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Daimler Accepts Some Blame for Toll Venture

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Abstract (Article Summary)

A day after the board of DaimlerChrysler announced that it would extend Jurgen E. Schrempp's contract as chief executive, Mr. Schrempp ran into a storm of questions on Thursday over the company's role in a botched highway toll collection system in Germany.

The German government has threatened to hold DaimlerChrysler and its partner, Deutsche Telekom, liable for damages in excess of 6.5 billion euros ($8.2 billion). The companies are already paying 250,000 euros a day in fines, a penalty that will increase to 500,000 euros a day next month.

For Mr. Schrempp, the problem-plagued Toll Collect project only makes his sales job more difficult. DaimlerChrysler said it had taken a charge of 250 million euros ($317 million) in 2003 to cover its share of the losses at the venture, plus provisions to pay fines for failing to complete it on time.

Full Text (1019 words)

A day after the board of DaimlerChrysler announced that it would extend Jurgen E. Schrempp's contract as chief executive, Mr. Schrempp ran into a storm of questions on Thursday over the company's role in a botched highway toll collection system in Germany.

Mr. Schrempp, who appeared at DaimlerChrysler's financial news conference in this suburb of Stuttgart, admitted that the company had stumbled on the project, which the German government angrily canceled this week, after technical flaws repeatedly delayed its operation.

''Mistakes were made by all sides, that is quite evident,'' Mr. Schrempp said. ''We don't want to escape responsibility.''

The futuristic system, which is designed to track and collect tolls from trucks with a network of satellites and wireless transmitters, was supposed to set the standard for Europe and the world.

Instead, it has become a humiliating symbol to many here of the decline of German engineering.

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Mr. Schrempp said he was confident the sides would resolve their differences. He disputed suggestions that the debacle had sown broader doubts about DaimlerChrysler's reputation.

''Despite all the justified criticism, there is a chance, even with this long delay, to make the system work,'' he said. ''This is a highly complex system, and if it materializes, it will be an E.U. standard.''

Such warnings were sprinkled throughout Mr. Schrempp's remarks, as he laid out a guarded view of the prospects for Daimler and its main divisions, Mercedes-Benz and Chrysler.

He projected only a slight improvement in 2004 over last year's operating profit of 5.1 billion euros ($6.47 billion).

Though DaimlerChrysler managed to squeak by its profit target, its performance left analysts and investors cold because of continuing heavy losses at Chrysler, turmoil at Daimler's partly owned Japanese subsidiary, Mitsubishi, and worries about quality at its flagship unit, Mercedes.

Despite his own job security, Mr. Schrempp, 59, was subdued, saying he was not satisfied with the performance. ''You cannot be happy, for example, with what happened at Chrysler,'' he said.

DaimlerChrysler is the latest German carmaker to report lackluster results, as the industry deals with product flaws, anemic sales on both sides of the Atlantic, and unfavorable exchange-rate fluctuations.

Volkswagen said on Wednesday that its net income fell 57 percent in 2003, to 1.1 billion euros ($1.39 billion). The company attributed its weakness to the rise of the euro, which depressed sales in the United States, as well as the disappointing debut of its luxury sedan, the Phaeton.

Volkswagen has pinned its hopes on the redesigned Golf, which it rolled out last fall in Europe. But the company did not meet production targets for the Golf in 2003, and now faces tough competition from a new version of Opel's Astra, as well as new compact models from Ford and BMW.

''Cars are no longer the darling of Germans the way they used to be,'' said Boris Boehm, a money manager at Nordinvest in Hamburg. ''Germans are not replacing them as quickly as they once did.''

Although Germany and much of Europe have shaken off a lengthy economic malaise, DaimlerChrysler discouraged hopes that better times would soon translate into a better bottom line.

Mercedes-Benz increased its operating profit slightly in 2003, to 3.12 billion euros ($3.96 billion). But with a costly plan to roll out new models -- including a redesigned sport utility vehicle -- it will probably not lift its profit further until 2005, Daimler executives say.

Analysts took that as a signal that earnings might actually fall this year. Mercedes is still struggling to restore confidence in its quality, which suffered after it fared poorly in a customer survey by J.D. Power.

The chief of the Mercedes division, Jurgen Hubbert, insisted that quality was as good as at any time in the last 15 years, but that customers had become more demanding. Mr. Hubbert, 64, will retire in April, and be succeeded by the No.2 executive at Chrysler, Wolfgang Bernhard.

Chrysler, which had operating losses of 506 million euros ($642 million) last year, hopes to do better in 2004, as it begins an ambitious rollout of 25 new models over two years.

But having missed its goal to make even a modest profit, Chrysler's chief, Dieter Zetsche, declined to set numerical targets or provide details on his plans to turn around the division.

"They keep saying 2004 is tough, let's look at 2005," said Thomas Aney, an auto analyst at Dresdner Kleinwort Wasserstein in Frankfurt. "But I don't think investors are going to buy into that."

For Mr. Schrempp, the problem-plagued Toll Collect project only makes his sales job more difficult. DaimlerChrysler said it had taken a charge of 250 million euros ($317 million) in 2003 to cover its share of the losses at the venture, plus provisions to pay fines for failing to complete it on time.

But the bigger cost may be to the company's image. When DaimlerChrysler and Deutsche Telekom signed a contract with the government in 2002, they made grand promises about how quickly they could design and build an exceedingly complicated system. When one deadline after another passed, the partners settled into a surly standoff with the government.

Analysts say they were in over their heads.

"To use satellite-tracking technology, allied with mobile phones, should work in theory, but nobody has ever done it in practice on such a grand scale," an analyst at Standard & Poor's, Robert Bain, said.

The German transport ministry has given the companies two months to come to a new agreement, which would include stiff damages. Otherwise it said it would solicit new tender offers for the project. Mr. Aney said DaimlerChrysler would probably pay a fee to settle the dispute.

"It's a political problem, and there's a political solution," he said.

[Photograph]
Jurgen E. Schrempp, chief executive of DaimlerChrysler, admitted yesterday that a toll collection project had failed. (Photo by Agence France-Presse -- Getty Images)