

Mercedes-Benz Chairman Dieter Zetsche Sees a Future for the Auto Industry of 'Endless Possibilities'

Dr. Dieter Zetsche
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Head of Mercedes-Benz Cars Division

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Excerpts from Dr. Zetsche's Remarks

On the state of the U.S. economy: It's funny: For decades, people have predicted the downfall of the American economy. In the '80s, many feared that Japan would soon be the leading economy in the world. In the 2000s, they say the same thing about China. Yet, despite all of those bleak predictions, the U.S. continues to be the locomotive of the world economy.

On German hardware: German hardware is just as exciting as American software.

On electric cars: Five years ago most people assumed that virtually every auto manufacturer in the world would mostly sell electric vehicles. Today, five years later, we know high purchase prices, cheap gas, range anxiety, a limited number of charging stations – these and many other factors slowed down the rise of electric mobility. Plus to this day, no manufacturer has actually made money on electric vehicles. Daimler was and I think still is the first exception, because we sold our stake in Tesla with a \$750 million gain. [Laughter.]

On learning cars: Our long-term vision is a learning car that progressively tailors itself to the driver. And that's important because the more functions the car is equipped with, the more complex it becomes.

On car sharing: Daimler is the first auto manufacturer in the car-sharing business. When we launched our service Car2Go, many people thought it was crazy to share cars instead of selling them. The great thing about Car2Go is that our customers don't have to make a reservation ahead of time to use the service, nor do they have to return the car to rental station. They just check on their phone where the next available car is and rent it; and at the destination, they just park it, make sure it's locked, and off they go. Now imagine our car-sharing fleet driving autonomously. It would make access to a car as easy as access to music on Spotify.

Today Car2Go is already the biggest car-sharing service in the world with over 1 million customers. In D.C. alone, more than 50,000 use our practical smart cars to get around on a regular basis. And it doesn't take that much imagination to see we're just getting started. There is tremendous potential ahead when you combine three components: connected, autonomous, and shared.

On VW emissions falsification scandal: In the first place, many people assume in the first moment, well, if one company does that, probably others do as well, and if it's a German company, probably other German companies, they are doing that as well. And I think a strength of "made in Germany" altogether and of the German car industry is a perception that these are reliable brands and that you can trust them. And this, of course, is a blow to our industry

altogether, and it's up to us to rebuild that trust where it has been damaged, and we do everything we can because we haven't done everything wrong.

On the competitive business environment: Digitalization will change the world and will change our industry with high speed. And we can sit in a corner and let that happen and then lay off our people and do something else, or we can try to be part of this change and to the extent possible lead it. That's why we are, for instance, in Car2Go, and that's why we like to see other new ideas coming up. We talk with these companies, with those people. There are areas where we can cooperate. There are areas where we probably will compete in the future. And all of that is for me just providing new opportunities because at the end, the customer is getting better services and new services he wasn't used to before. And we'll try to get our part of it, to the extent possible. Yes, there might be some cars we would have sold be replaced by, for instance, Uber services. But mostly, it's developing mobility to the future, and that's our business, and that's good.

On competing in the digital world: As for – and this is something really important now for us – all these new businesses in the digital world, speed is essential, and you have to move forward, and you can come up with a better version, and you can be 80 percent fine, and then you do another download, and you get to 90 percent, and your customers are happy. We cannot do that with an XS Class. We still have to strive for the best car in the world, and perfection is the name of the game. We have to look for the last week and the last percentage of improvement to get this kind of a car. So we have to on the one hand maintain this kind of culture with our engineers and at the same time the same company do other parts of our business just on a speed, speed, and let's take some risk and go forward basis. And this is on the one hand a challenge; on the other hand, again, a tremendous opportunity. If we succeed to combine these two strengths, the sky is the limit.

On negotiating to buy a new Mercedes: Generally, women are better negotiators, not just when it comes to cars.

On the top-line Mercedes (S-Class Maybach): This was in the top, top segment, \$500,000-plus, and very expensive to go for a next generation without much benefit – perhaps a thousand or 2,000 cars a year. We ended that, but we now have with our Mercedes S-Class a Maybach sub-brand version, which is an extended wheelbase. And when we sold about 500 Maybachs in the past per year at the end, we're now selling 500 S-Class Maybachs per month in China alone. So this is a huge success now and goes very well.

On other economies: Latin America is doing very poorly these days in general with the economy. Russia, of course, we have big business in Russia. And we even – when the crisis started, we kept our sales up, so there was still a lot of interest. Many people actually, Russian, invested into long-term goods by buying our cars when the ruble came down. But there we see now, of course, a major downturn for the industry altogether.

DAVID M. RUBENSTEIN: Welcome, members and guests of The Economic Club of Washington, welcome to this breakfast event, the fifth event of our 29th season, in the Atrium Hall at the Ronald Reagan Building and International Trade Center in Washington, DC. I am David Rubenstein, president of The Economic Club of Washington. Welcome to all this morning.

Our special guest is Dr. Dieter Zetsche, who's the chairman of the Board of Management of Daimler AG and the head of Mercedes-Benz Cars Division. Right there. As you can see, we have a car here – anybody can buy it if they want to buy it. I guess there's a price that can be negotiated. There are also four new 2016 car models outside on the Woodrow Wilson Plaza if anybody wants to take a look at those. Nice cars.

So we're very pleased to have Dr. Dieter Zetsche as our special guest today. He is a native of Germany – actually born in Turkey, but grew up in Germany – graduated from college in 1976 with a degree in electrical engineering, and then right after college joined Daimler, which is a company that is the result of a merger that actually occurred in 1924 from the Benz and Daimler companies. He worked his way up and over many years rose up to more senior positions and then in the year 2000 was asked to run the Chrysler part of Daimler – which then was part of Daimler – and did that for five years living in the Detroit area from 2000 to the end of 2005. And then in 2006, the beginning of 2006, he became the chairman of Daimler and the CEO of the Mercedes division.

Daimler is today a company with about \$85 billion in market value, market capitalization. It has about 286,000 employees, 25,000 of them in the United States, and over the last 12 months or so has had revenue of about \$160 billion and earnings before interest and tax of about \$13 billion. So we're very pleased to have one of the great figures in the automobile industry as our special guest. And I would like now to introduce Dr. Dieter Zetsche. Thank you very much. [Applause.]

DIETER ZETSCHE: Thank you, David, and good morning, everyone.

I'm very excited to be in D.C., especially since I was invited to speak at the Economic Club and not at a congressional hearing. [Laughter.] Now, I'm not here to talk about diesel emissions, though I might – I suspect we might come back to that in interview. But before I start with my actual topic, I want to make one thing perfectly clear: At Daimler, we have never used manipulative software, nor will we ever do so. [Applause.]

I think it's no secret I always enjoy coming to the U.S. I spent, as you just heard, six years of my life and worked here, so I feel as if I'm coming home, although back in my Detroit days, we rarely had this many people for breakfast. [Laughter.]

I find it particularly interesting to come here during campaign season. The picture that some of those campaigns paint can easily make you think the U.S. economy is about to hit rock bottom. But judging from the hard facts of our U.S. business, I know your economy has done a great job of climbing back from it.

It's funny: For decades, people have predicted the downfall of the American economy. In the '80s, many feared that Japan would soon be the leading economy in the world. In the 2000s, they say the same thing about China. Yet, despite all of those bleak predictions, the U.S. continues to be the locomotive of the world economy.

Today we see many of the most promising global trends driven by American companies. And many of those companies are headquartered in an area that embodies the American entrepreneurial spirit: the Silicon Valley. Now, I am not a computer scientist. I'm an engineer. And Daimler is headquartered in Stuttgart, not at Stanford. In other words, to me, German hardware is just as exciting as American software.

And that's exactly why I find our times so fascinating. Of course, the world of engineering and the world of software are becoming increasingly intertwined. In our industry, we see virtually endless possibilities arising from these trends. That's what I want to talk about today: the future of mobility. Obviously, that topic is broad enough to talk about through breakfast, lunch, and dinner, so I hope you'll excuse me if I don't go into all the details.

Let's imagine for a moment that we were at the same event in the place but in 2010. Back then, a speech on the future of mobility would have had one main focus: electric cars. Five years ago most people assumed that virtually every auto manufacturer in the world would mostly sell electric vehicles. Today, five years later, we know high purchase prices, cheap gas, range anxiety, a limited number of charging stations – these and many other factors slowed down the rise of electric mobility. Plus to this day, no manufacturer has actually made money on electric vehicles. Daimler was and I think still is the first exception because we sold our stake in Tesla with a \$750 million gain. [Laughter.]

Now, does selling our Tesla shares mean that we are backing away from electric cars? No, not at all, because electric mobility will become the dominant form of personal transportation, just not as fast as some people expected.

At the same time, there is no question that another game changer is already in full effect: digitalization. And that's my main point today. I'm convinced regardless of whether cars are powered by gasoline, diesel, hydrogen, or solar energy, one key fuel of the future for industry will be data. Data changes everything, from the customer experience to the culture of corporation to business models. The amount of data collected every day is incredibly huge. And if current studies are any guide, it will continue to grow by a factor of 10 by 20[garbled].

The key for turning the mountain of data into meaningful value added for the customer is the networking of data, also referred to as connectivity. What can the intelligent networking of data do for the auto industry in specific terms?

Let's start with the customers. One thing is clear: The better we know the customer and their wants and needs, the more personal our service can become. Amazon is a good example, obviously: If I order an air mattress, it is only logical that I could also use an air pump. This is convenient and useful. However, the suggestions are not always that innocent. For example, this is what Amazon German website recommends when you're looking for window cutter. [Laughter.] So gloves, a ski mask, and a baseball bat. [Laughter.] However, I'm not sure whether that says more about Amazon's algorithms or about German customers. [Laughter.]

Obviously, connectivity is much more than that. The magic word is "predictive." It's about anticipating the customer's behavior. And you don't need a supercomputer to anticipate

one thing: Connecting data is also the key to great customer experience in my industry. Let me give you an example. When I'm on vacation, why can't my rental Mercedes know my mirror and seat settings or my favorite music before I get in? That would be a clear customer benefit of big data, and we're working on it.

Our long-term vision is a learning car that progressively tailors itself to the driver. And that's important because the more functions the car is equipped with, the more complex it becomes. At some point, the dashboard might look like this. [Laughter.] Just between you and me, the only thing I find worthwhile in this picture are the controls for the autopilot. [Laughter.] We are working on that as well. The rest can go.

If your smart phone only needs four buttons, then the Mercedes of tomorrow shouldn't have any more. That's why our team in Silicon Valley is working on dynamically displaying only those functions to the driver that he or she really uses. The interior of our Concept IAA show car underlines where we are headed.

However, the subject of machine learning gets really interesting when you take it even further. That's when autonomous driving comes into the play. Take the following scenario. It's assumed that there are hundreds of thousands of autonomously driving vehicles on the road each day. At Daimler, this involves not just cars but trucks and buses as well. We are currently testing autonomous trucks on public roads in Germany and the U.S. All of these vehicles gather millions of experiences in traffic and learn from them. Thanks to the network data streams, they share this knowledge. To me, this is where Car-to-X communication really makes sense. So in the future, cars will have the chance to teach each other and become increasingly smarter thanks to real swarm intelligence. Large troupes of cars will become smarter together. I wish we could also say the same word on large groups of people. [Laughter.]

Clever and connected cars bring totally new possibilities – not only to customers; they also open the door to new business models. For example, if each visitor gets dropped off directly at the entrance of the shopping mall and the car is able to look for a parking space on its own, we can entirely rethink urban parking structures. They can be further away because no one needs to walk from there to the actual destination. And the parking space itself – (clears throat) – sorry – can be much smaller, as no one needs to get in or out of the car. And best of all, when your car comes back to pick you up, you don't even have to tip it for this automated valet service. [Laughter.] Or if a car company knows that someone has recently begun to stop off at the daycare center every day, why not send him a roomier model to test? There are many similar examples.

And here again, things gets really interesting through connectivity. For example, the connection with car sharing. Daimler is the first auto manufacturer in the car sharing business. When we launched our service Car2Go, many people thought it was crazy to share cars instead of selling them. The great thing about Car2Go is that our customers don't have to make a reservation ahead of time to use the service, nor do they have to return the car to rental station. They just check on their phone where the next available car is and rent it; and at the destination, they just park it, make sure it's locked, and off they go. Now imagine our car-sharing fleet driving autonomously. It would make access to a car as easy as access to music on Spotify.

Today Car2Go is already the biggest car-sharing service in the world with over 1 million customers. In D.C. alone, more than 50,000 use our practical smart cars to get around on a regular basis. And it doesn't take that much imagination to see we're just getting started. There is tremendous potential ahead when you combine three components: connected, autonomous, and shared.

And we don't just need connectivity in the car and with the car; we also need connectivity in the company. At Daimler, this involves cars, trucks, and buses. But until now, synergies between heavy-duty commercial vehicles and cars have been very limited. That's about to change. In the U.S., a commercial truck travels about 70,000 miles per year in average; a car, about 11,000. But the data collected by the truck could benefit all road users. It can, for example, report congestions or hazardous road conditions. Overall, we see huge potential. And the key to unlock that potential is, again, data.

Ladies and gentlemen, it's no wonder that today's hunt for data sometimes feels like a modern-day gold rush. And just as in the 19th century, California is again playing a main role in today's data gold rush. And as then, simply starting to dig and collect without rhyme or reason is unlikely to be successful.

However, it makes equally little sense to wait and waver until the best claims are gone. I don't think the successful gold miners of years past spent a lot of time on discussions, printed forms, and formalities. After all, the California Gold Rush was over in less than 10 years.

The fundamental difference to today is that the treasure trove of data is inexhaustible. It is actually getting bigger at breakneck speed. The important thing now is to mine it carefully, safely, and on a sustainable basis. And we must establish the kind of business models that allow us to profit from it on a sustainable basis.

The German auto industry has one crucial advantage. We continue to make our money primarily from the hardware. Customers pay for our products with cash, not with personal data. Unlike others, we do not depend on making a profit from other people's data. This allows us to use the data exclusively for offering our customers and no one else an even more attractive product.

Digitalization offers tremendous opportunities to put our stamp on the future of mobility. This is what I'm looking forward to, just as to the discussion with David and all of you now. Thank you very much. [Applause.]

CONVERSATION WITH DAVID RUBENSTEIN

MR. RUBENSTEIN: So let's start for a moment with what happened in the third quarter. You had a very strong third quarter at Daimler, record earnings, record revenues, and particularly strong performance in China. So was that due to the strength of the global economy or superior management of you? [Laughter.]

DR. ZETSCHE: I only can lose either way I put it. [Laughter.] But on the one hand, in average we have a reasonable environment as far as the global economy is concerned. And as far as it comes to our company, we have focused for many years now on the product in all of our divisions to come up with a superior product, and this is just paying off. And that's why we see really good growth rates – as you mention, the Chinese market, which overall in the car business is almost stagnating at that point of time; in the last four months we had monthly year-over-year growth rates of 40 to 50 percent, so that's not too bad.

MR. RUBENSTEIN: So today, how many cars a year does Mercedes sell?

DR. ZETSCHE: Well, this year – I do not want to make any new announcement, but roughly spoken it will be about 1.8 million Mercedes cars plus smarts, and then of course rents, commercial vehicles, and so on.

MR. RUBENSTEIN: OK, of that 1.8 rough number, how many of those are sold in Europe, the United States, China?

DR. ZETSCHE: This year, for the first time, China will be the biggest market. Our statement is still with more than 300,000 units, but obviously it will be much more than 300,000 units. And in the States it will be between 300,000 and 400,000 as well, slightly for the first time behind China. Then Germany is the next one. So we have a very balanced actually spread globally between, if you take Germany alone, then Europe and then North American and then China and then the rest of the world, between these five we almost have a 20-20 and so on spread.

MR. RUBENSTEIN: So the cars that are sold in the United States, how many of those are actually manufactured in the United States?

DR. ZETSCHE: So when we are selling north of 300,000 vehicles here, we are building north of 300,000 vehicles here as well. These are not the same. So we are building mostly our – I'll call GLE – you used to know it as ML – SUV and the GL for the globe. So this is the only location where we're building these vehicles. On top of that, we are building C-Classes here, which we build at four locations in the world. So we are about selling as many as we are building, but they go for export and we import others.

MR. RUBENSTEIN: In other words, if you buy a Mercedes in the United States, it may or may not be produced here. Correct. But can you tell – if you got into the car that was a Mercedes built in Germany or in the United States, the difference in quality, can you tell where they would be just be driving it? Could you personally do it?

DR. ZETSCHE: No. No way. Nobody could. We have exactly the same yardstick of measuring our quality around the globe, and we have exactly the same quality at least here in the U.S. as we have in Germany. Frankly spoken, it took us some time to get there. When we started in Tuscaloosa almost 20 years ago, we had some rougher times in the beginning. But today we have perfect quality there, and we are very much ahead of our competition from the U.S. production location as well.

MR. RUBENSTEIN: In other words, the German workers couldn't keep up with the quality of the American workers? Was that the problem? [Laughter.]

DR. ZETSCHE: We have first-class workers in Alabama, and we have first-class workers in Germany, and they all do a very good job.

MR. RUBENSTEIN: OK. [Laughter.] So you must test the cars. I mean, in other words, you're not designing the cars, but when they have a new car, they must ask you to drive it. And do you do that regularly? And if you don't like a car, what happens to the designer of that car? [Laughter.]

DR. ZETSCHE: Well, first of all, we have about once every second month ride-and-drive with Mercedes sport. And we have, like, 20, 25 cars with us for a day, for one-and-a-half days – depends. And there are competitive cars there as well so that we have an idea where we stand versus the competition. And of course, we get an impression, but of course we get feedback. And this is supposed to improve the car and not deteriorate our – the people who are working on, and that's why these are very constructive discussions.

MR. RUBENSTEIN: OK. So who do you regard as your main competitor?

DR. ZETSCHE: Well, it's certainly – by today is BMW in the first place. We are three premium car manufacturers in Germany, very close, about 100, 200 kilometers apart from each other between BMW, Audi, and us. And the three combined – depends on how you define their luxury markets, but we have like 70 or 80 percent of the global market, which is very remarkable. And the main reason is that we are so close and pushing each other all the time to do better. And that's what ultimately we're all benefiting from.

MR. RUBENSTEIN: So you mentioned Volkswagen, in effect, in your remarks. Were your engineers always surprised that the Volkswagen emissions numbers seemed to be so favorable?

DR. ZETSCHE: Well, we do not measure the emissions of the competitive cars. We all have to adhere to the legislation. So we are not surprised when our competitors adhere to legislation. We're surprised when we learn that they didn't.

MR. RUBENSTEIN: OK. So has this hurt you or helped you? Hurt you in the sense that German manufacturing is in question by some, or helped you because your competition is weaker now?

DR. ZETSCHE: I mean, not going too much into detail, but of course, you gain an advantage if you do not adhere to these emission laws in fuel consumption or in power of the engine or something like that, so there is a competitive twist about that aspect as well. But now, of course, at least in the first place, many people assume in the first moment, well, if one company does that, probably others do as well, and if it's a German company, probably other German companies, they are doing that as well. And I think a strength of "made in Germany" altogether and of the German car industry is a perception that these are reliable brands and that you can trust them. And this, of course, is a blow to our industry altogether, and it's up to us to rebuild

that trust where it has been damaged, and we do everything we can because we haven't done everything wrong.

MR. RUBENSTEIN: OK. So let me ask you, in Germany there is a big refugee influx from Syria. Has that affected your company in any way or not?

DR. ZETSCHE: Well, not to be too lengthy with my answer: We have in Germany a demography which will lead a reduction of population of millions and millions in the foreseeable future. I don't know any economic model which works on the premise of negative growth. So we are in desperate need of immigration for Germany. On the other hand, we have crises relatively close to Europe, in the first place in Syria, where people are threatened for their life on a daily basis and live in terrible situations if they continue to live. And many of these are fleeing. And now two things come together: On the one hand, the humanitarian responsibility to help these people and give them shelter; on the other hand, the need for people to help Germany to continue to stay as it is and grow. So I have publicly stated that I think this is a real opportunity and that this might even lead to another economic miracle in Germany, just as it happened 30, 40 years ago, when many so-called *gastarbeiter*¹ at that time, millions came to Germany to help us grow our economy.

Of course, there are tremendous tasks on hand, and of course it's not easy at all when week by week, 10,000 or even a hundred thousand of people are coming into the country, and you have to find places where they can sleep and so on. That is all but easy. But I think there is no choice but the direction which our Chancellor has decided to go for, and I'm totally supportive of that.

And we help with our company to the extent we can. So we have so-called bridging apprenticeships, where we have newly come refugees giving them their first job opportunity and train them, educate them. We contribute with money. Where we have spare room, we offer that for shelter and so on.

MR. RUBENSTEIN: OK. You mentioned in your remarks Tesla, and obviously you or somebody in your company decided to make an early investment in Tesla. Why did you decide to sell at that point, even though – obviously a nice profit – why not just stay in the company?

DR. ZETSCHE: First of all, we invested because we thought they're doing something good, something smart, and have all respect for what Elon Musk² has accomplished with the first car – or it was actually the second, but the first bigger success, the Model S. And we to some extent were involved with that, certainly with capital. And we worked together as well. So our B-Class, for instance, electric vehicle uses batteries from Tesla.

Our decision to divest on this money was that our collaboration continues independent of our financial investment, and we are not in the financial business or in the speculative business, and therefore, with this kind of change in the value, we decided that's good and let's move on.

¹ Literally, guest workers; foreign or migrant workers.

² CEO of Tesla Corporation; inventor, investor,

MR. RUBENSTEIN: OK. What about Uber? Is Uber helping you or hurting you? Helping you because more cars need to be bought by Uber drivers or hurting you because fewer people are buying cars themselves, they're just using Uber? Which way does it cut for you?

DR. ZETSCHE: Well, in a more general way, as I mentioned before, digitalization will change the world and will change our industry with high speed. And we can sit in a corner and let that happen and then lay off our people and do something else, or we can try to be part of this change and to the extent possible lead it. That's why we are, for instance, in Car2Go, and that's why we like to see other new ideas coming up. We talk with these companies, with those people. There are areas where we can cooperate. There are areas where we probably will compete in the future. And all of that is for me just providing new opportunities because at the end, the customer is getting better services and new services he wasn't used to before. And we'll try to get our part of it, to the extent possible. Yes, there might be some cars we would have sold be replaced by, for instance, Uber services. But mostly, it's developing mobility to the future, and that's our business, and that's good.

MR. RUBENSTEIN: So I have a Mercedes. It's about 20 years old. It never falls apart.

DR. ZETSCHE: We have new ones. [Laughter.]

MR. RUBENSTEIN: I know, but somebody saw mine recently and wanted to know it was an antique car. But it doesn't break down, so I don't know – I mean – how often do you think people should buy new cars? [Laughter.]

DR. ZETSCHE: Obviously, that's up to them. The typical firsthand user span would be something between three and four years. Very much relates to leasing as well, which is in the U.S. about 50 percent of the business altogether. But we see for instance there are – we were forced in Germany or in Europe at some point of time to pay for the recycling of the cars at the end of the lifespan. And we reserved a lot of money, almost hundreds of millions for that, and later on we could free up these reserves again, because no cars were recycled. They all left Europe at some point of time and had a second life in other parts of the world.

MR. RUBENSTEIN: Well, maybe one of the reasons I haven't bought a car is I'm always afraid if I go in to negotiate, I will be taken to the cleaners because I'm not a good negotiator on buying cars. [Laughter.] So when people go to buy a car today, the people that negotiate, do they really have an advantage now? Because the Internet tells them what the prices are. And what is the margin that the dealer really is trying to get? Is it a thousand dollars a car? Five hundred dollars a car? [Laughter.]

DR. ZETSCHE: After you described your buying behavior, I would especially invite you to come to one of our dealerships. [Laughter, applause.]

But actually, the sales side of the business is changing tremendously. First of all, the customer is more informed today than ever before, and typically he knows more about the car he's interested in than the salesman does – because of the Internet, of course. Still, most people, almost all people buy new cars after being informed on the Internet in the physical world, so they

go to a dealership or some places. But there, in the past, the mantra was closing: You don't let this customer leave your lot without having closed the deal. This is changing. We now know the only way to win over customers and to stay with them in the long term is to inform them. So we don't have hard-selling salesmen in the first place anymore, but people who, like a concierge or so, inform, answer the questions, and let the customer decide what he or she wants to do. Ultimately, when there, or the next time, it comes to a deal, there is a still discussion about the price, but the better he or she knows about the car, the more they get excited, the less surprises that's a factor.

You realize that I didn't tell you about the contribution of the dealer.

MR. RUBENSTEIN: Well, I know. But, I mean, what happened is it used to be the case that if you would negotiate to buy a car – I don't know if they still do this anymore – the person would say, I got to talk to my manager to see if I can sell it to you at this lower price. Do they really talk to the manager and get permission – [laughter] – or do they just go and get – do something else and they can come back, they know what they can sell it at?

DR. ZETSCHE: Our salesmen always say the truth. [Laughter.]

MR. RUBENSTEIN: OK. All right. OK. All right. So if you were to go buy a car but you couldn't buy a Mercedes car, you couldn't buy one because you just couldn't, what car would you buy?

DR. ZETSCHE: That is a very tough situation. [Laughter.] But obviously, there are many good cars out there in the world. And I'm very much affected by the motion of a car. And for instance, Aston Martin is providing nice cars, so – but I hope I'll never get into the situation you describe. [Laughter.]

MR. RUBENSTEIN: OK. All right. So when you lived in the United States, you became relatively well-known because you were doing television commercials for Chrysler, for Ask Dr. Z, and your mustache was fairly distinctive. How long have you had that distinctive mustache? [Laughter.]

DR. ZETSCHE: First of all, I cut it on a weekly basis because you're making this movement. [Laughter.] Well, basically since I was 18, so it's just as it is. [Laughs.]

MR. RUBENSTEIN: OK. But how did you find living in the United States compared to Germany? And what did you find manufacturing cars in the United States compared the Germany? What was the difference?

DR. ZETSCHE: Well, first part – not because I'm here and I have to be polite and friendly – these were about the best five years of our life for the family and myself. My kids are half-American and actually return here frequently, did college time here on top afterwards, and so on. So we are kind of between the two worlds. And I just like the ease of living and the informal way of right into each other. I just feel at home here.

As far as business is concerned – it's black and white and these are old stereotypes and don't apply specifically like that, but in general terms, in Germany, when we want to do something, we plan for the next three years, think about every alternative which could happen down the road. And then when we are finished with planning, then we start executing exactly to what we planned before. Here in the U.S., you just start and go and then you learn by doing and improve. And like always, the best probably is in the midway.

As for – and this is something really important now for us – all these new businesses in the digital world, speed is essential, and you have to move forward, and you can come up with a better version, and you can be 80 percent fine, and then you do another download, and you get to 90 percent, and your customers are happy. We cannot do that with an XS Class. We still have to strive for the best car in the world, and perfection is the name of the game. We have to look for the last week and the last percentage of improvement to get this kind of a car. So we have to on the one hand maintain this kind of culture with our engineers and at the same time the same company do other parts of our business just on a speed, speed, and let's take some risk and go forward basis. And this is on the one hand a challenge; on the other hand, again, a tremendous opportunity. If we succeed to combine these two strengths, the sky is the limit.

MR. RUBENSTEIN: Now, the name Mercedes was the daughter's name of one of the founders of your company, is that –

DR. ZETSCHE: Close. It was Mr. Jellinek³. And he was an Austrian, and he lived in southern France. And this was about a hundred years ago. And he wanted to buy 80 cars which he would buy, which would a huge amount at that time, if the company would be willing to call them Mercedes, which was the name of his daughter. And these cars were used as racecars. So the first Mercedes cars were racecars. And that's why this is a very important part of our pedigree.

MR. RUBENSTEIN: Suppose his daughter's name was Brunhilda or something, would it – [laughter] – would still we have that?

DR. ZETSCHE: Fortunately, he was an Austrian, and Brunhilda is not a very – [laughter] – typical name there. We might have foregone these 80 cars and just moved on.

MR. RUBENSTEIN: OK. What about driverless cars? There obviously is a lot of attention to that. You referred to it a bit. How far away do you think it really is before we have truly driverless cars?

DR. ZETSCHE: Well, there are two paths we are pursuing. The one is an evolutionary path. This goes through our very strong assistance system. So we have a vision of accident-free driving, and we're getting very close to that. So this is to high extent accomplished by our systems which are like a safety net around you, and if you'd never do that, but other people would make any mistake, then the car is there and protects you from the consequences of that, taking the steering wheel and turning it or whatever, or slamming the brake. Once you do that, you can as well keep the hand of the robot there, and then you have an autonomous car. So on

³ Emil Jellinek, Austrian automobile entrepreneur with Daimler Motoren Gessellschaft who in 1902 created the Mercedes line, naming it after his daughter; today the brand is among the best-known in the world.

this step-by-step path, next E-Class being launched, being shown here in the Detroit auto show for the first time next January, will take another big step in this direction. But it will take some years till we get to fully autonomous cars in this path.

The other one is more revolutionary, where we take, as I said, Car2Go, and we turn that into Car2Come. So in that case, we will not do that on a global basis everywhere at once, but for instance, start in neighborhoods where instead of building hundred houses with, I don't know, 300 garages, we build – or the developer builds 130 houses, no garages, and the car sits somewhere out at a cheap lot, and you go in front of your doorstep, and the car comes, and you leave. That is a restricted area much easier, and there we would go fully autonomous in the next step.

So both paths we are pursuing, but both of them are tremendously close and getting – every day we see it has happened faster than we thought and now slower.

MR. RUBENSTEIN: Back to my favorite subject of actually buying a car: Who are better negotiators, women or men, when they go in?

DR. ZETSCHE: Well, generally, women are better negotiators, not just when it comes to cars. [Laughter.] But I – there is not much of a difference. The difference is that our sales organization generally is still not totally up to the change of the world in the last hundred years. And here in the U.S., for instance, we are the luxury brand with the highest share of women – of female customers, which is good. But in most countries, we are not, and that's a tremendous opportunity for us. I said the other day, women are the new China, because we had tremendous amount of potential in China, which we are now unlocking, and we have tremendous amount of opportunities in winning over more women for our brand. They love our cars, but some of them still have some restriction to the brand, which used to be a men's brand and kind of old-fashioned. It's getting cooler and cooler now, and we're winning more and more women over.

MR. RUBENSTEIN: So when a man comes in to buy a car or a woman comes in to buy a car separately or when they come in together, what's more likely to have a sale? When the husband and wife come together, that's more likely to lead to a sale, you would suspect?

DR. ZETSCHE: Well, once again, in many cases, the customer – the salesman then would be asked questions by the woman and then answer to the man what the car is about. And that's totally stupid because much more than 50 percent of the decisions are actually made by women if it's about a couple buying a car, and then of course, many women buy their own cars. So this is – they have a very strong influence on our product and our success.

And we are still far too engineering-driven; we have a so-called car configurator where you can build up your car. And this is about how the axle works and what parts are in the engine. Most people don't give a – about. [Laughter.] And so we are changing that into kind of a lifestyle configurator where, you know, tell us what kind of a person you are, and we recommend you a car, and then you can modify and tweak it a little bit.

MR. RUBENSTEIN: So for a while Mercedes or Daimler had a car called Maybach, which was a great car but didn't sell enough. Is that why you ended it? Or – if that's right.

DR. ZETSCHE: Yes, yes. This was in the top, top segment, \$500,000-plus, and very expensive to go for a next generation without much benefit – perhaps a thousand or 2,000 cars a year. We ended that, but we now have with our Mercedes S-Class a Maybach sub-brand version, which is an extended wheelbase. And when we sold about 500 Maybachs in the past per year at the end, we're now selling 500 S-Class Maybachs per month in China alone. So this is a huge success now and goes very well.

MR. RUBENSTEIN: So in Germany you have the Autobahns, and on the Autobahns there's no speed limit. Is that right?

DR. ZETSCHE: There are some stretches where there's no speed limit.

MR. RUBENSTEIN: Oh, OK.

DR. ZETSCHE: But larger ones, meanwhile, have speed limit, unfortunately. But still you have fun.

MR. RUBENSTEIN: But how fast – you designed your Mercedes cars to go at what speed and cruise very comfortably at how – on the Autobahn? Is that –

DR. ZETSCHE: We have kind of an agreement between the German luxury brands that we would limit our cars at 250 – kilometers per hour, that is, which is like 180 miles [per hour], something like that. But this is not true for our AMGs⁴. They would go to 320, or something like that, kilometers per hour. And at 250 you feel very comfortable on the Autobahn if it's not too busy. When you pass 300 you are focused – better focused. [Laughter, laughs.]

MR. RUBENSTEIN: Wow. Do you have helmets you sell with those as well, or no? You don't need helmets when you're driving at that speed?

DR. ZETSCHE: No, no. And today's cars typically don't have a shape which allow you to have a helmet on top of your head. [Laughter.]

MR. RUBENSTEIN: OK. So like this car here, let's suppose I actually decided to break my 20-year ban on buying a new Mercedes. How much could I buy that for? What would that cost if I negotiated with you or somebody? [Laughter.]

DR. ZETSCHE: It's a little bit above \$100,000.

MR. RUBENSTEIN: One hundred thousand dollars.

DR. ZETSCHE: Something like that, yeah. With this one, it's an AMG. There you could go 300-plus.

⁴ AMG is the performance division of Mercedes-Benz.

MR. RUBENSTEIN: And that's automatic? Because I don't know how to do a stick shift. Do you think it's automatic? [Laughter.]

DR. ZETSCHE: It's automatic. You can relax. [Laughter.]

MR. RUBENSTEIN: OK. All right, good. So what is your greatest opportunity in the world –

DR. ZETSCHE: We'll talk about that after the –

MR. RUBENSTEIN: OK, all right. [Laughter.] The greatest global opportunity for Mercedes for expansion now, where is that? And where do you think is the single greatest challenge for your company?

DR. ZETSCHE: Well, definitely we by far underutilize the potential we had in China for a number of years. We made many changes there. Of course, we introduced the same very successful cars in recent years in China as in other parts of the world, and we changed our fortune. When we were about a third of the sales of Audi there and half of BMW sales, meanwhile we are at the level of BMW and moving much faster, growing much faster. So that was a tremendous opportunity. And even though in the moment it's kind of stagnating, this market will continue to grow, certainly continues to be the biggest opportunity.

The U.S. market is one of the not too many further growing markets in the triad because of your demographics. So that is very important for us as well.

On the other hand, of course, there are the typical culprits. Latin America is doing very poorly these days in general with the economy. Russia, of course, we have big business in Russia. And we even – when the crisis started, we kept our sales up, so there was still a lot of interest. Many people actually, Russian, invested into long-term goods by buying our cars when the ruble came down. But there we see now, of course, a major downturn for the industry altogether.

MR. RUBENSTEIN: Now, the euro has been a great boon for Germany because the euro's been relatively lower-priced than the deutschmark would have been, and therefore – has that been part of the German expansion success?

DR. ZETSCHE: Definitely, definitely. I mean, sometimes the tabloids in Germany are talking about all the expenses Germany has with Greece or whatever challenges in Europe, but of course the opposite is true. I mean, Germany definitely is one of the most, if not the most benefitting country in the European Union, first of all because of the unified market – and we are obviously exporting more than anyone else into Europe as well – and secondly because we have lower interest and probably a somewhat weaker currency than Germany would have on its own, which of course is some kind of a boost for the industry. But we have to be careful. I am never in favor, on the long run, on a weak currency, because ultimately the strong currency asks you to train and practice every day and to improve your operations, and that is the more lasting foundation than kind of an artificial tailwind based on currencies.

MR. RUBENSTEIN: So now you're in Washington today, obviously. Do you ever see government officials when you're here? And what is your biggest regulatory concern about the U.S. government doing something that you might not like?

DR. ZETSCHE: Well, yes, of course, but not as much on a regular basis as I did when I was with Fred Learner [ph] or with Chrysler here of course. Well, certainly there are – the overall legislation as far as emissions are concerned – and I'm talking about CO2 – is very demanding, very demanding. We have to invest heavily – we do that anyway – into all new technologies, but of course there are limits to physics where just you get to some boundary conditions you can't overcome. And the electric car, which is then the only next step, still is not very popular.

But having said that, we accept this challenge because we agree as well that we have to do all together as much as possible to bring CO2 emissions down. Certainly the auto industry is the one end where it costs the most money to reduce by one ton of CO2 versus many other areas, but we accept that we have to do our part as well. So we are not complaining.

MR. RUBENSTEIN: So when you joined Mercedes or Daimler in '76, did you ever expect you would rise up to be the CEO? Was that in your plans?

DR. ZETSCHE: No, certainly not. I wanted to do a good job, I wanted to have fun, and loved cars. That was it.

MR. RUBENSTEIN: So your mother is 93. When you called her and told her you were going to be the CEO of Daimler, what did she say?

DR. ZETSCHE: Ooh. [Laughs, laughter.] Well, certainly on the one hand she's, if you want, somewhat proud of that career. On the other hand, she doesn't like when she's addressed as the mother of me. She likes to be addressed as herself, as her own person. [Laughter.] And that's what she makes definitely very clear to everybody who takes the other route. [Laughter.]

MR. RUBENSTEIN: But when she was driving up until recently, did she drive a Mercedes? Or if she hadn't driven a Mercedes, what would you have said?

DR. ZETSCHE: What a question. What a question. Of course she did.

MR. RUBENSTEIN: Right, OK. [Laughter.]

DR. ZETSCHE: She still owns it, but since last year she, I think, doesn't use it anymore, and I'm not unhappy now. [Laughs, laughter.]

MR. RUBENSTEIN: So you've been in your current position since 2006. That right?

DR. ZETSCHE: Yes.

MR. RUBENSTEIN: So you obviously have more years to go. You're relatively young by the standards of corporate executives in your position.

DR. ZETSCHE: Question what relation you are building there, but it's OK.

MR. RUBENSTEIN: So what would you consider doing, if anything, after you left, if – when you eventually do leave your current position? Would you want to go into government, or your system doesn't allow that? Or would you go into some philanthropic activity? Or what would you like to do beyond what you're doing now?

DR. ZETSCHE: Well, I will not go into any government position. I don't believe that's why I'm a reasonably successful businessman, I would be a good politician. But yes, certainly you will do some philanthropic activities, and to some extent I would like to do things which I am missing now the time for, like doing a longer trip on a sailing boat and stuff like that.

MR. RUBENSTEIN: Let me ask you a final question. Let's suppose I said I have \$50,000, that's all I have to spend for a car, and I can pick a BMW, I can pick an Audi, I could pick a Mercedes, or I could pick a General Motors car. What would be your reason why I should spend my \$50,000 on a Mercedes? Why would I be getting better value for a \$50,000-Mercedes than your competitors would get for me for \$50,000? What would be your argument?

DR. ZETSCHE: Well, the first obvious, very rational argument is that two years down the road, five years down the road – and certainly in your case 20 years down the road – [laughter] – the value of the car would be higher in comparison to the others. But more importantly, within these two, five, 20 years you would have had much more fun. [Laughter.]

MR. RUBENSTEIN: All right. I've had a lot of fun today, and I want to thank you very much for doing this. I have a little gift for you, on behalf of the members of The Economic Club of Washington. This is a copy of the original map of the District of Columbia.

DR. ZETSCHE: That is beautiful, beautiful.

MR. RUBENSTEIN: Thank you. Thank you very much.

DR. ZETSCHE: You're welcome. Thank you very much. [Applause.]



DR. DIETER ZETSCHÉ

Dr. Dieter Zetsche has been a member of the Board of Management of Daimler AG since December 16, 1998, and Chairman of the Board of Management of Daimler AG since January 1, 2006. He is also Head of Mercedes-Benz Cars Division, which includes passenger cars of the brands Mercedes-Benz and smart as well as Mercedes-Benz AMG.

Dr. Zetsche was born in Istanbul, Turkey, on May 5, 1953. After attending school in Frankfurt and obtaining the *Abitur* (university entrance examination), he studied electrical engineering from 1971 to 1976 at the University of Karlsruhe and graduated as an engineer. He joined the research department of the then Daimler-Benz AG in 1976 and became assistant to the Development Manager in the Commercial Vehicles business unit in 1981.

Dr. Zetsche completed a doctorate in engineering in 1982 at the University of Paderborn. From 1984, as part of the Daimler-Benz Commercial Vehicles Management Development Team, he was responsible for the coordination of international development activities.