“All Business is Glocal”: The Future of the Automotive Industry

Daimler AG is a globally leading producer of premium passenger cars and heavy- and medium-duty trucks. Dr. Dieter Zetsche, Chairman of Daimler AG and Head of Mercedes-Benz Cars, was interviewed by Dr. Christian Schmitz, Head of Business-to-Business Marketing at the University of St. Gallen.

Zetsche: I’d like to begin with an apology. The title of my remarks is “All Business is Glocal” – and that violates one of my own cardinal rules. I used a business buzzword! However, if this buzzword makes sense …

MRSG: So what do you mean by the term “glocal”?
Zetsche: I’d like to focus on three aspects of what “glocal” means to all of us: first, it is a reminder of just how globalized and interconnected our world has become – most certainly in the auto industry. The second aspect deals with the limits of globalization in the form of regional fragmentation and ongoing or even renewed diversity. The third aspect is about an area in which I think we don’t have the right to “tailor” to “local” habits – and that is in “global ethics”.

MRSG: Do you see globalization as a new phenomenon we have to deal with?
Zetsche: What’s historically new about globalization today is not the fact as such, but the extent. Quantum leaps in technology have made it possible. Together with a long-term drop in handling costs, these developments have conspired to bring about the “death of distance”. Just look at the global rise in foreign direct investment: since 1990 it’s increased nearly sevenfold. That’s an annual growth rate of about 13 percent. And the volume of cross-border mergers and acquisitions has gone up sixfold since 1995. Similar to chess, every move a player makes has consequences for other players in the world. But unlike in chess, your counterparts do not wait with their next move until you’ve made yours.

MRSG: What does that mean for companies acting in global environments?
Zetsche: We all know that the ripples from the mortgage crisis in the U.S. rapidly spread throughout the world. They’re causing some degree of economic pain to just about every country. In fact, one of the first financial institutions to founder as a result of buying American asset-backed securities wasn’t even American – it was the British Northern Rock Bank. And isn’t it ironic that the liberalization of global financial markets has led to the nationalization of a bank?

MRSG: Does that also hold for non-financial industries?
Zetsche: As far as the industrial sector is concerned, globalization is probably strong-
est in the auto industry. The “German” auto industry today builds 49 percent of its total vehicle production abroad. Since 1981, our foreign vehicle production has increased by about 350 percent. One reason for this is that our foreign markets have grown much faster than domestic ones: between 1991 and 2007, domestic sales of Germany’s Original Equipment Manufacturers (OEMs) increased by 55 percent, while foreign sales increased by 250 percent!

Zetsche: The global optimization of the value chain is a “must”. One recent real-world example comes from “Daimler Trucks”, our commercial vehicle division, which produces vehicles in 28 locations outside of Europe. Back in 2002 we recognized that we would need a global solution to meet new and more stringent emissions regulations for the heavy-duty engines that power our commercial trucks. We decided to build one single Heavy-Duty Engine Platform to serve all of our markets around the globe.

MRSG: So, was the internationalization a big opportunity for German auto companies?
Zetsche: German auto companies had no choice but to enter these foreign markets if they wanted to capitalize on the growth opportunities. Daimler has long been a participant in – as well as a proponent and beneficiary of – globalization: By 1980, we already generated 55 percent of our sales abroad. Today, that share is at a remarkable 77 percent – and still growing.

MRSG: Which were the most important decisions for the automobile industry?
Zetsche: With regard to globalization and the impressive growth of international markets, two aspects tend to be closely related: the opening up of new sales markets, and the set-up of local assembly, production or other activities. The former may in fact require the latter: some countries simply won’t allow you to participate in their market, unless you also create value there. More importantly: no customer will tolerate poorer quality or a higher price, just because we missed the opportunity to do our job in the best way that is globally possible.

MRSG: Is that what you also experienced in your own job?
Zetsche: That was no small technical challenge. Nevertheless, in its final form, our Heavy-Duty Engine Platform achieved 90 percent commonality of parts across sales regions and brands – and 50 percent commonality among four displacements that range from 10.6 to 15.6 liters. Also, HDEP production sites include Kawasaki in Japan; Redford in Michigan, and Mannheim in Baden-Württemberg.

So, what we’re seeking here, of course, is the maximum amount of global standardization that will still allow us the required degree of local customization. And here’s a point that has changed over the last 10 or 15 years: back then, much of the public debate was influenced by the “fear” that globalization might result in too much standardization, if not uniformity.

MRSG: But wouldn’t you prefer to keep a high degree of standardization?
Zetsche: Today, from a selfish business perspective, I’d have to say: Yes, that would make things easier! However, it’s just not what’s happening in real life. Of course, on the face of it, when you look at a megacity in Asia today, you may see a veneer of popular Western culture there: Hollywood’s “infiltrating” Asia just as Bollywood’s “infiltrating” America and Europe. Yet when you look beneath the surface, the world remains a fragmented place.

MRSG: Is that really true for the world of today?
Zetsche: It would seem that globalization has actually triggered some sort of cultural “backlash”. It’s reinforced the human need for differentiation between and among nations, regions, cultures and religions.