DaimlerChrysler: Wunderkind or Problem Child?

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Abstract

In November 1998, the international automobile industry changed forever. Daimler-Benz, a German car manufacturer, and Chrysler, an American auto producer, merged together to form one corporation called DaimlerChrysler. Because each individual company was near the top of the industry in its respective country before the merger occurred, many expected that the new corporation would be a strong leader in the vehicle business. Yet, others were less confident because these companies come from different cultures and historical backgrounds. Throughout this research discussion, I will develop a profile of the merger and leave it up to the reader whether DaimlerChrysler is a *Wunderkind* or a problem child.

Historical Antecedents

In this section, the reader will obtain an understanding of the relevant historical antecedents in the merger. More specifically, topics include the birth of the automobile; the automobile history in Germany and the United States; and the history of Daimler-Benz and Chrysler as two separate corporations. As mentioned earlier, it is critical to appreciate the preceding circumstances because a company's history drives what it does in the future.

1. Birth of the Automobile Industry

With a history dating back to the eighteenth century, the automobile industry has been exposed to the extreme volatility and revolution of world markets. Even though the car business has had a difficult road to follow, its invention has forever changed world civilization. The automobile gives people the freedom and mobility to do as they please. In today's society, this sort of transportation is crucial to every-day life for an overwhelming majority of world citizens. At first, however, several individuals were skeptical, preferring the familiar horse-drawn carriages to which they were accustomed. Nevertheless, many welcomed the invention as more efficient and a way to get horse droppings off the streets.[1] Soon after its creation, automobile production skyrocketed. In 1900, less than ten thousand cars were produced worldwide. The figure rose to over forty million by 1980.[2]

How did the automobile get to where it is today? Unfortunately, no one person can actually claim the invention of the automobile because it was experimented with and improved on so many times. Even though the roots lie in Europe, the car first became a popular mode of transportation in the United States.[3]

In 1769, a French military engineer named Nicolas-Joseph Cugnot built the first self-propelled road vehicle that was designed to carry passengers. One year later, Cugnot produced another vehicle, this one for hauling artillery. The vehicles used steam as their propulsion system, but these engines damaged roads and made lots of noise. After nearly a century of worldwide attempts to better the steam car, Jean Joseph Etienne Lenoir patented the first successful internal-combustion engine using gas in 1860. Because this two-stroke engine was inefficient, Gottlieb Daimler and Karl Benz of Germany produced the first four-stroke gasoline engine in quantity in 1885.[4] These engines led to the development of those used in cars today, which marked the true birth of the automobile industry back in the late nineteenth century. A French company, Panhard and Levassor, bought the patent for Daimler's innovation and quickly outlined the standard automobile design.[5] The year 1891 was the beginning of large-scale production for the firm.

Thus, until 1900, Europe led the world in automobile production. After the turn of the century, the United States became the center of the industry with several producers beginning business. Among these start-up corporations were Ford in 1903, General Motors in 1908, and Chevrolet in 1911. Prior to World War I, Henry Ford was the primary first mover. In 1914, Ford created one of the most important processes in producing a car – the assembly line. The introduction of assembly line allowed semiskilled workers to build cars, rather than highly trained professionals. Also, the increased efficiency in making the vehicles led to decreased production times and lower costs for consumers. Before this point, the automobile had been a luxury item that only the rich could afford. For example, the Ford Model T was $825 in 1908 when it was first launched. In 1924, it sold for an all-time low of $290. Annual production of the Model T tripled due to Ford's assembly line creation.[6]

While Ford was prevailing into the 1920s with a 55.7% United States market share, the company had several competitors waiting for it to make a mistake.[7] The mistake came when Henry Ford fired his most competent managers to run the company himself. The event turned the United States automobile industry upside down, leaving General Motors in a position to strike. By 1929, General Motors overtook Ford by holding 32.3% of the market share.[8] The upheaval marked the first time in the United States car history that Ford was not number one and the first time the "Big Two" (General Motors and Ford) had a challenger, that being Chrysler. Chrysler and General Motors, the only two car producers to remain profitable during the 1930s Depression, gained market share quickly, while Ford's future plummeted. In 1940, Ford's portion of the market was a mere 18.9% compared to its 55.7% in 1921. Chrysler held 23.7% of the market in 1940 and General Motors dominated the business with 47.5% market share.[9]

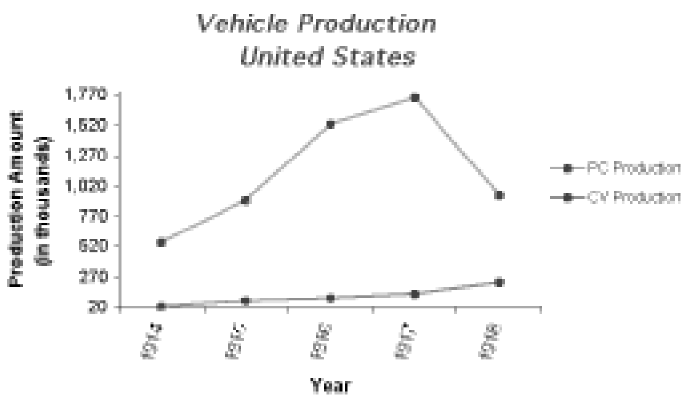
Indeed, the United States automobile industry was dominant in the forefront, but global competition was high with new technology emerging frequently. Substantial car industries were seen in several other countries, including France, Germany, and Japan. Globalization became more and more critical as the years went by, as the automobile industry is one of the most competitive environments in which to do business. Mergers and acquisitions broke geographical boundaries as the decades passed. Among all of the carmakers, Daimler-Benz from Germany and Chrysler from the United States were two that chose to take advantage of international trends by merging in 1998 to form DaimlerChrysler. The thesis will focus primarily on the merger, although a preliminary understanding of each country's auto industry is necessary.

2. Automobile Industry in the United States

The inception of the automobile industry in the United States dates back to the late nineteenth century. In general, the development had an enormous effect on society. Not only did the creation allow a new trade to flourish in the United States, but it also allowed the American steel, rubber, and glass industries to prosper. The invention of the automobile truly made the United States' economy boom. Besides the initial success, the car industry had to deal with several internal and external factors to get to where it is today. What were some general events and trends that caused production to rise or fall during a given time frame?

One of the first incidences transpired in 1914. Besides the invention of the assembly line by Henry Ford, World War I began in August of that year. Surprisingly, the production of passenger cars (PCs) increased by approximately 64% from 1914 to 1915.[10] The rise in commercial vehicles (CVs) is more understandable because military units were being manufactured to use in battle. Given the importance of these two automobile classifications, allow me to clarify the precise definitions. The description of a PC is a motor vehicle "with at least four wheels, used for the transport of passengers, and comprising no more than eight seats in addition to the driver's seat."[11] CVs are larger and include minibuses, heavy trucks, coaches, and buses. The United States saw an increase in production for both vehicle types through 1917. See Graph 1.

GRAPH 1

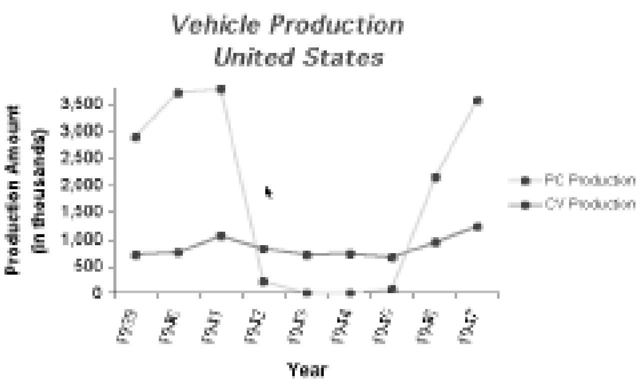


Conversely, PC production declined nearly two-fold in 1918, sinking from 1,746,000 to 943,000. The large decrease occurred only in the PC category, with CVs increasing from 128,000 in 1917 to 227,000 in 1918.[12] The primary cause of the volatility was the Influenza of 1918, deemed "the worst epidemic the United States has ever known." The extremely infectious plague began in military branches and eventually spread to the city killing numerous Americans, including 195,000 in October 1918 alone.[13] The automobile industry was hit hard by this epidemic, as were all other manufacturing markets. No one wanted to leave his/her home for fear of catching the virus. An example is when World War I ended in 1918: citizens went out to the streets and celebrated with facemasks on![14] The increase in CV productivity during this period can be attributed to the military being forced to transport all of its infected members to a more contained environment. Therefore, the production of large vehicles soared to accommodate the spike in demand.

From 1921 through 1923, a near triplication in production occurred in both vehicle categories as a rebound to the influenza outbreak. This began the period called "the roaring twenties" in the United States. During the 1920s, the economy was constantly expanding and contracting, causing minor recessions just about every year.[15] The unequal distribution of wealth and stock market speculation created an unstable economy. One-tenth of a percent of Americans in 1929 controlled 34% of all savings and 80% of Americans had no savings at all.[16] The country prospered, yet the wealth was so erratically distributed that the stock market crashed on October 24, 1929 (a.k.a. “Black Thursday”), leading the United States into the Great Depression. By 1929, the PC production had risen from a mere 1,652,000 ten years earlier to an astounding 4,455,000! Because the crash occurred later in the year, the effects were not indicated in the numbers until 1930, when PC production was down to 2,787,000.[17] During the recession years, automobile production fell by 36% in the United States.[18] The Great Depression covered virtually the entire industrialized world and lasted until the late 1930s when the economy finally began to recover.[19]

The Great Depression was not the only thing that jolted the automobile industry in the 1930s. When World War II began on September 1, 1939, both Germany and the United States were affected. However, the U.S. did not take an economic downturn until late 1941 into 1942 when it entered the war with the Japanese attack on Pearl Harbor. The United States’ production of CVs in 1939 was a 43% increase from the previous year and the figure continued to climb until reaching an all-time high in 1941.[20] The primary cause for these breakthroughs was the production of military vehicles for war. On the other hand, the manufacturing of PCs in the United States declined rapidly after 1941: 3,780,000 in 1941; 223,000 in 1942; and only 100 in 1943![21] World War II had a larger impact on the economy than did the Great Depression. See Graph 2.

GRAPH 2



The aftermath of World War II ensued in large volumes. The PC production in 1945 was only 70,000, but it rebounded thirty-fold all the way to 2,149,000 in 1946.[22] The U.S. continued to see a rising automobile market, regaining strength lost during the war.

It seems as though the early 1960s was a time of great stability. Production was generally constant, only varying from 5,543,000 to 7,752,000 PCs.[23] Even though that seems like a lot, it is the least amount of variation seen since the origin of the American auto industry. Germany, on the other hand, always had very gradual gains or minor losses (a much more steady and less volatile economy). As the reader will see, the United States auto market appears to be more unpredictable compared to the car industry in Germany. The reason for this may be due to the United States holding a much larger share of the industry than Germany. To be more specific, the U.S. held 65.4% of the international market share in 2000, whereas Germany held only 4.9%.[24]

3. Automobile Industry in Germany

Having been home to the first individuals who successfully produced a four-stroke gasoline engine (Gottlieb Daimler and Karl Benz), Germany was once center to the automobile industry. In 1900, Germany was one of the top three car-making countries in the world, along with the United States and France.[25] From this point on, the United States took over the international automobile industry; however, Germany did not vanish. The road that took the country where it is today is just as broken as that of the United States, if not more so.

At the beginning of World War I, Germany's government and military forces were convinced of a short war. Complete militarization of Germany's economy did not occur until 1916 when the Hindenburg Plan was passed. The expanding military monopolized all trading and prices countrywide. The automobile production process was greatly disturbed due to workers being drafted into the war and supplies being scarce. All construction was focused on military vehicles and the war.[26] No data was available on specific production numbers.

The sudden shift to war production in several markets, including the automobile industry, was not the only hindrance to Germany during these times. The loss of foreign presence was extreme. Nearly every foreign subsidiary of German-owned enterprises was taken over by a main competitor in the respective country. Germany lost any momentum it had in the United States, Britain, France, Italy, and Russia.[27] With the removal of German presence in several countries, competitors in non-war nations could then make the move to have a much stronger position after World War I.

When the war finally ended with the Treaty of Versailles, Germany continued to find itself in the hole. The armistice of 1918 stated that Germany was to repay its neighboring countries. One of the worst declarations was for Germany to pay $35 billion in reparations.[28] That figure is unthinkable today, but imagine what it was like in 1921. Overall, World War I was devastating to Germany and its entire economy, as indicated in a quote by James Angell in 1929:

> "The Germany of 1920 was thus very different from the Germany of 1913. She had lost or ceded 13% of her 1913 population, 13% of her European territory, all her colonies, about 15% of her total productive capacity. The whole structure of her industry and commerce had been forced into new channels by the War, and then had been completely disorganized by the cessions under the Treaty…"[29]

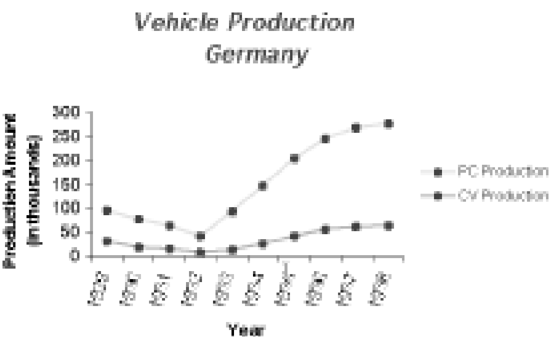
At that point in time, it seemed like the treaty terms were more influential than the actual war. As a result of the war, Germany's economy struggled to regain position. The country's auto market was virtually nonexistent. In 1923, the exchange rate with the dollar was 40,000 Marks to one dollar.[30] By the end of that year, stabilization efforts were being made, namely the introduction of the Rentenmark, a new currency designed to halt the inflationary times. Even though a brief economic recession took place in late 1925, it was the first time since August 1914 that businesses could concentrate on the reorganization that was needed to compete in the postwar environment.

With the calming German economy in the mid-1920s, the automobile industry took off. In 1923, production was a mere 40,000 vehicles, but that number rose to 140,000 cars in 1929.[31] Several foreign competitors entered the strengthening German market: Ford in early 1925; General Motors and Chrysler in mid-1926. Also during 1926, the legendary Daimler-Benz was formed. The company brought great luxury, quality, and engineering to Germany. Even with the presence of firms like Daimler-Benz, American automobile producers still wasted no time at the extraordinary opportunity to enter the market and quickly took over

Germany. Forty percent of cars sold in Germany by 1928 were imports, in addition to all the United States automobiles produced there.[32] Domestic manufacturers in Germany pleaded for a change. The wishes were granted in 1927 with a hefty tariff on foreign cars.

Just when Germany started recovering from the devastating war, the United States entered the 1930s Great Depression. Even though the Depression was limited to the United States, Germany felt the effects due to the increased globalization that had occurred in the previous five years. Trade and foreign production were just two reasons for Germany's automobile production decline from 96,000 PCs in 1929 to 43,000 PCs in 1932.[33] To aid in recuperation, Adolf Hitler encouraged "his automakers to excel in international motor sports and to produce a people's car."[34] The support from Hitler drove the country to enhance its Auto Union racing, as well as to produce the respected Volkswagen. See Graph 3, dictating Germany's decline and recovery in the 1930s.

GRAPH 3



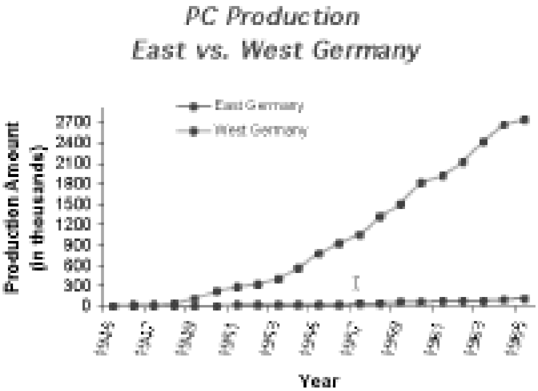
Germany suffered even more than the United States during World War II, having absolutely no output of PCs or CVs from 1939 through 1945.[35] Due to the war, Germany became two separate countries, East and West Germany, being divided by the Berlin Wall until 1989. In spite of losing the combat on May 7, 1945, the German automotive industry gradually regained strength. West Germany enjoyed twenty years of continual growth in the passenger car category from 1946 to 1966, expanding nearly three hundred-fold in twenty years. At this point, there is a minor decrease in production, but it returned to a stable and increasing level in 1968. Even though West Germany was dominant in the industrial sector, East Germany's PC industry progressed continually for thirty years (1948-1978).[36] The only difference is that East Germany's expansion was only sixty-five fold in thirty years, compared to West Germany's three hundred-fold increase in twenty years. See Graph 4 for more details on each side's PC industry.

The recovery from World War II in Europe marked an escalation in global competition. The new Japanese automobile manufacturers began to enter the international market, causing leading firms in the United States and Germany to invest in developing new products and in initiating new management styles.[37] In the late 1950s, Germany's exports into the United States increased dramatically, especially that of the Volkswagen Beetle.[38] Germany's presence in several foreign markets was felt. The period after World War II truly marked a time of increased competition and great prosperity for the automobile industries in both Germany and the United States.

4. Chrysler

Walter Chrysler, the Production Manager at Buick in 1912, played a large role in the formation of Chrysler Corporation. To demonstrate how influential and dedicated he was, I

GRAPH 4



quote the DaimlerChrysler website: "[he] builds his own special tools because '[a] good mechanic should never trust a tool that he didn't put together and harden himself.'" Chrysler became the Chairman of Maxwell Motor Company in 1921 and eventually renamed the firm Chrysler Corporation in 1925. The company had 3,800 dealers in America during that year. In 1926, Chrysler became the fifth largest American automaker, moving up from twenty-seventh place just the year before. Chrysler acquired Dodge Brothers, Inc. in 1928 and was placed in the Big Three (the top three leading American car producers) with General Motors and Ford in 1929.[39]

By 1938, Chrysler's auto production consisted of one quarter of all U.S. cars made. The company ceased civilian production in 1942 in favor of war manufacturing, which comprised 500,000 Dodge trucks for military use. It was not until 1958 that Chrysler made its first attempt at globalization by purchasing the French car firm Simca and selling the foreign autos in the United States. However, Chrysler had plants and/or offices in the following countries dating back to as early as 1925: Canada, Mexico, and Argentina. Several more expansions took place over the next couple of decades, including Japan in 1970 and Singapore in 1997.[40]

Nevertheless, Chrysler's history has not always been that rosy. The late 1970s saw a downturn in the economy, an increase in gas prices, and an increase in interest rates. Chrysler had just introduced a new high-powered muscle car (a gas guzzler), which meant bad news for the firm since gas prices were climbing. A well-respected businessman named Lee Iacocca saved Chrysler.

Lee Iacocca invested his entire adult life at Ford, engineering the ever-popular Mustang. After working for Ford in upper management for several years directly under Henry Ford, "the Father of the Mustang" was slowly pushed down the ladder to the number four slot when he was finally fired in 1978. Ford claimed that he simply did not like Iacocca, despite Iacocca's proven success record.[41] Chrysler took advantage of this opportunity, offering Iacocca the Chrysler Presidency. In spite of the company's problems, Iacocca accepted the job under the assumption he could turn Chrysler around within one year. Little did he know that the day of his hiring at Chrysler, the company would announce its worst loss ever of $160 million in the third quarter. Substantial car sales transpired throughout the industry in 1978, except for Chrysler who fell to a deep third in the Big Three. The company went from having 12.2% of the American market share to 11.1% in just one year. Iacocca knew something had to be done.[42]

Lee Iacocca made it through the company's worst deficit ever and the economic recession by requesting government aid and forming unity among upper level management. He argued to the U.S. government that the collapse of Chrysler would cost $2.75 billion in unemployment benefits in the first year alone.[43] National unemployment would also increase, sending many workers abroad to serve the American demand for small cars. Several individuals thought that loans were "not right," that it was supposed to be survival of the fittest, even though government loans were common. In the end, the argument won Chrysler a $1.2 billion federal loan, which was paid back seven years earlier than the due date. Iacocca also cut his salary to $1 per year in order to save Chrysler.[44]

Among Iacocca's other large accomplishments at Chrysler were pioneering an entirely new market in that of the minivan in 1984 (i.e. Dodge Caravan) and engineering the acquisition of American Motors in 1987. He retired in 1992 and denies wanting to return. However, he continues to heavily influence the company's future.[45]

The years spanning from 1985-1991 included many considerable corporate decisions. Chrysler began by entering a joint venture with Mitsubishi Motors of Japan in 1985. Next, it acquired American Motors Corporation (AMC) for $800 million in 1987 (AMC was the fourth largest American automaker). Chrysler entered another joint venture with General Motors in 1989, establishing the first joint venture between two American auto companies. In 1991, the firm decided to sell all of its holdings in Mitsubishi Motors.[46]

Chrysler's sales increased 14% from 1992 to 1993. Five years later, the company retained a United States car market share of 14.9%, which led them into "the merger of equals" with Daimler-Benz in 1998.

5. Daimler-Benz

Unknown to some individuals, Daimler-Benz has not always been Daimler-Benz. The company used to be two separate firms called Benz & Company and Daimler Motor Company. Karl Benz founded Benz & Company in 1883. Two years later, Gottlieb Daimler registered the first ever motorcycle and soon after that, in 1888, he founded Daimler Motor Company. The invention of the four-stroke gasoline engine is accredited primarily to Karl Benz. Benz created the part just three years after the establishment of his company. Benz & Company sold 603 automobiles in 1900, 341 of them abroad, making the corporation the world's largest car manufacturer.[47] Therefore, Germany was already seeing competition between two major firms, with the creation of cars and motorcycles by two separate companies.

On the Daimler Motor Company side, there were numerous plants being built in order to expand in the early 1900s. In 1920, Daimler tripled its capital share in eight months to one million marks, allowing it to be deemed one of Germany's largest enterprises.

As two of the largest auto manufacturers in Germany, Daimler Motor Company and Benz & Company decided to merge together in 1926, forming Daimler-Benz AG. The new corporation came out with different vehicle makes and types every couple of years. Daimler-Benz has always been known for its superlative quality, even in the company's early stages. Quantity has never been an issue, as the quality distinguishes Daimler-Benz cars from the competition. Throughout the Daimler-Benz history section on DaimlerChrysler's homepage, winning auto races is not uncommon – e.g. winning the Indianapolis Grand Prix in 1915 and being the Formula 1 Champion in 1954.[48] Those are just two examples of how Daimler-Benz quality has allowed its cars to perform up to consumer standards.

Other than quality, one of Daimler-Benz's most distinctive characteristics was its involvement in World War II. Neil Gregor wrote one of the best books ever printed on the subject (*Daimler-Benz in the Third Reich*). Gregor conducted extensive research in the Mercedes archive and bases the book primarily on personal papers of the firm's Board of Management leaders during the Nazi years. The author's viewpoint is that Daimler-Benz was pursuing its own corporate self-interest during these times. The company originally wanted to reduce the number of vehicles made for the armed forces, but found the need to increase military production after struggling to sell passenger cars. Daimler-Benz was unwilling to build additional plants to compensate for this new business, so instead it invested in slave labor. I quote a book review written by Alfred Mierzejewski:

> "…Daimler-Benz used slave labor only to survive in the short-term. It could rid itself of these laborers easily after the war, and it could use them to produce military aircraft engines and other war related products while conserving its skilled German workforce, concentrated in its plants in western Germany, for the resumption of peacetime production."[49]

The increased fabrication only drove the workers harder, leading to the exploitation of employees. Daimler-Benz, at one time, even requested more foreign slaves from the government. The quote seems to be very degrading to the slaves, basically stating that they were not quality workers because they were Jews.

The use of slave labor in the early 1940s still haunts Daimler-Benz today (now DaimlerChrysler). Various individuals, including Holocaust survivors, have demanded that German firms reimburse them for the wartime activities. Daimler-Benz, which used the workers to produce airplane engines, was not the only company involved in the scheme. BASF, for example, used slave labor to make the deadly Zyklon B gas that killed numerous Jews in concentration camps.[50] Daimler-Benz, along with other firms including BASF, acknowledges its involvement in the events and has a compensation fund in place. Daimler-Benz has given $12 million to humanitarian funds since the 1980s. "The company deeply regrets the suffering under the slave labor system ... and wishes to alleviate as much pain as possible."[51]

During World War II, a critical turning point in Daimler-Benz's history occurred. In 1944, an explosion of about 20,000 incendiary bombs destroyed approximately 80% of the buildings and more than 50% of the machinery at a large Mercedes plant in Sindelfingen (southern Germany).[52] After such devastation, over 1,200 employees still had the drive and ambition to rebuild the Sindelfingen plant. The effort displays how well Daimler-Benz managed its employees.

It was not until January of 1952 that Daimler-Benz entered the North American car market. Up to this point, the company was strictly located throughout Europe and Argentina. Over the next thirty years, expansion into Brazil, Indonesia, and Turkey occurred.

Just after the celebration of one hundred years of the automobile, Daimler-Benz conducted a corporate restructuring that placed it as a managing and holding company for three other firms. These new firms man other services than the automobile sector, including financial and aerospace. By October 5, 1993, Daimler-Benz had shares on the Stuttgart, London, Tokyo, and New York Stock Exchanges.[53] The quality-focused corporation expanded greatly in the early to mid-1990s and prospered, leading it into the unification with Chrysler in 1998.

The Merger

In this section, an in-depth discussion of the DaimlerChrysler merger begins. Key aspects of the partnership are evaluated, namely strategy, structure, and culture. This allows the reader to begin formulating his/her opinion about the future of DaimlerChrysler. Given the specifics of the merger development and immediate implementation, a theoretical analysis will begin, referring to research conducted by Mercer Management Consulting of England regarding the challenges of mergers and acquisitions. The advantages and disadvantages associated with the merger will therefore be highlighted, including the current plans to overcome present challenges.

6. The Merger and its Rationale

In the late 1990s, Daimler-Benz of Germany and Chrysler of the United States merged to form one legal entity, DaimlerChrysler. Entering the unification, the German automaker had a very profitable year, increasing its net income almost three-fold from $1.6 billion in 1996 to $4.5 billion in 1997. Chrysler was just the opposite, having sunk 20% in the same time period from $3.5 billion to $2.8 billion.[54]

Even though the companies seemed to be on two separate levels, Daimler-Benz and Chrysler began formal negotiations on January 12, 1998. Juergen E. Schrempp, the Chairman of the Daimler-Benz Board of Management, visited the Chairman and Chief Executive Officer of Chrysler, Robert J. Eaton, on this day to discuss the possibility of a merger. Five months later, the agreement was announced worldwide as a "merger of equals." Shareholders of each corporation were allowed to vote on what they thought of the strategic business move. Approval ratings skyrocketed with 99.9% of Daimler-Benz shareholders in accord and 97.5% of Chrysler shareholders in favor. The DaimlerChrysler merger transaction took eleven months to be official, but was finally declared complete on November 12, 1998.[55] The cost: $36 billion! The company is registered in Germany and maintains group headquarters in Stuttgart, Germany and Auburn Hills, Michigan. Schrempp and Eaton were co-chairmen until Eaton retired in April 2000.

Throughout the beginning stages of the ordeal, the unification was quoted as "a merger of equals." This phrase came up in every article and interview during the times of integration. It wasn't until March 1999 that a U.S.-based executive stated that it should never have been called a merger of equals.[56] Juergen Schrempp confirmed that statement in October 2000 when he confessed that his intention was for Chrysler to become a subsidiary to Daimler-Benz and answer to Stuttgart, simply renaming the corporation.

Shockingly, over two years after the unification, Schrempp admitted to blowing smoke in Chrysler's eyes: "We had to go a round-about way, but it had to be done for psychological reasons. If I had gone and said Chrysler would be a division, everybody on their side would have said: 'There is no way we'll do a deal.' But it's precisely what I wanted to do."[57] Once the Chairman of the DaimlerChrysler Board of Management patently professed to openly deceiving 125,000 new employees, what else could he have done to stir up the already shaken merger?

Complicating the fragile fusion, Kirk Kerkorian, representing Tracinda Corporation based in Las Vegas, filed a $9 billion lawsuit against DaimlerChrysler on November 28, 2000. Kerkorian claimed that the new corporation had deceived all of its stakeholders and the Securities and Exchange Commission when it called the fusion a "merger of equals." Being the third largest proprietor of DaimlerChrysler stock and largest Chrysler shareholder before the merger with 13.75% of the shares outstanding, Kerkorian had reason to be upset, stating he never would have voted in favor of the merger if he had known that Daimler-Benz's intent was to reduce Chrysler to a mere division and fire all of Chrysler's top management.[58] In January 2001, the billionaire sold ten million shares, cutting his stake in the firm by a third.

Given this information, one may wonder why these two automakers decided to unite in the first place. Globalization and expansion were two of the predominant reasons, as both are leading criteria in retaining a successful business in the new millennium. The merger gave Chrysler its initial entry into the European market and Daimler-Benz greater expansion into the United States. Even though that is not total globalization, the firm's ultimate goal is to enter the Asian and Latin American markets.[59]

Expansion occurred specifically in product offerings and geographic markets. Since Daimler-Benz and Chrysler had no overlap in product lines, the merger was thought to produce a truly well rounded international corporation. Nearly every market niche in the automobile industry was covered by at least one DaimlerChrysler vehicle, allowing the new corporation to be very competitive.

In addition, Chrysler's shareholders were at the peak of the company life cycle. Self-expansion would have cost huge sums for overseas operations; therefore, it was simply cheaper and quicker to merge with Daimler-Benz. Chrysler's great success in the early 1990s made them think "they could walk on water" when, in fact, the achievements only put the company in debt by renovating plants and buying new equipment. United Auto Workers (UAW) President Steve Yokich was quoted as saying, "…without Daimler, I don't think there would be a Chrysler."[60]

Undoubtedly, each individual company had something to gain by uniting. Chrysler wanted the quality that Mercedes portrays and Daimler-Benz wanted the cost-reducing programs that Chrysler possesses. Daimler-Benz admitted to needing more suppliers in its development process to reduce costs.[61] To sum it up in one sentence, "Chrysler has creative styling and low development costs," and "Daimler is an engineering company with high development costs."[62] It seemed to be a perfect fit.

Seen from that vantage point, the "merger of equals" appears very beneficial for all parties involved. However, many individuals do not believe that DaimlerChrysler will survive the unification. As Maryann Keller, a managing director of a New York brokerage firm, stated: "The success of any combination depends on the ability of the new organization to win over the hearts and minds of employees."[63] DaimlerChrysler made numerous management adjustments and confronted several other challenges, which lead many to believe this was not a *merger* of Daimler-Benz and Chrysler, but a *takeover* of Chrysler by Daimler-Benz.

7. A Theoretical Perspective

It is no surprise to England's Mercer Management Consulting that DaimlerChrysler was having initial problems in putting together the pieces of an already shaky marriage, even though Mercer was not the communication consultant for the DaimlerChrysler unification. In a study conducted by Mercer regarding the challenges of mergers and acquisitions, 48% of mergers under-performed their industry after three years.[64] With the poor chances of entering a successful merger right away, Mercer Management Consulting formulated nine factors in the failure of most fusions. Briefly, they are:

1. Too much attention is given to short-term issues, such as "sealing the deal," to the detriment of long-term corporate identity.
2. Leadership issues are not properly recognized. Management structures are more important than a clash of management personalities.
3. Typically there is a failure to obtain the goodwill of a range of stakeholder groups common to both companies.

4. Dangers in seeking new brand names take place, resulting in the loss of brand equity.
5. Communications departments have difficulty because they are unable to unite until the merger is complete.
6. Dominant players pay little attention to cultural issues, therefore leaving others to fear losing their distinct corporate identity.
7. Recognition is not given to the conflict between individual and corporate goals, meaning it is hard for employees to focus if they are worried about the security of their positions.
8. Communications consultants are brought in too late in the process
9. Reputations can be damaged – organizations and/or key individuals.[65]

That being said, Mercer Management Consulting gives four main solutions to solve the merger problems:

1. Identify the key stakeholder groups and track their reactions throughout the entire merger process.
2. Build on the strengths of each company.
3. Install effective corporate communication by monitoring reactions and identifying potentially damaging situations.
4. Evaluate the financial benefits and drawbacks of the merger.[66]

While analyzing these problems and solutions to merger madness, several similarities can be seen with the DaimlerChrysler unification. Of the nine troubles listed, over half are pertinent to the DaimlerChrysler merger, whether the firm overcame the predicted problem or whether the firm failed to recognize the issue beforehand. These advantages and disadvantages to the merger are discussed next.

8. Advantages and Disadvantages

One of the best decisions made by DaimlerChrysler executives was to not seek new brand names or logos in the automobiles it produces. The reason for this verdict lies in preserving brand equity – the new corporation fully realizes the importance of maintaining the image of already established brands. The only issue that the company has to deal with regarding brand equity is that of sharing quality Mercedes parts with Chrysler. As Chrysler has long been known to produce lower quality vehicles, it is crucial for DaimlerChrysler to transfer some of Mercedes' excellent engineering to the weaker firm. The concern of losing brand equity does arise here though, as Mercedes customers are willing to pay the extra money for a unique product. Therefore, management must be very careful in maintaining the esteemed image of Mercedes. Losing the correlation of quality with Mercedes would be devastating to the entire DaimlerChrysler corporation.

In addition to excelling in retaining brand equity, DaimlerChrysler also sought the goodwill of a range of stakeholder groups. As stated earlier, stockholders of each individual company overwhelmingly approved the fusion. Approval ratings were as follows: 99.9% at Daimler-Benz and 97.5% at Chrysler. Even though stockholders were excited about the international merger, there was one stakeholder in particular that was not content. After originally favoring the merger, Kirk Kerkorian filed a lawsuit against DaimlerChrysler for falsifying the terms of the fusion as a "merger of equals." While Kerkorian is only one stakeholder in the firm, he is a large one as the third largest proprietor of the new firm's stock. As seen by Kerkorian's reactions to the union, there were certain stakeholders that were upset with the strategic business move, but his is the most well known from the extensive media attention. A more thorough discussion of the merger's effect on various stakeholders can be found in Chapter 10.

Besides failing to inform all stakeholders accurately about the terms of the merger, DaimlerChrysler also ran into problems with corporate structure, tipping upper level management in the hands of German replacements versus equal representation of American counterparts. The unequal portrayal arose when Juergen Schrempp took drastic action in replacing important upper level American executives with German ones. Schrempp claimed that he was positioning the company as a global player for the long haul.

The upheaval began on December 31, 1999 when the respected President of Chrysler, Thomas Stallkamp, retired due to the company's top management shake-up. Stallkamp was actually dedicated to the merger, attending German classes and monitoring possible synergies within the organization.[67] Although James Holden, another top executive at Chrysler, was Stallkamp's honored surrogate, his tenure was short-lived. DaimlerChrysler's Supervisory Board ousted Holden not even a year later in November 2000 because "the dynamically changing market situation in the United States [made] it necessary for a new management team."[68] German Dieter Zetsche replaced Holden as President of Chrysler, and Wolfgang Bernhard of Germany was appointed as Chief Operating Officer at Chrysler on the same day. These decisions were made and put into effect immediately on a Friday in November. That following Monday, Zetsche and Bernhard's first day on the new job, three more top executives within the firm were forced to resign, putting Germans solidly in charge of Chrysler. The reasoning behind these actions was that "DaimlerChrysler [was] committed to turning around Chrysler, which lost $512 million in the third quarter."[69]

German over-representation is also apparent in the board structure. Currently, DaimlerChrysler has two boards – the Board of Management and the Supervisory Board. The Board of Management consists of twelve people, including Chairman Juergen Schrempp, and heads all of the operating and functional divisions. The Supervisory Board (Aufsichtsrat) is made up of ten shareholders representatives and ten employees representatives. This group appoints the Board of Management and approves all major company decisions, including the firing of executive management. Of these twenty individuals, thirteen are from Germany and only five are from the United States. All of the above gives reason to question whether this fusion really was a merger of equals or a takeover of Chrysler by Daimler-Benz.

Not only was corporate structure a concern for DaimlerChrysler. Dissonance arose with the variance in corporate and national cultures was as well. At the corporate level, DaimlerChrysler faced three primary culture clashes: outsourcing, executive salaries, and corporate governance. To begin with, the amount of suppliers that Daimler-Benz and Chrysler employ as separate firms is vastly dissimilar. Chrysler utilizes several sources, while Daimler-Benz only uses a handful of close suppliers. "The door may open for Chrysler's many suppliers to join that exclusive club."[70]

Furthermore, Chrysler executives receive larger salaries and bonuses than do Daimler-Benz executives, making for an interesting situation. Juergen Schrempp earned $11 million in 1998 and his United States equivalent, Robert Eaton, earned $69.9 million.[71] The worry here was that Schrempp's compensation would have to meet Eaton's, in which case the shareholders felt it might be too expensive. Chrysler cannot decrease its salaries or bonuses because it would lose its best managers to other companies willing to pay the higher rate. However, DaimlerChrysler cannot pay executives in Detroit differently than executives performing the same job in Stuttgart. Therefore, this merger may be good news to high-ranking officials at Daimler-Benz.[72]

In addition, the concept of corporate governance differs from country to country. Corporate governance can be described as the way a corporation governs its employees. One way is called codetermination, where employees and managers are treated equally and are given equal voting rights. In the United States, codetermination is nonexistent. Unions are exercised in order to provide a more equal playing field for employees, yet U.S. firms typically have unbalanced grounds with most power and dominance leaning towards management. It can be said that unions simply do not have "teeth" when fighting their battles for egalitarianism. The unionization model looks good on paper in the United States, but in practice, it usually lacks precision. The struggle between management and unions fighting for uniform representation is recognized nationwide.

Conversely, codetermination in Germany is prevalent. Germany retains a more equal depiction of workers and supervisors. Their labor practice is such that unions have much more power. Employees are well represented, as can be seen in DaimlerChrysler's Supervisory Board. As stated earlier, the board consists of ten shareholders representatives and ten employees representatives.[73] Equal portrayal is not the only key here though. This specific group of individuals actually appoints the Board of Management and approves all major company decisions, including the firing of executive management. With employees occupying this kind of power in Germany, the disproportionate playing field in the United States is greatly enhanced.

Not only does DaimlerChrysler need to cope with different corporate cultures, but the firm also needs to be concerned with national cultures. "In any merger, issues may arise as a result of different styles or corporate cultures. But, these issues have been worked out, and will be worked out in the future, because they are not the result of personalities or national differences."[74] Thomas Stallkamp, the former President of Chrysler, was quoted as writing this statement in an e-mail. The e-mail was directed toward employees just months before his retirement, mainly addressing his fear that his departure might have been seen as a blockade between the German and American sides of the company.

Because German business procedures are typically quite diverse from the United States, DaimlerChrysler executives need to cope with the dissimilar personalities. Generalizing what would otherwise be national stereotypes, Germans are structured, hierarchical, and disciplined.[75] One may tend to envision a conventional German military leader, possessing a need for rule and order within the organization. Charlie Jerabek, Executive Vice President and General Manager at Osram Sylvania, remarked after his German-American merger, "Don't misinterpret their [German] desire for structure as something they just put in the way." Their traditional top-down management style reveals the importance of decision-making at the executive level.

Companies in the United States, on the other hand, are nationally viewed as unrestrictive, relatively informal, and success-driven. The open culture gives Americans a creative spirit, specifically within Chrysler.[76] A major difference between American and German firms lies in the corporate decision-making policies. Decision-making in the United States is generally very fast and "lean" as Juergen Schrempp put it, contrasted with the Germanic detailed and emotional route.

With these two very different corporate and national cultures, one can see how problems could arise at DaimlerChrysler. Specifically, the American firm must be a bit overcome right now, feeling a sense of corporate identity loss. Once Juergen Schrempp admitted to deceiving

Chrysler by claiming it was a "merger of equals" and began replacing several American executives with German ones, Chrysler must have felt a little humiliated. Even though honesty and directness are welcomed and encouraged in Germany, several Americans do not appreciate such boldness. Many are not used to having things "put in his/her face" like Schrempp did. Certainly the American half of the merger has taken a hit at its corporate image.

Consequently, reputations have certainly been damaged during the process. With Chrysler being "taken over" (per se) by Daimler-Benz, many Americans have a feeling of betrayal towards the company – "How could you let Daimler-Benz make you a mere subsidiary?" It is not surprising then that U.S. citizens may feel that another "Iacocca save" would have been better than being lowered to divisional status. Even though Chrysler was blindfolded, the *merger* still belittles the United States and its citizens.

Furthermore, Juergen Schrempp's name was damaged due to his lack of compassion, boldness, and deceptive ways – at least in several Americans' eyes he is viewed that way. Whether Schrempp himself or his fellow Germans realize the extent to which he criticized Chrysler and the United States, remains to be seen.

Summarizing the nine factors in merger failures, DaimlerChrysler experienced over half of the prelisted reasons given by Mercer Management Consulting. It is no wonder that DaimlerChrysler had been riding on a road with potholes. One has to wonder from here what the positives in the new relationship are, or what the solutions to these given problems are. As far as the four resolutions listed by the European consulting company to solve the merger madness, building on the strengths of each individual company is the most imperative. The rewards Daimler-Benz and Chrysler have to offer each other are actually endless.

Without doubt, Daimler-Benz's primary asset is the quality, safety, and nameplate of Mercedes. Since Chrysler is known for less excellence, "an injection of Mercedes quality could save Chrysler billions of dollars in warranty costs, and boost the image of all Chrysler brands."[77] The perception continues to lack an improvement in value, but Chrysler has recently won the Best Pick from Consumer's Choice and the Institute of Highway Safety Award.[78] Also, the safety features already installed in Mercedes could be implanted into a Chrysler vehicle, such as Siemens' Baby Smart child seat detector.

Other than the quality of Mercedes, Daimler-Benz also brought engineering excellence to the merger, yet high development costs are associated with the technology. Lucky for the German firm, Chrysler is identified with low development costs. Costs are able to remain low because Chrysler outsources from so many suppliers.

Consequently, Daimler-Benz reaps the benefit of large cost savings as a result of the merger. Two primary programs are currently in place, both of which stem from Chrysler. The first program is called Supplier Cost Reduction Effort (SCORE). Daimler-Benz also had a program, Tandem, but it was not as generous as Chrysler's arrangement. SCORE offers financial rewards to suppliers "for reducing the cost of mature products."[79] The cost savings to suppliers in 1999 was $2.3 billion and in 2000 it was a predicted $2.4 billion, leaving Daimler-Benz vendors salivating at the opportunity to join Chrysler's SCORE program.[80] Many people say, "Since you saved so much the past couple of years, don't you think it is over?" Tom Sidlik, a North American purchasing executive, states the answer is no because of the worldwide web. The Internet, he believes, results in lower costs and higher profits for everyone involved, especially for suppliers since DaimlerChrysler outsources 70% of its components. Sidlik claims, "We [DaimlerChrysler] actually have suppliers defacto giving us free parts, because their SCORE savings are more than their sales to us."[81]

The Five Star Program is Chrysler's other large incentive program. It "rewards dealers who adhere to Chrysler's standards by giving them special recognition on dealer signage and sharing some marketing costs."[82] The Five Star Program, which earns 75% of the company's sales, began on a rough spot with many dealers claiming that Chrysler was trying to run their businesses. The program allows the carmaker and dealer to work closer, even though the standards are set a bit high. Financing, scheduling service, and loaning cars are all easier to do with the plan. Fifty-two percent of Chrysler dealers were certified with the program as of August 2001.[83]

As far as Chrysler's attributes, the firm brought excellence in product innovation and design capability to the merger. In an interview, George Murphy, an executive with DaimlerChrysler, claimed that "Chrysler makes designs you fall in love with."[84] He stated in the same session that people who purchased the PT Cruiser were probably sleeping with it at night. Being the leader in innovative design, Chrysler has the ability to react quickly and put products on the market with great speed.[85] The corporation also has the capability to redefine markets, as it accomplished in 1984 by creating the Dodge Caravan. Comparable in some respects to Mercedes, Chrysler has the Jeep positioned as one of the world's most distinguishable brands.

Chrysler's creative styling has most recently been seen in the popular PT Cruiser, which continues to be sold out, according to George Murphy. What made the automobile so appealing was the "metal icons of a bygone era" – in other words, nostalgia.[86] The next step for DaimlerChrysler's United States unit is to build upon the hit success, rather than imitate it.

In sum, the rewards both companies have to offer each other are substantial. The quality that Daimler-Benz brought to the merger improves Chrysler's less than stellar performance and, in turn, decreases warranty costs for the firm. Yet, the topic of cost savings is significant for both corporations. Daimler-Benz reaps the benefit of large cost savings due to Chrysler's large number of suppliers and its exceptional programs. Building on these strengths is how Mercer Management Consulting suggested to improve the shaky merger, but what is DaimlerChrysler doing to enhance the probability of success?

Current Plans and Strategies

What exactly is DaimlerChrysler doing in order to make this merger a more positive one? It is obvious that something needs to be done since the company is worth less than Daimler-Benz alone was worth before the merger.[87] There are several measures being taken by DaimlerChrysler's top management to ensure a more lucrative outcome, some of which are brand equity-related and some of which are personnel-related.

As far as brand equity is concerned, Juergen Schrempp intends to have all brands share commodity parts, such as engine blocks and batteries. A plan to make a new four-cylinder gasoline engine for all Chrysler, Jeep, Dodge, and Mitsubishi cars was easily approved. By doing this, quality will be maximized in all cars and engineering costs will be cut by using more effective and efficient parts. With the Asian and European markets launching various new models aimed at Chrysler SUVs and minivans, sharing parts will be crucial to DaimlerChrysler's success against the rising competition. It is good to hear now that Mercedes has stopped growling at the idea of sharing its premium systems with the "lowly Chrysler automobiles." Cooperation has begun.[88]

Nevertheless, the challenge for management is to weigh the benefits of sharing against the potential detriments to Mercedes' image. Juergen Hubbert, the head of Mercedes in Stuttgart, commented in a November 12, 2001 *Business Week* article: "One million Mercedes customers a year are willing to pay a premium for something that is better than what the competition is delivering. We have to be very careful to make sure they feel what they're getting for their money is unique."[89] The Mercedes role in DaimlerChrysler's success is extremely substantial, contributing $2.1 billion in earnings during the first three quarters of 2001. Yet during the same time frame, Chrysler lost nearly that much, but sold almost two times as many vehicles.[90] In this case, Chrysler's lack of profitability reduced the advantages that Mercedes brought to the merger.

On the personnel side of the equation, Thomas Stallkamp, the former President of Chrysler, threw himself into the experience by taking German language classes. English classes were also held in Germany. Stallkamp learned how to make the long plane flight to Germany without jet lag, conducting a full days' business there, and returning to Detroit the same day.[91] After all the effort, Stallkamp retired at the end of 1999. This move was only the precursor to an even larger management upheaval in November 2000 where Germans Dieter Zetsche and Wolfgang Bernhard replaced American executives at Chrysler in order to increase revenue, cut costs, and "save Chrysler."

Three months later in February 2001, Juergen Schrempp, CEO of DaimlerChrysler, went in search for global marketing talent. George Murphy, former General Marketing Manager of a Ford Division, and Jim Schroer from Ford were hired to reestablish DaimlerChrysler as an "aspirational carmaker."[92] Murphy's duties were strictly related to giving all DaimlerChrysler brands a new life consistent with current company values. His qualifications included spending much time communicating with customers at Ford to learn what *they* wanted in a car and building strong franchises with General Electric in Asia and Europe. Murphy's beliefs lie in emotional value and brand loyalty, which can be achieved by producing great products, servicing the customer, and communicating with the consumer on a regular basis. Therefore, in his first few months on the job at DaimlerChrysler, Murphy made strong efforts to combine quality and emotion into the production of DaimlerChrysler automobiles.[93]

DaimlerChrysler top management hired more than just George Murphy and Jim Schroer in the firm's efforts to increase marketing. During the same time period in 2001, Dieter Zetsche "recruited a slew of executives from Ford, Toyota, and General Motors to improve Chrysler's quality and sharpen its dull brand images."[94] The new management is all part of DaimlerChrysler's attempt to save the merger, per se.

Other than the personnel expansion, Zetsche and Schrempp also made a three-year plan in February 2001 that included cutting 20% of the work force by 2003, reducing the cost of parts by 15%, and closing six plants. The majority of these items have already been implemented as of November 12, 2001, but it may not be enough, as Schrempp mentioned "…we might have to idle additional plants for two or three weeks…"[95]

By Spring 2001, cost cuts were ahead of the targeted quantity by a significant amount. However, Chrysler lost $125 million in the second quarter alone and promised to lose at least $2 billion all together in 2001, which actually is good news for the corporation – an improvement over previous quarters.[96] Through the first three quarters in 2001, Chrysler had already lost $1.7 billion.[97] These problems have been reoccurring for the American auto producer. The company lost $1.8 billion and went through $5 billion in cash during the second half of 2000.

At one point, Chrysler was spending up to $3,000 per vehicle on incentives in order to boost sales. Chief Operating Officer Wolfgang Bernhard executed the large cost cuts mentioned above. Suppliers were told to reduce prices by 5% immediately – 90% of

DaimlerChrysler's vendors agreed. Bernhard commented on the holdouts: "If they won't go along, they won't be our partners in the future."[98] With this, he projected cost savings to be $900 million for 2001, which amounted to approximately $300 per car. More specifically, $4 million in savings stemmed from simplifying the wiring in the Dodge Ram taillights. Chrysler saved $100,000 by merely changing the design of the vapor tube on the PT Cruiser. Chrysler was, therefore, able to spend $600 less building each PT Cruiser in the end, which added up to an extra $180 million in profits.[99]

Meanwhile, Juergen Schrempp has his own strategic plans to implement. Schrempp joins in Zetsche's plans to let go 20% of the work force and to decrease costs of outsourced materials by 15%. The remaining suppliers holding out on decreasing costs by 5% are being worked on to possibly complete DaimlerChrysler's first stage in recovery. Besides those commonalities between the two men, Schrempp has other goals set for operating profits in the near future. Investors are very skeptical, mainly because DaimlerChrysler's net profit was nearly halved by Chrysler's problems in 2000. The goals are as follows for DaimlerChrysler's operating profit:

2001: Euro 1.2 billion – Euro 1.7 billion
2002: Euro 5.5 billion – Euro 6.5 billion
2003: Euro 8.5 billion – Euro 9.5 billion[100]

As seen in the above data, Schrempp is very optimistic about the future of DaimlerChrysler, showing an estimated increase in revenues of nearly eight-fold over three years. The 2002 target assumes Chrysler will merely break even and the recession clouds in Europe do not thicken too much.[101] The events of September 11th have muddied the waters even more. Schrempp's detailed plans to achieve these goals is what needs to be focused on now – decreasing costs, increasing quality, and maintaining brand image. If Schrempp does not come through on these targets, he is well aware that his days may be limited at the firm.[102] The good news for Schrempp though is that DaimlerChrysler's Supervisory Board extended his contract on September 27, 2001 by two more years to 2005.

Schrempp also faces challenges with DaimlerChrysler's third partner – Mitsubishi Motors of Japan. Hence, he must turn three very different companies – "an up-market German luxury carmaker, an American producer of light trucks and a struggling Japanese car company" – into one large global corporation.[103] Lucky for DaimlerChrysler, it learned its lesson after initially leaving local managers to run Chrysler. This time DaimlerChrysler sent in a team of its own to Mitsubishi soon after gaining control. With that taken care of, the three companies can begin to mesh. Interestingly, Mitsubishi came to Chrysler's aide in the 1980s when Chrysler needed help in the small car business. Currently, it is expected that Mitsubishi will again rescue Chrysler's small car sector, primarily the Dodge Neon. Really what all this amounts to is integrating two plagued companies with a dominant one – a three-way merger in a sense.[104]

Looking more inside the company, a minor strategy DaimlerChrysler employs is the Innovation Awards. These honors are designed to spur technological innovation. They reward the engineers for all the work they do, which is extremely important. All employees enjoy being recognized for significant accomplishments. Issues such as manufacturing requirements, impact on suppliers, and dealers' servicing are all looked at for the Innovation Awards. The corporation claims that with the new program, technology will be brought to the market faster, allowing the company to maintain its leadership in innovation.

Long-Term Assessment

This section highlights the ramifications of the partnership on several stakeholder groups in the firm. Among the stakeholder groups explored are stockholders, consumers, suppliers, and employees. As the reader has already observed, there are several primary conflicts that DaimlerChrysler must face. Since these controversies cannot be resolved overnight, DaimlerChrysler must face numerous challenges in the future. These upcoming challenges are analyzed in this section, along with a concluding discussion of the DaimlerChrysler merger and the automobile industry as a whole.

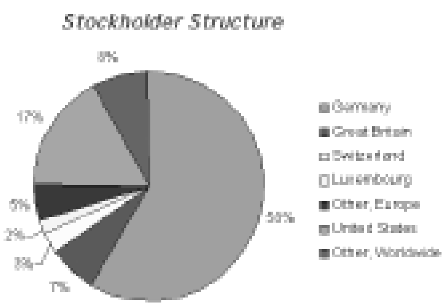
10. Merger Effect on DaimlerChrysler and its Stakeholders

The unification significantly affected DaimlerChrysler and its stakeholders. One of the largest impacts of the fusion was on DaimlerChrysler's stock price. Before the trends are discussed, I will review how the firm's stocks are distributed and held. DaimlerChrysler is "publicly traded and incorporated under the laws of the Federal Republic of Germany," with shares traded principally on the New York and Frankfurt Stock Exchanges.[105]

Once the merger was agreed upon, the question became what happens to the shares of Daimler-Benz and Chrysler? Stockholders of both individual companies voted to turn in their shares for stock in the new company, DaimlerChrysler. During this process, Chrysler shareholders received the short end of the stick. Daimler-Benz shareholders obtained 1.005 shares for every one share had, while Chrysler stockholders only received 0.6235 shares for every one share they owned.[106] The reason the rates were different lies in the value of each company after a thorough analysis of assets. The DaimlerChrysler website backs up the figures by stating that two independent CPA firms authorized the statistics. The effect of that exchange rate was felt across the board, whether it was positive (for Daimler-Benz holders) or negative (for Chrysler holders).

The stockholder structure is also skewed towards Germany. By region, Europe owns 75% of all DaimlerChrysler stock, 58% of which is German. The United States occupies 17% of DaimlerChrysler stock, a drastically smaller portion than their counterpart.[107] See Graph 5.

GRAPH 5



Part of the reason the stockholder distribution is skewed may be because after learning of the stock price exchange rate, many Chrysler shareholders were leery and left their shares up for the picking. The merger was not all bad for stockholders, however. The unification allowed thousands of people to globalize themselves. Not everybody with Chrysler stock was part of foreign stock exchanges before the merger. The opportunity to expand can be seen as a plus and a minus in some cases. The globalization may be beneficial, but the effect the merger had on share prices is not as optimistic. Owning 100 Chrysler shares on the day of the fusion meant owning 62.5 shares of DaimlerChrysler stock. Those shares were worth $5,242.50 on the first day, but the value was more than halved two years later to a measly $2,578.13.[108] To put these figures into perspective, in the past two years, Porsche stock has nearly quadrupled, while DaimlerChrysler stock has fallen by more than 40%![109]

Besides the stockholders of each company, other groups were also affected. What does it all mean for consumers, suppliers, and employees? The greatest effect on consumers is related to the concept of sharing. It all sounds easy enough since most learn to share before kindergarten, right? Well, in order for the consumer to yield the most profits, Daimler-Benz and Chrysler must share each other's best practices, which may bring about better products than ever for consumers.[110] Mercedes has already yielded to the notion of sharing its upscale technology with Chrysler. Therefore, Chrysler expects great benefits in its products, namely from fuel cells and gasoline direct injection (GDI).[111]

Suppliers also benefit under the new business conditions. Chrysler has a diversified outsourcing production base, while Daimler-Benz only has a handful of close suppliers. The merger allows Daimler-Benz to expand, consequently reducing costs for the firm. Chrysler's suppliers are able to enter a new supply chain, as Daimler-Benz's close-knit family will now welcome the new vendors. One example is Denso, a Japan-based supplier doing significant amounts of business in North America with Chrysler. Denso does very little business with Mercedes, but now it has the opportunity to expand with the recent merger.[112]

Employees were affected in a different way, specifically Chrysler employees. An article in *The Globalist* claims that "[t]he most astounding failure may be how the firm managed its internal intercultural communications."[113] After the shareholders voted to accept the merger, it was not too long before Juergen Schrempp boasted about how he misled Chrysler during negotiations. That simply is not something one says to foster trust and openness in new employees. It is a possibility that Schrempp was unaware of the magnitude of his statements, seeing that he comes from a different culture where honesty and a direct approach are greatly appreciated and valued. There seemed to be no remorse for his actions, leaving employees and executives at Chrysler a bit shocked and in fear of a complete German takeover. The betrayal affected most people in ways Schrempp did not foresee. It could be that some workers simply do not work as hard now because they believe the CEO doesn't care about the Chrysler half – so why should they?

11. Future Challenges

Because the fusion affected so many different groups, DaimlerChrysler has a long road ahead of itself. The future challenges facing the organization are large-scale, yet attainable. In my estimation, there are three primary obstacles for DaimlerChrysler: allowing Mercedes to share its premium parts with Chrysler, while maintaining brand differentiation to protect the quality-oriented name; changing the focus of advertising to reflect pride in the company, while decreasing the amount of discounting on cars; and developing a competitive car to fit in the mass-market niche.

In helping DaimlerChrysler regain its edge in the market, Dieter Zetsche insists that the unique asset of Mercedes technology will benefit the firm.[114] Mercedes, already having agreed to set aside fears of diluting its premium brand image, needs to begin sharing components with Chrysler. Once the process begins, the hope is that consumers will associate the Mercedes quality with Chrysler products. If the plan succeeds, DaimlerChrysler will be a much-improved company, with things falling into place after such hard work. Ron Harbour, a Detroit manufacturing consultant, stated, "If Zetsche can sprinkle some Mercedes magic on the Chrysler brand without damaging the premium status of Mercedes, Chrysler has a shot at doing well in the future."[115]

In attempting to accomplish the task, DaimlerChrysler must be very careful in maintaining brand differentiation, not only to protect Mercedes, but also to separate both carmakers from other products in the overcrowded auto market. Presently, it seems that there are so many cars to choose from and most of the time the consumer cannot particularly separate one from the other. DaimlerChrysler must establish advertising and production techniques to differentiate Chrysler and Mercedes from the rest of the market – and from each other.

Jim Schroer has just the plan to make the differentiation stick. After realizing that new consumer marketing trends apply to automotive commerce, even though the industry is very different from other trades, Schroer decided to change the schema of DaimlerChrysler advertisements. "Instead of just going for attention with our advertising and marketing, we're making a very concerted effort to develop pride in our products."[116] Because there needs to be more value building in the industry, DaimlerChrysler began the Five Star Campaign with dealers in February 2001. It allows dealerships to share costs with DaimlerChrysler if, and only if, they will run the firm's "See, Compare, Drive" promotion in their personal advertising.[117] The plan seems to be working so far, but value and image need to be seen several times by consumers for the scheme to be fully effective.

Furthermore, DaimlerChrysler needs to decrease its dependence on discounting. Lately, consumers have been seeing various "money-back" and "push, pull, or drag" promotions on television. Even though the corporation realizes its need to promote, consumers continue to hear and see "…with a $3,000 rebate…" on their television screens. The auto industry has complexities in the production chain and large overhead costs, making it nearly impossible to continue putting out such rebates. If the problem persists, the only thing it does is lowers the price that consumers are willing to pay. It would be more beneficial to produce less cars, taking in less money, than to sell rebate cars continuously. Schroer sums the dilemma up by saying, "There is no business on this planet I can think of that is as complex as ours."[118]

DaimlerChrysler has proven that it is successful in occupying a distinct market niche in that of premium automobiles. Chrysler, specifically, occupies the trendy SUV niche. However, where is the company's mass-market car and price leader? They simply are not there.[119] The merged firm has no automobile to fill in these voids, leaving competitors a free shot at uncontested profits. The problem: there is no proper mass-market brand for consumers who do not have the finances to purchase the luxury and premium cars that Mercedes offers. Some examples of other cars in the empty niche are the Mazda 626 and the BMW Rover (a cheaper alternative to Mercedes). DaimlerChrysler is the only large auto corporation that does not have a car in the segment. Therefore, producing a vehicle for competition is imperative.

In addition, DaimlerChrysler will also need to heighten its attempts at uniting its own people. It is easy to say cut costs and share engineering procedures, but executives cannot forget about the real issue: people and what makes these people satisfied. If the DaimlerChrysler management team was to get caught up in changing everything and demanding higher production, for example, the workers may feel neglected and exploited. It really is a management issue that forces executives to remember that real people are behind the production of the cars that make the company so much money. Therefore, embracing and motivating these individuals is extremely important.[120] Trying not to get caught up in the technical matters is essential because the emotional concerns could easily overwhelm the newly merged, and somewhat unstable, auto corporation.

12. Merger Summary

A merger of equals. A merger of equals??? After thoroughly researching the merger between Daimler-Benz and Chrysler, I believe that the "merger of equals" concept can be argued pertaining its candor. Granted, Juergen Schrempp himself confessed that he indeed intended for Chrysler to become a mere subsidiary of Daimler-Benz, which would not indicate a merger of equals as the unification was originally described.

Nonetheless, who can say where Chrysler would be today if Daimler-Benz had not initiated the merger? Without the Mercedes quality, Chrysler may very well be bankrupt today. And what about Daimler-Benz? The German corporation benefited from the deal as well, decreasing its high costs, increasing its production innovation, and improving its creative styling. Therefore, no one will ever know if it was a true "merger of equals." One can only speculate. I will briefly restate key facts for the reader one more time and leave it up to him/her to decide the final outcome of the controversial union.

We do know this much: during the late 1990s, Daimler-Benz was on the rise – sales were good and production was constant. Chrysler, on the other hand, was falling head over heels down a steep hill. The fact was widely known across the automobile industry, so why would Daimler-Benz have been interested in the wilting Chrysler? Because of Chrysler's speedy product innovation, low development costs, and extended purchasing department. However, the point was not to merge equal firms because it was obvious to most onlookers that the two firms were not of equivalent caliber during the late 1990s.

On the other hand, why would Chrysler want to merge with Daimler-Benz? Daimler-Benz is an excellent company with a prestigious name, but from what would Chrysler exactly benefit? Daimler-Benz offers the American firm the quality nameplate of Mercedes to spark the dull Chrysler brand image and save the company billions of dollars in warranty costs.

As indicated in the prologue, once the merger certificate was signed, Chrysler continuously received the short end of the stick. One of the primary conflicts occurred a little over a year into the unification when a shakeup in the new company's top management transpired. The upheaval caused uncertainty in several Chrysler stakeholders, including billionaire Kirk Kerkorian. Employees of Chrysler feared for their jobs, creating an unsteady work environment.

Not only is upper-level management skewed towards Germany, but the stockholder structure is as well. Europe owns 75% of all DaimlerChrysler stock. That in and of itself is a lot, but 58% of that is German. A miniscule 17% of stockholders reside in the United States. Granted, Europe is larger than the United States demographically and geographically. However, a more equal representation should be in order for such a newly merged firm to keep spirits and confidence high among employees and stockholders.

Maybe the problem lies in the transaction of trading Daimler-Benz and Chrysler stock into DaimlerChrysler shares. Stockholders of Chrysler were very upset to find out that turning in their Chrysler shares for new DaimlerChrysler stock would leave them with a substantially reduced amount of company control. Instead of giving Daimler-Benz and Chrysler holders each one share of DaimlerChrysler stock for every share they held in their respective corporations, DaimlerChrysler brought in two independent CPAs to calculate the precise value of each organization. Obviously, the struggling Chrysler had a much lower net worth than the gleaming Daimler-Benz, hence stocks would be reflective of each company's individual net worth.

The idea is understandable to a certain extent, but the outcome is very disturbing. I believe it is important to keep all parties involved confident in the organization and DaimlerChrysler failed to do that with this action. In the end, Chrysler was shorted significantly and Daimler-Benz actually benefited. Chrysler shareholders received a mere 0.6235 DaimlerChrysler shares for every one share they owned in Chrysler, while Daimler-Benz shareholders obtained 1.005 DaimlerChrysler shares for every one share they owned in Daimler-Benz.

With Chrysler seemingly receiving next to nothing again and again compared to its counterpart, one would tend to believe that the merger was a complete mistake for the American car firm. Actually, the unification can be seen as a positive move from Chrysler's and Daimler-Benz's standpoint. Where would Chrysler be today if Daimler-Benz had not purchased them? Bankrupt? Many people, including Christopher Byron of *The New York Observer*, believe that Chrysler would indeed be bankrupt today if Daimler-Benz had not saved it. Byron specifically has a problem with Kirk Kerkorian whining about the false statement of the unification being portrayed as "a merger of equals." In a May 2001 article, Byron wrote, "…instead of suing Daimler, Kirk should actually be thanking them for buying the company at all – since had they not done so, Chrysler would assuredly be facing bankruptcy today."[121]

Even though the quote seems a bit callous, Christopher Byron has a point. As mentioned earlier, the late 1990s saw Chrysler going downhill at top speed with several dealer incentives, rebates, high gas prices, and high interest rates. Perhaps Daimler-Benz did save the company then? Chrysler had faced bankruptcy in 1978 also, but Lee Iacocca rescued the firm with a federal loan. Who is to say that Superman would not have come in the late 1990s again? Maybe Superman came in the shape of a German car manufacturer, Daimler-Benz. These facts prove that the situation can be viewed as Chrysler being short-changed, as well as being blessed by its savior.

Although the merger does have several negative connotations, such as the apparent reduction of Chrysler to a mere subsidiary, it does contain benefits for both companies. Not only was Chrysler salvaged and put back on its feet, but the company can now be associated with the Mercedes nameplate. The correlation is a big deal since Chrysler has never been known for its quality or engineering excellence.

Surprisingly, Daimler-Benz also has advantages to being linked with Chrysler. Although Chrysler has not been known for its quality, the corporation has always been coupled with creative styling and product innovation. Daimler-Benz could use help in these areas, as well as decreasing its development costs. The German firm typically employs only a handful of close suppliers, therefore driving up costs. Because Chrysler employs several different suppliers, costs remain relatively low. Merging the two companies, when put in this light, seems to have been a match made in heaven.

In order for DaimlerChrysler to become a *Wunderkind* and not a problem child in the automobile industry, it is most crucial that Mercedes share commodity parts with Chrysler to decrease costs and increase Chrysler's image to the public. Important here though, is maintaining brand differentiation for Mercedes not to lose value to consumers willing to pay the high price for something unique. Decreasing dependency on discounting, uniting its own people, and developing a mass-market car are also topics of concern for DaimlerChrysler.

Thus, as for a final analysis, I leave that up to the reader. Was Chrysler taken over by Daimler-Benz and, in the process, short-changed in several areas? Or did Daimler-Benz save

Chrysler, who is now profiting from the cooperation? And the all-important question: will DaimlerChrysler survive in the automobile industry as one entity and become the *Wunderkind* that many doubted from the beginning?

CONCLUSION

With an extended history dating back to the eighteenth century, the worldwide automobile industry has been exposed to the extreme volatility and revolution of world markets. Today, there are several countries with substantial car industries, including the United States, Japan, Germany, and France. Numerous other countries also produce automobiles, as indicated by the increased competition in the past century. The United States continues to hold the number one position in car manufacturing, followed by Japan.[122] In the early 1920s, the U.S. produced approximately 90% of the world's cars. Compared to the near 20% of worldwide production the U.S. held in the 1990s, that figure accurately indicates how intense competition has gotten.[123]

The United States has long been the dominant force in the automobile industry. General Motors Corporation, Ford Motor Company, and Chrysler Corporation aided in the country's market growth, being dubbed "the Big Three."[124] Specifically during the 1920s, the automobile industry was a mainstay to the U.S. economic expansion. Key to this decade was the introduction of the Ford Model T, which accounted for about 50% of all U.S.-produced cars purchased worldwide. To prove just how robust the United States was during this period, it manufactured more cars than the rest of the world combined.[125]

Even though the international auto industry has had a difficult path to follow, the invention has forever changed world civilization. The progression from the horse-drawn buggies in the late 1800s to the four-wheel drive sport utility vehicles (SUVs) in the late 1990s into the new millennium is truly amazing. The critical developments along the way provide citizens worldwide with dependable transportation and extreme mobility. People used to be limited to traveling short distances because transport was slow and grueling on the horses. Now, people can travel across the world in just a couple of days. The only question now is what does the automobile industry hold in store for consumers in the future?

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