

“The Culture of Performance: A New Paradigm”

For facilitator:

We are honored to present as our guest speaker today, Ulrich Bruhnke, chairman of the board of Mercedes-AMG, the performance and racing division of Mercedes-Benz. Mr. Bruhnke joined Daimler-Benz – as it used to be known – in 1979 as a bodyshell-testing engineer. He was head of the C-Class and A-Class engineering groups, and later head of chassis and electronics for advance vehicle development. We’ve asked him to give us his perspective on the market for high performance vehicles.

Please welcome Ulrich Bruhnke.

Good afternoon. It is a special honor to be in Chicago with you, especially because Mercedes-Benz shares an interesting crossroads in history with this great city. In 1893, Gottlieb Daimler brought his internal-combustion engine to the Columbian Exposition to build interest. Legend has it that Henry Ford saw it and thought, “I think that Daimler guy (*mis-pronounce as “Dame-ler”*) has a better idea.”

Slide #2: Early Mercedes

If you can remember that far back, you may also know that in 1895 the *Chicago Times-Herald* sponsored a competition from Chicago to Waukegan and back. Six cars started but only two finished, a Duryea and a Benz. The Duryea officially came in first, but the Benz finished without stopping for repairs. History says Frank Duryea was so impressed by the Benz that he based his next design on it.

Today, we can see a similar pattern. Starting a high-performance division is a growing trend in the car industry, and many of the articles that I read about the upstarts use Mercedes AMG as a reference point.

Today, the spirit of rivalry and competition is producing a bumper crop of high-performance vehicles. The Los Angeles and Detroit Auto Shows presented an international smorgasbord of new models. More impressive than the quantity of the new entries was the international character of their performance credentials.

Slide #3: GTO 2004

My American friends are thrilled to see the return of an icon, the Pontiac GTO -- even if it does hail from Australia with some European DNA. But what does a Mercedes guy from Stuttgart know about a Pontiac? I know that the new GTO makes a crucial point about authenticity.

Authenticity is not easy to explain ... but car enthusiasts know it when they see it. In the case of the GTO, Bob Lutz was not about to put that badge on a front-wheel drive car. Whether it is a Pontiac GTO, a Ferrari 360 Modena or a Mitsubishi Lancer Evolution, authenticity comes from the dedication and passion of true enthusiasts at all levels of the organization – right up to top management.

Authenticity is just one element needed to build and sell a successful performance car. Before you finish lunch, I will share with you the AMG formula for building an entire high-performance division.

Some brands are rediscovering high-performance vehicles. Others are starting with high-performance for the first time. All have recognized that you can no longer offer a one-dimensional performance car. Thirty-five years ago, a 340-horsepower V8 engine was the only calling card a Pontiac GTO needed. Today, any performance car – even a muscle car – must excel in all areas of vehicle dynamics and also provide everyday comfort and usability.

It has taken a century to get to this point, so I think it is worth looking at how we got here.

Imagine high performance as a culture, and then consider the divide that existed between Europe and America. It was perhaps widest in the 1950s and 1960s.

American musclecars offered raw horsepower and straight-line speed -- but little refinement and relatively poor handling. European performance cars offered better chassis dynamics but lacked the enormous power that many American enthusiasts cherished. There were exceptions in both regions, but overall, the differences were dramatic.

This cultural divide began well before that. You can trace the roots to racing. At the dawn of the automobile, the car-making pioneers turned to competition to prove their inventions and help market

their cars. Long-distance events established endurance and generated publicity. But the thrill of victory seemed sweetest when accomplished with great speed.

Slide #4 -- SSK

The desire to go faster drove the quest for better technology. At first, the pioneers added cylinders and increased displacement. Imagine a 22-liter Blitzen Benz Grand Prix car! By the 1930s, overhead camshafts, multi-valve heads, supercharging and 12-cylinder engines were fairly common in high-end road cars, American and European.

Slide #6 -- Bentley

By this time, racing on either side of the Atlantic had followed different courses. The Indianapolis 500 became the premiere American event, while European racing leaned toward long-distance contests like the Targa Florio and 24 Hours of Le Mans. Alfa Romeo, Bentley and the Mercedes-Benz SSK epitomized the early European dual-purpose car – something that could be raced with only minor modifications.

By the 1940s, American enthusiasts were seeking short bursts of high speed on dry lakebeds. Their home-built dual-purpose cars became “hotrods” that frightened the public. The desire for racing on one side and the need for public safety on the other gave birth to a new kind of motorsport -- drag racing.

I don't think you can get a wider divergence of goals than sprinting through the quarter-mile the quickest or enduring 24 hours of road racing. Yet, a supercharged Bentley blasting through the French countryside had something in common with a hotrod racing down an abandoned runway. Both cars sprang from a vision for high-performance.

Slide #7 – XK120

By the 1950s, the differences in performance culture had crystallized. The European dual-purpose car became the sports car. Several landmark race-bred models stand out -- the Jaguar XK120, the Mercedes-Benz 300SL Gullwing and the early Ferrari berlinettas. The XK120 – which was named for its top speed – helped to ignite sports car fever in America.

Slide #8 – Mercedes 300SL Gullwing

The Gullwing was a true evolution of Mercedes racecars, with a tube-frame chassis, direct fuel injection, and 4-wheel independent suspension.

In America, high-octane fuel was cheap and plentiful, and a big V8 became the price of entry for performance. The factories took notice of stock-car racing, and then later, drag racing.

Detroit produced special engines for both, as well as complete “Super Stocks” for the drag strip.

Slide #9 – Chevy 409

In Germany, we heard the Beach Boys sing, “giddy-ap, giddy-ap, four-oh-nine” -- but we thought it was about a horse race.

These brutes were authentic because they reflected a vision and passion for performance, and that vision transferred into somewhat tamer cousins for the road. These musclecars successfully enhanced the performance image for several brands, with some of the more popular models selling between 40,000 and 90,000 units in some years.

Slide #10 – Hemi Cuda

Sales numbers weren't everything, though. My Chrysler colleagues remind me that the rare Hemi Cuda was the king of its kind.

I think it is interesting that American drivers could not legally test quarter-mile performance on public roads. Their counterparts in Europe meanwhile, could enjoy driving at 200 km/h or more on super-highways and not worry about speed limits.

America is a melting pot, however, and road racing did find a welcome home here -- including a premiere 24-hour race at Daytona. Road racing also influenced some American performance cars. The Corvette started as a boulevard cruiser, but became a real sports car when a visionary named Duntov took it racing.

Slide #11 -- Cobra

Another racer, Carroll Shelby started the Cobra legend by combining a European chassis with an American Ford V8. His operation became a kind of early performance division for Ford. The first GT-

350 Mustang merged American and European performance ideals became an early sign of things to come.

Unfortunately, marketing later diluted the vision.

I need to briefly flash forward 10 years.

Slide #12 – 1978 Mustang II “King Cobra”

I knew the real Cobra. (Pause, point to screen) ... and that was no Cobra.

I’m sure that our friends at Ford don’t mind a little ribbing for that one. They have certainly erased the ‘70s -- one look at the upcoming Ford GT and the new Mustang concepts makes that clear. And the company’s SVT program has become an authentic and successful high-performance division.

Going back to the 1960s for a moment ...

Slide #13 – Porsche 911

While the musclecar era was growing in America, the Porsche 911 continued the European dual-purpose sports car tradition. Factory racing versions of that car would eventually win Le Mans.

European V8s were uncommon in the 1960s, although Mercedes-Benz had an excellent one. Mercedes were highly capable on the Autobahn, but you might not have called them high-performance cars.

A model called the 300SEL 6.3 changed that. They took the 300-horsepower V8 from the three-ton 600-series limousine and put it in a two-ton sedan. It was the American musclecar formula – but with a greater emphasis on all-around performance and comfort.

To a couple of rebels in the company, Mercedes did not go far enough. The Aufrecht brothers and Erhard Melcher had a vision for high performance and racing that clashed with their employer, so they left to form AMG in 1967. Later, they built a 6.8-liter version of the 6.3 for road racing. So you see, “no substitute for cubic inches” was not just an American idea.

However, the AMG founders did not say, “Let’s blend European refinement with American horsepower.” They simply set out to optimize all facets of performance. Their goal was to build powerful and exceedingly fast yet balanced vehicles. And they proved their hardware by racing. That has remained AMG’s guiding principle for three decades.

Going into the 1970s, performance-car evolution took some interesting turns:

- Europe had become enamored with 170-mile-per-hour supercars like the Ferrari Daytona and Lamborghini Muira. At the opposite end of the spectrum, the Porsche 924 model came to the U.S. with a 95-horsepower 4-cylinder engine.
- The American musclecar went into rapid decline after 1970, due in large part to very high insurance rates. The oil embargo and then emissions and fuel economy standards finished the job. Decal racers took the place of real performance.
- Japan offered a ray of hope in the Nissan Z-car, which established authenticity rapidly with early racing success, as did the later Mazda RX-7.

At that time, Germany offered two everyday supercars, though very different from each other – the Mercedes 450SEL 6.9 and the Porsche Turbo. Nobody sang “She’s real fine, my six-point-nine,” but these two cars helped to keep interest in high performance alive. Customers pined for more like them, and some turned to the gray market. It would be a decade before factory performance like that would begin to return here.

By the late 1980s, technology designed to meet fuel economy and emissions standards was producing a very pleasing side effect – higher efficiency yields better performance. Even better, American and European carmakers had learned something from each other. The Americans found that customers enjoyed responsive handling. The Europeans realized that customers would pay for as much power as they could provide.

By the 1990s, high performance was truly back – and much stronger than it had ever been.

The divide in performance culture had begun to narrow – for the rest of the industry, that is.

At AMG, we have always focused on the fully optimized performance car. Now others have come to this conclusion, as well.

In 1994, Mercedes launched another 4-door supercar, the 500E, and AMG went one better with a car called the Hammer. In 1997, the C36 was the first joint venture between Mercedes and AMG. Soon after, Mercedes purchased AMG. The unofficial performance developer had become the official performance division.

That is not to say that Mercedes has simply bought a brand name to put on its cars. The parent company fully respects our own heritage and ideals. For example, today AMG continues to develop and build engines the way it has always done, because the engine is and has always been the core of a high-performance car's character. That applies to every car that I have mentioned today, and it remains a guiding philosophy at Mercedes AMG.

It's not just how the engine is designed and tested, but how it is built. We live by a saying at AMG – "One man, one engine." One master engine builder assembles the entire engine, start to finish, and then affixes a plaque with his name on it. That is another cornerstone in the authenticity of AMG performance. Customers visit the factory just to watch us build their engines.

Of course, we owe our success to more than our engines. We follow a comprehensive and profitable business plan. Perhaps others might benefit from these lessons:

First, we offer an AMG model in each Mercedes line. That variety broadens appeal and also supports the inherent strength of the parent brand. AMG models send a very clear message: every Mercedes is engineered with high performance in mind.

Second, we protect the AMG image. We offer accessory wheels and such, but only the true AMG Mercedes wears the AMG badge.

And third, we recognize that America is our most important market. Today, we send our hottest cars here with no performance difference from the European versions.

Our model for success breaks down into five basic steps:

1. One, offer exclusivity. The performance customer wants to feel that his car is something truly special. Limited production supports desirability, including for the brand's regular models. Some call it the halo effect. It works.
2. Two, offer high power carefully calibrated to be usable every day. High power should not automatically make a car a fair-weather, weekend toy. The car must have the tractability and safety to use the power in everyday driving. "Usable" does not mean soft, however – a performance vehicle must have an edge no matter what. Drive any Mercedes AMG to see what I mean.
3. Three, offer differentiation. The performance car must stand out from its stablemates while remaining linked to them. Customers want visible design cues – subtle or otherwise, depending on the target market.
4. Then four is factory development. The factory has the resources to harmonize power, handling, safety, emissions and aerodynamic design concerns. Factory-backed racing not only provides the best proving grounds, but also gives your venture authenticity. Of course, it helps if you win, too.
5. Finally, reliability and factory support for all aspects of after sales – including parts, service and warranty. Full factory backing builds customer confidence in the brand.

Those are just the basics. I should also stress the relationship between the parent company and the performance division. Mercedes AMG draws strength from Mercedes brand recognition, and the AMG performance image directly supports the Mercedes product strategy. A customer sees what a supercharged C32 sedan can do and appreciates the standard models all the more.

Should every brand start a performance division? Porsche and Ferrari certainly don't need one – they have always been 100-percent about performance.

Other brands must examine how high performance fits into their product strategy. If high performance is completely out of character with the parent brand, it may not make sense to the customer.

I have no doubt that high performance will remain a cornerstone of the auto industry. And the momentum keeps building: Consider what you will see at this show:

- 300 horsepower is no longer a summit, but an entry point ...
- Sports cars with 400 horsepower and more ...
- Performance icons like Corvette and Porsche 911 -- at their peak and still climbing ...
- New musclecars -- faster than their forbears, yet far more refined ...
- High performance models in nearly every body style and price range.

We are the proverbial kids in a candy store, and it gets sweeter every year. What have we learned since the 1970s that makes us confident the trend will last? Look to the product for the answer. Yesterday's performance cars were narrowly focused, and that narrowed their appeal. Many sports car and musclecar buyers bought only once and later moved onto something more practical. And of course, today, performance vehicles must meet the same emissions standards as standard vehicles.

Vehicles that offer performance without compromise and that make no special demands on the driver have the best chance of success. An international performance paradigm has taken hold, and it portends even greater things to come. In Chicago, in Stuttgart, Osaka and Sydney, customers want it all – power, handling, braking, styling and exclusivity. They will measure us by how well we integrate all those elements into tomorrow's supercars.

In closing, I am happy to see more brands setting up separate high performance divisions, because it charges up the whole industry. I would like to offer them a suggestion – words that come from experience:

Enthusiasts can tell the difference between authenticity and marketing. If you need marketing to explain authenticity, then you do not have it.

Make it real and give it your full support ... or watch it fail.

Thank you.