

A Year of Transformation
Remarks by
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to the
NADA/IHS Global Insight Automotive Forum 2010
March 30, 2010, New York, New York

Thank you for the introduction, Ed.

I would also like to thank NADA and IHS Global Insight for sponsoring this program, and the New York International Auto Show for serving as host.

I very much appreciate the invitation to come and address you today and to have the opportunity to share some of my thoughts on the significance of what the auto industry is currently going through and the enormous challenges we have ahead of us.

Today is the anniversary of what represents a turning point in the history of the U.S. auto industry and of Chrysler.

It was exactly one year ago today that President Obama publicly rejected the turnaround plans submitted by Chrysler and GM.

Not only did he reject those plans but he also set conditions — and a strict deadline — for both to work with creditors, unions and other stakeholders to come up with a turnaround plan that would justify investing additional tax dollars and give the American public confidence in the long-term prospects for success.

On that day, President Obama gave us a second chance.

In the judgment of the Administration, Chrysler was too small to survive.

President Obama committed to providing Chrysler working capital for 30 days — allowing time to obtain a number of stakeholder concessions and to complete a partnership deal that would enable it to remain viable. He also mooted the possibility of a fast-track bankruptcy proceeding to facilitate a restructuring.

And, as you all know, the company did go through Chapter 11, and emerged in June as a new entity — Chrysler Group LLC — with Fiat as its alliance partner.

This change has affected many lives on both sides of the Atlantic, including mine.

I have discovered that if I travel at night in both directions, it doesn't interfere with working hours. An efficient solution even if it sometimes plays havoc with my metabolism.

But personal considerations aside, at a company and industry level, this past year has been devoted to acting to transform our business with a sense of urgency. We didn't really need a Presidential panel to point out how imperative it was to step up the pace of change.

Before setting off in a new direction, it was important to take a clear-eyed look at what happened to the auto industry in 2009 — and why.

In the U.S., the drop in vehicle sales was of epic proportions. With credit frozen, consumer confidence faltering and unemployment rising, 2009 sales were the worst in nearly three decades.

What we lived through in 2009 was one of the most challenging and destabilizing experiences that an industry could possibly go through. Somewhat like swimming in the ocean and never knowing when you will be able to touch bottom as the sands constantly shift beneath you.

Two American automakers that between them had 180 years of history were forced into Chapter 11, emerging only after a painful process in which every constituent — management, unions, suppliers, debtors and shareholders alike — had made deep concessions.

It would be remiss of me not to acknowledge that Chrysler Group LLC owes a deep debt of gratitude to taxpayers in the U.S. and Canada for the loans that have enabled a new, restructured company to take life.

This government assistance, as we all know, was not universally popular.

Some economists subscribe devoutly to the theory of “creative destruction,” a belief that progress depends on sweeping away the existing order to create a new and more efficient one. Alan Greenspan, in fact, referred to creative destruction as “the central dynamic of capitalism.”

This concept accepts the loss of jobs and the extinction of companies as the necessary “collateral damage” that happens along the way.

And I have to admit, that I am a supporter of the theory of the Austrian economist, Schumpeter.

In my speeches, I have often made public reference to the gales of creative destruction that he heralded as the key ingredient of capitalism, whereby new market entrants are incessantly nurtured with the sole objective of destroying the old, established and inefficient ones. This creative destruction is the ultimate engine of growth, of progress, of innovation.

But if an enterprise as large and as interconnected as a major automaker fails, particularly at a time when financial markets are in turmoil and effectively closed, the effects are amplified from ripples into a tsunami that eventually crashes to shore many miles or even oceans away from where it began. The fallout spreads far beyond the company's employees and its retirees and eventually engulfs employees, retirees and families of suppliers, dealers and other connected businesses.

A desire to prevent the potential damage, at a time when the financial system was unable to digest a creative destruction on such a scale, was the prime reason that the U.S. and Canadian governments have been so “hands on” with the auto industry.

Nowhere else in the world has such commitment and courage been shown.

All of this was done with the extraordinary vision and clarity of those who don’t hide problems under the rug, but tackle them head on to resolve them at the very core.

In this, the United States has been a unique example of a will to pick oneself up, reinvent oneself and change course, laying a new foundation for the future.

A new model is being created because there has been a true rethinking of the system.

We at Chrysler can testify to the extraordinary determination and the profound sense of responsibility exhibited by all of the players involved in this process.

Each one has played their part in transforming the effects of the recession from an obstacle into an extraordinary opportunity.

We have been given the responsibility of achieving a “creative reconstruction.” Our task is to learn from experience and, without blowing the whole thing up, build a dynamic, future-looking enterprise.

The challenge before us is to put what we have learned from this economic crisis to good use.

We can — we must — regain the creative spark that propels companies ... and industries... and economies forward.

Creative reconstruction begins with recognition of the fact that the former points of reference no longer exist. Traditional assumptions about the financial system, the economy and consumer behaviour have been swept away.

We need to accept the fundamental, irreversible changes that have taken place ... anticipate further future changes ... and rethink everything we do. Otherwise we are destined to remain prisoners in Plato’s cave, with our gaze fixed on old “certainties” that are, in fact, only the shadows of reality.

The economic downturn has increased the pressure on all of us to reinvent ourselves — and to do so quickly.

It brought front and centre certain structural problems that have plagued the auto sector for decades.

The most major and fundamental of which is production overcapacity.

This map illustrates clearly that, around the globe, automotive plants are operating well below capacity.

Notional production capacity worldwide is approximately 94 million cars per year, which is about 30 million more than the market would be able to digest normally.

Approximately one-third of this capacity is located in Europe, where already low levels of capacity utilization are destined to decline even further.

The need for rationalisation is undeniable.

The other historic problem we face is the industry's overall economic inefficiency.

Some years ago the Financial Times' "Lex Column" expressed, in a typical wry British manner, this view of the automobile industry:

"Choosing between carmakers is often like trying to pick the least flea-ridden dog."

The history of our sector has, in fact, been anything but brilliant.

Not only has it not generated acceptable returns, it has actually destroyed value.

With the exception of our competitors in the Far East, this severe underperformance has been characteristic of the entire industry.

This graph tells the story.

In past 30 years, European and American automakers have lost more than half of their value. And this does not even include the impact of the General Motors and Chrysler bankruptcies.

In a normal world, in any other industry, if you saw charts like these the immediate reaction would be to say: "Give me the names of the guys who did this! I want them all out."

Over the years, the auto industry has tried just about every trick in the book.

We sold financial services, we bought financial services. We sold off suppliers; we brought suppliers back in-house again.

Our industry has embarked on M&A sprees and excursions into other sectors.

We have consolidated brands and consolidated companies and consolidated the consolidations. Yet most of these efforts were geared toward size alone, which is why they often failed. They made automakers into rambling ranch houses onto which one room after another was added with no rational architecture uniting the whole.

Our industry got into businesses we did not know how to run and, in doing so; we created clumsy bureaucracies that impeded innovation in what should have been our core expertise: making cars that consumers want to buy.

But the tightening of credit, the closure of capital markets, and the storm that battered our industry directly have forced us to get smart and fix things before others do it for us.

We have all been forced to face reality.

And the reality is that the conditions necessary to continue along the existing path have changed fundamentally. Charting a better course demands that we rethink and redesign our business model around the central pillar of efficiency.

And core to that model is the need to seek out new alliances.

The transaction between Fiat and Chrysler was indisputably a response to these pressures.

I believe our alliance is a perfect example of a profound transformation, in terms of both quantity and quality.

The primary benefit will be achievement of the critical mass necessary to produce adequate economies of scale.

By increasing volumes for each architecture, in each main segment, we will be able to deliver economic returns that justify the levels of investment required.

This in turn will enable us to expand geographically to take advantage of new market opportunities. From Fiat's point of view, it was an incredible opportunity to come and participate in the North American market.

The two businesses represent an ideal combination.

The presence and experience of Fiat in the smaller car segments and of Chrysler in the medium and larger segments will enable the combined Group to offer a full range of products globally.

The futures of Fiat and Chrysler are now inextricably intertwined, and both will reap enormous benefits from the relationship.

By accessing Fiat's pool of automotive architectures and powertrains, Chrysler will save months — realistically, even years — in development and testing, along with billions of dollars in investment.

Fiat's advanced fuel-saving technologies will give Chrysler a significant advantage toward meeting future regulatory requirements. By 2014, more than half of Chrysler vehicles will be built on Fiat-derived architectures. And over 40 percent of Chrysler will be fitted with powertrains which are either from Fiat or benefit from Fiat technology.

In turn, Fiat will benefit from Chrysler's product strengths in minivans, Jeep® sport-utility vehicles, Ram pickup trucks and HEMI-powered large sedans by turning over responsibility for development of all large vehicles in its product portfolio to Chrysler.

Chrysler's all-new, state-of-the-art Pentastar V-6 engine will be shared with Fiat. This family of engines is more refined, more powerful and more fuel efficient than the seven existing V-6 engines in the Chrysler line-up that it will replace. The very first Pentastar V-6 rolled off the line at our brand new Trenton South Engine Plant in Michigan earlier this month.

Last month, we gave another example of the many opportunities the two groups can offer each other with the signing of a joint venture agreement with the Russian automaker Sollers, which represents a springboard for both Fiat and Chrysler in the Russian market.

As a result of this partnership, we will have the capability to produce up to 500,000 vehicles per year by 2016 and to sell nine new models, six of which will be based on the new Fiat-Chrysler platform.

The deal represents an enormous step forward for us both and it will position us, within just a few years, as the No. 2 automaker in that market.

The alliance between Fiat and Chrysler is a partnership in the truest sense — forged in mutual opportunity. It is growth with a purpose — growth that will create real value rather than merely inflating numbers.

On that point, I would like to add something that I feel very strongly about.

Some maintain that a transatlantic alliance is destined to fail, that Chrysler won't succeed in Americanizing Fiat and that Fiat in turn won't be able to take over Detroit.

And they might be right, if that were our intention.

But the relationship is about partnering, not patronizing.

It's about listening, not dictating.

Any alliance forged across cultures must be — because attempting to impose answers across cultures doesn't just fail. It antagonizes. It builds higher walls.

By contrast, tearing down walls — an imperative on which not just the future of Fiat and Chrysler but the survival of our entire industry depends — demands humility and patience, learning and listening.

It requires that each partner put national pride aside and seek to gain a deeper understanding of the other's culture, tastes and expectations.

That approach doesn't always yield immediate results.

But the results that are achieved will be longer lasting.

And that is what we aspire to with the Fiat-Chrysler partnership.

The quality of this integration will depend on the style of leadership that we adopt.

I am talking about leadership built on respect, on listening to others and on mutual esteem.

A style of management which doesn't take the approach of "master of the world" but rather seeks to establish the ideal conditions for a true sharing of values and knowledge.

This is the real challenge for us as leaders.

And it is also the only way to obtain the best result, a result which benefits everyone involved.

The presentation of our plan in November last year was entitled "From Chapter 11 to Chapter 1," as it represents a new beginning for Chrysler.

It is our road map for creative reconstruction.

The plan was distilled through five months of intense dialogue and discovery within the Chrysler organization.

No stone was left unturned, in what, at times, were gut-wrenching evaluations of exactly where we were positioned in the automotive food chain.

The key points of our plan are, first, to align the Chrysler and Fiat organizations; second, to develop a product portfolio that is relevant to the majority of the market; and third, to rebuild the equity of our brands and the relationship with our customers.

When we unveiled our plans, many observers were quick to express their doubts. But we're no strangers to scepticism — either at Chrysler or at Fiat.

When I arrived at Fiat in 2004, industry experts wrote many articles predicting our inevitable and imminent demise.

We were being told, over and over again, that our restructuring plan was as impractical as it was optimistic.

And yet, in 2008, Fiat posted the highest trading profit in its 109-year history of almost \$5 billion.

So when the sceptics began expressing doubts about Chrysler's five-year recovery plan after our November 4th presentation, it was a song we had heard before and we were not fazed.

We are absolutely confident that the restructuring plan we announced in November places Chrysler on track to meet highly ambitious, yet achievable goals.

We forecast that we would finish 2009 with a cash balance of \$5 billion dollars. We have maintained that commitment, and in fact, we ended the year slightly north of that mark.

We intend to break even on an operating basis in 2010, with operating profit increasing steadily to \$5 billion by 2014. During the same five-year period, we plan to approximately double our global sales to a total of 2.8 million units.

And when this rebuilding period is complete, we will have paid back every penny that Chrysler Group LLC has borrowed from the American and Canadian governments.

We have five years to reach these goals, which have been designed to put Chrysler on a sustainable path. Five years is the same amount of time that separated Fiat's premature obituaries from a record-breaking resurgence.

We're moving rapidly to execute the Chrysler plan. Seventy-five percent of our vehicle line-up will be all-new or renewed by the end of 2010. For those who are keeping count, that's 16 vehicles! And 100 percent of our line-up will be refreshed or renewed by the end of 2012.

The first tangible results of our historic alliance will be visible to the public as soon as December of this year, when the Fiat Cinquecento takes to American roads.

This vehicle — which will be on display at our stand at the New York Auto Show — heralds the return of the Fiat brand to the United States after an absence of more than 25 years. It also heralds a new vision of technology's role in the achievement of sustainable mobility.

With its low fuel consumption and CO2 emissions, it is an ambassador of a genuine concern for the environment and an approach to ecological responsibility whose time has come.

We'll make the Cinquecento even more environmentally friendly in 2012, when Chrysler begins production of a pure electric version for the U.S. market.

Chrysler Group is the centre of expertise for electric technologies and the Cinquecento provides a perfect platform for integrating electric-vehicle technology. Yet another example of Chrysler and Fiat combining efforts for mutual benefit.

The importance of the role of dealers in this reconstruction process cannot be overstated.

The development of a quality distribution network was a key element in the turnaround at Fiat. Chrysler also is making a major commitment to strengthening relationships with its dealers.

Dealers are the ambassadors of our brands, and are crucial to the effort to re-establish links with our customers. We have redefined — and raised — the standards expected of our dealers, but we

are also working with them to thoroughly implement those standards and support them in improving performance.

Our plan is to invest over \$500 million dollars in the network over the next five years. The ultimate goal is to turn more of our customers into loyal, repeat buyers, and promoters of our products and of our dealers.

We are intent on protecting the health of our existing dealer network through the defined arbitration process.

Accordingly, in an effort to move forward with a strong sales organisation, Chrysler Group offered letters of intent to 50 dealers to rejoin our network and sell Chrysler, Jeep, Dodge and Ram vehicles.

These 50 dealerships are in locations that will benefit our customers, but not have an adverse effect on existing partners in our network. Reaching agreement will save both the dealers and the company the expense of arbitration. When we balanced the effects on our dealer network with the resources required by the arbitration process, these resolutions made sense.

Coupled with actions already taken, this step brings the number of dealers we've invited to be part of Chrysler's future to 86. In total, this represents nearly 25 percent of the dealers who chose to arbitrate Old Chrysler's decision to resize its dealer network to meet the market, an action that was affirmed by the federal courts as a reasonable exercise of the company's business judgment.

I am well aware that the pride, sense of partnership, and desire to be a better performer that drives a dealer's commitment to its customers depend heavily on knowing that their partner is solid and resourceful enough to execute on its commitments.

And that is one reason why we have worked with such commitment to ensure Chrysler can move forward on a solid footing.

At the same time, we recognise that a dealership is much more than merely a sales organisation. Our dealers are the face our customers see. They are the guarantors of our credibility, our representatives in both image and substance.

It is indispensable, therefore, that we share our goals and a determination to pursue a course of continuous change.

We need strong, competitive dealers that can work with us to enhance the reputation of our brands and make customer satisfaction a priority.

We're in this battle together.

We must put our trust in each other and make a true, full-faith effort.

Collectively, we have learned from the past. But now is not the time to look in the rear-view mirror. Rather, we must focus on the road ahead.

Of course, it takes much more than just a good plan to guarantee success.

A company's culture must enable it to adapt to survive turbulent times — and that starts with embracing the idea of constant and creative change.

Bruce Springsteen showed us the power of change.

Until “The Boss” came along and showed us a new way, almost every performer clung to a rather rigid structure.

For more than a century, most forms of popular music relied on the same format: verse, chorus, bridge. Verse, chorus, bridge.

Springsteen shunned this traditional structure. His approach was more fluid — form following function, the same philosophy Frank Lloyd Wright pursued in his architecture.

To get a sense of the cultural transformation he brought us, you just need to listen to one of the great rock songs of all time “Thunder Road”, where Springsteen travels uncharted musical paths in a song fuelled by hope and the lure of the open road — somewhat appropriate to our own situation.

“We got one last chance to make it real,” Springsteen wrote.

That sums up the urgency of where we are today.

The challenges faced by the auto sector are far from over.

And the greatest of those challenges, which also happens to be the greatest of ironies, may be the fact that a recovery is approaching — and it could remove our industry's foremost imperative for change while restoring our foremost excuse for inaction.

This crisis has caused too much suffering for too many people not to be greeted with some celebration.

I welcome the signs of macroeconomic recovery — stabilizing incomes, loosening credit, consumer confidence that may be inching upward, or whose free-fall has at least ceased.

But recovery, with apologies to Karl Marx, is the opiate of dysfunctional industries.

What remains unclear is whether our industry will in fact survive.

The grave danger of this moment is that we retreat into denial once more — that we mistake a better economic climate for better business models.

If we succumb to that delusion, the tragedy will be a double one — for not only will we hasten the automotive industry’s decline, we will also deprive the substantial suffering our industry has endured of any purpose.

The philosopher Friedrich Nietzsche once said that “what really arouses indignation against suffering is not suffering as such, but the senselessness of suffering ...” .

And a crisis that does not result in enduring change, in fundamental change, will have been very senseless indeed.

I believe history will look to this moment, here and now, as the decisive one — the moment when we chose, finally, to remake ourselves as a muscular, viable, independent industry or when we were content to relax as a macroeconomic recovery concealed, for what would likely be the last time, deep and unsustainable structural flaws.

The crisis has compelled us toward a path of creative reconstruction and transformation.

And if we persist, I am convinced it will be a path of rebirth as well.

Let me conclude with this thought.

It rarely happens in life that we are given a second chance.

The crisis that battered the auto sector has already claimed some noteworthy victims.

The shortcoming of several automakers is that they failed to react — out of either inability or apathy — to a world which has changed completely.

Their failing was not having the resources or the courage to tackle problems at their core.

Unfortunately, their day of reckoning arrived.

At Chrysler things have gone differently.

Today — thanks to the alliance with Fiat — we have a second chance.

We have the opportunity and determination to rebuild a strong industrial base.

And we have broad enough shoulders to acknowledge and put right the structural handicaps which have shackled this industry for far too long.

We have the will and the means to embark on a course of transformation and creative reconstruction.

We can create an organisation whose future is not dependent on emergency intervention. An organisation which is solid and sustainable, upon which a viable future can be crafted.

We have no intention of wasting this opportunity.

In my office in Auburn Hills, I have a poster with an excerpt from the President's speech on April 30th last year, announcing the partnership between Fiat and Chrysler.

It contains the words President Obama used to underscore Chrysler's place in the American identity and to commit, in front of the entire nation, to giving it a new lease on life.

That poster and the words on it provide me with a daily reminder of the immense effort that the U.S. government has made.

And I am constantly mindful of the responsibility that we have.

Personally, I am convinced that the commitment and energy that a challenge of this kind inspires, the passion that comes from knowing we are part of an historic undertaking, do more than compel us to maintain every one of our promises.

They also cause us to grow as leaders and individuals and they give deeper meaning to our lives.

Thank you all.

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Additional information and news from Chrysler is available at <http://www.media.chrysler.com>.