

“Chrysler: Driving Innovation on the Road to Recovery”

by Ted Santos

Chrysler has a grand opportunity unlike any thing they have seen in the past. Even with the price of oil near \$100 a barrel, Chrysler is optimally positioned to seize a large, available part of an untapped market. To capture it, they need to execute a four-point plan, committed to developing a line of luxury automobiles that caters to the top 10% of consumers.

To penetrate that market, Chrysler will need not only a new business model to be successful in an ailing US industry it will require a new mindset for all involved.

Historically the strategy to turnaround automobile manufacturers has been to close plants and lay-off employees. Has that strategy produced an honest turnaround? NO. So why continue to execute a strategy that has not created a thriving enterprise? Let's take an opportunity to view Chrysler from another perspective.

Because of Chrysler's recent relationship with Daimler, they can exploit the fact that they have learned much about developing luxury automobiles. I see a four-point strategy that can earn Chrysler the reputation of *“world-class designer of quality automobiles that are known for innovation, style and exclusivity”*. This turnaround strategy involves: Rebranding Chrysler as a producer of automobiles for affluent consumers; Capitalizing on aftermarket sales; Partnering with Apple Computer on design; and Orchestrating a transformation in corporate culture. Can this strategy be justified?

In the US, the explosive growth in the ranks of millionaires has swelled demand for luxury and high performing automobiles, yachts, and personal airplanes. And the population in this segment continues to grow. More importantly, they continue to spend money. On November 15th, 2007, Sotheby's auction generated \$316 million exceeding the \$286 million record set in 1990.¹ (High sales volume of expensive art can be an indicator as to whether or not the affluent are spending money.) Yet, GM, Ford and Chrysler have allowed Europe to take 100% of the affluent auto market in the US. Why haven't US car manufacturers pursued this target market?

When you lift the hood on this situation, you see this untapped market resembles the opportunity the minivan created for Chrysler in 1984. The concern then was the cannibalization of the station wagon market: Perhaps cannibalization is the reason Daimler has kept Chrysler away from affluent consumers.

On its own and following its relationship with Daimler, Chrysler is positioned to leverage its current affiliation with luxury. If Chrysler shows the same initiative they displayed when introducing the minivan, there is little doubt they can secure a leadership position in the upscale market.

To illustrate the opportunity to which I am referring, it may be best to view Chrysler from the perspective they have already executed the four-point strategy I introduced earlier. I ask that you take a journey with me to the future where Chrysler has unquestionably earned a reputation as a world-class maker of high-end luxury automobiles and high performance sports cars.

Imagine it is the year 2020, thirteen years after Cerberus bought Chrysler and took it private.

To start, Cerberus focused on Re-Branding Chrysler while Dodge continued its operation as a separate brand. At the time of the acquisition, Chrysler's nascent brand was fairly neutral. However, Cerberus saw an opportunity to parlay what they identified as America's only meaningful contribution to the high performance automobile market, Chrysler's own Dodge Viper. The Viper had cemented Chrysler's reputation as a leader in performance engineering. To penetrate the affluent market, Chrysler leveraged the Viper's position amongst other sports cars, and the company's relationship with the luxury Daimler brand. From there they built two more high-performance sports cars. These retained the Viper's performance, except with unprecedented luxury features and a style that exuded exclusivity. To continue their success, they designed several new lines of stylish and innovative luxury cars.

In addition, management redesigned Chrysler dealerships to cater to the affluent. While these first steps were successful, it was not enough.

Continuing with the strategy, management explored aftermarket sales to augment the line's exclusivity. At the time of Cerberus's purchase, car buyers were spending in excess of \$30 billion annually in aftermarket upgrades. Management saw this as money left on the table. So they incorporated aftermarket services into the assembly line. They redesigned Mopar, the renowned arm of Chrysler dedicated to parts and services. During the manufacturing process, Mopar now provides all the customizations the aftermarket allows.

The third strategy helped Chrysler to further enhance their growing reputation for luxury and innovation. Chrysler partnered with Apple to design driver and passenger interfaces. Apple developed a stunningly original dashboard and entertainment system with a range of entirely new capabilities in an original but intuitive format. This exclusive collaboration helped make it nearly impossible for other auto manufacturers to compete with Chrysler.

Finally, to ensure the turnaround was sustainable, Chrysler brought in a change management company to create a culture capable of executing high-level change initiatives. Staff and management adopted a mindset appropriate for an affluent market while staying committed to profitability. The changes were so pervasive that Chrysler's suppliers had to go through a similar transformation.

As for management's transformation, they created a new platform from which to lead. They shifted their focus from fixing problems to intentionally creating large-scale problems for staff and management to solve. Far from disrupting employee morale, it was the catalyst to drive innovation and inspire team commitment.

Chrysler's bold leadership has ushered in a new sense of pride for US auto manufacturers in 2020. GM and Ford have followed suit by producing their own luxury and high performance cars. However, Chrysler continues to be the market-leader and premier maker of automobiles for the affluent. Not only are they profitable, they are known throughout the world for exclusivity, innovation, quality, and performance. And in the year 2020 they have 20/20 vision for the future.

Footnotes:

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