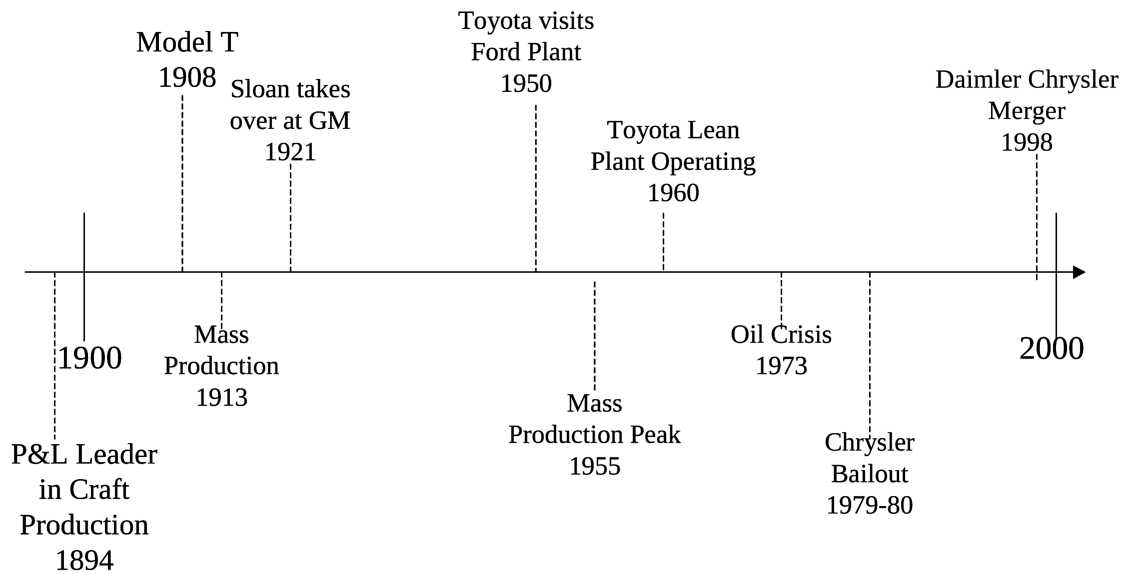
Introduction

This document will provide you an example case study analysis, using some of the tools we will use for this class. The two primary tools include SWOT analysis and strategic map. It should provide a worthwhile example as you prepare the cases used in the course.

Industry Background[1]

Since being introduced before the turn of the 20th century, the automobile has been an important industry. Peter Drucker, the management guru dubbed it "industry of industries." By the end of the century it is still the largest manufacturing activity in the world with 50 million automobiles produced annually. Landmarks in the automobile industry are shown in Figure 1

Figure 1. Landmarks in Car Industry



Perhaps the key event of the industry was the introduction of mass production in 1913. Up to this point all cars were produced in craft shops as custom-built. Craft production work can be characterized as independent contractors who made the car from start to finish based on the customer order and specifications. In craft production shops no two cars were built exactly the same and because of the intensive labor and material costs only the wealthy could afford the cars.

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[1] The bulk of the information for this background comes from The Machine that Changed the World (1991) by Womack, J., Jones, D., & Roos, D. Published by Harper Collins.

When the Model T was introduced in 1908, a couple of important innovations were added. First, it used standard, interchangeable parts, which made the subsequent use of an assembly line possible. Second, the design was made simple enough that ordinary people could operate it. By 1913 the assembly line was implemented. Figure 2 shows the comparative cost savings provided by mass production techniques vs. the craft shops.

Figure 2. Savings of Mass Production--1913-14

Case Example for Assembly Hall Plant

	Craft Prod 1913	Mass Prod 1914	% Reduction in Effort
Engine	594	226	62
Magneto	20	5	75
Axle	150	26.5	83
Other Major components	750	93	88

By 1955, the zenith of the industry, the big three automakers held 95% of the market share. Eighty percent of the cars sold were of only 6 models. More than 7 million cars sold in the United States at this time. With these gaudy numbers, there was an unseen threat that would in later years impact the Big Three auto makers—Toyota's new lean production model.

Toyota could not adopt the mass production process of the U.S. firms—they did not have the size or capital. Plus their market demanded more types of cars and shorter production runs. Furthermore, their native workforce demanded jobs that were more than simply being tiny roles in an assembly line. Over the course of 10-15 years, Toyota (and some other Japanese makers) developed what is now known as lean production.

Lean production is credited with producing better yields—the number of cars that make it through the assembly line. More importantly, lean production plants produce these yields with much lower defects that require cars to go back down the line for rework. Many Japanese firms also created much better supplier relationships in order to manage inventory more efficiently (needed so the manufacturers could make design changes more often).

Case Study: Chrysler 1979-80[2]

By 1979, Japanese firms like Toyota had done some real damage to American car makers. Along with the oil crises of 1973 and 1979, the Japanese auto makers "conspired" to eat into car sales for the Big Three. Chrysler, as number three, was hit hardest by 1979. At that time, Lee Iacocca was hired by Chrysler to save the company. Iacocca was formerly a long time top executive at Ford Motors. In 1978 he was dumped in a power struggle with the reigning Ford heir.

Upon taking over, Iacocca discovered in a review of the internal structure many weaknesses with only a few strengths. Table 1 describes what Chrysler faced in 1979.

Table 1. Strengths and Weaknesses of Chrysler, 1979

Strengths	Weaknesses
• Had an established American Brand • Carried a lot of assets • Heavily invested in hard assets, including plant and equipment • A large and skilled manufacturing workforce	• Highly leveraged (lot's of debt) • Declining sales against the high debt caused a severe cash problem • No financial controls in place • Structure very siloed (a set of duchies that did not interact or communicate) • Low investment in R&D (had gone away from its one-time engineering strength; no new models in the pipeline). • Weighed down by many miscellaneous ventures (many international) • Lack of information for decision-making • Low morale—secrets flowed out much too easily • Staid outdated staff in some areas like purchasing • Costly inventory distribution system (had a practice of building thousands of cars that were unsold; would end up having firesales to get rid of the overstock). • Leased car deals with rent-a-car co. left them with backload of used cars (upside down assets).

[2] The case facts are taken from Iacocca: An Autobiography (1984, 1986), published by Bantam Books

SWOT Analysis

Iacocca was in a real turnaround situation—so he had to act quickly even as he was developing a strategy for the firm. Strategically, he had to consider these threats along with the few opportunities (an external look). Table 2 captures what Iacocca saw.

Table 2. Opportunities and Threats of Chrysler, 1979

Opportunities	Threats
• Government desire to save jobs and avoid inherent problems of closing a very large domestic employer • A need for new car models • Willingness of suppliers and unions to make concessions (a reduced loaf was better than none at all)	• Banks will default on loans before the ship can be righted • Poor market image • Less loyalty by consumers • Foreign competition • Dealers will rebel against new policies that are not as friendly. • The press will abet a negative perception of the company.

Strategic Objective

One tool to help an executive develop a strategic perspective is the strategic map. This tool is rather simple technology but can be a powerful way to see opportunity in the environment. For one thing it helps identify the key external entities. For Chrysler, Iacocca identified some important stakeholders that he would have to forge a strategic relationship with: the banks, his suppliers and dealers, the unions, the popular press, and even the federal government. Importantly, the strategist must define what relationships must be maintained with these entities to achieve success.

Some of the key strategic relationships Iacocca must maintain:

Banks: Chrysler must make future equity considerations in exchange for concessions (they can't meet the short-term cash payments on debt).

Unions: Chrysler must guarantee jobs and provide representation in company for some wage concessions.

Federal Gov't: Chrysler must meet stipulated conditions in exchange for short-term assistance.

Competitors: Chrysler (Iacocca) must identify competent, experienced executives who would accept the challenge of turnaround.

For Chrysler the strategic objective in 1979 might have looked like this.

Strategic Map for Chrysler

Strategic Capabilities

Given this objective, Iacocca looked internally to determine what capability is required to made the objective successful. Here are the things he might have determined from his analysis:

- The company needs an efficient production system
- Needs product development capability (to deliver fresh, new models)
- Needs effective and efficient sales distribution (in coordination with dealers)
- Needs strong marketing capability

Now Iacocca has clear direction—the high level strategy it might look like this:

1. In order to bring unity and cohesion to company, new competent, experienced management team (to establish things like financial controls).
2. Fix the cash crisis
3. Develop production design capability so that new model can be introduced.

Iacocca describes the situation clearly: *"When you're in a crisis, there's no time to run a study. You've got to put down on a piece of paper the ten things that you absolutely have to do. That's what you concentrate on. Everything else—forget it. The specter of dying has a way of focusing your attention in a big hurry. At the same time you've got to make sure you've got something left when the immediate crisis is over."* (p. 196)

Tactics – What did Chrysler do?

Given this direction, tactics—what is done—becomes easier to determine. That is, the actions of Chrysler become easier to determine now that Iacocca had a strategic plan, which clearly identified key strategic relationships. First, Iacocca fired 33 of the 35 vice presidents and replaced them with people he knew from his vast network in the industry. He had to fix the low morale and the poor management system quickly.

Second, he had to start cutting costs and/or raising cash. Plants, including one in Detroit, were closed. A Just in Time (JIT) inventory system was created with parts suppliers. The annual report was printed sans color, using a plain and shorter report instead. They even sized new model cars so they fit economically into freight cars (176 inches long was the new K car).

More cost cutting: Cut salaries (Iacocca made a very public admission of taking $1 per year salary). Wage concessions took worker salaries from $20 to $17 and then lower again. There were mass firings of the white-collar staff—saving $500 million.

To raise cash, Chrysler sold assets that were not part of there core business—even ones that were making money (the strategy was to focus back on the car business. It even sold valuable assets such as prime dealership property in Kansas—they needed immediate cash. Chrysler sold off all European operations.   Still needing money, Chrysler looked to private money (a possible strategic entity), but nothing worked out mainly because Chrysler was in such bad shape. So . . .

Iacocca went after the government to give Chrysler short-term relief, finally settling on $1.2 billion of loan guarantees (which they were paid back fully). Chrysler still needed short-term relief from $4.75 million of debt from 400 lending institutions. In some of the most complicated negotiations (6-months to work out), Chrysler got all 400 banks to agree to loan concessions of $655 million.

This short-term relief was necessary but not sufficient. To be a viable company, it had to have a product people would want to buy. Customer loyalty was down 36%. Chrysler in the 1978 boon year of cars still lost share to the other auto makers. Bad product decisions such as the Volare and Aspen had helped to create a poor product image. Thus, Iacocca needed to restore the product design investment that would produce popular car models again. The first successful car from this renewed investment was the K-car, which turned out to be successful. To help sway public perception, Iacocca became a very public marketer, found on the airways often doing often self-deprecating spots to restore Chrysler's position in the market.

Postscript

Chrysler did turn around and was able fairly quickly to pay back its loan to federal government and the banks ended up with lucrative equity to more than counterbalance the debt concessions. Chrysler was successful with several new models like the K-car and the new mini-van in the mid-80s. They have once again lost their way with just short of disastrous merger with Daimler in 1998. Chrysler need again some good strategic management to identify a direction and help it focus again.

Strategic Map Chrysler, 1979