Thirty Years Later
Forgotten Lessons From Chrysler

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Principal, Collaborative Management LLC
Forgotten Lessons From Chrysler

Background

Current
• Industrial Partner, Ripplewood Holdings, LLC
• Principal, Collaborative Management, LLC

Boards
• Borg Warner Automotive – Public Auto Supplier
• Baxter International – Public Medical Products
• Asahi Tech – Japanese Public Auto Supplier
• Honsel AG – German Private Auto Supplier
• Babson College – Wellesley Massachusetts, Chairman of Board

Automotive Experience
• 1972 – 1980 Ford Motor Company
• 1980 – 1988 Chrysler Corporation, Procurement & Supply
• 1988 – 1990 Chrysler Acustar Components Division CEO
• 1990 – 1997 Chrysler Corporation EVP Procurement & Supply
• 1998 – 1999 Chrysler Corporation President
• 1999 – 2000 Daimler Chrysler President
• 2000 – 2004 MSX International CEO
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Fifty years of Ups and Downs

- Early success at brand differentiation and loyalty
- Product innovation – SUV’s, minivans, features, multipurpose trucks
- Low cost, high volume large power trains
- International expansion by GM/Ford
- Efficiencies of volume and derivatives

LESSON: These days are over.
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**Historic Industry Trends**

- Consolidation through Alliances and Mergers
- Insulated and isolated industry mindset
- Widespread adversarial practices
- Reliance on high unit volumes
- Mico financial measures
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Alliances are Difficult, Mergers are Worse
Chrysler’s Varied History

- Chrysler and Mitsubishi Motors – Late 1970’s-1991
- Chrysler and Maserati Motors – Late 1984
- Chrysler and American Motors – 1987 Acquisition
- Chrysler and General Motors – New Venture Gear – 1989
- Chrysler Mitsubishi and Hyundai – Global Engine Alliance - 2004 - 2009
- Chrysler and Daimler Benz - 1999
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**Alliances are Difficult, Mergers are Worse**

- Alliances require specific definition of control
- Acquisitions provide certainty of control
- JV’s = shared control creates problems
- JV’s usually have termination point or exit
- DCX = constant battle to resolve control

**LESSON:** JV’s can fill product or geographic void for short time while acquisitions are permanent and resolve control issues.
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Acquisitions Require Constant & Active Management

- Easier to invent than to implement
- Synergies often over-stated
- Must consider each company’s culture
- Cross-pollination is necessary
- DCX – intended as a merger, reality was acquisition

LESSON: Industry consolidation will continue with some failures along the way.
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**Auto Industry is Too Insulated**

- Follow the leader/safety in numbers
- Copycat products, management, & systems
- Big 3 – Detroit, Germany, Tokyo
- Resistance to outside pressures
- Limited learning from other industries

**LESSON:** Industry is not as unique as they think they are.
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Adversarial Relationship Prevail

- Unions
  - Co-dependent, but dysfunctional
- Dealers
  - Move to multi-franchises reduced loyalty
- Suppliers
  - Dominant/subordinate industry practices
  - “Extended Enterprise” introduced unique philosophy
  - Suppliers now in control
- Customers
  - Effect of quality problems on owner loyalty ignored
- Employees
  - Hierarchical management stifled input
  - Introduced platform teams to correct

**LESSON:** Cooperation and collaboration free up resources and improve relationship.
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Reliance on High Unit Volumes
Manufacturing Speed & Flexibility Essential

• Financial system biased against change
• Dedicated factory lines obsolete
• Interchangeability of components required
• Engineering not in step with Manufacturing
• Need rapid response to market changes

LESSON: K-Cars: One size does NOT fit all.
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K-Car Models
Forgotten Lessons From Chrysler

K-Car Models
Forgotten Lessons From Chrysler

Micro Financial Measures
Measure System Costs, Not Variable

• Historic concentration on component piece price
• Unit costing misses large cost elements
• Finance Staff domination
• Leverage of supplier technology
• Share supplier savings and reinvest - SCORE

LESSON: SCORE should have been continued. All firms need collaborative supplier relations policy.
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Lessons Requiring Remedial Training

- Adopt true collaboration over adversarial tactics
- Achieve geographic balance in markets
- Focus on system costs over variable
- Leverage supplier technology over internal development
- Track non-competitor trends and look outside, not in
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If Ben Franklin Had Been in Automotive Industry.....

• You’re never as good as they say your are; Never as bad as you think you are
• If you’re waiting for more data, it’s probably too late
• Government aid can be a last resort, but don’t let them run anything
• A good CFO should have run something other than a calculator
Forgotten Lessons From Chrysler (and Everybody Else)!