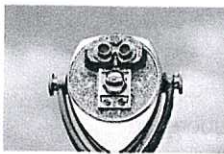


## RECOMMENDED READINGS

- P. Ghemawat, 2007, *Redefining Global Strategy*, Boston: Harvard Business School Press** – a practitioner-oriented book outlining ideas how companies can develop global strategies.
- J. Haleblian, C. Devers, G. McNamara, M. Carpenter & R. Davison, 2009, *Taking stock of what we know about mergers and acquisitions*, *JM*, 35: 469–502** – a review article summarizing current scholarly thinking on M&As.
- P.C. Haspeslagh & D.B. Jemison, 1989, *Managing Acquisitions*, New York: Free Press** – a classic book grounded in the resource-based view on how to manage acquisitions.
- K.E. Meyer, 2006, *Globalfocusing: From domestic conglomerates to global specialists*, *JMS*, 43: 1 109–1 144** – a study following acquisitions and divestments of two companies over time, and interpreting the process from an resource-based view by introducing the concept of globalfocusing.
- A. Verbeke & H. Merchant, 2012, *Handbook of Research on International Strategic Management*, Cheltenham: Elgar** – a collection of essays reviewing the state of the art of theories linking international business and strategic management.
- G.S. Yip & G.T.M. Hult, 2012, *Total Global Strategy*, 3rd ed., Upper Saddle River: Prentice Hall** – a textbook targeted at MBA students with the ambition to lead global firms.



## CLOSING CASE

### *Daimler merges and demerges*

The *Daimler* AG builds some of the best cars, mostly sold under its Mercedes-Benz brand. Yet *Daimler* has also been involved in numerous other technology businesses, often with limited success. In two periods of its recent history, *Daimler's* top management pursued ambitious growth strategies, yet overestimated the potential for synergies between acquired businesses, and their own ability to integrate a complex business organization.

In the 1980s, *Daimler* developed the vision of an integrated technology group, acquiring in a single year, 1985 three German businesses with distinguished histories of their own: defense contractor *MTU*, small aircraft manufacturer *Dornier*, and white goods conglomerate *AEG*. However, *Daimler's* plan to become a leading provider of military hardware took a hit when the Iron Curtain fell in 1990 and governments around Europe cut their military expenses. Addressing the challenge proactively, *Daimler* decided to focus on civilian aircrafts and acquired the Dutch business jet builder *Fokker*. Yet global competition proved too strong for the already struggling company and 1996 *Fokker* went into insolvency after *Daimler* had lost DM 800 million from the deal. According to one study, *Daimler's* buying and selling of companies during that

period was estimated to have destroyed the value of the company by DM 36 million. *Dornier* was sold to *Fairchild*, and *AEG* was liquidated (the white goods brand *AEG* is today owned by *Electrolux*).

In the late 1990s the vision of an integrated technology group was replaced by a vision of a global leader in the car industry. Rather than diversifying into related industries, *Daimler* aimed to build a presence in all three major continents. In 1998, *Daimler* paid US\$35 billion to acquire *Chrysler*, a 40% premium over market value. *Daimler* CEO Jürgen Schremp and *Chrysler* CEO Bob Eaton announced the largest transatlantic merger a 'marriage made in heaven'. Observers were critical from the outset. Rather than strong synergies, they suspected high levels of hubris and significant managerial self-interests. On paper, *Daimler* and *Chrysler* had great strategic fit in terms of complementary product lines and geographic scope, but there was very little organizational fit. For example, American managers resented the dominance of German managers, while the Germans disliked being paid two-thirds less than their *Chrysler* colleagues. These clashes led to an exodus of American managers from *Chrysler*.

In 2000, *Daimler* also acquired a 34% stake in Japan's *Mitsubishi* and 10.44% in Korean *Hyundai*, expecting these strategic alliances to provide channels



into emergent Asian markets and access small car brands and technologies. In this way, *Daimler* would become the global number one with significant positions in Europe, Asia and North America.

Yet the marital bliss did not last long. The equity stake in *Hyundai* was sold in 2004 with a substantial profit, while the struggling *Mitsubishi* was soon also sold at a loss. In 2007, under new leadership of Dieter Zetsche, *Daimler* sold *Chrysler* to *Cerberus Capital*, a private equity firm, for US\$7.4 billion – four-fifths of the value had been lost (either *Daimler* over-paid, or the value was destroyed after the acquisition). In consequence, *Daimler* fell behind its German rivals *BMW* and *Audi*, especially in growing Asian markets.

The new vision was to focus on its core brand, *Mercedes Benz*, and to be the best rather than the biggest car manufacturer. In 2013, *Daimler* sold the rest of its 15% share in *EADS*, the French-German owner of *Airbus*, and thus completely withdrew from military and aircraft businesses. In 2015, *Daimler* even sold its 4% share in Californian e-car innovator *Tesla* – but this time making a healthy profit.

Instead, *Daimler* invested in automotive technology including new internet-based technologies integrated in cars. The brand was modernized and expanded, and a new marketing drive in China aimed to catch up with its German peers *Audi* and *BMW* who had successfully build market share in this growing market.

In 2014, *Daimler* thus established in a new joint venture with Beijing based *BAIC* to manufacture *Mercedes Benz* cars for the Chinese market. By 2015, this strategy eventually paid off. Turnover grew in Europe and China, the share price outperformed the DAX index for several months, and profit numbers almost reached those of *Audi* and *BMW*.

#### CASE DISCUSSION QUESTIONS

- 1 What are the merits and risks of converting *Daimler* into an integrated technology group like *Siemens* or *GE*?
- 2 What are the merits and risks of converting *Daimler* into a multi-brand global car maker, like *Unilever* or *Nestlé* in consumer goods?
- 3 What are the merits and risks of *Daimler* focusing exclusively on its *Mercedes Benz* brand for passenger cars and trucks?

Sources: (1) G. Steinmetz & G. White, 1998, Chrysler's Executive Pay Draws Fire From Overseas, *Wall Street Journal*, May 26; (2) *The Economist*, 2004, DaimlerChrysler: The wheels come off, April 19; (3) *Der Spiegel*, 2004, Ende der Partnerschaft, May 12; (4) H. Jakobs, 2010, Totale Überbezahlung für eine totale Pfeife, *Süddeutsche Zeitung*, May 17; (5) *Handelsblatt*, 2011, Daimlers teure und erfolglose Einkaufstour, February 11; (6) *Handelsblatt*, 2013, Daimler entledigt sich letzter EADS-Anteile, April 16; (7) *Handelsblatt*, 2014, Daimler vergoldet die Anteile in Tesla, October 21; (8) *Handelsblatt*, 2014, Daimler übertrifft bereits in September das Vorjahr, December 12; (9) T. Mitchell, 2014, Daimler has high hopes for China joint venture with BAIC, *Financial Times*, December 15.