

# Chrysler – case study

Business



## CHRYSLER CORPORATION: NEGOTIATIONS BETWEEN DAIMLER AND

CHRYSLER ? In January 1998, Jurgen Schrempp, CEO of Daimler-Benz A. G.

, approached Chrysler Corporation Chairman and CEO, Robert Eaton, about a possible merger, acquisition, or deep strategic alliance between their two firms. Schrempp argued that: The two companies are a perfect fit of two leaders in their respective markets. Both companies have dedicated and skilled work forces and successful products, but in different markets and different parts of the world. By combining and utilizing each other's strengths, we will have a pre-eminent strategic position in the global marketplace for the benefit of our customers. We will be able to exploit new markets, and we will improve return and value for our shareholders.

1 Schrempp recounted, “ I just presented the case, and I was out again. The meeting lasted about 17 minutes. / don't want to create the impression that he was surprised. When the meeting was over, / said; ‘ If you thin I'm naive, this is nonsense I'm talking, just tell me. He smiled and said, “ Just give me a chance.

‘ We have done some evaluation as well, and I will phone you in the next two weeks. ‘ I think he phoned me in a week or so. ,, 2 Independently Eaton had concluded that some type of combination of Chrysler with another major automobile firm was needed: the firm was . currently financially healthy, but industry overcapacity and huge prospective investment outlays called for an even larger type of global competitor. Before seeing Schrempp, Eaton had polled investment bankers for their ideas about a major automotive merger, .

nd had spoken with executives from BMW on this topic. Eaton replied positively to Schrempp's idea of an industrial combination. Now lay ahead the task of forging the details of the agreement to combine. Robert Eaton appointed a small task force of business executives and lawyers to represent Chrysler in the detailed negotiations. Eaton challenged this team on ? This case was prepared from public information by Professors Robert Bruner, Petra Christmann, and Robert Spekman and by Assistants Brian Kannry and Melinda Davies.

This case is intended to be used in a negotiation exercise with “ Daimler-Benz A. G. : Negotiations Between Daimler and Chrysler” (UVA-F1241). The financial support of the Darden Partnership Program and the Darden School Foundation are gratefully acknowledged. Copyright © 1998 by the University of Virginia Darden School Foundation, Charlottesville, VA.

All rights reserved 1 several counts: exploit the benefits of combination; preserve and strengthen the Chrysler brands; minimize the adverse effects of combination on employees and executives; and maximize shareholder value. Eaton reflected on the varieties of terms the Chrysler team might seek, and immediately convened a meeting to begin planning the team's negotiation strategy. Eaton said, “ My number one criteria is that [any deal] has got to be a long-term upside with no negative short-term impact. It's got to be good for the shareholders. That's my-and my board's-fiduciary responsibility.

” 3 Chrysler Corporation In 1920, Walter P. Chrysler, a multi-millionaire and the president of Buick at age forty-five, stormed out of the head office of

General Motors with the prospect of starting his own car company. The Chrysler Corporation was officially launched in 1924 with the introduction of the Chrysler Six and rapidly grew to become the third largest automaker in America. While Chrysler managed to survive the Great Depression intact, labor problems and rampant mismanagement brought the company to the brink of financial ruin multiple times (e. g.

, 1956, 1965, and 1993), but most notably in 1980. Under the leadership of Lee Iacocca, and with the support of federal loan guarantees, Chrysler managed to turn itself around one more time, returning to profitability in 1982. While the late 1980s proved tough for the industry as a whole, the introduction and meteoric rise of the family minivan (a market controlled 47% by Chrysler as of 1996) coupled with the 1987 acquisition and subsequent exploitation of the Jeep brand name left Chrysler the envy of the U. S. auto market by the mid-1990s.

As Fortune magazine stated in late 1996, " If a vehicle is in demand and generates high profit margins, you can bet Chrysler's making it. ", 4 While Chrysler's success and relatively conservative management style attracted praise from industry observers, it also attracted the attention of Las Vegas billionaire Kirk Kerkorian, who with the help of retired Lee Iacocca, mounted a hostile bid for Chrysler in 1995. The \$55 per share (\$27. 50 today following a 2-for-1 stock split in 1996) not only failed to win approval of Chrysler's board, but turned out to be largely unfinanced, leaving Chrysler to continue under current management. Chrysler- Products Chrysler focused heavily on trucks in its product offering. In 1997 trucks (including minivans) accounted

for about two thirds of Chrysler's vehicle sales in the United States and cars for about one third.

Chrysler's trucks include sport utility vehicles, such as the Jeep Wrangler, Jeep Cherokee and the Dodge Durango, pick-up trucks, such as the Dodge Ram, and minivans such as the Plymouth Voyager. One of Chrysler's most successful products was the minivan, which Chrysler invented in 1983. Dodge Caravan/Plymouth Voyager, the world's most successful minivan, was first introduced in 1984. Chrysler dominated the segment ever since. In 1997, minivans accounted for about one third of Chrysler's truck 2 sales.

Chrysler's profitability was high in the sport/utility market despite of increased competition from new products, especially at the top end and at the bottom end of the market. Chrysler's cars were sold under the Chrysler, Dodge, and Plymouth brand names. Chrysler's larger cars (such as the Stratus) were priced similar to those of Mercedes-Benz's lower-middle class cars (in size), namely the C-Class. While Chrysler's cars were much larger and more powerful than Mercedes of comparable price, they lacked Mercedes' attention to detail in manufacturing and brand image. At the bottom end of the range, Chrysler offered the Dodge/Plymouth Neon. Chrysler Product Development and Manufacturing Strategy Chrysler was known for a short cycle of concept-to-market for new products, low development costs, efficient plants, good supplier relations, and creative styling.

Vehicle development time for Chrysler declined to 24 months in 1996 from 60 months in 1988. The efficiency in the product development process could

be mainly attributed to platform teams - autonomous groups that consisted of all the professionals required to design and produce a new car, which were introduced by Chrysler in 1989. Chrysler's innovation was to put all the engineers and designers assigned to a specific project together on a single floor, along with representatives of marketing, finance, purchasing, and even outside suppliers and grant them considerable autonomy. Close contact kept the teams fast and efficient. The teams used target pricing, in which the cost of the car was determined at the beginning of the process, not the end,':'" Chrysler had consistently performed better than its target time and budget goals.

The system worked so well that in 1991 Chrysler dissolved most of its functional groups and reassigned its members to four platform teams - small car, large car, minivan, and Jeep/truck. Harbour & Associates, a consulting firm in Troy, Mich. , estimated that Chrysler's R&D costs per vehicle were \$550, compared to over \$2, 000 per vehicle for Mercedes. Since 1989 Chrysler narrowed its supplier base from 2500 companies to 1140 and had fundamentally changed the way it worked with those that remained. Suppliers were offered long-term contracts, were involved in the design process for new cars, and were encouraged to make cost saving suggestions through an initiative called SCORE (Supplier Cost Reduction Effort) introduced in 1989.

This initiative yielded \$2. 5 billion in savings since its inception. 5 As a result, Chrysler was the least vertically integrated of the big three U. S automakers. It purchased.

75% of its components, (versus 50% at Ford and 30% at GM in early 1998). Unlike other U. S. auto manufacturers, which had improved the bottom line almost entirely by cutting costs, Chrysler's profits surged by introducing new models.

Its vehicle lineup was known as one of the most innovative in the industry. The LH series (Chrysler Concorde, Dodge Intrepid, and Eagle Vision) introduced in the 1993 model year was Chrysler's first new car platform in a decade. These cars were very well received in the marketplace and have been largely accredited as a major factor contributing to Chrysler's latest turnaround. Chrysler International Strategy In the 1990s Chrysler substantially internationalized its sales. International vehicle sales In the 1990s Chrysler substantially internationalized its sales. International vehicle sales (i.

e., sales outside North America) rose from less than 50, 000 units in 1990 to 237, 060 units in 1997, but were still accounting for less than 10 percent of Chrysler's total unit sales. The Jeep name was invaluable to Chrysler's gradual international spread due to the appeal and name recognition the Jeep enjoyed in large parts of the world. Chrysler's American Motors acquisition in 1987 came with Jeep.

Latin America was a focus of the geographic expansion of Chrysler. Sales of its products increased by more than 100% in this region from 1996 to 1997. Venezuela with retail sales of 20, 716 units was the number one Latin American market for Chrysler, making Chrysler fourth in market share in that country behind Toyota, GM, and Ford. The automaker produced the Jeep

Grand Cherokee and Cherokee sport utility vehicles and the Neon passenger car at its Carabobo Assembly Plant in Valencia, Venezuela, for local distribution and export to Colombia and Ecuador. In 1998, Chrysler planned to open a new 950, 000 square meter manufacturing facility in Curitiba, Brazil to assemble the Dodge Dakota pickup truck, adding Jeep Cherokee production to the Cordoba plant in Argentina, opening a parts warehouse/technical training center in Buenos Aires, Argentina, and breaking ground on a \$500 million joint venture engine plant with BMW in Brazil.

The 40, 000 square meter engine plant will be an adjacent facility to the Dodge Dakota assembly plant. ) Because Venezuela, Argentina, and Brazil's import duties ranged between 60 and 70%, Chrysler had opted to produce vehicles in those countries, contrasting with a general preference to establish an international presence via importing its domestic-produced vehicles. Chrysler had been completely absent from Europe for many years. Since it came back in 1990, it was very successful with the Voyager, which was built in Graz, Austria for the European market. However, Chrysler was far from the leadership position it had in the U.

S. minivan market. Leading minivan manufacturers in Europe were Ford and Volkswagen, who accounted for about one third of European minivan sales in 1997 and Renault, which surpassed Ford and Volkswagen in 1998 by adding the stretched Grand Espace to its product line. Ford and Volkswagen are selling three basically identical models - Ford Galaxy, VW Sharan, and Seat Alhambra - produced in a joint venture factory in Portugal.



Chrysler's overall market share in Europe was still only 0. percent in 1997 which was partly due to the lack of car models for the European market. The Vision/Concorde/Intrepid was too large for Europe, the Stratus had attracted mainly buyers for the 4-5 passenger convertible and the Neon had too many popular European competitors. 4 Another primary reason for Chrysler's comparatively modest impact on the European market was its still rather thin sales network. Daimler-Benz A.

G. Gottlieb Daimler and Karl Benz were two German rival carmakers at the turn of the century. While both Daimler and Benz achieved individual success in the early 1900s, the challenge of rebuilding Germany after World War I, as well as competing with the burgeoning Ford Motor Company, led the two companies to merge in 1926 to form Daimler-Benz. While the company shifted to military production during World War II, Daimler began manufacturing cars again in 1947. By the 1980s, Daimler and its Mercedes brand had become synonymous with premier quality and craftsmanship. Flush with success, Daimler began a program of diversification in the mid-1980s, intending to transform the company into a self-described “integrated technology group” with product lines ranging from transportation to aerospace to microelectronics to white goods.

Unfortunately, a string of largely unprofitable acquisitions in the late 1980s left Daimler unfocused and inefficient, culminating in a staggering DM5. 7 billion loss for 1995 (the largest peacetime loss ever by a German company). Under the direction of new chief executive, Jurgen Schrempp, Daimler began to shed unprofitable business units, return the company to its core business of making high quality automobiles, and move towards a more “American-  
<https://assignbuster.com/chrysler-case-study/>

style” management designed to enhance shareholder value. By 1997, the company had returned to profitability on record sales. Daimler-Benz Diversification under Reuter Under Chairman Edzard Reuter who took office in 1987 Daimler undertook a series of acquisition amounting to an estimated \$6.

billion that turned Daimler-Benz into one of the world’s biggest industrial conglomerates. Reuter reorganized the company into a holding structure with four separate companies in 1989: Mercedes for cars and trucks, Dasa for Aerospace, Daimler-Benz InterServices (Debis) for financial and computer services, and AEG for engineering. To refocus the, company from defense to civilian aircraft, Dasa under the leadership of Jurgen Schrempp acquired 51 % of the money-losing Dutch Fokker Company, a maker of short and intermediate range propeller and jet passenger planes, in 1993. During Reuter’s chairmanship, Gerhard Liener, Daimler’s chief financial officer, pushed for a listing of the company on the New York Stock Exchange, which necessitated publishing the company’s returns under American accounting rules. These accounting rules required Daimler to report on current operations, which revealed a huge operating loss of \$3. 3 billion in 1993.

Of the four holding companies only Debis reported a profit. Reuter faced a barrage of criticism, especially as the new companies remained the loss-makers while Mercedes-Benz swung back to big profits in 1994.

JurgenSchrempp replaced Reuter as chairman in 1995. 5 Jurgen Schrempp Jurgen Schrempp was born in the western German city of Freiburg in 1944. Following his school education he joined Daimler as a motor mechanic

apprentice at the Mercedes-Benz Freiburg branch in 1967. He later went to university to train as an engineer and returned to Daimler-Benz.

From 1967 Schrempp worked in a number of different areas at the Daimler-Benz AG. In 1974 he was appointed to the management of the South African subsidiary, Mercedes-Benz of South Africa initially in the Service Division and after 1980 as the board member responsible for engineering. In 1982 Schrempp took over as President of Euclid Inc. , of Cleveland, Ohio at the time a 100% subsidiary of Daimler-Benz AG and manufacturer of extremely heavy-duty trucks. Schrempp told the headquarters that it would cost too much to fix the unit and recommended its sale. The board took his advice and after Schrempp successfully divested the unit he returned as Vice-President to Mercedes-Benz of South Africa in 1984.

In 1985 he was appointed President of the South African subsidiary. Two years later he was called back to Stuttgart to join the Daimler-Benz management board and head the Daimler-Benz Aerospace subsidiary. He orchestrated the purchase of the Dutch aircraft maker Fokker, which was part of Reuter's diversification program, a move that turned out to be a mistake later on. Daimler-Benz Restructuring under Schrempp When Schrempp took charge, cuts in defense spending were hurting the aerospace unit's military operations, while cancellations of commercial aircraft orders resulting from spending cuts by airlines in order to be competitive in the deregulated airline market were pinching the Airbus operation. More than 300 supposedly firm orders were cancelled in late 1994 and early 1995.

This represented more than half of the company's backlog and the equivalent of about 30 months' production. The worldwide truck business was slumping and the Mercedes auto operations had not yet recovered from the early 1990s onslaughts of Lexus and Infiniti. During his tenure as chairman Schrempp proved to be a master of boardroom politics with the ability to make decisions quickly and the willingness to take risks. Schrempp focused on shareholder value, something that was not typically done by European companies. Despite Daimler's listing on the NYSE and the increase in transparency of Daimler Benz's accounts resulting from accounting changes, Daimler's top executives were not in the habit of putting stockholders first. To sell the idea of shareholder value, Schrempp started calling colleagues at random and asking them for Daimler's current stock price.

At first, he says, " seven did not know and three were wrong. Nowadays they can tell me. " Schrempp instituted the rule that every single business at Daimler had to achieve a 12% return on capital, or be capable of achieving a 12% return on capital in the foreseeable future. If it could not, it would be sold. Such a rule was very uncommon for German companies.

This rule resulted in a reduction of the total number of businesses 6 from 35 to 23. Major divestitures were the sale of the company's unprofitable electrical engineering business (AEG), and the closure of the aircraft maker Fokker. In addition, Schrempp demanded superior performance from the rest of the company's units. Against the resistance of the strong German Unions he reduced the workforce by 10 percent. Schrempp reorganized Daimler-Benz into five divisions that contained 23 business units in the beginning of <https://assignbuster.com/chrysler-case-study/>

1997. The divisions were passenger cars, commercial vehicles, aerospace, services and directly managed businesses (rail systems, automotive electronics, MTU/Diesel engines).

Critics in Germany said that Schrempp was a renegade supporter of ‘Anglo-Saxon’ corporate ethics, who put Daimler-Benz share price before the welfare of workers and disrupted the long-standing social contract between employers and labor by destroying thousands of jobs and squeezing pay and benefits. Schrempp’s relations with labor were difficult. His most famous clash with employees came over their sick benefits, which he attempted to cut back in 1996. The decision, not followed by other companies, triggered such an uproar he was forced to back down. On the other hand Schrempp has won praise from investors.

So far the results of the restructuring have been impressive. After a record net loss in 1995 of \$3.17 billion, one of the biggest annual losses in European corporate history, Daimler posted profits of about \$1.6 billion for 1996 and \$1.8 billion before a tax credit in 1997.

**Daimler-Benz Aerospace Segment**  
In the aerospace business Daimler became more productive and efficient. Three of 10 plants were closed and new production methods helped to reduce cycle time between plane order and delivery by 50%. Schrempp also decided to stop financing the company’s struggling Dutch airline maker, NV Fokker and write off the entire investment. In the process Schrempp proved to be a master of boardroom politics. He acknowledged his role in buying the company a few years earlier

and asked for a vote of confidence from the board. The board backed him in July.

. “ I am the first top man who has blown out 2. billion marks (by investing in 51 % of Fokker) and who say without a doubt, this was my fault. While other managers have 7 been fired for 50 million marks, I’m still here. And I think I’m not even arrogant – just very self assured” 7 In addition, Airbus started a new effort to capture market share from the world leader Boeing.

Key to this plan was to enlarge the Airbus family of planes, bringing out new models that eat into categories where Boeing now has an effective monopoly. This new strategy combined with strong airline orders and the weak German mark resulted in Airbus’ recovery. In 1997 orders rose nearly 50% to an all-time high of 460 planes, valued at nearly \$30 billion, giving Airbus 45% of the world market. As a result Daimler’s Benz’s aerospace division (DASA) reported 1997 operating profits of DM432 Million on revenues of DM 15, 286 Million after posting losses in 1995 and 1996.

Daimler-Benz Commercial Vehicle Segment When Schrempp took over the truck business had been hurt by a combination of weak European markets, fierce price competition from Volvo and Scania, Daimler’s outmoded truck and bus design and the company’s high cost production methods.

In Europe, Daimler addressed these problems through production of a series of new heavy-duty trucks, lighter trucks, and vans. In addition, the company went face to face with its unions, stretching the boundaries of Germany’s collective bargaining agreements to the limit to negotiate productivity agreements plant-by-plant. Many truck operations were relocated to places

like Turkey and Brazil so that roughly half of all Daimler truck production was outside Germany. Daimler's U. S.

truck operation, Freightliner, was in a different position. The company had been boosting market share since the early 1990s. Freightliner's share in the North American market in heavy-duty Class 8 tractor trailer cabs rose from 23% in 1995 to 29% in '96, and 30% in 1997. The aim was to increase the share to more than 40% by 2000. The effort was helped by the 1997 purchase of Ford Heavy Trucks. The decision to buy Ford's heavy-duty truck operations took only two weeks " Under the previous system it would have taken six to eight months," said Schrempp.

8 Daimler-Benz Passenger Car Segment The automotive division was hurt in the early 90s by the new luxury cars introduced by Toyota's Lexus, Honda's Acura, and Nissan's Infiniti. These cars compared in quality, comfort, and styling to Mercedes cars, but they cost much less. Part of the price difference was due to exchange rates, which gave the Japanese a temporary advantage. Germany's high labor costs hurt Daimler too. At more than \$30 an hour plus benefits the labor cost was the world's highest. Daimler also suffered from antiquated and inefficient production methods.

By one account, while it took 20 man-hours to build a Lexus, it took between 60 and 80 hours to make a Mercedes. The wakeup call from Japan was not ignored by Mercedes, but there was considerable resistance to change at the top and progress was slow. One of Schrempp's first moves after being appointed chairman was, as with the truck operations, to face down the powerful unions and hammer out new plant contracts that would boost

productivity and cut costs. Car Segment Growth Strategy and Models Mercedes-Benz specialized in top-quality luxury vehicles, and even the company's middle-class cars were choice models costing more than comparably sized competitors. Schrempp was convinced that, to survive, Mercedes had to grow.

Growth, he figured, meant expanding downmarket. The basic aim was to lessen the company's dependence on pricey models like the S-class.

Mercedes' strategy was not to enter the mass market but rather to establish premium niches within every part of it – a niche for people who will pay premium for prestige and perceived quality. In essence, Mercedes was trying to enter the mass market without becoming part of it, a feat Mercedes managed to pull off with its C-Class, unveiled in 1982. With that example in mind, Schrempp put his authority behind the M-class sport utility vehicle, the A-class town car, and the Smart car joint venture with Swatch.

In addition to that he extended the existing product lines in the E-class, the C-class and the S-Class by introducing new models. As Schrempp saw things, the common factor of all these cars is that they serve not a mass market but a niche of people who are prepared to pay extra for perceived quality and the Mercedes name. That, he figured, offered some protection from down auto cycles. The M-class sport utility vehicle, built in Mercedes' facility in Tuscaloosa, Alabama opened in 1997, had a list price starting at about \$35,000 and competed with the likes of the Ford Explorer and the Jeep Grand Cherokee. This facility was Mercedes' first major foray into carmaking outside Germany. The M-class was very successful since its launch in late 1997.

<https://assignbuster.com/chrysler-case-study/>



In early 1998 a potential buyer had to wait up to eight months for delivery. There were plans to increase the production capacity of the Alabama plant by 20% in 1999 from 65, 000 to 80, 000 units a year, with some designated for export to Europe. The A-class, a small commuter car that so far had only been marketed in Europe, has been surrounded by controversy from the beginning. It was the least expensive Mercedes to sell to date (at about \$14, 000), it is small, and had only an 82-horsepower engine. Most of the controversy stemmed from the fact that the car failed to pass the so-called “Elk test” performed by Swedish auto journalists, a no-brakes, high-speed violent swerve to simulate avoiding a large animal that had wandered out on the highway. The front-wheel drive car flipped over, threatening Daimler with a huge marketing disaster.

Daimler’s stock dropped on the news by 25% to a low of \$ 63, and the company was forced to back down from blaming the journalists. Schrempp put together a task force of what he called “our most brilliant people” to come up with a solution. Nineteen days later, they released a plan that included a halt on all A-class sales and a change in the car design to lower the chassis, put on wider tires and install “electronic stabilizing runners” on the inside of the wheel, at a cost of \$ 200 million. By January 1998, after the changes had been made the car passed the test and sales resumed. Daimler estimated that it could sell the 150, 000 A-class cars that it could make in a 9 year. After fixing the problems with the A-class and posting healthy 1997 results, the shares recovered and resumed their ascent.

Schrempp knew he was walking a tightrope: “If we make a mistake, it would not only affect the profitability of the A-class, it would have a negative

<https://assignbuster.com/chrysler-case-study/>

impact on Mercedes generally. " By 1999 Mercedes hoped to be producing 200, 000 A-Class vehicles in Germany and another 70, 000 in a new \$400 Million plant in Brazil. The Smart car, which was being built by Daimler, but was not a Mercedes was the product of a 81/19% joint venture of Daimler-Benz and SMH AG, the Swiss maker of Swatch watches. The car was a tiny two-seater designed for city use. It is not expected to ever sell in the U. S.

This car would be built in a new factory in France (annual capacity of 200, 000 units). Daimler had also introduced a stream of new models including the new E-Class. Wagons for the C-Class, and the new SLK a small roadster, which had a steel roof that retracted into the trunk. This car: which was selling at \$40, 000, followed BMW's Z3 and Porsche's

Boxster to open up a completely new sports car niche in the U. S. – somewhere between the \$20, 000 Mazda Miata and a \$ 70, 000 Porsche 911. The SLK pursued a more youthful image for Mercedes. Waiting lists for this car were as long as two years in the middle of 1997. In 1997 Daimler introduced its CLK coupe, followed by a CLK convertible this year.

In 1998 Daimler was expected to introduce an all new luxury S-class model, followed perhaps in 2001 or 2002 by the Maybach, an even more luxurious car which (the prototype suggests) could come with such features as a hot-and-cold drink bar, an in-car personal computer, and a large-screen TV.

Passenger car sales by model and by geographic area are shown in Table 2  
10 In 1997, global automotive sales increased by only 3%, however, Daimler sales increased by 11 %, one of the biggest increases of any major auto maker. This success was primarily due to the market success of the new

vehicles and favorable exchange rates. Daimler-Benz Car Segment Design and Production To achieve its goal of producing cheaper cars without penalizing profitability, Daimler was breaking the rules on how to succeed in the auto business. Conventional wisdom suggested that automakers should reduce-the-number of different platforms on which they build its different chassis. That was what Toyota, Chrysler, and VW had done.

But Mercedes was producing a new platform for each of its new car line and expected money on each at a production level that was below the breakeven point for the bigger full line manufacturers. By sharing platforms “ it is certainly cost effective, but I don’t think it’s the way to do it. If you just put a different body on the same base, all you are doing is fooling customers. That’s not the way to win sales,” said Schrempp. 10 Daimler-Benz reduced its level of vertical integration, but at 40% Daimler as still more vertically integrated than Chrysler at 25%. 11 Daimler-Benz Car Segment International Strategy Daimler sold its cars worldwide and had a global distribution network.

Daimler was also increasingly locating automotive production outside Germany. More than two-thirds of Daimler’s total revenues originated outside Germany, and more than one-third of its stock was held internationally. Ownership of Daimler-Benz Equity Deutsche Bank had cut its interest in Daimler from 28% to 21. 7%. “ Deutsche Bank had at times taken lead in strategic decisions at Daimler.

It engineered the appointment of Edzard Reuter as Chairman of Daimler’s management board in 1987 and supported Daimler’s diversification strategy

in the 1980s. German institutional investors held about 48 percent of Daimler's shares. The Emirate of Kuwait owned about 13 percent. Unlike the single boards found in the United States, German companies had a management board (Vorstand), composed solely of executives charged with a company's day-to-day operations, and a supervisory board (Aufsichtsrat), which represented a company's largest shareholders and its workers and oversaw the management board. The system gave each board certain checks and balances so that neither dominated the firm. Daimler-Benz Labor Unions Germany had a dual system of worker representation.

At the company level, workers had the right to participate in management decisions. Under the German system of codetermination, almost half of the seats of the supervisory board (Aufsichtsrat) must be filled with labor representatives in large enterprises. While they can be outvoted in the supervisory board, their access to information and decision making gave them a stronger hand in labor negotiations. Worker councils (Betriebsrate) also represented the interests of the workers at the company level.

They had a voice in social and personnel matters. At the national level, large labor unions, which were organized on an industry basis, were primarily responsible for industry-wide collective bargaining of wages and salaries, and other matters, such as shortening of the workweek and vacation time. IG Metall, the powerful metalworkers union, which had 2.7 million members, represented automobile industry workers. Compared to other countries the collective bargaining process for wages was accompanied by relatively few strikes in Germany.

Reasons contributing to this low strike rate were the existing conflict resolution mechanism as well as German labor law that obliged management and labor groups to seek peaceful solutions to conflicts, as well as generally cooperative relationships between capital and labor. Executive Compensation Compensation for German executives was significantly lower than for their American counterparts. Executive pay in German firms had to be reviewed by the Supervisory Board of a company. In addition, German companies were not required to disclose executive pay to the same extent as U. S companies are required by the U. S.

Securities and Exchange Commission. Daimler disclosed pay only on an aggregate basis and reported that in 1997 the 10 executives on the management board received total remuneration of DM20million, or \$11.3 million at a recent exchange rate of DM 1.77 to the dollar. Schrempp currently made about \$2.5 million a -year.

In comparison, Chrysler chairman and CEO Robert Eaton made \$16 million in 1997. Under Schrempp, Daimler was the first German company to offer stock options to its executives. The union members on the supervisory board opposed Schrempp's decision to offer stock options to management but he prevailed on a 11-9 vote within the board. Another proposal, to create an incentive pay plan that rewarded employees based on their contribution to overall profits, passed more easily. All 150,000 Mercedes workers would qualify for a bonus. Trends in the Global Automobile Industry As of early 1998, recent events suggested that the competitive landscape of the automobile industry had changed permanently.

While the announcement of alliances and mergers was a steady occurrence over the years, the nature and frequency of these deals had become more intense. Price Waterhouse estimated that world-wide in 1997, auto firms struck 750 mergers or alliances with a total value of \$28 billion. Consistent with both the airlines and the telecommunications industries, there was a more assertive attempt to consolidate players in the industry thereby creating a new form of competition-the truly global car company. Presently, only a small number of automakers, like Toyota, VW, Ford and GM, had the capability to go global without major acquisitions.

These first tier firms could pursue a worldwide strategy by buying smaller producers with recognized name brands. The mantra became " if you wish to succeed, you have to be worldwide. " Standard and Poor's DRI predicted that over the next ten years there would be a reduction in the number of international producers with the current 39 being reduced to about 20 major companies. Car manufacturers had been operating internationally for many years. They had exported models to other countries, assembled and engineered cars and trucks for foreign markets, and sourced from non-US suppliers for years. In addition, these firms had taken equity stakes in numerous foreign partners.

The list included, for example, Ford and Jaguar, Ford and Mazda, GM and Saab, GM and Suzuki, and BMW and Rover. Yet, efforts to form truly global companies were different. Simply, there were few successes at building and distributing a global car. The motivations driving Chrysler and Daimler Benz extended beyond the development of a global car. Typically, consolidation was driven by a series of factors.

<https://assignbuster.com/chrysler-case-study/>

These factors were all responses to the pressures of a dynamic, changing industry. It was too simple to say that the world was changing. There were relentless cost and time pressures where the design and introduction of new and innovative models must be completed in shorter time periods and less expensively. Adding to the complexity was the fact that consumer tastes were changing, the Internet lowered barriers to information transfer, product introduction, and commonality among processes and products became the path to the bottom line. <sup>12</sup> At the extreme, there was talk about the era of the virtual customer who was integrated into a manufacturing process that was fed by global suppliers and that fed into world-wide distribution. However, there were a number of recent trends that appeared to lie at the heart of the recent consolidation wave.

. Overcapacity. The industry was plagued by excess capacity. Through consolidation, assembly plants could be rationalized. Carmakers in Western Europe already had the capacity to produce 30% more cars than they could sell <sup>13</sup> .

The result was idle equipment, wasted investments, under-utilized workers and subnormal returns. The tension around these decisions was the political pressure against shutting domestic plants, laying off workers, and searching for lower cost labor and manufacturing sites in developing countries. Ironically, this movement of manufacturing to developing countries has partly exacerbated the problem of excess capacity. Many of the plants, for example, in Asia had been built with government blessing as an attempt to promote manufacturing and create fairly high paying job, not to mention that a home grown auto industry i~ a manner of national pride. Emerging

<https://assignbuster.com/chrysler-case-study/>

economies, like Brazil, saw an automotive industry as a means to increase its ability to export product and stimulate internal growth. Yet a 14 number of the smaller companies in Asia particularly were at risk, like Kia and Hyundai.

While not acquisition targets per se, both are likely to be sought as joint venture partners. Many believed that the consolidation would take out capacity which would reduce the pricing pressures that is being caused by the worldwide excess production capacity. Development Costs. The costs associated with all aspects of new model development made it very difficult for a small manufacturer to survive since these costs are allocated over a smaller volume of cars. Development costs included design and tooling, emissions engineering, electronics, and manufacturing process design. Other non production costs associated with manufacturing included the expense of linking suppliers and dealers electronically and on a global basis.

Attempts to shorten the production and the design cycles would pay off over time but also require a substantial initial investment. A dramatic redesign of a car could include the use of lighter weight materials, the use of alternative fuel sources, a change to both the engine and the braking system. The price tag for these changes would make even the largest companies worried.

Sourcing and Supply Chain Costs. In part the consolidation in the industry was driven by a desire to lower the costs of purchased materials by combining purchasing functions and exercising greater power as a result. Typically, firms attempted to reap price concessions from suppliers based on sheer volume.



Beyond the savings that accrue through volume, there are gains to be made in the use of common parts. When Chrysler began purchasing the same air-bag part from Robert Bosch who previously supplied ... Mercedes~ the cost to both fell 40% since Bosch could now justify dedicated production in Mexico. Smart sourcing also had a component that affected the revenue side of the equation in that by working more closely with key suppliers, carmakers could leverage their suppliers' expertise and other sources of competitive advantages.

Honda, for example, attributed significant gains in its ability to design and produce new models at lower costs to the input and expertise of its key suppliers. Market Access and Product Diversity. The ability of niche manufacturers to survive over the long term was limited both by geography and the narrow focus of their product line. At the core of merger discussions in the automotive industry of the 1990s was the notion of complementarity and the potential partners' ability to fill gaps in both markets and products. One assumption was that only full product line, global producers would survive.

Market access was affected both by existing distribution networks and the national policy dictating the manner in which a foreign automaker may enter the host country. In some instances, local production might be required, or there might be rules regarding a certain percentage of local content in the cars sold. Although the merger failed, part of the rationale for the Volvo-Renault marriage was a complementarity in market presence. In addition, the products lines did not overlap much and on the surface seemed to fill gaps in the other's offerings. . BMW was attracted to Rover because its  
<https://assignbuster.com/chrysler-case-study/>

products broadened its product offering without diluting the up-market BMW image with smaller cars and sports utility vehicles.

BMW's strategy was to encourage Rover's Britishness with big investments in the UK while sharing parts and improving quality and distribution. 14 Legal and Financial Considerations. It was likely that the consolidation among companies would provide access to capital and capital markets that might have been limited either because of regional biases or size considerations. To be global in scope and size not only bestowed more favorable rates on the issuance of stock or debt, but broadened the range of available financial markets. For instance, as a benefit of consolidation a foreign-based company might trade in the US as a global stock rather than through the use of ADRs that carry both complex regulatory issues and often added expense. The point is that such global firms set the pace for the globalization of the equity markets.

In addition, a second order effect was the governance structure of the newly consolidated company and the question of which country's laws take precedence. There might be less governmental control and say in how the newly formed global firm behaves as compared to when the individual companies were separate entities. To some extent, competing on the world scene might reduce the regulatory power/influence of local national governments. For Chrysler and Daimler-Benz, there were a number of gains to be achieved through their merger. Table 4 summarizes the advantages to both.

: The question remained whether each gained equally. Although Schremp and Eaton contemplated a “merger of equals,” creating the third largest automaker in the world, Daimler-Benz might appear to be the more senior partner because of its size. 16 Strategic Alternatives As companies examine the options available to them to join forces and attempt to accomplish goals that would be difficult to achieve alone, there are a number of alternatives to consider. The automotive industry had, in recent years, witnessed a number of alliances (some in which equity stakes were taken and others where there is no exchange of ownership), joint ventures, mergers, and acquisitions.

**Merger** In a merger, companies (such as Chrysler and Daimler-Benz) agree to an exchange of stock that results in the joint ownership of a new company.

Typically, the two companies, in a friendly exchange of stock, combined to achieve cost savings through the elimination of redundant facilities and other mechanisms through which cost savings are gained. In addition, they often pursued opportunities that would be hard to achieve alone. Schremp and Eaton expected, for example, to realize pre-tax cost savings of \$1.4 billion in 1999 through the exchange of components and technology, combined purchasing, and shared distribution networks. Eaton’s staff believed that these synergies would grow to \$3.

0 billion by 2001, and grow at the rate of inflation in the U. S. dollar thereafter. (These synergies are not reflected in the exhibits which accompany this case. There were also a number of other benefits that resulted from learning by both partners from each other, and incorporating the best practices of both in the merged company. **Alliances** Unlike a merger,

an alliance combines separate companies for the purposes of the collaborative efforts delineated by the partners.

However, the separate organizations remain autonomous businesses, each retaining its own governance structure and operating processes and principles. Joint activities, shared decision making, coordination of activities, open lines of communications, etc. are all part of the glue that holds the alliance together. An alliance is a quasi-organizational form in which separate and distinct firms join to accomplish goals that would be difficult to achieve alone. The challenge was to develop a management process to encourage the joint cooperative efforts of the partners. To the extent that one entered an alliance with a traditional "command and control" mentality, one would find that it can be difficult to accomplish one's ends.

One cannot control what one does not own. Alliances, if properly formed and nurtured, can accomplish the same goals as one might in a vertically integrated firm without the added cost burden. Alliances are collaborative ventures in which companies acknowledge their interdependence and act in the interest of the alliance. Unlike a merged, or acquired entity, there remains the possibility of opportunistic behavior whereby one partner acts in its own self-interest to the detriment of the other. That is, alliance partners have multiple tasks: they work together to accomplish joint goals but also maintain individual agenda and objectives. When these different goals conflict, the alliance suffers and the proposed advantages are lost.

In this regard alliances are quite fragile and are subject to pressures and tensions not found in ventures where two, or more firms, relinquish their

sovereignty to become one centrally managed and controlled organization with one set of goals. Although alliance contracts are likely to be used to formalize the terms and conditions of the relationship, alliances are held together by trust and commitment to the shared vision of the alliance partners. Joint ventures (JV) are another form of alliance in which partners join selected assets and form a separate entity which becomes jointly owned by the partners. One primary difference between JV alliances and the alliance forms discussed above are the degree of embeddedness between the partners.

JV partners have committed resources (e. g. , people, factories, dollars, technology) and these assets become co-mingled in the joint venture and their ability to exit the relationship is often more tedious. Also, joint ventures tend to have more formal agreements between partners based mainly on the fact that partners have formally co-mingled assets in this newly formed separate entity. There is a joint governance structure for the JV that is jointly administered by the partners depending on their equity sharing agreement.

While most managers believe they would prefer to be the dominant share holder (e. g. , equity interest in excess of 50%), there is a compelling argument for equal equity sharing joint ventures. This argument is based on the belief that equal share in the JV leads to greater commitment and a willingness on the part of the partners to work hard to overcome problems in the JV. Again, the elements of trust and commitment are important and serve to complement the joint venture agreement that nominally sets the structure of the relationships.

Joint venture partners sometimes struggle in their ability to equitably determine the value of each partner's contribution to the alliance. For example, one partner might bring hard assets to the JV and the other brings intellectual capability (e.g., innovations, technology, knowledge of markets). The problem becomes how to determine a fair exchange rate.

Simply, the question might arise how many new ideas equal a factory worth \$5 million to convert to the needs of the joint venture. Preferred

Relationships Of the four relationship types discussed here, preferred relationships are the least formal and therefore the most volatile in the sense that they are viewed as more transactional in nature and more subject to the whims of the partners. Ties and linkages tend to be loose and viewed as less long-term in nature. For instance, parties may decide to trade with each other, and may do so for many years. However, the level of communications and the content of information shared never goes beyond the transaction at hand. In an alliance, as opposed to these more arms-length dealings, partners tend to exchange information germane to longer term plans and strategic requirements over time.

Preferred relationships suggest that all things being equal, partners will continue to interact but there is a much less episodic nature to the relationship. Commitment to the relationship tends to be lower than in any of the other relationships mentioned above. These kinds of relationships are often found between buyers and suppliers where one is given the status of a preferred supplier by virtue of certain standards being met (e.g., certification and ISO9002). In addition, there might exist a long term relationship through which both parties share a degree of comfort and trust.

<https://assignbuster.com/chrysler-case-study/>

At the same time, the ability to disengage is relatively easy to do both because of the nature of the linkages and the fact that the psychological bonds between partners is 8 relatively low. Table 5 compares the various relationship types discussed here. Chrysler's negotiation team would need to assess these alternative forms of combination, giving particular attention to the relative attractiveness of the outright acquisition of Chrysler by Daimler versus the other types of deals. Schrempp had specifically mentioned an acquisition; it was Robert Eaton's expectation that the negotiating team would seriously explore this path as a first course of action. But ultimately, Chrysler's Board of Directors would want some justification for why outright acquisition dominated other types of deals as a

way to exploit the benefits of combination. History of the Merger Discussions  
15 At the Detroit International Auto Show in mid-January 1998, Jurgen Schrempp, CEO of Daimler-Benz, visited with Robert Eaton, Chairman and CEO of Chrysler. Schrempp discussed with Eaton some of his thoughts about the likelihood of consolidation in the worldwide automotive industry and suggested it might be mutually beneficial if Daimler-Benz and Chrysler were to consider a merger. Eaton indicated that Chrysler had been conducting its own studies of the industry and had similar views. Eaton said that he would telephone Schrempp within the next couple of weeks. Toward the end of January, Robert Eaton telephoned Jurgen-Schrempp to suggest a meeting early in February.

On February 5, 1998, the Chrysler Board was briefed on the discussion between Schrempp and Eaton. 19 On February 12, 1998, Mr. Eaton and Gary Valade, Executive Vice President and Chief Financial Officer of Chrysler, met  
<https://assignbuster.com/chrysler-case-study/>

with Schrempp and Dr. Eckhard Cordes, the Daimler-Benz Board Member responsible for Corporate Development and Directly Managed Businesses, to discuss the possibility of combining the two companies. Following this discussion they decided to consult with their respective financial advisors and to meet again on February 18, 1998.

On February 17 and 18, 1998, Cordes and representatives of Goldman Sachs (the merger adviser to Daimler) met with Valade and representatives of Credit Suisse First Boston (the merger adviser to Chrysler) to discuss various transaction structures. During the course of these discussions, Valade stated that it was important to Chrysler that any potential transaction maximize value for its stockholders, that it be tax-free to Chrysler's U. S. stockholders and tax efficient for DaimlerChrysler AG, that it have the postmerger governance structure of a "merger-of-equals," that it have the optimal ability to be accounted for as a pooling-of-interests, that it result in the combination of the respective businesses of Daimler-Benz and Chrysler into one public company. Cordes indicated that it was important to Daimler-Benz that any potential transaction maximize value for its stockholders, that it be tax-free to Daimler-Benz' German stockholders and tax efficient for DaimlerChrysler AG and that the surviving entity of any combination be a German stock corporation, thereby enhancing the likelihood of acceptance of the Transactions by all important constituencies of Daimler-Benz. During these meetings, various tax, corporate and management issues were discussed with a view to developing a transaction structure that would accommodate the parties' objectives.



Valade and Cordes were scheduled to meet again in the first week of March, to discuss the progress of their working teams. At this time, Valade requested that Daimler-Benz provide Chrysler with its preliminary thoughts on valuation. Valuation and E. P. S. Analysis Exhibits 2 through 9 present forecasts of financial statements for both companies, as well as discounted cash flow valuations using the Free Cash Flow/WACC approach.

The analysts' financial model actually estimated value using three DCF approaches (WACC, Adjusted Present Value, and Equity Residual), and using two ways to estimate terminal values (constantly growing perpetuities, and multiples of earnings). Analysts could also consider the firms' current stock price, latest book value, and valuations based on various industry average multiples. Table 6 summarizes the estimates of value of Chrysler and Daimler shares in U. S. dollars. (1) Terminal value multiples for Chrysler are 4 times EBITDA for the WACC and APV approaches, and 8.

times earnings for the P/E approach. For Daimler, the multiples are 6.5 and 16. (2) Constant growth rates used in estimating terminal values are 3% for Chrysler, and 4% for Daimler. The Chrysler deal team would also need to consider the financial reporting impact of any deal structure.

Merely for illustration, Exhibit 10 summarizes the calculations of Earnings Per Share dilution that might result from a share-for-share exchange. This illustration assumes an exchange ratio of one share of Daimler stock per one share of Chrysler stock, and reveals earnings dilution of 25. percent in 1997 for Daimler, followed by earnings accretion in subsequent years. In contrast,

if the merger were accounted for as a purchase, Daimler's earnings dilution for 1997 would be 34.2 percent.

Exhibit 10 also shows that Chrysler would contribute 46.9 percent of Newco's revenues, and 60.8 percent of its EBITDA. Exhibits 11 and 12 present the longer-term financial and stock price histories of both companies in the form of reports from Value Line Investment Survey. Exhibit 13 gives information on peer firms in the automobile manufacturing industry.

Exhibit 14 gives the recent stock price history of both firms, as well as estimates of their betas, and sigmas, or percentage volatility of their stock prices, based on trading on the New York Stock Exchange. Exhibit 15 presents details on the debt capitalization of both firms. Exhibit 16 21 gives information on recent mergers and acquisitions activity; Exhibit 17 offers details on a selection of acquisitions in the automobile industry. Exhibit 18 presents data on recent macroeconomic trends in the U. S. and Germany.

Exhibit 19 gives information on capital market conditions prevailing in the U. S. and Germany at the end of February, 1998. Negotiation of Detailed Acquisition Terms Gary Valade and the Chrysler negotiating team could contemplate a variety of dimensions for the deal: Price or value. How much value should Chrysler shareholders receive in consideration for the sale of their firm? Form of payment.

Initially, Eaton and Schrempp had contemplated a stock-for-stock transaction. However, once the negotiators got into the detailed deal design, there was a possibility that the deal could be structured in terms of cash-for-stock or fixed income securities-for-stock. Indeed, some ~ort of contingent

<https://assignbuster.com/chrysler-case-study/>

payment could be included in the consideration given for Chrysler's shares. If a stock-for-stock deal were proposed, the two sides would need to state an explicit exchange ratio indicating how many shares of Daimler were to be received for one share of Chrysler. A separate ratio might indicate the exchange of employee stock options for the buyer's shares, though ordinarily this was based on the assumption of the option into stock, and therefore was not necessarily required.

A related issue was whether the exchange ratio was to be fixed, or could vary within limits as the stock prices of Daimler and Chrysler varied up to the date of closing. It might take 6 months to consummate an acquisition of this size, once the merger announcement was made. These limits, popularly called a collar, defined the range within which the stock prices of the two firms would be allowed vary before any adjustment in the deal terms might be made. If the negotiators agreed to a collar, it would be necessary to specify the limits within which the stock prices could vary without triggering an adjustment in the exchange ratio, and the adjustments to be made if the stock prices exceeded those limits. Merger or acquisition.

The legal form of the transaction could be a merger of equals, or an acquisition of one firm by another. The Chrysler side was mainly interested in a merger, a "merger of equals." Shareholders might be influenced in their voting by the appearance of one firm dominating the other, regardless of the economic reality of the deal. Need for shareholder vote. Shareholder voting provisions influenced deal design in that they affected the speed with which the deal could be closed, and the possibility for interference by large shareholder 2 groups.

<https://assignbuster.com/chrysler-case-study/>

In the United States, a vote of the shareholders required the distribution of a prospectus and proxy statement, and the scheduling of a special shareholder meeting. The concern about interference was typically important for acquirers, who feared “ second-guessing” by investors or outsiders. Two types of deals would require votes by Daimler shareholders. The first was where a large number of new shares would be created, as in a large stock-for-stock acquisition”. The second was a “ statutory” merger in which both firms would be extinguished and an entirely new firm (“ Newco”) would emerge-this would require a vote of both firms shareholders.

Accounting treatment. In the United States, merging firms could account for the merger on a purchase basis, or a pooling-of-interests basis. Generally, pooling accounting resulted in higher earnings per share for the new firm, because it did not entail the creation of “ goodwill” that had to be amortized under U. S. Generally Accepted Accounting Principles(GAAP). In order for the transaction to be accounted for on a pooling basis, it had to meet several tests, of which the primary ones were: a) continuity of ownership interests (at least 80 percent of the previous shareholders of the acquired firm had to remain as shareholders of the new firm); b) equal size of the two firms; c) each entity must have been independent of the other for two years prior to the deal; d) the combination must be effected in a single transaction-contingent payouts were not permitted in pooling transactions; e) the acquiring firm must issue only common stock in exchange for substantially all the voting common stock of the other company (e.

g. 90 percent); and f) the new firm must not dispose of a significant portion of assets within two years after merger. Treatment for major shareholders.

<https://assignbuster.com/chrysler-case-study/>

Deutsche Bank, the largest German financial institution, held a 21.7 percent interest in Daimler-Benz. Deutsche Bank held several seats on (and the chairmanship of) Daimler's board, and was instrumental in appointing Jurgen Schrempp as CEO in 1994 in a push for shareholder value maximization.

Also the Emirate of Kuwait held 13 percent of Daimler's stock. Kirk Kerkorian, held approximately 14 percent of Chrysler's stock through his holding company, Tracinda Corporation. In 1994 and 1995, Kerkorian had threatened Chrysler with a hostile takeover attempt claiming the firm was underperforming, and that it was sitting on too much cash (\$8 billion).

Chrysler fended off Kerkorian's advances with promises to increase the dividend, accelerate share repurchases, and relax the poison pill trigger from 10 to 15 percent of shares outstanding. While Kerkorian had agreed to a "standstill" on his attempts to take over the firm, his interest was large enough to influence other investors in any Chrysler shareholder vote on a deal. Kerkorian was known to be a sophisticated investor, who would probably favor a tax deferred deal. Deutsche Bank, the Emirate of Kuwait, and Kerkorian would emerge from a stock-for-stock acquisition as significant shareholders in the new firm. Therefore, it would be advisable to obtain the advance support of these interested parties. . Tax treatment. Some deal structures could trigger an immediate tax liability for the selling (Chrysler) 23 shareholders, on the difference between the cost basis of their shares, and the consideration received. Other structures would defer this liability.

Generally, the tax deferred deals (or "tax-free" deals, as popularly called) entailed the acquisition of the target firm's stock with the stock of the buyer, or the buyer's subsidiary. Deals that entailed payment with cash or notes, or

that entailed the purchase of assets would trigger an immediate tax liability. An opinion of a tax advisor, and ultimately, a ruling (or “letter”) from the United States Internal Revenue Service would confirm whether any contemplated structure was to be taxable or tax-free. Applicable law. The new corporation could be incorporated in Germany or the United States. If incorporated in Germany, it would be subject to German law. If incorporated in the U. S. , the U. S. law would apply. Governance. The merger agreement would need to specify the location of headquarters; treatment of workers (especially, the distribution of board seats to Daimler’s principal labor union, IG Metall, or to the United Auto Workers), the election of directors generally, and the individual to be named CEO of the firm. Under the German Co-Determination Law of 1976, a firm of Daimler’s size would have a Supervisory Board (much like an American Board of Directors) and a Management Board. German law required a Supervisory Board of 20 members, 10 of whom were appointed by shareholders, and the others by employees – German law specifically required that corporations must have 49 percent labor representation on their Supervisory Boards. The terms of the deal could specify in advance whether and how the Daimler and Chrysler sides were to divide up the 10 supervisory directors, as well as the size and composition (Daimler vs. Chrysler) of the Management Board. Union recognition. Daimler operated a non-unionized factory in Alabama. In a combination between Daimler and Chrysler, it was likely that Chrysler’s union, the United Auto Workers would require that the UA W be recognized as the bargaining agent for that plant. Official language. It was customary in cross-border mergers and acquisitions for the deal terms to specify the official language for the firm, post-consummation. Executive compensation.

The contract might also specify any senior executive compensation for the foreseeable future. This would be important if the analysts sought to equalize the compensation across the newly-merged firm. Listing on stock exchanges. Considering the combined shareholders of both companies, a stock-for- 24 stock deal would leave American and German shareholders with a major interest in a multinational firm. If shares were listed outside the home country of the shareholders, it would make those shares somewhat less liquid, and less attractive. Agreeing in advance on where the shares were to be listed would influence the shareholders in their vote on any merger or acquisition. 25 26 27 28 29 30 31 32 33 34 35 36 37 38 39 40 41 42 43 44