

DaimlerChrysler

I. Vision and strategy of Jurgen Schrempp for conducting merger:

- a. To create a company that would combine the Mercedes' engineering with Chrysler's marketing and design savvy to develop a vehicle to be sold anywhere in the world
- b. Increase market share (diminished by competitors increase in quality, technology, and innovation):
 - i. Daimler – felt pressure to merge, ranked 15th largest automaker (only above Volvo & Porsche)
 - ii. Chrysler – lack management depth, new products, and has small overseas market penetration
- c. Avoid consolidation due to global overcapacity
- d. Cope with changing marketplace and technology, such as the Internet
- e. Remain competitively priced by reducing cost (implementing “platform” design across DaimlerChrysler)
- f. Was it really “a merger of equals”? What went wrong? (see table and reference #2 – Muller, 2001)

II. Issues faced by DaimlerChrysler after 1998 merger:

- a. How to leverage “soft” assets, such as Intellectual Capital in the form of Knowledge Management?
- b. How to resolve cultural differences between Daimler and Chrysler
- c. How to convince executives, managers, and staff to be open and remain loyal
- d. How can knowledge management be used to smooth the merger process
* See reference #4 (Robb, 2003) for similarities between related KM acquisitions and mergers
- e. Is there enough resources or reason to adopt Knowledge Management
* See Table A for comparison of companies that adopted KM

III. Transfer of resources and capabilities:

- a. Economies of Integration: reduce costs and improve quality
- b. Economies of scope: obtaining synergies from transfer of core competencies
 - i. Chrysler – known for innovation in design and marketing knowledge
 - ii. Daimler – has brand equity and state-of-the-art engineering in R&D
 - iii. Sharing of distribution and sales networks to gain market share

IV. Lessons learned:

- a. There was definitely a need for Knowledge Management at Daimler, but was a merger with Chrysler the best solution (Consolidation in the automotive industry was also a factor).
- b. Alternatives:
 - i. *Strategic alliances* – would increase market share globally, but sharing of resources and R&D would not have worked
 - ii. *Strategic outsourcing* – could improve the rate of innovation, reduce cost, and improve quality
 1. Concentrate on core competencies and outsource non-core value creation activity
 - a. Example: development of vehicle “platforms” could be outsourced to Chrysler by Daimler

V. Recommendations

- a. Sustainability - the merger was centered too much around sustaining core competencies at either Chrysler or Daimler and not enough on integration of corporate culture between the two companies. The “not-invented-here” syndrome kept Chrysler and Daimler from sharing ideas, parts, etc.
* See reference #2 (Muller, 2001) for other reasons why the merger went wrong
* See Table B for list of success factors conducted at other companies
- b. Proper understanding of barriers to successful Knowledge Management strategy
* See reference #1 (Yu, 2000) how to do correctly: by a subsidiary of DaimlerChrysler

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Reference:

1. [BUILDING FISCAL KNOWLEDGE AT DEBIS CAPITAL SERVICES.](#); By: Yu, Dorothy, Knowledge Management Review, Jul/Aug2000, Vol. 3 Issue 3, p20, 4p, 1bw

“How a subsidiary of DaimlerChrysler has been transformed by Knowledge Management”

In January of 1999, with the merger of Mercedes-Benz Credit Corporation (MBCC) and Chrysler Financial Services Company LLC, DaimlerChrysler Financial Services (aka debis Capital Services) was formed.

This article outlines driving forces behind knowledge management (KM). It then talks about some of the barriers that can prevent successful implementation of KM and how to overcome those barriers.

<u>Key Drivers for KM</u>	<u>Barriers to successful KM</u>	<u>How to overcome barriers</u>
<ol style="list-style-type: none"> Technology – utilizing, as a tool, to fullest extent for information sharing Globalization Culture – deeply rooted, starting at the top 	<ol style="list-style-type: none"> Lack of long-term commitment (fad) Isolation – isolated as a practice Lack of acceptance and openness 	<ol style="list-style-type: none"> Strategic and cultural cornerstone of organization Right environment – values and beliefs of organization Reward system and corporate audit – change agent, NOT ‘policy police’

2. [Can This Man Save Chrysler?; It's a tall order, but Zetsche may be just the one to make real progress;](#) Joann Muller in Auburn Hills, Mich., with Christine Tierney in Frankfurt; **Business Week**, New York; September 17, 2001, Iss. 3749; pg. 86

<u>What went wrong after the merger?</u>	<u>How is DaimlerChrysler trying to resolve the problems?</u>
<ul style="list-style-type: none"> - Market share fell from 16.2% to just 13.5% (1998-2001) - Chrysler CEO, Holden, fired after less than a year - Two-thirds of Chrysler’s senior management was fired or resigned (executives did not get along with German colleagues) - In 2000, Chrysler’s operating profit decreased 90% - DaimlerChrysler ranks only fifth among the seven largest automakers - “Not-invented-here” syndrome kept Chrysler and Mercedes from sharing ideas, parts, etc. 	<ul style="list-style-type: none"> - Focus on becoming a low-cost producer - Appointed Zetsche as new CEO of Chrysler Group. Zetsche diplomatic approach slowly gained acceptance from Chrysler’s staff and began infusing expertise from German engineers into Chrysler. - Implemented a three-year \$3.9 billion restructuring - Offering big incentives to attract buyers - Overhauling the vehicle-development process (reinstating an approach that Chrysler pioneered in 1989) - Created company’s “brand bible” to distinguish sacred components from Mercedes and Chrysler

Vision: Schrempp’s idea was to create a company that would couple the Mercedes’ engineering with Chrysler’s marketing and design savvy to develop a vehicle for every kind of driver, a colossus that would sell cars everywhere from Buenos Aires to Beijing. Chrysler and Mercedes would be:

1. Able to share parts and the cost of developing expensive new technologies
2. An unprecedented combination of prestige and market power
3. The global standard

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3. Corporate global culture as competitive advantage: Learning from Germany and Japan in Alabama and Austria? *Journal of World Business*; Greenwich; Summer 2002; Gerhard Apfelthaler; Helen J Muller; Robert R Rehder;

As cross-border corporate mergers and acquisitions find organizations outgrowing their cultural boundaries, transnational companies may try to capture the strengths of the best talent and technology that cultures offer. The DaimlerChrysler transatlantic merger foreshadows how industrial corporations may change 21st century work relationships and it raises questions about the complexities of cross-cultural collaboration to achieve competitive advantage. This paper analyzes the cultural components of Mercedes-Benz's experiment that developed the award winning M-Class SUV, initiated before the merger, originating in a learning field managerial philosophy. Originally manufactured in Alabama and soon extended to Austria, the M-Class, unexpectedly, became an early point of possible joint learning for DaimlerChrysler but to date is a missed opportunity to further learn how to draw upon culture to enhance competitive advantage.

4. Winning their hearts, their minds, and their databases: Following an acquisition, merging company cultures and integrating business systems are the most vital challenges; *Drew Robb; Information Strategy*, Pennsauken; Spring 2003; Vol. 19, Iss. 3; pg. 12

In the past 5 years alone, over \$5 trillion has been spent on mergers and acquisitions (M&A). Although the pace dropped slightly during 2001, an incredible 9,472 deals took place over the course of 2000. With so many mergers and so much money involved, it would be reasonable to believe that the process would be so well understood and broken down into its component parts that it could be placed in the category of exact science by now. Yet most M&As fail. This paper takes a look at what does and does not work when it comes to combining two large entities. It examines:

- 1. how to resolve cultural differences*
- 2. how to integrate the knowledge bases of both parties*
- 3. how knowledge management can be harnessed to smooth the process*
- 4. how to convince the people affected to remain loyal rather than defecting to the competition*

5. Wheels on Fire: The Amazing Inside Story of the Daimler-Chrysler Merger; *Mark Rotella; Publishers Weekly*, New York; Apr 23, 2001; Vol. 248, Iss. 17; pg. 57, 1 pgs

In 1998, when news of the DaimlerBenz/Chrysler merger was announced, it shocked most of the industrialized world, but you'd hardly know that from this dull account. While gigantic mergers are mundane in the global marketplace, this merger, between a German company and a U.S. company, involved touchy issues of national identity, evident when a CNBC reporter pointed out, "Chrysler produced tanks for General Patton and Mercedes was producing war armaments for Adolf Hitler." Even though the deal was touted as a joining of equals, the reality was that it was a friendly takeover of Chrysler by Daimler-Benz. Waller aims at an overview, giving brief portraits of both companies' histories and corporate personalities, as well as details of the secretive deal making and legal wrangling that culminated in the final merger. While the book competently fulfills these aims, Waller fails to shape it into a dynamic narrative. Many of the primary players -such as Chrysler CEO and chairman Bob Eaton-- receive cursory treatment. The striking exception is Eaton's counterpart, Jirgen Schrempp, the chairman of Daimler-Benz's board of management and the architect of the deal, whose life and character Waller copiously details.

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Table A

Knowledge Management: key characteristics of companies that adapted KM¹

	DaimlerChrysler	Hewlett-Packard	Sematech ²	Siemens
Intellectual Capital	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Global	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Communities/ Repository	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Technology ³	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Diverse market		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Grassroots/ Button-up		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>

¹ Source: [The rise of knowledge towards attention management](#); Thomas H Davenport; **Journal of Knowledge Management**, Kempston; 2001; Vol. 5, Iss. 3; pg. 212, 10 pgs

² Sematech International was formed after the introduction of knowledge management. But, it was the need to transfer knowledge to sponsors from different location, which caused Sematech to adopt knowledge management.

³ The companies are built on technology and reliant on R&D. Rapidly changing technical environment calls for use of knowledge management.

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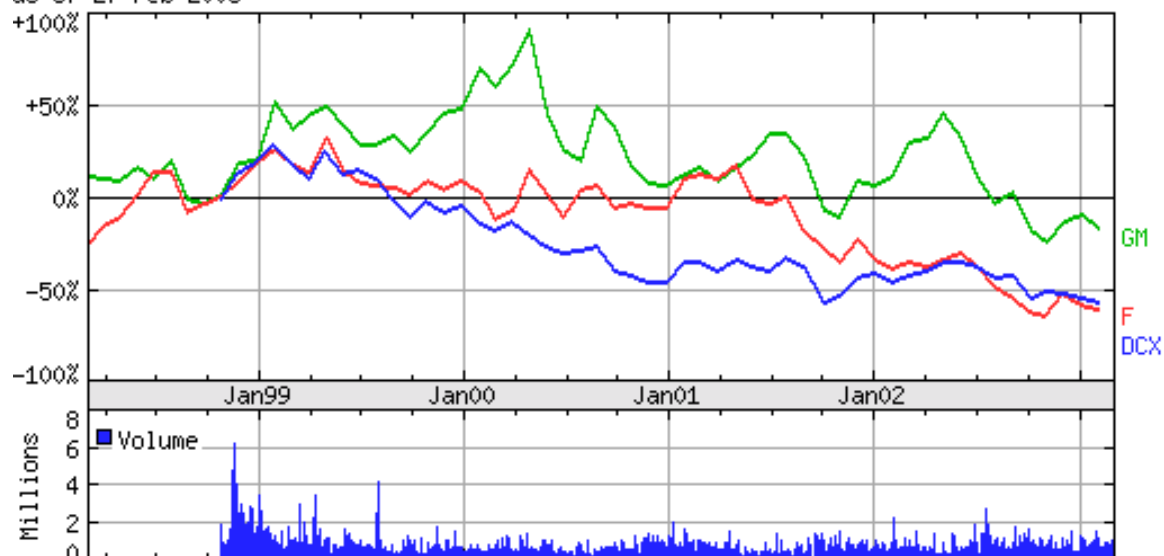
Table B: My ranking of companies using Knowledge Management

Ranking	Success Factors / Problems
1. Ford	<ul style="list-style-type: none"> - Quantified results from KM - Used technology effectively to grow KM in organization - Created global community of practice - Ingrained in corporate culture (part of normal work process) - Reward system (without financial incentives) -
2. Siemens	<ul style="list-style-type: none"> - Diverse market enabled sharing of knowledge across industries - Created a community for KM and a knowledge repository - Philosophy of grassroots learning from the bottom-up
3. General Electric	<ul style="list-style-type: none"> - Used globalization to enhance KM gathering - Leverage technology such as Internet / e-commerce - Setup best-practice matrix to enter into learning relationships
4. General Motors	<ul style="list-style-type: none"> - Created GM University for learning KM - Used technology like intranet to capture and share data - Corporate overseer to facilitate KM in vehicle development - Emphasis on utilizing "lessons learned" and "best practices"
5. DaimlerChrysler	<ul style="list-style-type: none"> - Became isolated over time - One of the most comprehensive KM in automobile industry (but not necessarily the best) - Nurtured strategically important knowledge "domains"
6. Toyota	<ul style="list-style-type: none"> - No formal KM, but has a learning and continuous improvement methodology - Toyota University and centralized information gathering - Employee suggestion system (90% participation rate)

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Stock Price Comparison: *DaimlerChrysler (DCX)*, *General Motors (GM)*, *Ford (F)*

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Top 10 Companies for Automotive

Ranked by Market Capitalization

#	Company	Mkt Cap	P/E
1.	Toyota Motor Corporation	84.3B	13.6
2.	Honda Motor Co., Ltd.	35.7B	9.9
3.	Nissan Motor Co., Ltd.	34.1B	9.6
4.	DaimlerChrysler AG	31.0B	5.8
5.	General Motors Corporation	18.9B	10.3
6.	Ford Motor Company	15.2B	160.2
7.	Harley-Davidson, Inc.	12.0B	20.7
8.	AB Volvo	7.4B	244.1
9.	Johnson Controls, Inc.	6.9B	12.1
10.	PACCAR Inc	5.5B	14.9