive Academy, sponsorship to local racing events etc. Moreover, Mercedes Benz is known for its commitment to quality and environment. A survey by Core Data revealed that Mercedes Benz was the brand of choice of 10% of people, behind only BMW's 14% and ahead of the likes of Aston Martin (8%) and Audi (6%). This meant people were prepared to accept the high waiting-times due to frequent stock outages at its dealers.

**Weaknesses:** A major weakness for Mercedes Benz was its poor inventory management. There were reports of frequent stock outages at various Mercedes Benz's dealerships throughout 2008-09 which harmed the reputation of the company. The engineering team at Mercedes was under pressure to release newer models in time.

Another weakness for Mercedes was its relatively poor after-sales support as compared to its rivals. While Audi and BMW offered free servicing for periods of up to 5 years on some of their

models, Mercedes was reluctant to provide similar service to its customers. This showed complacency on the part of Mercedes Benz due to the leadership position it enjoyed for a long time. The fall in sales during 2009 forced Mercedes Benz to have a relook at its dealership network and service arrangements.

### **Opportunities and Threats**

A PEST Analysis has been conducted to analyse the external drivers of change.

**Political:** The major political factor affecting luxury car market was the increase in luxury car tax from 25% to 33% for all cars priced above \$57,000 introduced by Rudd's Government in 2008. This affected all the players in the market. Mercedes Benz was forced to provide premium features in its entry level models to attract the buyers.

**Economic:** The global financial crisis and the resultant weakening of Australian dollar contributed to a fall in sales of luxury cars. The global financial resulted in a loss of purchasing power for the executive class. The weakening Australian dollar made the imports of Completely Built Units (CBU) a much costly affair for the buyers. These factors also affected all the players in the market.

**Social:** A major social factor was the optimism in Australian buyers. There was a pent-up demand for luxury cars despite the recession during 2009. A study of 6200 respondents by Core Data in June 2009 revealed that 94% of the respondents felt that they did not own their "dream car" yet. 28% were optimistic that they will buy their dream car within one year. This shows that there was a pent-up demand in the Australian market. Mercedes Benz had the advantage, especially in double income families, as it was the model of choice for both male and female. On

the contrast, Aston Martin was more popular among male and BMW was more popular among female respondents. It served as an opportunity for Mercedes Benz to rev up its newer models.

**Technological:** The increased emission norms and a demand for more environment friendly cars were the major technological factors which drove the changes in luxury car market. This was an opportunity for Mercedes Benz as it had a reputation to produce cars which were more fuel-efficient and environment friendly as compared to BMW and Audi. However, it provided stronger competition from Japanese makers like Lexus and Honda.

### **Purpose of Change**

The change intervention was undertaken to tackle the weaknesses (internal) and threats (external) identified in the above section. The short-term objectives of the change process in Mercedes Benz were to retain tackle falling sales and improve the customer service (or reduce the number of customer complaints). The medium term objectives were to improve the brand equity in the country by revamping the structure of dealership networks.

### **Change Perspectives**

The change perspective at Mercedes Benz can be explained by the institutional perspective proposed by Graetz, et al. (2005). Mercedes Benz recognized the changing competitive landscape and its impact on the business performance. It recognized that it could not afford to take its customers for granted and had to improve its customer service if it had to retain market leadership. This explains the efforts in improvement of customer service to take it up to industry standards. Thus the management focus is on industry standards and benchmarks.

The systems perspective can also explain the change intervention at Mercedes Benz. The organisation recognized that all the associates are interconnected and must be included in the change process. So it worked with its suppliers and dealers to reduce the problem of frequent stock outage so that inventory maintenance could be improved. Thus the management focus is on changes across the constituents and components of the organization.

### **How Mercedes Changed**

A two-fold change strategy was adopted by Mercedes Benz to overcome the situation it found itself in. The strategy focused on improving dealer performance and new product launches (Go Auto 2009).

Customer service plays an important role in changing the perceptions of the people. According to Baum and Wally (2003), improvement in customer service is the most visible change which impacts buyers in the luxury segment and improves firm's performance. The management at Mercedes Benz realized that their customer service levels were falling in comparison to BMW and Audi and it resulted in a sharper fall in sales due to financial downturn in 2009.

Automobile companies are usually highly vertically integrated. Realizing this, Mercedes Benz included its dealers and suppliers in the change process. There was an extensive nationwide campaign to improve the performance of its dealers. It focused on improving customer experience at pre-sale (visit to showroom) and post-sale (warranty and service) experience of its prospective customers. The employees at the dealers were trained to improve their interactions with the prospective customers and innovative sales techniques like offering various freebies were adopted to reignite buyers' interest in the brand. The standards to measure dealer's

performance were tightened so as not to allow any complacency in future. This showed its focus on dealers' performance.

This campaign was supplemented by various launches of Mercedes Benz's new models. Product innovation is considered an essential part of organisation's renewal, especially during times of crisis (Dougherty 1992). The management realized that too much focus on a single model (especially M-class) resulted in stock outs in the past. Thus, it focused on launching variants of the existing models. Mercedes Benz started offering lower-priced variants of existing E-class sedan and Coupe models with similar features of their higher priced counterparts. This helped it to compete with its rivals while taking some heat off the customers by sharing the increased luxury car tax burden.

A major constraint which was recognized by the company was the uncertainty caused by financial downturn. Von Sanden, Managing Director of Mercedes Benz Australia, recognized that the success of the strategy depended upon the revival of the luxury car market which was anything but certain. But there were signs that market was "turning the corner" as the company recorded better sales figure in the second half of 2009 which helped it to retain market leadership from Audi.

Mercedes Benz had a choice to reduce the prices of its existing models to reduce the impact of increased tax burden on customers. The management was of the view that it will harm the brand equity in the long term once the market revived. So it focussed on offering significant product gains (fuel efficiency, performance) on similar price range. This helped in generating buyers' interest and Mercedes Benz had regained a lot of lost ground by the end of 2009.

Another choice that Mercedes had was to milk the brand by taking advantage of its high brand equity as the growth had stagnated in the luxury car market in recent times. This was in accordance with BCG Growth-Share Matrix (Burnes 2009) as the company enjoyed a high relative market share. However, the management was of the view that the Australian luxury car market had a lot of potential. A study by Core Data in 2009 revealed that 94% of the Australians believed that they had not yet purchased their dream car. So it focused on an expensive campaign (investment) to revamp its dealer structure.

The approach to strategic planning adopted by Mercedes Benz was a prescriptive approach. It involved a top-down approach to strategy as it involved both dealers and suppliers in the change process. The changes were made to suit the changing market conditions or trends. The company launched new products to suit the changing preferences of the buyers and thus matched the industry standards. The change process was initiated at the dealer and supplier level too so that the customers could be provided with a Total Customer Experience (TCE). The planning process contained detailed changes to performance measurement standards for dealers and suppliers, adoption of innovative sales techniques and a focus on TCE. This showed that the management relied on a prescriptive approach to strategic planning.

### **Evaluation of Alternate Strategies**

The alternate strategies available to the company will be evaluated using scenario planning. This method has been adopted due to the uncertainty in the market conditions when the company experienced its crisis. Evaluating various scenarios will help in understanding the pros and cons of each strategy. The various choices available to the company were reduction of prices of existing models, revamping customer service or continuing with same strategy.

Reducing prices of existing models may have increased the sales of company's lower end models. However, if the economy revives quickly, this would hurt the company's ability to charge higher prices for company's high-end models. Even if the economy does not revive quickly enough, the company's brand equity would be hurt as the desirability and sales of products in luxury segment increases with price. Thus, this move is not recommended.

Customer experience is an important differentiating factor among brands in the luxury segment. Focusing on TCE through improvement in relations with dealers, suppliers and innovative sales techniques, the company can improve its image in customer service. This may mean heavy investments in service and training of employees. However, if the economy recovers quickly, this strategy would bear fruit for the company as it would be in an ideal situation to cash on the increased sales which would provide it a great return on investment. Even if the economy does not recover quickly, the company can focus on retaining its existing customers which will reduce their marketing expenditure (cost of service per customer) in the long run.

Continuing with the same strategy will show a reluctance to change on the part of the company. According to Keegan and Keegan (2010), the companies must focus on innovation during periods of downturn so that the health of the organisation is not compromised. This shows that continuing with same models can hurt the company's long term objectives badly as the company would be out of sync with changing market trends and customer preferences.

The evaluation of various alternatives reveal that the company needs to focus on improving customer service and product innovation to steer it during its troubled times. So the strategy adopted by the company is a sound one and highly recommended by the author.

## Conclusion

The objective of this report was to understand the change drivers which led to the change process in Mercedes Benz. It was revealed that internal factors like poor inventory management and falling customer service levels, and external factors like financial downturn and increase in luxury car tax resulted in record fall in sales for the company during the first quarter of 2009. This prompted the management to adopt a two-fold strategy for change which was to improve dealer performance and launch new variants. An evaluation of the alternative strategies revealed that the strategy adopted by the company is a sound one. The author recommends continuing the same strategy. The revival in company's fortunes during the second half of 2009 vindicates this strategy of Mercedes Benz.

MyAssignmentExpert.com

## Works Cited

Baum, J. R., and S. Wally. "Strategic decision speed and firm performance." *Journal of Strategic Management*, Vol. 24 (11), 2003: 1107-1129.

Burnes, Bernard. *Managing Change, 5th edition*. Pearson Education Ltd. , 2009.

Dougherty, D. "A practice-centered model of organizational renewal through product innovation." *Journal of Strategic Management*, Vol. 13, 1992: 77-92.

Go Auto. *Mercedes recovers from 'terrible' start*. July 27, 2009.

<http://www.goauto.com.au/mellor/mellor.nsf/story2/B0826E08EDED246ECA257600002044C6> (accessed August 1, 2010).

Graetz, Fiona, Malcolm Rimmer, Ann Lawrence, and Aaron Smith. *Managing Organisational Change*. Sydney: John Wiley & Sons Ltd. , 2005.

Johnson, Gerry, and Kevan Scholes. *Exploring Corporate Strategy, 6th edition*. Prentice Hall, 2002.

Kaplan, Sarah. "Framing Confests: Strategy Making Under Uncertainty." *Organization Science*, Vol. 19, No. 5, 2008: 729-752.

Keegan, Sheila, and Campbell Keegan. *Creating Healthy Organisations in the wake of the recession*. Paper given at AQR-QRCA Conference, London: Campbell Keegan Ltd., 2010.