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Incoming Daimler CEO weighs billions in cost cuts

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Incoming Daimler CEO Ola Källenius

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SHANGHAI — As Daimler's incoming CEO, Ola Källenius will soon be making decisions on where to take an ax to costs as the automaker adjusts to the headwinds of trade tensions, plateauing sales and a pricey electrification strategy. The new boss reportedly is looking for about \$6.75 billion in cost savings and efficiency gains by 2021 at Mercedes-Benz car plants.

"When you're in transformation, you're investing at the highest level in company history," Källenius, 49, said on the sidelines of this month's Shanghai auto show. "At the same time,

you have to gain the best efficiencies to be able to free up cash flow."

Daimler will be "very selective" with its investments, Källenius said. "We are not targeting just one cost category," he said. "It's really across-the-board efficiencies that we are looking for."

Speaking to a media roundtable during the Shanghai show, Källenius elaborated on Daimler's electrification strategy, the fragmentation of the product portfolio and whether he thinks we've reached "peak car." Edited excerpts follow.

Q: Mercedes has about 40 models. That's not counting the EQ family of electric vehicles planned over the next few years. Are you concerned with product proliferation?

A: We have an unbroken trend over 20 years, where we have gone for more variants. The key to doing that successfully is intelligent architectures and modules.

On our new compact car architecture, we are launching eight different vehicles that all look totally different. The sharing of architecture in models is very, very high. So with a sensible investment you can provide more choice.

Customers have shown us that they are more willing to experiment. People have decided what is the budget they are going to spend, and within that segment they experiment. We have a little more than 40 models now. I can see consolidation in the future of a model or two.

So you don't think we've hit 'peak car'?

We are on track to grow over the next 10 to 15 years. Asia, and particularly China, is the biggest opportunity [given] the combination of population growth, wealth growth, economic growth. We sold roughly 650,000 units in China, which makes it our biggest market by a wide margin.

Even in mature markets like Europe and America where you have a flat overall market, you still have wealth growth and more people coming into the range where a Mercedes becomes more relevant. So even in a mature market I see opportunities for luxury to gain market share in the long term.

What is Daimler's electrification strategy?

There's no two ways about it, the world is going toward zero-emission in the long term. For us, in the next five to 10 years, battery electric vehicles play an absolutely crucial role to go there.

Our strategy toward electrification is based upon three pillars. Every single combustion engine that we will have will get a 48-volt mild hybrid system. Then, we will have plug-in hybrids in every segment. And we will have a full family of EQ battery electric vehicles.

We don't have [full hybrid vehicles] in the planning right now. We believe that plug-in hybrid at this point is a better use for the customer because you can truly drive electric up to a certain distance.

High-cost electric vehicles are expected to put pressure on automaker margins. How do you manage that?

The cost structure of electric vehicles in this first generation or two are definitely higher than what we used to have on the combustion [engine] side. It's one of the main tasks as we scale and further develop the technology, primarily on the battery side, to drive that cost down. That will take many years. It is our goal to be a profitable business. The business case with the electric vehicles has to be profitable, as well.

What effect will rising trade tensions between the U.S. and Europe and China have on production at Mercedes' Alabama plant, a major export hub?

We have a production footprint which more or less matches our sales in every one of the relevant regions. We still rely on global trade. Good trading relations between countries is something we rely on. We believe it's an absolute growth factor for the economies around the world. So we're very much pro-free trade.

We have to see what the results are of the negotiations — particularly with regard to Alabama — between the U.S. and China. We are hopeful that in this case, the mindset of promoting trade prevails. But we don't know the results of these talks.

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