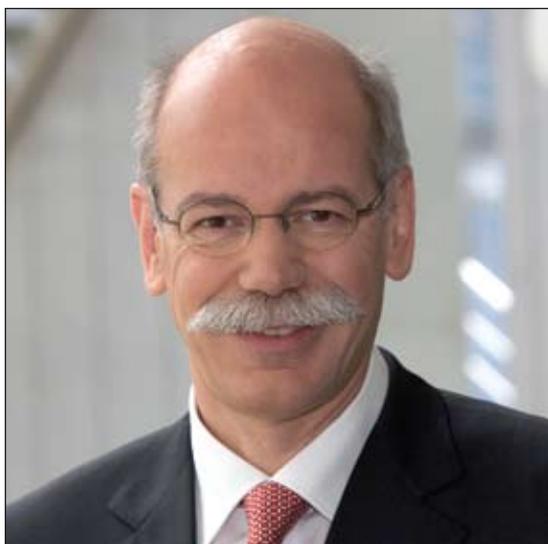


Interview

Seeing More Light than Shadow

An Interview with Dieter Zetsche,
Chairman of the Board of Management,
Daimler AG, and Head of Mercedes-Benz Cars



Dieter Zetsche

EDITORS' NOTE Dieter Zetsche has been a member of the board of management of Daimler AG since December 1998, and Chairman since January 2006. After graduating as an engineer from the University of Karlsruhe, he joined the research department of then Daimler-Benz AG. Zetsche completed a doctorate in engineering in 1982 at the University of Paderborn, and since then he has held numerous board of management positions within Daimler, including CEO and President of the Chrysler Group; head of the Commercial Vehicles Division; Head of Global Sales and Marketing of Mercedes-Benz; President of Freightliner Corporation (Portland, Oregon); President of Mercedes-Benz Argentina; Head of the Development Department and Chief Engineer of Mercedes-Benz do Brasil; and Senior Manager and Chief Engineer of the Cross-Country Vehicle Unit, Daimler-Benz AG.

COMPANY BRIEF Stuttgart, Germany-based Daimler AG, with its businesses Mercedes-Benz Cars, Daimler Trucks, Daimler Financial Services, Mercedes-Benz Vans, and Daimler Chrysler Buses, is a leading global producer of premium passenger cars and the largest manufacturer of commercial vehicles in the world. The Daimler Financial Services division has a broad offering of financial services, including vehicle financing, leasing, insurance, and fleet management. Daimler (www.daimler.com) sells its products in nearly all the countries of the world and has production facilities on five continents.

How is Daimler faring in this climate of economic turmoil?

Like everybody else, we are operating in an extremely volatile market environment where things change every day, and in recent weeks, more often for the worse than for the better. In an industry like ours, we are more susceptible to economic stagnation than others, because it's a bigger decision to buy a new car than it is to buy chewing gum.

However, that said, Daimler has many strengths that help us in this environment. Probably the most important is that with Mercedes-Benz, we have the world-leading brand in the automotive business, which was recently confirmed once again by a global survey. Second, we have tremendous technological breadth, depth, and strength. Third, we have a strong financial backbone. And last but not least, we have very well-educated, highly motivated people. With this set of strengths, I'm very confident that we will be able to overcome any setbacks and ultimately emerge stronger and with a positive edge over the competition.

Daimler has a financial services division. Has any of the recent turmoil affected that side of the business?

Not directly. Until April 2008, we were absent from the debt markets because of our known overhang from the demerger with Chrysler. Since we have come back, we have had no trouble finding access to financial markets. Like the entire industry, we are faced with values being negatively affected as a consequence of the overall situation. But thus far, that has had no direct impact on our financing opportunities.

In these economic times, business may drop off in some countries but pick up in others. Do you find this to be true for Daimler's worldwide business?

We have experienced a ripple effect in the traditional triad markets, when effects from difficulties in the financial sector began to make an impact in the real world and caused a significant downturn in the market. This in turn has also had some effects on the emerging markets, as Russia shut down its stock market for some days and we saw a significant short-term cooling down of its economic activity. China is still moving, but with a little less speed than before. The whole world is very much interwoven, and there are very few areas in the world that are totally autonomous. So far, we are still seeing

basically no impact in South America, and we are seeing no impact in oil-producing markets – except for Russia. In the Middle East, business is still strong. So there are areas that still have momentum, but we are feeling the impact in most parts of the world.

Are you worried about the future?

At the beginning of any crisis, people tend to think it is the beginning of the end. And when things are going well, people think cycles are a thing of the past, and there will never be a downturn again. Neither one of those positions is true. There is no doubt that the current financial crisis is unlike any other that we have experienced in the past, and it will certainly create a worldwide slowdown of economic growth. However, I'm convinced that five years from now we will look back and say this was a real big bump in the road, but it was not the end of the road. Therefore, we will keep on trucking ahead.

We have several long-term structural market issues to deal with. We will certainly see a new approach to the regulation of financial markets and things that were possible in the past will not be possible in the future, which is probably a good thing.

We'll also see some important changes in a number of other areas, like climate change and the limitations of oil resources – especially in our industry, where we will see emission-free driving and fuels that are not based on petroleum. So there will be a paradigm shift in powertrain technologies. I'm a strong believer in technology, and I believe that when we all focus on the challenges at hand, we will find solutions. There is not one silver bullet, but over time we will come up with answers to these challenges – indeed, we're starting to do so. They will fuel a new wave of growth and future opportunities.

You have developed a lot of technology that has not yet been put into automobiles. What will decide when the public sees it?

The markets will. The most profound change has been driven by increases in fuel prices at the gas station, more so than by regulation, which can at times be too abrupt. At the end of the day, customers make the best decisions about such changes. It's happening today. We are improving fuel economy and reducing emissions all the time, in a significant way, but this has to further accelerate. There are technologies that have not been applied in the past that we will see going forward. But as I said, there is not one solution. It's a mosaic being built

out of many pieces. We need to bring those pieces together to show a picture of the future, in which more efficient combustion engines will continue to play a significant role for years to come. Hybrids in different forms and full electric driving – with battery storage of energy as well as with hydrogen storage and a fuel cell – will be a further part of this total picture. We will see all of those technologies come to market within the next five years.

As you look ahead to the future, what will Mercedes-Benz cars be like?

Mercedes-Benz cars will continue to offer all the characteristics people enjoy today – fantastic safety, excellent comfort, and quality – which will be combined with even more efficient powertrains and, ultimately, zero-emissions propulsion. We are currently running a test in London with 100 battery-powered smart cars, more than anyone else has tested. We have fuel-cell cars that are totally competitive as a product, by today's standards. We are working with the customer on infrastructure, but we have conventional drive-trains in combustion engines, in combination with hybrids. In an S-Class this year, we'll have CO₂ emissions results of just 190 grams per kilometer, which will make it the most efficient vehicle of its class in the industry. With a lithium ion battery, it will be the first of its type in the market. Ultimately, we intend to lead the industry in this paradigm shift toward no emissions.

In a company the size of Daimler, how do you stay in touch with, and inspire, hundreds of thousands of employees?

The most powerful tool is always personal contact. It's clear that you cannot communicate with, in our case, 270,000 people on a regular basis, so you have to do it by example. You should try to have contact with as many representative groups as possible within your company and take time to communicate directly with them. To some extent, you can let it happen by accident. Whether it's in the elevator or when you're having lunch, just do the things you have to do anyway but among employees, so you don't develop an untouchable aura. Communicate and be receptive, no matter the topic or issue. Those are little seeds that you can plant, which over time, will change the perception people have about you, and open up the lines of communication. The consequence is that you get lots of e-mails sent directly to you and you answer them. All those are actions aimed at individuals, and together they can change the culture and open up the organization.

Do you focus heavily on communicating electronically?

I'd rather meet as many people as possible in person. I have my BlackBerry, as others do, and I'm a little bit addicted to it. But, in general terms, my personal style of working is to interact with people.

With so many employees and such a big company, what frustrates you the most?

That would be the time it takes for technology and new products to be incorporated. In this industry, it can take years for a prototype to be developed to the point that it can be offered in the showroom. As an entrepreneur, I find that frustrating even though as an engineer, I understand why that's the way it is. The lack of speed of cultural change can also test my patience.



The 2010 Mercedes-Benz BlueHYBRID

We want to become a company that is totally driven by our key values, which are about being open-minded, working with integrity, and maintaining a confident and high-performance culture. We are heading in this direction, but we're getting there slowly, step by step. That is the only way you can operate.

Can the corporate culture of Daimler be organized effectively? It must be very difficult to instill a certain type of philosophy in such a vast company?

As I said, these processes take time. First of all, it's about living the values you are striving to instill, and second, it's about communication. Those are the two key levers around which we're trying to build our cultural change. We combine our corporate culture with developing the cars we are envisioning, and it is working. You just have to aim for the long run. It's a marathon, not a sprint.

We are living in a world of big challenges, and major change and uncertainties. In this world, I believe that basic values are what ultimately lead to success. That is true for human behavior, and it's true for business too. Those values continue to be things like innovation and financial soundness, in contrast to gimmicks and short-term hype designed to seduce the audience. So, in some areas, going back to traditional values is a strong foundation for our future success, especially in these times of fast and significant change.

You have a very calm demeanor. Do you ever lose your temper?

Very rarely. The tougher times get, and the more tension builds in whatever kind of negotiation, typically you get the upper hand when you keep your mind cool and stay on the factual side, especially when the other side doesn't. But I cannot deny that, very rarely, that happens to me as well.

Did you find your experience heading the U.S. operations to be informative, as far as picking up certain U.S. traits?

For sure. I very much enjoyed the straightforwardness of Americans and the lack of

“paralysis through analysis.” Of course, you can't just jump on every train without thinking about its destination first, but in most cases, somewhere in the middle is the best place to be. When I worked in the U.S., there was more immediate reaction, and a certain amount of optimism that we could start down a path and figure things out along the way. There is more long-term thinking and more basic analysis on the German side of the business. The mix of both approaches goes in the optimal direction. When you have experienced both worlds, you have a good chance of succeeding.

Today's leaders don't always set the best example to young people. What can be done about that?

First, we have to acknowledge that there are some very bad examples of behavior among managers, and in some cases, among politicians as well. That's a fact, unfortunately. At the same time, when you talk to employees in a country like Germany, where managers in general do not have a good reputation, they tend to have a more positive view of their own CEOs and other top management. This shows, to some extent, that a portion of the problem is communication. There is a negative perception that's being driven by some negative incidents and examples. When you know the people you are talking about, you see more light than shadow. So we have the task of trying to communicate more in order to show that what we're doing is not all bad.

There's no question that we need good political leadership and good business leadership. You're either on the glass-half-full side, and you say there are lots of good guys and you want to become one of them, or you're on the glass-half-empty side, and you say there are many bad examples, so it's time to effect change and become a positive example yourself. In both cases, we have to work together in order to bring back values where they have been lost, and to defend all the positive elements of democracy and our economic systems, and to erase their bad elements. ●