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MASTER THESIS

**DIFFERENTIATION STRATEGY IN ACHIEVING MARKET
COMPETITIVENESS: THE CASE OF MERCEDES BENZ**

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AUTHORSHIP STATEMENT

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LIST OF ABBREVIATIONS

sl. – Slovene

AG - Aktiengesellschaft

AI - Artificial Intelligence

BMW - Bayerische Motoren Werke

EBIT - Earnings before interest and income taxes

EP - Economic profit

MB - Mercedes Benz

MB.OS - Mercedes Benz operation system

R&D - Research and development

ROIC - Return on invested capital

SUV- Sport utility vehicle

SWOT - Strengths, weaknesses, opportunities, threats

1 INTRODUCTION

In modern business marked by intense competition, the achievement and maintenance of competitive advantage commonly impose itself as the fundamental business purpose. The principal source of creating and maintaining the competitive advantage of a company are various activities that have material effects on the profit margin of the product and can be managed successfully. The strategy presents a firm's theory of how to achieve high levels of performance in the markets and industries within which it is operating (Barney, 2011).

To be competitive in modern markets requires that companies transform the local positions into national, international and/or global ones. Company strategy represents the way in which the company uniquely presents itself in the chosen market in order to achieve the set goals (Davies, 2000). Companies use competitive strategies of differentiation, focus and cost leadership as a way or basis for achieving and maintaining competitive advantage (Davies, 2000). In certain business environments, the most effective and optimal solution can actually be a combination of the above-mentioned strategies.

In contrast to non-differentiated markets, differentiated ones teem with producers using special technology and creating special products, all of whom are making use of similar marketing programs on their markets. Driving forces for the competitive advantage lies in research and development activity and really differentiated products or products adjusted for certain groups of customers. Modern marketing offers solutions and helps companies achieve competitive advantage and secure growth and development in the best way possible (Kotler, 1999). The purpose of differentiation is to create preferences and loyalty of customers in order to reduce their sensitivity to price differences between the industrial products offered. Differentiation should offer customers something unique and valuable for them, which the other producers cannot. The company can build its industrial differentiation on a variety of diverse criteria which can be product characteristics, system of product delivery, marketing approach or other factors of the value chain, design, product perseverance, brand and many more (Kotler, 2006).

The subject of this thesis is to present differentiation strategy as one of the most effective ways of achieving competitive advantage. Competitive advantage is considered the most competitive position on the market, and will be investigated by practical example of Mercedes Benz, one of the most globally known companies in the automotive industry.

The purpose of this thesis is to contribute to the theory and practice on how the differentiation strategy could be used for successfully achieving a firm's competitive position. The goals of the thesis include the following:

- define the concepts of competitive position and competitive advantage along with contemporary sources and attributes of various competitive positions,
- classify business strategies and define differentiation strategy in the modern business world,
- execute strategic analysis of Mercedes Benz' strategic business units to propose potentials for unique differentiation,
- identify risks that Mercedes Benz may encounter in the future while following a differentiation strategy.

The research question: how does Mercedes Benz use the differentiation strategy to expand its business, attract new and keep the loyalty of existing customers, and maintain a competitive advantage in the market?

To answer the research question, two techniques for gathering data are combined. The tool for gathering primary data was a semi-structured interview with one of the sales managers in the Mercedes Benz marketing department. Based on the interview, a detailed analysis is provided of how this leading company in the automotive industry fights with everyday market positioning to preserve the symbol of quality and prestige. In this way, we were also able to find out firsthand the plans and ways of doing business, as well as the various market threats that this company faces on a daily basis.

The second method is SWOT analysis. This analytical technique identifies a company's strengths, weaknesses, opportunities and threats and provides new insights, such as which business aspects the company can improve compared to its competitors. The inputs to this analysis were the interview, company disclosures and publications by other researchers.

The structure of the thesis is as follows: The second chapter presents the concept of competitive position and competitive advantage, as well as the way in which the company identifies and measures sources and attributes of competitive position. The third chapter presents generic business strategies including cost leadership strategy, differentiation strategy and focus strategy. In the fourth chapter, I present Mercedes Benz and the case study research process. Continuation of the fourth chapter contains the history of Mercedes Benz as well as Mercedes Benz business strategy, brand and trademarks. The German automotive industry is presented with a comparison between BMW's and Mercedes Benz's market position. The case study chapter finishes with a SWOT analysis and the analysis of Mercedes Benz differentiation strategy.

2 THE CONCEPT OF COMPETITIVE ADVANTAGE

One of the main goals of competitively oriented companies is to gain and maintain the number one position on the market (Porter, 1985). When making comparisons with the

competition, one should start by establishing what the structure of the competition is, and then identify the key factors of success for each competitor (Eisner, 2016). This will provide the foundations for creating a sustainable competitive advantage for one own's firm (Craig, 1993), if that is the expectation of the owners.

Competitive markets imply market structures in which there exists a large number of producers that produce standardized products that they sell on a non-differentiated basis. Therefore, competitive advantage should be sought in economies of scale and cost-effectiveness of both production and marketing (Christensen, n.d.). In contrast to non-differentiated markets, differentiated ones teem with producers using special technology and creating special products, all of whom are making use of similar marketing programs on their markets (Bhasin, 2021). Driving forces for the competitive advantage lies in research and development activity and really differentiated products or products adjusted for certain groups of customers. Segmented markets are those in which there is a small number of producers offering differentiated marketing programs for different segments (Essentials of Strategy, 2006). Strategic intention sets a goal which requires personal effort and obligation to be the leading company in the corresponding activity. The challenge for the company comes in the way of analysis of the competition as well as the prediction of the evolution of a given branch.

2.1 Definition and measurement of competitive advantage

A company has a competitive advantage over its rivals when its profit margin or profitability is greater than its industry rivals (Hill, 2008).

In general, a firm's competitive advantage could be presented as a firm's economic value compared with other market participants. Economic values present the difference between the perceived benefits gained by a customer who purchases a firm's products or services and the full cost of these products or services. Thus, the size of a firm's competitive advantage is the difference between the economic values a firm is able to create and the economic values its rivals are able to create (Barney, 2011).

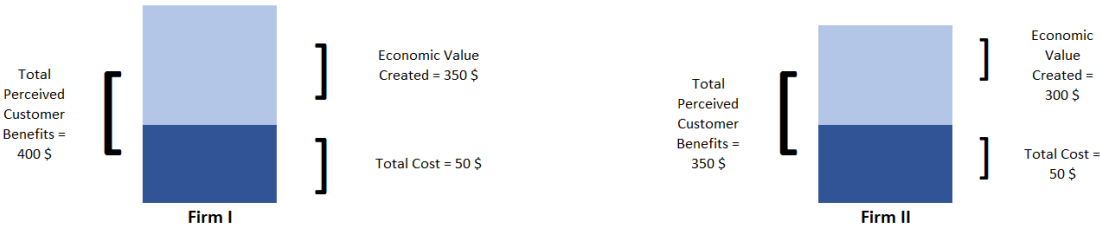
Competitive advantage can be temporary and sustained. A temporary competitive advantage is a competitive advantage that lasts for a very short time. A sustained competitive advantage, on the other hand, can last much longer (Barney, 2011). How long firms are able to sustain competitive advantage directly depends on what sources is it based on. Traditional economic theory predicts that the sources and attributes of competitive advantage developed by a particular firm will quickly be identified and imitated by other firms, ensuring competitive parity in the long run.

Competitive parity presents one of three possible competitive positions on the market, together with competitive advantage and competitive disadvantage. All three market positions present the result of successful strategy planning and implementation which

leads to the firm's target of performance. Following the example shown in Figure 1 and Figure 2, comparing two firms that compete in the same market for the same customer, the economic value together with the amount of competitive advantage could be presented and calculated in two different opposite scenarios.

In the first scenario, shown in Figure 1, Firm 1 generates 350 \$ of economic value each time it sells a product or service whereas Firm 2 generates 300 \$ of economic value each time it sells a product or service. Because Firm 1 generates more economic value each time it sells a product or service, it has a higher level of performance advantage over Firm 2. The size of this performance advantage in this case could easily be measured, and present the difference between the economic value of Firm 1 and the economic value of Firm 2, which results in 50 \$ ($350 \$ - 300 \$ = 50 \$$).

Figure 1: Competitive advantage between firms with different perceived customer benefits

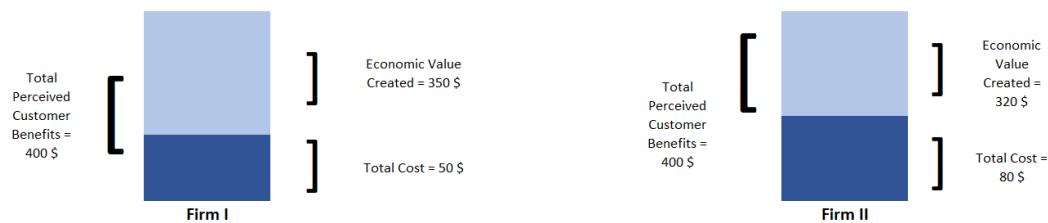


Source: Adapted from Barney (2011).

Alternatively, as shown in Figure 2 below, two firms can also create the same level of perceived customer benefit (400 \$), but have different costs. If Firm 1's costs per unit are only 50 \$, it will generate 350 \$ worth of economic value ($400 \$ - 350 \$ = 50 \$$). If Firm 2's costs are 80 \$ per unit, it will generate only 320 \$ of economic value, ($400 \$ - 80 \$ = 320 \$$). Indeed, it might be possible for Firm 1 to create a lower level of perceived benefits for its customers than Firm 2 and still create more economic value from Firm 2, as long as its disadvantage in perceived customer benefits was more than offset by its cost advantage.

However, the firm's advantage may come from different sources. As could be shown in the previous example, Firm I might create greater perceived benefits for its customer than Firm II, and in the second scenario both firm's could create also the same perceived benefits, but create a different amount of costs, and in that way enjoy the strength of competitive advantage.

Figure 2: Competitive advantage when firm I has lower costs



Source: Adapted from Barney (2011).

Highlight the fact that any competitive advantage in a long-term run is a temporary position, sustainable competitive advantage is now the exception not the rule and transient advantage is the new normal. In the words of Rita Gunther McGrath " In a world where a competitive advantage often evaporates in less than a year, companies can't afford to spend months at a time crafting a single long-term strategy. To stay ahead, they need to constantly start new strategic initiatives building and exploiting many transient competitive advantage at once" (Gunther McGrath, 2013). Transient Advantage is the notion that companies must learn to launch new strategic initiatives again and again, as well as create a portfolio of advantages that can be built quickly and abandoned just as rapidly (Brief, n.d.) . To compete in a transient – advantage economy companies have to make constant internal strategic analysis noting when competitive advantage is fading away. Companies must learn to cycle rapidly through the stages of competitive advantage and have to have capacity to develop and manage a pipeline of initiatives (Gunther McGrath, 2013). Following the concept of transient advantage, every company has to regularly monitor and listen to changes in competitive advantage and to underinvest in new opportunities, but most of all transient-advantage leaders have to have the ability to venture into new spaces for which is the prerequisite to have qualified decision-making management who will recognize the need for speed and in a world where advantage lasts for five minutes, don't miss the window of opportunity.

Competitive position is based on distinctive competencies. Distinctive competencies are a firm-specific strengths that allow a company to differentiate its products from those offered by rivals. Distinctive competencies arise from two complementary sources, resources and capabilities (Hill, 2008):

- resources refer to the assets of a company and they can be divided into two types: tangible and intangible. Tangible resources are physical entities and intangible resources are nonphysical ones;
- capabilities refer to a company's skills at coordinating its resources and putting them to productive use. These skills reside in an organization's rules, routines and procedures that is the style or manner through which it makes decisions and manages its internal processes to achieve organizational objectives. More generally, a company's capabilities are the product of its organizational structure, processes,

control systems and hiring systems. They specify how and where decisions are made within a company, the kind of behaviors the company rewards, and the company's cultural norms and values.

2.2 Measuring competitive advantage

A firm has a competitive advantage when it creates more economic value than its rivals. Economic value is presented as a positive difference between perceived customer benefits associated with buying a firm's products or services and the cost of producing and selling these products or services. While in practice, these differences are not always easily calculated, two approaches for measuring a firm's competitive advantage have emerged (Barney, 2011):

- simple accounting performance measures,
- adjusted accounting performance measures.

2.2.1 Simple accounting performance measures

Simple accounting performance measures present the most popular way of measuring a firm's performance. These measures are publicly available for many firms, and rely on ratio analysis (Barney, 2011). Accounting ratios come in various types and some of the most important ones are presented in Table 1.

Nevertheless, these simple accounting measures of performance are easily calculated and present powerful tools for understanding a firm's performance that are not without limitations. Three particularly important limitations of accounting measures of performance are (Barney, 2011):

- managerial discretion – managers have discretion in choosing accounting methods,
- short-term bias – most simple accounting approaches to measuring performance have a built-in-short bias,
- valuing intangible resources and capabilities – accounting measures of performance generally do not fully value a firm's intangible resources and capabilities.

Along with the limitations accounting numbers, simple accounting measures may still be an extremely accurate and convenient measure of firm performance so they should be taken with care and judgment and must be used when applying accounting measures to characterize firm performance.

Table 1: Simple accounting performance measures

Ratio	Calculation	Interpretation
Profitability Ratios		
1. Return on total assets (ROA)	$\frac{\text{Profits after taxes}}{\text{Total assets}}$	A measure of return on total investment in a firm.
2. Return on equity (ROE)	$\frac{\text{Profits after taxes}}{\text{Total stockholders' equity}}$	A measure of return on total equity investment in a firm.
3. Gross profit margin	$\frac{\text{Sales} - \text{cost of goods sold}}{\text{Sales}}$	A measure of sales available to operating expenses and still generate a profit.
4. Cash flow per share	$\frac{\text{After - tax profits} + \text{depreciation}}{\text{Number of common shares outstanding}}$	A measure of funds available to fund activities above the current level of costs.
Liquidity Ratios		
1. Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	A measure of the ability of a firm to cover its current liabilities with assets that can be converted into cash in the short term.
2. Quick ratio	$\frac{\text{Current assets} - \text{inventory}}{\text{Current liabilities}}$	A measure of the ability of a firm to meet its short-term obligations without selling its current inventory.
Leverage Ratios		
1. Times interest earned	$\frac{\text{Profits before interest and taxes}}{\text{Total interest charges}}$	A measure of how much a firm's profits can decline and still meet its interest obligations.
Activity Ratios		
1. Inventory turnover	$\frac{\text{Cost of goods sold}}{\text{Average inventory}}$	A measure of the speed with which a firm's inventory is turning over.

Source: Barney (2011, p. 19).

2.2.2 Adjusted accounting measures of competitive advantage

Although simple accounting measures of firm performance have important limitations, they have the enormous advantage of being widely available for publically traded firms. In that case, adjusted accounting measures take advantage of the broad availability of accounting numbers, but they do so in a way that avoids many of the limitations of simple account measures of firm performance. These adjusted accounting measures of firm performance just compare a firm's revenues and costs by calculating the difference between costs presented as cost of capital and revenues which require a thorough understanding of current accounting practices and the implications of those practices on a firm's profits.

There are three adjusted accounting measures of a firm's economic performance which can taken together provide a clear picture of a firm's true economic performance, and they include (Barney, 2011):

- return on invested capital (hereinafter ROIC) – firm's operating profits divided by the amount of capital invested in a company and characterizes a firm's return on its capital for a given time period.
- economic profit (hereinafter EP) – calculates the actual economic value created by a firm in a given time period in dollar terms.
- Tobin's q – ratio of a firm's market value to the replacement cost of its assets

Although ROIC, EP and Tobin's q all provide important information about the historical performance of a firm and although all these measures avoid some of the weaknesses of simple accounting measures of firm performance these measures nevertheless have some important weaknesses which may include measurement problems in estimating β , theoretical Mis-specification of the CAMP or intangible resources and capabilities and adjusted accounting measures of performance.

All of the measures mentioned above of firm performance share a common assumption: that the primary objective of a firm is maximizing the wealth of its shareholders. From another point of view shareholders are just one of several different stakeholders in a firm. A firm's stakeholders are those institutions and groups that provide a firm with resources and thus have an interest in how a firm performs. Stakeholders include a firm's employees, customers, management, suppliers and even society at large. Because stakeholders provide resources they have an interest in how those resources are used and applied. Also, because each shareholder provides different resources to a firm, each stakeholder can have a different interest in how it would like to see the firm management. In this multiple stakeholders approach, different firm stakeholders use different criteria to judge a firm's performance and rarely it will be possible for an organization to implement strategies that completely satisfy all of its stakeholders. When multiple stakeholders have claims on a firm's residual cash flows, the key questions are what actions a firm should engage in to satisfy these different stakeholders and in which way resources should be organized to create the desired competitive position.

2.3 The attributes of competitive position

Designing good products that customers want to buy is a challenging task. Customers do not buy mere products. They seek product benefits and are often willing to pay more for a brand that genuinely solves their problems. Markets do not stand still. Companies must adapt their current offerings or create new product attributes that respond to changing customer needs, or take advantage of new marketing and technological opportunities. Developing a product involves defining the benefits that the product will offer. These

benefits are communicated and delivered by tangible product attributes, such as quality, prices, brand, packing and design (Kotler, 1999, p. 566). Competitive attributes that individually or collectively contribute to achieving the desired competitive position on the market are characteristics which are easily visible from the customer's view (Kotler, 1999) and usually are directly linked with physical product characteristics, but decisions about these attributes are particularly important as they greatly affect consumer reactions to a product. These attributes including product and service quality, innovating products, packing, design, brand and label will be explained in more detail below.

2.3.1 Product and service quality

Quality represents the degree of ability of a certain brand to execute its functions. It is a concise expression for durability, reliability, accuracy, precision, ease of handling and repair, but the concept of quality has changed with time. Following the main changes in society, economy, technology and science, it can be defined from two aspects: The internal view of quality and the external conception of quality. The former starts from the belief that quality is expressed in terms of the degree to which products, that is, service is adjusted to internal measures and specifications. The other, much more important approach to defining quality, is the so-called external conception of quality. In product development stages the producer has to choose the degree of quality that will satisfy the desired position of the product in the target market. Thus, quality is one of the most important instruments of differentiation, and thereby product positioning. An additional request of permanence, that is, creation of customer loyalty to a certain product is set on quality. In other words, this means that the customer who has been assured of the quality of a certain product will purchase the product again, even when the price is increased. Hence the famous proverb: "I'm not rich enough to buy cheap things."

Quality has a direct impact on product performance, and hence on customer satisfaction. In the narrowest sense, quality can be defined as 'freedom from defects'. But most customer-centered companies go beyond this narrow definition of quality. Instead, they define quality in terms of customer satisfaction. For example, Motorola, a company that pioneered total quality efforts in the United States, stresses that 'Quality has to do something for the customer . Our definition of a defect is "if the customer doesn't like it. it's a defect" (Kotler, 1999, p. 12). Customer-focused definitions of quality suggest that a company has achieved total quality only when its products or services meet or exceed customer expectations. Thus, the fundamental aim of today's total quality movement has become total customer satisfaction. Quality begins with customer needs and ends with customer satisfaction.

2.3.2 Innovative products

The fundamental competitive position of every modern company is its capacity to innovate. Today, the goods and services sought on the market the most are those based on innovativeness and knowledge. Innovations are a factor of competitiveness of huge significance both for the local and global market. Innovations represent a challenge for every business, and the fundamental philosophy hiding behind every innovation is connecting the technological possibilities and the needs of the market (Innovation as a Competitive Advantage, n.d.). The concept of innovation cannot be bound only to science and high technology. Innovativeness is a congenial part of every human being. It has always been a human virtue. It is the driving force that has always resulted in progress. For a long time now, the area of innovation has not been strictly bound to technical and technological progress. A huge field of innovations lies in differently combining the existing technological solutions and creating new value for the customers (Innovation as a Competitive Advantage, n.d.). Innovations are not only new technologies or new products, but are new and smarter ways of doing business, new management methods, new business systems or new services (Wen-Cheng et al., 2011). But, once the innovation has been captured and the competitiveness or advantages disappear companies have constantly to make a process for filling their pipeline with new ones. This means that every innovation whether additional value added to a certain product or innovative process has to be carefully orchestrated. Each company has to have a strong sense of how innovations fit into the larger portfolio and search beyond the boundaries of the firm and its R&D department figuring out what customers are trying to accomplish and how the firm can deliver the additional values to final customer (Gunther McGrath, 2013).

2.3.3 Prices

Prices are an attribute of competitive position, in addition of company's ability to offer products or services at a lower cost than its competitors while still maintaining a profit (Low Cost Providers Have A Competitive Advantage – Woodward Avenue, n.d.). This can be achieved through various means such as economies of scale, efficient operations, and sourcing materials at a lower cost.

By offering lower prices, a company may attract more customers and increase market share, ultimately leading to a competitive position. Low prices can be an attribute of competitive position as they can attract customers and increase market share. Additionally, low prices can increase profitability through higher volume sales. However, it is important to note that low prices alone may not be sustainable as a competitive position if the company is not able to maintain efficient operations and control costs (Is Price a Competitive Advantage? | Marketing Research – RMS, n.d.). Also, by offering products or services at lower prices than competitors, a company can attract price-sensitive customers and increase market share. However, it is important to note that low

prices alone do not guarantee a competitive position as there are other factors that also influence consumer purchasing decisions such as quality, responsibility toward customers, and brand reputation.

On the other hand, it is a mistake to believe that higher prices the other way are somehow detrimental to selling effectively. Indeed, higher prices are a successful way for creating customer loyalty and better competitive position. Highly priced products create more value from customer's perspective and are worth more. Following the example of Mercedes Benz and many other globally known brand, setting up higher premium prices the company creates additional value for products via two mechanisms: creating additional quality value followed by the higher product price and creating the inevitable sense of superiority for their customers in a way of owning the product which is not widely available (Horvath, 2014).

2.3.4 Product packaging

Packaging comprises bowls of various shapes and sizes, made of different materials, in which goods are stored in the course of circulation. The principal functions of packaging are the following (Macura, 2009):

- protective - design that enables product safety during transportation, it is usually used for fragile items that are distributed in places localized in other area.
- distributional (warehouse-transport-manipulative) - types of packing design that secures product safety during the warehouse phase of product distribution.
- communicational (market-sales) - a way to send a unique messages to end customers by designing creative packages to attract attention for more visual parts of the community.
- usable (user) - creating package design which can be used for more than one purpose after final customer distribution.
- ecologically sustainable - thinking about future recycling processes will result in creating packages of material which can be transformed and processed for other uses.

Some marketers have called packaging the fifth *P*, along with price, product, place and promotion. Most marketers, however, treat packaging as an element of product strategy. Packaging includes the activities of designing and producing the container or wrapper for a product. Packaging performs a vital function for most products. It protects goods from being damaged before you buy them (Kotler, 1999, p. 583). But, innovative packaging can give a company an advantage over competitors and along with the brand present a strong attribute for a competitive position.

2.3.5 Product brand

Consumers view a brand as an important part of a product, and branding can add value to a product. If the product delivers a higher value compared to competitors, it enjoys favorable positioning and a higher level of customer loyalty and brand equity. It should either deliver value for money or reflect the aspirations of consumers due to product ownership associated attributes and of them is product brand (Panda, 2016). Product brand is the name, phrase, symbol, design or a combination of the same; it is used with the aim of making the product recognizable. Product brand serves the purpose of product identification, and is made of package, design and other elements of the marketing mix. (Product Branding, n.d.) Branding has become a central issue in product strategy. On the one hand, developing branded products requires a great deal of long-term marketing investment, especially for advertising, promotion and packaging. Manufacturers often find it easier and less expensive simply to make the product and let others do the brand building, but on the other hand, most manufacturers eventually learn that the power lies with the companies that control the brand names. It was mentioned, a brand presents a name, term, sign, symbol, design or a combination of these, which is used to identify the goods or services of one seller or group of sellers and can deliver up to four levels of meaning (Kotler, 1999, p. 570 - 573):

- attributes - a brand first brings to mind certain product attributes. ,
- benefits - customers do not buy attributes, they buy benefits. Therefore, attributes must be translated into functional and emotional benefits,
- values - a brand also says something about the buyers' values. Thus Mercedes Benz's buyers value high performance, safety and prestige,
- personality – a brand also projects a personality. Motivation researchers sometimes ask, 'If this brand were a person, what kind of person would it be?' Consumers might visualize a Mercedes Benz automobile as being a wealthy, middle-aged business executive.

The foremost characteristic of this competitive attribute is that when a brand is done right, it can't be duplicated and speaking by the words of Don DiCostanzo, co-founder of „Pedego Electric Bikes “: “A brand is a promise of an experience and is directly connected to trust. It's what your customers say when you're not around“ (DeVries, n.d.).

2.3.6 Product design

Design nowadays is not considered only as a tool for modifications of forms and functions of the products or process rather influence business bottlenecks such as marketability, manufacturability and safety by developing new concepts, simplifying the process in order to reduce costs, adding value, streamlining product function, designers gain more experience and of course develop new markets, However, due to the multidimensionality

of design, it is hard to clearly understand how design works in business and competitiveness (Liu et al., 2015).

Many companies, however, lack a "design touch". Their product designs function poorly or are dull or common-looking. Yet design can be one of the most powerful competitive weapons in a company's marketing arsenal. Design is a broader concept than style. Style simply describes the appearance of a product. A sensational style may grab attention, but it does not necessarily make the product perform better. Unlike style, design is more than skin deep - it goes to the very heart of a product. Good design contributes to a product's usefulness as well as to its looks and as competition intensifies, the design will offer one of the most potent competitive attributes for differentiating and positioning products of all kinds (Kotler, 1999).

2.3.7 Labels

Labels may range from simple tags attached to products to complex graphics that are part of the package. They perform several functions. At the very least, the label identifies the product or brand. The label might also grade the product, or describe several things about the product - who made it, where it was made, when it was made, its contents, how it is to be used and how to use it safely. Finally, the label might promote the product through attractive graphics. Labels can mislead customers, fail to describe important ingredients or fail to include needed safety warnings. Sellers must ensure that their labels contain all the required information and comply with national or international requirements (Kotler, 1999, p. 585).

2.3.8 Other attributes of competitive position

Other attributes of competitive positions apply, as well. Building strong relationships and networks with customers creates trust and loyalty, but also successful barriers to entry. Many companies have begun to invest in communities and networks as a way of deepening ties with customers (Gunther McGrath, 2013). Another way to strengthen a competitive position is an effective channel of product distribution. Distribution can be a significant attribute of competitive position for a company, as it allows the company to reach customers in different geographic locations or through different channels. A strong distribution network can also allow a company to respond quickly to changes in customer demand or to introduce new products to the market. Additionally, a company with a large distribution network may be able to negotiate better terms with suppliers and manufacturers (Myers, n.d.). Selective distribution through well-chosen outlets has also proven to be an extremely important source of competitive position. Firms can enhance the role of channels through activities such as (Porter, 1985, p. 123):

- channel selection to achieve consistency in facilities, capabilities or images,

- establishing standards and policies for how channels must operate,
- provision of advertising and training materials for use by channels,
- providing funding so the channel can offer credit.

However, distribution can also be a costly endeavor, and companies must weigh the costs and benefits of investing in a strong distribution network. As could be concluded, sources of competitive position grow out of the firm's value chain and successfully give firms the possibility to create superior performance and achieve premium prices exceeding added costs and product uniqueness.

2.4 Sources of competitive position

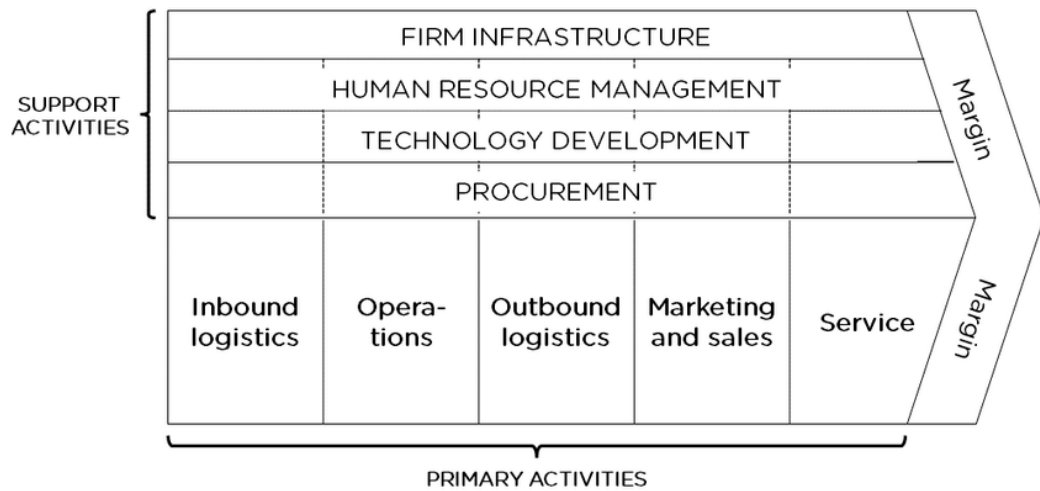
A firm differentiates itself from the competitors when it provides something unique that is valuable to buyers beyond simply offering a low price. Differentiation allows the firm to command a premium price, to sell more of its products and to gain customer loyalty along with better competitive market position. Differentiation can not be understood by viewing the firm in aggregate, but stems from the specific activities a firm performs. Virtually any value activity is a potential source of uniqueness and competitive position (Porter, 1985).

All business functions of a company – such as marketing, product development, procurement, manufacturing, sales, human resource management etc. have a role in optimizing the cost structure and increasing the perceived utility (value) of the product through differentiation (Hill, 2008). The first step in examining this concept is a value chain shown in Figure 3.

The term *value chain* refers to the idea that a company is a chain of activities for transforming inputs into outputs that customers value (Hill, 2008). The transformation process involves a number of primary activities and support activities that add value to the product. Primary activities have to do with the design, creation and delivery of the product, its marketing, its support and after-sales services. The support activities of the value chain provide inputs that allow the primary activities to take place (Hill, 2008).

A firm's value chain represents the way it performs individual activities which reflect its history, its strategy, its approach to implementing its strategy, and the underlying economics of the activities themselves. The relevant level for constructing a value chain is at the level of a firm's activities in a particular industry. An industry or sector-wide value chain is too broad, because it may obscure important sources of competitive position. Differences among competitor value chains are a key source of competitive position. A firm's value chain in an industry may vary somewhat for different items in its product line of different buyers, geographic areas or distribution channels (Porter, 1985a).

Figure 3: Value chain & sources of competitive position



Source: Porter (1985, p. 37).

In competitive terms, value is the amount buyers are willing to pay for what a firm provides them. Creating value for buyers that exceed the cost of doing it is the goal of any business strategy. The successful competitive source in the value chain could be seen in several ways. One of them, for instance, is the level of used technology. Once the company realizes that one of its biggest costs is related to labor, introducing technology for replacing repetitive activities can be one of the ways to achieve significantly better competitive position. Australia’s Brambles has done a really great job by designing a solution: plastic bins that can be filled and lifted directly from pallets and placed on shelves, which cut labor costs significantly (Gunther McGrath, 2013).

Marketing and sales activities related to human resources could be one of the activities which could impact better prices for final customers and increase the amount of sales. In the distant past, the successful salesperson was a “persuader,” a good presenter, and a product/service feature expert. This sales approach suited a market, mostly in the 1950s—1970s, where customers had little information and were eager to buy in an expanding business climate. Today’s qualified salespeople add value to their customers’ bottom line, discover their needs, align their resources to their clients’ problems, and offer highly flexible and complex product offerings. This way, if a company recognizes the importance of employment and people development, it could achieve and improve the sale of products, adapt and fully meet the needs of customers (Sales as a Source of Competitive Advantage, n.d.).

3 GENERIC BUSINESS STRATEGIES

In the turbulent, uncertain, and changeable environments in which today's companies operate, the formulation, implementation and control of business strategies is of crucial importance. The strategic orientation of companies, which is achieved by the selection of an appropriate strategy and implementation thereof, determines the long-term goals of the company (Roorda, 2012). Despite its age, Porter's generic business strategies represent the fundamental choice for managers. However, let's define a competitive strategy (business strategy) first.

In general, by formulating a competitive strategy, the company determines the way in which--it believes--will achieve the set goals. The competitive strategy takes offensive actions to create a defensible position in an industry with the five competitive forces and thereby yields a superior return on investment for the firm. Firms have discovered many different approaches to this end and the best strategy for a given firm is ultimately a unique construction reflecting its particular circumstances (Porter, 1980). To be a useful guide for decision-making, a strategy must have elements that clearly define the firm's goals and direction it will take to achieve them. Although there are many ways a manager might choose to accomplish this, any coherent business strategy should have four components. First, it should include a clear set of long-term goals. Second, it should define the scope of the firm, the kinds of products the firm will offer, the markets it will pursue and the broad areas of activities it will undertake. Third, a strategy should have a clear statement of what competitive position the company will achieve and sustain. Finally, the strategy must present the essential logic of firm's internal context which will allow it to achieve a competitive position in the environment in which it has chosen to compete (Saloner, 2001).

In other words, although each strategic business situation is unique, there are some common criteria that tend to define a good strategy. The fact that a strategy worked in retrospect is not a sufficient criterion for judging any business strategy. Besides, at the time one formulates a strategy, one cannot use the criterion of ultimate success because the outcome is still in doubt. Yet, there is a need to set some guidelines to define an effective business strategic structure (Mintzberg, 1995). Studies have suggested some initial criteria for evaluating a good business strategy. These include its clarity, motivational impact, internal consistency, compatibility with the environment, appropriateness in light of resources etc.. In addition, both business and military-diplomatic settings suggest that effective strategies should at a minimum encompass certain other factors and structural elements (Mintzberg, 1995):

- clear, decisive objectives – specific goals of subordinate units may change in the heat of campaigns or competition, but the overriding goals of the strategy for all units must

remain clear enough to provide continuity and cohesion for tactical choices during the time horizon of the strategy.

- concentration – a distinctive competency yields greater success with fewer resources and is the essential basis for higher gains.
- flexibility – as corollaries of concentration and concession, they permit the strategist to re-use the same forces to overwhelm selected positions at different times.
- coordinated and committed leadership – a leader must be chosen and motivated so that their own interests and values match the needs of their roles. Successful strategies also require commitment, not just acceptance.
- surprise – with surprise and correct timing, success can be achieved out of all proportion to the energy exerted and can decisively change strategic positions.

Strategic management aims to provide a strong long-term competitive position that over time will benefit the organization's stakeholders more lastingly than, for example, short – term profitability. Because the external environment is subject to sudden shocks as well as continuous change, it is necessary to ensure that the organization's strategic priorities are consistent and as possible constant, so that the organization's people are clear about the purpose and can adjust to change accordingly (Chau, 2014). Porter writes that competitive strategy for a particular industry should grow out of an understanding of the collective strength of the five competitive forces, since the ultimate aim of the strategy is to cope with and ideally influence the forces in the organization's favor (Chau, 2014).

In Porter's own words „Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceed the firm's cost of creating it. Value is what buyers are willing to pay, and superior values stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price“ (Porter, 1985a, p. 3).

Porter argues that there are four general types of competitive strategy based on competitive advantage (position) and competitive scope. When a company targets the whole industry then a strategy is either a cost leadership generic strategy or industry-wide differentiation generic strategy. When a company targets a part of an industry, such as market segments, then the generic strategy is either cost focus or differentiation focus. The details of a generic strategy strategy will depend on the company's needs and a given industry's circumstances (Chau, 2014). However, Porter maintains that whatever shape the strategy takes, to be effective in the long run, it must conform to one of the four generic types (see Figure 4).

Figure 4: Four generic business strategies by Porter

		COMPETITIVE ADVANTAGE	
		Lower cost	Differentiation
COMPETITIVE SCOPE	Broad target	1. Cost leadership	2. Differentiation
	Narrow target	3a. Cost Focus	3b. Differentiation Focus

Source: Porter (1985, p. 12).

Sometimes the firms can successfully pursue more than one approach as their primary target, though this is rarely possible. Effectively implementing any of these generic strategies usually requires total commitment and supporting organizational arrangements that are diluted if there is more than one primary target. These generic strategies are solid approaches to outperforming competitors in the industry (Porter, 1985a, p. 17).

3.1 Cost leadership strategy

A firm that chooses a cost leadership business strategy focuses on gaining a competitive advantage by economic costs below all of its competitors. This does not mean that the firm abandons other business or corporate strategies. Indeed, a single – minded focus on just reducing costs can lead a firm to make low – cost products that no one wants to buy. However, a firm pursuing a cost leadership strategy focuses much of its effort on reducing its economic costs below those of competitors.

Cost leadership is perhaps the clearest of the three generic strategies. Here, a firm sets out to become the lowest-cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology and preferential access to raw materials. Implementing a low-cost strategy an organization must find and exploit all sources of cost advantage. Low-cost producers typically sell a standard or no-frills product and place considerable emphasis on reaping scale or absolute cost advantage from all sources (Porter, 1985). If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average. At equivalent or lower prices than its rivals, a cost leader’s low-cost position translates into higher returns.

There are several reasons why firms may have a cost advantage over their competitors. A cost advantage is possible even when competing firms produce similar products and some of the main sources will be explained in addition (Barney, 2011):

- size differences and economies of scale – when there are significant economies of scale in manufacturing, marketing, distribution, service or other functions of a business, larger firms have a cost advantage over smaller ones,
- volume of production and specialized machines – when a firm has a high level of production, it is typically able to purchase and use specialized manufacturing tools that cannot be kept in operation in small firms,
- volume of production and the cost of plant and equipment – in some industries the cost of building these manufacturing operations, per unit of production, is lower than the cost, per unit of production, of building smaller manufacturing operations,
- volume of production and employee specialization – high volumes of production are also associated with high levels of employee specialization,
- managerial diseconomies - as a firm increases in size, it often increases in complexity and the ability of managers to control and operate it efficiently becomes limited,
- worker motivation – motivating human resources in a firm, workers become more and more efficient at the particular task facing them,
- distance to markets and suppliers – the source of cost strategy presented by reducing the distance between a large manufacturing facility and the place where the goods in question are to be sold or the places where essential raw materials are purchased.

Given that cost leadership can be valuable, an important question becomes “Under what conditions will firms implementing this business strategy be able to maintain that leadership to obtain a sustained competitive advantage?” If cost leadership strategies can be implemented by numerous firms in the industry or if no firms face a cost disadvantage in imitating a cost leadership strategy, then being a cost leader does not generate a sustained competitive advantage for a firm. The ability of a valuable cost leadership strategy to generate a sustained competitive advantage depends on that strategy being rare and costly to imitate, either through direct duplication or substitution. Even when a particular source of cost advantage is rare, it must be costly to imitate in order to be a source of sustained competitive advantage. The imitability of a cost advantage depends, at least in part, on the source of that advantage (Barney, 2011). A cost leader, because of that, cannot ignore the basis of differentiation. If its product is not perceived as comparable or acceptable by buyers a cost leader will be forced to discount prices well below competitors to gain sales. This may nullify the benefits of its favorable cost position. A cost leader also, must achieve parity or proximity in the bases of differentiation relative to its competitors to be an above-average performer, even though it relies on cost leadership for its competitive advantage (Porter, 1985).

It is important to emphasize, that this one-dimensional approach means that products will be easily substitutable and leads to the risk that customers will switch suppliers as soon as a more attractive price offer becomes available. For this reason, a price strategy should only be followed if sustainable cost advantage can be secured (Grünig, 2002). A company's cost position depends essentially on two factors (Grünig, 2002):

- the structure of the value chain,
- the cost drivers in the different activities in the value chain.

Cost leadership is only possible if, in comparison with competitors, a company's value chain consists of a small number of activities linked together in a straightforward manner. For this reason, cost leaders usually offer only a small number of relatively common product types, often building on a single basic module. Typically, there are very few drivers for each activity, often only a single factor (Grünig, 2002). Many firms have made serious strategic errors by failing to recognize this. When there are more product types including many cost leaders, rivalry among them is usually fierce because every point of market share is viewed as crucial. Unless one firm can gain cost leadership and persuade others to abandon their strategies, the consequences for profitability can be disastrous.

In order to successfully avoid the risk, it is necessary to motivate organizations to constantly seek opportunities for additional cost reductions in order to protect competitive cost advantage against erosion. Normally, this means that the company has to develop a cost-oriented business culture. Additionally, the price strategy should only be applied in markets with a large number of price-sensitive customers which produces significant price elasticity in demand. Market-oriented price strategies are thus typically found in markets where large numbers of customers are satisfied by products of standard quality.

3.2 Differentiation strategy

The second generic strategy is differentiation. The word "differentiation" describes the uniqueness that a firm incorporates into its offering (Craig, 1993). In differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. In this strategy firm selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price (Porter, 1985a). The aim of this strategy is to provide products and services that are different from the other ones in the branch and gain coverage of as many market segments as possible. A necessary prerequisite for successful realization of the differentiation strategy is a careful analysis of customer needs and behaviors, and providing answers to the question of what the customers value the most. In case differentiation has been successfully done, the company has the opportunity to determine higher premium prices, ensure customer loyalty and increase the scope of sales (Porter, 1985a).

Differentiation strategy successfully occurs when a firm is able to obtain a price premium from its differentiation in the market that exceeds the cost of providing differentiation. Virtually any product can be differentiated. While complex products and those that do not have to comply with strict regulatory standards offer the greatest potential for differentiation, even so-called commodities still offer opportunities. If the product itself cannot be differentiated, a firm may still be capable of offering superior customer service in the form of efficient order processing, speedy delivery, customer financing opportunities or reliability (Craig, 1993).

Firms often alter the objective properties of their products or services to implement a product differentiation strategy, but the existence of product differentiation in the end is always a matter of customer perception. Products sold by two different firms may be very similar, but if customers believe the first is more valuable than the second then the first product has a differentiation advantage. Product differentiation is always a matter of customer perception, but firms can take a variety of actions to influence these perceptions. These actions can be thought of as bases of product differentiation (Barney, 2011). Although the purpose of all these bases of product differentiation is to create the perception that a firm's products or services are unusually valuable, different bases of product differentiation attempt to accomplish this objective in different ways. Of course, these bases are not mutually exclusive. Indeed, firms often attempt to differentiate their products or services along multiple dimensions simultaneously. Several ways of product differentiation along with the specific differentiation attributes are explained here (Barney, 2011):

1. Focusing on the attributes of a firm's product or services:
 - product features – altering the features of the products they sell
 - product complexity – altering a special case of product features to create product differentiation
 - timing of product introduction – introducing a product at the right time can also help create product differentiation
2. Focusing on the relationship between a firm and its customer:
 - product customization – product differentiation by the extent to which they are customized for a particular customer application
 - consumer marketing – differential emphasis on consumer marketing which has been a basis for product differentiation in a wide variety of industries
 - reputation – presents one of the most important relationships between a firm and its customers and depends on a firm's reputation in its marketplace
3. Focusing on links within and between firms:
 - linkages between functions – product differentiation by linking different functions within the firm

- product mix – mix of products and services can create a source of product differentiation especially when they are technologically linked or when a single set of customers purchase several of a firm's products or services
- distribution channels – well organized distribution channels can also be a successful way of product differentiation
- service and support – product differentiation by the level of services and support associated with them

Differentiation on many grounds is the most desirable one because the fact that there are fewer similarities with the competitors increases market share and strengthens protection from the competition. Production is placed in one or more market niches, and all the variants of differentiation are limited by production costs, given that the development of distinctive competencies incurs costs. For this reason, the company has to control its expenses and the product price cannot be higher than the one customer is ready to pay. Control of expenses should not be identified with minimizing rather what should be done is to eliminate those costs that do not serve the purpose of differentiation.

The key advantage of this strategy lies in creating by means of different products the loyalty to the producer's brand, and thereby ensuring protection from the competition as well as from new participants entering into the branch (Ranjhaa, 2021). Substitutes that are a threat have to be extremely attractive in order to terminate customer loyalty to existing products. Supplier's power in case of differentiation does not have a great role because the accent here is not placed on reducing production costs. Alongside the above-mentioned advantages there are deficiencies as well, and one of the key problems is how long the organization will be capable of maintaining distinctive advantages and customer loyalty. There is a great danger of product imitation, whereby the organization is in a more favorable and safer position if the differentiation is based on the quality of services, not only on design or physical features that are easy to copy (Ranjhaa, 2021).

Product differentiation strategies can add value by enabling firms to charge their products or services prices that are greater than a firm's average total cost. Firms that implement this strategy successfully can reduce a variety of environmental threats and exploit a variety of environmental opportunities (Sutherland, 2011). However, the ability of strategy to add value to a firm must be linked with rare and costly-to-imitate organizational strengths and weaknesses in order to generate a sustained competitive advantage. Each of the bases of product differentiation listed earlier varies with respect to how likely it is to be rare and how likely it is to be imitated.

Today, the most successful companies in an industry offer customers quality products at a reasonable price, that is, they offer customers a superior „value proposition“ compared to their rivals (Hill, 2013). In terms of sustaining competitive advantage, differentiation is typically more reliable basis for competitive advantage than cost leadership. Cost advantages tend to be more easily imitated than differentiation advantages and cost

advantage is highly vulnerable to changes in exchange rates and emergence of competitors from low-wage countries. Since the 1980s, competitive advantage based on quality, brand loyalty and product innovation has been more secure than cost advantage founded on low input costs, scale economies or superior process technology (Craig, 1993).

Given the beneficial effects of both low costs and differentiation strategy, the question “Whether companies can and should apply both strategies at the same time” arises. There are some theoretical arguments suggesting that cost leadership and product differentiation strategy can under certain conditions create sustained competitive advantage and, after all, if each separately can improve a firm’s performance, wouldn’t it be better for a firm to implement both? However, the organizational requirements of these strategies are essentially contradictory.

While cost leadership requires a simple reporting relationship, product differentiation requires cross-divisional linkage. Another comparison between these two strategic marketing approaches shows also that cost leadership requires intense labor supervision, but product differentiation requires less intensive supervision of creative employees. Also, cost leadership requires rewards for cost reduction, but product differentiation requires rewards for creative flair (Barney, 2011). Analyzing these organization requirements, Porter has argued that firms that attempt to implement both strategies end up doing neither well.

This logic confirms that there are two ways to earn superior economic performance within the industry (Barney, 2011):

- by selling high-priced products and gaining a small market share,
- by selling low-priced products and gaining a larger market share.

Firms that do not make this choice of strategies or that attempt to implement both strategies will fail or, in Porter’s words, “will be stuck in the middle” (Barney, 2011).

In practice, however, regardless of the business model a company pursues, it must control its cost structure if it is to maintain and increase its profitability, and, at the same time, it also must find ways to differentiate its products in some way to attract customers. This is particularly important in today’s marketplace because intense global competition from companies abroad and rapid technological changes that allow competitors to develop strategies provide companies with some type of superior differentiation or cost advantage (Hill, 2013). In this dynamic situation, a company that manages costs effectively and pursues differentiation will develop the most competitive and profitable business model in its industry

3.3 Focus strategy

The third generic strategy is the focus strategy. This strategy rests on the choice of the narrow competitive scope within the industry. The company that uses the focus strategy first chooses the area or a group of areas in the industry and then tailors its strategy in order to be the only company to service those segments. By optimizing its strategy for the target segment, the company tends to achieve competitive advantage in the segments even though it does not possess general competitive advantage. There are two variants of the focus strategy (Porter, 1985):

- cost leadership in the segment, focused cost leadership,
- differentiation in the segment, focused differentiation.

Both variants are generally oriented towards differences between the segment and the rest of the industry. The very segment itself is not sufficient for the construction of competitive advantage. Customers in the segment have unusual needs or the production and delivery systems have to differ from the other industrial segments. The strategy of focused cost leadership in the segment exploits cost structure, and focused differentiation exploits special needs of the customers in the segment. By focusing on costs, the company tends to achieve cost advantage in its desired segment, whereas in focusing on differentiation it tends to differentiate itself in its target segment. Both variants of the focus strategy rest on differences between the target segments on which the company has to focus and other segments in the industry. Targeted segments either need to have customers with unusual needs or the system of production and delivery that best serves the target segment has to differ from those in other industrial segments (Porter, 1985). Focus generic strategy is narrowly based on a particular part of the industry, such as a market segment or niche, where an organization can design its strategy to meet the needs of customers more closely than its competitors. A focuser does not have an overall industry competitive advantage, but it is able to achieve one in its target segment based on a low-cost base, or differentiation (Chau, 2014). Both these strategies depend on the perception that a target segment is different from others in the industry. The implication of focus strategy is that more broadly targeted competitors cannot deliver a comparable value to the focuser's target customer.

But, therefore, there is a question of what a niche really is and what are the criteria for selecting niche market? An industry market is rarely a homogenous whole. Usually it can be divided into submarkets of product groups and into customer segments. The demand from different customer segments for the various product types will be different in degree. This means that there can be product – customer units as Porter refers to as „industry segments“ (Porter, 1985, p. 231). A customer segment is a group of customers with relatively uniform needs and demands. An industry segment is a combination of one or more product groups and one or more customer groups (Grünig, 2002).

A niche-oriented business strategy does not mean simply serving fewer industry segments than larger competitors following a whole market strategy. This would not be enough for a small firm to be able to survive in the face of competition from large rivals. Higher unit costs and a smaller marketing budget create disadvantages compared to larger competitors. This would lead to a strategically unsatisfactory position often referred to as previously mentioned „stuck in the middle“.

On the contrary, the company that implements the niche strategy uses the advantage of sub-optimization of widely oriented competitors in any direction, whereby the competitors may not be satisfying the needs of a certain segment with great quality, which opens the possibility for focusing on differentiation. Widely oriented competitors can satisfy the needs of the segment in an excessive quality manner, which means that they bear higher costs of service than is necessary. The opportunity can lie in satisfying the needs of that segment by selecting the strategy of focusing on costs. Focus strategy is attractive in cases when (Focus Strategy Overview & Examples, n.d.):

- by listening to the customer's needs, the quality of the product can be fully adapted to his taste developing a strong customer loyalty connection,
- the price of the product is fully elastic so that the increase in the price doesn't affect its demand,
- company in difference from other market competitors has a specific knowledge of producing products,
- company has a limited number of customers due to its specificities.

On the other hand, the application of a focus strategy carries certain risks with itself. The risk of a focus strategy includes a fall-off in demand for the product in the chosen segment and an invasion of the segment by broadly-targeted competitors (Cole, 2003). The risks appear (Risks of a Focus Strategy, n.d.):

- when the main industrial competitors find an effective way of overcoming focused advantage in strategic segments,
- when the preferences of the customers in the segment shift towards production attributes that are accepted by the target market,
- when a segment is overloaded with aggressive companies, which can cause a reduction in profits for all.

A focuser takes advantage of suboptimization in either direction by broadly-targeted competitors. Competitors may be underperforming in meeting the needs of a particular segment, which opens the possibility for differentiation focus. Broadly targeted competitors may also be overperforming in meeting the needs of a particular segment, which means that they are bearing higher than necessary costs in serving it and an opportunity for cost focus may be present in just meeting the needs of such a segment and

no more (Porter, 1985). But, most importantly, if a focuser's target segment is not different from other segments, then the focus strategy will not succeed.

A genuine niche, on the other hand, exists only when there is an industry segment that is clearly set apart from the rest of the market, because the customer exclusively buys a particular product type. Genuine niches are characterized by special customer needs which create specific requirements for the product and services. Niches are usually occupied by a small number of suppliers. Often customers have such a specific demand that they rarely or never take products from the rest of the market into consideration when making a purchase decision (Grünig, 2002).

The important thing to note about generic strategies is that a company must choose one only and not a combination of them. An organization that chooses a strategy that is part cost and part differentiation is called a straddler. In Porter's view an organization must avoid becoming a 'Jack of all trades and master of none (Chau, 2014). Being „all things to all people“ is a recipe for strategic mediocrity and below-average performance, because it often means that a firm has no competitive advantage at all. Being so-called „stuck in the middle“ is typically a result of an organization's unwillingness to make choices about how to compete. An organization's strategy if it is, as it should be, a fundamentally different approach for sustaining a competitive advantage, calls for managing organizational activities in ways to sustain the strategy. This gives to the organization the power to deliver value that no one else can provide.

4 MERCEDES BENZ – A CASE STUDY ON CURRENT AND FUTURE STRATEGIC POSITIONING

The automotive industry is one of the 10 largest industries worldwide and it contains a wide range of companies and organizations involved in designing, developing, manufacturing, marketing and selling different models and sizes of various vehicles. In addition, it is one of the most important sectors in the worldwide economy by revenue (IBISWorld - Industry Market Research, Reports, and Statistics, n.d.; Mishra, 2023). The reason why Mercedes Benz represents an excellent example of the application of a differentiation strategy reflects in the fact that the company has applied a differentiation strategy in every field in terms of market appearance, quality, price, customer approach from the very beginning which was for almost a hundred years ago.

My research question is: How does Mercedes Benz use the differentiation strategy to expand its business, attract new and keep loyalty of existing customers, and maintains a competitive advantage in the market?

4.1 Case study research process

My research process started at the beginning of the year 2022. After a careful analysis of one of the world's most attractive industries, the case of Mercedes Benz company has been presented as an excellent example of the differential strategy for gaining a competitive market position. The first step was preparing the theoretical research part within which I have defined the concept of competitive advantage along with its attributes and sources. In this part most of my research data have been found in the digital library of strategic management books published by multiple important authors from that field including J. B. Barney, H. Bhasin, V. S. Chau, J. C. Craig, R. Gunther McGrath, C. W. L. Hill, P. Kotler, H. Mintzberg, M. E. Porter, G. Saloner, W. Wen-Cheng, etc. In this section also, most of the relevant data regarding the analysis of the German automotive industry and the comparison of Mercedes Benz and BMW brand values I have found on a public statistical site called "Statista". After the successful unification of the first three theoretical chapters of the thesis, it was necessary to collect primary data about the internal business processes of this organization which I have gained through an interview with a colleague employed by this company in the United Kingdom. I conducted the interview with Mr. Marić online via Microsoft Teams platform in December 2022, carefully writing down the detailed explanations and answers that he was able to give me. I prepared the questions for the interview beforehand in consultation with my mentor in the format of open questions, during which I primarily started with questions related to the origin and meaning of the Mercedes Benz company. After that, in a pleasant conversation for approximately one hour, I tried to find out more about future plans, innovations, market demands as well as the biggest obstacles that this company faces every day. After finalizing collection of primary data, preparation of SWOT analysis has followed in the first quarter of 2023. The SWOT analysis presented a more detailed analysis of all important business segments of this company, presenting strengths, weaknesses, opportunities and threats, or more precisely internal and external circumstances that facilitate or hinder the company's business and the automotive industry in general. During my research via multiple online sources, the most important business segments of Mercedes Benz company have been analyzed including sales, manufacturing, logistics, product, R&D, brand, HR and finance. After several revisions and consultations with my mentor, the final version of this analysis along with the conclusion has been prepared by the end of the second quarter of 2023.

4.2 Mercedes Benz

Daimler AG is the German producer of luxury cars, buses, trucks and various delivery vehicles in whose ownership is the brand and logo of the Mercedes Benz company (The Mercedes-Benz Group, n.d.). The very roots of the company stem from the 1880s, when Gottlieb Daimler and Karl Benz independently invented engines with internal

combustion. Daimler had worked together with Wilhelm Maybach, with whom he invented the four-stroke engine in Cannstatt near Stuttgart, whereas Benz had his workshop in Mannheim. There are no records as to whether the two inventors ever met (Business Stories, 2021).

It all started in 1886 when Karl Benz produced the first car for the company whose owner was Gottlieb Daimler. In 1890, car trader Emil Jelinek bought thirty-six cars from Gottlieb Daimler company at the price of 550.000 marks and requested that they should be called Mercedes because his daughter's name was Mercedes Jelinek. It was only in 1902 that Mercedes was protected as a brand name, whereas the three-pointed star, which symbolizes Daimler's idea about the production of traffic for land, air and sea, was introduced as a trademark in 1909 (Business Stories, 2021). Thus, all the products of the company have been denoted by it from 1910.

Daimler and Benz united in 1926 into Daimler - Benz company thus got its final name Mercedes - Benz. Since then Mercedes - Benz has made its way into the history of all cars. The slogan of the Mercedes company ran: "Unlike any other" (Källenius, 2020). A few years later Mercedes - Benz started producing sports cars under the additional mark CL class and thus introduced its classes among those cars. Mercedes - Benz was and has been recognizable for its comfort. Today those are cars with the best equipment and characteristics, so that other cars can only envy them on this (Business Stories, 2021).

The life cycle of their engines is well known, above all for the fact that people say that they only start working after they have passed 500.000 to 600.000 miles and that they are only then ready for real use, whereas other cars can only dream about that mileage (Business Stories, 2021). Mercedes - Benz has introduced many technological and safety innovations including safety benchmarks , diesel passenger cars, door locks, global famous Antilock Braking Systems (ABS), genius innovations such as the 4MATIC® All-Wheel Drive (1985), CFC-free climate control (1991), Electronic Stability Program (1995), Smartkey Anti-theft Protection (1997), Pre-Safe Collision Detection (2002), and the ingenious Attention Assist (2010) used to detect signs of drowsiness in the driver that only later became customary in other cars (Westminster, 2014) .

4.3 Mercedes - Benz business strategy, brand and trademark

Mercedes - Benz has become the most famous and prestigious world brand when it comes to cars. Even though in the last several years the company has started producing cheaper models, such as the A-class, it has remained faithful to its innovation heritage. In 2002, a new Mercedes - Benz, E-class emerged, which became the leader in the market, because it had a revolutionary electro-hydraulic braking system, a patented "sensotronic" brake control system and an electronically stable program that ensured better performances in critical situations. Even the cheaper A-class represented a completely new class when it

came out, because it offered much space in the cabin despite its short car body (World Cars Evolution, 2018).

A-class looked so different that Mercedes launched an intensive propaganda campaign in order to bring the new car closer to people and in this they have succeeded. The car was very well accepted on the European market. Mercedes worked a lot on building its brand as prestigious. However, this was not enough, so they relied on the engineering element of high technology that was without doubt installed into each of Mercedes models (World Cars Evolution, 2018). This was a smart strategy. Thus, the brand was active in two fields, in the field of prestige and quality, that is, high technology. At that time the cheaper A and M classes were legitimately offered to customers as cars with quality construction. However, this strategy is only effective in the short or medium run. In the long run this could be different. At the end of the day, prestige is best expressed in the price. The more cars are sold the less prestigious the brand becomes. Thus, we arrive at the paradox that the success of sales of cheaper cars can take away the brand's prestigious status.

Following the words of Ola Källenius, Chairman of the Board of Management, Daimler AG and Head of Mercedes-Benz Cars, (The Economic Club of Washington, D.C., 2020) the secret of Mercedes lies in the following:

- innovativeness & quality: innovativeness is a natural quality that is expected from the company that invented the car,
- price: historically observed, the prices of its cars helped Mercedes become a synonym for prestige,
- prestige: people who drive Mercedes want to feel superior. Whether they will still feel superior when everyone is able to afford one of the models remains to be seen.

At the beginning, the three-pointed star of this company denoted the use of the company's engine on land, sea and in the air, and was drawn for the first time in a private note by the company founder, Gottlieb Daimler to his wife. After the death of Gottlieb Daimler in 1900 the business was taken over by his sons. They remembered a postcard of Cologne that Gottlieb had sent to his wife during his work at the Deutsch factory. The image showed the place where he had been living at the time, with the note that such a star would at some point embellish his products, too. The Daimler management accepted the suggestion and the three-pointed star (see Figure 5) and it became the symbol of Mercedes in 1910 (Mercedes Logo, Mercedes-Benz Car Symbol Meaning and History, n.d.).

Figure 5: Mercedes Benz logo



Source: Admin (n.d.).

This logo represents the symbolism of pointing in three directions, which represents Gottlieb Daimler's concept after which means of transport equally efficient on earth, in water and air will be produced. The silver color is very typical of the Mercedes-Benz brand. When one of their cars exceeded the allowed weight, the team found a solution to removing excessive paint. After a whole night of abrading and polishing, the car was stripped to the color of metal in its entirety. The next day it shone in wonderful silver nuances, and was therefore called "Silver arrow" (Admin, n.d.).

Figure 6 shows the logo from 1902 representing a stylish ellipsis with the name Mercedes engraved within it. In 1909, it saw a change of logo change once again. This time the star was removed and the circle was introduced again, but kept a stylish wreath and engraved inscription of Benz (Admin, n.d.). However, the star returned in a great style in 1916, and this logo was active until 1926. Even though there was certain and occasional restyling, it is the logo that has been kept until today and after whom all Mercedes cars are known.

Figure 6: Evolution of Mercedes Benz Logo (1902 - today)



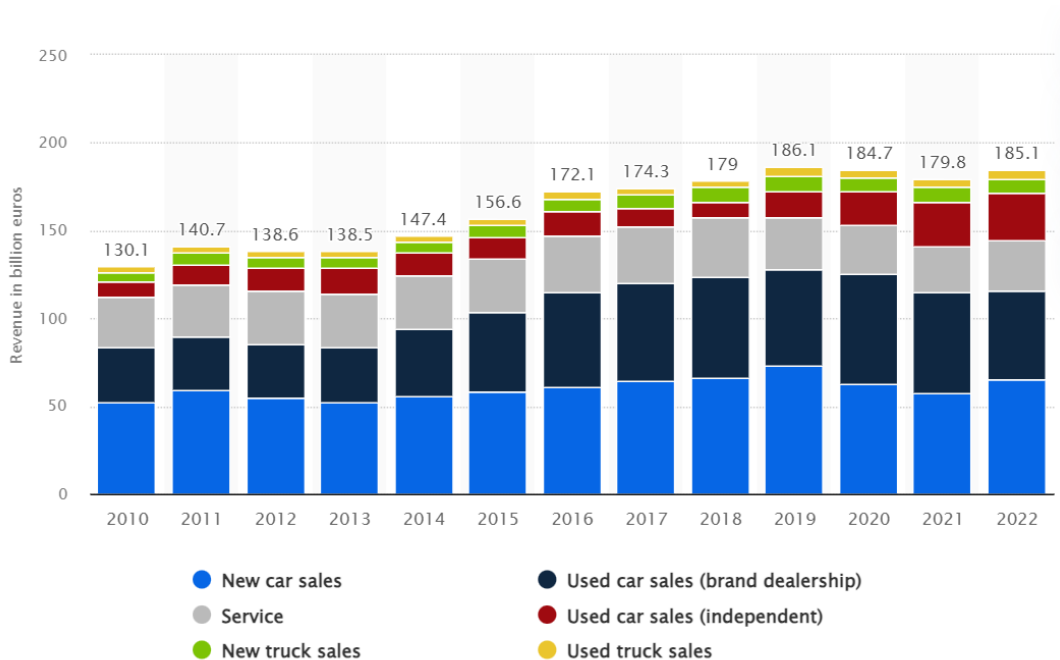
Source: IsPSD (2011).

4.4 Analysis of the German automotive industry

The importance of German automotive industry has a pivotal role in the global automotive market. From Asia to America, German cars embody highly cherished values of innovation, reliability, safety, and design. Germany is by some distance Europe’s leading production and sales market. The country’s world-class R&D infrastructure, complete industry value chain integration, and highly qualified workforce create an internationally peerless automotive environment (Germany’s Automotive Industry and Electric Mobility, n.d.). This industry which consists of a small number of globally active manufacturers and a large number of successful family-owned small and medium-sized suppliers has a globally known reputation. Cars “Made in Germany” are synonymous with quality and sophisticated engineering processes worldwide. Furthermore, the industry is an important driver of prosperity and innovation in Europe. In 2019, companies from the automotive sector generated record sales of €435.3 billion which amounts to 20% of the total German industry revenue. This means that automotives represent the largest industry sector in Germany (Deller, 2021).

Analyzing each particular automotive industry segment including data on new car sales, service, new truck sales, used car sales (independent and dealerships) and used truck sales during the last decade, the amount of new car sales has been a dominant revenue source. As it is presented in Figure 7, revenues from the sales of new cars have been more than 50 billion euros and in 2022, the German automotive industry generated a revenue of almost 65 billion euros from selling new cars which was an increase compared to the year before (Automotive Industry, n.d.).

Figure 7: Revenue of the automotive industry in Germany from 2010 to 2022, by segment

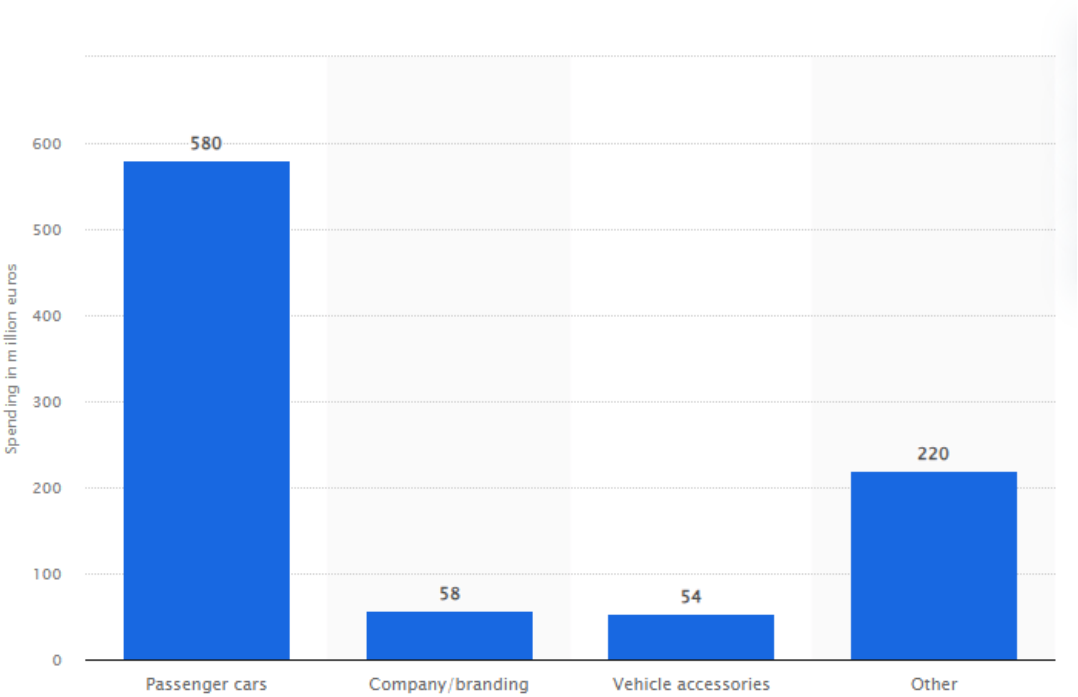


Source: Automotive Industry (n.d.).

The greatest revenue growth was seen in 2019, when the amount of the revenue values of new cars reached an increase of 73 billion euros, with a total industry revenue of 186 billion euros (Automotive Industry, n.d.).

Germany is one of the strongest countries in the world when it comes to high-tech automotive products, with more than 24% of total domestic industry revenue generated by the automotive industry (The Automotive Industry in Germany, n.d.), also devotes a lot of attention to advertising activities for its products, primarily passenger vehicles, which represent the most important sales division for this industry. Namely, as it is shown in Figure 8, between January and September 2022, the leading advertising spending category in Germany's automotive industry was the passenger cars category with more than 580 million euros (Automotive Ad Spend by Category Germany 2022, n.d.).

Figure 8: Automotive advertising spending in Germany by product category in 2022



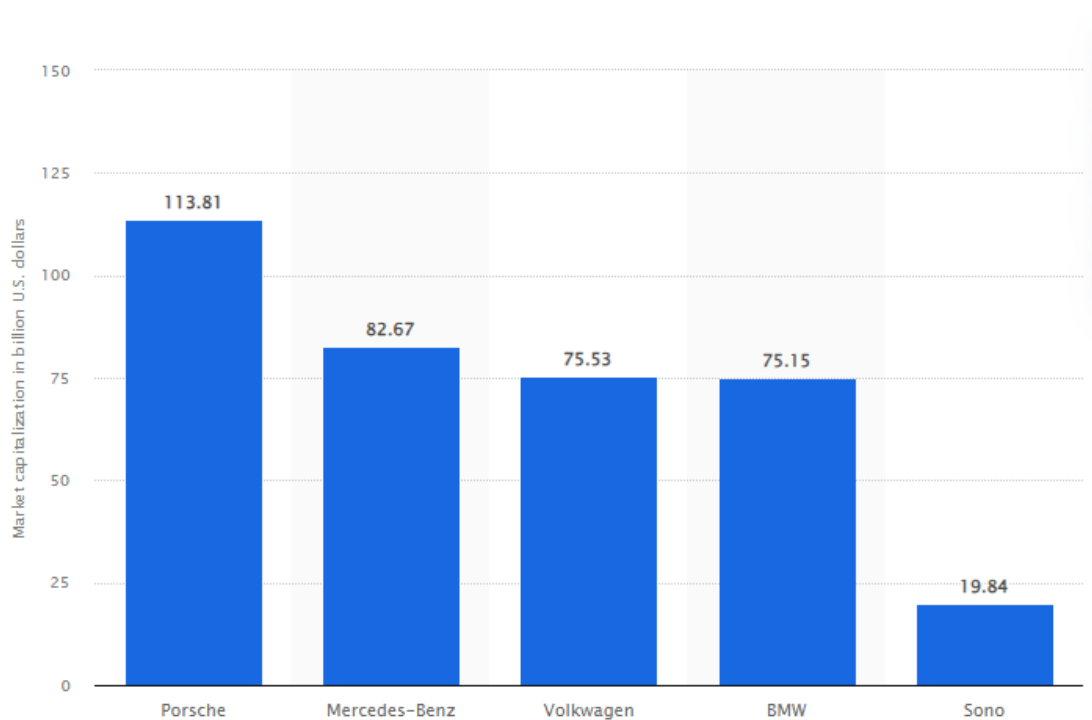
Source: Automotive Ad Spend by Category Germany in 2022 (n.d.).

Being home to the modern car, the German automotive industry regarded as one of the most competitive and innovative industries in the world has also been recognized as the world's outstanding automotive producer followed by an excellence in engineering. In this market, several brands have been around for a very long time and are known all over the world. When analyzing Porsche, Mercedes Benz and BMW, the top three leading brands in the industry of luxury and prestige automotive vehicles, it is important to

emphasize they all have in common "made in Germany". German's automotive industry is a mammoth industry that is on the forefront of the economy since the very beginning. Creating a high-class technology, design and performance of their vehicles made an absolute throne in car enthusiasts as well as in total industry. In the following text it will be explained how these three brands stand in the market, as individuals.

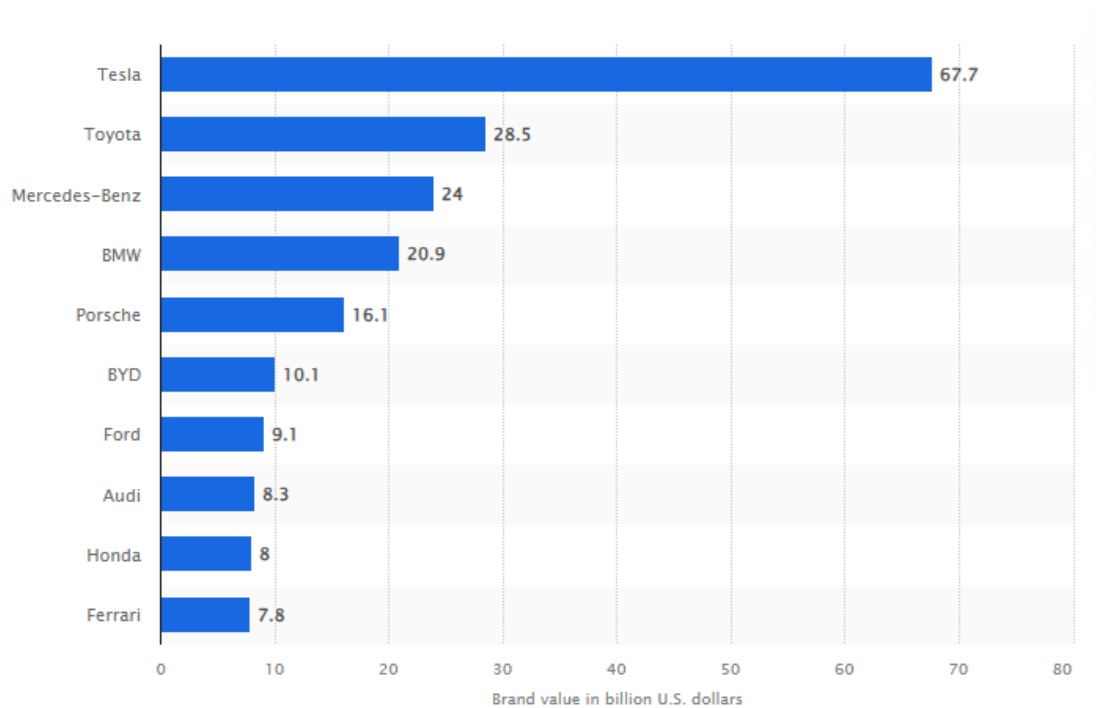
There are many ways to make comparison of the strength and the value of the market participants. For example, based on the number of manufactured cars, sales data, total and market revenues, brand value, number of new and potential clients and so on. In this section, I will create a review based on the sales statistic data by market capitalization vs. market values in German automotive industry (Figure 9 and Figure 10).

Figure 9: Largest automotive companies by market capitalization in Germany in 2023



Source :Germany (n.d.).

Figure 10: Most valuable brands within the automotive industry in 2023



Source: *Most Valuable Car Brands Worldwide by Brand Value* (n.d.).

Based on statistics regarding market capitalization, we can see that Porsche has been the leading automaker in Germany with a market capitalization amounting to approximately 114 billion U.S. dollars. Mercedes-Benz is the second largest automotive company in the country, with a market capitalization of nearly 83 billion U.S. dollars. The third place has been placed for Volkswagen amounting to approximately 76 billion U.S. dollars, but since this brand hasn't been considered as the luxury brand, we won't take it in the comparison. As for BMW, the total market capitalization has reached approximately the same amount as Volkswagen around 75 billion U.S. dollars, and took it on the third place regarding this luxury market capitalization comparison (Germany, n.d.).

However, there is no denying that these three automotive makers make some of the best luxury vehicles to ever grace the asphalt with unmatched performance, precision machinery, world-class interiors, variety and immortal designs. Porsche, Mercedes-Benz and BMW are widely considered to be the pinnacles of the German automobile industry. But, on the other direction, considering the market value of the brand, Mercedes Benz and BMW have achieved considerable lead over Porsche.

Following the statistical data from Figure 10, Mercedes Benz has reached over 24 billion U.S. dollars considering a global market value. BMW's market value has been right behind it reaching approximately 21 billion U.S. dollars, while Porsche's market value has been estimated at roughly 16 billion U.S. dollars (Most Valuable Car Brands

Worldwide by Brand Value, n.d.). To carefully understand the differences between these two market indicators, the market capitalization and market value will be explained.

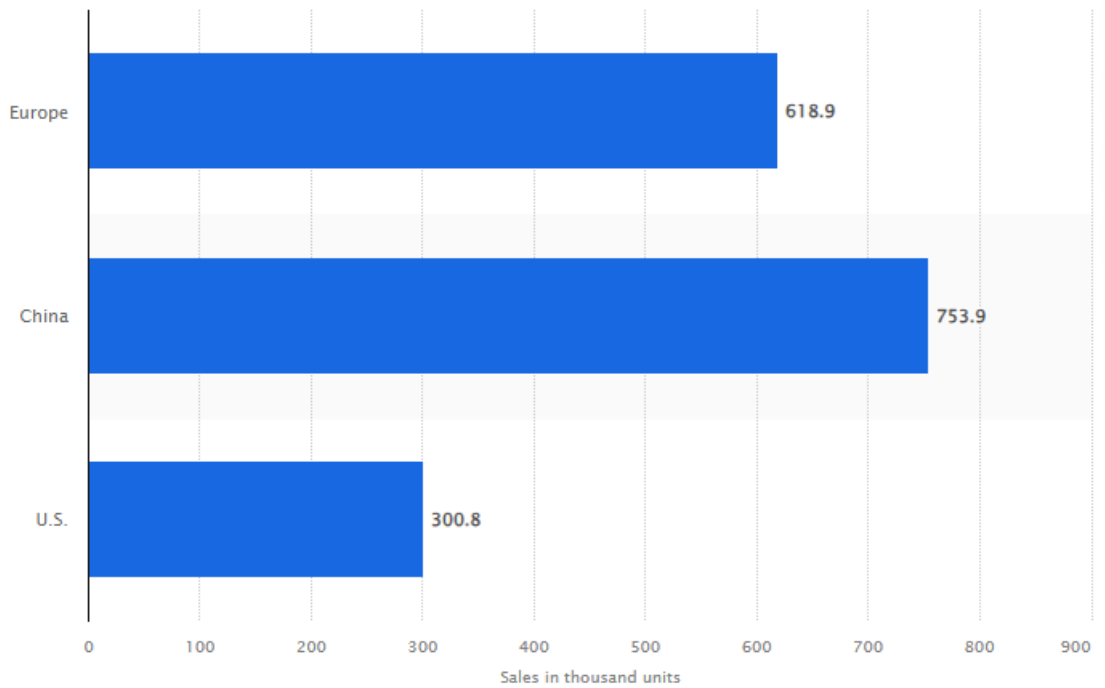
Market capitalization, also known as market cap, demonstrates the value that investors are placing on a company at a given point in time, as represented by the total dollar value of a company's outstanding shares of stock. Market capitalization can be calculated by multiplying a company's shares outstanding by the current market price of a single share (Staff, 2016). On the other hand, market value is a measure of a company's monetary value based on a range of factors, including its supply of shares and investor demand for those shares. Market value is calculated based on a number of valuations, such as price-to-earnings ratio, return on equity, long-term growth potential, and company assets and liabilities (Staff, 2016). Considering the previously mentioned ratios market capitalization of the Porsche company has been dominant compared to MB and BMW, but adding additional intangible factors in the analysis including the customer- consumer loyalty or investors' perception of the brand business prospects, the market advantage position leads Mercedes Benz to the throne.

4.5 Future automotive industry growth opportunities

Observing the worldwide economic system and drawing a parallel with it leads to marking off the top three market opportunities, each the same in all industries and automotive isn't an exception. China, the USA and Europe which hold strings in their hands regardless the industrial activity or size present the biggest opportunity as well as market goal at the same time. According to the sales manager of Mercedes Benz company in the UK, this information was confirmed also in their case for the passenger car division (see Figure 11) selling roughly 1.700,000 of cars around the world in a year and as a part of that around 300,000 cars in the USA, 754,000 in China and roughly 620,000 in Europe in the year 2022.

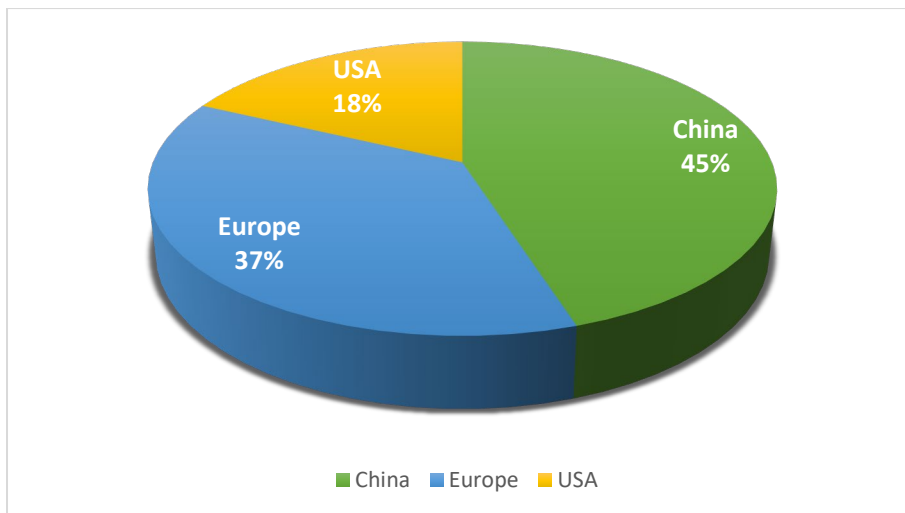
Occupying the current highest market share in China (45%) (see Figure 12) while opening to the huge new segments made China a "central pillar" strategy for this organization and the biggest future profit potential, as well. This business direction has many undiscovered potential and Mercedes Benz company is planning to invest much more resources to adjust the product and brand strategy and achieve the target business performance (Huazhong, 2020).

Figure 11: Predicted growth for Mercedes-Benz Cars' vehicle sales market in 2022



Source: Car Sales by Market (n.d.).

Figure 12: Mercedes Benz market share by sales units in 2022



Source: Own work.

One of the questions in the interview was about the current Mercedes Benz market position and possible future plans. Regarding the global economic problem in China there is a quick recovery and now Mercedes Benz is thinking about 6 months of double-digit growth and the economic rebound especially in the luxury premium market which has been remarkable. "Looking forward in the next 5 to 10 years, China could be seen as an absolute growth market and probably the biggest potential for the company but also for

the whole industry. So, not only does it present the biggest market today, it is also a market intended to grow and to be even more important in the future” (Marić, 2022).

The most important success factor is having a dedicated Sino-international team, committed to delivering products and services to Chinese customers, and which is supported by a strong local production and R&D footprint. Number two is nurturing the strength of the Mercedes-Benz brand and adapting its positioning in the Chinese market. Last but not least is the mutually respectful and strong relationship with Chinese partners, which is crucial while doing business in China (Troska , n.d.). The target customer profile also speaks volumes about the specificity and potential of the Mercedes Benz’s market in China. In this spectrum, China has the world’s most fascinating customer base. It is not only the biggest market but also hosts by far the youngest customers in the world. The average premium buyer of Mercedes-Benz in China is less than 36 years old is almost 20 years younger than the typical German premium buyer, and almost 10 years younger than their average American counterpart (Insights into China’s Dynamic Auto Market from Daimler’s Hubertus Troska | McKinsey, n.d.). „Our Chinese customers are young and ambitious people with high expectations on products and services. They are tech savvy and interested in innovation. Moreover, they truly appreciate brands that deliver great design and craftsmanship. And, believe it or not, about 30 percent are first-time buyers. Needless to say, our first priority is to give them the perfect Mercedes-Benz experience when they make their first premium buy“ (Troska, 2019).

Another interesting fact about the Eastern automotive market is that by seeing how much demand for the product there is, Mercedes Benz established a manufacturing unit in China. Did it imply a change in the product quality or design? The answer was no, because they do rest on the local production as well as global production network. Switching from “Made in Germany” to “Made by Mercedes”, it defined Mercedes’s products made anywhere in the world to the exact same standard (Marić, 2022).

Market potential will soon be found also in India, as it was declared the most populous country (Ellis-Petersen & correspondent, 2023). Both India and China are considered as the future market potentials. It is forecasted that their economies combined will account for almost 50% of the world's GDP in the next forty-five years (Frynas & Mellahi, 2015) Both of them offer more innovations, better goods, more competitive prices and newer manufacturing processes. Many attribute their current success to the abundant supply of young and inexpensive labor (Frynas & Mellahi, 2015). Two countries complement each other's strengths, but by far China has more fast-aging population, but technological and social progress at the same time, which maintains the number one market growth opportunity.

4.6 The comparison of Mercedes Benz and BMW differentiation strategies

In modern society, there are a few important binary dilemmas which include Beatles or Stones, Lakers or Celtics, Barcelona or Real Madrid, Mercedes Benz or BMW. People often think that the answer to this question is the easiest one, but history has taught us that the right choice between these cultural phenomena is much more complicated and their fights are furthermore uncertain than it seems at the first glance.

Porsche, Mercedes Benz and BMW have been presented as the top three biggest competitors in the German automotive market. Although they are all world-renowned representatives of high-quality luxury vehicles, significant differences appear. Porsche operates in a segment that is more luxurious than the Mercedes Benz. BMW produces vehicles quite static in terms of appearance and is primarily oriented in the direction of the sport (The Positioning of the Three Most Valuable Automotive Brands in the World | BrandStruck, n.d.). Due to greater similarity in the implementation of business strategies, we will focus on the comparison of differentiation strategies of BMW and Mercedes Benz.

Bayerische Motoren Werke (BMW) is a German multinational company of premium luxury vehicles founded in 1916 as a manufacturer of aircraft engines. Headquartered in Munich, the company has more than 30 production locations in 15 countries around the world. Employing more than 126,000 people and delivering around 2,000,000 cars per year to customers BMW has enrolled in the world-known luxury brand list with high-competitive status (Company, n.d.). In terms of the marketing mix deployed by the company, BMW is focused on creating value by offering a wide range of high-quality vehicles that fit with overall brand image of luxury and performance (Pries, 2009).

As previously mentioned, the company has used a differentiation strategy and one example is creating different series of cars for different groups of customers. For example, the first class is the smallest and it is intended for young people at the beginning of their career as an affordable way to join the BMW family and it is used to target customers early on and retain them for when they will be prepared to afford a higher segment model. On the other aspect in terms of price BMW has a premium pricing strategy ensuring that the brand is recognized as a leading luxury car maker.

The company works more and more on position strategy and selling each product category successfully than previous. BMW, similar to Mercedes Benz, sells its product at a generally higher price to emphasize exclusivity, quality and class (Marketing Comparison for BMW and Mercedes BENZ, n.d.).

Another important thing is research. BMW spends 5.5 percent of its revenue (about US\$ 5.9 billion) on research and development in order to mark its cars as the most technologically developed vehicles thereby justifying the premium price tag (EDI Weekly, n.d.) (Pries, 2009). This way of technological pioneering is not just directed to

their most expensive futuristic concept of cars, but it is presented in each model ensuring high-class quality, safety and performance. On the other hand, in research and development, Mercedes Benz company is not easy to surpass. Gathering the data from last 2022 year the R&D expenditures of Mercedes-Benz Cars & Vans, incurred some 8.5 billion euros in R&D expenses. This represents an increase of eleven percent in R&D expenditure as compared to the previous year (Mercedes-Benz Cars & Vans, n.d.).

While having similar pricing policies, BMW and Mercedes have different promotion strategies. For example, BMW's promotion plan includes media appearances in events of sponsorships in films associated with high-class action scenes such as *The Hire* (2001-2002) and *The Escape* (2016). The films also allow them to present a luxury image of sports car category inspiring the younger population's demand. To emphasize their performance mobilities BMW participated in Formula 1 but although they quickly withdrew from this project they still found a way to demonstrate their ultimate driving experience and technology in events like BMW Golf Cup International and BMW Golf Society.

In Mercedes Benz, this is not the case. Even decades after this brand appeared in the automotive industry market, this brand, in terms of marketing and brand promotions hasn't gone a lot from its only slogan, repeated all over the world: "Made by Mercedes" (Källenius, 2020). The only values for which this company stands are customer loyalty and customer superior feeling while owning a Mercedes car. The most powerful weapons in the marketing fight for existence are quality, innovation and prestige which Mercedes continuously manages to deliver.

A social segment of BMW's marketing strategy could be divided into two parts: consumers who are interested in product technology, and those who are more concerned about the functionality of the car (and less concerned with innovation), because consumers who choose a car based on the reliability and performance are those who are willing to sacrifice quality for other benefits at the lower costs (CNBC, 2020). All of this is based on the conclusion that in the car market there are groups of people who want to use their car as a status symbol and others who are not interested in cars for their social value. As a consequence, two main strategic differences of Mercedes Benz and BMW are:

- customer focus group,
- model series.

While the Mercedes Benz collection of car series has many more options regarding the price range, age range, business function as well as professional needs based on lifestyle, BMW has targeted its products more on the one circle of the population. According to the reports, BMW's customer base is more than 80% consistently male, non-married clients aged 25-45 years who have a median income of around \$150,000 (Marketing

Comparison for BMW and Mercedes BENZ, n.d.). By selecting this group of customers, BMW has sent an exclusive message of differentiation to other competitors but, Mercedes Benz, on the other hand has expanded its customer base Mercedes Benz and succeeded in taking better market share and position.

As previously mentioned, another difference between these two strategic approaches relies on the model diversity. Mercedes has kept up to share a longtime market proportion with BMW, both thanks to using the most powerful marketing tool as differentiation. But in the latest time this company started to attract more and more of BMW’s customers and the biggest reason for that is that Mercedes simply sells more model variants than BMW. If the consumer is moving more towards premium and luxury versus just driving experience, more customization and more model diversity are placed in the Mercedes Benz’s hands. Another important thing that allowed Daimler’s company to achieve an advantage over their biggest companion is the continuous innovation process. In difference, BMW is backward in this field. Not keeping pace with innovation, BMW hasn’t had an opportunity to stand shoulder-to-shoulder with its biggest competitor on the market. As it was shown in Table 2, BMW and Mercedes Benz in the premium luxury automotive industry do have similar market positioning strategy which is based on the successful differentiation strategy. Both of them rely on premium pricing policies and production of high-quality performance cars raised by the German economic sector. Along with the similarities (see Table 2), all major differences have been also presented.

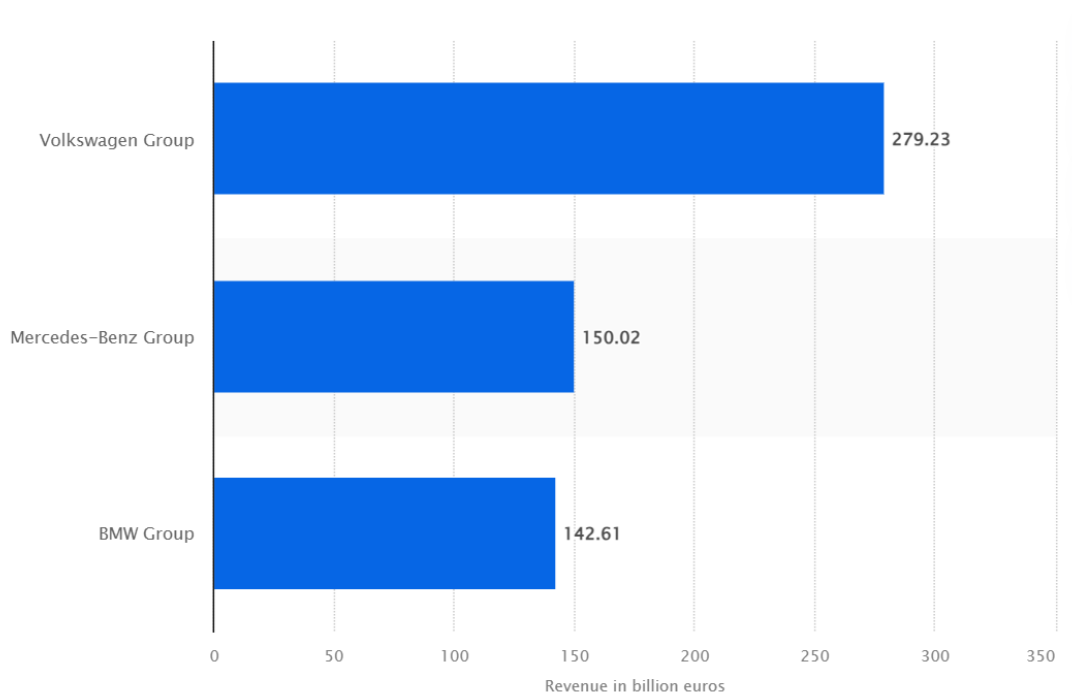
Table 2: Comparison between Mercedes Benz and BMW sales characteristics

Characteristics	Mercedes Benz	Bayerische Motoren Werke (BMW)
High-quality vehicles	●	●
Sponsorship of global sports events		●
Gender and age diversification	●	
Social status indicator	●	●
Exterior model diversity	●	
Electronic car development	●	
Focus on the luxury sports car industry		●

Source: Own work.

Figure 13 presents last year’s reported total revenues of BMW (142 billion euros) and 150 billion euros of Mercedes Benz’s revenue. These differences result also in the amount of profit margin values. Mercedes Benz net profit margin as of September 30, 2023 has been estimated for 9.82% in difference with BMW whose profit margin has been estimated for 7,31% (Mercedes-Benz Group AG Profit Margin 2010-2023 | MBGAF, n.d.).

Figure 13: Revenue comparison of BMW and Mercedes-Benz in FY 2022



Source: Volkswagen, BMW, Mercedes-Benz - Revenue Comparison in 2022 (n.d.).

On this path, Mercedes Benz created an advantage over BMW and all similar market competitors by:

- expanding its final customer base considering more diverse consumer classes of vehicles,
- adjusting product productions based on the combination of customer need, desire and economic status – E class (was created as a result of combining performances of C and S class.),
- continuously investing and keeping up with modern technology including working on the newest eco-friendly principles of fuel combustions.

4.7 SWOT analysis of Mercedes Benz Group

In the following section, we are taking a dive into external and internal factors which shape the current situation of the Mercedes Benz company. Any internal factors which lead to prosperity and well-being for the company are its strengths. Strengths can be either attributes or sources of competitive position. Consequently, any internal factors that have led to negative outcomes for Mercedes Benz will be classified as its weaknesses. Any external factors (events) that can be explored by Mercedes Benz company in the future to the best of its advantage will be opportunities and any external factors that are dangerous to the brand's health will be threats (Determination of Business Strategies Using SWOT Analysis; Planning and Managing the Organizational Resources to Enhance Growth and

Profitability, n.d.). Internal factors have the ability to impact the “inside” of a business and can mostly be easily controlled by the company under consideration. External factors, on the other hand, are mostly out of anyone’s hands and cannot be controlled. This makes them more challenging than the former (Mercedes-Benz SWOT Analysis 2021, 2021). The aim of SWOT analysis is to minimize weaknesses and at the same time increase the company’s strengths, as well as to use the opportunities and avoid threats from the environment (Rankins, 2016).

4.7.1 Strengths of Mercedes Benz

Among the most prominent strengths of Mercedes Benz are the company's attributes of competitive position:

- Mercedes Benz has the most diverse product portfolio with 17 different categories. It has a number of unique product offerings that are not provided by competitors (Mercedes-Benz SWOT Analysis / SWOT Matrix, n.d.).
- Mercedes-Benz is a well-established and highly respected brand with a loyal customer base. The company has a long history of producing high-quality, luxury vehicles, and this reputation has helped to build strong brand loyalty among consumers. It is synonymous with quality, luxury, and performance and the brand has a long history of innovation and is associated with cutting-edge technology, engineering excellence, and superior design, which has helped it earn a strong reputation worldwide which led to increased brand values by 10% to \$56.103 billion since 2021 (admin, 2023).
- Mercedes-Benz has worldwide production facilities in nearly 30 countries (see Figure 14) (Chicago, 2018), more precisely twice as much as BMW (Paul, 2022).

Figure 14: Global production network of Mercedes Benz



Source: The Mercedes-Benz Group (n.d.).

A number of Mercedes Benz's strengths come from the company's sources of competitive advantage:

- Mercedes Benz's manufacturing process takes place in production facilities in more than 31 countries across the globe. This enables the company to diversify its access to raw materials. These facilities have been located in countries like Vietnam, the USA, the UK, Turkey, Thailand, Taiwan, South Korea, South Africa, Spain, Serbia, Russia, Nigeria, Mexico, Malaysia, Iran, Indonesia, India, Jordan, Hungary, Finland, Egypt, Denmark, China, Colombia, Canada, Brazil, Bosnia, Austria, Australia, Argentina, and Algeria (Shaw, 2021). Strong relationship with existing suppliers is also one of the main Mercedes Benz's strengths. As an incumbent in the industry, Mercedes Benz has long-term relationships with its suppliers and other members of the supply chain. A company can increase its products and services by leveraging the skills of its suppliers and supply chain partners (Pro, n.d.-a).
- Mercedes Benz company is the leader in innovations. Mercedes Benz yearly allocates roughly 12 billion U.S dollars to R&D(The Economic Club of Washington, D.C., 2020). The company was the first to introduce diesel engines and safety tools (Mercedes Benz Company's Positioning Strategy - 1393 Words | Essay Example, n.d.). One of the greatest characteristics of Mercedes Benz is that it was not only the first in the world to invent these safety tools, but that it also gave permission to other car producers from all over the world from the point of view of total safety of vehicles.
- Mercedes-Benz employs a skilled workforce of engineers, designers, and other professionals, who are dedicated to maintaining the brand's commitment to quality and innovation. This talent pool is essential for the company's ongoing success and the development of new products and technologies (admin, 2023).
- In terms of financial strengths, the net worth of Mercedes in 2021 was 75 billion USD(Mercedes-Benz SWOT Analysis 2021, 2021). Consecutive profits in the past 5 years, along with accumulated profit reserves can be used to finance future capital expenditures and a large asset base, which enables better solvency. Considering return on capital expenditure; Mercedes-Benz has been successfully able to generate positive returns on the capital expenditure on various projects in the past (Mercedes-Benz SWOT Analysis / SWOT Matrix, n.d.).

4.7.2 Weaknesses of Mercedes Benz company

There are also company attributes that weaken Mercedes Benz's competitive position:

- Regarding product characteristics, being a representative of innovation, quality and luxury goods come with a high maintenance, repair and service costs, as well. High maintenance and service costs are one of the main reasons why many people decide not to go with Mercedes during their new automotive purchase process. While Mercedes Benz product's quality is on an enviable level, in case of the need for

immediate repair or replacement, these products are much more expensive compared to others. This high reparation cost is justified by the rareness of product components since they are all produced to certain standards performed only in Mercedes Benz production points (SWOT Analysis of Mercedes Benz [Detailed], n.d.).

- In terms of brand image, one instantly thinks of this company when thinking about premium luxury cars. However, while on one hand, having great brand equity is an asset, it is also a big burden to maintain the standards. The smallest of issues, scandals, or opinions could create unwarranted problems. Heavy is the head that wears a crown (Mercedes-Benz SWOT Analysis 2021, 2021). As is the latest case, Mercedes recalled many cars because of electric malfunctions in headlights, airbags, and defects in steering and other problems. Moreover, the company had a scandal around its name on the cheating software in cars that gave wrong air pollution tests. This scandal cost the company \$2.2bln in total as reimbursement for the lawsuit (Bazikyan, 2021).
- Mercedes Benz's market position is based on creating a high-priced strategy which creates an inevitable sense of superiority for their customers. At the same time, this makes company products inaccessible to other social groups. Maintaining it unreachable for several markets and purchasing power of some social groups decreases its final base of consumers which in some segments could be a defective decision.
- Mercedes Benz has had quite a late entry into the electric vehicle market. While it has introduced its EQ sub-brand and announced plans for new electric vehicle models, the company was relatively slow to enter the electric vehicle market compared to competitors like Tesla, BMW, and Audi. This delay may have resulted in a loss of market share and brand image in the growing EV segment (admin, 2023).

Some of Mercedes-Benz's weaknesses are related to the sources of competitive position:

- Mercedes-Benz vehicles are known for their high-quality materials, advanced technology, and precision engineering, contributing to increased production costs. These costs can make it challenging for the company to compete on price, especially in markets where affordability is a key factor (admin, 2023). Another weak spot in the business operation of this company is problem scalling. With Mercedes being a global leader, even minor problems at any time during logistics and sales operations come at a high cost. When Mercedes faces or comes across a problem, it affects the company not only locally, but the whole group as well (Bazikyan, 2021).
- Mercedes-Benz's average time it takes for products to be produced, purchased and sold is higher than the industry average, meaning that Mercedes-Benz builds up on production and inventory adding unnecessary costs to the business.
- Having a lack of workforce diversity, Mercedes Benz is not diverse enough given that most of its growth is in its domestic market. Also, Mercedes Benz is suffering from a lack of critical talent especially in the field of technology and digital transformation and it has been struggling to restructure processes in light of developments in the field

of Artificial Intelligence (AI) and machine learning (Pro, n.d.). The workforce at Mercedes-Benz is concentrated with mostly local workers, and low amounts of workers from other racial backgrounds.

- Lack of diversification makes it difficult for employees from different racial backgrounds to adjust at the workplace, leading to loss of talent. Qualified employees are leaving. Mercedes-Benz has a higher employee turnover rate compared to competitors. A study by the U.S.-based National Automobile Dealers Association shows that the average employee turnover rate was 46 percent in 2019 (Firby, n.d.), This means that it has more people leaving their job, and, as a result, it is spending more on training and development as employees keep leaving and joining (Mercedes-Benz SWOT Analysis / SWOT Matrix, n.d.).
- The stress on hiring functional specialists at Mercedes Benz has created an environment where the organization is dominated by functional specialists rather than management generalists. This has resulted in product-oriented approach rather than marketing-oriented approach or consumers-oriented approach (Pro, n.d.).
- Also, it seems that the employees of Mercedes Benz don't have comprehensive understanding of the firm's strategy. This is reflected in number of promotional campaigns over the last few years that had mixed messaging and competing priorities. Some of the strategic activities and services promoted in the promotional campaigns were not consistent with the organization's strategy (Pro, n.d.). Regarding the company's financial aspect, although the annual revenues of this organization exceed several hundreds of billions of dollars, one of the biggest costs of the company is not having its own production and sales facilities rather than rented properties. Rented property results in the need to pay large amounts of rent in result to adding total costs. Also, the current ratio that shows the company's ability to meet its short-term financial obligations, is lower than the industry average. This could mean that the company could have liquidity problems in the future. Another important financial asset is cash flow problems. There is a lack of proper financial planning at Mercedes-Benz regarding cash flows, leading to certain circumstances where there isn't enough cash flow as required leading to unnecessary unplanned borrowing (Mercedes-Benz SWOT Analysis / SWOT Matrix, n.d.).

4.7.3 Opportunities for Mercedes Benz company

In this section, I will list key opportunities from the broader and industry environments along with potential strategic moves for Mercedes Benz:

- As per product improvement, customization and personalization options have increasingly drawn new customers to the automotive markets. If Mercedes-Benz wants to differentiate itself from competitors and increase customer loyalty further, this could involve providing unique design options, performance enhancements, or exclusive features for individual customers (admin, 2023).

- Another market potential presents the growing demand for electric vehicles (EVs). Based on this opportunity, the company could expand its EQ sub-brand and introduce new EV models to cater to the increasing environmental consciousness of consumers and comply with stricter emission regulations. Mercedes-Benz announced an investment of more than 60 billion between 2022 and 2026 to go fully electric (admin, 2023). Regarding the improvement of production and logistics processes Mercedes Benz could change its technology landscape. Machine learning and Artificial Intelligence boom is transforming the technology landscape that Mercedes Benz operates in and according to Philip M. Rosenzweig , Mercedes Benz can use these developments in improving efficiencies, lowering costs, and transforming processes (Pro, n.d.).
- Eastern markets, as the data in the subchapter 4.5 "Market growth opportunities" have shown us, are the biggest market and sales potential. To tap one of the biggest sources of revenue and the highest level of demand, this Eastern market would require high investments as well as maintaining strategic focus.
- The use of artificial intelligence is increasing efficiency throughout industry, government and science. Mercedes Benz has been developing new digital access to all activities in the value chain using a higher level of artificial intelligence. This way, Mercedes Benz can use developments in artificial intelligence to better predict consumer demand, cater to niche segments, and make better recommendation engines and as well automate production and logistic processes and in the long run significantly reducing labor costs.
- Global information technology giants are looking for strategic cooperation with automobile industry. Several leading IT organizations including Google have announced a long-term strategic partnership to accelerate auto innovation and develop the industry's next-generation digital luxury car experience (Bhasin, 2021).
- There has been a new trend and growth in sales of the e-commerce industry, meaning that a lot of people are now making purchases online. If Mercedes-Benz decides to seize this opportunity, it could open online stores to develop its sales channels on the new level (Mercedes-Benz SWOT Analysis / SWOT Matrix, n.d.).

4.7.4 Threats for Mercedes Benz company

In this section, I list key threats from the broader and industry environment along with potential strategic moves for Mercedes Benz:

- Customers and their changing tastes: each day customers face thousands of choices online regarding available products on the market and that way directly impacts the global economy leaving the process of invisible market hand to regulate all other aspects of business (Mercedes-Benz SWOT Analysis Matrix [Step by Step] Weighted SWOT, n.d.). Taking into account everyday mentioned phrase “Times change” leaves

space for unexpected upheavals in the demand which could bring unwanted financial loss to the company. Substitute products available are also increasing, which is a threat collectively for the whole industry as consumption of current products decreases (Mercedes-Benz SWOT Analysis / SWOT Matrix, n.d.).

- New millennium comes with new “normal” technology level which sets the imperative for all the companies that tries to keep up with the competition: Tesla company brought major changes in terms of the luxury and prestige industry presenting a new era of electronic cars with exceptional market performance. But, in the words of Mercedes Benz’s sales manager (Marić,2022) mentioned in our interview, this innovation isn’t considered a threat whether the example and future standard, but since this company has pointed out very high-performance expectations in the near future, Mercedes Benz will have to reorganize future production and development plan from the roots in order to stay in the game. In terms of brand image, Mercedes Benz has not regularly provided innovative products lately. Their latest product offerings were mostly answers to the models of competitors. Considering that Mercedes Benz has built a reputation of being a pioneer in the market, paving a road for others, the company now has a mission of recovering its role as an innovative brand (Bazikyan, 2021).
- Certain raw materials and components are required for the manufacture of vehicles and parts and are purchased on the world market. The level of costs depends on the price development of commodities, raw materials and energy. Inflation-related increases in raw material and energy prices are expected for 2023 and are associated with significant cost-side risks. They can also lead to higher logistics costs. Furthermore, intense competition for specific raw materials in the course of the introduction of new technologies can lead to increasing costs or possible shortages in the supply chain. Moreover, raw-material markets can be impacted by uncertainties and political crises — combined with possible supply bottlenecks — as well as by volatile demand for specific raw materials. In general, the ability to pass on the higher costs of commodities and other materials in the form of higher prices for manufactured vehicles is limited because of strong competitive pressure in the international automotive markets. Rising raw-material prices may therefore have a negative impact on the profit margins of the vehicles sold and thus lead to lower earnings in the respective segment. In order to counteract the possible loss of revenue, Mercedes-Benz Group continuously monitors the development of raw-material and energy prices and enters into negotiations with suppliers (The Mercedes-Benz Group, n.d.).
- The bargaining power of suppliers has increased over the years with the decrease in the number of suppliers: this means that the costs of inputs could increase for Mercedes-Benz (Mercedes-Benz SWOT Analysis / SWOT Matrix, n.d.). Taking costs into consideration, one of the biggest external financial impact have also been the increasing costs component for working in the developed market because of environmental regulations. Mercedes Benz has to deal with these costs as

governments are trying to levy higher environmental taxes to promote cleaner options. For Mercedes Benz it may result in higher logistics costs and higher packaging costs. (Pro, n.d.-a).

- The threat of large market competitors: to maintain the status of leader in quality and business operation, the company has the need to maintain the market share. The only way to achieve this is to constantly invest in the development of products and maintain customer loyalty as the most important factor that cannot be imitated. Although the Mercedes Benz marketing strategy used to be focused on safety, luxury and precise engineering of its cars, due to increased competition in the industry, it has been redirected to maintain customers' attitudes toward the brand, as well as to maintain their loyalty to it (Automobile Industry SWOT Analysis 2022 | SWOT Hub, 2022).
- US and China trade relations: Mercedes Benz has focused on China for its next phase of growth, which is in big tension between with US and this trade relations can lead to protectionism, more friction in international trade, rising costs both in terms of labor cost and cost of doing business. Also, considering the fact that this company has already a high employee turnover rate, meaning that it has more people leaving the job, a big threat is certainly made by other automobile corporations that are able to offer their workers much better financial, development and career opportunities.
- The global economic crisis has had a very bad impact on the automobile industry and Mercedes Benz was no exception. As a result it has decreased the annual revenue and net income of the company to a great extent. Some of the causes could be found in the lockdown and shutdown of businesses, high fuel prices, and limited purchasing power of people. Likewise, different governments of the world are introducing new environmental and carbon emission regulations, penalties, and fines. All of these factors are making it difficult for Mercedes to operate its business globally. Now, the automotive brand has to spend more to keep up with the regulations and standards (Bhasin, 2015b).
- Fluctuations in prices of commodities, raw materials and energy : intense competition for specific raw materials required in the introduction of new technologies can lead to increasing costs or possible shortages in the supply chain. Thus, rising raw-material prices may have a negative impact on the profit margins of the vehicles sold and thus lead to lower earnings in the respective segment (Bhasin, 2015a).

The summary of the SWOT analysis is presented in Table 3.

Table 3: Mercedes Benz SWOT analysis

	STRENGTHS	WEAKNESSES	OPPORTUNITIES	THREATS
SALES	Sales in over 20 countries in the world	High price strategy discriminates certain social groups	Eastern markets are growing and e-commerce sales have picked up	Intensive competition and substitute products
MANUFACTURING	Own production units	High day sales inventory costs	Increasing growth in customization and personalization of products	Fluctuation of prices of raw materials and significant power of suppliers
LOGISTICS	Strong relationship with existing suppliers	Problem of scalling	Changing technology landscape	Increasing costs of components because of environmental regulations
PRODUCT	Leader in innovation and quality, diverse product portfolio	High maintenance and service costs	Increasing demand for EV	Consumer taste changes
R&D	Allocating significant amount of financing resources to R&D	Late entry into the electric vehicle market	Global information technology giants are looking for strategic cooperation	New technology development by Tesla
BRAND	Strong brand reputation, strong consumer loyalty	Stronger sensitivity to negative reputation	High growth in the luxury chain segments	No longer innovation pioneer
HR	Skilled workforce	Lack of workforce diversity	Increasing- trend in successful networking collaboration	US China Trade Relations and High employee turnover rates
FINANCE	Financial prosperity and financial position	Rented property	Development of artificial intelligence	State regulations on environmental protection and resource efficiency

Source: Own work.

4.8 Mercedes Benz company differentiation strategy

One of the foremost differential characteristics of Mercedes Benz company is reflected in the large and various product portfolios organized in so-called “classes” and adapted to different types of social groups or preferences. Unlike BMW or Audi, who use an alpha-numerical system to name their cars which gives them some sort of hierarchical order, Mercedes Benz instead uses letters followed by ‘-Class’ and to the untrained eye these appear to be randomly assigned, but there’s a long historical meaning behind most of model names in the Mercedes range, and even though not all vehicles have historical ties, such as the A-Class or B-Class, they’re still named with purpose (www.hippoleasing.co.uk, 2022). Namely, there are 17 different Mercedes Benz classes (https://facebook.com/autojoshng, 2020), which could be divided into 4 basic groups. The A, B, C, E, and S class fall under the core classes of Mercedes Benz.

The Mercedes Benz A-Class is one of the biggest sellers in the manufacturers range. Striking in design, the A-Class is available in hatchback or saloon form. The exterior is designed through perfect symmetry, with all body lines following a single direction. The interior tells a similar story, with a panoramic screen, smooth transitions between dash and door and ambient lighting creating undoubtedly the most luxurious cabin in its class. The A-Class, like the B-Class, has no real meaning behind it, but the first letter of the alphabet indicates that it is the smallest in the Mercedes-Benz lineup (Hall, 2022). In great similarity, Mercedes Benz B-Class known as “a family car, but not as you know it” (Mercedes Benz Classes, 2019) arches exterior design and gives it stature on the road while remaining classic and unimposing. The label “B” in the B-class defines a car that is larger than A-class in terms of a bigger body and engine (Mercedes Benz Classes, 2019).

The Mercedes-Benz C-Class was recently refreshed in 2021, offering updated styling both inside and out, as well as a whole host of new technology and safety features. Available in saloon, estate, coupe and cabriolet body styles, the C-Class is one of those models that straddles luxury and affordability with comfort. The C-Class has no special meaning in German or English. Based on the fact that the C-Class is the successor to the once called “baby benz” the 190E, it is presumed that C-Class stands for Compact-Class (Hall, 2022). The next product category has been presented in the E-Class and refers to “Executive” which is used to stand for “Einspritzung”, which means petrol direct injection in German (Hall, 2022). As many older Mercedes vehicles with the E after the engine tag the label “E” stands for the vehicle's engine which is equipped with petrol fuel injection (Quora, n.d.).

Representative of all Mercedes Benz passenger vehicles has without any doubt been a famous S-Class. The meaning of S-Class stems from the German word “Sonder”, which means “special”. This means that S-Class means the special class, which is why it is

considered the flagship Mercedes Benz model (Hall, 2022). Vehicles in this class are designated to the top-class models which in term of luxury cannot be defeated. The S-Class has debuted many of the company's latest innovations, including drivetrain technologies, interior features, and safety systems. These vehicles have ranked as the world's best-selling luxury sedan and in automotive terms, so-called "Sonderklasse" refers to "a specially outfitted car." Although used colloquially for decades, following its official application in 1972, six generations of officially named "S-Klasse sedans" have been produced (News & Reports : Motoring : Web Wombat, n.d.).

A separate group of vehicles is made up of sports cars and forms the so-called "G-class" group, within which, depending on their design, we also distinguish several subclasses created according to the previously mentioned core classes. Label "G" which translates from German "Geländewagen" means all-terrain or off-road vehicle (Hall, 2022). The G-class depicts a luxury vehicle that a customer could take off-road as it offers the needed support being an off-road vehicle (Mercedes Benz Classes, 2019). These vehicles are under the category of sport utility vehicles (SUV) and together with core MB characteristics create several subclasses including GL, GLS, GLA, GLC and GLE. GL-class, which was initially the biggest full-size SUV from Mercedes, got its name as a derivative of the G letter, which stands for "Geländewagen" or all-terrain vehicle and the letter L, which indicates Lang (German for long) or large seeing as it is a full-size SUV. Mercedes later used the GL as a prefix for all SUV models (Hall, 2022). The GLS class gets its name from the fact that it is the "Sonder" or special model of the GL lineup. The GLA is the smallest of the GL ("Geländewagen") off-road SUV vehicles, which is indicated by the letter A after the A-Class, which is the smallest of the Mercedes lineup. The GLC is the C-Class of the SUV or the GL ("Geländewagen") all-terrain vehicle. It represents the compact SUV sized comparably to the C-Class core series sedan. The E letter in GLE stands for E-Class of the GL series, the ("Geländewagen") all-terrain SUV vehicles. This represents the midsize SUV option (Hall, 2022).

The third product category is Mercedes Benz coupe class. This class, in difference with others, makes vehicles for a passenger car division, but with a sloping or truncated rear roofline and two doors (Power, n.d.). With their head-turning looks, sophisticated interiors, and dynamic performance, every model of coupé line-up delivers an unforgettable driving experience (Coupe Range, n.d). In this class we distinguish CL, CLS, CLC and CLA subcategories. As previously elaborated for G class, CL letters of the CL-Class represent two German expressions, "Coupe Leicht" or Coupe Light. CLS-Class Meaning stands for "Coupé Leicht Sport" or Coupe Light Sport in plain English. The CLC used to be the shorter, 2-door, compact version of the C-Class. CLC, therefore, meant Coupe Light Compact or C as in C-Class and as it follows CLA or Coupe Light A-Class presents the smallest of the Mercedes 4-door coupes.

In addition, the fourth category includes X and V classes. These classes don't have some historical meaning rather than V stands for van, and X stands for 4x4 (4-wheel drive) (Quora, n.d.). Also, talking about electronically efficient vehicles, these models lately have also obtained their own class or mark up label by the EQ prefix. Mercedes Benz EQ prefix stands for all the electric models released by Mercedes Benz. This class presents emotion and intelligence, which was officially announced by Mercedes themselves (Hall, 2022).

A link between the strategy of differentiation and a diverse portfolio of Mercedes Benz products has been presented in CLS-class. As it was emphasized, Mercedes Benz has successfully implemented the differentiation strategy because of the Mercedes Benz S-class special premium product. Mercedes Benz S-class is sold at premium prices, which ensures higher than standard profitability. With the S-Class model they have managed to realize differentiation of products on the basis of price, image, customer loyalty and product quality. Mercedes Benz S-Class is a vehicle with the highest level of equipment, performance, comfort, design, technological innovations, that is, the possibility of transferring the status of prestige or any other significance of importance to customers. It is a car model with certain advantages aimed at certain socio-economic classes, whereby the customer status comes to the forefront. Therefore, it is a car that has been created in accordance with customer desires. Building good relations with the customers that are at an enviable level in relation to other companies, a big attention and focus on customers return in multiple ways to the company through the loyalty of old customers and constant increase of new ones. In this way, Mercedes Benz has the greatest index when it comes to maintaining customers within the brand. It has arrived at better conclusions when it comes to the company strategy, through the construction of its customer relations. By analyzing customer needs they have identified the group for which the E-class model was too business like, whilst the S-class model was too luxurious. On the basis of that the CSL model was launched, which corresponded to the greatest extent to the identified group, and was different from all the existing models (Business Stories, 2021).

Therefore, regardless of whether you are someone who prefers smaller or family cars or whether comfort, performance or environmental efficiency is your primary concern or whether your drives are intended for unusual impassable roads, within the diverse Mercedes Benz portfolio, there is a large range of products within everyone could find a suited product or even more adjusted product for all different social and interest categories. But the foremost of all, is what this range has in common which is a high level of quality, innovation, refined design following along with the premium price.

Representing the portfolio in terms of sales numbers, in 2022 Mercedes-Benz Cars sold a total of 2,040,700 units (see Figure 15) which was slightly higher than in the previous year (2021: 1,943,900). This growth in unit sales was due to the EQ models and, in

particular, the fact that 2022 marked the first full year of sales for the new C-Class generation (The Mercedes-Benz Group, n.d.).

Figure 15: Mercedes Benz car unit sales in 2022 and 2021

	2022	2021	% change
In units			
Mercedes-Benz Cars unit sales			
(total, incl. smart)	2,040,700	1,943,900	+5
Top-End ¹	328,200	304,600	+8
% share of unit sales	16	16	
Core	1,116,600	1,029,000	+9
% share of unit sales	55	53	
Entry (incl. smart)	595,900	610,300	-2
% share of unit sales	29	31	
thereof			
Electrified vehicles (xEV)	333,500	271,800	+23
BEVs	149,200	89,500	+67
PHEVs	184,300	182,300	+1
% share of unit sales	16	14	

Source: Mercedes-Benz Group (n.d.).

Unit sales in the Top-End category accounted for 16% of total unit sales in 2022 — and at 328,200 units were also 8% higher than in the previous year (2021: 304,600). The main force driving this development was the S-Class: Global sales of the S-Class¹ rose to 117,500 units in 2022 (2021: 91,100 units). Sales of Mercedes-Maybach brand Vehicles also rose significantly, to 23,400 units (2021: 16,600 units). Mercedes-AMG sold 137,700 vehicles (2021: 135,100 vehicles). Mercedes-AMG sold 137,700 vehicles (2021: 135,100) and sales of Mercedes-Maybach brand vehicles rose significantly, to 23,400 units (2021: 16,600). A total of 38,600 G-Class² vehicles were sold during the reporting year (2021: 40,500 vehicles). GLS sales totaled 59,700 units (2021: 61,700 units) (The Mercedes-Benz Group, n.d.).

Also, in 2022, the Group's revenue amounted to €150.0 billion (2021: €133.9 billion) and was thus substantially higher than the prior-year value (see Figure 16). Adjusted for positive foreign exchange effects, revenue was also significantly higher than in the previous year. The increase in revenue was primarily due to significantly improved pricing at the Mercedes-Benz Cars and Mercedes-Benz Vans segments (The Mercedes-Benz Group, n.d.).

Figure 16: Mercedes Benz revenue reports by regions in 2022 and 2021

	2022	2021	22/21
In millions of euros			% change
Mercedes-Benz Group	150,017	133,893	12
Segments			
Mercedes-Benz Cars	111,601	96,712	15
Mercedes-Benz Vans	17,217	14,735	17
Mercedes-Benz Mobility	26,954	27,941	-4
Reconciliation ¹	-5,755	-5,495	5
Regions			
Europe	56,487	51,044	11
thereof Germany	23,085	20,733	11
North America	40,091	33,105	21
thereof United States	35,829	29,284	22
Asia	45,558	40,126	14
thereof China	27,324	25,173	9
Other markets	7,881	9,618	-18

Source: The Mercedes-Benz Group (n.d.).

Cost of sales amounted to €116.0 billion (2021: €103.2 billion) in 2022, increasing by 12.4% compared with the previous year. The increase was mainly due to significantly increased raw-material prices, one-time expenses paid to suppliers and additional costs relating to inflation and supply chains. Overall, gross profit in relation to revenue increased from €30.7 billion to €34.0 billion. Selling expenses increased by €0.3 billion to €9.5 billion. As a proportion of revenue, selling expenses decreased from 6.9% to 6.3% (The Mercedes-Benz Group, n.d.). Including all financial indicators, the condensed statement of income of Mercedes Benz in the previous two years is presented in Figure 17 below.

Figure 17: Declaration of income for Mercedes Benz in 2022 and 2021

	Mercedes-Benz Group		Industrial Business		Mercedes-Benz Mobility	
	2022	2021	2022	2021	2022	2021
In millions of euros						
Revenue	150,017	133,893	123,063	105,952	26,954	27,941
Cost of sales	-115,997	-103,218	-93,010	-80,328	-22,987	-22,890
Gross profit	34,020	30,675	30,053	25,624	3,967	5,051
Selling expenses	-9,482	-9,194	-8,760	-8,502	-722	-692
General administrative expenses	-2,584	-2,808	-1,855	-1,908	-729	-900
Research and non-capitalized development costs	-5,602	-5,467	-5,602	-5,467	-	-
Other operating income	2,034	1,153	1,925	973	109	180
Gains/losses on equity-method investments	1,732	1,352	1,941	1,492	-209	-140
Other financial income/expense	340	317	328	323	12	-6
EBIT	20,458	16,028	18,030	12,535	2,428	3,493
Interest expense	-154	-217	-150	-209	-4	-8
Profit from continuing operations before taxes	20,304	15,811	17,880	12,326	2,424	3,485
Income taxes	-5,495	-4,761	-4,868	-3,854	-627	-907
Profit from continuing operations after taxes	14,809	11,050	13,012	8,472	1,797	2,578
Profit/loss from discontinued operations after taxes	-	12,346	-	12,346	-	-
Net profit	14,809	23,396	13,012	20,818	1,797	2,578
thereof attributable to non-controlling interests	308	390				
thereof attributable to shareholders of Mercedes-Benz Group AG	14,501	23,006				
thereof from continuing operations	14,501	10,695				
thereof from discontinued operations	-	12,311				

Source: The Mercedes-Benz Group (n.d.).

From the attached data earnings before interest and taxes (EBIT) amounted to €20.5 billion in 2022, which is significantly higher than in the previous year (2021: €16.0 billion). Exchange-rate effects had a positive net impact. Net interest expense amounted to €0.2 billion, as was the case in the previous year. The tax expense of €5.5 billion (2021: €4.8 billion) recognized under income taxes increased mainly due to the increased profit before income taxes. The effective tax rate for 2022 was 27.1% (2021: 30.1%). The profit from continuing operations amounted to €14.8 billion in 2022, which is significantly higher than the prior-year value of €11.1 billion and net profit was thus €14.8 billion (2021: €23.4 billion). Net profit of €0.3 billion is attributable to non-controlling interests (2021: €0.4 billion). The net profit attributable to shareholders of Mercedes-Benz Group AG amounted to €14.5 billion (2021: €23.0 billion), leading to an increase in earnings per share from continuing operations to €13.55 (2021: €10.00). Earnings per share from continuing and discontinued operations amounted to €21.50 in 2021 (The Mercedes-Benz Group, n.d.).

As the numbers already show us Mercedes Benz Group has been continuously achieving strong financial results, thanks to sustained demand for luxury vehicles and premium vans, a good model mix, enhanced pricing power and ongoing cost discipline. In the words of Ola Källenius, Chairman of the Board of Management of Mercedes Benz Group AG “The team at Mercedes Benz delivered another strong financial year in an uncertain

environment. We are enhancing our vigilance and resilience to manage increasingly complex macroeconomic and geopolitical challenges. At the same time, we have good reasons to remain confident, with ongoing strong demand, a fresh vehicle portfolio and further key product launches this year” (Group, 2022).

5 CONCLUSION

The Mercedes Benz company can look back on a tradition covering more than 135 years which goes way back to Gottlieb Daimler and Karl Benz, the inventors of the automobile, and features pioneering achievements in automotive engineering. Today, this company presents world known luxury car manufacturer covering production facilities in 22 countries all over the world and producing a wide range of vehicles ranked in 17 different classes, representing at the same time one of the largest suppliers of premium and luxury automobiles and vans.

As a way to stay and maintain a competitive position in the market, this company has chosen to implement one of the three general business strategies - the strategy of differentiation, but before we remember the ways in which it implements this strategy, let's take another glance on what competitive advantage really means, as well as ways of achieving it. Simple as that, competitive advantage is obtained when the profit margin, or general profitability, of one company is greater than its industry rivals. Along with the competitive advantage, market position of the company could be competitive parity as well as competitive disadvantage. All three market positions present the result of successful strategy planning and implementation which leads to firm's target of performance. How long firms are able to sustain competitive advantage directly depends on what sources it is based on.

Traditional economic theory predicts that the sources and attributes of competitive advantage developed by a particular firm will quickly be identified and imitated by other firms, enabling competitive parity in the long run. Competitive attributes that contribute to achieving the desired competitive position on the market are characteristics which are easily visible from customer's view and usually are directly linked with physical product characteristics, including product and service quality, innovative products, packing, design, brand and similar. A firm differentiate itself from the competitors when it provides something unique that is valuable to buyers beyond simply offering the low price. In competitive terms, value is the amount buyers are willing to pay for what a firm provides them, and the most successful competitive sources could be found in the value chain created by Porter in several ways.

Questioning what a competitive business strategy really is, the answer would include the ways in which the company believes it will achieve the set goals. Porter argues that there

are four general types of competitive strategy based on competitive position and competitive scope in indifference whether a company targets the whole industry or part of it. A generic strategy is either cost leadership or differentiation strategy, or cost focus and differentiation focus strategy. A differentiation strategy successfully occurs when a firm is able to obtain a price premium from its differentiation in the market that exceeds the cost of providing differentiation. The aim of this strategy is to provide products and services that are different from the other ones in the branch and gain coverage of as many market segments as possible. A necessary prerequisite for successful realization of the differentiation strategy is a careful analysis of customer needs and behaviors, and providing answers to the question of what the customers value the most. In case differentiation has been successfully done, the company has the opportunity to determine higher premium prices, ensure customer loyalty and increase the scope of sales.

The German automotive market is home to some of the world's leading car manufacturers. The country boasts a rich history of automobile engineering and manufacturing that stretches back over a century and today, companies such as Volkswagen, BMW, Mercedes Benz, and Porsche continue to dominate the industry. Analyzing these 4 most famous German automotive companies in terms of brand value following the statistical data from Figure 10, in 2023 Mercedes Benz has been on number one brand value market position. How do they manage that? The secret behind these successful business story has been standing behind implementation of the differentiation strategy and therefore the creation of premium prices resulted in greater profit margin for its competitor. The successful implementation of the strategy would include the skillful set of numerous competitive attributes and competitive sources.

By creating a tradition of manufacturing high-quality products, followed by leadership in innovation and technology, and at the same time keeping the focus on comfort, appearance and feeling of superiority and luxury status in a wide portfolio of over 17 different product categories, Mercedes Benz has successfully combined main elements of the differentiation strategy and established a "hard-to-get" market competitive advantage. Although as part of its strategy, this company foresees enormous business growth and development in a new market potential, there are several important risks that could be a big threat in the near future.

Possible declines in vehicle sales may be caused in particular by the partially unstable macroeconomic environment and in the context of political or economic uncertainties. As a result of the Covid-19 pandemic, there are still risks with a negative impact on the sales development of Mercedes Benz cars. Rising prices of raw materials, a persistently high inflation rate and volatile exchange rates may also lead to market uncertainty or a loss of purchasing power and have a negative impact on demand in the automotive sector. Also, increasing costs of components as a result of new government environmental regulations

could have a negative impact on earnings which could also endanger the achievement of specific business and CO₂ targets.

Mercedes Benz has historically maintained a strong competitive market position using differentiation strategies in a fully manner. As we defined differentiation involves offering unique and distinctive products or services that are valued by customers and Mercedes Benz has been delivering it on in every business fields. Mercedes Benz is known for its commitment to innovation and cutting-edge technology in automotive design as they introduce new features, advanced safety systems, and state-of-the-art technology in their vehicles. Investments in research and development help Mercedes-Benz stay ahead in terms of technological advancements, giving them a competitive edge. Mercedes Benz has also cultivated a strong luxury and premium brand image. The brand is associated with sophistication, high-quality materials, and a premium driving experience. The emphasis on luxury allows Mercedes Benz to charge premium prices for its vehicles, contributing to higher profit margins. Another effective way of implementing differentiation strategy for obtaining competitive market position is as the company places a significant emphasis on the design and aesthetics of its vehicles. Sleek and elegant designs contribute to the overall appeal of its cars. Attention to detail and a focus on creating visually striking vehicles help differentiate the brand from competitors. Also, Mercedes Benz has a reputation for delivering high-performance vehicles. The brand is often associated with powerful engines, smooth handling, and a superior driving experience and a commitment to performance excellence contributes to customer loyalty and positive brand perception. Diverse range of vehicles, including sedans, SUVs, coupes, convertibles, and high-performance AMG models has also been one of the organizational strongest weapons as this allows them to cater to a wide range of customer preferences and market segments. This way, a diverse product portfolio helps the organization reach a broader audience and compete effectively in various automotive segments. Another important differentiation segment is Mercedes Benz's customer experience and service. Providing exceptional customer service and maintaining strong relationships with customers contribute to brand loyalty and encourages repeat business and word-of-mouth recommendations.

The last, but not the least, Mercedes Benz has also embraced environmental responsibility by incorporating sustainable practices in its manufacturing processes and introducing hybrid and electric vehicles. Addressing environmental concerns can enhance the brand's image and appeal to environmentally conscious consumers. All this combined, has enabled Mercedes Benz to position itself as a leading luxury and premium automotive brand, differentiating itself from competitors and appealing to a specific target market.

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APPENDICES

Appendix 1: Povzetek (Summary in Slovene language)

Daimler AG je nemški proizvajalec luksuznih avtomobilov, avtobusov, tovornjakov in dostavnih vozil, v lasti katerega sta blagovna znamka in logotip podjetja Mercedes Benz (The Mercedes-Benz Group, n.d.). Danes to podjetje predstavlja svetovno znanega proizvajalca luksuznih avtomobilov, ki pokriva proizvodne obrate v 22 državah po vsem svetu in proizvaja široko paleto vozil, razvrščenih v 17 različnih razredov. Hkrati predstavlja enega največjih dobaviteljev premium in luksuznih avtomobilov in kombijev. Da bi ohranilo konkurenčni položaj na trgu, se je podjetje odločilo za izvajanje ene izmed treh generičnih poslovnih strategij - strategijo diferenciacije. Konkurenčna prednost je razlika med največjo profitno maržo v panogi in profitnimi maržami drugih podjetij. Konkurenčni položaj podjetja je poleg konkurenčne prednosti tudi konkurenčna pariteta ali enakost in konkurenčni zaostanek.

K doseganju zelenega konkurenčnega položaja na trgu prispevajo lastnosti, ki so dobro vidne s strani kupca in so običajno neposredno povezane s fizičnimi lastnostmi izdelka, vključno s kakovostjo izdelkov in storitev, inovativnimi izdelki, embalažo, dizajnom, blagovno znamko in podobno. Primeru, da je diferenciacija uspešno izvedena, ima podjetje možnost določiti višje premijske cene, zagotoviti zvestobo strank in povečati obseg prodaje.

Raziskovalno vprašanje magistrskega dela je bilo 'Na kakšen način uporablja Mercedes Benz strategijo diferenciacije za rast svojega poslovanja, pridobivanje novih in ohranjanje zvestobe obstoječih kupcev ter ohranjanje konkurenčne prednosti na trgu? Z analizo sekundarnih in primarnih podatkov sem ugotovila, da Mercedes Benz dosega konkurenčno prednost z nadaljevanjem tradicije izdelave visokokakovostnih, inovativnih in tehnološko dovršenih izdelkov, hkrati pa z osredotočenostjo na udobje, videz ter občutek superiornosti in luksuznega statusa. Širok portfelj obsega več kot 17 različnih kategorij izdelkov. Mercedes Benz je tako uspešno združil glavne elemente strategije diferenciacije in vzpostavil "težko dosegljivo" tržno konkurenčno prednost. Čeprav to podjetje v okviru svoje strategije predvideva rast poslovanja na novem tržnem potencialu, obstaja več pomembnih tveganj, ki bi lahko v bližnji prihodnosti predstavljala veliko grožnjo. Morebitni upad prodaje vozil je lahko posledica predvsem delno nestabilnega makroekonomskega okolja ter v okviru političnih ali gospodarskih negotovosti. Zaradi pandemije COVID-19 še vedno obstajajo tveganja, ki lahko negativno vplivajo na razvoj prodaje avtomobilov Mercedes Benz. Naraščajoče cene surovin, vztrajno visoka stopnja inflacije in nestanovitni menjalni tečajji lahko povzročijo negotovosti na trgu ali izgubo kupne moči ter negativno vplivajo na povpraševanje v avtomobilskem sektorju. Poleg tega bi lahko naraščajoči stroški sestavnih delov zaradi novih vladnih okoljskih predpisov negativno vplivali na zaslužek, kar bi lahko tudi ogrozilo doseganje poslovnih in ciljev glede obvladovanja CO₂.

Mercedes-Benz je skozi zgodovino ohranjal močan konkurenčni položaj na trgu z uporabo strategij diferenciacije v celoti. Kot smo definirali, diferenciacija vključuje ponudbo edinstvenih in značilnih izdelkov ali storitev, ki jih kupci cenijo, in Mercedes Benz to zagotavlja na vseh poslovnih področjih. Mercedes-Benz je znan po svoji predanosti inovacijam in najsodobnejši tehnologiji v avtomobilskem oblikovanju, saj v svoja vozila uvaja nove funkcije, napredne varnostne sisteme in najsodobnejšo tehnologijo. Naložbe v raziskave in razvoj pomagajo Mercedes-Benzu ostati v prednosti v smislu tehnološkega napredka, kar jim daje konkurenčno prednost. Mercedes Benz je prav tako gojil močno podobo luksuzne in premium znamke. Znamko povezujemo s prefinjenostjo, visokokakovostnimi materiali in vrhunsko vozno izkušnjo. Poudarek na luksuzu omogoča Mercedes Benz, da zaračunava premijske cene za svoja vozila, kar prispeva k višjim dobičkom. Drug učinkovit način izvajanja diferenciacijske strategije je pridobitev konkurenčnega tržnega položaja je, da podjetje daje velik poudarek dizajnu in estetiki svojih vozil. Eleganten in eleganten dizajn prispeva k splošni privlačnosti njegovih avtomobilov. Pozornost do detajlov in osredotočenost na ustvarjanje vizualno osupljivih vozil pomaga razlikovati znamko od konkurentov.

Mercedes Benz ima sloves proizvajalca visoko zmogljivih vozil. Blagovno znamko povezujemo z zmogljivimi motorji, uglajenim upravljanjem, vrhunsko vozno izkušnjo in predanostjo odličnosti delovanja. To gradi zvestobo strank in pozitivno dožemanje znamke. Raznolika paleta vozil, vključno z limuzinami, SUV-ji, kupeji, kabrioleti in visokozmogljivimi modeli AMG, je tudi eno najmočnejših organizacijskih orožij, saj jim to omogoča, da zadovoljujejo širok spekter želja strank in tržnih segmentov. Na ta način raznolik portfelj izdelkov pomaga podjetju doseči širše občinstvo in učinkovito konkurirati v različnih avtomobilskih segmentih. Drug pomemben segment diferenciacije so storitve Mercedes Benz za stranke. Zagotavljanje izjemnih storitev za stranke in vzdrževanje močnih odnosov s strankami prispevata k zvestobi blagovni znamki ter spodbujata ponavljajoče se nakupe in priporočila od ust do ust. Nenazadnje je Mercedes Benz sprejel tudi okoljsko odgovornost z vključevanjem trajnostnih praks v svoje proizvodne procese ter uvedbo hibridnih in električnih vozil. Obravnavanje okoljskih vprašanj lahko v prihodnosti še izboljša podobo blagovne znamke in pritegne okoljsko ozaveščene potrošnike. Vse to lahko Mercedes-Benzu omogoči, da se tudi nadalje pozicionira kot vodilna luksuzna in vrhunska avtomobilska znamka, ki se razlikuje od konkurentov in je privlačna za izbrane ciljne trge.

Appendix 2: Interview with the sales manager in Mercedes Benz UK, M. Marić.

1. Can You tell us how the Mercedes Benz brand was created?

“Carl Benz was a son of an engineer driver born in Germany around 1840 and started his own little engineer workshop in Mannheim. He had an idea to create a machine with engine to replace the horses, but for many years his idea as well as his business wasn't going very well. First few versions of his machine that he created meet a lot of condemnation. Ben was really frustrated because the major of his town refused to use his patent and if there was any accident in a few that were used Ben was directly responsible whether or not he caused this accident. So, he couldn't prove to anyone that the machine he invented could serve a long-distance usage as he imagined. Fun story was that because Ben was so obsessed with this machine he spent so many times in his workshop, so one day his wife decided that enough is enough. One day her and her children borrowed the car while Ben was absent and for a drive to Fromstein and made her point as well as Bens, that his invention was perfectly right machine and motivated others to try.

But while Carl was inventing his tricycle another engineer Gottlieb Daimler was working on something similar. By the 1890s both of these engineers were in serious production process of their inventions. A turning point for this story was a politician and entrepreneur Emil Jellinek who was a big enthusiast for Daimler's cars and invested in a production of the line of racing cars with his only condition to name these cars after his daughter Mercedes.

Since in that period it was a very difficult time for Germany (World War, economic problems, inflation) the industry was threated to be destroyed. So, neither Benz or Mercedes could make it without the help and by 1924 they decided to merge together as one Mercedes Benz company and become a world known symbol of Germany until today.”

2.Can you explain us what does the three-pointed star symbolizes?

“It represents the 3 mobility-on the land, on the water and in the air.

It was created around 1920s when Daimler and Ben merged as a symbol of 3 field in which their machines will be used and when the star was rounded with the circle landmark was born.

In the latest versions we could see that this star isn't on the hood as it was in all the previous traditional series, because creating a sporty version of the cars the star was moved in the hood to present a that we created engine as our star.

I have to emphasize that this logo is more than a brand. It represents a trophy, a message and shortly said what once stand only for a landmark now stands for much more. (luxury, safety, prestige, invention...)

It also important to say that analyzing this for a manager's view it can be presented for 3 main parts or businesses of how the company is divided. First one is car business as the most popular leading premium and luxury brand on the world, second one truck and bus makers and in the end financial and mobility services that support this industrial entity.

3. Based on the statistic even though You don't sell a big percentage of your cars on the market, what is the main reason why you are still on the top would list of prestige cars?"

"Well, that is true. We sell roughly 80 million of cars around a world in a year and as a part of that around 17millions in USA, 28millions in China and Europe is roughly as same as USA, which in global present our top 3 markets. But, despite of these small percentage shares we are still one of the leading brands in world known luxury automotive industry because of the few reasons.

First of all, we always stood for the innovations. We talk about an attitude as one of our first principles and constant thinking about what is next. We never rely on our old glory and after every innovation we are talking about our next step as we keep on going. Looking back for around 100 years until now, most of the innovations in the automotive industry started with us and most of all regarding safety components. Safety is in our DNA, but besides it our recognitional symbol is also the symbol luxury and prestige. Many people dream about these cars and also many of them when they buy a Mercedes think "I finally made it". And that is what keeps us on in the top."

4. Regarding the innovation what You mentioned, could You reveal us what we could aspect in the near future from Mercedes Benz as maybe one of you most recent projects.

Well, mainly we can say that we are on the verge of a new era of mobility regarding the production of electronic vehicles. As the first one to put in Europe volume production car in 2007, we maybe hesitated for a while, but in the next 2-3 years there will definitely be a whole family of cars using so called EQ range. Also, we have set so called an Ambition 2039 last year and the key behind it was that in the 20 years for now we want to produce hole new carbon neutral, technology agnostic vehicles.

But, also, we don't want to underrate the engineers and their ideas, so one of the fun features the we recently put in the function was so called Electronic Chassis System that can individually regulate the height of each wheel and instantly when the camera reads elevation the road in front of you it adjusts just before you hit it, so it feels like being on the flying carpet. Another interesting feature which we recently added based on collaboration of civil engineers and artificial intelligence is technology that can recognize the driver's behavior, so the car based on your moves feels whether the driver is tired and

recommends you to take a stop or a cup of coffee. To sum up, some of these technologies are in development and some of them are being analyzed so we could know whether or not it should be included or excluded from the performance act.”

5. Since Tesla company launched something similar, would you say that it is Your biggest competition or it another Germany production brand like BMW or Audi?

“I wouldn’t call it a competition more as an encouragement. Entering the new market or launching a completely new product comes with a high level of uncertainty. The hole business is the transformation, there are many investments with this unsearched markets segments, pressure on cost and margins, so I understand that there is a certain nervousness on the market, but if one start-up like Tesla can generate all these factors then we can be surer about our future project.

Regarding two other market participants, we could say that it a longtime tradition in Germany especially on precision on the mechanical side and that tradition has grown in to the products. As a part of our development process we do try another company’s cars and their features, we also drive competitor’s products because we want to see what is another guy up to and we assess them, but what we don’t do is to chase their features and create a product based on what we have seen in others. You have to have your own DNA and your soul and that is why Mercedes feels like Mercedes. Talking about our biggest competitor we have to confess that in Germany there are 4 brands that have to push each other (us plus 3 others) but there from time to time more competitors from California for example or other places. We watch carefully what is going on in the competitive lands but try to ensure that our position as brand which promises a future is always in the lead.”

6. Could tell us more about Your biggest market demand?

“Our biggest market demand as we mentioned earlier is China in the field of passenger car division. Last year we sold around 700 000 of cars and the interesting thing is that most of them were also manufactured in China, since we rest on the local production but as well as global production network. So, one car produced in China, USA or in Germany has the same characteristics and there is no way we could found difference and tell in which country was some vehicle produced. That was even how the slogan “Made by Mercedes” was created. The point is that the standard stands the same in every manufacturing place, so neither Germany or any other country could get title, because the crown is in the hand of the company not country. So, if it Made by Mercedes it is the completely same standard in every product.”

7. Could You please tell us whether the consequences of the global pandemic regarding Covid-19 are already present?

“In China, there is a quick recovery and now they are thinking about 6 months of double-digit growth and the economic rebound especially in the luxury premium market which has been remarkable. Looking forward in the next 5 to 10 years China is also a market where it could be seen an absolute growth and probably the biggest potential for the company but also for the whole industry. So, not only it presents is the biggest market today it is also a market intended to grow and to be even more important in the future.”

8. What are Your biggest challenges?

“There are so many challenges in this industry. Staying in the market means juggling many bolls in the same time. But what I would single out is the overriding transformation that is almost disruption of the oil industry. All the challenges could be divided in 3 main groups perhaps, in a way of technological challenge, industrial footprint challenge and of course the financial challenge. But, to balance that out I would say it is the biggest one.”

9. What message should You send to all the potential Mercedes Benz users?

“I love to say one thing “Don’t buy the price, buy the product” and take look for the product features. If you are thinking about safety, quality, exciting technology and prestige look for Mercedes.”