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March 8, 2005

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*Managing the Global Firm: Lessons of a Transatlantic Merger*

Thank you, Dean Dolan, for the kind introduction. Members of the faculty and staff, students and friends of the University of Michigan: good afternoon.

As you students know, it usually takes a looming deadline to get you started writing a big term paper. Well, it's no different with a speech (even a speech to a University). Under deadline pressure for this engagement, I turned to a colleague and University of Michigan alum, for some advice on what to say this afternoon.

Although I'm very familiar with the "global, transatlantic and merger" themes that I'd planned to talk about, and of course am well aware of Michigan's stature as an academic institution, I wanted to capture some of "the flavor" of the school. So, I asked my colleague to suggest an opening.

He thought for a moment, and then told me to say just two words: Go Blue! That brief advice was followed by a very long - I won't say tedious -- lesson on tradition, academic excellence, school pride (which was already self-evident), and so on. I assume this is all summed up in those two words, "Go Blue!"

Having been educated in Europe, I admire how great American universities like Michigan not only prepare students to lead richer lives and to have productive careers, but also provide them with a lifelong touchstone - a sense of belonging, pride and ownership in their alma maters. It's a wonderful thing. Congratulations to all of you for associating yourselves with one of the very best!

The differences in the ways that Americans and Europeans express their "school pride" are more humorous than significant. However, they do serve to illustrate that - in spite of the many forces that conspire to make the world a

smaller place - cultural differences between the continents persist. (And the world would be a very boring place if they did not.)

That's why I'm pleased to see that the Davidson Institute, the European Union Center, along with other international and language programs here at the University of Michigan, continue to provide a strong emphasis on European studies in their curriculums.

Yes, other countries and regions of the world, including India and China, attract a lot of attention for their booming economic development and the resulting business and market opportunities. And so they should. Despite many political differences, the ties between Europe and America are as important, and are as tightly woven as ever before - especially the economic ties.

Last year DaimlerChrysler commissioned a study by Johns Hopkins University on the state of the transatlantic economy, which illustrates just how interdependent Europe and America are today. It found that:

First, investments in our respective markets generate about \$2.5 trillion in sales each year and account for more than 12 million direct and indirect jobs.

Second, Europe is the most important commercial market in the world for corporate America - by a wide margin - accounting for more than half of total foreign profits. The U.S. is also the most important market in the world for the earnings of many European multinationals.

And, third, over the last decade U.S. firms have invested ten times as much capital in the Netherlands as into China.

So, while many in business look to developing nations for future growth - and DaimlerChrysler is certainly among them - it would be insane to underestimate the importance of developed markets today - and in the foreseeable future.

Because it's those developed markets that are ultimately the driving force behind what we now call "globalization." For a text book example of that trend, look at the North American automobile market, the primary market of the

Chrysler Group. It's more competitive than any other in the world. The diversity of vehicles parked on the streets here in Ann Arbor tells the story (well, at least those vehicles that were lucky enough to get parked!).

Nearly 50 brands are available to consumers, with a huge choice of models. The number of nameplates approaches 300 - that's doubled in the past 30 years alone. Every competitor is competent and builds good products. There are no truly bad vehicles in the market today.

Although it may be a mature market, there are still more players yet to come. In addition to the well-established Asian, European and North American brands that compete here, we will see Chinese-built vehicles entering the NAFTA (and EU) markets in the next couple of years.

The global auto industry already combines to target a tremendous overcapacity of automobile production at the North American market. Consider that the total annual demand for vehicles in North America is about 19 million units. Yet there are now 100 auto assembly plants in North America with a combined capacity of 20 million vehicles a year. And we forecast that number to continue to climb. Plus, another two million more vehicles are imported into the North American market every year.

It's easy to make the leap to comparisons to Darwin's "survival of the fittest" when you think about the continued evolution of our industry in these intensely competitive times. In that regard, it's worth keeping in mind Darwin's observation that (quote), "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change." So, adapting to compete in the new order is the key to survival.

The big question is, of course, how? And it's a multi-billion dollar question, because the stakes are that high.

The 1998 merger that brought together Daimler-Benz and Chrysler Corporation to create DaimlerChrysler was our strategic adaptation to the emergence of the global economy. It was a merger necessary for the long-term

survival of both companies. Of course, the merger did not instantly solve the pre-merger problems of the Chrysler Group, or of any of the DaimlerChrysler business groups for that matter. Instead, our merger created an opportunity for us to blend our organizations, expertise and technology know-how in the search for solutions to surviving in this hyper-competitive global market I've just described.

We've learned a few lessons from our experience over the years, and I'll share five of those with you now. Here we go.

Lesson One: Success or failure may be less about which business model you choose, and more about how well you execute your model. Now, I described the DaimlerChrysler merger as our strategic adaptation to the global market. But I can't say it's the only way to go.

Going back to the Darwin analogy, there are, for example, more than 4,000 species of frogs and toads: some live in trees, some in water, and others in the desert, yet all are to some degree successful amphibians. There are many different business models in our industry, and some are more successful than others.

As a point of reference, you might think of these models on a continuum that extends from:

- a regional company (with modest exports);
- to a multi-national corporation (with essentially autonomous overseas organizations);
- to a fully integrated global concern such as ours. (And I'm sure that you business students have studied them all).

Although you can theorize on which model is best, real-world experience shows that achieving success is ultimately more about how well you execute that model. And that brings me to ...

Lesson Two: In a global merger, protect your brands, integrate your operations. Call me a skeptic, but if you're going to bring two companies together and run them as totally separate entities - under a sort of "Holding Corporation" arrangement - then I would ask, why merge in the first place? (That's not a marriage...that's just "roommates!")

Obviously, in the case of automotive companies, the last thing you want to accomplish is total integration diminishing the equity in your brands, for example, by sticking a Chrysler badge on a Mercedes or vice versa.

But there are operations within the company that are transparent to the customer, which, when integrated into a global organization, can work some magic for you. One of many examples of this at DaimlerChrysler was one of the very first of our corporate functions to undergo a global transformation, namely Procurement and Supply. We combined the DaimlerChrysler global Procurement and Supply functions to create three major groups. The Mercedes Car Group, the Chrysler Group and Commercial Vehicles - and put them under one executive (who, by the way, is a former Chrysler Corporation executive and he maintains offices in both Auburn Hills and Stuttgart.)

This organization is responsible for business an order of magnitude larger than the same function at any of the pre-merged companies. In fact, today, we are the third-largest buyer of automotive components in the world. Obviously, this puts us in a better position to reduce material costs, as we have more purchasing power. Instead of facing suppliers with \$30 billion in Chrysler Group business, we come to them with more than \$100 billion in combined DaimlerChrysler business. This also attracts the very best suppliers to compete for even greater global business opportunities.

It's resulted in the development of some extraordinarily innovative partnerships - none of which would have likely been formed in the past. A great example of this is the upcoming co-location of suppliers in a new, on-site facility next to our Toledo North Assembly Plant that assembles our Jeep Wrangler and

Liberty. Three suppliers -- one Korean, one German and one American -- will build and manage major body, paint and chassis operations, all within the footprint of our plant. It will be the first time suppliers will operate as an integral part of an American auto assembly plant.

This is a win-win arrangement. For us, it optimizes capital for investment in future products and it gives us new, state-of-the-art processes. At the same time, our new supplier-partners have the opportunity to put new, innovative processes to the test.

Now, integrating global operations is no simple task. When you have to tear up old organizations to build new ones, you take some people out of their comfort zones, and that can be a management challenge. Which brings me to ...

*Lesson Three: When it comes to merging cultures, it's all about business.*

On the first day of our merger back in 1998 (or "Day One" as we called it), we did a number of things for our employees to build awareness of the new company. For example, we gave everyone a watch with the new DaimlerChrysler name on the face to symbolize that the time had come for change (as you might imagine, with almost 430,000 employees, this watch was more along the lines of a "Swatch" than a Rolex.) We also served an American-style turkey meal at our headquarters in Stuttgart, and a German-style bratwurst meal at our headquarters in Auburn Hills.

However, it quickly became apparent that merging the North American and European cultures wasn't that much of an issue (unless, on that day, you were a vegetarian). The real challenge was in merging the corporate cultures.

And there may well be someone in this auditorium that can point to an empirical study that proves that it's more difficult to bring together corporate cultures than foreign cultures. So, we've made a concerted effort to do so.

Historically, the key strengths of the Chrysler Group had been engineering creativity, style and flair. The key strengths of Mercedes had been discipline

and technical prowess. That's not to say that either company had completely lacked the other attribute, because that wasn't the case.

But both companies had a lot to learn from each other; as much in terms of their approaches to business as they did from anything else. To put ourselves into the best position to succeed as a whole, both companies had to keep learning from the other; not just in terms of processes and so on, but in mindset. At the Chrysler Group, we've worked to adopt much of the discipline of Mercedes, without dampening the creative spirit that is our unique strength.

We gave this "yin and yang" concept a name: Disciplined Pizzazz! The "discipline" being the virtues of process at which Mercedes is so skilled, and "pizzazz" being the creativity, spirit and flair that has always been Chrysler's hallmark. The disciplined pizzazz concept has stuck with our employees. And it's made us a better company.

Our first tangible expression of disciplined pizzazz came in the form of our Chrysler Crossfire sports coupe (and I hope most of you have at least seen this car, and that maybe even a few of you own one). It is a rolling example of the strength combined in DaimlerChrysler. With a combination of creative American design and solid German technology, we like to think of it as the point "where Route 66 meets the Autobahn."

We carried it forward with the 2005 Chrysler 300, an extraordinarily successful vehicle which has posted sales in excess of 100,000 units since its introduction last April and already commands 30 percent of the luxury full-size car segment.

In fact, you can easily see how we've incorporated disciplined pizzazz in all of our new cars and trucks. These vehicles are rolling examples of the combined strengths of DaimlerChrysler. Ultimately, all business intersects in this critical place. And that's how we land at...

Lesson Four: Never take your eye off your core business - be it product or service. This may sound painfully basic and obvious - but it's easy to get your

attention pulled away from the fundamental fact that your products or services ultimately determine the fate of your business, especially when you're going through a merger or other major business initiative. When you're competing against global competition, taking your eye off the ball, even for a moment, can cost you big.

The Chrysler Group builds cars, trucks, sport-utilities and minivans. As I said earlier, in the North American market we compete for customers against extremely competent companies that market some 50 brands. So, simply to survive, we have to be equal to or exceed the best in operational excellence, in quality and in cost. (In fact, we're on the "glide path" to do just that in 2007.) But to win we have to be leaders in product. Because our business ultimately comes down to satisfying customers by building and selling great product ... and it always will!

This is true for many companies in many industries.

By the way, your smart competitors know this, too. So, you have to keep the good products coming. Last year the Chrysler Group launched nine all-new products ... the most we have ever launched (in a single year) in the 80-year history of our company. From our Stow-'n-Go minivans to our new Grand Cherokee and Dakota, last year we were honored with more than 80 product awards. We were especially pleased when the Chrysler 300 won the 2005 Motor Trend Car of the Year, and, in January, the North American Car of the Year.

Of course, we know that our competitors aren't sitting on their hands. They're all coming back at the market with great new products of their own. Plus, everyone is armed with confident forecasts of sales and market share growth. That's why the Chrysler Group will continue to develop and launch new vehicles at a brisk pace. In 2005 we're bringing the new Dodge Charger, Dodge Ram Mega Cab, and at least three more vehicles to the market. Then, in 2006 we'll aim to break the record for new vehicle launches we set last year. And we're not going to let up - our product pipeline will remain full in the future.



Furthermore, with global competition, you can't be content to just "hunker down" in your home market (in our case, North America) and slug it out while the competition brings the fight to you. You also have to take the fight to the competition. And, once again, you can only do that successfully if you first get the product right!

That's why, on the strength of our new products, we're now stepping up our international market initiatives. We see markets outside of NAFTA as an excellent opportunity for growth while our home market is under siege. We now sell Chrysler Group vehicles in more than 125 countries around the world. (Chrysler and Jeep are the only true American volume brands that are successful in Europe.)

In February we began rolling out the Dodge brand in Europe, led by our powerful Dodge Viper sports car. And we're also going after the emerging auto market in China and forming the key partnerships we need to play there.

Jeep was the first American automotive joint venture in China twenty-one years ago. (And I should point out that one of the leaders of that effort was none other than Gerry Meyers, now one of your fine faculty members here at the Ross School of Business.)

Today we assemble Jeep products in China. Next, we plan to distribute a number of new locally-built Chrysler models in China. Whether it's global marketing, or marketing in your home market, the most effective plan is great product. Get the product right and the rest of the business will take care of itself.

That brings me to final lesson, and this time it's personal.

Lesson Five: Although the business world is more competitive than ever, there's also a new world of opportunity open to those who are best prepared, willing and eager to take advantage of it. Global companies need talented people with the relevant education, experience or demonstrated ability, and, equally important, the attitude to succeed in global business. In terms of

education, all of you Michigan students are blessed with the opportunity to build an excellent foundation.

Today, a BA or BS level degree is required, but a Master-level degree is becoming the norm for new hires. Of course, every company is looking for expertise in specific disciplines. But, as you work your way up the ladder, the global environment requires "rounding." So, interdisciplinary education will be extremely beneficial to the executives of tomorrow.

For example, engineers (like me), shouldn't shy away from business. Or if you're a finance, accounting or economics major, knowledge of marketing or political science will one day prove invaluable. And so on. Over time, developing transferable skills that give you the ability to move between disciplines will be vital to building your careers.

Having done some foreign study or taking on a foreign assignment is also beneficial, as it demonstrates a willingness and ability to adapt to other cultures in both competitive and social environments. It's also a great personal growth experience and gives you a better understanding of global market conditions.

Acquiring relevant language skills is important, too. English is the primary language of business today and it's the "official language" of many global companies (including ours). However, it always helps to speak the language of the country or countries in which you do business.

I worked hard to learn Spanish and Portuguese when I worked in Argentina and Brazil, and I think it really paid off for me -- both personally and professionally. Nevertheless, I can't learn the languages spoken in all the places where DaimlerChrysler has business interests. No one can. But making the effort to speak the native language, even if the "real business" is later conducted in English, is always appreciated and can give you a leg up on those who don't.

Last but not least, there's attitude. In today's lean work environment, there's a real need for what we call "corporate maturity" -- and less time to develop it.

In other words, you can't expect to walk through the door knowing it all. You can expect to roll up your sleeves, go to work, and learn the ropes one by one.

In fact, there are several prestigious universities in America where we don't actively recruit, simply because their graduates expect to ascend to CEO within a few years of joining the company. But there's usually someone who already has his or her hands full with that job.

Teamwork, and a teamwork attitude, is essential in global companies today. And that's why so many companies are moving toward behavior-based selection processes. In other words, it's not only about your achievements, but how you achieved them. How did you go about delivering results?

In a global business environment, people who burn bridges behind themselves as fast as they build them just aren't going to last long. And people who can work productively with a diverse group of colleagues can go far. And, finally, wherever you go in your global business careers, remember to make opportunities for yourself.

Find mentors who can help steer your career. Take advantage of training and continuing education opportunities. Be willing to accept global assignments with increasing responsibilities that provide exciting challenges and professional growth. And, don't forget to have some fun while you're doing it!

That's it for me. In closing, I would like to applaud this University's commitment, through the Davidson Institute, the European Union Center, the School of Business and other international programs, for helping to create a global understanding among businesses, governments and individuals.

Thank you for your attention.

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