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HOW TO TURN AROUND A CAR COMPANY

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HOW TO TURN AROUND A CAR COMPANY

■ GM's Jack Smith and Nissan's Carlos Ghosn reveal their secrets of success

by Gary Witzenburg

Put yourself in the fashionable shoes of GM's Jack Smith in 1992 or Nissan's Carlos Ghosn in 1999...or Ford's Bill Ford, Chrysler's Dieter Zetsche, Mitsubishi's Finbarr O'Neill or Fiat's Herbert Demel today. If your assignment is to rescue and resuscitate a drowning automaker, huge or small, to save your own and everyone else's jobs, what would you do?

What elements of the company would you rethink and restructure? Who would you fire and hire? How would you know which root-cause problems needed fixing first?

Most of us probably have basic ideas about what the priorities should be: Cost, People and Product (CPP), for starters. But how exactly do you go about fixing those things?

Cost: The tough task of carving structural and operating cost and waste out of facilities, functions and processes is necessary to get you through the lean times and position you to profit when those hot new products hit the market. This usually involves closing facilities and "right-sizing" your workforce, meaning some number of souls will hit the street. How you handle this is a test of realism vs. compassion by which your leadership will be judged.

People: The next hugely important task is putting the right strong, focused, enlightened leaders with the right knowledge, experience, smarts, skills and priorities into the right positions. They will need to communicate your vision and motivate and enable their people to get the grunt work done.

Product: If the three key factors for success in real estate are "location, location and location," the car-biz equivalent is "product, product and product." Excluding finance branches and other side businesses, product provides the revenue and reputation your company needs to survive...and it may be a major part of your problem. The problem with product, though, is that it takes years to design, develop, validate, tool and build. If your tired old stuff isn't selling, you're in for some long lean years before your brilliant new stuff gets out to begin generating dollars and rebuilding your image.

The history of product-driven turnarounds shows the most effective formula to be an artful blend of knock-out Style, class-leading Performance and impeccable Quality, plus those crucial financial factors, Cost (yours) and Value (to the customer) — call it SPQ+CV. Then there's the nightmare scenario that once all the work is done and the money spent, your bet-the-ranch new products may be too conservative or, worse, too "far out" to gain acceptance.

For first-hand insight, *AI* touched base with leaders of two very prominent turnarounds of two very different automakers, GM's Smith and Nissan's Ghosn. We asked what were their companies' specific situations; what did they do first, second and next; what worked, what didn't; and what still needs done?

"In my opinion, the most important thing is to step back, refocus and benchmark yourself against the best in every function."
— Retired GM CEO John F. "Jack" Smith

Jack Smith and General Motors

It was a bleak December day in 1992 when newly appointed CEO John F. "Jack" Smith hosted a somber luncheon for members of GM's electric vehicle team, who had just learned that their beloved program had been shelved, maybe for good. Most of these dedicated, talented, hard-working men and women knew they would soon be reassigned to other programs and priorities.

Smith apologized and told them, with genuine emotion and sincerity, that he had saved this decision for last among many tough calls needed to right the GM ship, and it was one of the hardest he had ever made. Then he sat down to a modest lunch and chatted amiably with the few fortunates chosen to share his table.

What Smith did not share was just how dire GM's circumstances were. Under popular "product guy" CEO Bob Stempel, who had inherited the awful mess left by Roger Smith (no relation), GM had lost $4.5 billion in 1991 and was on its way to a staggering $23 billion loss in '92, the largest in U.S. business history. Its organizational structure was old and inefficient, its costs were out of control, and its products and processes were, in Jack Smith's words, "grossly uncompetitive." At one low point, it was piling on additional debt by borrowing to make payroll.

On April 1 of that year, GM's Board of Directors had jettisoned executive vice president F. Alan Smith (also no relation) and president Lloyd Reuss and installed Jack Smith as president. He had led successful turnarounds before, most recently returning GM's European operations to profitability, and he was elevated to CEO when Stempel resigned in October.

GM's problems dated back to its roots. It came together though acquisitions of existing vehicle and component companies, each of which remained a complete business unit. When Alfred Sloan assumed control in the 1920s, "he established policy groups to coordinate what these individual divisions were doing," Smith explains.

GM was hugely successful for five decades under this structure, which survived essentially intact through Roger Smith's ill-conceived 1984 reorganization. As it proliferated models to compete with invading imports beginning in the '60s, however, it lost its efficiencies of scale, failed to modernize facilities and processes and was slow to recognize and react to competitive forces such as "lean" manufacturing and fast-improving quality.

Since Purchasing was the 500-pound gorilla component of GM's runaway costs, the first thing Smith did when he took the helm was organize a Global Purchasing System under controversial Spaniard Jose Ignacio Lopez de Arriortua, who had successfully done the same thing at GM Europe. "At that time," Smith says, "we had 27 purchasing centers all making separate decisions. And while that caused some discomfort to the supplier community, it was incredibly important to our turnaround."

Then he eliminated the policy groups that

Sloan had put in place — "We effectively took out Central Office and went to a Strategy Board very similar to what we had in Europe." — and began consolidating and commonizing the processes of all the company's functions "to make them operate as one. We're just now wrapping up coming down to one Engineering and one Manufacturing group," he relates. "We couldn't get that done overnight, but we finally got there. And the most difficult part has been consolidating our sales and marketing organizations."

Would such measures apply to other troubled companies? "Every case is specific," Smith explains. "It depends on what the company's issues are. In my opinion, the most important thing is to step back, refocus and benchmark yourself against the best in every function. You have to come to grips with 'what's wrong here, and how do we make it better?' You've got to get everybody working efficiently. You've got to know where your benchmarks are, and you need a combination of cost reduction and great product."

His Strategy Board approach enables decision-making with big-picture perspective: "Having all your senior leadership in the same room, all having a say in big decisions, is very powerful. Everybody gets a chance to say what's on their minds, and the leader generally can get the group to reach consensus. There's an art to it, and Rick Wagoner is very good at it, but in the end he's the decisive person in charge."

Top of his list of what not to do is cutting product programs: "Don't cut your product spending when you've got a problem," he says, "because that's your lifeblood." GM had very little capital available for product development in 1992, so a lot of programs had to be delayed. "That was very difficult, very difficult, because by the time you pick them up again, those products have aged. We went through a very long period of just trying to recover from '92."

But once his Strategy Board (instead of competing divisions) began managing the product plan and the development process was centralized and streamlined, the substantial savings were wisely reinvested in more new products. "When we were able to get competitive, we took that savings and, rather than flowing it to the bottom line, developed more vehicles. We could have done what we were doing with fewer people, or we could have the same number of people doing more vehicles. We chose [the latter]. That was a very important strategy, and it's been very successful. That's why over the last number of years you've seen a whole lot of new product coming out of General Motors."

"Product leads recovery. Nothing happens without it. Quality, cost and technology support the product."

— Nissan CEO, Carlos Ghosn

No leader worth his bonus is ever fully satisfied, so Smith was reflective as he took his well-earned retirement and handed GM's tiller to Wagoner this May 1. "I'm not telling you that we went to the best in the world," he says. "I'm just telling you that we caught up to the best in the world. But the journey's never finished. I'm sure that there are many ways to do things differently than we're doing today.

"In hindsight, one of the questions that I always struggle with is, could we have moved faster? I think the answer would be, 'Yes.' But then I wonder, would we have had everyone buying in? And by and large we have had everyone buying in, because they have understood that we needed dramatic changes. You do these things with a feeling that if you want to be successful, you want to make sure that you're not going over the edge. So it's a balance. I'm very happy to say that we didn't blow the place up."

Carlos Ghosn and Nissan

While GM's turnaround, due to its enormous size and complexity, has been agonizingly slow, Nissan's has been incredibly fast. When Brazilian-born Renault executive vice president Carlos Ghosn stepped off the plane to take its reins as chief operating officer in the

15 Minutes with GM CEO Rick Wagoner

■ Taking the reigns on the road to recovery.

AI: How dire was GM's state when you became CFO in 1992?

RW: I remember Jack's famous words: "Stop the bleeding." We had to get the business to a point where it wasn't pouring cash out the door every month.

AI: You also had to improve product and product development.

RW: We've significantly improved the quality of our product and the breadth and quality of our portfolio. We've moved from six or seven product development organizations in the U.S. to one, and that's yielding all sorts of efficiencies. In manufacturing efficiency, we've moved from the worst in the U.S., by a significant margin, to right up there with the best.

AI: You've had problems with relationships – suppliers, dealers, the UAW — along the way.

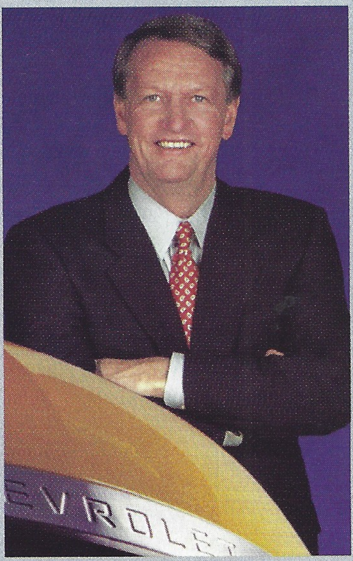
RW: This is an industry in a period of great change and the stress that competition brings. What has been happening with suppliers is the competitive dose of cold water we've all gotten in the last five years. The supply base has been under massive pressure to get more value for less money, because that's what we're getting from consumers. With dealers, we were butting heads for a while, but I think that has significantly improved. With the UAW, we had a number of strikes, and the relationship was tense, but that's back on a very constructive track.

AI: You're plowing millions into fuel cells but not competing yet in hybrids.

RW: We were going hard on the electric vehicle, and after that we said we needed to bet on something that can be fully competitive in all areas — regulatory, consumer needs and business. So we've been working very hard on the fuel cell. But we can't afford to leave the hybrid field open. We've reached out more and more into technology to maintain GM as an industry leader

AI: How can you stop the bleeding of market share to off-shore brands?

RW: One answer is simple: we need the best products and cost efficiencies so we can stay tough. The second piece is, we need to fight to make sure we have a level playing field. We've been outspoken on things like valuation of the yen — the Japanese Central Bank inappropriately and excessively using their strong reserve position to purposely drive the yen to be weaker, which is directly moving manufacturing jobs from the U.S. to Japan. We should not have to compete against that.



Another fair playing field area is the cost of health care, which is a very big issue for the entire U.S. economy: I think I'm accurate in saying that none of the countries we compete against has a health-care setup like the U.S. and a health-care burden placed on their manufacturers.

AI: What are the major ongoing challenges?

RW: One is that we have to rebuild our balance sheet, which means we have to generate cash. That is driving a lot of our business strategies, to make sure we keep enough cash going in to do product, to keep our share up so we can keep production up so we can keep the machine running and generate cash. The other big challenge relates to the competitive set, tough pricing and the lack of profitability we see in the auto business. We've got to do even better products to get share and a little pricing power and get to segments fast where it's more profitable. And we need to run the operating side of the business very adroitly: quality, manufacturing efficiency, the right manning levels, everyone working on value-added activities. – GW

spring of 1999, he hit the tarmac running. He had to, because the once-proud Japanese automaker was on the brink of collapse. Its domestic market share, a heady 34 percent in 1974, had declined to less than 19 percent. Its global share had fallen to 4.9 percent from 6.6 percent in 1991, and it had lost money in all but one of those eight years. Its debt was a staggering $22 billion.

After Ford and DaimlerChrysler pulled out of negotiations to purchase Nissan in March of that year, Renault cut a clever deal to exchange $5.4 billion in much-needed cash in exchange for a 36.8 percent equity stake in the company. It was a colossal gamble that offered a huge potential payoff down the road. "Failure was not an option," Ghosn said at the time.

Ghosn's process — which he had used successfully to restructure Michelin North America as president and CEO before joining Renault in 1996 — began by setting up cross-functional teams to examine every area and function of the company and develop "ambitious, realistic recommendations for improvement."[1]

The resulting Nissan Recovery Plan unveiled Oct. 18, 1999 promised to restore the company's profitability by revitalizing its product portfolio (four new models in the U.S.) while reducing costs by more than $9 billion and debt to $6.4 billion by 2002. The cuts would come from centralizing global purchasing (much like GM) and manufacturing and from "sales, general and administrative" costs. Three assembly and two powertrain facilities in Japan would be closed, worldwide headcount would be reduced by 21,000 (through natural attrition, an increase in part-time employment, spin-off of non-core businesses and early retirement) and key functions would be globalized.

Perhaps the biggest challenge, Ghosn tells *AI*, was instilling a sense of urgency and restoring the self-confidence and motivation of Nissan's people after a decade-long decline they had felt powerless to reverse. How did he accomplish that? "Renewing the product lineup was first. It was considered boring, bland, not reflecting what Nissan should be able to do. We had to do that quickly and effectively, and we had some good existing platforms, which saved development time. Second, we had to revive the brand — Nissan didn't take good care of it in the '80s and '90s — and make sure everybody was working toward that goal. Third was establishing a cost-competitive base by eliminating all the waste and non-value-added work."

Of course, no leader can do the job alone. "The people element is fundamental," Ghosn relates. "Driven by a real, clear plan, people from inside the company can do it if you give them a chance. About 25 people came with me from Renault, but probably no more than 15 were experts and managers in critical areas — purchasing, product planning, business planning, controllers — where I thought breakthrough was needed. They were responsible for coaching the breakthrough, but the change really came from our employees inside Nissan."

How was he able to cut jobs and close plants in Japan, where "lifetime" employment is an entrenched tradition? "We were faced with a potential complete collapse of the company, and people understood this. The sense of urgency was established so people would give a hand and see for themselves that if we didn't change, nobody would have a job."

One astute major move was hiring design chief Shiro Nakamura away from Isuzu to lead Nissan's design revival. "At the heart of product," Ghosn says, "you have design as a first attribute. That was part of renewing the product and the brand, and we worked on it from the beginning. It was important to have someone who was Japanese with global experience and very open. Nakamura arrived in October, '99, on the day I announced the Revival Plan. He was perfect, and the results are showing.

"As underdogs, we had to innovate and change. When we designed the Murano and FX45, we knew they would be a challenge. People have to get accustomed to [a new look]. Today we're very happy because they are doing well. Those were risky bets — but successful.

"Product leads recovery," he adds, "nothing happens without it. Quality, cost and technology support the product. After product is service and customer care. These are extremely important and top priorities."

Almost incredibly, Nissan was profitable in 2000, reached 7.9 percent operating margin in 2001 and an industry-leading 10.8 percent in 2002. "In 2003, we're targeting over 11 percent," Ghosn says, "with lots of new products and brand starting to kick in. When we look at brand value, one of the attributes we consider is transaction price between us and reference brands. Our brand is getting stronger, but we're not where we want to be. You'll see a lot more new products in 2004 and 2005."

As of late 2003, Nissan's U.S. market share was approaching 5 percent vs. 3.9 percent in 1998 and 5.1 percent in 1995. "In the U.S. market, we're selling on product attributes and attractiveness, not incentives," Ghosn says, "products, not deals. We'll accept less volume if need be. We will not make short term decisions that hamper long-term results. Market share is not our obsession, but we consider it a good indicator of performance, the consequence of doing it right. We're more profit-driven than market share-driven, and the results are there.

"Another indicator is that we reached 19.8 percent return on invested capital — how you're using your assets to reach objectives — last year. That is second highest in the industry behind Honda, and this year we're expecting it to be even better."

Since the unforgiving auto business is unlikely to get easier any time soon, survival will remain a 24/7 struggle for everyone, with no room for complacency or costly mistakes.

His biggest challenges going forward? "Maintaining a healthy level of growth with top-level profitability. We're reaching midpoint of our 3-year 'Nissan 180' plan [which succeeded the original revival plan in May, '02]. Zero debt was reached last year, and we're ahead of our goal of 8 percent operating margin. Our main goal now is achieving one million additional sales in support of our profitability. In 2003, for the first time since 1990, we'll cross more than 3 million cars sold without trying for more market share or volume than we deserve. By the end of Nissan 180 [in 2005], we should be above 3,600,000 vehicles mainly based on new products and new geographical zones [including China] where we've been investing. We have a long way to go, but we have enough product, plans and determination to get there."

Like GM's, Nissan's dramatic recovery is well along but remains a work in progress. Fiat's and Mitsubishi's are at the starting gate; Ford's and the Chrysler Group's are mid-course. Conventional wisdom says the planet has more automakers with more capacity than global demand can support, and that some must inevitably fail. It's the law of the car-biz jungle.

Consider the effect on the U.S. economy if one of our two remaining independent survivors dies outright, or is killed and consumed by an off-shore predator. Consider the effect on European economies if Ghosn's plan had failed and dragged Renault down with it.

No-one wants to be next to fail, which is why successful turnaround artists such as Smith and Ghosn are more than worth their healthy compensation and why national governments should be motivated to help their major industrial companies stay afloat. Since the unforgiving auto business is unlikely to get easier any time soon, survival will remain a 24/7 struggle for everyone, with no room for complacency or costly mistakes.

Whoever stumbles next may not find such a hero and a path to recovery. ★

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1. Turnaround, How Carlos Ghosn Rescued Nissan, by David Magee, HarperBusiness Publishing, Inc., NY, 2003.