Speech by Fiat/Chrysler CEO Sergio Marchionne at the *Automotive News World Congress 2010*, 13 January

I have attended the Detroit Motor Show for a number of years now. But I have always had the benefit of being able to sneak in and sneak out as a “foreign” car manufacturer with limited presence here in the US. Maserati and Ferrari are well known here, but they are viewed as exotics, and not really either impacted or impacting on what has been going on in Detroit, in the heartland of the US automotive industry. But now I have the privilege of being the CEO of Chrysler. And my world has changed.

Gualberto Ranieri, the head of our communications activities here at Chrysler, arranged two wonderful days of press and TV interviews on Monday and Tuesday of this week. Wonderful is an understatement. These past two days can be best described as the modern version of the Spanish Inquisition on 3 shifts. Waves of journalists asking a myriad of questions, some predictable, most not. Do I like Brazil more than Mexico? What is President Berlusconi really like? Do I have more than one black sweater? What did I really say to the Speaker of the House, Nancy Pelosi? But thankfully most of the questions were about Chrysler, the state of this industry and about its future. And what became absolutely clear is that everyone I spoke to had a better way to run this business. Everyone is an automotive expert.

And so on my way back to the office last night, tired and feeling abused, I decided that next year I will start each one of these sessions by quoting Mark Twain. “When I was a boy of fourteen, my father was so ignorant I could hardly stand to have the old man around. But when I got to be twenty-one, I was astonished at how much the old man had learned in seven years…” And by miraculous coincidence, by 2011, I will have been an automotive CEO for 7 years and one of the longest serving in an industry which has seen the most severe shake up in leadership other than banking.

The last time this meeting convened, our industry was trapped between turmoil and tailspin. Massive bankruptcies loomed. Bailouts were sought; grim forecasts were made; hands were wrung and hope was postponed. Today we meet in far more encouraging times: more encouraging than last year, and more encouraging than even the most benevolent sceptics believed was possible this year—if ever again. Of course, we’re no strangers to scepticism—not at Chrysler, and not at Fiat. When I arrived at Fiat in 2004, we were hurtling toward what an almost unanimous consensus of experts called 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 its highest trading profit in our 109 years of history, 3.36 billions of euros, almost 5 billions of dollars.

So when the chorus of sceptics began singing about Chrysler’s five-year recovery plan after our presentation on November 4th last year, we were expecting the tune. Our goals are clear and simple. We intend to break even this year, with operating profit increasing to $5 billion by 2014. We believe sales will reach 2.8 million total units by that date as well. Our goal is $65-$70 billion revenue by 2014, driven by a 20 percent compound annual growth rate. And when this rebuilding period is through, we intend to have paid back every penny we’ve borrowed from EDC and TARP—whether that penny boasts a profile of Queen Elizabeth or President Lincoln. Five years to reach those goals—the same amount of time that separated Fiat’s obituaries from Fiat’s record-breaking resurgence.

But well before we get to 2014, our company—indeed, our industry—must first confront what are still substantial challenges of 2010. 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. Few of us are prepared to declare a recovery yet. But many see one in the distance. One recent headline inquired, “Auto industry on the road to recovery?” I prefer an exclamation point to a question mark. But even the plausibility of the question qualifies as news. So does another headline that, citing October 2009 sales equaling those of 2008, reported speculation that a recovery is, quote, “getting close.” How close remains unclear. But there is no denying this: Even the possibility of a macroeconomic recovery is sufficient to stimulate hope in an industry deprived of it for too long.

And that is exactly what concerns me. Please don’t misunderstand. This crisis has caused too much suffering for too many people not to greet some sunlight with 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 remain one. Time will tell; our choices will decide the matter. And 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. That choice, this moment of decision, is my topic today.

Let us make no mistake. The structural flaws we have begun to confront in the last year have endured for decades across expansions and contractions alike. The only variable has been their visibility. Our industry has destroyed billions of dollars in value, and we have been at that task year after year. The financial crisis that peaked in the last 12 months did not cause the problems we face. It unmasked them—laid them bare—and deprived us of any pretence for denial. 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. The cliché is correct. A rising tide lifts all boats. But if only temporarily, a rising tide lifts sinking boats too—and if it deludes their captains into believing their vessels are seaworthy, a rising sea can be even more dangerous than a raging storm. 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 changes, in fundamental changes, will have been very senseless indeed. That is the peril of this moment. The crisis compelled us onto a path of restructuring and reform. And if we persist, I am convinced it will be a path of rebirth as well. That is the choice—a temporary uptick that defers our demise, or an enduring renaissance that delivers value to customers and shareholders alike. And that choice, in turn, depends on the choices we make in several key areas that are now in flux. They begin with what can be, in times of recovery, a seductive temptation—growth on paper rather than growth for a purpose—growth that inflates numbers rather than growth that drives value. The choice is this: Automakers can get bigger in order to look better. Or we can get bigger because we are better.

Consumers have told us bigger isn't necessarily better for cars. It's true for companies too. Growth must create value rather than attempting to be a substitute for it. That's a simple fact of which our industry lost sight years ago. Our industry has embarked on M&A sprees and excursions into other businesses. We have consolidated brands and consolidated companies and consolidated the consolidations. Yet most of these efforts were geared toward size alone—which is precisely why they've 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. We've made our business unmanageable for us and inexplicable to consumers.

Consider: In Europe, the number of brands has shrunk from 58 in 1964 to only 22 today. Yet in the last 20 years, the number of different models has surged from 72 to more than 200. Instead of merely making companies bigger, our industry should think in terms of strategic partnerships that enhance our ability to deliver what customers want and achieve synergies, improve efficiency and lower costs. That's what we're striving to accomplish through the Fiat-Chrysler partnership. There are those who say a trans-Atlantic alliance is bound to fail—that Chrysler cannot Americanize Fiat and that Fiat can't succeed as a schoolmaster in Detroit. Were that our intention, they'd be absolutely right. But this relationship is about partnership, 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 walls down—an imperative on which not just Fiat-Chrysler's future but our entire industry's survival depends—demands an ethic of humility and patience, of learning and listening. It requires that each partner put national pride aside and seek to gain a deeper understanding of culture, tastes and expectations. That approach doesn't always yield immediate results. But results achieved through long labour are also long-lasting. And those are the kinds of results we aspire to achieve through the Fiat-Chrysler partnership.

It's been said that Fiat is supposed to save Chrysler. But that fundamentally mistakes the purpose of our alliance—which is that these companies offer unique benefits to each other and that together we can achieve possibilities that would elude either of us alone. Many new Chrysler cars will soon be built on Fiat platforms. Fiat engines will appear in many Chrysler vehicles too. In fact, we'll be making the 1.4 liter FIRE engine not far from here, at the South Global Engine Manufacturing Alliance plant in Dundee. Chrysler, meanwhile, is helping to facilitate the reintroduction of Fiat to the U.S. market. We are combining Fiat's expertise in the smaller car segments with Chrysler's in the medium and large segments. And most important, we are achieving economies of scale that will generate substantial benefits for us both.

The key to this partnership is that Fiat and Chrysler fit—not as patches stitched together to enlarge a quilt, but as pieces of a puzzle that form a coherent whole. This is a partnership in the truest sense—an alliance forged in mutual opportunity. It is growth for a purpose—growth that will create value rather than inflate numbers. And it is, I believe, the kind of alliance that must replace our industry's long tradition of mergers for the sake of growth alone—which, in the long term, produce no growth at all.

Speaking of value: The second choice our industry faces is how to coax consumers back into the market. If transient gains would satisfy us, then by all means, let's seek subsidies, pay incentives, slash prices. Some combination of those may indeed be in order. But a long-term recovery must be based on genuine brand equity built by making cars consumers want to buy. We are not in the commodity business, and we shouldn't aspire to enter it. There's a reason there are television commercials for cars and not for pork bellies. And we know that American consumers in particular don't buy cars on price alone. They buy on quality, on brand equity, on a total service experience. To improve in all those areas—which we must—we must flatten corporate structures. We need to be able to respond quickly, whether it's to customer complaints or consumer needs. Any new idea condemned to struggle upward through multiple levels of rigidly hierarchical, risk-averse management is an idea that won't see daylight until dusk—until it's too late. It's a fate crueller than Sisyphus. And it's a model that cannot keep pace with consumer needs. We need to make better cars, we need to back them with absolutely top-flight customer service, and we need to execute both tasks rapidly and consistently. Until we do, it won't matter how much consumers have in their pockets. When we do, customers will start buying again.

The third choice our industry faces is related to the second. If all we want is a temporary uptick, we can meet growing demand by using just a little bit more of existing underutilized capacity. But if our industry's goal is a lasting rebirth, we must rationalize capacity and restructure production. Globally, our industry has the capacity to produce around 94 million cars a year—some 30 million more than we can typically sell. About a third of that capacity resides in Europe, where the automotive industry remains virtually the only sector that has yet to rationalize production. Europe utilized 75 percent of its capacity last year, a number that may shrink to 65 percent this year. The reason, simply put, is that European manufacturers simply do not close plants. The reason for that, in turn, is that they simply do not have to. In fact, they're often paid not to. The last time a German plant shut down, World War II had yet to begin.

This problem coincides with European governments' apparent determination to make the automotive sector the last bastion of economic nationalism on the continent. More than half a century has passed since the Treaty of Rome was signed, yet European governments continue to act as nursemaids to their domestic automakers while discriminating against those of other countries. Their motives for doing so may be admirable. Preserving jobs is one—but ensuring that human needs are met is an imperative all of society must meet, not one to be forced, inefficiently and ineffectively, on industries that can only do so artificially.

Another reason, equally understandable, is pride. Automotive companies are deeply rooted cultural icons—here in the U.S. as well as overseas. National pride can indeed be both a motivator and a virtue. No less an ethical authority than Aristotle said so. But he also said the difference between pride and vanity was whether one deserved the honors one received. So it is, or should be, with our industry. Fiat welcomes Italy's pride in our revival—because that revival is genuine and self-made. But automakers do not deserve the pride of their nations as long as governments treat them as feeble companies that need constantly to be nursed along. And they will only be justified sources of pride again if they are allowed to stand and compete on their merits alone.

The U.S. response to the crisis has put the North American sector on a more promising track than Europe's. Chapter 11 has both forced and facilitated structural reorganization. But before the mutual admiration begins, let's be clear: Complacency or self-satisfaction on this side of the water would be a monumental mistake. That's for two reasons. First, merely viewing these as foreign problems would reflect the same parochial mentality that has kept subsidies and discrimination alive in Europe. This is a global industry. Indeed, each of us is—or at least must become—a global company. And none of us can thrive fully as long as such a substantial market remains as distorted as the European market is today.

Second—and equally important—pride in the changes we have made in North America would be premature too. We have begun to restructure in a serious and encouraging way. But North American automakers have overcome temporary crises with temporary changes before. Only time will tell whether the restructuring we're beginning to see reflects a genuine, long-term change in culture. That's why the most important choice we must make is this last one: We can change to survive this crisis—or we can adopt a culture of relentless change.

There are few predictions we can make with certainty in this business, especially in this climate. But I'll

venture one ironclad guarantee. Whatever changes we make today will not meet the needs of our industry or our customers tomorrow. Now, I use those terms—“today” and “tomorrow”—figuratively. But not by much. This moment does not demand single-shot changes, however serious. It demands that we accept—indeed, that we embrace—change as an integral and enduring ethic. That is the essence of leadership itself. It is the challenge we accepted at Fiat—and one I believe we must welcome as an industry too. No executive has a birthright to lead. No company has an inherent right to exist. Fiat’s revival was based on some simple principles—that we are a meritocracy—that we embrace and relish competition—that we aim to achieve best-in-class performance—that we are accountable for delivering what we promise.

Every one of those principles applies to our industry. We cannot all be best in class, but we can all accept that as our constant challenge. We cannot all win, but we can all compete—and in doing so, we can create value rather than destroy it. And above all, we must become what we have, for far too many years, sought to avoid: to be accountable.

Let me leave you with this thought. We are accountable above all for the choice we make at the crossroads at which we stand. It’s a choice that makes the earliest stages of the recovery we all hope is arriving especially perilous—and especially promising. “The future,” wrote Karl Popper, speaking about individual freedom and responsibility, “is wide open and depends on us, on all of us. It depends on what you and I and a lot of other people are doing and will do. Today, tomorrow and the day after tomorrow. And what we are doing and will do depends in turn on our thoughts and our desires, on our hopes and on our fears. We need to become the architects of our destiny. But this means that we must change ourselves.” Above all – Popper was saying this to intellectuals, but I think it holds true for everyone – what we have to do is have the courage, strength, and honesty to change. This is also the best way to build ourselves a future that is up to the standards of our expectations for economic and civil progress. We can be sure that an economic recovery will take hold, and we can be equally certain that a recession will someday follow again. But great industries do not live at the mercy of macroeconomic forces. They are affected by them, of course—but they are not controlled by them. Great industries create destinies rather than going along for the ride. This is our moment to craft ours. We need to seize it. And that is the only, true imperative for all of us.