PRINCIPLES OF MANAGEMENT

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Short Description

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case study

Description

The Daimler-Chrysler Merger: A New World Order?

In May 1998, Daimler-Benz, the biggest industrial firm in Europe and Chrysler, the third largest carmaker in the US merged. The carefully planned merger seemed to be a “strategic fit.’’ Chrysler with its lower-priced cars, light trucks, pickups, and its successful minivans appeared to complement Daimler’s luxury cars, commercial vehicles, and sport utilities. There was little product-line overlap with the exception of the Chrysler’s Jeep and Daimler’s Mercedes M-Class sport utility vehicles. The merger followed a trend of other consolidations. General Motors owns 50 percent of Swedish Saab AB and has subsidiaries Opel in Germany and Vaxuhall in England. Ford acquired British Jaguar and Aston Martin. The German carmaker BMW acquired British Rover, and Rolls Royce successfully sold its interests to Volkswagen and BMW. On the other hand, the attempted merger of Volvo and Renault failed and Ford later acquired Volvo. The Daimler-Chrysler

cross-cultural merger has the advantage of both CEO's having international experience and knowledge of both German and American cultures. Chrysler's Robert Eaton had experience in restyling Opel cars in GM's European operation. Mr. Lutz, the co-chair at Chrysler, speaks fluent German, English, French, and Italian, and has past work experience with BMW, GM, and Ford. Daimler's CEO Juergen Schrempp worked in the US with Euclid Inc. and has experience in South Africa giving him a global perspective.

Background

Lee lacocca, the colorful Chrysler Chairman left Ford for Chrysler because of a clash with Henry Ford II in 1978. He is credited with saving Chrysler from bankruptcy in 1979/1980, when he negotiated a loan guaranty from the US government. Iacocca also led Chrysler's CEO who negotiated the 1998 merger with Daimler, replaced Iacocca in 1992. At the time of the merger, Daimler was selling fewer vehicles than Chrysler, but had higher revenues. Daimler's 300,000 employees worldwide produced 715,000 cars and 417,000 trucks and commercial vehicles in 1997. The company was also in the business of airplanes, trains, and helicopters, and two thirds of its revenue came from outside Germany. So, why would Daimler in Stuttgart go to Chrysler in Detroit? The companies had complementary product lines and Chrysler saw the merger as an opportunity to over come some of the European trade barriers; but the primary reasons for mergers in the auto industry are technology (high fixed costs) and overcapacity. Only those companies with economies of scale can survive. Mr. Park, the President of Hyundai Motor Company stated that the production lines in Korea operate at about 50 percent of capacity in 1998. The auto industry could produce about 1/3 more cars. It has been predicted that only six or seven major carmakers will be able to survive in the next century. This makes merger more of a competitive necessity than a competitive or strategic advantage.

Daimler + Chrysler = New Car Company

In the late 1980s and the early 1990s, the Japanese made great strides in the auto industry through efficient production and high quality. Now the German carmaker changes the car industry with the Daimler-Chrysler merger in which the former having 53 percent ownership and the latter the rest. The new car company is now the fifth largest in the world and could become the volume producer in the whole product line range.

The respective strengths are that Daimler is known for its luxury cars and its innovation in small cars (A-Class, Smart Car). Chrysler, on the other hand, has an average profit per vehicle that is the highest among the Big 3 (GM, Ford, and

Chrysler) in Detroit, thanks to the high margins on minivans and Jeeps. Chrysler is also known for its highly skilled management and efficient production. Low cost and simplicity (e.g. Neon model) are other hallmarks of Chrysler.

Juergen Schrempp – A Shake-Up Artist?

Besides arranging for the Daimler-Chrysler merger, Juergen Schrempp initiated many changes in the German operation. When he took office, he felt that the company was without purpose and direction. Consequently, he divested AEF and reduced the number of businesses from 35 to 23. His emphasis on shareholder value is counter to traditional German business culture. Schrempp models his managerial style after General Electric CEO Jack Welch. Welch believes the GE should be No. 1 or No. 2 (or have a plan aimed at getting there) in a given market or business, or the company should get out of this market.

Yet, Schrempp faces many challenges. In the next century, Mercedes will face tough competition from the Japanese Lexus, infinity, and Acura as well as BMW and Ford's Jagur. Germany's labor cost is the highest in the world and it requires 60 to 80 hours to build a Mercedes while to takes only 20 labor hours to build a Lexus. Schrempp needs to cut costs and improve productivity in order to survive. To remain competitive in a global market with fewer, but larger automakers, Daimler-Chrysler has to grow and introduce new models. At the Frankfurt Auto Show in 1999, the company announced that it would invest $48 billion to introduce 64 new models in the next five years.

Strategy Implementation: The Achilles'

Heed of the Merger?

The formulation of the merger strategy was carefully planned. The global perspectives of Schrempp and Eaton as well as the product line indicate a fit. Yet, implementing a well conceived strategy provides its own challenges. Some Chrysler designers and mangers saw the merger more as a takeover by Daimler, and consequently left the firm to join GM and Ford. Mr. Eaton, who is the American moral booster, will soon retire. While there is a mutual understanding of the country and corporate culture on the highest organizational level, incorporating the different cultures and managerial styles on lower levels may be more difficult.

German top managers may rely on the 50 page report for discussion and decision making. Americans prefer one-to-one communication. Below the board level, subordinates typically research an issue and present it to their German boss, who usually accepts the recommendation. American managers frequently accept the report and file it away, frustrating German subordinates. Also, Chrysler designers

are frustrated with not being involved in the design of Mercedes cars. Although there are at this time two headquarters (Detroit and Stuttgart), a top manager predicted that in the near future there would be only one – in Germany. Both the Americans and Germans can learn from each other. Germans need to write shorter reports, be more flexible, reduce bureaucracy, and speed up managerial decision making. American mangers, on the other hand, hope to learn from the Germans. As one Chrysler employee said: "One of the real benefits to us is instilling some discipline that we know we needed but weren't able to inflict on ourselves.''

Questions :

1. **Evaluate the formulation of the merger between Daimler and Chrysler. Discuss the strategic fit and the different product lines.**

2. **Assess the international perspectives of Eaton and Schrempp.**

3. **What are the difficulties in merging the organizational cultures of the two companies?**

4. **What is the probability of success of failure of the merger? What other mergers do you foresee in the car industry?**

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