

STRATEGIC MEASURES TO PENETRATE INTERNATIONAL MARKETS: THE DAIMLER (MERCEDES-BENZ) STRATEGY

*Daniela NECHITA¹
Florina Oana VÎRLĂNUȚĂ²
Carmen OPRÎȚ-MAFTEI³*

ABSTRACT

The context in which companies operate has changed significantly, therefore companies have been forced to change their organizational behaviour in order to survive and thrive in a global, unstable and highly competitive environment. The changes of the competitive environment have thus determined companies to identify new methods to satisfy customers and to constantly provide value in a more efficient way than their competitors. In order to do so, companies need to be competitive i.e. to have the ability to increase their earnings by increasing sales or profit margins on the market in which they operate, so that they can maintain their position during the next round of competition, as products in the markets evolve. This paper represents an important means of revealing management and marketing importance in a particular field of real economics, i.e. of companies' strategic approach to align to the internationalization process of the firm by highlighting the aspects that require sustainable development of a company. From the practical point of view, the conducted research explains the necessity of penetrating foreign markets, the importance of adopting sustainable management and marketing programmes, whose components are focussed on elements of operating, maintaining and developing economic activities aiming at achieving the efficiency parameters. Last but not least, the paper also analyzes the efficiency of international market penetration strategy due to Daimler's success.

KEYWORDS: *competitive advantage, competitive strategies, performance, internationalization, organizational management*

JEL CLASSIFICATION: *M16*

1. INTRODUCTION

The internationalization process of the firm, which is the promoter of change, should be regarded as the creator of ideas, values and new identities. In a dynamic environment, marked by profound structural and procedural changes, business organizations identify with great difficulty the proper ways in order to adapt properly to these changes. Basically the success of an organization will always depend on the management reaction to the internationalization of the business and on the way in which all economic and social actors involved are able to meet the requirements of foreign markets.

The strategy of penetrating international markets is regarded as a business plan which requires certain decisions that will guarantee the success of the measures taken by the company: setting clear goals and objectives pursued on the target market, the necessary policies and resources, selecting the proper way to penetrate the market, the control system to monitor market performance and

¹ "Dunărea de Jos" University of Galați, Romania, email: dananechita2002@yahoo.it

² "Dunărea de Jos" University of Galați, Romania, email: florinaoana27@yahoo.com

³ "Dunărea de Jos" University of Galați, Romania, email: c_maftei@yahoo.com

trends of that market. Penetrating a new market is always a learning process during which a company continuously invests in order to establish the market position they want, determined by a strategic process of positioning (Kotler, 2004). During this process, the management aims at introducing the company or its products as a specific set of benefits and advantages which are expected to be attractive to the target customers. Whether the intended position is achieved or not depends not only on the company but also on the market competitors as well as on their competitive power.

International markets selection as well as the strategy to penetrate them is crucial to the future success of the company since these commitments will influence its future activity. A wrong penetration strategy involves both high material costs, which might affect the company's economic and financial stability and image costs.

Usually successful companies tend to operate in a balanced portfolio of markets, grouped according to their similar points and which have a policy that deliberately concentrates or diversifies management and marketing efforts, depending on the circumstances and establishing precisely the sequence of market penetration in order to ensure the optimal international competitive advantage as in the case of the Daimler Company. A company can diversify risk by penetrating in certain countries that differ in point of environment and market characteristics. Thus a country's economic downturn can be counterbalanced another country's economic growth. Moreover the competitive power can vary from one market to another and the profits made on the relatively-protected markets or on those less competitive can be channeled towards the markets characterized by fierce competition. Spreading operations over a wider geographical area and investing in different regions of the world can also diversify risk as the markets from different parts of the world are not interdependent.

2. LITERATURE REVIEW

International markets selection and penetration is a competitive-type strategic option, and therefore companies should have more alternatives. In practice, strategic alternatives related to target markets selection can be synthesized depending on the approach method of the selection, the number of targeted markets and the characteristics of the marketing mix/target market (Danciu, 2004). As far as the strategic options concerning the brand used in international market, I. Doole and R. Low identify several types, however the one used by the Daimler Company is the corporate umbrella.

The current trend of globalization has created new business opportunities for companies. Moreover it has facilitated the participation of foreign competitors on all fronts. This is way the international marketing strategies are becoming increasingly important to companies of all types and sizes, especially to those that aim at penetrating new markets. Consequently, investigating the connection between international marketing strategy and the company's performance is highly important. Under these circumstances, companies that intend to attain higher performance need to evaluate thoroughly the target markets as well as their internal capacities and to develop appropriate abilities to achieve the strategic matching.

According to Venkatraman, the strategic fit has served as foundation for the theoretic construction in numerous scientific domains. Venkatraman shows that the concept of strategic fit can be described as either descriptive or normative. The descriptive perspective specifies the existence of some relations between a set of variables that are theoretically related, with no explicit connection with performance. Thus the normative perspective on strategic fit is of utmost importance to management and strategic research due to its connection to performance.

Leonidou & Kaleka make use of the relational paradigm to explore several aspects of the relational atmosphere within international business. According to Leonidou & Kaleka the commitment, communication, cooperation, dependence, trust and satisfaction have a positive impact upon performance. Shoham & Kropp conclude that collaboration and close relationships within international economic relations have a positive impact upon sales in external markets and on

increasing international profits. On the other hand, Katsikeas, Piercy & Ioannidis observe that managers do not perceive difficulties and costs of exogenous logistic operations as problematic. Nevertheless the relationship between the company and foreign partners is important and must be continuously supported, aspect which emphasizes the importance of relationship between companies (Cârstea, 2002).

During the internationalization process, companies go through a number of stages when they enter a foreign market. The decision to penetrate international markets is an important step that can trigger new opportunities and broaden horizons of expansion and growth, involving high risks at the same time, as a result of the significant complexity associated with the international business environment. W. Keegan believes that the competitive strategy is the general direction of international marketing which is based on a sustainable competitive advantage. A wider competition-oriented point of view is shared by Thompson and Strickland who believe that a company's competitive strategy relies on approaching the business and its initiatives in order to attract customers, resist competitors pressure and improve position on the target markets..

3. RESEARCH METHODOLOGY

Collecting data is the most important step in a study, therefore in order to achieve a comprehensive presentation we used both quantitative and qualitative analyses, secondary analyses, empirical studies (Bradley, 2001). Through analysis and synthesis we made a sketchy global presentation in order to show the importance of the entire process of firms' integration into the current international economic context. Moreover by collecting viable and comprehensive information that are appropriate to the issues tackled in this study and which are provided by the documents that are displayed on the Daimler Company's site as well as by other studies that are available thanks to authorized bodies due to conferences held on themes that are complementary to the one approached, we tried to offer an overview presentation of the complex process of business internationalization.

4. DAIMLER (MERCEDES-BENZ) STRATEGY OF PENETRATING INTERNATIONAL MARKETS

Mercedes-Benz is a famous German brand of automobiles, owning Daimler PLC (famous before its merger with Chrysler, as Daimler-Benz), the second largest producer of luxury vehicles in the world, with a turnover of about €90 bin in 2010, producing approximately 2,9 % of global vehicles. Currently the company is operating in many countries around the world, most employees working outside their country of origin. Daimler sells its vehicles and services both locally, in several cities in Germany and all around the world Africa, USA, Brazil, China, Japan, and recently in Romania.

The company has developed in time its strategies to promote its products and services and to penetrate international markets. The German company is an example due to the cutting edge technology, level of performance and success in building a unique character, distinct due to its brand strategy. The main stages of this process are the following: intention to create a unique identity and clear-cut defining of the company's identity; the values promoted by this market in order to achieve the association with the brand name are the following: high performance, security, prestige, building a powerful brand – brand elements that become symbols that each and every individual will associate with the German producer's image, personality or identity; perception of the company's personality – every individual should be able to perceive the company's personality and the values it promotes.

Despite unfavourable conditions globally, the demand on automobiles increased by almost 7% in 2012, reaching a new record level. This increase, which is higher than that recorded in 2011, is mainly due to the natural disasters in Japan and Thailand. In 2012, the controlled demand associated with government incentives generated a strong market growth of 30% in Japan and more than 80% in Thailand. The US market had also an important contribution to the world level by increasing

demand by 13% compared with 2011. Another important factor was China with a demand increase of approximately 8%, despite economic slowdown. The Western European market which continued to be very important to Daimler contracted only 8%, as a result of the sovereign debt crisis. All most important markets in Western Europe were affected, however the demand decreased suddenly especially in Southern Europe. The market for commercial vehicles was mainly in the United States.

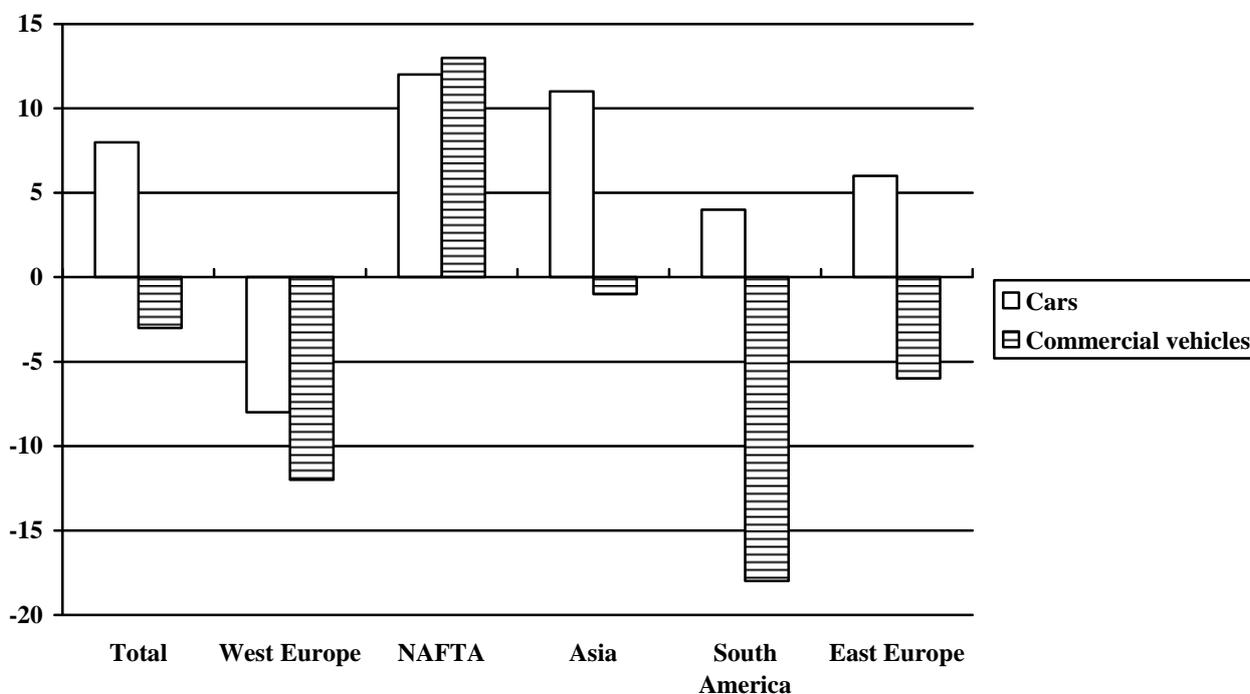


Figure 1. Global automotive market (Sales rate 2011/2012 in %)

Source: German Association of the Automotive Industry (VDA)

Daimler increased its total income by 7% in 2012, up to €119.59 bn. The segmentation of automotive after sales market increased by 7% up to €61.66 bin and 9% up to €31.4 bin for cars. The revenue for vans decreased by 1%, to € 9.07 bin whereas the revenue for busses decreased by 11%, to €3.92 bn. The financial services provided by Daimler recorded a significant increase by 12%, to €13.55 bin

Table 1. Income per divisions

Year Division	2011 (bn. Euro)	2012 (bn. Euro)	2011/2012 (%)
Cars	54,71	61,66	+7
Vans	28,75	31,39	+9
Trucks	9,17	9,07	-1
Busses	4,42	3,92	-11
Financial services Daimler	12,1	13,55	+12
Daimler	111,85	119,59	+7

Source: Daimler Annual Report 2012

Daimler's segmentation per regions recorded a significant increase in NAFTA (+23%, to €31.9 Euro). The income in Asia also increased (11%, to €25.1 bin) and Eastern Europe (8%, to €6.9 bin). In general, Daimler's regional income distribution has changed significantly over the last years due to new markets outside the USA, Western Europe and Japan, reaching 36% of the entire business compared with 28% in 2008.

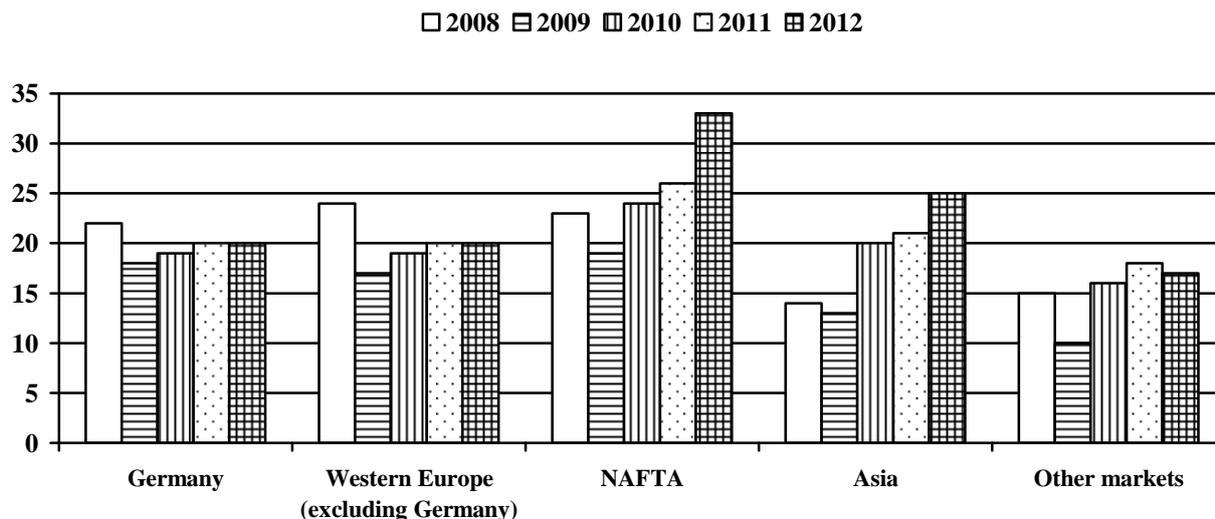


Figure 2. Income per regions (bn Euro)

Source: Daimler Annual Report 2012

The operating profit for the cars division reached €4.389 mln. in 2012 which represents a lower value compared with the previous year of € 5.192 mln. The return on sales was of 7.1% in 2012, compared with 9% in 2011. Despite the increasingly difficult economic environment, unit sales increased. An increase in sales was recorded by the segment of compact cars and SUVs. The car business developed from the regional perspective in the United States. In 2012, the operating profit decreased as the costs for consolidating the company's products attractiveness increased as well as the expansion of the company's capacity and the prepaid expenses for state-of-the-art technologies and vehicles. This negative impact upon income was only partially made up for the efficiency increase within the company. The vans division generated an operating profit of 1.714 mln. Euros in 2012, which were lower compared with the previous year of €1.876 mln. The rate of return was of 5.5%, compared 6.5%, in 2011. The earnings were amplified on the one hand by the positive development of sales and income in NAFTA and Asia. The reduced warranty costs also contributed positively as well as the effects of the exchange rate. On the other hand, revenues were cut down by the current product offensive and the lower demand in Brazil and Western Europe.

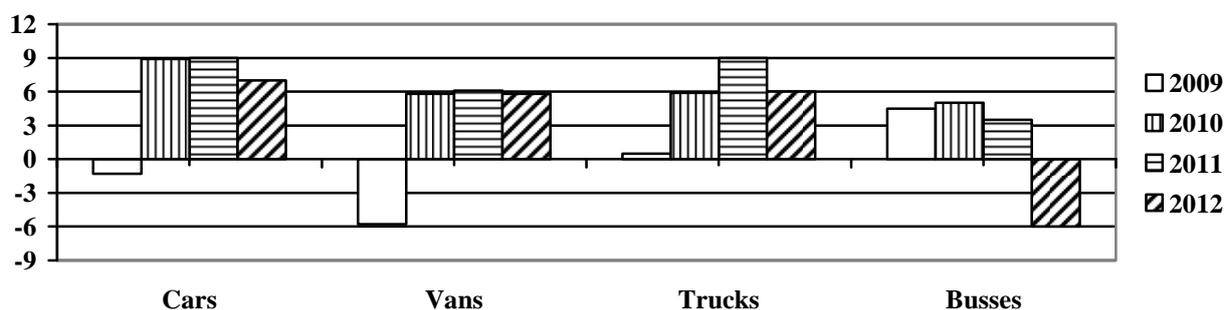


Figure 3. Return on sales

Source: Daimler Annual Report 2012

Mercedes-Benz truck division recorded an operating profit of €541 mln in 2012, compared with €835 mln. in 2011. The rate of return was of 6% in 2012, compared with 9.1% in the next year. The income decrease was partially connected with the lower level of units sold, generated particularly by the Western European market. Earnings were additionally reduced by the market launch of Citan city van and by the launch of a new Sprinter in Argentina. Daimler busses made a profit of – €232

mln. in 2012, compared with +162 mln Euro in 2011. in point of rate of return, this division recorded a minus of 5.9%, compared with 2011 when it recorded + 3,7%. The decrease in earnings was mainly due to lower sales of bus chassis, as a result of the difficult business situation in Latin America.

Table 2. Daimler's net profit (Mil. Euro)

Year	2010	2011	2012
Net Profit	4.674	6.029	6.495

Source: Daimler Annual Report 2012

This table shows that the net profit increased gradually since 2010. A significant increase was recorded in 2011, 6029 mil. Euros compared with €4674 mil. in 2010.

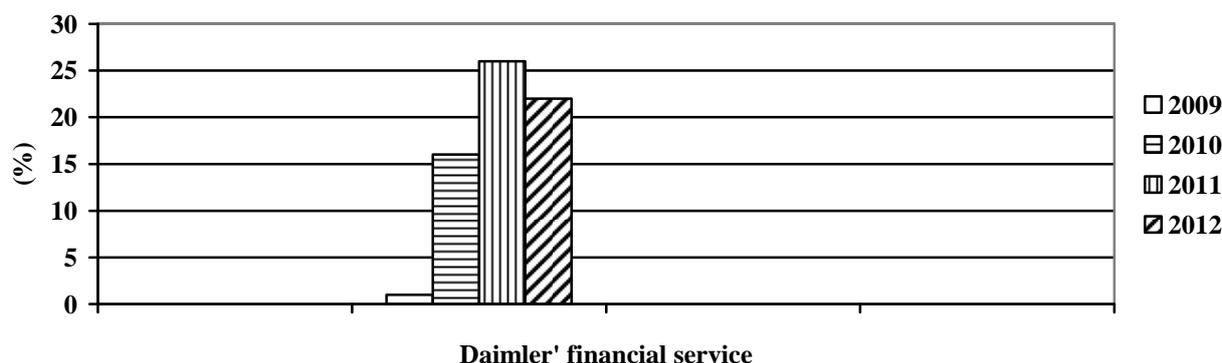


Figure 4. Return on equity

Source: Daimler Annual Report 2012

The operating profit made by Daimler's financial division was of €1.292 mln in 2012 which close to the company's profit made in previous year, €1.312 mln. In percentage it was of 21.9%, compared with 2011 when it was of 25.5%. A higher number of contracts as well as the exchange-rate effects contributed positively to earnings. There were adverse effects on income due to lower interest margins and risk costs normalization that were remarkably low in 2011. Additional expenses were related to portfolio expansion.

One of Daimler's important strategies is to expand globally aiming to make a better use of the opportunities provided by the international automotive markets. This aspect requires substantial capital expenditures locally in order to benefit of production facilities, new products and technologies. Therefore in 2012 investments in property, plant and equipment increased significantly amounting to €4.8 bn., compared with €4.2 bn. in 2011. Of this total, €3.3 mld. were invested in Germany, compared with €2.7 bn. in 2011. In relation to income, property, plant and equipment investments reached 4.2% compared with 3.9% in 2011.

5. RISK MANAGEMENT SYSTEM – DAIMLER

In the current state of global economy, Daimler is exposed to a higher number of risks. The entrepreneur activity mainly consists in creating and using opportunities in order to ensure and strengthen the company's competitiveness. As a result of classifying global most famous car brands, Mercedes-Benz dropped one place in the rankings, from the third to fourth position, with the brand value of 20.298 mln. \$ USD in 2013, compared with 19.762 mln. \$ USD in 2012. Toyota ranks first with a brand value of 25.979 mln.\$ USD in 2013, higher compared with 24.461 mln.\$ USD in 2012. Considering the competitive pressure on the automotive market, Daimler must adapt continuously and successfully its production and cost structures. Each division aims constantly at achieving its objective of increasing profitability and efficiency. Regarding the car sales, Daimler

offers an entire range of funding opportunities, especially leasing. However this business entails the risk that prices paid on cars at the end of the lease to be lower than their book value, which is called the residual value risk.

In order to achieve the targeted levels of prices, factors such as brand image, design and quality of the product play an important part. If these factors do not meet the customer's requirements, Daimler is negatively affected.

Daimler's global expansion means that its business operations and financial transactions are in closely connected with the risks entailed by exchange rate fluctuations, especially the US dollar and other important currencies against the euro.

Global risk involves all individual risks for all divisions (Faulkner & Bowman,2000). There are no visible risks that alone or associated with other risks could endanger the existence of Daimler. Nevertheless there are risks from the economic point of view which are specific to industry, hindrances that prevent the development and profit targets of Daimler.

Table 3. Mercedes-Benz S.W.O.T Analysis

<i>Strengths</i>	<i>Weaknesses</i>
<ul style="list-style-type: none"> - worldwide famous brand; - increased interest in ensuring safety; - company is determined to focus on satisfying its customers' needs; - efficient distribution channels; - innovation – initiating design details. 	<ul style="list-style-type: none"> - Narrow market segment; - Has a strong competitor- BMW, - Very popular among young people, compared with Mercedes and with lower price; - High production costs.
<i>Opportunities</i>	<i>Threats</i>
<ul style="list-style-type: none"> - Sustained technologic advance; - Governmental policies support car industry. 	<ul style="list-style-type: none"> - Fuel price increase; - Mergers among competitors; - Economic crisis leads to decrease of money allocated for luxury goods.

The company's objective is to achieve sustainable profitable growth and leadership position in all company business, to provide new brands, products and services, objective which is intended to be achieved through the four strategic pillars of growth. The first pillar – *strengthening basic activities* – refers to the expansion and maintenance of the wide range of designs, the emphasis being placed on satisfying the customer's changing expectations.

The second pillar – *expanding on new markets* – mainly refers to expanding on markets outside Europe, North America, Brazil, Russia, China, Japan, India and strengthening the position on traditional markets. *Leader in green technology* – is the third pillar which refers to the goal of the company to make the future safer and less polluted. Here we refer to reducing CO₂ emissions and the new hybrid cars. More than half of the world population lives in towns and cities and this percentage increases constantly. Thus the fourth pillar intervenes – *strategic mobility* – referring to people who do not have a car, although the flexible use of one is highly important. The mobility platform offers the possibility to successfully combine private activities with work-related ones, billing being made possible through the payroll system (Ciobanu & Ciulu, 2005).

Daimler's success comes from tactics and strategy. The company's performance which ensures a high level of competitiveness aims at both characteristics common to all firms, i.e. labour productivity, labour cost, service quality and customer satisfaction level and particular skills - innovation skill, improvement of human resources and quality management, thus managing to develop a trend towards uniformization. Daimler has achieved business performance as it focused on global management, developing its capacity to approach service, cost and market-related issues in a much more critical way than in the past. Moreover its success in business lies in the way the company approached and combined international marketing strategies – starting from strategies based on cost and differentiation to the marketing mix strategies. The company has thus achieved

performance from managerial, organizational and communication point of view, focusing its specific actions on markets and customer segments considered as priority targets.

6. CONCLUSIONS

Economic process evolution leads to significant changes in the structure of mechanisms that generate economy, and these in turn require economic reorganization of economic entities. In this respect, economic entities must switch from economic survival strategies to action strategies in order to create and sustain the competitive advantage. Understanding the link between international marketing strategy and performance is crucial for the survival and prosperity of any company that is active internationally. Tactical changes are difficult to achieve when companies do not have well-defined overall context. The necessity for continuous adjustment of resource configuration depending on the evolution of competitive conditions is becoming increasingly obvious. In order to be strategic in the new competitive environment, companies must have the ability to adapt quickly within an orientation detected.

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