

# The Competitive Relationship between German Automobile Companies

## —Daimler-Benz, Adam Opel, Volkswagen — (1)

by Yuji NISHIMUTA\*

### The German Automobile Market in the 1920s and the Process of Daimler-Benz's Establishment

The six companies that make up the German automobile manufacturing industry have their own characteristics. Listing the companies in order of production volume, they are: Volkswagen AG, Wolfsburg; Daimler-Benz AG, Stuttgart-Unterturkheim; Adam Opel AG, Russelsheim; Bayerische Motoren Werke (BMW) AG, Munich; Ford-Werke AG, Cologne; Dr. Ing. h.c.F. Porsche AG, Stuttgart-Zuffenhausen. What historical course of developments lead to the German automobile companies in their present forms? What competitive relationships were these companies formed from? When considering these questions, we must pay particular attention to the period from 1920's to 1930's. As we saw in the previous papers, this was a period when the German automobile industry itself made decisive changes. After World War I, the American automobile industry advanced into the global market with overwhelming production power, lead by Ford, which established a system for mass production, and GM. Strongly impacted, the first wave of "motorization" also hit the German automobile market. Looking at the results, the response of the German automobile companies that survived can be largely divided into two contrasting directions. The group of companies that chose the direction of small cars, lead by Adam Opel, founded the mass automobile market in Germany, introducing an American-style production method. Going in the other, indeed opposite, direction, were companies such as Daimler-Benz, with a luxury car orientation. Where did these differences come from? That is, what developments did they come about by way of? This is one problem. Of course in that case, the establishment (1937) and expansion of Volkswagenwerk, which will ultimately become Germany's most full-fledged mass automobile maker, comes into our mind. An examination of this will be the general subject for the second part of this paper.

If we turn our attention here to Daimler-Benz, we find a company with a secure position in the German domestic and global markets as a top luxury passenger car maker and also as a major truck maker. In addition, in recent years Daimler-Benz has acquired and merged successively with high-tech AEG (electronics), Dornier and Messerschmidt Berko Blome (MBB) (airline), and MTU (large engines). By doing so, the company mainly exists as a new comprehensive maker so to speak. How, why and

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\* Professor, Graduate School of Economics, Kyoto University.

by what means was this type of original management strategy formed? Prior to June 1926, Daimler-Benz existed as Daimler Motoren Gesellschaft<sup>1)</sup>, Stuttgart-Unterturkheim, and Benz & Cie, Rheinische Automobil-und Motorenfabrik Mannheim AG<sup>2)</sup> each independently producing automobiles. Daimler-Benz was formed through their merger, and pursued a fixed course to establish its own management strategy. Looking at sales and the number of general employees, which show the change in the company's scale, and the relation between these and profit, which shows the change in sales conditions, we get the following general outline of the company's expansion during this period. That is, Daimler-Benz after going through regular periods of lackluster growth and management difficulties in the 1920s (highest sales were 130.8 million RM in 1928), the company achieved large-scale expansion during the Nazi regime in the 1930s (sales in 1938 hit 462.0 million RM). Not stopping there, during the war years (1939 - 1945) Daimler-Benz grew into a huge company (1944 sales were 953.9 million RM and the number of employees was nearly 100,000). What characteristics did this course of expansion have?

While examining these various issues the author particularly relied upon documents and historical materials contained in the Daimler-Benz corporate archives (Daimler-Benz A.G. Archiv, Stuttgart-Unterturkheim). Detailed minutes (Protokoll) from the board of directors (Vorstand) and supervisory meetings (Aufsichtsrat) were very useful especially for understanding the decision-making process for management strategy. The author would like to express his deep thanks here to Reiner Karnowski and others at the Daimler-Benz archives for their help with the gathering of materials.

In this paper, let's first examine in depth how Daimler-Benz came to be formed during the circumstances of the early 1920s after World War I.

## **I The German Automobile Industry in the Early 1920s and the Formation of the Daimler-Benz Cooperative Profit Group, Interessengemeinschaft**

Right now let's look at the year 1924. Due to the stability of the mark, German capitalism was once again included within normal relations in the global market. However, the import/export trend in the automobile market showed a rapid decline in exports and a contrasting sudden increase in imports. At this point there was an obvious gap in the international competitive strength of the American automobile industry, which was advancing globally, having already established a mass-production system, and the German automobile industry, which was lying in wait.

In these circumstances the companies comprising the German automobile industry had to respond quickly. It goes without saying that one of these was Adam Opel, which led the others in production reform, restructuring the production process toward so-called *Fliessfertigung*. However, this was not the only response by the German automobile companies. The change in the number of German automobile makers

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1) For information on Daimler before the formation of Daimler-Benz, please refer to: M. Kruk & G. Lingnau, *100 Jahre Daimler-Benz Das Unternehmen*, Mainz 1986, S. 3-20, 27-64, 89-106.

2) For information on Daimler before the formation of Daimler-Benz, please refer to: Ebenda, S. 3-20, 21-26, 64-88.

from this time on shows that on one hand, weaker, smaller companies were weeded out, while on the other hand, several stronger companies took the course of mergers.

There are three movements that arose during this period that should be remarked on. The first is due to Jacob Shapiro, the chairman of Berlin's one car body company, Schebera Body Works (A.G. Schebera KarosserieWerke A.G.). In the period from 1923 to 1927, he orchestrated the extremely energetic integrated activities of the German automobile industry<sup>3)</sup>. First, Shapiro in 1923 appeared at the Benz shareholder's meeting with 10% of his acquired stock and was elected to the supervisory committee, Aufsichtsrat. In addition, he achieved a close cooperative relationship between Benz and Schebera Body Work by concluding a contract between the two companies<sup>4)</sup>. In the same year, he advanced into Hansa Automobilwerke A.G.<sup>5)</sup> and in 1924 did the same with NAG<sup>6)</sup>. Again in 1924, along with controlling 90% of the stock in Cyklon<sup>7)</sup>, he brought NSU<sup>8)</sup> and Gothaer Waggon<sup>9)</sup> under his control. He acquired in 1925 two horse carriage makers and Nuremberg's press company<sup>10)</sup>. Additionally, by 1926 he controlled the majority of stock in NSU and acquired 60% of the shares in Benz. The various companies under Shapiro's control were still in a separate parallel state, but his actions continued after that. According to his plan, in 1927 the companies were consolidated into an 80 million RM company, and finally, he brought in Dresdner Bank and Danat Bank (Darmstädter-und National Bank). With the exception of Adam Opel, Horch, Stoeber and Audi, which were family-owned companies at that time, Shapiro pushed forward with his grand plan to unite all German automobile companies into one large consolidated company. Let's informally call Jacob Shapiro's activities<sup>11)</sup>, which should be compared with William Durant's<sup>12)</sup> activities at the time of establishing General Motors in U.S., the "Shapiro project".

An important fact is that the movement to unify the German automobile in-

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3) H. Maurer, Das Zusammenschlußproblem in der Deutschen Automobilindustrie mit besonderer Berücksichtigung der Auto-Union A. G., Diss. Zurich 1936, S. 52-53.

4) Ebenda and Kruk & Lingnau, a.a. O., S. 87.

5) Hansa Automobilwerke AG (1905- ) In 1929 merged with Hansa Lloyd Werke AG and soon became a member of the Borgward Group, Goliath-Werke Borgward & Co. GmbH. The company, located in Bremen, continued until 1961. W. Oswald, Deutsche Autos 1920-1945 7. Auflage, Stuttgart 1985, S. 142 ff.

6) Nationale-Automobil-Gesellschaft. Established in 1901 as the automotive division of AEG electric company. The company absorbed Protos-Werke in 1926 and Prestto-Werke and Dux-Werke in 1927. In 1930, the company merged with Busing and Busing later became NAG. Located in Berlin. W. Oswald, a.a.O., S. 271-281.

7) Cyklon Maschinenfabrik (Berlin). Merged in 1926 with Gothaer Waggonfabrik and in 1928 became BMW's automotive division along with Dixi-Werke. W. Oswald, a.a.O., S. 80, 437.

8) Nechersulmer Fahrzeugwerke AG. Automobile manufacturer since 1906. After coming under the Shapiro umbrella, the company was under the umbrella of Italian automobile maker Fiat from 1928 to 1932. The company continued as an important concern after World War II as well, introducing the world's first car with a rotary engine in 1963. At present, the company exists under the VW umbrella as Auto Union = NSU = Audi. W. Oswald, a.a.O., S. 282-283.

9) In 1928 Dixi and Cyklon form BMW's automobile division.

10) H. Maurer, a.a. O., S. 52.

11) For information on William Durant's activities, refer to A. P. Sloan, JR., My Years with General Motors, 1963, (Japanese translation by Yuji Tanaka, etc. [Along with GM], 1967, page 7) It's worth noting that many of the companies brought under the Shapiro umbrella later played major roles.

12) Ebenda, S. 53.

dustry was not only the "Shapiro project." Another movement was pursued by the Darmstadter und National Bank, commonly called Danat Bank<sup>13)</sup>. The head of Danat Bank, Jacob Goldschmidt, already had put Hansa-Lloyd, Busing, NAG, Durrkopp, and Adler Werke<sup>14)</sup> under his control and in addition became the main business bank for Adam Opel<sup>15)</sup>. These actions indicate another plan for the merger<sup>16)</sup>.

In the midst of all this, there was a third movement lead by Deutsche Bank<sup>17)</sup>. Dr. Emil Georg von Stauss, the bank director, from early on was the one person who recognized the "immediate need for the creation of a trust in the German automobile industry."<sup>18)</sup> He clearly targeted a large trust like that of General Motors in U.S., with the minimum requirement of including Daimler and Benz in a south Germany group and also including BMW and Adam Opel<sup>19)</sup>. Stauss did not take his eyes off his competitors movements, especially Shapiro. Accordingly, he took quick actions in this regard.

E. G. von Stauss in 1920 had already received a seat on the supervisory committee of Daimler. Meanwhile, Dr. Carl Jahr, head of the Rheinische Kredit Bank, sat on the Benz supervisory committee. There are various business relationships concerning Deutsche Bank -Daimler, and Deutsche Bank- Benz. Namely, Daimler's principle business bank, Württembergische Vereins Bank, was added as the Stuttgart branch of Deutsche Bank in 1924. On the other hand, the Deutsche Bank in 1922 became a controlling shareholder in the Rheinische Kredit Bank, the main business bank for Benz, and so on. At this point, von Stauss cooperated with Jahr of the Rheinische Kredit Bank, producing a plan for the establishment of Interessengemeinschaft, a cooperative profit group for Daimler and Benz. In February 1924, Jahr submitted one draft<sup>20)</sup> to the management of both Daimler and Benz in which he explained the necessity and advantages of cooperation between the two companies. The main points of this memo were reducing the number of car models and unification of research and development, manufacturing, purchasing and sales functions. In addition the results of centralization and

13) For Danat Bank, refer to K. Grosweiler, *Großbanken Industriemonopole Staat-Ökonomie und Politik des staatsmonopolistischen Kapitalismus in Deutschland 1914-1932*, Berlin 1971 (Japanese translation by Kawanabe, Kumagaya, and Matsumoto, [Large Banks, Industry Monopolies, Nations] 1979, from page 359) and W. Hagemann, *Das Verhältnis der Deutschen Großbanken zur Industrie*, Berlin 1931, S. 13 ff.

14) H. Maurer, *Das Zusammenschlußproblem in der Deutschen Automobilindustrie mit besondere Berücksichtigung der Auto Union A.G.*, Diss. Zurich, 1936, S. 53; W. Hagemann, a.a. O., S. 143; and Kruk & Lingnau, a.a. O., S.107.

15) W. Hagemann, a.a. O., S. 142.

16) Kruk & Lingnau, a.a. O., S. 108.

17) For German banks during this period, refer to : *Institute für bankhistorische Forschung e.V.*, *Deutsche Bankengeschichte*, Bd. 3, Frankfurt a.M. 1983, S. 79-86, W. Hagemann, a.a. O., S. 13 ff., K. Grossweiler, a.a.O. (Japanese translation from page 403).

Here, I'd like to add a few words about Danat Bank, Dresden Bank and Deutsche Bank. After World War I, it is common knowledge that based on American intervention, with regard to the compensation problem, the so-called "Dawes plan" brought large amounts of American credit flowing into Germany, which played a large role in the revival of German capitalism. It is well known that concerned parties on the American side, were the core of American finance capitalism, which centered on J.P. Morgan.

Long-term and short-term American credit, primarily "Dawes bonds" issued in New York, flowed into the German financial markets. Relying on this, the revival of German capitalism moved forward with actions to rationalize German industry, etc. The German banks mediated the influx of American credit in various forms. However, the various major German banks taking in the American credit did not all have the same point of view on the matter.

specialization would be the redistribution of production to each factory. He did not propose a direct merger but insisted the form of a concisely organized cooperative profit group, Interessengemeinschaft.

In the end, Jahr's draft was used as the basis of negotiations, and a quick three months later, both companies on May 1, 1924 concluded the contract for the cooperative group, Interessengemeinschaftsvertrag. A week later, on May 8 the contract was approved at both companies shareholders' meetings.

The entire contract for the cooperative profit group<sup>21)</sup> is made up of 18 items. The most important points are listed below.

1. Daimler and Benz will form one integrated economic body based on each maintaining its legal independence.
2. The participation ratio in the profit group will correspond to each companies present ratio of nominal common stock to capital stock, Daimler 600, Benz 346.
3. One joint working committee, Arbeitsausschuss, will be created to ensure sticking to the group's ideology and bring about the closest possible cooperation between the two companies.
4. This point covers the authority of both companies' boards of directors.
5. The profit group is effective from May 1, 1924 until December 31, 2000.
11. About the trademarks Mercedes, Daimler, Benz and die Sternmarke.
12. Establishment of new companies will be done with the best method according

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Deutsche Bank and Discount Gezellshaft felt that while relying on American credit, it should be done within limits that maintained independence. On the other hand, Dresden and Danat Bank, particularly Danat Bank, under the leadership of Jacob Goldschmidt, took in large rather extreme amounts - one could say, unlimited amounts - of American credit. This led the German banks and manufacturing industries to aim to go in a direction that would strengthen their own point of view. However, precisely through that fact, both banks became pilots, so to speak, of the attack of American finance capitalists', particularly the Morgan family, influence on the German manufacturing industry. These details must be left for another paper, but Morgan in 1926 had already placed Teissen under his command at the time of the establishment of the German steel trust, amalgamated steelworks. In addition, he put AEG Electric under the management of America's GE (acquiring 25% of AEG stock). In this way, he steadily formed a base within Germany's major industries. Later, he would aim in the same way for the automobile industry, whose great competitive strength America took pride in.

Deutsche Bank was the primary opponent of this type of movement. Compared with other major banks, particularly Discount Gesellschaft, which focused on rule heavy industry, Deutsche Bank from the past secured a strong position in rising industrial fields in Germany, first electronics, chemistry, etc. After World War I, under the leadership of E.G. von StauB, director since 1915, the bank's inclination toward rising industries strengthened, and the bank's aim was to expand its sphere of influence to include not only the electric (Siemens) and chemical (IG Farben) fields as up to now, but also the film (Ufa), airline (Lufthansa) and automobile (Daimler-Benz) industries.

When we examine the course of the German automobile industry, as follows, we must identify here the trends and relationships that exist behind it.

W. Hageman, a.a.O., S. 143, K. Gossweiler, a.a.O., Japanese translation from page 359, Institute für banhistorische Forschung e.v., a.a. O., S. 79-86.

18) Kruk & Lingnau, a.a. O., S. 107.

19) Ebenda.

20) Ebenda, S. 108.

21) Interessengemeinschaftsvertrag, Stuttgart, Mannheim, den 1. Mai 1924 (Daimler-Benz A. G., Historisches Archiv, DBAG 1-4).

to I.G.'s purpose and goals.

15. The amalgamated company will work to solve tax issues.

18. Even if one item within the contract becomes invalid, the remainder will continue to be effective as before.

In accordance with item 3, the IG joint working committee, IG Arbeitsausschuss, was formed without delay. In addition, a joint board of directors and supervisory committee were created in accordance with item 5. The important points here are, firstly, the make-up of the joint supervisory committee. Three bankers each from the Daimler and Benz sides were seated on the committee; however, of the six members, five were under the Deutsche Bank's sphere of influence<sup>22)</sup>. Secondly, the head of the cooperative profit group (chairman of the group's joint working committee) was E. G. von Stauss, the director of the Deutsche Bank<sup>23)</sup>. In other words, we can say that during the course of formation, the Deutsche Bank's influence grew remarkably stronger. Nevertheless, Jacob Shapiro, as before a major shareholder, gained seats on both the joint supervisory committee and the joint working committee<sup>24)</sup>. Moreover, this indicates the cooperative profit group already had a strong slant toward merger<sup>25)</sup>.

## II New Policy Formation in the Daimler-Benz Cooperative Profit Group

When the contract for the profit group was concluded, preparation of specific policies to achieve its purpose was left up to a meeting of the joint board of directors, Sitzung des Gesamt-Vorstandes, which was made up of members from the board of directors of both Daimler and Benz. The first joint meeting was held soon after the contract was concluded, on May 5, 1924. Let's try to reproduce the first joint board of directors meeting according to the minutes, Protokoll<sup>26)</sup>, from this series of meetings, which are kept in the Daimler-Benz archives.

Attending were Messrs. Berge, Porsche, Sekler, Gross and Schippert from Daimler and Messrs. Nallinger, Brecht, Nibel, Strasser, Demann and Hilger from Benz.

First, Berge, Daimler's head of commercial affairs, Kommerzienrat, spoke of their desire for the mutual cooperation of all the members of both companies boards of directors in achieving the purpose set out in the contract. Right after this, Berge, or the Daimler side, proposed basic policy to achieve that end<sup>27)</sup>, the content of which can be largely divided into four main areas: 1) external service 2) internal standardized management 3) design and 4) production. There is a detailed proposal for each area.

The main points for external service, Aussendienst, are as follows. In principle, the sales organization should remove independent agencies, and only conduct sales

22) Kruk & Lingnau, a.a. O., S. 109.

23) Protokoll der Sitzung Nr. 1 des Interessengemeinschaftsausschusses vom 8. Mai 1924 zu Heidelberg., S. 1. (Daimler-Benz A.G. Historisches Archiv, PD 100).

24) Kruk & Lingnau, a.a. O., S. 320.

25) Interessengemeinschaftsvertrag, 15.

26) Protokoll der Sitzung des Vorstandes der Firmen Daimler und Benz vom 5. Mai 1924. (Daimler-Benz A. G., Historisches Archiv, PD 20).

27) Ebenda, S. 1.

through the company's own or non-independent dealerships. By doing so sales profit will be kept within the concern. As a rule, if Daimler and Benz both have dealerships co-existing in one location, they should be combined into one<sup>28)</sup>. In addition, it's necessary to further expand the range of repair shops. Among these three points, the unification of both companies sales organizations is the most important.

With regard to internal standardized management, Innenverwaltung, the main objectives were, first, to create common product trademarks and integrated advertisements, Propaganda, for motor racing and newspaper, as well as to consolidate patent and law offices. In addition, to reduce costs by introducing a joint materials purchasing contract<sup>29)</sup>.

The areas of design, Konstruktion, and production, Fabrikation, were the most important sections of this proposal. The main points are as follows.

First, an integrated design office, Einheitliches Konstruktionsburo, should be formed<sup>30)</sup>. Second, the car models produced will be consolidated and distributed in order for every plant to only produce one car model. The following idea was presented as a detailed plan for this.

Mannheim plant<sup>31)</sup> --- 2-liter passenger cars

Unterturkheim plant<sup>32)</sup> --- 4- and 6-liter passenger cars

Marienfelde plant<sup>33)</sup> --- 4-5 ton trucks

Gagnau plant<sup>34)</sup> --- 2-3 ton trucks

Ulm plant<sup>35)</sup> --- 1-11/2 ton trucks

Sindelfingen plant<sup>36)</sup> --- centralized body production and supply for all models<sup>37)</sup>

In addition, a special committee concerned with production technology, will be created to facilitate continuous modernization, such as installation of machines<sup>38)</sup>. In particular, every plant's production capability should be increased one chassis per worker for the time being, through the methods of [Change According to the American Model of Management and Production] ("Durch Umstellung der Betriebe und Arbeitsweise nach amerikanischen Muster")<sup>39)</sup>.

That concludes this proposal, which we'll call the "Berge proposal" for now.

If you compare the concisely outlined "Berge proposal" with each company's

28) Ebenda.

29) Ebenda, S. 2.

30) Niederschrift über die Besprechung der Vorstände der I. G. Firmen Daimler und Benz vom 5. Mai 1924 (Daimler-Benz A. G., Historisches Archiv, PD 20) S. 1.

31) Benz passenger car plant.

32) Daimler passenger car plant.

33) Daimler truck plant, Berlin suburb.

34) Benz truck plant.

35) Magirus truck plant, merger was planned.

36) Daimler plant built to produce airplane engines during WWI.

37) Niederschrift, a.a.O., S. 1-2.

38) Ebenda, S. 2.

39) Ebenda.

production methods, etc., prior to the cooperative profit group, its meaning is clear.

Let us examine the production output of Daimler and Benz from 1908 to 1925 for cars and trucks. Looking at the total production values in 1912 just prior to World War I, Daimler produced 2,183 units and Benz 3,666. Total German automobile production for that year was 22,773 units, so one can see that both Daimler and Benz were already important companies, each making up 10-15% of total production. In 1912-13 Daimler had 4,050 employees and Benz employed 6,450. However, the problems were in production content and character. We must examine the number of car models produced by Daimler and Benz during this period and the number of cars produced by model.

At this time, Daimler had only the Stuttgart-Unterturkheim plant producing passenger cars. Accordingly, Daimler produced 6-10 models of passenger cars at this plant per year. For example, looking at 1924, total production was 1,333 cars made up of six different models (and four limited production models), with production of each model ranging from one hundred plus several tens to several hundreds. This situation was not unique to Daimler's passenger car facility, but almost the same in all Daimler and Benz plants<sup>40)</sup>. Thus, the "Berge proposal" was suggesting nothing less than a major change<sup>41)</sup> in the companies' production system, from one plant producing several different models (6-10) of cars each year, to each plant producing basically one model. In line with this, one must note the expression "Change According to the American Model of Management and Production" that appears in the "Berge proposal". This point also appears in the following manner in the board of directors' report, Bericht des Vorstandes, in the 1924 fiscal year Daimler sales report<sup>42)</sup>, Geschäftsbericht: [Application of an American-style production system requires an enormous amount of investment. This would assume huge domestic and foreign sales...A broad range of trials are already being conducted at the Unterturkheim and Sindelfingen plants. We are bringing out expanded production at both of these plants and the Marienfelde plant<sup>43)</sup>].

One could say that this is an extremely unexpected fact considering the generally accepted idea of Daimler-Benz AG. This is because conventionally Daimler-Benz has a so-called "luxury car orientation" and "hand-made individual production" of luxury cars has been a consistent major characteristic of both companies from the start<sup>44)</sup>. From this sort of image, we can see that the reforms shown in the "Berge proposal" aim for very drastic change.

Now, what kind of reaction did the attendees from the Benz side have to the above proposal from Daimler? The following are words from Nallinger of Benz.

"The Benz board of directors has a generally similar view. However, we wonder whether it is possible to have the Mannheim plant engage in production of only one

40) Refer to Chart 2-10.

41) Although a change to this kind of production system was a matter of course, it meant a big change in the processes and labor organization in each plant. Please refer to the previous chapter for a general examination of this. Furthermore, a subsequent paper will contain part of a detailed examination of Daimler-Benz.

42) Daimler Motoren Gesellschaft, Berlin-Stuttgart, Bericht über das 35. Geschäftsjahr (1.1.1924 bis 31.12.1924).

43) Ebenda, S. 5.

44) Koichiro Shibata, Katsji Kyojo, "Global Companies Series - Automobile" (Nihon Keizai Newspaper, 1986) page 181, etc.



model of car. Moreover, even given that we should have it produce only one model, it is questionable (Zweifelhaft) as to whether the 2-liter car is suitable in that case<sup>45)</sup>.”

After discussions, it was decided at the first joint board of directors meeting to quickly move ahead with the details using the “Berge proposal” as the foundation. On May 15 and 16, two sessions were held, one concerned with the sales system and the other with production and design, and attended by both parties related directors. From that time to June of 1926, nine meetings of the Daimler and Benz joint board of directors committee were held<sup>48)</sup>, resulting in the determination of a detailed new policy. Next, we'll take a look at the important points of the changes that followed.

The first change to be decided and implemented was the sales system. In other words, at the sales system session following the first joint board of directors meeting, the participants decided on total integration of Daimler and Benz's sales organizations, resulting in the establishment of a limited automobile company, Mercedes-Benz Automobil G.m.b. H.<sup>49)</sup>. Integration of the sales organization was implemented first, in anticipation of the integration of production and other systems. Previously fierce competitors, both companies had up to four sales organizations in major cities<sup>50)</sup>. This type of co-existence was brought to an end. At this time (1924), 23 branches and 14 common agencies, Vertretungen<sup>51)</sup>, were created in the form of Mercedes-Benz, exclusively for Daimler and Benz. In the original plan, the policy was to as much as possible shut out the existence of other independent agents; however, that was not implemented and, accordingly, two sales systems remained<sup>52)</sup>.

Compared with the sales system, implementation of the new production system and policy was much like doing penance. On November 9, 1924 at the second joint board of directors meeting, there was already opposition to Daimler and Benz opinions. One was regarding the centralization of the design area, with the Benz side insisting on the decentralization of authority at each factory<sup>53)</sup>. The Gaggenau and Mannheim plants opposed four points with regard to the new 2-liter car: 1) design, 2) price, 3) production

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45) Protokoll der Sitzung des Vorstandes Firmen Daimler und Benz vom 5. Mai 1924, S. 3 (abbreviated as Protokoll-5.5.1924, same below).

46) Protokoll über die Sitzung am 16. Mai 1924, Gegenstand: Neuordnung des Verkaufsgeschäfts mit Rücksicht auf den I.G. Vertrag (Archiv, PD 20).

47) Bericht über die Sitzung am 16. Mai 1924, Neue Typen für die zukünftige Fabrikation in Mannheim (Archiv, PD 20).

48) Niederschrift über die Vorstandssitzung in Gaggenau am 19. November 1924.

Protokoll über Vorstandssitzung am 27. 1. 1925 in Unterturkheim.

Protokoll der Vorstandssitzung Nr. 80 der Daimler Motoren Gesellschaft am 13. Januar 1926 in Unterturkheim.

Protokoll der Sitzung des gesamten Vorstandes am 20.1.1926 in Mannheim

Protokoll der Sitzung des Gesamt-Vorstandes vom 26. 2. 26 in Mannheim

Protokoll über Direktions-Sitzung vom 2. März 1926.

Protokoll der Sitzung des Gesamt Vorstandes am 20. März 1926 in Stuttgart

Protokoll über Sitzung des Gesamt Vorstandes am 10. Juni 1926 in Unterturkheim (Daimler-Benz A. G., Historisches Archiv, PD 20).

49) Protokoll - 15. 5.1924.

50) Kruk & Lingnau, a.a. O., S. 110.

51) Ebenda.

52) Ebenda.

53) Protokoll - 19. 11. 1924.

numbers and 4) class<sup>54)</sup>. In response, Daimler resisted, saying that the meaning behind the creation of the cooperative profit group would be lost. Finally, the Benz side eased objecting opinions by saying, "dissolution is not our goal."<sup>55)</sup> However, differences of opinion were deep-rooted, particularly on the subject of the number of car models for production. The following shows the progression of the change in car models. At the next (3<sup>rd</sup>) joint meeting on January 27, 1925, at last Benz decided to switch from production of the 2-liter car to the 2.6-liter<sup>57)</sup> and production of the 2-liter was brought into Daimler's production plan<sup>58)</sup>. Then, at the 4th meeting (January 20, 1926), the companies decided to load a 3-liter engine into the 2.6-liter chassis and have Benz's Mannheim plant produce the 3-liter cars<sup>59)</sup>. Meanwhile, it was decided that Daimler's Unterturkheim plant would produce the new 2-liter cars. However, the design work for these was not completed for a long time. Speaking a bit ahead here, the work was finally completed after the merger contract was concluded<sup>60)</sup>. In any case, the car model production plan, Typenprogramm, was settled at last, putting an end to all the troubles.

Other than this, the noteworthy points from the formation of new policies at the nine joint meetings are, first of all, that C. Jahr played a decisive role as a delegate of the supervisory committee in the critical scene of ironing out the differences in both companies opinions<sup>61)</sup>. Secondly, W. Kissel<sup>62)</sup>, who was pressed forward as a central manager after the merger, first appeared as director (Benz side) during this series of meetings (after 2<sup>nd</sup> and 4<sup>th</sup> meetings)<sup>63)</sup>. At the 9th meeting (June 10, 1926) a move toward a complete merger became a formal topic of discussion for the first time<sup>64)</sup>. The perception is that the course of creating these new policies strengthened the inclination toward a complete merger.

### III The Formation of Daimler-Benz A.G.

It is written in the company history that [the few months prior to the merger brought about a final spurt concerning authority in the future major automobile producer]<sup>65)</sup>. The period from 1924-1926 when the Daimler-Benz cooperative profit group was formed and the companies were determining new policy as an integrated economic group was the most severe for both Daimler and Benz's sales outlook<sup>66)</sup>. The capital

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54) Ebenda.

55) Ebenda.

56) Ebenda.

57) Ebenda.

58) Protokoll - 27. 1. 1925.

59) Protokoll - 20. 1. 1926.

60) Protokoll - 29. 6. 1926.

61) Protokoll - 13. 1. 1926, -20. 1. 1926, -26. 2. 1926, -29. 3. 1926, -10. 6. 1926.

62) Kruk & Lingnau, a.a.O., S. 117.

63) Following Protokoll - 19. 11. 1924, -20. 1. 1926.

64) Protokoll - 10. 6. 1926.

65) M. Kruk & G. Lingnau, 100 Jahre Daimler-Benz Das Unternehmen, Mainz 1986, S. 113.

66) Ebenda, S. 110f.

demand for rationalization investment required borrowing large amounts of money. In Daimler's balance sheet and the post-merger Daimler-Benz balance sheet, Bilanz, in 1913 and from 1924-1927, One can see that the large loan amounts increased in the years 1924-1926, and at the time of merger had already reached 40 million RM.

Enveloped in the demand for capital, there were several influential movements<sup>67)</sup>. The first was, as a matter of course, Deutsche Bank, and along with it, Stauss and Jahr, who certainly held the best hand as decisive influences of the cooperative profit group era. However, other influences still hadn't lost their desire, particularly Danat Bank, the head of which, J. Goldschmidt, had a close relationship with Paul von Gontart<sup>68)</sup>, a member of Daimler's supervisory committee at that time<sup>69)</sup>. Goldschmidt worked hard on the merger with Busing and NAG and the inclusion of the Gaggnau plant (Benz) and Marienfelde plant (Daimler)<sup>70)</sup>. For him, the extreme decline in Daimler's market price came at the perfect time. The cause of the drop was a loss of one million RM resulting from participation in an Unterturkheim automobile electric parts maker, Rume AG. Because of that loss, it was obligatory for the chairman of the board of directors, E. Berge, to take responsibility and resign<sup>71)</sup>.

Additionally, there were several foreign banks, particularly American and Swiss<sup>72)</sup>, that were working to gain influence with regard to the large amount of credit required by the cooperative profit group. Moreover, there was a project<sup>73)</sup> to create one automobile bank for sales financing inspired by America. This too, one can say, was promoted with strategic background.

Lastly there was Shapiro. He by no means surrendered his strong position in Benz without a struggle. Then, Dresdner Bank came to have a supporter<sup>74)</sup>. The director, W. Clayman, from 1925 received a seat on the cooperative profit group's supervisory committee as a member of Benz<sup>75)</sup>.

However, in the end none of them could show their strength. Deutsche Bank by itself extensively maintained to the end the cooperative profit group's high level credit contracts<sup>76)</sup>. With their assistance, Kissel even arranged special installment financing at his own expense<sup>77)</sup>.

Well then, what became of Shapiro? Weakening his influence was from the start the common goal of Stauss, Jahr and later, Kissel. Daimler's director, Berge, very concerned in 1924 wrote a letter to Stauss, saying "if Shapiro said no, I wonder if a complete merger would have to be temporarily separated<sup>78)</sup>."

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67) Kruk & Lingnau, a.a.O., S. 114.

68) Refer to Charts 5 and 8.

69) Kruk & Lingnau, a.a. O., S. 114.

70) Ebenda.

71) Ebenda and Protokoll der Sitzung NR. 9 des Interessengemeinschaftsausschusses Daimler-Benz vom 25. Juni 1925 zu Stuttgart (Daimler-Benz A. G., Historisches Archiv, PD 100).

72) Kruk & Lingnau, a.a.O., S. 114.

73) Ebenda.

74) Ebenda.

75) Refer to Chart 8.

76) Kruk & Lingnau, a.a.O., S. 114.

77) Ebenda.

78) Ebenda.

The crucial first step towards seizing the power of "the disliked major Benz shareholder" was to occur in 1925. Shapiro was unable to get the supervisory board to push through his request to be included when Benz's Schutzaktie, converted its settlement of accounts<sup>79)</sup>. If he had succeeded, he would have increased his ratio of shares and acquired a deeper level of participation.

The path to a merger was opened around the middle of 1925. Otto Wolf, a business man in the steel industry, since 1922 held a seat on the Benz supervisory committee. In 1925 he was a member of the cooperative profit group's supervisory committee and proposed a plan for the companies' merger<sup>80)</sup>. Upon receiving it, the profit group's working committee, of which Stauss was chairman, gathered on June 25. There, Jahr was given the authority to carry out all the necessary measures for merger<sup>81)</sup>. This was against the will of Danat Bank, which backed von Gontart. At this meeting, Stauss, too, once again received special capabilities. The small competition with Shapiro was an obstacle to implementing the merger as originally planned on October 1, 1925. Finally, he requested that two Benz shares should be equivalent to three Daimler shares<sup>82)</sup>. This, however, did not even receive agreement from Dresdner Bank, with which he was linked. Thus, the one-to-one exchange ratio decided on from the start remained in place<sup>83)</sup>.

On June 28 and 29, 1926, the merger of both companies was concluded at each company's shareholders meeting. The merger contract, Verschmelzungsvertrag<sup>84)</sup>, was simply to the point, made up of only seven items. Daimler Motoren Gesellschaft took on the role of "receiving partner." That is, on January 1, 1926, with retroactive effect, all Benz assets were transferred to Daimler without liquidating. Daimler secured Benz shares with Daimler shares at a one-to-one ratio with no compensation<sup>85)</sup>.

The companies had decided that the name of the successor company should not be greatly different and that the name Benz should also appear within it<sup>86)</sup>. The goods produced by the merged management should have one uniform brand, while both partners general names and trademarks should remain identical in the future. Finally, Daimler would take the responsibility for listing the shares on the Mannheim stockmarket<sup>87)</sup>.

The new company was registered as Daimler-Benz A.G. With this, the 1924 plan was accomplished and the two worlds of the oldest automobile companies were integrated<sup>88)</sup>.

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79) Protokoll der Sitzung NR. 9 des Interessengemeinschaftsausschusses Daimler-Benz vom 25. Juni 1925 zu Stuttgart.

80) Kruk & Lingnau, a.a.O., S. 114.

81) der Sitzung NR. 9 des Interessengemeinschaftsausses Daimler-Benz vom 25. Juni 1925 zu Stuttgart.

82) Ebenda.

83) Ebenda.

84) Öffentliche Urkunde über Verschmelzungsvertrag zwischen der Firma Benz & Cie., Rheinische Automobil und Motoren fabrik Aktiengesellschaft in Mannheim und der Firma Daimler Motoren Gesellschaft A. G. in Berlin, am 28. Juni 1926. (Daimler-Benz A. G., Historisches Archiv, DBAG 1-4).

85) Kruk & Lingnau, a.a.O., S. 114.

86) Ebenda.

87) Ebenda.

The Deutsche Bank reached its own objective. Nevertheless, for E. G. von Stauss it was merely the first step toward the realization of his concept of a still larger automobile trust.

Daimler-Benz A.G.'s first supervisory committee was made up of 21 members and two labor representatives dispatched by the management council. E. G. von Stauss, the director of Deutsche Bank, occupied the position of chairman of the supervisory committee. For this he strongly clashed with his opponent, Paul von Gontart<sup>89)</sup>; Gontart wanted to unconditionally keep that post. In addition to Stauss, the concerned parties at Deutsche Bank also gave seats to F. Bausback<sup>90)</sup>, Carl Jahr, C. Michalofsky<sup>91)</sup> and R. Brosien<sup>92)</sup>. Naturally, Shapiro, as a major shareholder, was a member of the supervisory committee. Other related bank parties were W. Kleeman (Dresdner Bank) and A. Rosian (Danat Bank).

Two new members were added to the group that sat on the supervisory committee of the cooperative profit group, one of which was J. Brecht, a former Benz director. The other was a Bayerische Motoren Werke (BMW) director, J. Pope. Pope's participation carried extremely important meaning: As background to this, Stauss, chairman of the supervisory committee, had pursued his plan to add BMW to the Daimler and Benz group, and there was an exchange of shares first with Daimler and later with Daimler-Benz<sup>93)</sup>.

The new Daimler-Benz's registered location was Berlin. However, the headquarters remained in Stuttgart-Unterturkheim, which was the location of Daimler's main plant and, accordingly, became the nerve center of the new company and the location for management control.

Thus, Daimler and Benz, which had previously formed two small, separate worlds now started business as one integrated unit. Facing the world for the first time, the dual name Mercedes-Benz began its unstoppable career.

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88) Benz & Cie., Rheinische Gasmotorenfabrik in Mannheim was founded Oct., 1, 1883. The name was changed on Aug., 26, 1911 to Benz & Cie., Rheinische Automobil und Motoren fabrik Mannheim AG. Daimler Motoren Gesellschaft was founded on Nov., 11, 1890. The invention of the automobile as we know it today (powered by internal combustion engine) is attributed to Karl Benz who received a patent on Jan., 29, 1886 (Benz-Patent-Motorwagen, patents DRP 37453) and Gottlieb Daimler and Wilhelm Maybach, Aug., 28, 1886. According to H.C.G. von Seherr-Thoss, a.a.O., S. 5, the merger of Daimler and Benz in to Daimler-Benz A.G. was, therefore, the union of the companies established by both creators of the automobile.

89) Kruk & Lingnau, a.a.O., S. 116.

90) Director of Ufa movie company, part of the Deutsche Bank family; in 1928 became branch manager of Deutsche Bank Frankfurt a. M.

91) Deutsche Bank director.

92) Had a close relationship with Stauss. Kruk & Lingnau, a.a.O., S. 116.

93) Kruk & Lingnau, a.a.O., S. 116.