

EXPORTED

From Italy

SERGIO MARCHIONNE,

**THE VISIONARY, TRANSOCEANIC CEO OF
CHRYSLER GROUP AND PARENT COMPANY
FIAT SPA, ISN'T ONE TO TAKE SHORTCUTS.**

*By Gary
Witzenburg
Photographs by
Greg Ruffing*

For example, Fiat could have reintroduced Alfa Romeo to the United States market by slapping a nameplate on the upcoming Dodge Dart, but Marchionne wasn't willing to jeopardize the brand's image to meet short-term sales goals. He also doesn't back down when confronted with limitations.

He had forecasted that the Fiat 500, built in Toluca, Mexico, would sell 50,000 units in its first year of sales in North America, but only 26,000 vehicles were sold. No matter. Fiat, he says, will pick up orders elsewhere, particularly in South America. While Marchionne was disappointed with the Fiat 500's initial results, he says the forecast should be taken in the context of the company hitting its two-million sales estimate last year. "In the scheme of things, a 24,000-car miss out of a two-million target is a rounding error," he says.

DURING A SERIES OF RECENT INTERVIEWS,* MARCHIONNE — WHO RECENTLY MOVED INTO A LAKEFRONT ESTATE IN COMMERCE TOWNSHIP — ADDRESSED A WIDE RANGE OF ISSUES, INCLUDING QUERIES ABOUT SEVERAL MAJOR INVESTMENT INITIATIVES IN METRO DETROIT.







You have talked about how important Fiat is to Chrysler's future, but how important is Chrysler to Fiat's? Would it be fair to say that Fiat needs Chrysler as much as Chrysler needs Fiat?

SM: Without a single doubt. I've been working on both sides of the table here for a long time, and I don't understand Chrysler without Fiat, or Fiat without Chrysler. I don't like either one as a stand-alone company. Fiat is a complex animal. One reason, looking at it as a global corporation, is its importance to the stockholders. Another is that you cannot underestimate the importance and relevance of the contribution made by the premium sports cars to Fiat's earning potential, which has been crucial.

A number of things have happened inside Chrysler that have been totally driven by Fiat. (The 2013 Dodge Dart) would not have existed in the 30-month time frame we are talking about ... yet it is here. This architecture was nowhere to be found (within Chrysler). That engine was nowhere to be found. The dual-clutch transmission was unknown to this (Chrysler) side of the business. Forty miles per gallon was pie-in-the-sky. We could never have done it at Chrysler alone.

Q: Looking out three to five years, where does the alliance go? What kind of further changes would you like to make? And, considering the battles you had with Italy in general and unions in particular, should we believe that — unless something happens over there — more and more of this global alliance will be based in Auburn Hills?

SM: If we run into additional difficulties in trying to bring an industrial project forward in Europe, I think that we will, by definition, shift our interests and our resources and our plan to develop our assets within the group, including in North America. Our remedial course of action in Europe will be (that we will have) no expansion there.

Q: When the Chrysler/Fiat merger happens, when the integration is complete, how many global platforms will you have? How many do you have now?

SM: On the SUV and passenger-car side, if you (don't count) pickups and commercial vehicles, there will be five architectures — micro, small, compact, SUV, and large — that will probably account for 90 percent of our global volume. That will be down from more than a dozen just on the Chrysler side. Architectural rigor was not a Chrysler strength.

Q: What other things would you like to do with architectures and powertrains?

SM: Our architectures and powertrains are good. I think we need to develop a higher level of brand discipline to make sure that we focus on the right brands going forward, and turn the

ones that are global into truly global brands and the ones that are regional into regional brands. I think we have two brands that are potentially global because of their DNA: Alfa Romeo and Jeep. Jeep is established now; Alfa is a work in progress.

You'll notice that we have been incredibly careful in launching Alfa in the United States, because when we launch it, it had better be a premium brand or we shouldn't be doing it. Alfa is potentially a BMW contender, so there are some things you cannot do because the market will not pay that level of pricing for a car that does not offer the uniqueness of a premium brand; some things I will not do, (such as using) a standard architecture, because that would run counter to its premiumness. It would be easy for me to slap an Alfa Romeo body on that (Dart) architecture. I can do that in 18 months. But you would not get the powertrain and suspension of that car, so why would you spend 10 grand more to buy an Alfa as opposed to buying a Dodge Dart? We can't afford to do that, so we need to be very, very careful.

Q: Is that the same issue with the Maserati Kubang SUV?

SM: While the manufacturing of that will be done here in the United States (at Chrysler's Jefferson Avenue Assembly Plant in Detroit), the choice of powertrain is crucial. I could have taken a hemi engine with a supercharger and probably gotten as many horses as I could get out of a Ferrari engine ... but it would not sound like a Maserati, it would not drive like a Maserati, it

would not be as advanced. There are some things that set a car apart and some that don't. We need to be that disciplined.

In the mass market, you can get away with a lot more. We are learning how to manage the uniqueness. Look at the way we are managing Jeep, and the fact that we have preserved all of the trail-rated capabilities in every one we make. That is a hell of a statement, because when you devise the architecture to build a Jeep, you have to make allowances for that. And that is costly. It doesn't come for free.

Q: The Dart will be priced \$500 below the Ford Focus, and \$720 below the base Chevrolet Cruze. Can you make money at that level?

SM: I would be lying if I told you that I was going to make good money at that price. You do get a fully functional car for that price, but if you start shopping there, by the time I finish, maybe you'll pay much more.

Q: Meeting steadily increasing Corporate Average Fuel Economy (CAFE) requirements will be a huge challenge for full-line automakers. How will Chrysler get there?

SM: If you ask GM and Ford, we all have the same types of technology, and we all carry the same burden in terms of the sizes of vehicles we are manufacturing. The 50-plus miles per gallon by 2025 cannot be achieved by just redesigning established combustion technologies. We know that some type of hybrid solution needs to be implemented, and if we don't make (sufficient) changes in combustion engines, hybrids will become the mainstay in the United States. At that point, economies of scale will drive costs down. They will never be equivalent, but they will come down. But if you think we're going to get there without passing on additional costs to the consumer, I've got news for you — we will have to.

We know how to do it technically. I think there are unexplored areas of inefficiency in combustion that will give us much greater opportunity than people think, and we are just beginning to explore ways to reduce the energy demands of a vehicle. This is going to require the efforts of everybody on the engineering side to get it done. If anybody sits back and says, 'I can't find the answer by 2025,' they shouldn't be in this business. I don't have a silver bullet, but our guys are on it. We will have the answer, and we will grow with it as we progress through development.

Q: Do you think the industry has gotten religion on pricing discipline?

SM: Whenever you talk to a bunch of sinners, it's always the other guy who sins more than you. Every time I look at the incentive packages that we approve each month, I think we are going



back there. But we are not. We are actually being fairly stingy on the amount of money that we distribute on the incentive side. I cannot see any behavioral dysfunction in the marketplace that would suggest that we are going back to the old ways. You may get some erratic behavior from the non-locals, but it won't last long.

Q: You have talked about the need to get back to more brand discipline, to keep the regional brands regional and global brands global. Can you expand on that in the context of the difficulty you have had getting Fiat off the ground in the U.S.?

SM: To be perfectly honest, I think that we were incredibly naïve in our assumption as to what the volume in the U.S. would be. We set a number that was in excess of what MINI (Cooper) was selling in the United States, so we set ourselves up for a fall and now people are saying, "What is the future of Fiat?" Well, the future of Fiat is exactly the same that we had in mind when we launched the 500. If I had not told you

the 50,000 number and said we will sell 20,000, and then we sold 26,000, you would've said, "Wow!"

We sold 2,009,000 cars here in 2011 — the target was two million — and we missed the Fiat number by about 24,000. In the scheme of things, a 24,000-car miss out of a two-million target is a rounding error, but 20,000 would have been a more realistic number for the first year. The great thing about the investment is that we tooled it up for 100,000 production, and the plant is indiscriminate as to whether we sell them to the Chinese or the Latin Americans or anywhere else. The plant (in Toluca, Mexico) is exporting to everywhere — Brazil, Argentina, China, Canada, and the U.S. So we have preserved and maintained the integrity of the investment, but we're going to have to resize the commitment to the U.S. We are recalibrating the target for 2012. We will sell between 25,000 and 35,000 in the U.S., and about 5,000 in Canada.

Having said that, we need to continue to build

on the Fiat introduction here. We have stand-alone dealers, and they will get additional product. A European minivan that is being launched in Europe will also come to the United States. There is one additional car coming, probably at the end of 2013, from Alfa Romeo. So the combination will work, because you'll end up having Alfa and Fiat together.

Q: Regarding the economic issues in Europe, do you think they will deepen in 2012? And, if so, what will it look like for the industry? Compared to some of your other competitors, is Fiat disproportionately exposed by what could happen?

SM: There is not a doubt in my mind that Europe is a problem that needs to be fixed. It's not just our problem, but a problem for every European automaker other than the premium guys. It could be Armageddon and just blow up. This is not the kind of stuff where you can kind of coast along and wait until the storm passes. If you look at the instability of the financial markets and the way they are locked into the financing requirements of the European countries, you'll realize that the market is not giving it any space at all. It has an incredibly short range of expectations. It wants resolution, it wants action, and it wants it now. It is a difficult, difficult set of circumstances. There needs to be a new European response, and there needs to be action now.

I can make a case that we are probably in better condition than other European players because the solution to the problem is binary. Either there is resolution and the Euro survives as the currency, or we end up with a disintegration of the European Union and at least two foreign currencies: the Euro, or a Euro equivalent — the Deutschmark or whatever — and technically inferior currencies, of which the Italian Euro will be one. If there is a decentralization of the Euro, Italy will not be in it because of the size of its debt. But Fiat will be fine, believe it or not, because our financial structure has been designed to deal with that event. I have debt in Euros, and I have cash in Euros. If bananas devolve into peanuts, I will pay you in peanuts.

Q: You have talked about eliminating one of the minivan nameplates. Are you still on track to do that, and are you looking at different nameplates for the U.S. and Canada?

SM: All of those things are possible. The (Chrysler 700 C) minivan concept shows the kind of design work we have done around the minivan, and it's one way in which we have been trying to peel away the skin of the onion. We need to understand two things. One, the market is not going to grow by leaps and bounds. It is a defined market in the U.S. and Canada. People buy minivans because they

have to, for utility and necessity. Otherwise, they don't want to be driving minivans, which I think is a shame, but it is the reality. So we need to come to grips with that. Two, in the last two to three years, because of product choices that were made in the not-so-distant past, our quality ratings had begun to drop.

In the short term, we needed to address that, and we have. We have done a lot of work on our minivans to make them equivalently competitive to the imports. We had issues, and we have fixed them. But the next evolution needs to put us right back where we were before we lost it. We need to re-create the minivan. We can lightweight the structure, do new suspensions, powertrains, transmissions — all of that — in a relatively short period of time. Then it becomes a question of aesthetic choices. And we need to get there a lot faster than I thought. I don't like the smell of the market today, and I don't want to be fighting this battle for long.

My expectation is that we'll have something tangible to look at that we can take into clinics and start getting real consumer assessments (in the spring). And if I can nail down those choices by the end of the second quarter, I can start industrializing it in the second half of this year and industrializing the Windsor (assembly plant) next year. If we can do all that, I can probably get to a new minivan by the end of next year.

Q: Will there be only one minivan for North America?

SM: It depends how well we can move the differentiation. We need to create sufficient differentiation to make it viable, and we are going to do everything we can to try to fully utilize that (Windsor) plant. What I cannot do is create two things that look like the Grand Caravan (for the U.S.) and the Grand Caravan for Canada.

Q: Could you talk about diesel penetration in the U.S.?

SM: We (Fiat) are the people who invented Multijet and Multijet II (diesel engines), so we understand that technology really well. I think we have opportunities in the U.S. in certain classes of vehicles — for example, in medium- and heavy-duty pickup trucks. Those buyers favor diesels because of towing capability and function. They will also apply in larger vehicles, such as SUVs, where people need the torque of a diesel and want the fuel-efficiency. We have that engine in Europe now, and it probably accounts for 90 percent of Jeep Grand Cherokee sales there, since most Europeans will not buy a gas engine because of the price of gas and the consumption. So we're going to bring that engine to the U.S. We think the market is ready to listen to a diesel story in specific market segments. A diesel in the Fiat 500 is not such an easy sell, but in a Grand

Cherokee, there's room. And once you install it in the Grand Cherokee, installation in the Dodge Durango is rather easy.

Q: What can you tell us about the next generation of the Dakota pickup? Will it be unibody?

SM: There's better than a 50-percent chance that it will be unibody, and it will probably include a diesel offering. What we are working with right now is the capacity of that vehicle.

Q: The Jeep Liberty is coming up for a new model. What can you tell us?

SM: That car is all set, it's done, and the start of production will be in the third quarter of 2013, give or take a couple of months. We are just moving along industrializing it.

Q: What will it be called?

SM: I don't have an answer. I can give you my preference, but that means nothing.

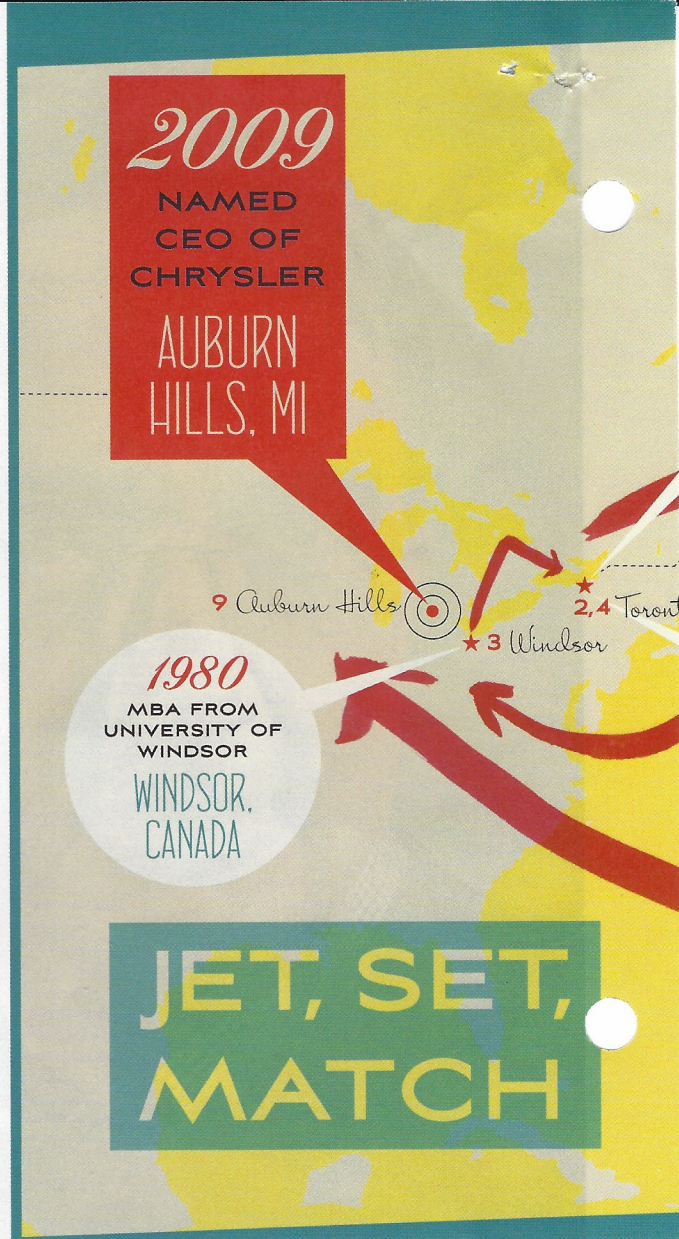
Q: What is your preference?

SM: Not to call it Liberty. There are a lot of traditional names inside Jeep — you can go back and look at them — but Liberty is very anonymous. This is something that needs to go back into history. I have a Grand Cherokee, but I don't have a Cherokee. Whenever you build things that are 'grand,' you assume there is one that is not. The Liberty in Europe is called the Cherokee, so maybe we'll bring them together and call them all Cherokee. I don't know.

Q: I have seen reports saying that you are committed to staying at least through the merger, but maybe not long after that.

SM: What I have said is that succession is not on the table until after 2015, for a couple of reasons. One, it's important for CEOs to plan their succession. People don't live forever, and I've been doing this stuff for eight years, so that will be 12 years that I will have been in this business and it will be time to move on. I also think we need to give space to the kids who are growing up in the company. That is good corporate governance.

Q: What is your thinking now about where the merged company's headquarters will be, what will determine that, and when will you be making that choice?



SM: We'll be making that decision when the time comes — no earlier than 2013, no later than 2015. We will make the right choice of the most efficient way to run the corporation.

Q: The Sterling Heights Assembly Plant is one of Chrysler's largest manufacturing centers, and now that a body shop is under construction and a paint shop is being renovated there, what does that say about Chrysler's confidence?

SM: Detroit is a region with deep and strong industrial roots, and it is a very important part of our manufacturing footprint. The effort and dedication of the employees at Sterling Heights have helped transform the plant, and reflect a change in mindset that is driving a renaissance at Chrysler. What we are seeing throughout all of our plants is a willingness to adapt and to accept accountability. The people have stepped up to the challenge of bringing their intelligence, their passion, and their commitment to work every day in order to improve how and what we make.

1985-97

WORKED IN VARIOUS
MANAGEMENT
POSITIONS AT LAWSON
MARDON GROUP,
ELOITTE & TOUCHE, AND
GLENEX INDUSTRIES

TORONTO,
CANADA

2000

CEO OF
LONZA GROUP
(A SPOFF OF
ALGROUP)

BASEL,
SWITZERLAND

1997

WORKED
AT ALGROUP
AS CFO

ZURICH,
SWITZERLAND

1966

MOVED AT
AGE 14
TO

TORONTO,
CANADA

2002

CEO AND MANAGING
DIRECTOR OF
SGS S.A.

GENEVA,
SWITZERLAND

2003

NAMED TO FIAT
BOARD OF
DIRECTORS

TURINO,
ITALY

2004

NAMED CEO
OF FIAT

TURINO,
ITALY

1952
BORN

CHIETI,
ITALY

SERGIO MARCHIONNE used multiple commutes across the Atlantic Ocean to become Chrysler and Fiat's chairman and CEO. Raised in Italy, he earned degrees from the University of Windsor (MBA) and Osgoode Hall Law School at York University in Toronto (Bachelor of Laws). Following several corporate positions in Canada and Switzerland, he was appointed Fiat's CEO in 2004.

As far as finding qualified candidates to fill skilled labor positions in the Detroit area, we have not had problems to date, and do not anticipate issues. In fact, our recent success should assist in recruitment efforts. We at Chrysler know and respect the resilience of the Detroit area and its ability to once again take on a big challenge. We have seen proof that the region's workers are responsive to embracing change in order to compete with the best in the world.

Q: How are Chrysler and Fiat sharing interior space and efficiency design philosophies in new/renovated manufacturing spaces?

SM: The integration of Chrysler and Fiat is proceeding at the speed of light at both an industrial and a cultural level. We share best practices in many areas, such as manufacturing. World Class Manufacturing began with Fiat and is now being implemented across Chrysler's facilities, with the full support of the UAW and its members. WCM's goals are to improve safety, efficiency, quality, and flexibility by using a systematic

approach to rooting out waste in all forms. WCM is a true agent of change because it reflects the fundamental values of self-respect, respect for others, and respect for the environment.

Q: What are your impressions of Detroit and Michigan today as opposed to 2009, when the company exited bankruptcy?

SM: In 2009, even before the Fiat-Chrysler alliance had been formalized, I toured the Jefferson Avenue Assembly Plant in Detroit, and it gave me second thoughts. The factory had suffered obvious industrial neglect. That fall, we shut the plant down for four weeks to prepare for the launch of the all-new Jeep Grand Cherokee. During this time, our employees transformed the working conditions by removing debris, painting, cleaning, and restoring basic conditions, making it a place where people were proud to work. Since then, Jefferson Avenue began building a Grand Cherokee that has won more awards than any SUV in history; it has added a second shift, it has hosted a visit by President Obama,

and it launched a second product (the Dodge Durango). We will add another 1,100 jobs and a third shift in 2013, and that year we will also prepare the plant to build a Maserati SUV with a Ferrari engine.

This is an example of the revitalization of a struggling company set in a city that has been disparaged as a failure. We have worked closely with the state and the city to bring back Chrysler with a view toward helping the city in this process. For a variety of reasons, Detroit sells itself short. The same resolve the auto industry used to pull itself out of the doldrums could make a huge difference if applied to Detroit. We owe a lot to this city and we have a moral obligation to help transform it into a better place. I have made a personal commitment by agreeing to serve as chair for the 2012 United Way campaign for southeast Michigan. I think there is immense desire to reimagine the future of the city, and our job as leaders is to harness this energy and give it direction. db