

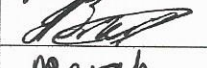
MBAD 822 – Marketing Management

Prof. Christo Bischoff

GROUP ASSIGNMENT 1

MERCEDES PICKUP

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Submission date: 17 August 2019



Mercedes-Benz



EXECUTIVE SUMMARY

The Mercedes-Benz X-Class bakkies are particularly luxurious and comfortable when compared with its competitors, in line with the reputation of the Mercedes-Benz brand. Mercedes-Benz further takes pride in the reliability, and the service excellence and quality that they provide. Their bakkie, does however come with a significant price tag, which discourages buyers. The X-Class pricing has made it tough to sell in South Africa where the staple of Toyota Hilux and Ford Ranger continue to top the sale charts in an incredibly competitive market. Mercedes-Benz with their X-Class is targeting a niche market in the bakkie segment. The X-Class bakkie has excellent off-road capabilities, but the individuals who purchase these bakkies seldom take their bakkies onto gravel roads. Families or individuals that live an adventurous outdoor lifestyle will in all likelihood purchase a Toyota Hilux, Ford Ranger, or Volkswagen Amarok for their camping trip or 4x4 trail.

Conclusions that were made during this study are three-fold:

- The Mercedes-Benz pick-up brand is a unique and expensive brand. Mainly high-income earners are targeted.
- The Mercedes-Benz needs to take multiple factors into consideration to be competitive in the bakkie market, viz. price, exterior styling, interior finishes (touch screen, leather trim, amount of plastic trim on dashboard and interior space), recreational capabilities, and fuel economy.
- The Mercedes Benz pick-up is a luxury bakkie which is not the leader in 4x4-vehicles, but rather built its reputation on historic brand loyalty.

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1. Introduction

The German global automotive company better known as Mercedes-Benz, is known around the world for their luxury vehicles, trucks and busses. Mercedes-Benz was established in 1926 and was a result of a merger between Gottlieb Daimler's and Karl Benz into a company known as Daimler-Benz on 28 June 1926. Mercedes-Benz's headquarters' is situated in Stuttgart, Baden-Wurtemberg, Germany, but dealerships can be found worldwide.

Mercedes-Benz was the largest luxury vehicle manufacturing company in the world for 2018, with a total of 2.31 million luxury passenger vehicles sold (Reuters, 2019).

The Mercedes-Benz X-Class is a luxury bakkie produced by Mercedes-Benz. Unveiled at a world premiere in South Africa, Cape Town in July 2017, the new Mercedes-Benz Pick-up takes its chassis from the Nissan Navara and employs many Mercedes-specific features and technologies (including some engines not shared with the Navara) (Bird, 2017). The development of the Mercedes Benz X-Class bakkie was announced in 2015 to the world, and production started in late 2017. The Mercedes-Benz X-Class bakkie was developed in agreement between Mercedes-Benz and Nissan and will be produced throughout South America and Europe in Nissan and a Renault plants. According to Mercedes-Benz the X-Class bakkie will be the first true luxury bakkie in the world.

The Mercedes-Benz X-Class bakkie will only be available in Europe, Australia, Latin America and Africa. South Africans and Australians are very positive and curious about the X-Class, because bakkies are very popular in these countries. Two engines are available in the Mercedes-Benz X-Class 2.5liter turbocharged diesel engine and a 3.0liter V6 turbocharged diesel (Zhang, 2016).

The Mercedes-Benz X-Class is targeting a niche market for individuals who are interested in luxurious bakkies. These niche products come with different specs and prices. Mercedes-Benz has positioned their brand as luxurious and innovative. There are different views on the Mercedes-Benz X-Class, and it will be highlighted in this case study.

2. Purpose

The purpose of this report is to analyse the Mercedes-Benz X-Class's current market share, how it performs in South Africa and the report will also indicate which market segment Mercedes-Benz must target in South Africa. There will also be recommendations made to help Mercedes-Benz with a unique selling proposition.

3. Scope

This report and the analysis focus on the Mercedes-Benz Pick-up, but also on how it compares to other brands in the South African market.

4. Methods of investigation

The qualitative and quantitative methods was used in this research. The main information channels that were used was YouTube, internet, the library and other relevant channels.

5. Competitors

A competitor is a business that provides similar products or services than your business. The presence of competitors in an industry drives down the price of goods and services, because consumers have more alternatives from which to choose if the price of a particular good or service is too high (Investorwords, 2019). Mercedes-Benz developed a unique product range in order to compete in the market.

The Mercedes Benz X-Series compete with different bakkies in a different segment. Taking the 2018 figures of the Mercedes Benz X-series, the competitors are identified as: Toyota Hilux, Isuzu D-Max, Ford Ranger, Nissan Navara, Volkswagen Amarok.

Table 1: 2018 Sales figures of X-Class and rivals

Truck model	Sales Globally	Sales Local
Mercedes Benz X-Class	16 700	N/A
Toyota Hilux	548 313	40 018
Isuzu S-Max	301 629	15 520
Ford Ranger	267 153	30 141
Nissan Navara	231 435	2 090
Volkswagen Amarok	74 400+	2 979

(Source: Wheels24, 2019)

Given its starting price from R642 103 in South Africa, the X-Class was never going to be a volume-seller. The X-Class was launched in South-Africa early 2018 disguised as a X220d and X250d. The V6, offering a 350d engine, followed a few months later and currently retails at R973 188. The X-Class pricing has made it tough to sell in South Africa where the staple of Toyota Hilux and Ford Ranger continue to top the sale charts in a very competitive market.

5.1. X-Class versus the rest

In 2018, the Toyota Hilux was not just the best-selling vehicle locally with 40 018 units sold, but it was also the top-selling bakkie globally on 548 313 sales. The Isuzu D-Max may play second fiddle to the Hilux and Ford Ranger in South Africa, but during the course of 2018 it amassed a global sales figure of 301 629 units. Locally, it managed a sales figure of only 15 520 units. The Ranger sold 30 141 units in South Africa last year, compared to a global figure of 267 153 units.

The Nissan Navara, the bakkie on which the X-Class is based, sold 231 435 units globally and 2090 units locally. Volkswagen's Amarok did well in South Africa in 2018, selling 2 979 units. Globally, it sold more than 74 400 units. According to Pickacar (2019) the Mercedes-Benz hasn't even featured in the top 10 for sales in 2018.

In the table below the key success factors will be assessed on the Mercedes X-Class competitors.

Table 2: Weighted competition strength assessment

		Mercedes		Hilux		VW Amarok		Ford Ranger		Nissan Navara		Isuzu S-Max	
KSF	Weight	Rating	Score	Rating	Score	Rating	Score	Rating	Score	Rating	Score	Rating	Score
Innovative- ness	0.12	5	0.6	4	0.48	5	0.6	4	0.48	4	0.48	4	0.48
Product quality	0.15	4	0.6	5	0.75	4	0.6	4	0.6	4	0.6	4	0.6
Technical assistance to customers	0.07	4	0.28	5	0.35	4	0.35	4	0.35	3	0.21	4	0.35
Pricing of product	0.26	3	0.78	4	1.04	3	0.78	4	1.04	4	1.04	4	1.04
Capabilities	0.22	4	0.88	5	1.1	4	0.88	5	1.1	4	0.88	5	1.1
Reliability	0.18	3	0.54	5	0.9	4	0.72	4	0.72	4	0.72	4	0.72
TOTAL	1,00	3.08		4.62		3.93		4.29		3,93		4.29	

It is evident from above that the Toyota Hilux has a competitive advantage over the other competitors in terms of reliability and product quality. Mercedes Benz X-Class is ranked to be of good quality. Mercedes Benz X-Class can be seen to have a competitive advantage over their competitors in terms of innovativeness.

6. Porter's 5 forces in industry competitiveness/attractiveness

Different industries and level of how big the business operates have different structures, which results in very different rules of the game when it comes to competitive behaviour. The competitive structure of an industry can be explained by using Michael Porter's model of competitive forces in an industry. The five forces are:

- The threat of entry from new competitors.
- The threat of substitute products.
- The bargaining power of buyers.
- The bargaining power of suppliers.
- The rivalry between the existing direct competitors.

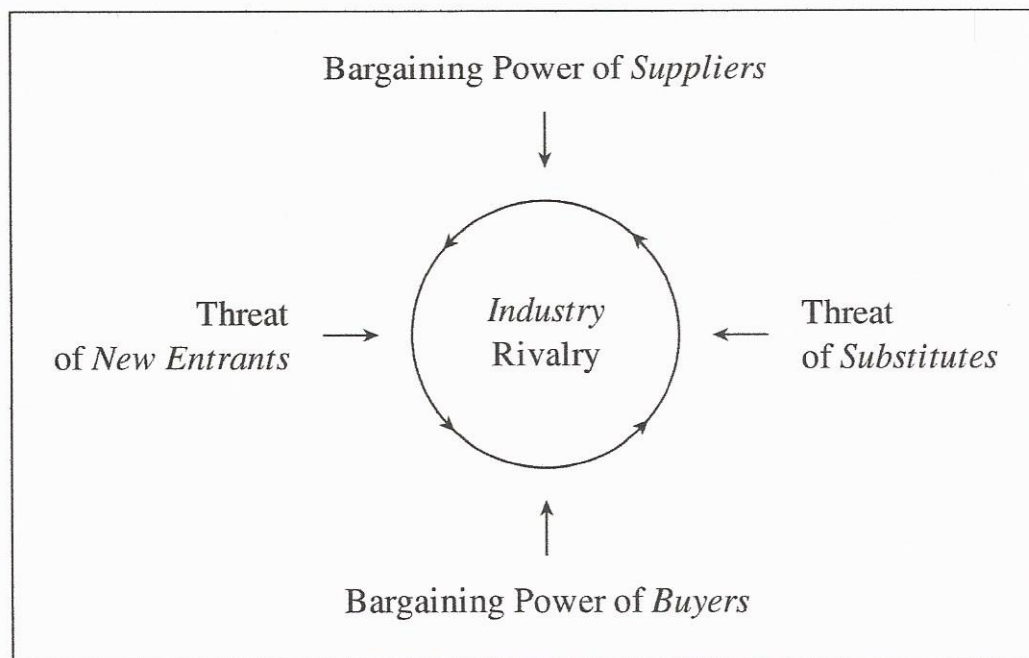


Figure 1: Porter's five forces

The Mercedes Benz X-Series competitive environment is relatively high and will be explained below:

6.1. Competitive Rivalry - High

The luxury automotive industry is very competitive. The competitors of Mercedes-Benz include Toyota Hilux, Isuzu D-Max, Ford Ranger, Nissan Navara and Volkswagen Amarok. These vehicle brands all differ significantly in design, functions, luxury, engines and other technical aspects. Marketing and communication aimed at the

potential customer is a very important aspect of this industry and will have to generate the perception of status, associated success and achievement as well as recognition for owning a bakkie.

6.2. Threat to New Entrants – High

In Mercedes-Benz's case, the following external factors in the bakkie industry environment contribute to the weak force or threat of new entrants:

- High capital costs (weak force)
- High cost of brand development (weak force)
- High supply chain costs (weak force)

Mercedes-Benz X-Series faces the weak threat of new entry. The high costs of establishing, maintaining and growing a new firm in the industry are significant entry barriers. These barriers weaken the effects of new entrants on companies like Mercedes.

The entry barriers of this industry are high. Mercedes-Benz enjoys brand equity. Mercedes-Benz X-series have developed a niche bakkie with a luxury factor, but other established brands like Ford have launched the Ford Raptor aimed at the luxury market. Established brands like Ford, Toyota and Volkswagen will have a great effect on Mercedes-Benz as a new entrant into this segment.

6.3. Bargaining power of supplier – Low

There are a lot of suppliers in the automotive industry and most of them are small companies, and although the manufacturers are very large companies, they are not in a position to bargain or attempt to influence prices. The automotive manufacturers have set tremendously high quality and specification standards for the raw materials and on suppliers who are willing to comply with these requirements.

6.4. Bargaining power of buyer – High

There are a lot of manufacturers of bakkies and every manufacturer can offer a different product. The customer can then choose from a wide variety of brands. The bakkie brands differentiate themselves by the quality, performance, appearance and

price. The buyer also has easy access to information and can compare the various features of different brands before making a purchase. Some brands such as Toyota also offer customers the choice of customizing their bakkie, they can for example select their own rims, Dakar edition stickers and 4x4 features. Customers are willing to pay extra for a specific brand, thus the bargaining power of buyer is high against Mercedes-Benz.

6.5. Threat of substitutes – Medium

Luxury bakkies do not serve the purpose of transportation. They are a symbol of status and self-perception of success and achievement. The substitutes for it are low budget bakkies for example Nissan NP200. However, if we focus on Mercedes-Benz X-series as premium bakkies, their threat of substitution is insignificant. It is important for the wealthy to drive a luxurious vehicle as a status symbol, thus the threat of substitute for Mercedes-Benz is of a moderate level.

7. Different market segments for bakkies in the South African Market

According to Lamb *et al.* (2015) there are 5 different market segments in consumer markets. The 5 different types are:

- Behavioural segmentation
- Geographic segmentation
- Demographic segmentation
- Psychographic segmentation
- Benefit segmentation

Based on this different segmentation the following table has been conducted to indent the different market segments of the different pickups in South Africa.

Table 3: Segmentation of different bakkies in South Africa

Bakkie	Market Segment	General/Age Segmentation	Key Competitors

Mercedes-Benz X-Class	Upmarket. Highly working class. High income group.	Older sophisticated. Generation Y. 40-60 years. Baby Boomers.	No real competitors, price is their biggest concern. X > ?
Toyota Hilux	For people who likes off-road and 4x4. Financial security and buying power. Cultural choice between Hilux and Ranger.	25 – 60 Years. Generation X and Y. Baby Boomers.	Ford Ranger
Isuzu S-Max	People who can't afford a Hilux or Ranger but likes bakkies.	Generation X and Y.	Nissan Navara
Ford Ranger	For people who likes off-road and 4x4. Cultural choice between Hilux and Ranger.	25–60 Years. Generation X and Y. Baby Boomers.	Toyota Hilux
Nissan Navara	A little above average . Average working class. ✓	30–50 Years. Generation X and Y.	Isuzu
Volkswagen Amarok	The generation that likes both 4x4 and the road. More upper-class.	30–50 Years. Generation X and Y.	Ford Ranger Toyota Hilux
Nissan NP	Entry Level. Lower working-class males.	25-30 Years. Generation X.	Chevrolet Bakkie Tarok
Chevrolet Bakkie	Entry Level. Lower working-class males.	25-30 Years. Generation X.	Nissan NP 200

8. Mercedes Benz Pickup segment

According to Lamb *et al.* (2015) there are seven steps in segmenting a market. The 7 steps are:

- Select the product market or category.
- List potential needs.
- Choose segmentation bases.
- Select descriptors.
- Profile segments.
- Identify determining dimensions.
- Name and select target markets.

These seven steps will be analysed to determine in which segment the Mercedes-Benz will do well.



Figure 2: Mercedes-Benz X-Class (Mercedes-Benz.com, 2019)

According to Branquinho (2019), the Mercedes-Benz X-Class that went on sale from May 2018 is the most expensive bakkie in South Africa. And to be realistic it doesn't matter which segment they enter in; they enter a tough segment. The Mercedes-Benz must be compared to the Nissan Navara. Why? Because it gets built by Nissan in their warehouses and they use the same chassis for both the Mercedes-Benz and the Navara. The entry level of the Mercedes-Benz is a staggering R220 000 more than the top level Navara.

Mercedes will also find that if buyers are willing to pay so much more for the badge on the nose, it doesn't make sense for them to compete in the market for Nissan Navara's

and Isuzu's. They will also surely fail when competing with the Toyota Hilux and Ford Ranger.

The Mercedes Benz is a luxury bakkie whom is not the leader in the 4x4 market but rather built its reputation on its longstanding branding. Only the top incomers in South Africa will be able to afford this bakkie. According to IOL (2019) it is speculated that the Mercedes targets the more premium corner of the double cab market. The premium end of the bakkie segment is very small but we believe that it is the best segment for them to be a part of. Luckily for Mercedes the BMW pick-up has cancelled their plans to create a luxury bakkie (IOL, 2019). That enables Mercedes to get a larger piece of the pie in that segment.

The segments to be targeted are first-time buyers. They must target customers who drove Mercedes-Benz before but wants something other than a normal SUV. It also makes sense for Mercedes to target the Western Cape, Kwa-Zulu Natal and Gauteng area. That is where the high-income earners live, where the most sales occurred in 2019 and where they'll sell most of their bakkies.

The bakkie is largely designed for the Baby boomers and Generation X. Millennials will surely be more attracted to the Toyota Hilux and Ford Ranger. Like we said earlier when looking at income they'll do well if the target the premium incomers (the wealthier customer), since average incomers won't be able to afford this pick-up.

For Mercedes to do well it's very important that they use the same strategy that Porsche used in the United States, targeting the 50-something male university graduate earning more than R1 500 000 per year.

9. New luxury bakkie entrants just entered the market

There are different views and opinions of the Mercedes-Benz X-Class. The Mercedes-Benz X-Class is targeting a niche market for individuals who are interested in luxurious bakkies, this niche product comes with different specs and prices:

Service and warranty

The X-Class range comes standard with Premium Drive, which is a six-year/100 000 km maintenance plan.

Pricing

X-Class X220d 4X2 PROGRESSIVE M/T - R642 103

X-Class X250d 4X2 PROGRESSIVE A/T - R694 025

X-Class X250d 4X4 PROGRESSIVE M/T (A/T optional) - R696 785

X-Class X250d 4X4 POWER M/T (A/T optional) - R791 315



Figure 3: X-Class interior (Krok, 2017)

According to Wheels24 (2019), there are different opinions about the Mercedes-Benz X-Class. Individuals had the following to say about the new X-Class bakkie before the X-Class has arrived in South Africa:

- "It will probably be too expensive."
- "The Toyota Hilux will remain South Africa's bakkie king."
- "I want it! I need this bakkie in my life."

- "I can't wait for this to arrive in South Africa."

Now that the Mercedes-Benz X-Class has arrived in South Africa, the feedback received from the market varies. There are different factors that are highlighted that the market appreciates and others that they do not like. Part of the market has indicated that they like the Mercedes-Benz X-Class's performance, ride quality and most of the interior. Another part of the market has indicated that they do not like the Mercedes-Benz X-Class rear seat space, some cabin trimmings and the price (Droppa, 2019).

Ooh bad one here for X class

9.1. BMW pick-up:

Firstly, when researching the BMW pick-up there were not a lot of information regarding this truck. According to Boeriu (2018), chances of BMW creating a truck and competing against Mercedes is quite low. According to Klaus Frolich a board member for BMW he denied any plans for BMW to create any pick-up truck. This will be good news for Mercedes as the luxury market for these bakkies is quite small and to lose a chunk of the pay would've hurt them badly.

By saying the above it recently came alight that BMW has changed their plans slightly. First pictures of the new real BMW truck have just been released and can be seen in addendum D.

The BMW truck is not yet in production, but the first model will be showed at a car show in the United States (Motor1, 2019). BMW and Mercedes have always been in competition with each other and the trucks will now be different. Mercedes must be wary of the BMW truck and will need to dominate the market before there is new entrants.

9.2. Volkswagen Tarok:

Wheels24 (2018), revealed that the new VW Tarok is an all-wheel-drive model that has the latest generation technology, like the SUV's, but with the versatility of a cleverly designed five-metre bakkie.

What also gives Volkswagen an edge over the Mercedes is that they have already entered the pick-up market with their Amarok. This means they already analysed the

pick-up market and therefore knows what work and what doesn't. Volkswagen South Africa indicated that there are now plans to bring this pick-up to South Africa, though it was originally created for the South American market (Wheels24, 2018).

The Volkswagen Tarok also brings some new features to a bakkie that has never been done before. For instance, the new variable loading area concept. It is remarkable that the floorspace of the VW can be extended by opening the tailgate that allows the bottom of the passenger cab rear panel to be folded down. By doing this extra-long items as well as abnormal items can be fitted into the bakkie which sets the VW in a class of their own.

The CEO of Volkswagen suggested that the VW Tarok would cost around about 20 000 US dollars, which compared to the Mercedes is way cheaper (Motor1, 2019). This will give the Mercedes a big hiding and is for sure a worthy competitor.

10. Mercedes - Unique Selling Proposition

A Unique Selling Proposition (USP) is a factor that makes a company gain a unique market positioning with respect to the number of other competitors (mbaskool.com, 2019). An example of a USP can be seen in the picture below:

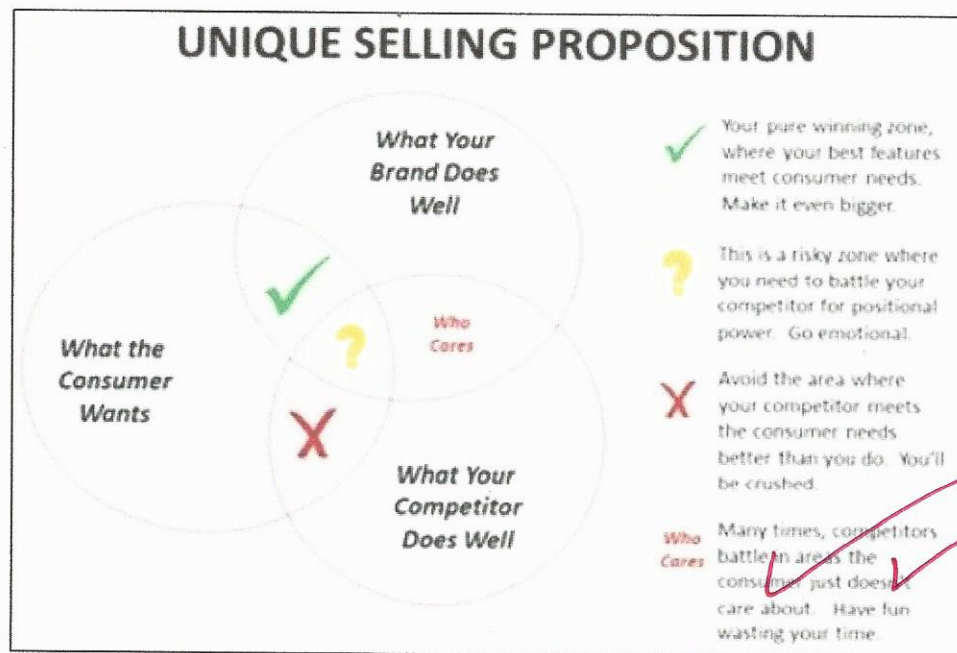


Figure 4: Unique selling proposition (Mbaskool, 2019)

Based on the above model Mercedes must focus their USP on core concepts: What your brand does well and what the consumer wants. We have targeted the high-income market segment. To align the segment with the USP we have a perfect USP that will suite Mercedes: ***"The luxurious way to get dirty"***. How did we get there? By analysing the following two aspects:

1. What your brand does well

- Mercedes has a great reputation in the luxurious sector of the motor industry.
- Their brand is reliable.
- Their vehicles are famous for the luxuriousness.
- They provide superior service and quality.
- What you see is what you get.

2. What the consumer wants

- A pickup that can perform.
- Something different than the ordinary.
- A reliable pickup with a good reputation.
- A pickup that can perform on both the road and off-road.
- Luxuriousness while getting dirty.

11. Conclusion

Marketing is a never-ending changing factor which is the heartbeat of any successful business. It enables organisations to adapt to information, technology and competition. The core of your business strategy should be based on marketing. This must be thought through and thereafter your activities must be changed and upgraded to secure the future of the business.

Mercedes would make a big mistake if targeting the wrong marketing segment. Millennials must not be excluded, but the core focus should be on the high-income earners. Demographics will also play a big role. It doesn't make sense for them to target provinces with a low income. To be successful in this small segment they should mainly focus on the Gauteng and Western Cape region.

The Mercedes Benz is a luxury bakkie who is not the leader in 4x4 segment but rather built its reputation on its longstanding branding.



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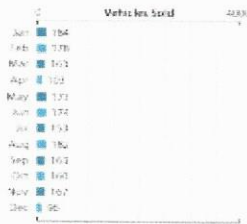
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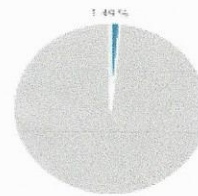
13. Addendum A: Pick-up comparisons in South Africa

10. GWM Steed

We start our list off at position number 10 with the GWM Steed. Though it comes in at 10th spot, its unit sales are miles behind that of our number 1 spot with only 1.49% of total sales in the top 10.

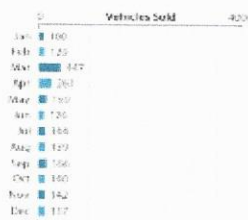
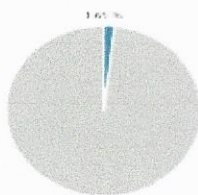


Sales Percentage of Top 10 Bakkies



9. Nissan Navara

Sales Percentage of Top 10 Bakkies

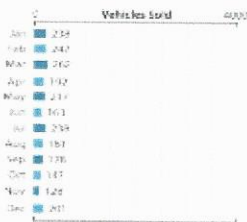


The Nissan Navara comes in at 9th spot. Monthly sales figures were lower than the GWM Steed for the most part, but sales spikes in March and April helped secure its position.

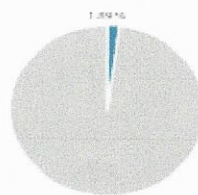


8. Toyota Land Cruiser

While Toyota is one of the most popular brands in South Africa, the Toyota Land Cruiser only comes in a 8th spot. It's popular among miners and farmers working in areas most vehicles have trouble traversing.

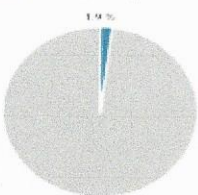


Sales Percentage of Top 10 Bakkies



7. Mahindra Pik-Up

Sales Percentage of Top 10 Bakkies



The Mahindra Pik-Up surprised us with 2018 sales putting it in 7th spot. The Pik-Up isn't the most eye pleasing car to look at and we certainly didn't believe we'd find a Mahindra in the top 10 sales.

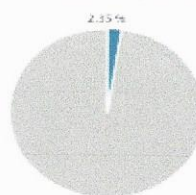


6. Volkswagen Amarok

The Volkswagen Amarok finds itself in a fairly good position at 6th spot. It has a great sense of style and provides enough practicality to make it a great choice in the bakkie segment.

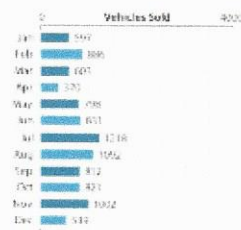
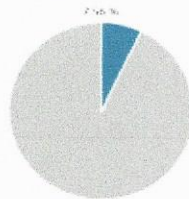


Sales Percentage of Top 10 Bakkies



5. Nissan NP300

Sales Percentage of Top 10 Bakkies

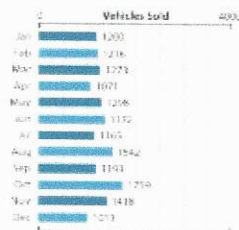


We have the Nissan NP300 at 5th spot where sales figures are starting to show numbers well above those of the bottom 5. The NP300 combines a bit of luxury with practicality to offer a well rounded vehicle for the bakkie segment.

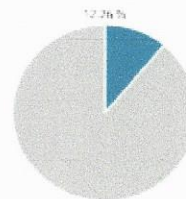


4. Isuzu KB

The Isuzu KB has been a long time favourite in South Africa and is no surprise to be in the top 5. It's gained a reputation as a reliable 'work horse' and has been around since 1988.

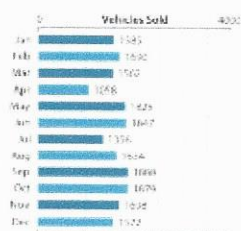
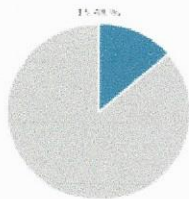


Sales Percentage of Top 10 Bakkies



3. Nissan NP200

Sales Percentage of Top 10 Bakkies

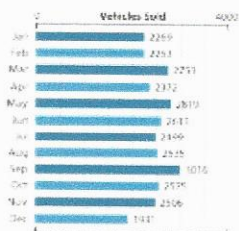


We have another Nissan at 3rd spot. This time it's the NP200 (the NP300's younger sibling) racking up the sales. While it's a far share smaller than the other bakkies on this list, the NP200 does its job.

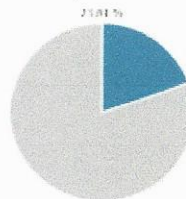


2. Ford Ranger

The second most sold bakkie in South Africa is the Ford Ranger. There's something to be said about American muscle and the Ford Ranger has plenty of it.

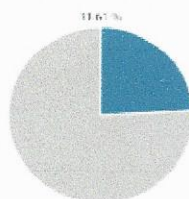


Sales Percentage of Top 10 Bakkies



1. Toyota Hilux

Sales Percentage of Top 10 Bakkies



And at no. 1 we have the 'daddy to 'em', Toyota Hilux. This is no surprise at all. The Hilux has been a favourite for generations and still provides everything you need in a bakkie.



14. Addendum B: Bakkie resale value in percentage (%)

Make & Model	Resale value
Toyota Hilux	72.4
Chevrolet Corsa Utility	71.8
Nissan NP200	67.8
Isuzu KB	67.4
Ford Ranger	66.1
Volkswagen Amarok	65.1
Mazda BT-50	63.8
Nissan Hardbody	58.6
Nissan Navara	57.0
GWM Steed	56.7

15. Addendum C: Top three YTD sales in South

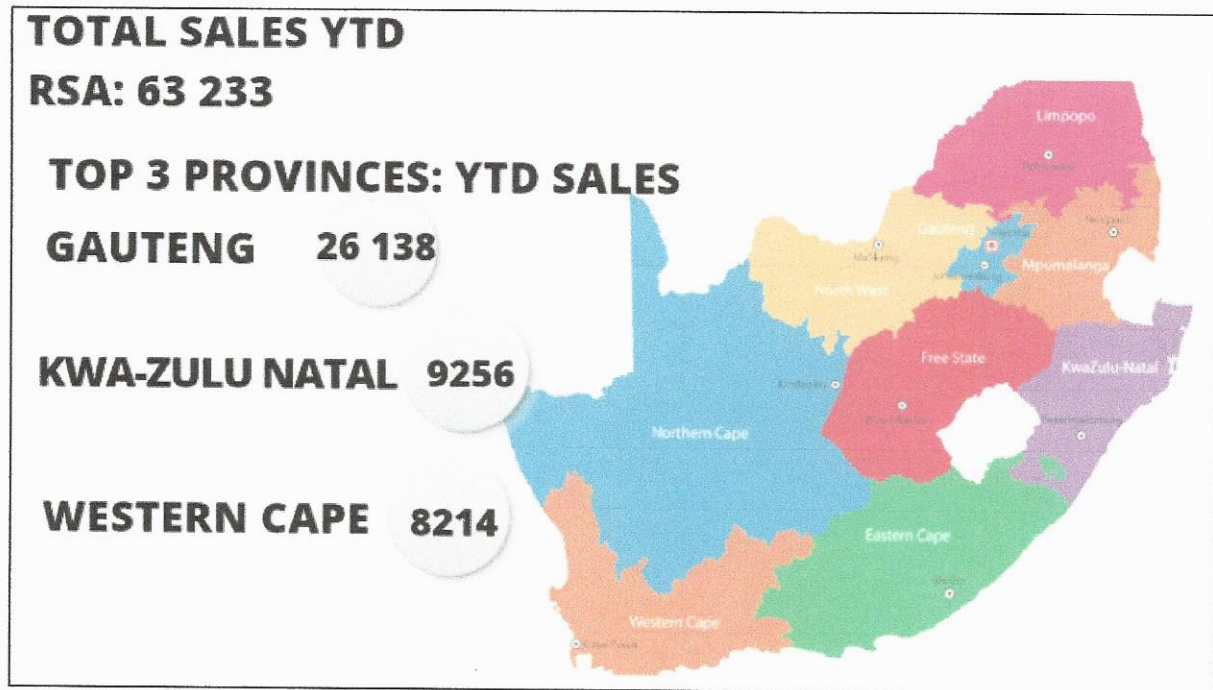


Figure 5: Top three YTD sales in SA

16. Addendum D: Luxurious pick-up trucks.

17. BMW X7 pick-up truck



Figure 7: BMW pick-up

17.1. Mercedes pick-up truck



Figure 6: Mercedes-Benz X-class

17.2. Volkswagen Tarok



Figure 8: Volkswagen Tarok