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Mercedes aims to oust BMW as top luxury brand



Alex Domanski / Reuters

Daimler AG's Chief Executive Officer Dieter Zetsche enters a new Mercedes A-class car at the Mercedes plant in Rastatt, Germany.

By Paul A. Eisenstein, NBCNews contributor

It's one of the most bitter battles in the American automotive marketplace, and it pits two of Germany's luxury automakers in a grab for the brass ring. But this year, Mercedes-Benz is betting it can topple rival BMW to become the best-selling luxury automotive brand in the world's largest high-end market.

But volume alone isn't the measure of success, said Mercedes' top American executive. The maker is looking at significant future growth that it hopes will also position it as the industry leader in terms of gross margins.

And key to that growth, said Mercedes-Benz U.S. Chief Executive Steve Cannon, is a wave of new products that will not only cover existing market segments but also some "white space" areas where the luxury maker currently doesn't participate.

"The breadth and depth of our lineup is one of our strategic advantages," Cannon explained.

The executive has been spending much of the week in Santa Fe, where Mercedes is giving automotive journalists their first drive in the second-generation GL sport-utility vehicle. It joins an array of newly upgraded models such as the bigger G-Wagen, smaller GLK and the brand's top-selling truck, the ML.

When the latter model was introduced a little more than a decade ago, skeptics scoffed. But it wasn't the first time Mercedes had defied

conventional wisdom when entering a new segment. It took a several-year-long debate before it launched the compact C-Class back in the 1980s. That model is now one of the German maker's strongest offerings.

Meanwhile, the ML, GL and the rest of the SUV lineup now account for nearly 45 percent of Mercedes' total U.S. sales. And sales would be even higher, contended Cannon, were it not for capacity constraints at the automaker's assembly plant near Tuscaloosa, Ala. Dealers currently have a 26-day supply of the ML on hand — less than half the industry average of 60 to 65 days.

The strong demand for Mercedes' crossover/SUV models might take some people by surprise considering the run-up in fuel prices earlier this year. As the numbers on the pump pushed past \$4 a gallon in some markets — with some analysts

forecasting the figures would eventually nudge \$5 and even \$6 — overall light truck sales briefly tumbled. But since prices peaked in early April, demand



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Dieter Zetsche, head of Mercedes-Benz Cars, discusses whether Mercedes will boost U.S. production. He also assesses how Europe is managing its debt crisis.

has largely bounced back.

That's not to say Mercedes is ignoring the potential disruption another petroleum spike might have. Nor can it dismiss the impact of the tough new emissions and mileage standards being enacted in major markets such as the U.S., Europe, Japan and China.

"They will require smaller cars," says Cannon, a West Point graduate and former Army artillery officer.

The automaker recently gave a hint of what is in store at the low end of the market where it is completely updating its smallest model, the A-Class. And, significantly, at least one version — the coupelike CLA sedan — will be earmarked for the U.S. market, the first time one of the A-Class models will come to the U.S.

Such models are intended to not just satisfy the demands of regulators but to meet the needs of a new generation of buyers who are looking for smaller — and decidedly more high-tech products. Mercedes has traditionally positioned itself as a leader in technology, and it is investing billions to maintain that brand image. The new GL, for example, introduces such features as Collision Avoidance and Crosswind stabilization. The former can alert a driver to a potential crash, the latter helps to keep the big crossover in its lane even in the harshest wind storm.

But what may appeal even more to first-time Gen-X and Millennial luxury buyers is the mBrace2 infotainment system that can pair up with a motorist's smartphone to play apps like Pandora through the car's sound system — and even use voice commands for texting.

While new products and technology will be critical to Mercedes' growth plans, Cannon admitted that the maker must also improve the way it treats customers in the showroom and service bay. "If we look in the mirror and be honest we have to admit we're not doing well enough," he said.



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The maker has been staging a series of meetings with dealers across the country aimed at improving customer

handling. Dealers, in turn, have

spent about \$1.5 billion to upgrade more than 90 percent of U.S. showrooms. The results appear to be paying off.

"Mercedes sets the benchmark," said Fran O'Hagan, whose Pied Piper Prospective survey uses thousands of so-called "mystery shoppers" to measure how manufacturers are handling the sales and service process. Mercedes bested such stalwart competitors as BMW, Lexus and Audi in results released earlier this month.

And that's apparently helped it gain a leg up on BMW. It held a 2,000-unit lead over the Bavarian automaker for the first half of 2012 after narrowly losing the U.S. luxury sales crown in 2011. Anything can happen, especially if rivals BMW or Lexus ramp up incentives spending, Mercedes officials admit. But it's clear they are ready to pull out the big guns to grab the ring this time.

Ironically, Cannon admitted that being No.1 likely "won't sell one more car" for the brand, even though Americans do like to associate with winners. The more important goal, the executive said, is to ensure maximum margins by protecting the image of the vaunted Mercedes tri-star logo.

“Profitability is definitely more important,” agreed analyst Aaron Bragman, of IHS Consulting, though he believes Mercedes “probably” will land on the top of the luxury hill this year.

And the key to maintaining that, he said, is ensuring that new products like the CLA — and updated offering like the next-generation S-Class and refreshed E-Class due next year — beat customers expectations.