

cover
story

TRANSATLANTIC MAN

Somehow, the only person who could fix Fiat turned out to be a uniquely qualified manager from Toronto. Now for Sergio Marchionne's encore: Chrysler

by Eric Reguly

photograph by Max & Douglas



The Fiat hall at the mammoth Frankfurt Auto Show has always been the top destination for the scruffy car journalists who swarm to the event like locusts every two years. It's not just the glam Fiat group cars—Ferrari, Maserati, Alfa Romeo—that attract them; it's the girls.

The women who adorn the displays have historically been the show's sexiest creatures, with ultra-short dresses, knee-high boots and provocative, runway-trained pouts.

While the Fiat girls at this year's event were as lovely as ever, there was another reason the Fiat hall was standing-room only: The company's elusive Italian-Canadian CEO, Sergio Marchionne, was due to make an appearance.

No other auto executive has gone from relative obscurity to international stardom as quickly as Marchionne. A year ago, he was the boss of Europe's sixth-largest carmaker—a relative non-entity. Today he is the man who is shaking up the global auto industry almost single-handedly.

In the depths of the worst auto recession since the Second World War, most car companies went into survival mode—but Marchionne went on the offensive. Fiat took control of Chrysler and attempted the same bold manoeuvre with Opel, the European arm of General Motors. About the same time, he told the French carmakers, Peugeot-Citroën and Renault, that Fiat would happily form a partnership with either of them. They didn't bite. In time, others might—if the new Fiat-Chrysler partnership proves a winner. Marchionne predicts that only six large auto groups will survive globally, and he fully expects Fiat-Chrysler to be among them. Only last summer, Chrysler was in the Chapter 11 bankruptcy lockbox, and Fiat, while profitable, was considered too small to thrive on its own.

On the auto show's second media day, Marchionne slumps into the sauna-like Fiat hall in his trademark black sweater and dark trousers. (The last time he wore a suit and tie was when he met the Pope in 2007, when, ever the ragamuffin, Marchionne was photographed in a double-breasted suit left unbuttoned, a fashion no-no.) He's immediately swarmed by a pack of sweaty journalists (myself included) who shove recorders in his haggard face and give him not a millimetre of breathing room.

Chrysler, he announces, is a big mess. "There's a whole pile of stuff that we didn't see when we came in, that we were not expecting," he says, noting that the company's previous owner, Cerberus Capital Management, had left the product pipeline practically bare in its two years of inglorious stewardship.

Still, he sounds optimistic about Chrysler's turnaround potential and predicts that, together, the American-Italian duo will boost annual production to 5.5 million to six million autos, the minimum number required, he believes, to assure the long-term prosperity of any mass-market car company. The trouble is, Fiat and Chrysler as a team are two million cars short of Marchionne's magic figure. "Between us and Chrysler, we'll get there," he reassures the journalistic throng.

Give the man full marks for optimism where others see only gloom. Opinions vary radically about his chances of reviving

Chrysler, the most debased of Detroit's Big Three automakers.

Marchionne may have worked wonders at Fiat, a model turnaround story not matched elsewhere in the industry. But Chrysler is in far worse shape than Fiat was when Marchionne was handed the CEO title in 2004. Chrysler is a repair job from the axles up. Its market share in passenger cars has withered, and its aging fleet of SUVs and minivans, if not its pickup trucks, is outclassed by most Japanese and European, even Korean, competitors. The company that was launched by Walter P. Chrysler in 1925 and went on to invent the minivan and inherit the Jeep brand is a wreck, a textbook case of bad timing, bad management, bad products.

Some analysts doubt Marchionne can keep Chrysler alive until late 2011, when the company is to roll out the first of a series of Fiat-inspired small cars in the United States, Mexico and Canada. But even the doubters admire the man for attempting mission improbable. "He has balls the size of grapefruit," says one auto industry analyst.

Even so, Eric-Alain Michelis, Société Générale's auto analyst in Paris, thinks Chrysler could well be Fiat's "Vietnam."

Sergio Marchionne is one of the exceedingly few executives to run two large international companies. Another is Carlos Ghosn, the CEO of both Renault and its Japanese partner, Nissan. The workload is punishing for both men and extracts a huge personal cost.

Marchionne's pace is astonishing. His residence is in Zug, Switzerland, but he also has an apartment in Torino, Fiat's hometown, and in Birmingham, Michigan, not far from Chrysler's head office in Auburn Hills—Detroit's new Little Italy, thanks to Fiat transplants. For tax reasons, he cannot spend more than half the year in the United States.

Not that that's a problem. Meetings with suppliers, financiers, analysts and joint-venture partners keep Marchionne on the move. When I saw him in October in Torino, he was about to fly to Moscow, where he met Prime Minister Vladimir Putin to sign a production and marketing joint venture between Fiat's Case New Holland farm equipment maker and Russian truck maker Kamaz (he also told Putin he wanted to make SUVs in Russia).

Two company jets—a Cessna Citation X and a Dassault Falcon 900—await his call. He sometimes uses a helicopter to ferry him from Zug over the Alps to Torino. When he has the time, which is almost never since Fiat took control of Chrysler in the summer, he'll make the trip in one of his Ferraris. Two years ago, he totalled his red Ferrari 599 GTB on a Swiss highway. Miraculously, he was unhurt. "I like fast cars," he says. "I used to be a car buff before I went to Fiat."

Signature models highlight Chrysler-Fiat culture gap

DODGE RAM 1500



5.3 metres



2,219 kilos



4.7-litre, 8-cylinder



15.6 litres fuel required for 100 kilometres of urban driving

FIAT 500



3.55 metres



865 kilos



1.4-litre, 4-cylinder



7.7 litres fuel required for 100 kilometres of urban driving

Marchionne is perennially sleep-deprived—he averages five hours a night. Time is so precious that he schedules his flights at night, so he doesn't lose any working hours. To remove some of the burden, he recently announced his resignation as the senior independent director of UBS, the Swiss banking giant that nearly imploded during the financial crisis.

While he claims he is healthy and “can keep up” the pace, Marchionne looked more tired in October than he did in April, the last time I interviewed him at length. He has gained weight, still smokes Murattis incessantly and seems a bit more slouched than he used to be. He's 57; some of his colleagues fear the endless continent-hopping will burn him out. “Everyone is concerned,” says Roland Berger, an independent Fiat director and former Alcan director who is chairman of Munich's Roland Berger Strategy Consultants. “How long can he really support this double stress? Everyone has his physical limits. But Sergio is dealing with it so far.”

Marchionne speaks in a languid drawl, with an impossible-to-pin-down accent. Italian may be his first language, but English is the language he thinks in. He is an odd transatlantic hybrid. Like the classic Anglo-American executive, he is blunt, demanding, results-driven, efficient. Like an Italian executive, he loves to talk, loves to gossip, can charm an audience in several languages, adores his mother, is quick with a put-down. Analysts say that on a conference call a year ago, Marchionne labelled

Ghoshn “a coward” for his alleged propensity to delegate the delivery of bad news to his chief financial officer. Marchionne's comments about the shambolic Italian government are hilarious and unprintable.

He admits that he and his Italian-Canadian wife, Orié, are separated. An intensely private man, he doesn't say whether the demands of the job led to the separation, though Orié seems to have kept her life entirely separate from her husband's career. No one in the auto industry can remember meeting Signora Marchionne—“She was a ghost,” says an auto executive who knows the Fiat boss. They have two sons. Alessio, 20, attends Nova Scotia's St. Francis Xavier University. Their 15-year-old, Tyler, is in high school in Switzerland, where Orié lives. Marchionne's mother, Maria, 83, lives in Toronto, and he goes there often to visit her.

Marchionne's vast desk in Fiat's headquarters, next to the famous Lingotto building, the largest factory in the world when it opened in 1923, is a study in clutter. Two Mac computers and a PC jostle for room with his two BlackBerrys, two iPods and two iPhones—he loves the Apple brand.

Jammed in between are Fiat car models and books on the history of Fiat, the company that, under the Agnelli family, vied not too long ago with Volkswagen to be Europe's top carmaker. Stacks of DVDs on his desk contain rough cuts of new Dodge Ram ads. They are slick mini-movies that emphasizes rural American values—hard work, a get-it-done-now mentality and brute strength. A typical Fiat ad emphasizes sex appeal or performance or both.

Indeed, the typical Dodge is far removed from the typical Fiat. The base model of the signature Fiat, the 500, launched in its newest guise in 2007, is 355 centimetres long, weighs 865 kilos and is powered by a four-cylinder engine no bigger than what you'd find in a Harley-Davidson. The signature Chrysler, the Dodge Ram 1500 pickup, is 530 centimetres long, weighs 2,219 kilos and comes with a brutish, gas-slurping V8. They could be from different planets. Fiat hopes to build the cute little 500 in Mexico for the North and Latin American markets and expects it to be a hot seller, as it is in Europe. But analyst Michelis thinks Marchionne is dreaming if he believes the 500 will appeal to anyone but East and West Coast fashionistas. “You will not sell a single Fiat 500 in Kansas City,” he says. “Anyone driving one there would get shot.”

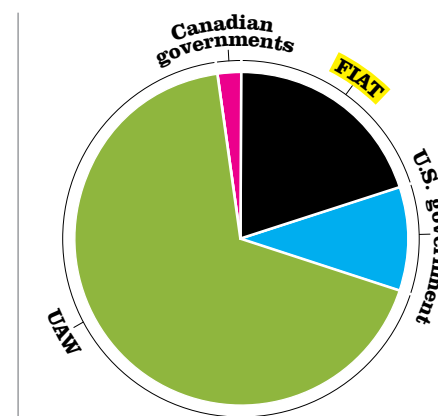
So, what makes Marchionne think he can use Chrysler and Fiat, two wildly different car companies, to boost each other's fortunes? The answer is, in a word, synergies. But synergies on a massive scale, like none the auto industry has seen before.

He thinks the two companies, working together, could save billions in vehicle development costs through the use of common platforms and engines. And you know what? If Chrysler drives off a cliff once again, it won't cost Marchionne anything but a bruised ego, for he has vowed not to put a cent into a company that cost him nothing to buy and whose value is registered as a big fat zero on Fiat's books. “This is the best thing we could have done for ourselves and for Chrysler,” he says.

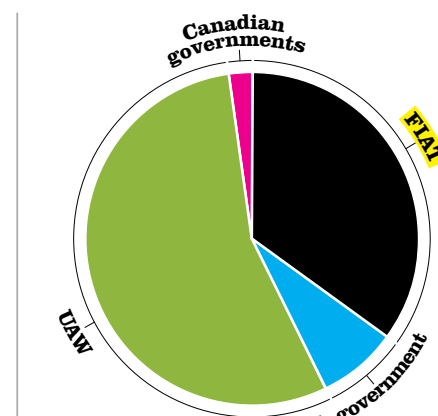
Sergio Marchionne is best known as a turnaround artist who knows that any industry unable to earn its cost of capital is a slow-motion suicide.

Exhibit A is the global auto industry itself, a value destroyer on an epic scale. “The glitz and media that surrounds it is totally disproportional to the level of prosperity that it has produced,” Marchionne says. “There is not an industry in the world that gets written about as much that produces such crappy results.”

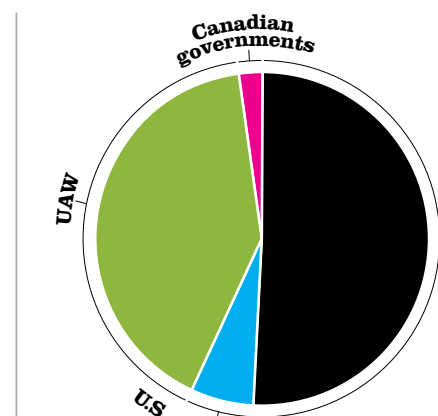
How Fiat can go from zero-down to majority ownership of Chrysler



With no money down, Fiat was handed its initial 20% stake in exchange for providing management control



If it passes three tests—in technology transfer, sales and fuel economy—by 2013, Fiat can increase its interest to 35%



Fiat can raise its stake to a maximum of 51% by exercising options between 2013 and 2016—if hurdles (mentioned at left) are cleared and government loans are fully repaid

Marchionne didn't go near car-industry management until he landed at Fiat at age 52. The auto newbie was born in Chieti, Italy, in 1952, the son of a policeman. Sergio was a precocious child. By age 8, he was the head altar boy in the local church, assisting a priest who often forgot his lines during the Latin mass. “I used to whisper Latin in his ear to prompt him,” Marchionne says.

His father made good investments, retired at 50 and moved his family to Toronto, where his mother's sister lived, to give his two children a better education. The young Marchionne attended University of Toronto, received a law degree from Osgoode Hall and an MBA from the University of Windsor. The new country was not all fun and adventure. His only sibling, Luciana, who taught at the University of Toronto, died of cancer in 1980.

The first decade of his career was spent in Canada in senior tax and finance roles at various companies, including Lawson Mardon Group, a Toronto packaging company. Lawson was acquired by Aluisse Lonza (Algroup) in 1994. Algroup sent Marchionne to Switzerland, where he ultimately became CEO. After Algroup's sale to Montreal's Alcan in 2000, he landed at Algroup's chemical division, Lonza, which was being spun off.

Two years later, he became CEO of SGS Group of Geneva, a product-testing and certification business that is partly owned by Fiat's Agnelli family. Impressed with his business talents, the Agnellis put Marchionne on the Fiat board in 2003.

At the time, Fiat was in crisis, and capable Agnelli bosses were in exceedingly short supply. Gianni Agnelli, the playboy industrialist and grandson of Fiat's founder, died in 2003. Gianni's anointed successor, his nephew Giovanni Alberto, had died of cancer in 1997. Gianni's only son, Edoardo, had committed suicide in 2000. So the top job went to Gianni's brother Umberto. He died a year later.

The power vacuum had to be filled immediately. The Fiat board, led by Ferrari boss Luca Cordero di Montezemolo, looked around the room and gambled on Marchionne, the outsider who spoke Italian and English, had plenty of international experience and a reputation for toughness. He was made CEO in 2004 and was given carte blanche to do what was needed to fix Fiat, which was then on the verge of bankruptcy.

Deciding that Fiat was essentially worthless and couldn't be

sold, Marchionne went into overdrive to turn it around. Remarkably, he did so without closing factories, for fear of triggering a labour war he couldn't win. Instead, many workers were sent home on reduced wages.

But 2,000 managers in the top-heavy company were blown out the door. Getting rid of middle management is a trademark Marchionne move. He tends to surround himself with a small group of trusted, fairly young lieutenants and work them relentlessly, never letting them forget who the boss is. (At Chrysler, he calls his top managers his “kids.”)

He then took a blowtorch to Fiat's clapped-out car fleet. The company was saddled with 19 different “architectures,” or platforms, with few parts shared among models. The number of platforms was reduced to 16 and will fall to six by 2012. Car development times were cut by almost half. New models were rolled out, including the compact Grande Punto, the car that more than any other is credited with saving Fiat, and the 500 runabout, an instant hit. Fiat's domestic Italian market share rose from 24% to 33% in five years.

His cleverest move came in 2005, when he persuaded GM's then boss, Rick Wagoner, to pay Fiat \$2 billion—money Fiat sorely needed—to eliminate a put option that would have forced GM to take control of Fiat's auto division (all currency in U.S. dollars except as noted). The option was negotiated in 2000, when GM bought 20% of the division. Five years later, GM itself was in rough shape and realized the last thing it needed was full ownership of an ailing Italian carmaker.

It was a tremendous coup for Fiat (and a move that accelerated the bankruptcy of GM). “Only a North American could have negotiated with GM and only an Italian could have convinced Fiat to follow him,” Berger says. “He understands both cultures, which is such an important asset.”

By 2006, Fiat's turnaround was secure, and the company became a stock-market darling. Or at least it was until Lehman Brothers collapsed in September, 2008, triggering the global credit crisis and a slump that saw many car companies lose half their sales virtually overnight. Chrysler was one of them. Bankruptcy and liquidation were considered likely scenarios for Detroit's weakest player.



While Marchionne is a proven turnaround artist, he is also an opportunist. The opportunity to take control of a huge car company with no money down, at essentially no risk to Fiat shareholders (save the ample management time), was too good to pass up.

Better yet, the target was not the old Chrysler, the rusted-out K-car of Detroit's Big Three. Chrysler's swift trip through the bankruptcy courts had produced a slimmed-down company that looks good on paper, if not in the showroom. Debt and health-care liabilities were cut by almost \$13 billion. A similar value in loans from the U.S., Canadian and Ontario governments left the new Chrysler with about \$8.5 billion in cash and \$8.7 billion of net debt. Cash in November was still an ample \$5.7 billion.

Plant capacity was cut by about a third, with no fewer than seven plants cut loose. The number of U.S. dealers was reduced by almost 800. Marchionne thinks the drastically reduced production capacity across the U.S. auto sector in general, and specifically at Chrysler, will help the industry bounce back far more quickly than it will in Europe, where no major car plant has closed since the recession started.

Fiat's initial stake in the freshly solvent Chrysler is 20%, rising to 35%, then 51%, if certain performance targets, such as the launch of a car that gets 40 miles a gallon, are met. (The U.S., Canadian and Ontario governments collectively own 10%.) "Marchionne found a company he could buy for nothing," says Ferdinand Dudenhoeffer, director of Germany's Centre for Automotive Research at the University of Duisburg-Essen. "There was no risk. He got it as a gift. At minimum, this gets Fiat a North American dealer network."

“Sergio is extremely bright and sharp. But he is underestimating the Chrysler disaster. He has to start from scratch, and people won't wait two years to buy a new Chrysler.”

—Eric-Alain Michelis, Société Générale's auto analyst

That's the good news. The bad news is that Chrysler's previous owners—Cerberus, for two years until last spring, and Germany's Daimler for the previous decade—left the product cupboard almost bare. Even Marchionne admits he was surprised by the lack of product development. In the next year, Chrysler is rolling out only two vehicles that qualify as “new,” that is, a new body on a new frame, as opposed to smearing lipstick on an old pig. They are the Jeep Grand Cherokee, in the spring, and the Chrysler 300C sedan at the end of 2010. That's it. After that, Chrysler will depend on the new Fiat-inspired small-car offerings, including the 500.

Marchionne presented Chrysler's turnaround plan in a six-hour presentation at the company's headquarters on Nov. 4. Chrysler, he said, will redesign its entire portfolio by 2012 at a cost of \$23 billion. The overhaul would not be possible without Fiat, whose engines, transmissions and platforms will allow Chrysler to get back in the game for small- and medium-size cars. More than half of Chrysler, Dodge and Jeep vehicles will be

built on Fiat platforms by 2014. In essence, Chrysler is to become a small-car specialist—without losing its line-up of big vehicles adored by most Americans.

Fiat was vague about the North American roll-out plans for the Fiat 500, but is aiming for late 2010 or early 2011. In 2012, Dodge is to get a new Golf-size sedan based on a Fiat platform. In 2013, the Chrysler group will introduce a small hatchback based on the Fiat Grande Punto, Fiat's current sales champion, while the Jeep brand is to get three Fiat-based models. The goal is to build 21 Fiat and Chrysler models on seven platforms by 2014, down from 11 platforms in the 2010 model years.

The timetable seems ambitious. Getting American safety approvals for the 500 may take more time than expected, and you can't just catapult a Fiat Grande Punto to North America and slap a Chrysler or Dodge badge on it. The cars will have to be re-engineered for North American safety and emission standards, not to mention comfort, suspension, power and trim requirements. After that, Fiat will have to pray that chubby Americans will suddenly develop a taste for skinny cars. “Sergio is extremely bright and sharp,” says Michelis. “But he is underestimating the Chrysler disaster. He has to start from scratch, and people won't wait two years to buy a new Chrysler.”

Watch me, Marchionne says. Fiat has fully factored in Chrysler's bare product pipeline. The Italians know the next two years will be rough going, but Chrysler is sitting on a pile of cash, and the new Grand Cherokee and Chrysler 300C may buy the company an extra breath or two. Then, ladies and gentlemen, *sigorni e signore*, it's synergy time.

Which brings us back to the question of what synergies could possibly exist between a Detroit SUV maker and an Italian small-car company. To hear Marchionne tell it, it's all about the platforms.

Marchionne hates proliferating platforms and engines. Each hunk of metal costs billions to develop and put into production. Spread too many platforms and engines over too little production and you have a recipe for bankruptcy, as Chrysler and GM found out, and as Fiat almost found out. Marchionne's goal is to have Chrysler and Fiat share a relatively small range of platforms and engines. “One of the most horrible wastes of capital you see is the duplication of the effort by the car manufacturers to do things that *appear* to be different from the other guy,” he says.

For example, almost every European automaker has a small, four-cylinder engine. One company may have a 1.3-litre version; the company next door, a 1.4-litre version. They have similar performance, yet company A would never dream of buying company B's engine, and vice versa. “What is the point of one guy developing a 1.3 engine, and another guy a 1.4? What are you getting for this? And the answer is nothing, a total waste of capital.”

Chrysler spent \$2 billion developing a new V6 engine at a time when it was struggling to survive. The company could have bought an equally good V6 elsewhere. “It's nonsensical what Chrysler did,” Marchionne says. “It's enough to make your blood boil. When I was here running Fiat, I refused every fucking year to invest one dollar in developing a V6 engine because I knew sooner or later I would find a guy who would say, ‘Let me sell you some engines.’ I make my [Fiat] engines available to anyone.”

Fiat will soon have a V6 gasoline engine—Chrysler's. Chrysler will soon have a 4-cylinder, 1.4-litre engine—Fiat's. The two companies will share platforms; Fiat's small-car platforms will form the basis of a new fuel-efficient Chrysler fleet, one that will

go a long way to help SUV-laden Chrysler meet the tough new fuel-economy standards introduced by Barack Obama's administration (electric cars are not being ruled out, but do not seem to be the priority at the new Fiat-Chrysler). Chrysler is even getting an Alfa Romeo platform for an upscale Chrysler car. "The goal is three or four main architectures that pump out a million cars apiece," Marchionne says.

How much will all of this save? Over time, billions. For shared platforms, the rule of thumb is 3 to 1; the cost of developing a car drops from \$3 billion to \$1 billion if the new car uses an existing platform instead of starting up a new one. The time to deliver a new car to the market also falls substantially.

Adam Jonas, the Morgan Stanley auto analyst in London, is a believer. In an October report, he said Fiat's partnership with Chrysler could triple Fiat's share price. "Fiat's co-operation with Chrysler Group offers billions of euros of value optionality to Fiat shareholders that we do not think is reflected in the price," he wrote, suggesting that the synergies could save the companies €1.7 billion a year between 2011 and 2016.

The trouble is, Jonas is one of the few who thinks that Marchionne can give Chrysler the Lazarus treatment.

Analyst Michelis, of Société Générale, and Dudenhoeffer, of the Centre for Automotive Research, put Marchionne's chances at the low end of the scale, if only because they think Chrysler is too far gone. "I think Chrysler is dead," Michelis says. "But it might be worth the risk because Chrysler is worth zero, so Fiat doesn't have to take any losses."

Dudenhoeffer notes that automaker mergers rarely succeed in creating value. Ford gave up on Jaguar and Volvo. GM gave up on Fiat five years ago. Even the Peugeot-Citroën merger cannot be considered a great success. The two French automakers came together in 1976, and it was only in 2006 that the companies were

fully integrated. But Peugeot-Citroën is hurting and may have to merge with rival Renault or another carmaker.

And don't forget that one of the most powerful carmakers on the planet, Daimler, owner of Mercedes-Benz, controlled Chrysler for a decade and made nothing of it. But we should remember that Fiat isn't Daimler, insist Marchionne and Berger, the Fiat director.

It was an open secret that Daimler's famously arrogant engineers hated working with Chrysler, a brand they considered inferior, a polluter of the Mercedes name. When Daimler bought Chrysler in 1998, it fully intended to create a shared platform and parts bin, just as Marchionne plans to do. But virtually no Mercedes-inspired machines were launched when Chrysler was under Daimler's command.

As for the next owner, "Cerberus, as a financial investor, was primarily interested in taking cash out of Chrysler," says Berger. "They essentially cut the R&D expenditures and brand investment. And that after Daimler, to protect the Mercedes brand, minimized technical co-operation with Chrysler. But Fiat is motivated to work with Chrysler in all aspects of the business."

Indeed, Marchionne is stuffing Chrysler with Fiat talent, in part to ensure the two companies work together and avoid the dismal Daimler-Chrysler experience. Of the 24 members of the new senior executive team at Chrysler, four come from Fiat. Another 20 managers of Fiat origin work directly beneath them. While the companies will remain separate—the plan is to return Chrysler to the stock market at some point after 2010—Marchionne wants Chrysler and Fiat to operate as one on the management, sales, R&D and technology fronts. "Seepage is invited," he says. "I want absolutely porous walls between the two organizations because it's the only way we're going to bring down the capital commitments."

Martin Hoelz, the head of Deloitte's automotive consulting group in Stuttgart, will not attach odds to Chrysler's revival. But if anyone can fix Chrysler, it is Fiat, he says, again because Fiat is fully committed to working with Chrysler. "The potential for success with Fiat is there," he says. (Deloitte is also Chrysler's auditor.)

Marchionne claims he will not retire until both Fiat and Chrysler, as separate companies and as a partnership, are true successes. He says he is not motivated by money or ego or power. "I just want to make a difference. I want to make Chrysler the most profitable car company in the United States."

Thirty years ago, another executive of Italian descent landed at an ailing American car company, took a government bailout and used the financial support and an overnight culture change to launch a series of new vehicles that saved the company. The man was Lee Iacocca, and the company was Chrysler.

Iacocca is 85 and lives in California. "I finally met Lee Iacocca, in September," says Marchionne. "I saw him in his house. I've read some of his books. He's still an American icon for what he did. He took help once and paid it back. I promised him the day we pay the government back, I'll take him to Washington and hand over the cheque for a second time." **R**