

Auto merger at end of the road?

DaimlerChrysler may consider parting ways with its U.S. unit.

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It was the biggest marriage in the history of the auto business. But now, a divorce between Daimler and Chrysler could be looming.

DaimlerChrysler Chairman Dieter Zetsche didn't mince words about a possible breakup Wednesday, saying the German company's executives "do not exclude any option" as they wrestle with ways to stop U.S.-based Chrysler Group from denting the profit of its luxury-car parent.

His comments came as Chrysler announced plans to cut 13,000 jobs, or 16% of its workforce. The maker of Chrysler, Dodge and Jeep vehicles said it would close its factory in Newark, Del., in 2009 and cut production at several others by 2009 as it attempts to bring production and payroll in line with shrinking demand for its vehicles.

Chrysler, the No. 3 U.S. automaker, lost \$1.46 billion last year amid increased pressure from foreign competitors and an oversupply of gas-guzzling trucks, diluting gains made by DaimlerChrysler's upscale MercedesBenz brand and other units. The job cuts and other changes are aimed at returning Chrysler to profitability next year.

On the strength of its other businesses, DaimlerChrysler on Wednesday reported an overall profit of 3.2 billion euros (\$4.26 billion) for 2006, up 14% from the previous year.

In an interview with The Times just a month ago, Zetsche rejected any suggestion of selling Chrysler, a division he headed from 2000 to 2005 before taking the top job at DaimlerChrysler at the start of 2006.

His comments Wednesday steered away from that unequivocal support, suggesting that DaimlerChrysler now would be open to finding a way out of the merger that formed the company in 1998.

"We are looking into further strategic options," Zetsche told reporters at Chrysler headquarters in Auburn Hills, Mich. "In this regard, we do not exclude any option in

order to find the best solution for both the Chrysler Group and DaimlerChrysler."

Zetsche further distanced his company's cornerstone brand by saying there were no plans for Mercedes to share its platforms with Chrysler, despite earlier promises of a cooperative alliance.

The platform comprises the underpinnings of a vehicle, and sharing them would have meant a substantial savings for Chrysler. But industry experts have said platform-sharing could also tarnish the vaunted Mercedes image.

Some of DaimlerChrysler's biggest European investors have clamored for several years to kick Chrysler out of the house. On Wednesday, Deutsche Bank analysts wrote in a note to investors that Zetsche had sent "a clear message that [DaimlerChrysler] is open to a partial spinoff of Chrysler — something that investors have been hoping for."

The news sent DaimlerChrysler's shares up \$5.33, or 8.3%, to \$69.78, its highest price in nearly seven years. But prospects of an actual sale are dimmed by the fact that a buyer may be hard to find, said George Magliano, automotive market analyst for Boston-based Global Insight economic forecasting.

"There's going to be a lot of talk about possible mergers and alliances before all this is over, but I don't know that there will be a lot of action," Magliano said.

Indeed, Zetsche's comments triggered a wave of speculation in the auto industry. Manager Magazin, a German business magazine, said in an on-line article citing unnamed DaimlerChrysler sources that the company already was in talks with General Motors Corp. about a merger or other alliance of GM and Chrysler Group.

GM and DaimlerChrysler both declined to comment.

Burnham Securities analyst David Healy called the report "absolute nonsense," noting GM was in the midst of a restructuring of its own that involves cutting North American payroll and closing plants in the U.S. and Canada.

Although it sells some vehicles overseas, 90% of Chrysler's business is in North America, which would make it a poor match for GM, Healy and other analysts said.

A quick sale would also be unlikely because of looming labor talks, Sanford Bernstein analyst Stephen Cheetham said in a note to investors. As those negotiations begin this year, all three U.S. automakers will be trying to exact steep concessions from their unions on healthcare and retirement benefits.

As Chrysler begins the difficult task of fashioning itself into a smaller and more efficient enterprise, rivals GM and Ford Motor Co. will be continuing their own restructurings.

Together, the three automakers are expected to eliminate about 100,000 manufacturing

and salaried positions in their North American operations, shutter nearly two dozen factories and possibly shed several brands, including Ford's Jaguar unit by the end of the decade.

The domestic car companies' combined share of the U.S. market dropped to 53.7% last year from 73.2% in 1995 as foreign brands led by Japanese juggernaut Toyota Motor Corp. increased their penetration. Toyota last year held a 15.4% share of the U.S. market, up from 7.3% in 1995.

The U.S. carmakers' struggles are kicking up some big waves: Already a number of major auto parts suppliers including former GM subsidiary Delphi Corp. have filed for bankruptcy protection as sales to shrinking U.S. automakers have dried up.

Chrysler's woes echo those of GM and Ford: too much production capacity and not enough customers. Too many retirees with expensive benefits. And union contracts that make it difficult to close plants or lay people off.

Additionally, Chrysler failed to adjust quickly last year to changing consumer demand as soaring gasoline prices dimmed America's love affair with the pickup trucks and sport utility vehicles that accounted for much of the company's production.

Analysts said the restructuring plan contained no surprises and some questioned whether it went far enough.

"That 16% job cut will right-size the company for today and the next 10 years, but they still have more [manufacturing] capacity than they need," said Dan Sullivan, executive vice president of TBM Consulting Group. The Durham, N.C., company advises manufacturers on applying Toyota's manufacturing process to their own operations.

In outlining the job cuts and the rest of the rescue plan Wednesday, Chrysler Chief Executive Tom LaSorda said he would shift the company's emphasis to more fuel-efficient cars and car-based crossover SUVs.

"The status quo is clearly unacceptable," he said.

But several of the new vehicles Chrysler recently has displayed, including its 2008 minivans and the new midsize Chrysler Sebring, have drawn lukewarm response from critics, said Jesse Toprak, senior analyst at AutoObserver.com, a unit of Santa Monica-based automotive information provider Edmunds.com.

Despite all the cost cutting, "success will only come if they have new vehicles that are perceived positively in the marketplace," he said.