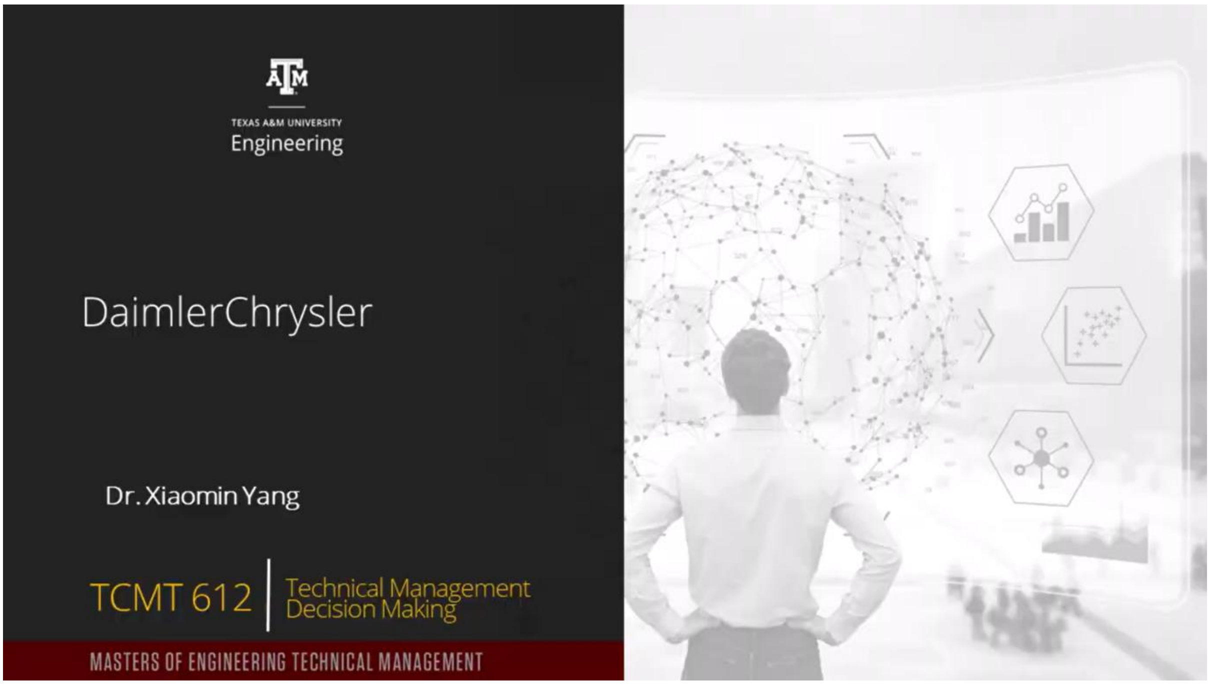
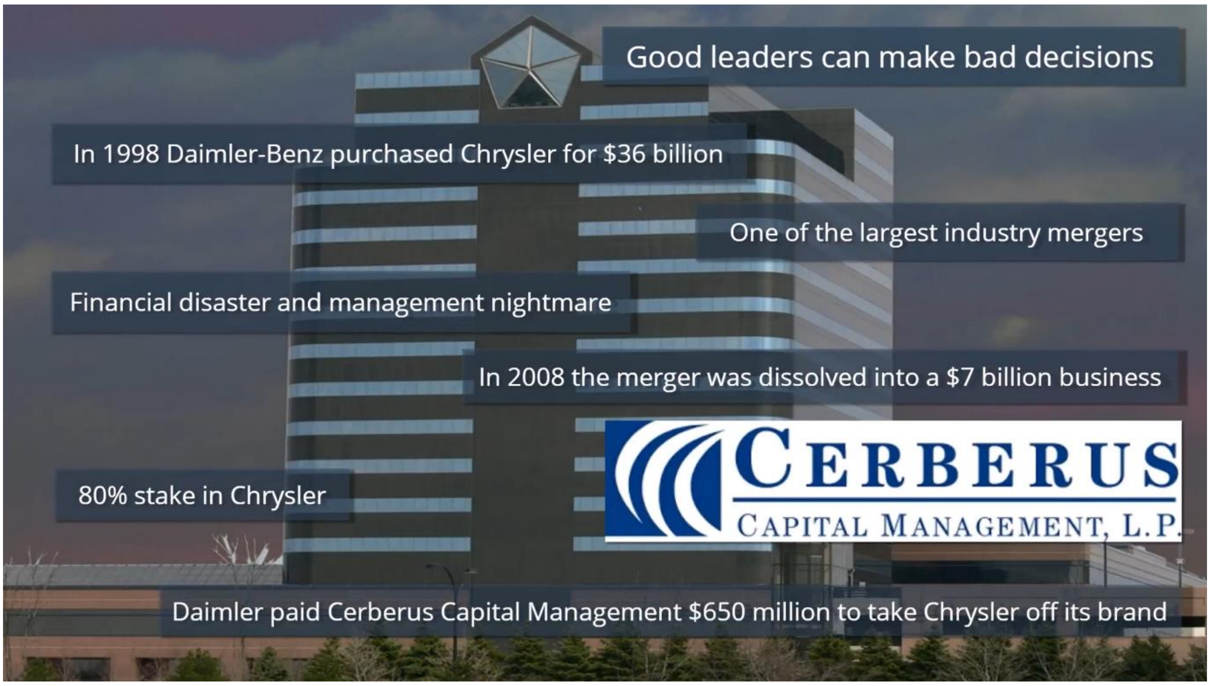
M1L8. DaimlerChrysler

Slide #1



In this topic, we will discuss the failed merger of Chrysler and Daimler Benz.

Slide #2



Sometimes, good leaders still make bad decisions.

For example, in 1998, German automaker Daimler Benz purchased one of the largest U.S. automakers, Chrysler, for 36 billion dollars.

It was then regarded as one of the largest industry mergers.

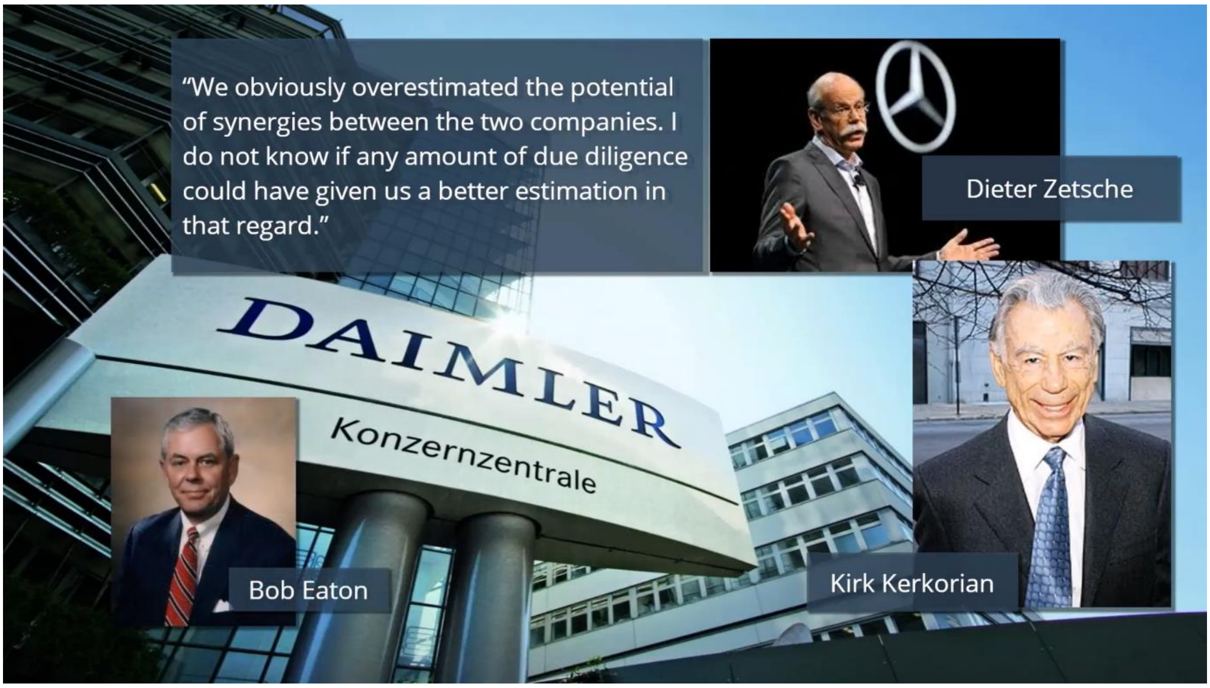
But the potential global powerhouse turned out to be a financial disaster and a management nightmare for both companies.

Nine years later, in 2008, the 36 billion dollar merger of Chrysler and Daimler Benz was dissolved into a mere 7 billion dollar business.

Cerberus Capital Management took an 80% stake in the automaker for that amount.

Daimler essentially paid Cerberus Capital Management 650 million dollars to take Chrysler off its brand.

Slide #3



At a news conference at the company's headquarters in Germany, the chief executive of Daimler Chrysler commented, we obviously overestimated the potential of synergies between the two companies.

I don't know if any amount of due diligence could have given us a better estimation in that regard.

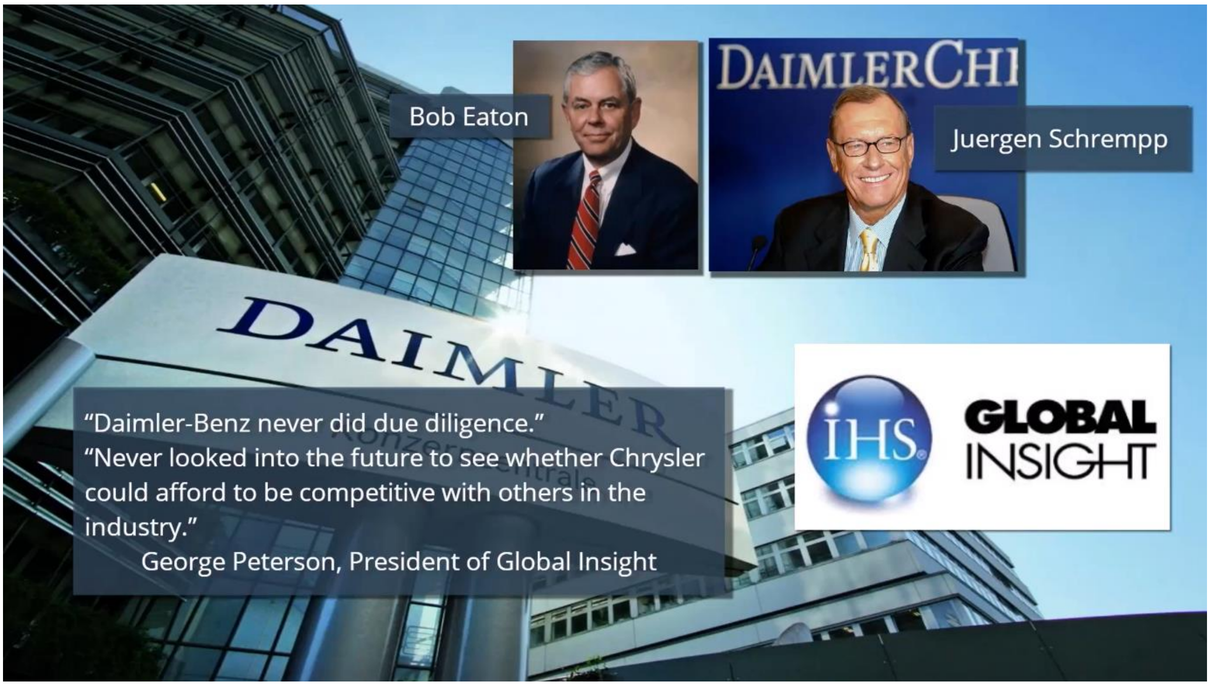
That was not the reality.

The real motivation for the merger may have been more elementary.

At the time of the deal, billionaire investor Kirk Kerkorian was trying to gain control of the company.

The chairman, Bob Eaton of Chrysler, determined not to let the company fall into Kirkorian's hands, and he approached Daimler Benz instead.

Slide #4



The two heads of the companies made a judgment call first to let the company merge and then had their analysts and the senior management teams collect information to support their decisions.

"Daimler Benz never did due diligence before it bought Chrysler. It never looked into the future to see whether Chrysler could afford to be competitive with others in the industry," insisted George Peterson of Global Insight.

That was a classic example of how good leaders make bad decisions.

They rely on their judgment rather than data to decide what is the best for their companies.

To make it worse, after their judgment calls, they asked analysts and management to collect the data to support their decisions.

The flawed decision-making process put people at different levels of the organization into the wrong course of action.