



Leadership

How To Overhaul Detroit's Business Model

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Under the terms of the auto bailout, General Motors and Chrysler now have until March 31 to produce a plan for long-term profitability, which must include concessions from unions, creditors, suppliers and dealers. Various measures are being considered, including the likely partnership between Chrysler and Italy's Fiat. But the reality is, nothing short of a radical change in the companies' fundamental business model is likely to create the sustainable industry everybody wants to see.

Today's car manufacturing system was created to cope with the massive increases in consumption that followed the end of World War II, and it is geared to push waves of new products into the marketplace, independent of customer demand. Volumes are forecast, brand and product shares are estimated, and plans are formulated to supply the pre-determined production targets. Suppliers and dealers build their plans off the resulting master plans.

Ford, Chrysler and General Motors have built complex supply chains and organizations to support this business model. Each new product has taken several years and hundreds of millions of dollars to develop. The business model ties up massive amounts of inventory and working capital throughout the system. But as long as demand remained strong for the SUVs and trucks that produced virtually all of the Big Three's profits, the flaws in the system were masked.

Now, as the Big Three struggle to stay on top with this outdated business model, they've cut capacity, closed plants, consolidated suppliers and forced wage concessions. Over the years, there have been moments when individual leaders in the industry envisioned a different future. In the 1980s, Chrysler saw the potential for shifting to a model that enabled customer demand to pull products through the system. The company developed several innovative vehicles, reduced the complexity of all its cars lines and rolled out "velocity lists" to dealers to help them identify which vehicles the customers were most likely to buy. During that period Chrysler's sales increased by 40%. However, when the senior management turned over, the company reverted to the old ways of doing business, and the old vicious cycle returned.

The root cause of the problem for the Big Three is that the centrally planned push system that breeds complexity and inefficiency has become part of their DNA.

To succeed over the long term, the automakers need the business equivalent of gene splicing. They need to convert their push production and supply-chain model into a 21st-century consumer-driven demand-pull production model, using modular designs. It's a model that has previously emerged from Dell, Nokia and other leading technology companies. It's also fundamental to the most successful Japanese and Korean car companies, and to the Chinese and Indian automakers that will follow on their heels. These businesses compete effectively because their product lines and production systems are dramatically simpler, their business models are lower-cost and their supply chains are tightly integrated from suppliers all the way to dealers.

So how can the Big Three get there? One idea might be for GM to take one of its brands currently rumored for elimination, Saturn, and transform it into a true consumer-driven, modular design,

with a supply-chain model that makes no product without an order. The new business model would look very different from today's.

For starters, the customer experience and the role of the dealers would change radically. The desired car could be configured online in less than 60 seconds--the way Toyota's upstart Scion already does it--and the price would be quoted on the spot. No pushy salesmen. The actual sale of the vehicle would involve a transaction between Saturn, the bank and the consumer, with the order information immediately flowing into the supply chain. Cars could be delivered within a week to 12 days of the order.

Dealers would no longer be vehicle warehouses; instead they would be customizers of vehicles off of a few standard platforms. Their showrooms would retain a few demo models, with primary services and warranty support in the back, but the footprint and capital costs of dealer operations would dramatically drop.

Product design would become a highly integrated process, involving suppliers, assembly plants, marketers and even dealers. All would collaborate to create designs that encourage using common parts, with incentives for efficiency. The template is already there. The rapid rise of Nokia in mobile phones during the 1990s showed what can be accomplished by adopting modular design, reusing parts and reconfiguring the supply chain to make the most of those efficiencies. Similarly, Tata in India and Tesla Motors in the U.S. demonstrate the possibilities for designing and producing cars faster and more cheaply.

One piece of good news is that the manufacturing plants themselves would undergo relatively little change. Many U.S. operations are already world class in terms of quality and productivity. But big changes are needed, both to the management model and to the financial processes used to guide the businesses, with a new focus on overall lead times, inventories and return on investment across the entire system, rather than the current zero-sum negotiations and warfare that batters the Big Three's supply chains today.

The crisis in Detroit is unprecedented in its severity, but it offers a rare opportunity to align all of the stakeholders and finally change the game. There are bold solutions available. The question is: Who will be courageous enough to lead it?

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