

# ***A Study on the Global Commercial Operations and Pricing Strategies of Tier-1 Automobile Brands: The Case of Mercedes-Benz***

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**Abstract:** Mercedes-Benz is one of the world's top luxury car brands, with 'The best' as its brand philosophy, it is committed to creating the best product quality, the most comfortable driving experience and the most reliable safety performance. This study explores the current situation and achievements of Mercedes-Benz, followed by the problems and suggestions for the future development of Mercedes-Benz. It discusses how three main pricing strategies skimming pricing, segmented-line pricing, and value-based pricing have given Mercedes-Benz its status as a luxury vehicle. The research highlights the dilemma that exists for Mercedes-Benz right now. The study emphasizes as Mercedes-Benz faces future risks to the global economy, how should it respond to these risks in order to benefit its future growth. The research also emphasizes Mercedes-Benz is now a Nash equilibrium in the electric car industry. This article summarizes where Mercedes is now, what Mercedes is proposing going forward and suggestion.

**Keywords:** Mercedes-Benz, Nash equilibrium, pricing strategy, suggestions, future economic risks.

## **1. Introduction**

The growing demand for cars is also a major social concern. The population of world is growing at a rate of 1.08 percent per year, so new users are entering the market constantly. Growing demand from new users of cars and all other types of vehicles such as motorbikes, buses vans, and trucks. Increasing population generates a large number of users and therefore a corresponding increase in the demand for automobiles [1]. Vehicles are also an indispensable means of transport in daily life. There are many car brands such as Volkswagen, Mercedes-Benz, BMW, and others in the vehicle market nowadays. It is doubtless that Mercedes-Benz is a successful luxury cars manufacture. The purpose of this article is to examine why Mercedes-Benz is so successful and why it is quickly taking over the luxury market. One of the key reasons Mercedes-Benz has been so successful is its current pricing strategies, whereas it still has some shortcomings. The significance of this article informs the future development of Mercedes-Benz. For enterprises, the key to a successful pricing strategy is to keep a balance between consumers' expectation of the goods provided and the acceptable prices produced by the company. This essay uses case study approach and comparative analysis. In this essay, there are 6 parts will be mentioned. Three main price strategies will be first discussed, and then Mercedes-

Benz's Nash equilibrium will be explained, last some disadvantages and suggestions will be reached before the conclusion.

## **2. Literature Review**

### **2.1. Overview of Mercedes-Benz**

Mercedes-Benz is one the largest and most famous car manufacturers in the world. Mercedes-Benz, BWM and Audi, etc. are the representatives of luxury vehicles in the world. It founded in 1926, and it is renowned for its innovation and commitment to quality [2]. The goal of Mercedes-Benz is to make the most desirable cars in the world and occupy a priority position in the field of electric driving and vehicle software. It has pre-tax earnings (EBIT) of 19.7 billion euro and revenues of 153.2 billion euro in 2023. [3] Mercedes-Benz continues its brand in Europe and the only luxury brand in the top 10 of the 100 'Best Global Brands' in the automotive industry for the seventh consecutive year until 3 November 2022. Its brand value grew to over \$56 billion [3]. After five consecutive years in eighth place, Mercedes-Benz rises to seventh place among the world's most valuable brands in 2023. Brand value increased by 9 percent [4]. Mercedes-Benz sold a total of 2,493,000 vehicles in 2023 [5].

### **2.2. A Theoretical Overview of Pricing Strategies**

Pricing strategies are important for any company in any field. It can determine a company's positioning, profits, etc. There are many price strategies such as competitive pricing, premium pricing, psychological pricing, skimming pricing and other pricing strategies. Through pricing strategies, companies can maximize profits because effective pricing strategies can maximize profits by setting prices that customers are willing to pay. In addition, through pricing strategies, a company can position itself in the market. For example, a company can position itself as a luxury product by using premium pricing and skimming pricing, which increases brand awareness. Another example, a company can quickly capture the market and gain market share by using penetration pricing. Therefore, pricing strategy is a key factor that leads to a company's success.

## **3. Current Pricing Strategies of Mercedes-Benz**

### **3.1. Skimming Pricing Strategy**

Skimming pricing strategy is when a product is initially released at a high price and becomes less expensive over time [6]. This strategy is often used for new technologies or luxury goods that are entering the market for the first time. When price goes down, it will quickly attract price-sensitive customers. Mercedes-Benz is positioned as a luxury car, so the high-end models it releases at a high price will attract people willing to pay a high piece to be among the first to own these models. For example, the price of Mercedes-Benz electric vehicles in 2021 is \$100,000 [7], but only 76,050 in 2023 [8]. This example shows that Mercedes-Benz used skimming pricing in the electric vehicle industry. With this strategy Mercedes-Benz can get many benefits. Firstly, it can get maximum profit in the short run and could pay for itself quickly. Secondly, it can create exclusivity, because this strategy appeal to early adopters who are willing to pay a premium price for the newest and best model on the market. Lastly, it will increase flexibility, because as time goes by, if there are competitors entering the market, Mercedes-Benz can flexibly adjust prices to suit the market. Mercedes-Benz has a high price when it first goes on sale attracting customers who don't care about the price and have a high loyalty to Mercedes-Benz. After a while, the price is lowered to attract customers who like luxury cars but are price sensitive. This pricing strategy allows Mercedes-Benz to reach as many consumers as possible at all levels of consumption.

### 3.2. Segmented-Line Pricing Strategy

Segmented-line pricing is the practice of offering different prices to different groups of customers based on their willingness to pay and perceived value [9]. Price discrimination is charging different prices for different groups of people and divided into three categories: first price discrimination, second price discrimination, and third price discrimination [10]. Different people have different elasticity and demand. High elastic demand people will buy low-end luxury like A-class. High-end luxury are the most expensive models such as E-class and S-class, which start at \$62,450 and \$117,300 respectively [11].

which will more in line with the need of low elastic demand of people. Customers can choose the products they need according to their price elasticity and functionality, so it belongs to the second-degree price discrimination. Mercedes-Benz can get some advantages after using segmented-line pricing. Firstly, it may be more competitive in the market because it occupies a different segment of the market. Secondly, this strategy can increase brand loyalty. Customers may start with a low-priced model at first, and as their needs and income increase, they will start buying higher-priced cars. Thirdly, it can increase the economies of scale in marketing, manufacturing, etc. Fourthly, it can attract more customers and expand market share. Lastly, revenue can be maximized by this strategy. segmented line pricing can maximize wiliness to pay from different prices.

### 3.3. Value-based pricing

Value-based pricing is a customer-centric strategy where the perceived value of a product or service is priced by the consumer [12]. Mercedes-Benz has always stood for luxury, quality, and status. Usually sold at a high price of the long history and high-quality material. Customers are willing to pay a higher price for the brand. Like the Mercedes-Benz S-class and E-class, they are not just models but symbols of luxury, which makes them far more expensive than cost. Value-based pricing is one of the best pricing methods and it offers higher profit potential than other strategies [13]. For example, Pre-safe is a system that works in the intervention phase and opens new possibilities for vehicle safety [14]. This invented by Mercedes-Benz in 2002, which is the world's first protection system that acts before an actual collision occurs [15]. Pre-safe system was innovative in all vehicles at that time. The pre-safe system increases the perceived value because of the increased safety which is a priority for many luxury vehicle buyers. This can set a higher price for vehicles equipped with this system. In addition, buyers with safety as a priority will be willing to pay extra, so Mercedes-Benz would set a higher price than the system itself. Mercedes-Benz got some advantages. Firstly, this strategy will lead to higher customer satisfaction and reduce the number of customers switching to other brands. Secondly, it can enhance competitiveness, Mercedes-Benz's quality, innovation, etc. make it hard for competitions to keep up. Thirdly, it can increase profit margin because it set higher than cost and in line with what the customer is willing to pay. Lastly, this strategy encourages innovation because continuous innovation and improvement of the product can have more features and advantages to sell at a higher price.

## 4. Business Orientation in the Context of Automotive Electrification

### 4.1. Electrification Transition in Global Automotive Companies

All vehicles now run on a wide variety of fossil fuels. In this process, combustion takes place in the engine and gases are produced most as a by-product. These gases are emitted through the vehicle. Vehicles emit greenhouse gases such as carbon monoxide (CO) and carbon dioxide (CO<sub>2</sub>) [16]. These greenhouse gases pollute the air, especially carbon monoxide (CO), which is considered a criteria pollutant. Greenhouse gases cause natural disasters such as sea level rise, ozone depletion and sea

level change [17]. Environmental concerns are on the rise in various countries with the rapid increase in carbon emission. Different sectors have different carbon emissions, but the largest comes from the transport sector. Countries are switching from fuel to electric vehicles because they are more environmentally friendly [18]. With the advent of the electric engine, most automobile manufacturers are moving heavily into the electric vehicle space, and there are some new electric vehicle manufacturers out there. Tesla, BYD, Volkswagen and other brands are the successful electric automakers. All electric vehicle manufacturers deliver a total of 14.2 million new battery electric vehicles (BEVs) and plug-in hybrid electric vehicles (PHEVs) in 2023, a 35 per cent increase compared to last year [19].

#### **4.2. Mercedes-Benz's Product Setup and Sales Approach Under Vehicle Electrification (With BMW as a Comparison)**

Because of environmental concerns, Mercedes-Benz, one of the world's largest automakers, is also making an actively developing electric vehicles. As technological advances and environmental concerns drive the automotive industry's shift to electric vehicles Mercedes-Benz intends to go all-electric by the end of this decade and plans to more than halve the carbon footprint of each passenger car by 2030 compared to 2020 levels. By 2030, renewable energy in Mercedes-Benz should meet 70 per cent of energy needs in production [20]. Mercedes-Benz and BMW both represent the luxury class of vehicles, are developing the electric car industry, investing huge sums of money. Mercedes-Benz now offers a wide range of electric vehicles, and it launches \$47 billion electric car to catch up with Tesla. Construction of eight battery plants by 2030 [21]. In 2022 BMW announced that it will continue to roll out its electric vehicle programme and invest \$1.7 billion in building electric cars in the United States. BMW plans to build at least six all-electric models in the United States by 2030 [18]. Even though BMW and Mercedes-Benz are investing heavily in electric vehicles, they rank close to each other in the list of the world's top 10 electric vehicles in 2023. Thus, Mercedes-Benz becomes a Nash equilibrium in electric vehicles.

#### **5. Mercedes-Benz's Business Operation Challenges**

Even though Mercedes-Benz now occupies a large market, there are still some shortcomings. Especially in the future, it may face some global economic risks such as recession, etc., especially after the 2020 COVID-19. The COVID-19 exacerbates these risks and hit the automotive industry. how to improve these strategies becomes a key issue. These are some disadvantages. Firstly, Mercedes-Benz will be vulnerable to the recession because of the sensitivity of the luxury market. In a recession, customers will buy less high-end goods because luxury products lack of flexibility. Secondly, high entry prices, Because of Mercedes-Benz's skimming pricing strategy, the initial price of the car will be very high, which leads to a lot of people can't afford to spend money, and the customers are only limited to the rich people. This will make Mercedes-Benz lose its market share to other markets. Lastly, Mercedes-Benz, as a luxury vehicle, is a competitor with other luxury vehicles such as BMW and Audi, etc. and their quality of products are very similar. Their target group is the same and if other car brands reduce their prices it will lead to Mercedes-Benz customers switching to other brands. At the same time, there are also external factors that impact Mercedes-Benz such as new car brands like Tesla. Tesla, as a new car manufacturer in recent years, has a huge impact on the old car manufacturers such as Mercedes-Benz, BMW, and Audi. Tesla sold 485,000 electric cars in the U.S. in the first three quarters of 2023, outpacing luxury brands Mercedes-Benz, BMW, Audi, and Lexus. Tesla is making its way into America's first luxury brand [22]. Because of these shortcomings, and global economic risks, Mercedes-Benz should refine its strategy to maintain its market share and make itself more dominant in this automotive industry.

## 6. Suggestions for the Future Development of Mercedes-Benz

In view of some of the challenges mentioned above, the following methods can be taken. Some methods can improve current price strategies. Firstly, Mercedes-Benz could create some basic and cheap models, but keep the features. Even though Mercedes-Benz is a luxury vehicle, this approach could increase the customer base without weakening the brand. Secondly, geographic pricing can be used. Geographic pricing is that different regions have different prices because people in each region have different spending power, and the gap between rich and poor is different. For some affluent regions can set higher prices than other regions. Similarly, for some poor regions can set lower prices. This strategy will be more competitive in different markets and because this strategy is flexible, so it can expand its market share. What's more, this strategy can also reduce the risk of currency fluctuations as it allows for flexible price adjustments based on the exchange rate. Thus, it protects Mercedes-Benz's profit margins in the international market. Lastly, Mercedes-Benz could create a lease model, this strategy that would make Mercedes-Benz more accessible. The ability to own a car for a short period of time without having to pay the full price of the car could appeal to younger customers. This strategy will expand the customer base of this brand. All these solutions can make Mercedes-Benz a better brand.

## 7. Conclusion

As a conclusion, for Mercedes-Benz, they hope that the company is in a position with the best pricing strategies to create a competitive advantage. Specifically, the pricing strategy should have significant flexibility to adapt to changes in the market, the entry of competitors, and consumer demand. This has a positive impact on the profitability of the company.

All in all, this article analyses the current pricing strategies of Mercedes-Benz, and the future global economic risks. This essay analyses most of the situations. However, there are still some limitations of this paper that have not been taken into account. For example, in arguing that Mercedes-Benz has become a Nash equilibrium in the electric car industry, the sample of comparisons is small. Comparisons should be made with more vehicle brands of the same class. Also, small data usage throughout the article. There is not enough data to illustrate the whole essay, it is too unconvincing. Finally, another limitation of this paper is that there are few methods used. If more methods are used, the article will be more convincing. This article will improve on these shortcomings and analyses Mercedes-Benz more comprehensively. In the future, Mercedes-Benz will be better. Meanwhile this study will continue to follow the development of Mercedes-Benz.

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