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PART I

The Story of Chrysler's Second Turnaround

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DÉJÀ VU ALL OVER AGAIN

A FUNNY THING HAPPENED TO CHRYSLER IN THE EARLY 1990s. THE COMPANY that, just a decade before, had been saved with the aid of historic—and very controversial—federal loan guarantees, was in deep trouble again.

How did this happen?

It would be easy, I suppose, to paint the reasons in stark black and white, complete with stock villains from Central Casting—as writers of books and articles are so often wont to do. But I hate it when writers do that, when they oversimplify the reality of what was really an incredibly complex business situation. The truth of Chrysler's situation was more shades of gray than black and white—and since this is *my* book (and since I believe that the ultimate key to success in business is truly understanding complex situations by using more of your gray matter), I'm going to give it to you straight (or at least as straight as my admittedly skewed personality will allow!).

Some of the seeds of Chrysler's second unraveling were, undoubtedly, sown in the headiness of the company's remarkable comeback from the brink in Turnaround #1. And I, for one, can

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almost understand why. In 1979, even the pro-business *Wall Street Journal* had told Chrysler to "die with dignity." But the plucky band of survivors at Detroit's number three automaker, led by Lee Iacocca and his rough-and-tumble gang of refugees (and castoffs) from the buttoned-down Ford Motor Company, would have none of it. Sure, they'd bent the rules of free enterprise a bit in wrangling $1.2 billion in loan guarantees out of the Carter administration (something that I myself, from my perch at Ford at the time, had a tough time sympathizing with), but the company had also gone through hell and back in terms of coughing up additional billions in pay cuts and concessions—not to mention having to go to the mat to wrestle concessions from its bankers, suppliers, and dealers. All in all, Chrysler in the early '80s was like a heart-attack victim that had undergone an emergency transplant right by the side of the road for all to see—and had *survived!* And if nothing else, you had to give them credit for their sheer spunk.

This was, after all, the company that, in the midst of all its travail, brought to market the cheap, fuel-efficient "K-car"—badged the Dodge Aries and Plymouth Reliant—laughable underachievers by today's standards, but exactly the right cars for those recessionary, post-oil-embargo, stagflation times. The K-cars were America's first front-wheel-drive, transverse-engine, six-passenger cars, and they sold like hotcakes. Even more important, they served as the basis for a true automotive sensation—the minivan. Introduced in the fall of 1983, the Dodge Caravan and Plymouth Voyager (and later the Chrysler Town & Country) not only created an all-new segment in the American auto market (arguably the first all-new segment since the Ford Mustang defined the "pony car" segment in the '60s), but they became a cash cow of almost unbelievable proportions. In 1984, Chrysler earned a then-record $2.4 billion—adding another $3 billion in earnings over the next two years.

It was at that point in time, 1986, that one Robert A. Lutz, age 54, decided to jump ship at Ford and cast his fortunes with the swashbuckling crew at Chrysler.

Why, exactly, did I go to Chrysler? One reason, quite honestly, was that it had become obvious to me that I had risen about as high as I would go at Ford. After stints earlier in my career with General Motors

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(mostly in Europe) and with BMW in Munich, and after serving as chairman of Ford of Europe (a huge company in its own right), I had risen to executive vice president of all of Ford's international operations and been elected to Ford's board of directors. For a while, there was even speculation in the press that I was a dark-horse candidate to succeed Phil Caldwell as chairman of Ford. Throughout my career, I guess I was what you'd call, in today's parlance, a "change agent," and that active, sometimes exacting temperament had certainly served me well. However, change agents, by definition, stir things up—and it's one of the ironies of modern business that while companies all say they *want* positive change, they very often get uneasy about anybody in the organization feeling "uncomfortable" (which of course is how change often makes people feel).

And so it was for me at Ford. Don't get me wrong: I didn't leave Ford "one step ahead of the sheriff"; I could have finished out my career there. But a gnawing feeling had descended upon me—a feeling that I'd started running in place.

Meanwhile, there was a lot about Chrysler that I found very appealing. Chrysler was seen in those days as sort of the last refuge of automotive malcontents, and I guess I pretty much fit that description. In fact, throughout my life, I've never really fit into the standard mold too well.

For starters, unlike what seemed to be true of virtually all American automobile executives at the time, I was not born in that small, bucolic town in the Midwest called "Humble Origins." Quite the contrary. I was born in cosmopolitan Zurich, Switzerland, into the family of one of those Swiss bankers you hear so much about, and I grew up sort of a "mid-Atlanticer," as my father's bank, Credit Suisse, kept transferring him back and forth between Zurich and Wall Street. In fact, by the time I was eight years old, I'd crossed the Atlantic five times and, by age 11, held both Swiss and U.S. citizenship.

It was certainly a privileged life, but it also contained a lot of upheaval for me, as I was regularly held back a grade whenever I returned to school in Europe following a stint in the United States. Even though the U.S. public school system in those days was absolutely stellar compared with today, and even though I always had a rigorous course load that included Latin, literature, higher

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mathematics, and all of the other subjects of a traditional liberal education, invariably I'd be hopelessly behind my Swiss counterparts. ("Okay, Bobby, we see here you've had a little Latin; would you now please *conjugate these verbs* for us?")

Plus, as is so often the case, privilege in my young life (combined with all these upheavals and setbacks) had a way of leading to a certain amount of restlessness and even outright rebellion. The worst example of this is when my family finally settled down for good in the Zurich area following World War II, and I managed to get myself booted out of high school. Official reason: "Academic and disciplinary problems." Translation: At the same time I was showing little interest in my assigned studies, I was showing a little *too much* interest in the daughter of the biggest industrialist in town.

Luckily for me, six months of manual labor in a leather warehouse taught me that maybe buckling down in school wasn't such a bad idea after all. But my father, in his infinite wisdom, wasn't going to let me off with just that. In exchange for his promise to fund one more chance for me at education (at a public school in French-speaking Lausanne, Switzerland, where I eventually picked up that language in addition to my German and English), he made me promise to return to the United States immediately upon graduation and enlist in the U.S. Marine Corps. (Why the Marines? Well, I think at least part of it had to do with the fact that during one of his stints in New York my father had gotten to know a very impressive former Marine colonel, and, in addition to being a great guy, the colonel used to walk around the office on his hands—and I think maybe my father thought that *all* Marines walked on their hands, and that any breed of people who can do that must be pretty neat!)

At the time, I thought my father's deal might be a Faustian pact—especially since the Korean War was in full swing at the time, and the survival rate of enlisted Marines in Korea was none too high! Instead, it turned out to be a godsend: After graduating from high school (at, yes, the ripe old age of *22*—I was so old the other kids had taken to calling me "Dad"), I went through boot camp at Parris Island, South Carolina, and acquired a sense of discipline (including *self*-discipline) to temper my heretofore unbridled bent.

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I was also, eventually, able to fulfill one of my (and probably just about every other boy's) lifelong dreams: to become a fighter pilot. Because I didn't have a college degree and wasn't an officer, I entered the Naval Aviation Cadet Program (NAVCAD), which was then open to promising enlisted men from either the Navy or the Marine Corps (and even civilians). As events would have it, the Korean War ended before I got my wings; however, I did serve in Korea for a time as the Air Liaison Officer of the 2nd Battalion, 3rd Marines, based on Okinawa. All told, I served five years as an active-duty Marine aviator from 1954 to 1959 and received my commission as an officer.

I *loved* the Corps, and I loved what it did for me in turning around my life. In fact, I loved it so much I intended to make it my career. But to advance as an officer, I would have to get that college degree. So, following my tour in the Far East, I returned to the site of one of my earlier assignments (northern California) to become a Reserve aviator, flying out of the Alameda Naval Air Station, and to finally pursue a degree at the University of California at Berkeley.

But at Berkeley, a funny thing happened *to me:* While pursuing my degree, I became just totally fascinated with the world of business, particularly the whole bundle of human psychological constructs involved in marketing; and I started to think seriously about combining my second burning passion in life—*cars*—with a career in business. So, after obtaining my bachelor's degree (at age 29), I went on to get an MBA at Berkeley, and soon thereafter got into the auto industry with a series of marketing and, later, management jobs at General Motors, BMW, and Ford.

When I finally landed at Chrysler, two decades and three car companies later, I found a place where (at the top of the company, at least) a nonconformist like me seemed to fit right in. Moreover, I saw Chrysler's smaller size (at least in comparison with Ford and General Motors) to be a tremendous potential advantage for the company. In the Marine Corps, and later, when I oversaw the disparate departments that would someday be the motorcycle division at BMW, I'd seen the power of small, dynamic organizations firsthand—organizations that through vision, wile, and, yes, just plain guts were able not only to *overcome* their size and resource deficiencies, but to turn them into

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advantages. And I was anxious to work again in an organization that wasn't too large (or to be more exact, too lethargic) to get out of its own way.

There was one other thing, however, that I quickly discovered on joining Chrysler: that the company, despite its bold demeanor and strong profits, was basically following a *defeatist* strategy in its core car and truck business.

Some of the rationale for this strategy was perfectly understandable. From time immemorial, the auto industry has been one of the most cyclical industries anywhere in the business world—"Every time the American economy catches cold, Detroit gets pneumonia," goes the old adage. And a lot of people, including the money managers on Wall Street, had long pressured us to try to minimize this cyclicality by diversifying our risk—or else pay hell for it in stock prices, credit ratings, even our jobs. Now, though, there was an additional dynamic: Japanese competition. To be more exact, the challenge was Washington's growing reluctance to do anything about the plainly unfair advantages that Japanese automakers then enjoyed over their American counterparts.

It was Washington, to begin with, that in the 1970s had saddled Detroit with a stringent array of fuel-economy regulations to combat an "energy shortage" that, in reality, turned out to be a mirage. (Case in point: A gallon of gasoline in the United States today costs less than a gallon of bottled water!) And in this respect, Chrysler's smaller size was *not* an advantage, because in not having the resources to place two bets at once (one on fuel-sipping four-cylinder cars and a hedge on larger cars and V-6 and V-8 engines, as GM and Ford had done), the company found itself with its chips stacked on the wrong color when the energy crisis turned out to be a false alarm. As a result, the company also found itself—to a greater degree than GM or Ford—right in the teeth of the full-fledged Japanese onslaught of the mid- to late '80s.

Meanwhile, on another front, in the recession of the early '80s—which was really a *depression* for autos—Japanese automakers, under pressure from Washington, had agreed to "voluntarily" limit the number of cars they imported into the United States to 1.68 million per year. This was called the Voluntary Restraint Agreement, or VRA—and it made sense because Japan's own auto market was (and is) locked up

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tighter than a drum to foreign competition. For example, in the year the VRA was enacted the Big Three American automakers sold a grand total of 4,219 vehicles in Japan, and by 1997 that number had climbed to just 25,000 vehicles.

In 1985, however, Washington decided to let the Japanese lift the VRA (in essence, to eliminate it). On the face of it, this seemed like a sensible decision—after all, the Big Three were all making money once again. However, with foreign nameplates already taking more than a quarter of the U.S. market that year (and now threatening to take a lot more), and with autos accounting for more than half of the nation's all-time record $130 billion trade deficit, it wasn't inconceivable to consider the future for American auto producers, especially those whose products competed so directly against the Japanese, a little bleak.

Moreover, there were a few other Japanese-related factors at work as well: The original imposition of the VRA had given the Japanese an incentive both to sell a higher mix of upscale cars in the United States (just as gasoline prices were falling) and to build what turned out to be a bevy of "transplant" assembly plants in the United States (just as the yen had finally strengthened against the dollar)—proving, much to Detroit's chagrin, the old saw, "Be careful what you ask for, because you just might get it!" Adding insult to injury, as the yen rose from its previous absurdly weak (read *rigged*) levels, the Japanese complemented their growing U.S. transplant production by selling many of their Japan-built products for less in the United States than what they sold for in Japan (which they could get away with because they had a sanctuary market at home, peopled by consumers who had no other choice but to pay high prices to help offset the cost of their market-share grab in the United States).

This is, of course, by definition, *dumping*—an illegal practice in the United States and also against the rules of the World Trade Organization (then the General Agreement on Tariffs and Trade). Whenever anyone from Chrysler pointed out this or any other Japanese transgression, however, the Washington (and media) response was, "Stop whining—it's not trade practices; it's that the Japanese just build better cars!" The fact of the matter is, *both* statements were true: The Japanese *did* generally build better cars, and they *did,* at the same time,

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routinely engage in unfair trade (which, by the way, in turn helped give them the *resources* to build better cars!). And while I, for one, readily conceded the former point, hardly anyone in Washington or in the media would concede the latter. It seemed almost as if the American mind was incapable of grasping both propositions simultaneously. (And, yes, I know history has proved that the Japanese economic model was ultimately no match for American-style free enterprise; but, really, that's the main point we were trying to make all along!)

Against this general backdrop, the minds at Chrysler, prior to my arrival, had decided to pursue what was internally known as "Plan B." The strategy was partly "If you can't beat 'em, join 'em," and partly "See ya later, Alligator." It called for the concurrent phaseout of North American production of all but our highest-profit-margin vehicles, leaving our smaller vehicles to be built by partners in Asia (and possibly Eastern Europe), and for the accelerated diversification of the corporation at large into areas such as aerospace and financial services. Toward that latter goal, by 1989 Chrysler had acquired Gulfstream Aerospace, Electrospace Systems, FinanceAmerica, E.F. Hutton Credit, and, just for good measure, the exotic Italian supercar builder, Lamborghini, plus four U.S. rental-car companies (not to mention our partnerships and joint ventures with Maserati in Italy and with Mitsubishi Motors in Japan).

We also made one other acquisition—a big one—in 1987: the American Motors Corporation. We bought AMC to get the world-renowned Jeep brand, something that certainly fit in with our "go upscale" plan. It was a risky move—in some ways, *too* risky for my tastes—but in the fullness of time, one that has turned out to be a gold mine (for a number of reasons, as you'll read about in Chapter 2).

The central problem, by the late '80s, with Chrysler's strategic retreat-cum-diversification plan (at least as it related to our remaining auto business) wasn't so much that it left our auto operations without enough capital, but that, in all the "hubbub," the money wasn't being spent as well as it could have been. We just didn't have the right focus or, to be honest, the right kind of passion for cars and trucks. Our minivans were still a smash hit, and the Jeep Cherokee four-door compact sport utility was a nice incremental addition to our lineup. But in the high-volume, high-profit pickup truck market, our entry was, in the

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words of Lee Iacocca, "old enough to vote." And on the passenger-car side, customers quickly saw through our attempts to puff up higher profit margins by simply stretching and gussying up the original K-car platform. (For example, under the sheet metal, the basic underpinnings and mechanicals of the 1991 Chrysler Imperial, priced at $27,000, were virtually identical to that of the 1991 Plymouth Acclaim, priced at $13,000—and with the exception of a slightly more powerful engine, neither one of them was a whole lot different from the $7,000 Dodge Aries of just a couple of years earlier.)

The K-cars—boxy, narrow, and humble—may have been ideal for the market of the early '80s and ideally suited for the world of higher fuel costs and tightening fuel-economy standards that we'd been led to anticipate. But by the late '80s and early '90s, that wasn't the kind of quality customers were asking for anymore—nor were gasoline prices or fuel economy of much concern to anyone. And, unfortunately, virtually all our passenger cars (save the even *more* "salesproof" sedans we picked up in the AMC acquisition, the Renault-designed Eagle Premier and Eagle Medallion) were derivatives of the original 1982 Aries and Reliant, prompting one wag in the press to remark that our lineup looked as if we'd fallen asleep at the typewriter with our finger stuck on the K key. (Ouch!)

We did, of course, ultimately sell every vehicle we built—but to do so took massive sales incentives. In fact, in many ways, Chrysler was a marketing company without peer. We were the company that, in the '70s, had literally invented the automotive rebate (popularized by Joe Garagiola's famous "Get-a-car/Get-a-check" TV commercials), and in the '80s we perfected this practice to an art form. We'd also pioneered the modern "5/50" (five-year, 50,000-mile) warranty (later upgraded to "7/70") as a "dealer closing tool" to help move the iron. And in what, for me, was a real zenith (or perhaps *nadir* is a better term) of marketing, we once trumped all our competitors by coming out with the industry's first *0.0* percent new-car financing plan—in other words, free money!

As sure as night follows day, however, all these "spiffs" were bound to have an effect on the bottom line. And they did. Chrysler's net earnings dropped to $359 million in 1989, and as recession hit the U.S. economy in 1990, our profits dropped to just $68 million. In 1991 we

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finally slipped underwater, reporting a $795 million loss (so much for countercyclicality). But equally as troubling as our erosion in profitability was the fact that our pension fund in '91 was underfunded to the tune of $4.3 billion (the largest such deficit in all of American industry), our credit rating was shot (some of our debt was selling at junk-bond levels), and our stock price had plummeted from its 1989 peak of just under $30 a share to just over $10.

In 1979, *Newsweek* ran a cover illustration of a very sick-looking car with a thermometer in its mouth and an ice pack on its head under the headline, "Can Chrysler Be Saved?" Back then, this question was a topic of conversation for all of America—so much so that the U.S. Congress passed a special law to award Chrysler loan guarantees. In September of 1990, *Financial World* magazine ran a stern-looking, arms-folded picture of *me* on its cover (not unlike the gruff-looking shot on the cover of this book, by the way) under the headline, "Can This Man Save Chrysler?" Certainly the magnitude of Chrysler's predicament in the early '90s, while bleak, wasn't *quite* as dire as it was in 1979. But just as certain was the fact that this time there would be no red-white-and-blue EMS unit standing by to help us out. This time the patient who a decade before had so miraculously survived emergency open-heart surgery, only to get sick once again, would have to *heal himself*.