

Business Turnaround and Growth Strategies - Daimler Case Study

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At the end of the 1800s the development of the automobile brought opportunity to engineers and entrepreneurs. In 1900 more than 1500 companies were involved in the development of the automobile and by 1980 only a view dozen players in the market remained.

By 1990 the 3 big companies (Ford, General Motors and Chrysler) were responsible for 75% of all American car sales. Today 30 companies control world wide production. It is wide recognised that the automobile industry has been in the mature market phase for the last 50 years.

In 1980 Daimler was the leading manufacturing company in Europe, with a proud reputation of innovation and engineering capability. Mercedes Benz, which contributed 80% of its Daimler's sales, was well respected in the luxury car market and a leader in this market segment.

The 1980s provided Daimler with steady profits, but they did not have it all their way. Daimler was finding it increasingly more difficult to develop new car models (rising R&D costs and longer development cycles), competitors were quick to duplicate Daimler technology and the luxury car market (the fastest growing sector in the automobile market) was attractive more and more competitors.

So, what was Daimler to do?

Its CEO (Mr. Edzard Reuter) believed that the market for motor cars would decline and that the company had to become less dependent on Mercedes sales for its survival. The emergence new technologies and industries (such as microelectronics and information technology) was the opportunity he was looking for. These new technologies could also provide Daimler with potential synergies and spin offs in the automobile industry and help diversify Daimler's business interest.

Between 1985 and 1992 Mr. Reuter spend \$6 billion in acquisitions and transformed Daimler into a conglomerate consisting of 36 companies run in 4 different business units. The Daimler company was now involved in diverse businesses ranging from aerospace, transportation to white consumer goods, but Mr. Reuter's diversification strategy was unsuccessful. Daimler profitability declined (reporting huge losses), shareholder value decreased and its share price fell to 60% of its pre-1980s value.

So, what can we learn from the mistakes made by Mr. Reuter?

- Daimler moved away from its core focus (building high quality cars).
- Management control lacked as subsidiaries were allowed to make their own decisions without the parent company influence.
- Lack of change management. Mr. Reuter was unclear about how these companies were to be incorporated into the Daimler structure and how these new technologies would form part of Daimler's repositioning.
- Diversity and size of the portfolio of businesses. Within a relative small time frame Daimler's management were in charge of a very diverse portfolio of businesses with very different clients and sales processes.

- Different customer groups and sales processes. It was easy to see who the end users would be for its Mercedes Benz vehicles, but selling passenger cars was very different from tendering for government contracts (aerospace) or selling microelectronic products.

Daimler reported \$6 billion loss for 1995 and needless to say Mr. Reuter was replaced by Mr. Jurgen Schrempp. Mr. Schrempp went about bringing Daimler back to profitability.

- He divested (sold or closed) non profitable businesses (trimmed the group from 36 businesses to 24). Swept away divisional structures.
- Flattened the management structure.
- Re-established parent company control. Tightened control over subsidiaries (executive board had full control over restructuring).
- Refocused the business to its core focus.
- Transformed the company in a transport group consisting of air, rail, freight, busses and coaches and passenger cars.
- Improving shareholder value through profits.

In 1996 Daimler reported profits and was well on the road to recovery.

Mr. Schrempp (as his predecessor) realized that Daimler needed to change. But unlike Mr. Reuter he stayed with his core focus and decided to look for niche pockets of opportunity downstream the passenger car segment to grow Daimler. He wanted to be a part of the mass market but not enter into it.

He looked for segments within the passenger car market where customers wanted additional value and was willing to pay for it. Under his leadership he introduced the CLK, SLK and A-class Mercedes and increased Daimler's profitability and market presence. He was revered for his success within Daimler.

So, why was Mr. Schrempp successful?

- He re-established focus within the Daimler group.
- He went back to core competencies.
- He tightened management control.
- He looked for unique opportunities within Daimler's business sphere (new product introduction to existing customers).
- He set performance target for each business unit.