

Daimler-Benz's Move towards the Next Century

WITH THE TOWS MATRIX

Heinz Wehrich

The automobile industry is one of the most interesting business sectors in the global environment for analysis. The traditional small Japanese cars are now supplemented by Japanese luxury models, such as Lexus and Infinity, to compete with European cars made by BMW and Mercedes. The Japanese Toyota and Nissan companies not only are targeting luxury car markets in the USA, but also in Europe. Fearing that a "Fortress Europe" may evolve from the European Community Programme 1992 (in short EC 1992), the Japanese strategy is to establish themselves in the European market by setting up manufacturing plants, especially in England where the former Japanese-friendly Thatcher government encouraged such investments¹. One interesting question is how European carmakers will respond to the Japanese threat.

The purpose of this article is to analyse Daimler-Benz, renowned for its Mercedes-Benz luxury cars, by using the TOWS Matrix for developing strategies that systematically integrate the threats (T) and opportunities (O) in the external environment with the internal weaknesses (W) and especially strengths (S) of the firm. Daimler-Benz has been selected because its Mercedes cars are known worldwide for engineering excellence. Yet, this firm will face fierce competition from Japanese carmakers. In addition, this traditional car company has been undergoing dramatic changes, venturing into non-defence and defence electronic gear, consumer goods and aerospace. However, these businesses will be mentioned only briefly. This article will introduce a strategic planning model and the TOWS Matrix for the analysis of critical issues faced by Daimler.

STRATEGY FORMULATION

Conceptually, strategy formulation is simple: just analyse the current and expected future environment, determine the direction of the firm, and develop the means for achieving the end. In reality, however, this is a very complex process, especially when applied to a company as diversified as Daimler-Benz. The strategy formulation process model, shown in Figure 1, will aid this analysis and provide the framework for the discussion. Thus, the typical steps in strategic planning are as follows:

- 1) Identifying the various organizational inputs, such as people, capital, managerial skills, technical skills, and the goal inputs of stakeholders such as stockholders, employees, suppliers, community, governments and, of course, customers.
- 2) Preparing the enterprise profile.
- 3) Clarifying the orientation of managers, especially top managers.
- 4) Determining the purpose and major objectives of the enterprise.
- 5) Identifying the present and future external environment. This requires an analysis of the enterprise's threats and opportunities.
- 6) Preparing a resource audit with the focus on the firm's internal weaknesses and strengths.
- 7) Developing alternative strategies, tactics and other actions.
- 8) Evaluating the various strategies and making strategic choices.
- 9) Testing the strategy at various stages for consistency.
- 10) Preparing contingency plans.
- 11) Although not directly a part of the formulation of the strategy, the preparation of medium- and short-range plans as well as the provisions for strategy implementation and control must also be considered and are shown by broken lines in Figure 1.

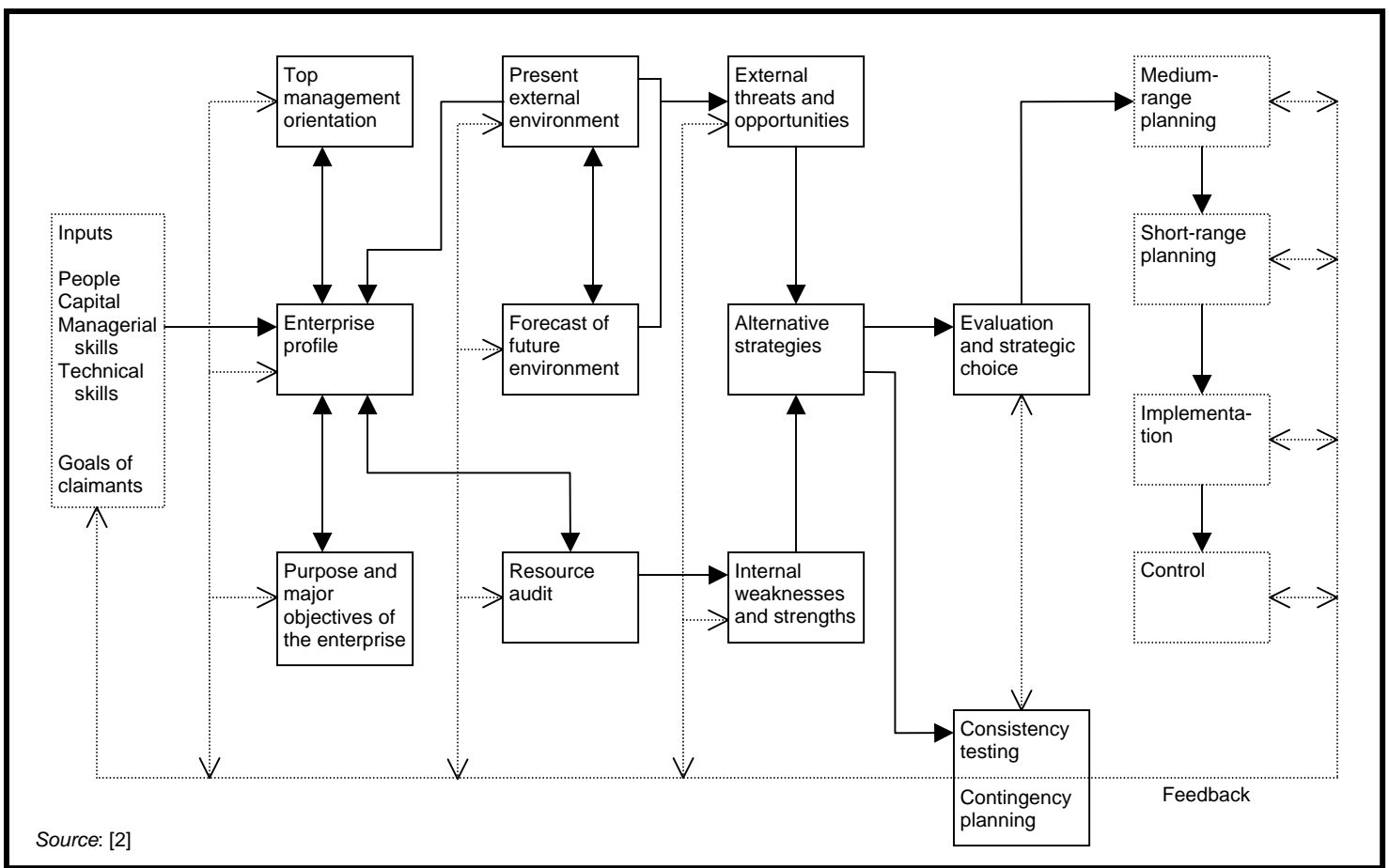


Figure 1.
Strategic Planning Process

Strategic Planning Inputs

Strategic planning, to be effective, must carefully consider the inputs into the system. These inputs include people, capital, managerial as well as technical knowledge and skills. In addition, various groups of people make demands on the enterprise. Unfortunately, many of the goals of these claimants (also called "stockholders") are incongruent with each other, and it is the manager's task to integrate these divergent needs and goals. *Employees*, for example, want higher pay, more benefits and job security. Employees' rights, especially in Germany, are to a great extent laid down by laws and regulations. *Consumers* demand safe and reliable products. Car safety has been of paramount importance at Mercedes. *Suppliers*, another group of claimants, want assurance that their products and services will be purchased. For efficient car production, the availability of nearby suppliers is crucial. This makes close cooperation with suppliers easier and keeps transport costs low. *Stockholders* want a high return on their investment with a minimum of risks. In Germany, banks play major roles in directing companies. The Deutsche Bank, which owns 28 per cent of Daimler stocks³, encourages strategies which result in the long-term success of the company. Thus, Daimler's management is under less pressure from stockholders to show short-term results than managers of USA companies.

Federal, state and local *governments* depend on taxes paid by the enterprise. Naturally, organizations are also required to comply with the laws of the governments. Unlike in the US, German businesses work closely with state and federal governments in an effort to facilitate the achievement of joint objectives. The federal government, for example, played an important role in the merger of Daimler with the state-owned Messerschmitt-Boelkow-Blohm (MBB). Such close relationships between business and government would be frowned upon in the USA.

The community demands that enterprises be "good citizens" by providing jobs. For example, a car company in southern Germany was prevented from closing its plant because of the negative social impact on the community. Thus, particularly, German employers must take the needs and demands of the citizens into account in their decision making. Other claimants to the enterprise may even include competitors who have a legitimate claim for "fair play" in the market-place. It is clear, then, that many of these claims are incongruent with each other, and it is management's role to integrate the objectives of these stakeholders.

The Enterprise Profile, Top Management Orientation and the Purpose of Daimler

The enterprise profile is usually the starting point for determining the current position of the company and where it should go. The firm's history generally reveals what kind of company it is. The values and orientation of top management give the firm direction and determine the basic purpose of the enterprise.

The enterprise' profile. Determining the enterprise profile requires the company to address some fundamental questions such as:

- What *is* our business?
- Who are our customers?
- What do our customers want?
- What *should* our business be?

The answers to these and similar questions provide information about the basic nature of the company, its products and services, and its geographic domain. In the past, Daimler was known primarily for Mercedes-Benz luxury cars, buses and trucks. But the company profile has been changing. For one, Mercedes has expanded its model range to include smaller cars. Much more drastic has been the diversification into consumer goods, electronics and aerospace. In 1989, Daimler was divided into three operating groups: cars and trucks are in the Mercedes-Benz unit; electronics not related to defence and consumer goods are in the AEG unit; and defence electronics and military aerospace are in the DA (Deutsche Aerospace) group. The common threads integrating the business units are high technology and the development and creative application of new materials.

While it was relatively easy to identify the primary customers for luxury cars, the task is much more complex with the creation of the three operating units. Marketing consumer goods and dealing with the Government in defence contracts requires very different approaches to market penetration because the

wants and needs of these divergent customer groups are very different. Although the three operating groups are designed to work in a fairly autonomous manner, at one point the very divergent organizational cultures and management systems need to be integrated - a difficult task indeed.

Top management orientation and the values of Edzard Reuter. The enterprise profile is shaped by people, especially top managers. Their orientation is important for formulating the strategy. They set the organizational climate, and they determine the direction of the firm. Consequently, their values, their preferences, and their attitudes towards risks have to be carefully examined for their implications on the strategy.

In 1987, the engineering-driven company selected a non-engineer, Edzard Reuter, as its CEO. He studied mathematics, physics and law. In the middle 1950s, he took the law examination at the Berlin Free University. For the next ten years or so, he held different managerial positions in a variety of business enterprises. In 1964 he joined Daimler in the finance area and later became responsible for corporate planning. As a member of the Board, he was responsible for planning and organization development. In 1987 he was elected as Chairman of the Board of Daimler-Benz.

Reuter's vision is to instill entrepreneurial spirit into the conservative organization culture and to make Daimler a high-tech company. His vision and its resulting strategy evolved over time as documented in articles and his speeches⁴. Already in 1980, he realized the importance of micro-electronics for automobiles as described in the newspaper *Die Welt*. In 1981, he drew attention to the importance of information technology as an integrating factor in the global infrastructure. In 1984, Reuter, at a conference in Cambridge, pointed out the dangers of global competition and urged Europeans to unite into an integrated market, a vision which seems to have come to fruition with the EC 1992 programme.

Purpose and mission of Daimler. The mission and the purpose of an organization are the end points towards which the activities of the enterprise are directed. In the past, it was relatively easy to identify Daimler's purpose when the company's aim was to produce cars which were "engineered like no other car in the world". Now, with the three operating divisions being in different kinds of businesses, this task is much more difficult. Automobiles will remain Daimler's focus; producing and distributing high-quality luxury cars is still the main purpose. However, with the acquisition of the aerospace group Messerschmitt-BoelkowBlohm GmbH, Daimler became one of the leading defence contractors⁵. While this purchase seemed a wise strategic move at that time, the recent developments in Eastern Europe and the thawing between East and West, suggest that these once profitable defence contracts may be curtailed.

Edzard Reuter's vision of Daimler is to be "an integrated transportation company, in vehicles, railroads and aircraft⁶." He wants Daimler to be a global company, yet remain flexible to cope with the dynamic changes. Through the entrance into new fields, the company aims to get access to new information technologies, new materials, and systems knowledge. Although the top priority will remain to build the best automobiles in the world, by the end of the decade the company will also play an important role in aerospace, electronics and factory automation.

STRATEGY FORMULATION AND THE TOWS MATRIX

Most large business firms now prepare strategic plans. At the centre of strategy formulation is the identification of the strengths, weaknesses, opportunities and threats (SWOT). This examination has been traditionally referred to as SWOT analysis. However, this analysis does not show the distinct relationships between the external and internal factors. Therefore, the TOWS Matrix was developed and tested before it was introduced in an article⁷. Since its publication, this tool has been used in different countries and in a variety of situations and levels⁸. The discussion that follows will elaborate on the analysis of the external factors and their integration with the company's resources as they relate to the automobile sector.

The External Environment: Threats and Opportunities

The present and future external environment must be assessed in terms of threats and opportunities. This evaluation focuses on economic, social, political, legal, demographic and geographic factors. In addition, the environment needs to be scanned for technological developments, products and services. The market

and the competitive situation must receive special attention. The TOWS Matrix, shown in Figure 2, illustrates selected critical external factors for Mercedes-Benz.

External threats. Daimler faces several threats. The easing of tensions between East and West reduces the need for military hardware. Thus, Daimler's defence unit may fall on hard times in the 1990s. But the focus here will be on the automobile sector.

In Europe, and indeed around the world, the German BMW firm is Daimler's major competitor. While in the past, BMW's strength was in smaller cars, the Series 5 and 7 cars compete directly with Mercedes's middle- and upper-class luxury cars. The recent agreement of co-operation between the French Renault and Swedish Volvo carmakers reduces their development costs and makes their cars more competitive with Mercedes in the European market⁹. Moreover, Volvo plans a joint project with Mitsubishi for making cars in a plant 70 miles from Amsterdam, Holland¹⁰. American manufacturers have a strategy of their own. In order to gain access to the Mercedes/ BMW dominated luxury market, Ford acquired the British Jaguar Company. Similarly, General Motors formed a strategic alliance with Swedish Saab-Scania.

An even greater threat to Mercedes are the recently introduced Japanese luxury cars Lexus and Infinity by Toyota and Nissan respectively¹¹. Comparisons showed the Japanese cars are up-to-par with those by BMW and Mercedes. BMW, the traditional rival, is not only a threat to Mercedes in the European market, but also in Japan where the appetite for European luxury cars has increased. Daimler is engaged in a cooperative agreement with the Japanese Mitsubishi company. The ties between the two companies go beyond their interests in cars; they extend to electronics and aerospace. For example, the aim is to produce jointly a 75-seat aircraft¹². Collaboration in the defence sector, however, has been ruled out. The combination of these two giant companies makes the competition shudder.

Another threat to carmakers in general and to Mercedes in particular, are laws and regulations governing emission requirements. Diesel engines, Mercedes's traditional strengths, have come under attack by environmentalists for their polluting effects. Moreover, car buyers' preferences have been shifting from the sluggish diesel-powered vehicles to faster accelerating gasoline engines. The external threats, however, are counterbalanced by opportunities.

External opportunities. The robust economies in the Pacific Rim countries have increased the demand for luxury cars. Moreover, certain European countries (such as Spain) will profit greatly from the EC 1992 Programme, thus providing good sales opportunities for Mercedes. While there is a great demand for automobiles in Eastern Europe, the initial demand is likely to be for low-priced cars because of the shortage of hard currency. In the future, however, as the economies improve, the demand for luxury cars is likely to increase.

In Eastern Europe, especially in the former East Germany, there are opportunities for acquiring supplier companies. Daimler, with its strong financial position, has good opportunities for purchasing those companies. However, the concern is that the company's quality image may suffer by producing cars (and perhaps even car parts) in the Eastern part of Germany which in the past produced the Wartburg and Trabant, cars of very low quality.

Increasingly, electronic components are used in cars for fuel injection, brakes, and a variety of other applications. In the future, developments in the electronics and information technologies will become even more important in automobiles and are shown in Figure 2 as opportunities.

Internal Factors: Weaknesses and Strengths

The organization's internal environment must be evaluated in terms of its weaknesses and strengths in research and development, production, operations, procurement, marketing, products and services. Other internal factors important for formulating a strategy include the assessment of human resources, financial resources and other factors such as the company image, the organization structure and climate, the planning and control systems, and the relations with customers. Selected internal factors are listed in Figure 2.

<p>Strategies Tactics Actions</p>	<p><i>Internal strengths</i></p> <ol style="list-style-type: none"> 1. Cash position 2. Luxury car image 3. New car models 4. Location close to suppliers 5. Engineering and technology 	<p><i>Internal weaknesses</i></p> <ol style="list-style-type: none"> 1. High costs 2. Venturing into unrelated businesses 3. Organizational diversity 4. Reliance on past successes and bureaucracy 5. Long cycle for new model development 6. Relatively weak position in Japan
<p><i>External opportunities</i></p> <ol style="list-style-type: none"> 1. Demand for luxury cars 2. Eastern Europe, especially East Germany 3. Prosperity through EC 1992 4. Electronics technology 	<p><i>S-O strategy</i></p> <ol style="list-style-type: none"> 1. Develop new models (using high-tech) and charge premium prices 2. Use financial resources to acquire other companies or increase production capacity 	<p><i>W-O strategy</i></p> <ol style="list-style-type: none"> 1. Reduce costs through automation and flexible manufacturing 2. Manufacture parts in Eastern Europe 3. Reorganization: Daimler-Benz management holding companies
<p><i>External threats</i></p> <ol style="list-style-type: none"> 1. Decrease in defence needs because of easing of East-West tensions 2. BMW, Volvo, Jaguar, Lexus, Infinity in Europe 3. BMW in Japan 4. Diesel emissions 5. Renault/Volvo co-operation 6. Political instability in South Africa 	<p><i>S-T strategy</i></p> <ol style="list-style-type: none"> 1. Transform defence sector to consumer sector 2. Develop new models to compete especially in Europe 	<p><i>W-T strategy</i></p> <ol style="list-style-type: none"> 1. Retrench in South Africa 2. Form strategic alliance with Mitsubishi to penetrate the Japanese market

Figure 2.
TOWS Analysis for Daimler-Benz – Mercedes-Benz Car Division

Internal weaknesses. One of the weaknesses of Mercedes is the high cost structure. In Germany, the factory hourly wage is \$21.00 compared with \$17.50 in Japan and \$16.90 in the USA¹³. Germans work 38 hours per week, Japanese 42 hours, and the Americans work 40 hours. West Germans also have many more holidays than any other industrialized country except for Italy. Germany has 30 holidays, Japan 11, the USA has 12. Although these figures are for the countries and not the automotive industry, they give, nevertheless, an important insight why automobile production costs are so high for Mercedes.

The size of Daimler and its bureaucratic structure is also a potential weakness; and so is the venturing into non-automotive businesses. Past successes of Daimler can make an organization self-satisfied. The long time it takes to develop a new car model may be an indication of this kind of complacency.

Internal strengths. With \$12 billion available and the strong backing of the Deutsche Bank, Germany's biggest bank, the company is in a strong financial position. Moreover, the high-priced SL roadster has a backlog of orders of several years. Critical in the product line is the new S-Class model which is expected to sell for over \$70,000 in the USA; some models are even priced over \$100,000. Another Mercedes strength is the company's location near its suppliers. The geographic proximity of internationally competitive suppliers - such as Bosch in Stuttgart - facilitates the close co-operation with them and shortens the transporting time for parts, thus reducing the costs[14]. Because the new car models use electronics for many car functions, Mercedes will benefit from the high-technology strengths of the acquired companies.

Developing Alternatives and Making Strategic Choices

Based on the analysis of the external and internal environments, strategic alternatives are then developed. As shown in the TOWS Matrix (see Figure 2), four rather distinct strategies are available:

- 1) The SO strategy, or maxi-maxi strategy, aims at maximizing both strengths and opportunities.
- 2) The ST, or maxi-mini, strategy maximizes the strengths and minimizes the external threats.
- 3) The WO, or mini-maxi strategy, is designed to minimize the weaknesses and to take advantage of opportunities. In general, this is a developmental strategy, which means the company takes steps to transform weaknesses into strengths.
- 4) The WT strategy aims at minimizing both weaknesses and threats. This, of course, is the least favourable position for a company. The external threats and opportunities and internal weaknesses and strengths lead to a number of alternative strategies as shown in Figure 2.

One *SO strategy* is for Daimler-Benz to develop new models. The company already has several new ones, using its engineering strengths and its technology capabilities. Because of the luxury car image, the company can charge premium prices for satisfying the demand for luxury cars. As consumers become more wealthy, they trade up to more expensive models. Furthermore, the expected prosperity of Europeans through the EC 1992 programme, also increases the demand for luxury models for which Daimler is known. The rapid developments in the electronics field can be engineered into the new models for fuel efficiency (e.g. electronic fuel injection) and safety (e.g. sophisticated anti-lock brakes). These developments are facilitated by the proximity of well-known suppliers such as Bosch.

The social policies of the Federal Government of Germany encourage investments in companies located in the former East Germany. Daimler certainly has the resources to acquire such companies. Thus the firm would achieve social objectives while at the same time it may gain some cost advantages. Since the distances between these suppliers and the Mercedes plants are greater, the investments may be in factories producing low-tech components using known technologies which do not require frequent interactions with the centralized R&D department. This way, the company could increase the production capacity and reduce the backlog orders for some of its cars.

The *ST strategy* builds on the company's strengths to cope with external threats. One of the threats for Daimler is the decline in the demand for military products. Thus, the company may use its engineering strengths to transform the defence know-how into consumer products or non-military aerospace projects. The company already has certain strengths in these areas through its acquired AEG unit and the Deutsche Aerospace (DA) group. But this strategy would require shifting more resources from the military to the non-defence sectors.

DAIMLER'S BUREAUCRATIC STRUCTURE AND COMPLACENCY MAY BE OVERCOME

The new-model strategy mentioned above in the discussion of the SO strategy also helps in dealing with the competitive threats in the automotive sector in Europe. Specifically, Daimler can maintain its competitive edge over BMW, Volvo, Saab and Jaguar through innovative products. Moreover, the rapid model-development will gain in importance when competing with the Japanese entries of Lexus and Infinity into the European market. Those Japanese competitors are known for their short product-development-cycle and consequently will pose a major future threat for Daimler.

The *WO strategy* aims at transforming the company's weaknesses into strengths to take advantage of opportunities. The high cost structure, partly due to high labour costs, may be alleviated to some extent through investments in automation and flexible manufacturing. Moreover, costs may also be reduced by manufacturing some parts or car components in Eastern Europe. As seen in the *SO strategy* quadrant in Figure 2, Daimler has the resources to purchase suppliers, with special acquisition opportunities in the former East Germany.

Daimler's bureaucratic structure and its complacency caused by past successes may be overcome, in part, through its reorganization. The three operating units, co-ordinated by the Daimler-Benz Holding Company, now can be held accountable for their performance. This, in turn, should result in greater responsiveness to the needs of their customers. Moreover, centralized R&D should result in cost reductions.

The *WT strategy* aims at minimizing internal weaknesses and external threats. Daimler could retrench in or withdraw from South Africa which is characterized by political uncertainty. Moreover, Mercedes can overcome its relative weaknesses in the Japanese car market through its co-operative agreement with Mitsubishi. Thus, the two companies could join forces through service contracts which could provide that Mitsubishi establishes dealerships and service organizations for marketing and servicing Mercedes cars in Japan. In this way, Mercedes could not only become competitive with Japanese luxury cars, but also with its German arch-rival BMW in the Japanese market. Through this co-operative agreement, Mitsubishi, in turn, would gain access not only to the European car market, but also to the European Airbus consortium in which Daimler has a stake in excess of 33 per cent.

From these illustrations it is clear that Daimler can pursue a combination of strategies based on the strengths and weaknesses of the company to take advantage of opportunities and to cope with external threats.

Evaluation and Choice of Strategies

After the development of various strategies, they have to be carefully evaluated before a choice is made. Strategic decisions must be considered in light of the risks involved. Venturing into the defence sector involved some risks for Daimler since this business was outside the automotive field which the company knew best. In hindsight, with the dissolution of the Eastern bloc, it is clear that the risk of entering this industry was greater than was anticipated. It is true that some of the technologies of the acquired aerospace group may have applications for automobiles, but it remains to be seen whether the benefits will outweigh the disadvantages.

Another critical element in choosing a strategy is *timing*. Even the best product may fail if it is introduced at an inappropriate time. Moreover, the reaction of competitors must be taken into consideration. Mercedes takes a long time, in fact too long, for the introduction of new automobile models. Japanese firms, such as Toyota and Nissan, have a much shorter product development cycle. To stay competitive, Daimler has no choice but shorten the model development cycle. Clearly, competitors often force a company to adopt a certain strategy. The Japanese may do just that. This heightened alert of competitive threats may give Daimler the impetus to reinvigorate its organization culture.

Consistency Testing and Preparation of Contingency Plans

The last key aspects of the strategic planning process, shown in Figure 1, are the testing for consistency and the preparation for contingency plans. Some observers question Daimler's wisdom of venturing outside the traditional automotive business through the acquisitions of the defence companies and the AEG appliance firm. Also, the cooperation between Daimler and Mitsubishi may be hindered by the difference in organization cultures. The orderly German bureaucratic organization structure appears to be inconsistent with the group-oriented managerial approach of the Japanese.

It is not at all clear that Daimler prepared contingency plans in the event of the deterioration of the Eastern bloc and the unification of Germany. Yet, almost no German company included the 1989/90 developments in Eastern Europe in their strategies either.

SUMMARY AND CONCLUSIONS

As Daimler-Benz moves towards the twenty first century, it will have to make some strategic choices. Its mission has changed from being an automotive company to an integrated transporting company, defence contractor, and consumer appliances manufacturer. The focus of this article was on the Mercedes-Benz unit which now faces fierce competition from Japanese carmakers in the luxury market. The TOWS Matrix, an analytical tool for identifying Daimler's strengths and weaknesses and the relationships to external opportunities and threats, was used to develop four distinct strategies, the SO, ST, WO and WT strategies. These choices must be made in the light of risks and in congruence with the vision of the CEO, Edzard Reuter. Daimler-Benz must prepare now for the competitive global car market.

Notes and References

¹ Tully, S., "Now Japan's Autos Push into Europe", *Fortune*, 29 January 1990, pp. 96-106.

² Adapted from Wehrich, H., *Management Excellence*, McGraw-Hill, New York, NY, 1985, p. 32.

³ Templeman, J., "Daimler's Drive to Become a High-Tech Speedster", *Business Week*, 12 February 1990, pp. 55-8.

⁴ The author appreciates receiving information from Edzard Reuter. See also his book *Vom Geist der Wirtschaft - Europa zwischen Technokraten and Mythokraten*, Deutsche Verlags-Anstalt GmbH, Stuttgart, 1986.

⁵ Aeppel, T. and Roth, T., "Thaw in Cold War Stymies Daimler-Benz", *The Wall Street Journal*, 3 April 1990.

⁶ Casey, W.E. and Roth, T., "Chairman Sees Daimler-Benz on Right Track", *The Wall Street Journal*, 11 May 1990.

⁷ Wehrich, H., "The TOWS Matrix - A Tool for Situational Analysis", *Long Range Planning*, Vol. 15 No. 2, 1982, pp. 54-66.

⁸ For example, the TOWS Matrix has been used as a conceptual framework on the micro level for developing a career strategy and on the macro level for industry analysis.

⁹ Browning, E.S., "Renault, Volvo Agree to Enter into Alliance", *Wall Street Journal*, 26 February 1990; Kapstein, J., Toy, S. and Rossant, J., "Why Renault Feels Safer Buckling Up with Volvo", *Business Week*, 12 March 1990, pp. 53-4.

¹⁰ Kapstein, J. and Toy, S., "Mitsubishi is Taking a Back Road into Europe", *Business Week*, 19 November 1990, p. 64.

¹¹ Taylor, A. III, "Here Come Japan's New Luxury Cars", *Fortune*, 14 August 1989, pp. 62-6. 12. "Daimler-Benz, Mitsubishi Group Discuss Expanding Business Ties beyond Autos", *Wall Street Journal*, 7 March 1990.

¹² Reichlin, I. and Schares, G.E., "What's Haunting West German Unions: East Germans", *Business Week*, 21 May 1960, p. 60.

¹³ For a discussion of the importance of related and supporting industries see Porter, M.E., *The Competitive Advantage of Nations*, The Free Press, New York, NY, 1990, Chapter 3.