

DC Says \$600M Hello to Alabama, \$750M Goodbye to Georgia

by **JACK LYNE**, *Site Selection* Executive Editor of Interactive Publishing

POOLER, Ga. and VANCE, Ala. – DaimlerChrysler (www.daimlerchrysler.com) will be spending US\$600 million to expand its long-standing manufacturing operation in **Alabama**. But it *won't* be spending \$750 million to build a brand-new plant in **Georgia**.

For DaimlerChrysler, last week was that kind of schizoid, hello/goodbye scenario.

First, the automaker finally called the whole thing off in the Peachtree State, throwing in the towel on the long-delayed plan announced a year ago to construct a \$750-million, 4,000-worker plant in **Pooler, Ga.**, to make Mercedes Sprinter vans.

Two days later, the expansion worm turned: DaimlerChrysler announced that it would complete a \$600-million expansion adding 2,000 jobs at its Mercedes M-Class plant in the **Tuscaloosa metro** in **Vance**.

The two states' fallouts were huge and wildly divergent. The topsy-turvy turn of events, though, wasn't about playing one site against another. Instead, market demand drove events.

Alabama Project Announced in 2000, But Go-Ahead Big News Nonetheless

Alabama obviously got "the best of times" in this Tale of Two States.

DaimlerChrysler's Alabama expansion hoopla came as Mercedes celebrated its 10th year of local operations - a decade in which stars, and lots of cars, have fallen generously on the Yellowhammer State's fortunes.

"Right from the start, we felt our decision was the right one," Mercedes chief Juergen Hubbert said during the Alabama festivities. "In Tuscaloosa, we have impressively shown that we can produce a new production series with a new work force in a new factory. We have shown that a Mercedes made by Mercedes was possible outside of Germany." Opening the Vance plant in 1993, Hubbert added, has helped the German automaker double annual sales.

It was a double-dip of sorts, too, for the Alabama expansion - which wasn't really new. The automaker announced the project in August 2000



Mercedes-Benz U.S. International's Alabama operation (pictured) will double capacity to 160,000 vehicles a year with the \$600-million expansion.



"Because of the success of the Mercedes-Benz plant in Tuscaloosa, Alabamians now have an international reputation for our strong work-ethic and the quality of our products," said Gov. Bob Riley

and has begun implementation, but re-emphasized it as part of Mercedes' 10th-year celebration.

Then again, the firm green light alone was a major development. Getting DaimlerChrysler's public commitment is big news for any community. But getting DaimlerChrysler's definitive go-ahead has become bigger news. That's because the automaker has pulled out of two previously announced projects in the last 17 months: the Georgia Sprinter plant and a \$1.2-billion truck plant in Windsor, Ontario.

(left), pictured with U.S. International President and CEO Bill Taylor during a tour of the largest Mercedes-Benz plant in Sindelfingen, Germany.

Production Head: Alabama Plant 'Setting Benchmarks'

The Alabama expansion that DaimlerChrysler isn't pulling out on will add some 2,000 employees to the Vance plant's 2,400 workers. The expanded operation will make the next-iteration M-Class, plus a still-unnamed passenger-car/SUV hybrid.



The Alabama plant has produced "benchmarks incorporated at Mercedes-Benz plants around the world," said Mercedes' production head Hans-Heinrich Weingarten (pictured).

Hans-Heinrich Weingarten, executive vice president of Mercedes production, praised the Alabama operation for setting company-wide standards.

"The just-in-time delivery and standardization done here in Tuscaloosa has been incorporated at Mercedes-Benz plants around the world," he noted. "I believe this plant will continue to set benchmarks in the future."

Without market demand, though, good work doesn't guarantee a future. In Alabama it has, with the market's embrace of the M-Class.

Mercedes' Alabama M-Class operation was set up to turn out 60,000 SUVs a year. Demand, however, outstripped all expectations. DaimlerChrysler invested some \$80 million in 1998 and 1999 to expand the Vance plant's capacity to 80,000 units. And even that wasn't enough. From 1999 to 2002, DaimlerChrysler built some 25,000 M-Class SUVs a year in Graz, Austria.

The 1.5-million-sq.-ft. (135,000-sq.-m.) Alabama expansion should help meet the robust demand that's spurred the sale of more than 500,000 units since the M-Class's 1997 introduction. The expanded Vance plant will double annual capacity to 160,000 vehicles.

Mercedes Signaled Alabama's Auto-Industry Arrival

Mercedes' arrival in Alabama 10 years ago also gave the state cachet with a key market: auto-industry site selectors.

Mercedes looked at 150 sites in 30 states before picking Vance. Alabama's \$253-million incentive package for the automaker, however, quickly became a political flashpoint. The backlash was a major factor in then-Gov. Jim Folsom's re-election loss. One of Folsom's gubernatorial rivals, Jim Martin, charged, "This administration has made some awfully poor judgments with taxpayers' money." (Folsom eventually lost to Fob James Jr.)

Similarly, many industry analysts questioned Mercedes' judgment in coming to Alabama, then an auto-industry unknown.

Today, both judgments look wise.

On one hand is Mercedes, with a standard-setting plant.

On the other is Alabama, which now has four auto assembly plants, with Hyundai's Montgomery plant scheduled to start production in 2005. When the Vance project was announced, state officials projected that it would create 15,000 to 17,000 jobs over 10 years. Instead, Mercedes' credibility-creating project has helped almost double that number. Alabama now has more than 31,000 auto-industry jobs in more than 162 facilities, according to a University of Alabama at Huntsville Office of Economic Development study.

Georgia ED Head's Letter Urged DC's Action on Project

Georgia, though, is feeling the other side of DaimlerChrysler's troubled fortunes. The company suffered a second-quarter loss of more than \$1 billion and has cut 27,000 North American manufacturing jobs. And the automaker had hedged from the beginning in Georgia, saying that project implementation depended on economic conditions.



Georgia, state economic development head Cornell (inset) wrote DaimlerChrysler, must realize "an acceptable return" on its investment in the Pooler site (pictured), where the Peach State has already spent \$60 million.

"If we could build a plant, we'd be happy to put it in Savannah," DaimlerChrysler spokesman Han Tjan said of the pullout. "But looking at the big picture, it's not feasible right now to build another factory."

Tjan cited auto-market uncertainties and U.S./Euro currency fluctuations as major decision factors. Mercedes' German plant, he added, can meet current U.S. Sprinter demand.

The Georgia project had long been coming to a head. State officials hoped that DaimlerChrysler's July board meeting would confirm the Pooler plant. The board, however, delayed a decision, citing operating losses.

Then Georgia turned up the heat in an Aug. 13 letter to the company from Glenn Cornell, commissioner of the Georgia Dept. of Industry Trade & Tourism (www.georgia.org).

"While our commitment to the project is unchanged, the delay has forced us to reexamine our position regarding the long-term availability of the property," Cornell wrote DaimlerChrysler concerning the 1,550-acre (620-hectare) site. "Our sincere hope is that the company will make a decision in the next few months to proceed with the project. However, as we reach the end of the year without a decision, we will be compelled to again evaluate our position."

Georgia had a lot more riding on the project than jobs alone, including a \$322-million incentive offer. It was, in fact, already preparing the Pooler site. Site acquisition and preparation costs were projected to hit \$60 million by the end of September. Georgia, Cornell wrote, had to achieve "an acceptable return" on its investment.

For earlier coverage of DaimlerChrysler's proposed Georgia plant by *Site Selection*, see:

Blockbuster Deal,
October 28, 2002

Project Watch,
October 28, 2002

Automotive Industry Review,
January 2003

Q&I: Sonny Perdue,
September 2003

Spurned Georgia Site Likely to Draw Attention

That return won't be coming from DaimlerChrysler, though. Nonetheless, Georgia's efforts may not be for naught. The state stands a solid chance of landing another company at the nearly finished site, a prime location with its proximity to the I-95/I-16 interchange and the Port of Savannah.

Gov. Sonny Perdue (R) and his recruiting team are scheduled to visit Japan and Korea in October. Honda, Hyundai and Toyota will probably get visits from the Georgia team, which can be expected to extol the Pooler site's strengths.

As for DaimlerChrysler, the automaker's economic woes were further underscored by its late-September decision to close two Indiana component plants. The automaker will also sell an Alabama component plant and will offload another in Ohio if its financial performance doesn't improve.

The closings and sales were announced as part of the company's new United Autoworkers

agreement. The UAW actually scaled back DaimlerChrysler's initial intentions. The automaker wanted to close or sell nine component plants.

[Looking for a previous "Blockbuster Deal"? Check the Archive.](#)

©2003 Conway Data, Inc. All rights reserved. Data is from many sources and is not warranted to be accurate or current.