



The Future Development Trend of Mercedes-Benz in China

Jingyu Yao

University of Birmingham, Birmingham, UK, B15 2TT

JXY072@student.bham.ac.uk

Abstract. This paper is about the future development direction and potential of Mercedes-Benz in China. SWOT and Porter's Five Forces are used to analyze the threats Mercedes-Benz needs to face and the opportunities it can seize. The data in this paper are secondary data. This paper analyzes Mercedes Benz from many aspects. Only by continuously optimizing the shortcomings mentioned in the article and solving the existing external threats can Mercedes-Benz maintain its leading position in the automobile market.

Keywords: SWOT, Mercedes-Benz, Economic market, Five force models.

1 Introduction

Mercedes-Benz is a world-famous automobile brand and is also considered to be one of the most upscale automobile brands in the world. The automobile company was founded in 1883 and merged with Daimler ag in June 1926 to become Daimler-Benz ag. The headquarters are located in Stuttgart, Germany. Mercedes-Benz includes sedans, sports cars, SUVs, and commercial vehicles. At the same time are the world-famous bus and heavy truck manufacturers. The Benz brand's focus on interiors and high performance are what have enabled the company to take a leading position in the auto industry.

China is one of the most important target markets for Mercedes-Benz in the world. Mercedes-Benz sold 734,700 cars in China in 2021 (Statista, 2021). More than in Europe and the United States. It can be seen that China has become a major market for Mercedes-Benz. Daimler and Beijing Automotive Co., Ltd. jointly invested and established Beijing Benz Automobile Co., LTD (BBAC). In this way, we can better open the Chinese market and better understand the trend in The Chinese automobile market. This provides great convenience for Chinese customers in terms of purchase and after-sales service. Cars made by Beijing Benz will be cheaper than those made in other countries. It also better meets China's economic environment and consumers' purchasing levels. Mercedes-Benz sales in China rose 60 percent to 220,520 vehicles in the first quarter of 2021, outpacing the German automaker's performance in Europe, which rose 1.8 percent to 192,302 vehicles [1].

Mercedes-Benz Cars' vehicle sales in FY 2021, by key region
(in 1,000 units)

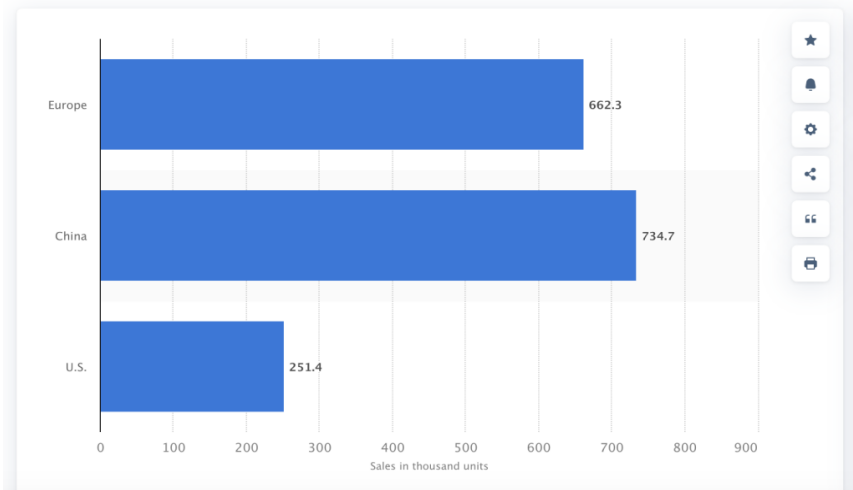


Fig. 1. The Mercedes-Benz Car’s vehicles sales [2]

2 SWOT business analysis tool

SWOT business analysis tool is analyzed by internal and external factors. According to the enterprise's own conditions in the given analysis. This method can be used to find their own favorable, worthy of carrying forward the factors, as well as their own adverse, to avoid things, find existing problems, find solutions, and clear the future direction of development [3].

Table 1. The SWOT model (edited by the author)

<p>Strength: Brand recognition Cost efficiency Product innovation Sales in China are increasing Mercedes will invest 300 billion yuan in electric cars over the next five years</p>	<p>Weakness: Vehicle recall (The quality problem) The maintenance and service cost is higher than Audi and BMW The launch of the EQC was hampered by many production problems.</p>
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Opportunity: Partnership China economic development China government policy (carbon emission rate and electronic car)	Threat: Strong competitor Pandemic Increase in Raw-material prices Fuel price increase Chinese people's sense of nationality has increased Tariff increase
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2.1 Strength

As a world-renowned automobile company, Mercedes-Benz has been leading other automobile brands in brand influence and brand loyalty. Mercedes has attracted a large number of customers with its luxurious interiors, compared with BMW and Audi, which are positioned in the same market. Mercedes has a better interior than the other two brands. As can be seen from diagram 2's data, the sales volume of Mercedes-Benz has been ahead of other brands since 2016 and the sales gap is gradually increasing. For Chinese consumers, the luxury of the interior can make them feel more comfortable. This has boosted Mercedes-Benz's sales in China.

German premium car marques reported worldwide deliveries for 2020 as follows:

Worldwide:	2020	% Change	2019	2018	2017	2016	2015
Volkswagen	5,328,000	-15.1	6,278,300	6,244,900	6,230,200	5,987,800	5,823,400
Audi	1,692,773	-8.3	1,845,550	1,812,500	1,878,100	1,867,738	1,803,200
BMW (Brand)	2,028,659	-7.2	2,168,516	2,125,026	2,088,283	2,003,359	1,905,234
Mercedes Benz	2,164,187	-7.5	2,339,562	2,310,185	2,289,344	2,083,888	1,871,511
Porsche	272,162	-3.0	280,800	256,255	246,375	237,800	225,100

Fig. 2. German premium car marques [4]

For Chinese consumers, imported Mercedes Benz is more expensive than Beijing Benz. There is no big difference in price between imported and BBAC models, but due to tariffs, the price of some imported models is twice that of BBAC. Mercedes has been able to avoid tariffs and save on labor costs by setting up a manufacturing plant in China. There is not much difference in performance or appearance. In terms of appearance design, BBAC will be slightly modified according to the needs and hobbies of domestic consumers, so as to better meet the needs of consumers. Mercedes has become more competitive through cost leadership. China sets a relatively high consumption tax on cars. Take the purchase link as an example, Chinese car owners pay at least 31%

tax. That's a third more for Chinese consumers. This has made it difficult to sell imported Mercedes. Mercedes-Benz set up Beijing Benz, whose cars are made in China to avoid high taxes and fees. Beijing Benz also chooses to use 1.3-ton engines or 1.5-ton engines to address the emission reduction policy issued by the Chinese government.

Daimler invested in a new research and development technology center in China to accelerate the localization process of Mercedes-Benz. Such an investment will allow Mercedes to take the lead in automotive technology development and innovation. The technology r&d center has introduced a number of test equipment for vehicle and component testing, as well as a workshop dedicated to testing the overall level and durability of new vehicles. The Chinese government is pushing the development of electric cars, and Mercedes is building its own electric cars through a technology research and development center. Only through continuous innovation can it not be surpassed by other brands. Benz has clearly realized that electric vehicles are the future development direction of The Chinese government, so Benz has decided to invest 300 billion yuan in the field of electric vehicles in the next five years. Although Mercedes has launched several electric vehicles, it lags far behind Tesla, which has a major market share in the electric vehicle market.

2.2 Weakness

In 2021, Mercedes issued a recall of more than 2.6 million vehicles, mainly due to quality problems and technical problems. When a car is involved in a collision, it may cause a deviation in the position of the vehicle at the Mercedes-Benz emergency call center, which can lead to a delay in rescue. BBAC's cars have also had a bad press. In order to save costs, Mercedes has lost the rigor of German brands in choosing car parts to save costs. Beijing Benz used only two screws instead of four screws to fix the bottom. Increased car safety risks.

Repair and maintenance are a must when driving a car. According to statistics, Mercedes owners spend an average of 5,077 yuan a year on maintenance. In addition, the insurance cost of Mercedes-Benz is relatively high, with an average of 9,370 yuan. The C-Class is officially rated at 6.3 liters per 100km, but tests show it typically consumes around 9 liters. With the increase in gasoline prices in China, another 12000 yuan is spent on gasoline every year. Compare Mercedes, BMW, and Audi in the same class of three cars, respectively: Mercedes C Class, BMW 3 Series, and Audi A4. The highest maintenance price is 15,289 yuan for Mercedes-Benz, while the lowest price is 10,188 yuan for BMW. There is a one-third price difference between the two models.

The EQC is an electric car from Mercedes, but it has not sold well in China. First of all, Mercedes electric cars do not have an OTA function, which is one of the biggest features of electric cars. This feature not only solves problems in the car in time but also upgrades the car in real-time. For example, Tesla recently launched the cinema mode and parking mode, and Tesla also improved the driving range and reduced the 100km acceleration time through OTA. Mercedes' electric cars lag far behind other brands in terms of range, and poor battery life is a big disadvantage in an era when charging stations are not common. Finally, there's the price. The EQC 350 costs 499,800 yuan. Most customers think they only buy EQC because of the Mercedes

brand. Compared with other brands, The price of EQC is much higher, which also leads many customers to choose other brands.

During the pandemic, people's spending power has been reduced, the coronavirus pandemic has reduced the volume of business for many multinationals, which means both liquidity and turnover are falling. Companies have to cut costs by laying off workers in order to survive. The unemployment rate in China was 6.0% at the beginning of the COVID-19 outbreak in 2020, which is also the highest unemployment rate in China to date[5]. This has been mitigated by Chinese government controls. But in April 2022, the unemployment rate rose again to 6.1% [6]. Rising unemployment also means less money is flowing in the markets. As many people lose their source of income, they reduce their need for non-essential items and save their money for necessities. Which has dealt a big blow to luxury goods and luxury car brands. People began to spend money on necessities instead of these expensive items.

2.3 Opportunity

China's economy has improved a lot in the past decade. China's economy took off after the reform and opening-up policy in 1978 by opening its doors to global trade and has now become the second largest economy. Chinese people's income has increased, which has improved their spending power. More and more customers are able to afford luxury cars. According to the data, the sales volume of Mercedes-Benz in China in 2020 was 774,300 units, with a year-on-year increase of 11.7%. It is understood that the global sales volume of the Mercedes-Benz brand is 2,164,100 units. Although China is still a developing country, it will soon become a developed country at the speed of economic development. Chinese cars are also becoming increasingly popular in the global auto market. According to the statistics of The Ministry of Industry and Information Technology of China, in 2016, China's automobile production and sales exceeded 28 million units, ranking first in the world for eight consecutive years.

The Chinese government's promotion policy on electric vehicles and strict requirements on vehicle emissions have provided Mercedes with great opportunities [7]. In order to comply with China's automobile emission standards, Mercedes uses 1.5T engines for some of its cars, which greatly reduces the power of the cars but also reduces pollution. 360, a safety-related Internet company, became Mercedes-Benz's first technology partner in the world. That could give Mercedes a big advantage in the future of electric cars. A strong partner can help a company a lot. Mercedes-Benz is a forward-looking company, and EQC entered the production stage when the Chinese government began to support electric cars. China's subsidies for electric vehicles have also given the company a chance to grab market share in electric vehicles [8].

2.4 Threat

In China:	2020	% Change
Audi	727,358	5.4
BMW Group	777,379	7.4
Mercedes Benz	774,382	11.7

Fig. 3. The comparison of BMW and Mercedes Benz (edited by the author)

It can be seen from Figure 3 that there is no significant difference in the sales volume of these three brands in China in 2020, even though BMW is 3051 more than Mercedes. BMW and Audi are Mercedes' biggest rivals in the luxury car market. The two rivals also have large market shares in China's auto market. All three brands have their own advantages. Customers who like handling will go for BMW, those who like power will go for Audi and those who like appearance and interior will go for Mercedes [9]. Audi once had an advertisement that implied that Mercedes Benz and BMW were inferior to Audi. Mercedes will need to innovate if it hopes to beat these two rivals.

The outbreak of the epidemic caused China's GDP to decline. China's economy shrank in the first quarter of 2020 for the first time since at least 1992. China's gross domestic product (GDP) fell 6.8 percent year on year from January to March 2020 due to the COVID-19 outbreak, according to official data [10]. And many people lost their jobs, which led to a loss of income. It turned out that some people who had planned to buy cars gave up because of reduced income. This indirectly leads to the loss of Mercedes customers. According to a report published by Handelsblatt, the German daily, Mercedes lost €600 on every car it sold during the pandemic. Due to the epidemic, Mercedes had to reduce profits to increase sales. Mercedes has decided to shut down its two production plants in Sao Paulo and Mato Grosso states from March 26 to April 5. The two-week shutdown resulted in a decrease in productivity, but reduced costs due to a drop in sales. On July 11, 2020, a Mercedes-Benz factory in Dusseldorf, North Westphalia, Germany, confirmed COVID-19 cases and 20 employees tested positive for the virus. All this makes the already struggling company face greater challenges.

New research by Cox Automotive and Grant Thornton shows that the current shortage of chips and a shortage of raw materials, such as steel, are pushing up the price of raw materials, affecting the supply and price of new cars coming to market. Faced with a supply problem of raw materials, Mercedes-Benz has repeatedly delayed production of its cars and even removed specifications from some models to limit delivery delays [11].

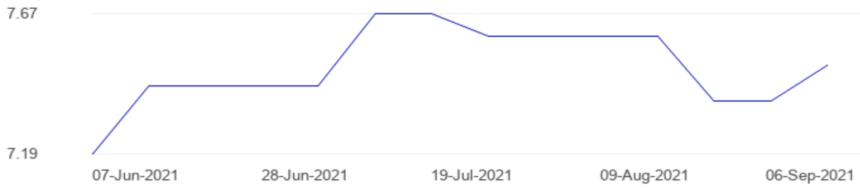


Fig. 4. The gasoline prices in China (Edited by the author)

Figure 4 shows gasoline prices in China are still on an upward trend, prompting many people to take public transportation to cut costs. Many cities in China have opened special bus lanes so that even in rush hours, there will be no traffic jams when taking buses. It is cheaper than driving and can even save time in some situations. Higher gasoline prices have also discouraged many customers from buying cars. This is a big threat to Mercedes.

Electric cars have slowly replaced gas-powered cars, and Chinese electronic brands are outselling Tesla and other brands. Chinese people's national pride is rising, and more and more customers are turning to Chinese car brands. This is a big threat to Mercedes, which will reduce its market share in the Chinese car market.

The previous one-child policy has led to accelerated aging in China, which will lead to fewer people driving in the future. Maybe in the next 20 years, Chinese car sales will fall off a cliff. In some first-tier cities, traffic jams are a daily occurrence due to high population density and a large number of vehicles. Many young people find public transport more convenient.

The trade war between China and the United States has had a big impact on Mercedes-Benz. The US-China trade war is an important issue in China-US economic relations. Trade disputes mainly occur in two aspects: one is the export field, in which China has comparative advantages; second, China has no advantage in import and technical knowledge. The former is basically competitive, while the latter is partially market-driven, and their impact on the economic welfare and long-term development of the two countries is different. The impact of the trade war is not just between China and the United States. And it affects the global economy [12]. Although Mercedes is a German brand, some of its models are made in the United States. After several tariff increases, tariffs on imported cars made in the United States reached 65 percent. On July 13, 2020, Mercedes-Benz raised the official guidance prices of two major models imported from the United States -- Mercedes-Benz GLE and GLS -- by 28,000 to 135,000 yuan. Daimler reported a sharp drop in net profit, mainly because of tariffs.

3 Porter's Five Forces Model

Porter's Five Forces is a business tool for analyzing an industry. Analyze the attraction and competitive scale of an industry from five aspects. Using Porter's Five Forces before a company enters an industry can tell if the industry is worth entering.

3.1 The threat of new entrants

The influence of Chinese automobile brands is gradually increasing. Such as BYD, WEY and Hongqi. These local brands are gaining influence in China. These local brands have captured an increasing share of the car market. If Mercedes-Benz wants to survive in the Chinese automobile market, it cannot avoid competing with local brands. Many of these new entrants have financial backing from multinational companies, manufacturing expertise, and product development expertise from other companies. When more and more brands enter the automobile industry, the supply will be in heavy demand. That will drive down the price of cars and cut into car companies' profits.

3.2 The threat of substitutes

Mercedes-Benz sells all kinds of cars, be they SUVs, sedans, or sports cars. The biggest alternative for Mercedes is electric cars. In pure electric vehicles, compared with fuel vehicles, the main difference is the four components, driving motor, speed control controller, power battery, and car charger. In contrast to gas stations, it is made up of public superfast charging stations. The quality difference of a BEV depends on these four components, and its value also depends on the quality of these four components. The use of pure electric vehicles is also directly related to the selection and configuration of the four components. Mercedes is not very involved in electric cars. The Chinese government has heavily subsidized domestic electric vehicles, which has led many Chinese auto brands to make the transition to electric vehicles. At the same time, many new electric vehicle brands have emerged, and they now have a large share of the electric vehicle market in China. Many people find that electric cars are less expensive than conventional cars, and Chinese government policies have made more and more people prefer electric cars. This will be a big challenge for Mercedes.

3.3 Rivalry among existing competitors

As the technology of each brand becomes more and more mature, the quality difference between competing models in the same category in the market becomes smaller and smaller. Many 4S stores began to attract more customers from the after-sales service level. In the manufacturing of vehicles, each brand will be distinguished from other models by the vehicle's characteristics. Mercedes' two biggest competitors are BMW and Audi. If Mercedes wants to take a bigger share of the market, it must take advantage of its luxury interior and correct its weakness in power. In terms of management, enterprises need to promote the positive image of Mercedes-Benz so as to make the brand more attractive. A good brand image is representative of high quality, which can make consumers more confident about products. This is a great way to increase sales.

3.4 Bargaining power of suppliers

As a first-tier automobile brand, Mercedes-Benz will be far higher than other automobile brands in sales volume. When it comes to raw materials, Mercedes can easily

achieve economies of scale. Purchasing raw materials in large quantities can reduce the cost of the company, which also leads to a reduction in the premium power of suppliers. Of course, suppliers are also happy to see such a situation. Mercedes-Benz is a big customer who can cooperate with them for a long time. It is because the supplier does not want to lose this customer that Mercedes-Benz has the initiative to set the price in purchasing raw materials or advertising. As mentioned above, the premium power of suppliers is very low.

3.5 Bargaining power of buyers

Consumer bargaining power is weak. Suppose a customer has 300,000 RMB in savings and decides to use the money to buy a car. Therefore, between Cadillac and Mercedes, most consumers will choose Mercedes, and users will feel elegant and comfortable when they enter the car of Mercedes. In this respect, the perceptual value and rational value of Benz have been recognized by users. Mercedes-Benz's bargaining power can stabilize in the high-end position of the market. This is the brand influence of Mercedes-Benz, which can determine the premium ability of a brand in this market. With the emergence of more and more automobile brands, they also began to pay attention to the luxury of the interior of the car, which gradually weakened the bargaining power of Mercedes-Benz. But the bargaining power of customers is low anyway.

4 Conclusion

Mercedes-Benz dominates both the global and Chinese car markets. If Mercedes-Benz hopes to have better development in China, the most important thing is to understand China's policies. First of all, new energy vehicles are the future development trend of China. This is a huge change for the company itself. All companies in the industry of new energy vehicles are still in the stage of exploration. The biggest advantage for Mercedes is its brand awareness. Benz's investment in electric cars and the construction of laboratories also show that Benz is a visionary company. This will give Mercedes a greater edge in new areas. If a multinational company wants to develop successfully in a country, it is essential to study government policies. More and more people are beginning to learn about cars. If Mercedes still uses the 1.3T engine and sells it at a high price, it will gradually lead to a bad reputation for the brand. No one wants to be able to drive up a steep hill. The GLB, in particular, is a 7-seater SUV with a 1.3-ton engine. Of course, these also have a lot to do with import taxes on cars. Of course, Mercedes should pay the most attention to the competition among peers. BMW and Audi have been slowly improving the luxury of interior decoration, which will make Mercedes slowly lose competitiveness. Mercedes can't match the other two brands in terms of power and maneuverability. Only through continuous optimization can Mercedes-Benz maintain its leading position in the automobile market.

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