The post-breakup 'Daimler Lite'

Is the next step an alliance with VW-Porsche? | By Ulrich Viehöfer

The "marriage made in heaven" between Daimler-Benz and Chrysler is over. DaimlerChrysler is selling the Chrysler Group, marking the end of an era for the German carmaker. Daimler is now looking for an attractive new takeover target.

Investing in the new company, Daimler AG as it is expected to be called, should soon make sense again. Without its problem child Chrysler, "Daimler Lite" and its classic, three-pointed star is again ascending into the blue-chip heavens. That's the good market news.

The more sobering side is that, the higher its share price climbs that eventually went bankrupt. Reuter saw Daimler operating on land, sea and in the air, an empire on which the sun never set. When he resigned ingloriously in 1996, he left behind a monster saddled with debt. His protégé and successor Jürgen Schrempp's first task was to stop the company from hemorrhaging more cash, so he promptly jettisoned Reuter's imperial legacy – at a substantial loss. Miraculously, the multiple amputations had little effect on core business at Mercedes-Benz. The star over Stuttgart continued to sparkle but not for long. Although Schrempp should have addressed the company's increasing quality-control problems, he, too, reached Hardly anything clicked in the merged company, much the same as in BMW's ill-fated Rover takeover. The rounds of job cuts and tongue-lashings for the Chrysler crew did not help either. Just ask Dr. Z, as company chairman, Dieter Zetsche, is known.

For investors, the Reuter-Schrempp era meant billions of dollars in destroyed financial assets; for many workers it meant the unemployment office; and for the company, it meant a mountain of debt. This time, the damage to Daimler went deeper, especially since the latest emergency surgery, the excision of Chrysler from the "global corporation," will again prove costly and fraught with risk. will hardly be possible for the new "Daimler Lite." Unlike Porsche, the company is too big to be only a premium brand yet too small to become powerful again on its own. If Zetsche, a long-serving Daimler man, wants to really safeguard his company from being sold off like a bushel of apples at the market, he needs to find a strategic partner quickly.

Besides the "locusts," as German politicians have called private investment firms, one finds only a handful of potential buyers. Toyota has the necessary clout but little interest. Renault-Nissan is exactly the opposite. France's Peugeot-Citroen and Japan's Honda qualify as potential buyers.

Zetsche might be offered one, quite obvious partnership – with the Porsche-VW duo. Enlarged into a loose trio, without a complete buyout, this arrangement could give Mercedes the space to dominate the luxury car segment. The three partners could share and coordinate development, purchasing, and component construction. This solution would also provide Zetsche a way to achieve solid profits even with relatively modest unit sales, globally speaking.

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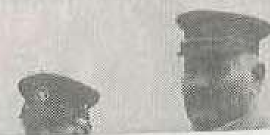
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The more sobering side is that, the higher its share price climbs and promises to continue doing so, the more outside investors will seek to seize control. Hedge funds, private equity groups and growth-hungry competitors are already calculating the price at which the former crown jewel of Germany's automotive industry could be purchased. Besides the elite Mercedes-Benz, they are also looking at brands, including less lucrative names such as Smart and Maybach, as well as an assortment of buses and trucks. Like it or not, compared to its past incarnations, Daimler AG is no heavyweight anymore, especially not on a global scale. As a result, it could become the pawn of global financial players or potent competitors such as Toyota or PSA (Peugeot/Citroën). Twenty years ago, Daimler was flushed with liquidity. The company's reports were practically gilt-edged and its estimated value made any debt it might take on seem puny by comparison. Analysts rhapsodized, calling the company a "bank with attached factories." For Daimler's Stuttgart management, the world was their oyster. By the late 1980s,

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liquidity. The company's reports were practically gilt-edged and its estimated value made any debt it might take on seem puny by comparison. Analysts rhapsodized, calling the company a "bank with attached factories." For Daimler's Stuttgart management, the world was their oyster. By the late 1980s, they felt ready to make a move – a big one. Chief Executive Officer Edzard Reuter felt the car-making world had become too restrictive. He was thinking in "greater dimensions."

Reuter went about putting his vision – that of turning a respected and highly profitable car company into a conglomerate with far-flung operations – into practice. His "integrated technology corporation" (a term the company's workers never warmed to) soon included aviation, aerospace and arms builders (MBB/Airbus, Dornier, Fokker, Erno), the languishing electrical/appliance maker AEG, as well as companies from the banking, insurance, telecommunications and IT sectors. Reuter even considered buying Vulkan, a scandal-plagued Bremen shipyard

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The 1998 Chrysler deal fit his wishes perfectly. Schrempp desperately wanted to own a big U.S. carmaker. The only candidate was Chrysler. GM and Ford would have liked to swallow Daimler themselves. And, since Schrempp was willing to pay practically any price, he put Chrysler in a position to dictate the terms.

From the outset, this "marriage made in heaven," as Schrempp called it, was plagued by irreconcilable differences. The cars, the customer profiles, the quality and images, the corporate cultures – the two groups were complete opposites in all these respects. Chrysler and Daimler were and are as unlike as a pair of jeans and a Boss suit. Daimler understood neither mass-market cars nor the people who buy them; Chrysler never built premium models.

And elsewhere, during these lost years, other companies moved forward. Today, strong Japanese brands including Toyota and Honda, Koreans such as Hyundai, and, yes, newcomers from India and China are setting standards in the industry. Daimler, despite the continuing allure of its car division, its trucks, and buses, is not in the top international league anymore. In global terms, the company is simply no longer big enough.

Toyota has seized first place in worldwide production in an unbroken display of strength and innovation. The company's simple formula for success has been to offer good quality at a fair price. For years, the expensive Mercedes models (let alone Chrysler) have consistently and clearly failed to dent the Japanese brands' domination in the "dependability" category of the J.D. Power Study.

Moreover, returning to the old formula of "small but powerful"

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The dispute is rooted in both nostalgia and regional patriotism. Carl Benz came from the Grand Duchy of Baden, while the company is based in Stuttgart, then-capital of the neighboring Kingdom of Württemberg and, today, of the joint state of Baden-Württemberg. Residents of Baden already feel dominated by the Swabians, not only because the state government is located in Stuttgart. But now their compatriot from Baden is also supposed to be removed from the company logo; Benz built the first automobile – a carriage on three wheels – in 1886.

Gottlieb Daimler's model – also patented in 1886 – rode on four wheels. He built the engine (a four-stroke one-cylinder) with Wilhelm Maybach in 1883. In 1900, Daimler's racing car was given the name Mercedes, after the daughter of a business partner and racing driver. The two companies, Daimler-Motoren-Gesellschaft and Benz & Cie. merged in 1926. Daimler and Benz never met. Whether they nonetheless share a common future will be finally decided by shareholders at an extraordinary general meeting this fall.

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