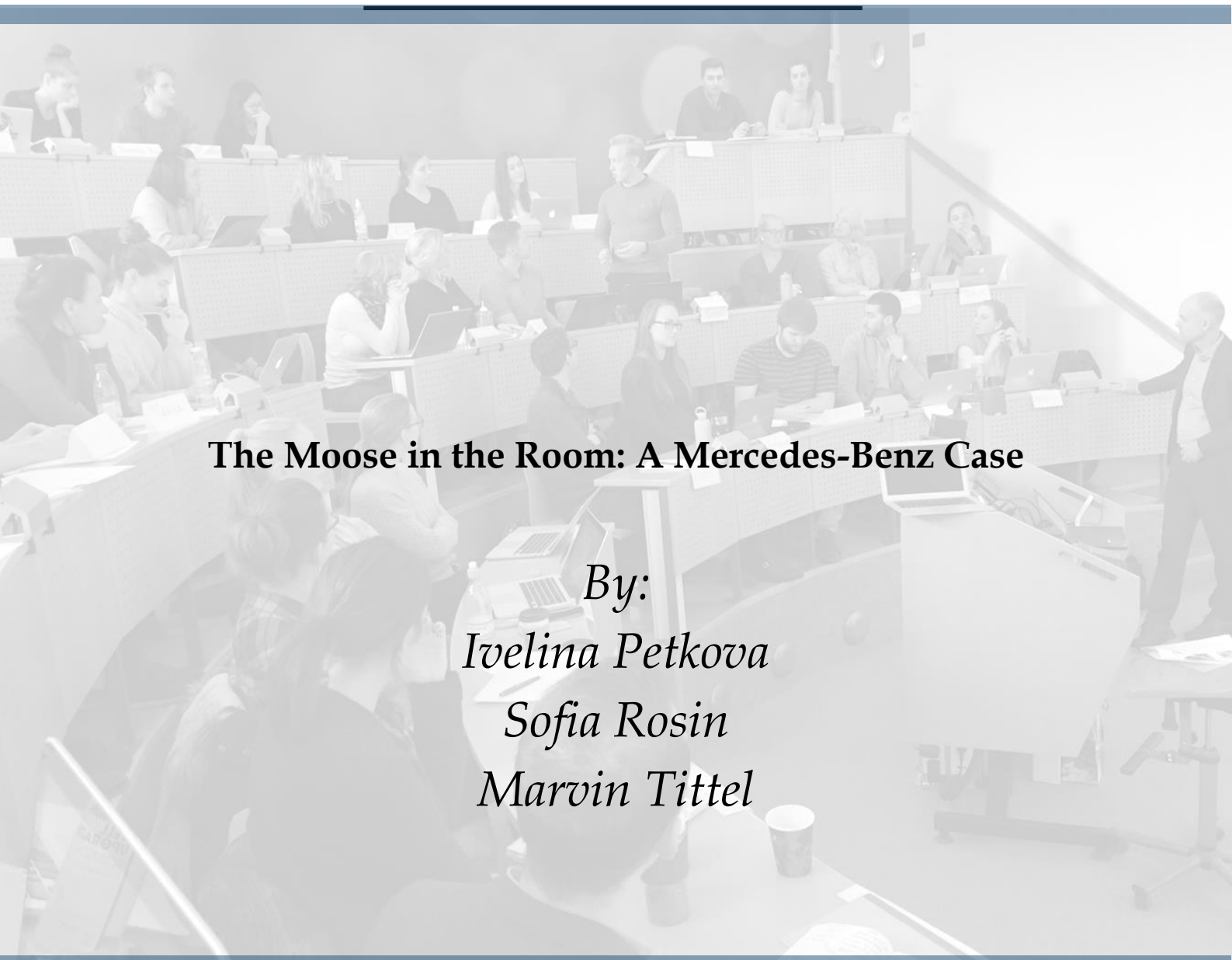


CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



The Moose in the Room: A Mercedes-Benz Case

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into the corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

Editor

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The Moose in the Room: A Mercedes-Benz Case

WRITTEN CASE

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The Moose in the Room: A Mercedes-Benz Case

Background and History of Mercedes-Benz AG

The German luxury automaker Mercedes-Benz has been known for producing high-end vehicles and innovative technologies throughout history. Innovation was a fundamental aspect of the corporate history of Mercedes-Benz as it is deeply rooted in its origins.

The evidence of the aforementioned statement is traced back to one of the founders of the company, Karl Benz. In 1886, Benz submitted a patent application for the first gasoline-powered car to the Imperial Patent Office. That patent certificate is recognized today as the “birth certificate” of the world’s first automobile. This innovation was followed by a successful marketing stunt which involved a 100km journey by Bertha Benz and her two children, to demonstrate the durability and the everyday suitability of the car in practice.

Another key invention was the first Mercedes vehicle which was engineered by Wilhelm Maybach, Gottlieb Daimler and Emil Jellinek for the Daimler-Motoren-Gesellschaft automakers in 1901. This innovation marked the creation of the Mercedes brand which is considered to be the first modern automobile. After filing a patent for the “Mercedes” brand name in 1902, Daimler-Motoren-Gesellschaft started a search for a characteristic trademark. In 1909 they registered a three-pointed and four-pointed star as trademarks, ultimately choosing the three-pointed one as a logo for the vehicles from 1910 and onwards.

The modern corporate history of Mercedes-Benz officially came into being in 1926 after the merger of the companies Daimler-Motoren-Gesellschaft and Benz & Cie that established Daimler-Benz AG. Up until the end of the second world war, top management was involved and supported the military build-up of the Nazi regime. Daimler-Benz became the leading ammunition maker in Nazi Germany, producing aeroplane motors, tanks and armoured vehicles, and even a major section of the V-2 rocket. Due to a lack of staff, Daimler-Benz was notoriously involved with “loaning”

prisoners of war from barrack camps in exchange for money. In 1944 almost half of the company's employees were civilian forced labourers, prisoners of war or concentration camp detainees. Following the end of WW2, Daimler-Benz admitted its links to the Nazi regime and became involved in the German Industry Foundation's initiative "Remembrance, Responsibility and Future" which focused on providing humanitarian aid to former forced workers (Mitgang, 1990).

After receiving a new production permit from the American occupation authorities in 1946, Daimler-Benz aimed its efforts at restoring the plant, the reconstruction of which was finalised in 1951. Even though the company struggled to recover after the war, by the 1950s, it had re-established itself as a leading producer of high-end vehicles. After its return to full-scale production, Mercedes-Benz introduced several technological innovations such as the Antilock Braking Systems (ABS) in 1978, 4MATIC All-Wheel Drive in 1985, CFC-free climate control in 1991, the Electronic Stability Program (ESP) in 1995, Smartkey Anti-theft Protection in 1997, Pre-Safe Collision Detection in 2002, and the ingenious Attention Assist in 2010. In the post-World War II era, Mercedes-Benz continued to innovate and expand its product lineup, producing popular models like the SL roadster and the S-Class luxury sedan.

Today, Mercedes-Benz is a subsidiary of Mercedes-Benz Group AG, one of the largest and most successful automotive companies in the world with manufacturing facilities in 17 countries, sales of 2.3 million vehicles in 2021 and group revenues amounting to €168.0 billion and Group EBIT to €29.1 billion. In the same year, the company had offices in 93 locations worldwide with a workforce of around 172,000, and corporate headquarters in Stuttgart, Germany.

The current chairman of the board of management of the Mercedes-Benz Group, and CEO of Mercedes-Benz is Ola Källenius. Mercedes-Benz is focusing its efforts on the sponsorship of events surrounding golf, tennis and New York's Fashion Week. Additionally, the Mercedes F1 team has also dominated the track with five straight Constructors' Championships behind drivers Lewis Hamilton, Nico Rosberg and Valtteri Bottas.

Strategy & Mission

Strategy

The Mercedes-Benz Group's long-term goal is defined as "to build the world's most desirable cars" (Mercedes-Benz Group, 2023). The brand's foundation lies in its traditional capabilities developed for more than 130 years - cutting-edge technology and market dominance. Apart from being defined as an innovation pioneer, the brand prides itself on being the global market leader in luxury vehicles. In this regard, Ola Källenius explains that the core of the brand as well as the core of the strategy is the

luxury segment (Mercedes-Benz Group, 2023). This focus is tightly linked to the rising consumer demand in this category.

Mission

The mission of Mercedes-Benz reads: *“We will inspire and create an exceptional place to work and to do business. One employee, one customer, and one vehicle at a time. Through our transparent atmosphere, premium auto inventory, and individualized customer care, we create the luxury shopping experience that our customers truly deserve.”* (Mercedes-Benz Group, 2023)

With this mission statement, the brand emphasises four main aspects in the work culture as well as in the way they do business: transparency, innovation, customer service, and luxury experience. *Transparency* conveys that the company aims to create, support and sustain customer and employee relationships by creating an environment built on open and honest communication. *Innovation*, as mentioned above, is the main ingredient in the brand’s DNA, which becomes evident in every aspect and undertaking of the firm – from implementing disruptive technology and developing clean engines to establishing trailblazing partnerships; from product innovation to smart production. In terms of *customer service*, the Mercedes-Benz website states that “Every strategic action revolves around one thing, the customer” (Mercedes-Benz Group, 2023).

The brand’s top-notch customer experience is further encapsulated in the book ‘Driven by Delight’ by Joseph Michelli, where the author unveils the story of how Mercedes-Benz entirely transformed its customer service and became one of the most customer-centric brands in the world. *Luxury experience* plays a central role in Mercedes-Benz Group’s strategy. As a pure-play luxury car company, it outlines its ambition of building the most desirable cars, providing the most luxurious experience for its customers.

The Incident

In 1997, Mercedes-Benz brought the A-Class onto the market. With a new compact car as an entry-level model, the company wanted to achieve three main goals: Firstly, to expand the product portfolio downwards and compete with other brands. Secondly, new and younger buyer groups, especially women, were to be addressed and enthused by the Mercedes-Benz brand. The A-Class was to function as an entry-level model, to familiarise customers with the brand who might later buy higher-priced models. Thirdly, economies of scale for purchasing, sales and development were to be exploited by increasing sales figures, thus reducing production costs overall. Average fleet consumption should also be reduced (Diermeier, 2017a).

Mercedes-Benz developed an innovative car for this purpose, which was to combine the space of a minivan with the exterior dimensions of a compact car through its unusual design. The A-Class was also the first Mercedes-Benz model to have front-wheel drive.

The market launch was accompanied in advance by an elaborate 18-month advertising campaign. This resulted in over 100 000 pre-orders for the A-Class. All in all, Mercedes-Benz took a big risk by launching the A-Class.

On 21 October 1997, three days after the release and after the first models had already been delivered to customers, the A-Class was tested by the Swedish magazine "Teknikens Värld". Part of the test was an abrupt swerve, first to the left and then, after a short pause, to the right at approximately 65 km/h. This is to simulate avoiding an obstacle. In the German press, this test later became known as the 'Moose Test'.

During the test, the brand-new Mercedes-Benz A-Class tipped over (see **Exhibit 1**). For Mercedes-Benz, who on the one hand had high expectations for their new model and on the other hand traditionally see themselves as a premium manufacturer with high standards in quality, safety and solidity, this was a disaster.

Mercedes-Benz's reaction immediately after the incident

October 1997 – Denial and a technical solution

Mercedes-Benz initially reacted defensively and reservedly. The Mercedes-Benz board, which was in Japan at the time of the 'Moose test' for the presentation of a new prototype of the Maybach, a luxury car above the Mercedes-Benz portfolio, ruled out an interruption of production. On 23 October, Mercedes-Benz reported that the wrong tyres could have been used in the test.

After these statements were torn apart by the press, Mercedes-Benz held a press conference on 29 October. They announced the decision to equip all A-Classes with different tyres. Furthermore, every A-Class were to be equipped with an Electronic Stability Program (ESP). A novelty, as this had previously only been installed in the disproportionately more expensive S-Class. This step was associated with high costs for Mercedes-Benz but could be advertised as an additional feature for the customer. The ESP was also to be retrofitted in all A-Classes delivered to date. Furthermore, a video was shown how the modified A-Class passed the 'Moose test'. Nevertheless, these changes were not well received by the public and the press. Mercedes-Benz was accused of merely offering a quick fix.

November 1997 – Apologising and delivery stop

On 11 November, the next press conference followed, at which Mercedes-Benz apologised, announcing a delivery stop of the A-Class for at least 12 weeks in order to work on the errors and to test the A-Class extensively. On 12 November, Mercedes-Benz launched a newspaper campaign in which the ‘Moose test’ was aggressively addressed and the technical solutions explained.

December 1997 to February 1998 – The relaunch of the A-Class

On 8 December, Mercedes-Benz invited the four automotive journalists who had experience with an A-Class overturning to a test of the driving stability of the revised A-Class at a test site in Idiada, Spain. The Swedish journalist, who drove the ‘Moose test’ with the A-Class for the first time, was also there. Mercedes-Benz was thus able to counter doubts about the safety of the revised A-Class and demonstrate that Mercedes-Benz takes its critics seriously. Niki Lauda, a former Austrian Formula 1 champion, was also invited to the event and was equally convinced of the safety of the A-Class.

Later, Mercedes-Benz used the footage of the event for a one-day advertising blitz aimed at restoring confidence. For this purpose, full-page advertisements were placed in 180 German newspapers. The ads included the announcement that the A-Class had now passed the ‘Moose test’ and an explanation of the technical changes that had been necessary to achieve this. Furthermore, Mercedes-Benz admitted that they had made a mistake, but that they had corrected it and learned from it. The advertisements also contained the announcement of TV spots in which footage from the passed tests was also shown.

In January 1998, Mercedes-Benz invited 450 automotive journalists to a test track in France to convince the press of the capabilities of the revised A-Class.

Finally, on 26 February 1998, the revised A-Class was delivered to the dealers again. This was accompanied by an advertising campaign which included quotes from Boris Becker, a former German tennis pro. The example given: “Strong is the one who does not make mistakes. Stronger is the one who learns from his mistakes.”

In the end, Mercedes-Benz succeeded. Surveys showed increased sympathy values for the company. On the one hand, 4,000 orders were cancelled worldwide, on the other hand, 20,000 new pre-orders were placed. In the following, the A-Class was considered a very safe car, especially due to the standard ESP.

Discussion question

Main question

You take the role of the executive board of Mercedes-Benz 10 years after the incident.

You want to introduce the follow-up model of the A-class. An advertising agency came up with the idea of using humour and giving away small moose soft toys. Should we follow that advice and use humour in our Marketing campaign?

Optional question

Imagine you are now on the board of Mercedes-Benz in 2022.

You are currently planning an advertising campaign to celebrate 25 year-anniversary of ESP. Would you mention the 'Moose test', and if so, in what way?

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Exhibit 1 Mercedes-Benz A-Class tipping over



Source: <https://www.fr.de/ratgeber/auto/a-klasse-umfaller-aufsteiger-11719651.html>