

**RAISING  
MONEY**  
SPECIAL REPORT: HOW  
TO FINANCE YOUR BUSINESS  
PAGE 88

JAPAN'S INVESTMENT BINGE IN SOUTHEAST ASIA PAGE 42

# BusinessWeek

NOVEMBER 3, 1986

A MCGRAW-HILL PUBLICATION

# CHRYSLER'S NEXT ACT

Sure, the company's big comeback turned Lee Iacocca into a hero. But now Chrysler needs a new strategy—and Iacocca has plenty of ideas.

PAGE 66





## THE NEXT ACT AT CHRYSLER

ITS COMEBACK IS HISTORY—NOW IT HAS A NEW STRATEGY

**F**or a revealing look at the new Chrysler Corp., stop by Kenosha, Wis., one of these crisp fall mornings and visit one of the world's oldest automobile factories. Sure, the sign on the gate says American Motors Corp. But inside, the production line that workers are setting up will turn out cars with the familiar Chrysler Pentastar insignia. You see, Chrysler has hired American Motors, which has plenty of excess capacity, to build the highly profitable Fifth Avenue, Diplomat, and Gran Fury cars. Meanwhile, Chrysler is using the St. Louis plant that usually builds those cars to begin making longer versions of its popular minivans, the Plymouth Voyager and Dodge Caravan. When you've been through what Chrysler has been through the past few years, you're nothing if not resourceful.

These days, Chrysler is pursuing a unique notion of what an American car company should be. It's offering buyers fewer nameplates, farming out work where it can, and resisting the seemingly immutable inclination of a business to grow for growth's sake. Lounging back on his office couch and waving one of his trademark big cigars, Chairman Lee A. Iacocca sums up his vision: "We can be a first-rate company as long as we respect our size and don't try to have any delusions of grandeur."

That may sound like uncharacteristic modesty from a man who skewered his antagonists in a freewheeling autobiography, hired Texas Stadium in Dallas to

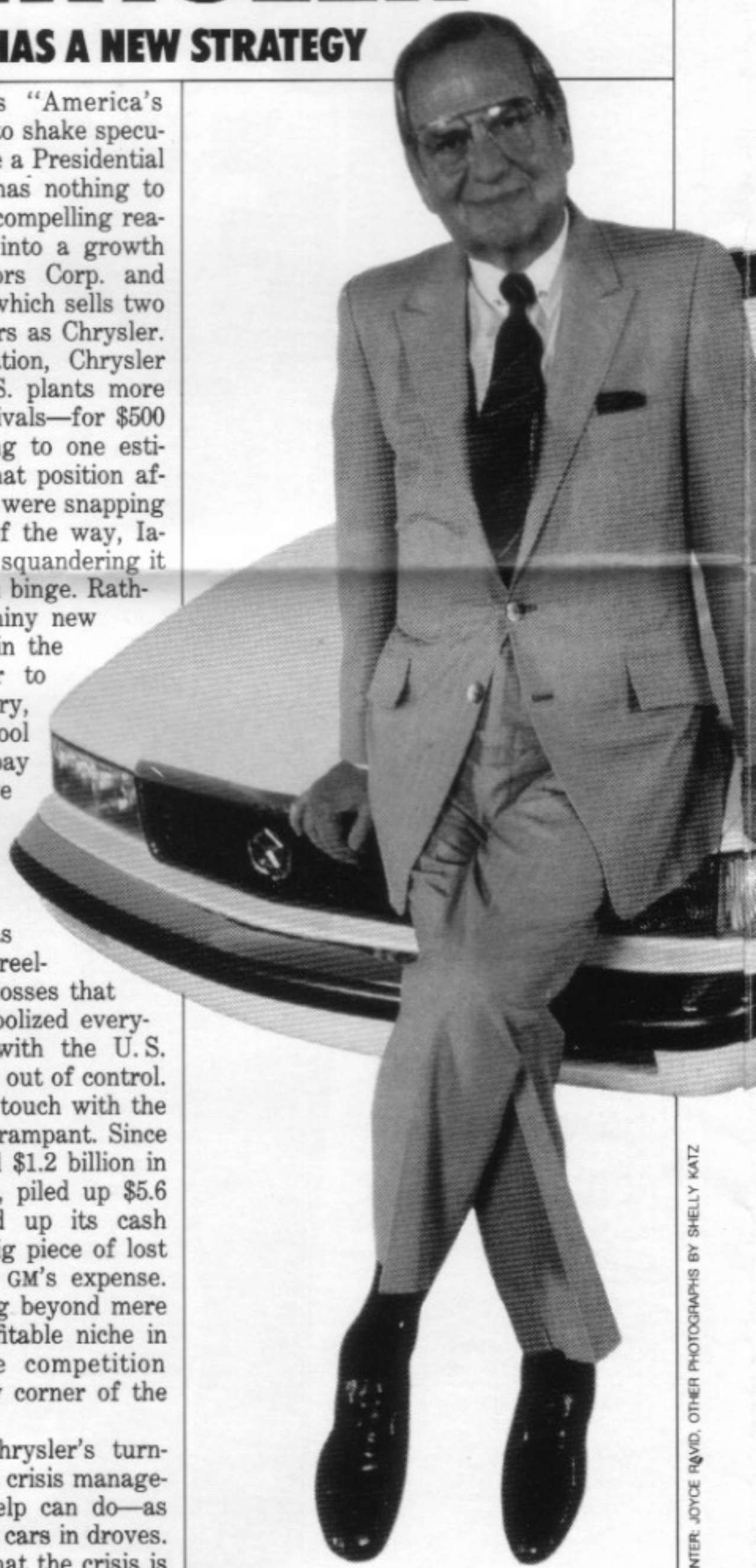
launch 1987 models as "America's Team," and cannot seem to shake speculation that he may become a Presidential candidate. But modesty has nothing to do with it. Iacocca has a compelling reason for refusing to get into a growth race with General Motors Corp. and Ford Motor Co., each of which sells two to four times as many cars as Chrysler. In its present configuration, Chrysler can build cars in its U.S. plants more cheaply than its bigger rivals—for \$500 less per vehicle, according to one estimate. Having achieved that position after evading creditors who were snapping at his heels every inch of the way, Iacocca is not about to risk squandering it in an expensive expansion binge. Rather than build his own shiny new plant and see it sit idle in the next slump, he'd prefer to rent a competitor's factory, put up the money to retool the production line, and pay another company to have its workers assemble the cars.

In many ways, Chrysler couldn't be more different from what it was just six years ago. Then, reeling after three years of losses that totaled \$3 billion, it symbolized everything that was wrong with the U.S. auto industry. Costs were out of control. Its products were out of touch with the market. Inefficiency was rampant. Since then, Chrysler has repaid \$1.2 billion in government-backed loans, piled up \$5.6 billion in profits, beefed up its cash hoard, and reclaimed a big piece of lost market share, mostly at GM's expense. Clearly, Iacocca is moving beyond mere survival to secure a profitable niche in an industry where the competition comes at you from every corner of the globe.

He isn't there yet. Chrysler's turnaround shows what adept crisis management and government help can do—as long as people are buying cars in droves. But what happens now that the crisis is



MIDSIZE  
DODGE  
DAKOTA  
TRUCK



CENTER: JOYCE RAVID, OTHER PHOTOGRAPHS BY SHELLY KATZ



over? Can the company remain profitable when sales slump again? Most experts are optimistic. "In this more competitive market, small is beautiful," says Scott F. Merlis, an auto analyst at Morgan Stanley & Co. "Chrysler can react faster and redeploy its assets faster." Still, when it comes to putting their money on the line, investors are skeptical. Despite the breathtaking 13-fold rise in Chrysler stock in the past five years, its recent price of 37 is only five times this year's expected earnings. The Standard & Poor's index of 400 industrial companies, by contrast, is at 15 times earnings.

Chrysler must cope with one imposing obstacle. Much more than either GM or Ford, it is at the mercy of the North American car buyer, counting on reve-

ment phase. Yet even here, his approach is distinctive—even audacious. He wants to skirt the costs of reestablishing a manufacturing base in Europe, either by shipping U.S.-built vehicles or by working out a deal to use someone else's plant in Europe. Chrysler feels it has already pulled ahead of European makers by cutting 25 hours out of the time it needed to build a car. That means Chrysler has cut in half the advantage once enjoyed by Japanese car makers, and Iacocca hopes to have his costs on a par with Japan's by 1990.

A more immediate goal is exploiting Chrysler's hard-won position in the U.S. Fierce price-cutting has already helped drive down the company's earnings in the first half of this year by 23% from 1985, when it had record profits of \$1.6 billion on sales of \$21.3 billion for the year. So a key strategy is to sell more expensive cars, which carry fatter profits. The 1987 models, for example, include sporty Sundance and Shadow subcompacts, a midsize Dakota pickup truck, a midsize LeBaron sports coupe and convertible, and "stretched" minivans. In 12 months Chrysler will reenter the full-size car market it abandoned in 1981, and it expects to introduce a \$30,000 sports car built by Maserati.

**'INSURANCE POLICIES.'** To focus the attack, Chrysler recently realigned its product development and marketing staffs. Now each staff is divided into four groups, one for each of the company's brands. Their mandate is to develop and market vehicles around key themes for each line: Plymouth for value and integrity, Dodge for performance, Chrysler for luxury and comfort, and Dodge trucks for quality and toughness.

Given its plans for the domestic market, where it sold 1.8 million cars and trucks last year, Chrysler's immediate hopes for Europe are conservative. Executives speak of selling perhaps 10,000 sporty cars or minivans there. "There's no compelling strategic or tactical necessity for Chrysler to broaden its base beyond the

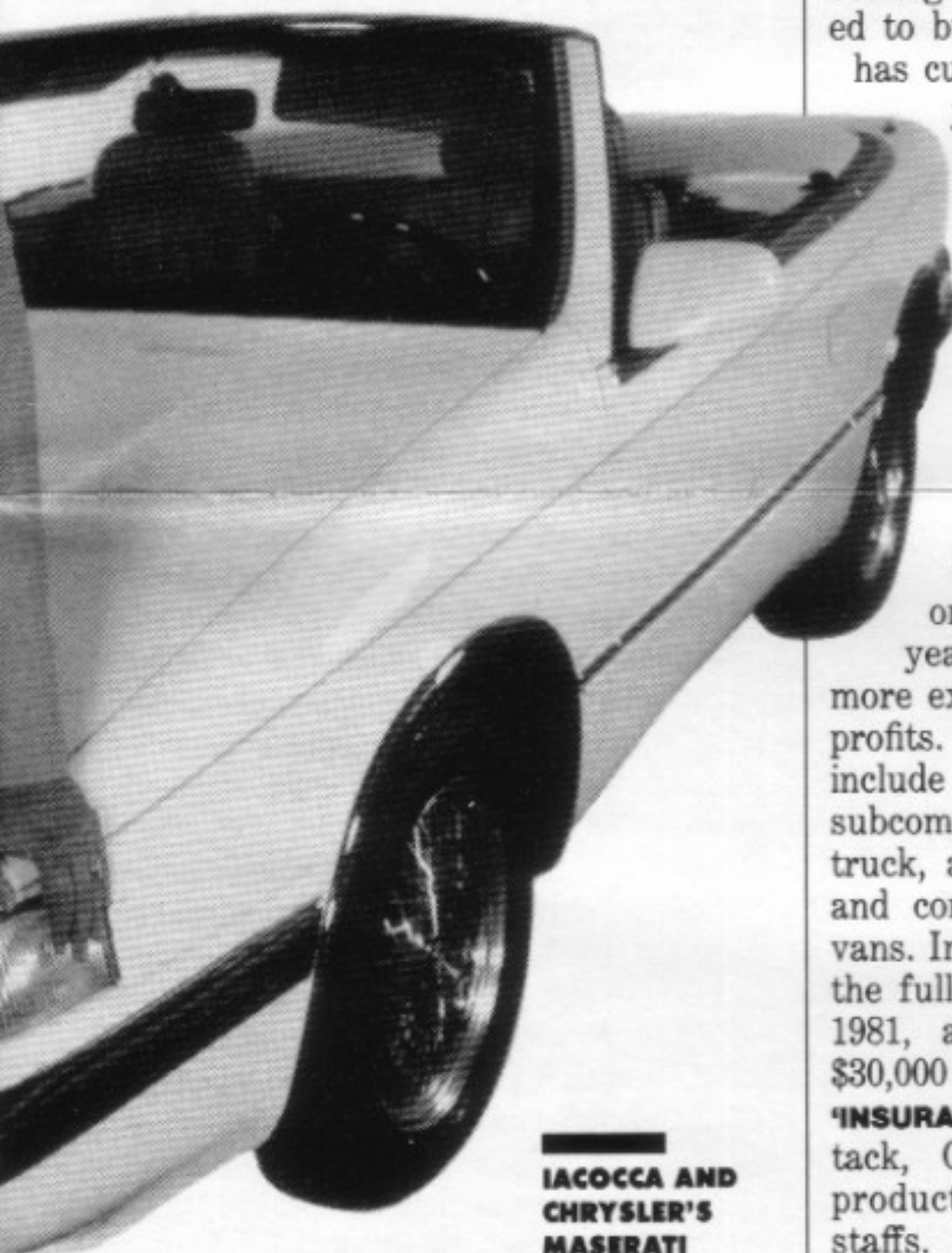
U.S.," says Robert A. Lutz, former chairman of Ford of Europe Inc., who joined Chrysler in June as executive vice-president, "but it would be like having insurance policies to cover all eventualities."

As his company gets into fighting trim, Iacocca is determined not to let the fast-moving auto market leave Chrysler in the dust. He has had more time to plot long-term strategy since spring, when his company formally reorganized as a holding company. Now Chrysler's businesses are divided into three operating subsidiaries: automotive, financial, and aerospace. Analysts expect the company will eventually issue special stock pegged to the performance of each group, much as GM did with its acquisitions of Electronic Data Systems Corp. and Hughes Aircraft Co. Iacocca isn't tipping his hand.

**ONE STRIKEOUT.** The new structure reflects some discernible differences at Chrysler. In the early 1980s, when the company was desperate for appealing products, Iacocca took things in hand personally, deciding, for example, to res-



**THE SPORTY  
LEBARON  
CONVERTIBLE**



**IACOCCA AND  
CHRYSLER'S  
MASERATI**

nues from the U.S. and Canada for some 97% of its sales (chart). Chrysler lacks the worldwide cushions of Ford and GM, although it has increased its stake in Mitsubishi Motors Corp. from 15% to 24% and expects to acquire Maserati by 1995. Iacocca does not plan to alter Chrysler's dependence on the domestic market anytime soon, in spite of his interest in diversifying modestly into high tech. "We're not going to play conglomerate," he says, "and we're not going to be a big global company."

Nevertheless, Iacocca is ready to dabble again in the European market, from which Chrysler withdrew in its retrench-



**UPSCALE  
DODGE  
SHADOW**



# Cover Story

urrect convertible models and to bring in ex-racer Carroll Shelby to build special editions of sporty cars. Now, his lieutenants are more involved. Gerald Greenwald and Harold K. Sperlich, members of the six-man executive committee (page 69), came up with the idea for the popular "America" versions of the subcompacts Omni and Horizon.

Iacocca, 62, is clearly grooming his potential successors. But he shows no sign of leaving soon. "We feel more accountable, and we feel responsible, but the big guy hasn't gone away," says Sperlich, president of Chrysler Motors Corp. "We still check the major decisions with Lee." Iacocca also has a strong financial incentive to stay for at least another year or so. He took the No. 2 spot on BUSINESS WEEK's executive pay survey for 1985, earning \$11.4 million—\$9.8 million of which came from stock options granted him by the board in 1982 to encourage him to stay on. At current stock prices, he stands to pick up an additional \$8.3 million from stock options this year and

## Chrysler makes cars more cheaply than GM or Ford—but matching Japanese costs is the problem

\$2.8 million next year. He could wind up holding \$85.1 million worth of stock at today's prices.

Much of Iacocca's time recently has gone into looking for acquisitions with which to form a fourth unit, already named Chrysler Technologies Corp. Iacocca is shopping primarily for defense companies costing \$1 billion or less, and he insists that any takeovers be friendly. "It's time-consuming as hell," Iacocca confesses. "We've been at it 18 months, and we've virtually struck out. I thought it would be somewhat easier."

The search is continuing, but a frustrated Iacocca is taking a new tack. Now

he wants to create Chrysler Technologies out of existing high-tech operations within the company, provide the new organization with a budget of as much as \$1 billion, and then let it develop its own strategy and takeover candidates. Likely components of the new company include Chrysler's own data systems group and its electronics complex in Huntsville, Ala. Iacocca would also add portions of Gulfstream Aerospace Corp., the executive aircraft producer that Chrysler bought 14 months ago for \$642 million.

**CHEAP MONEY.** Chrysler has had better luck strengthening its financial company. Three years ago, Chrysler Financial Corp. was a \$5 billion subsidiary wholly dedicated to financing cars and trucks. Now it is four times that size and offers much broader commercial and retail services. It acquired E. F. Hutton Credit Corp. for \$125 million in mid-1985. A few months later it added FinanceAmerica and BA Financial Services from BankAmerica for \$405 million. This year it bought the inventory financing division of Westinghouse Credit Corp.

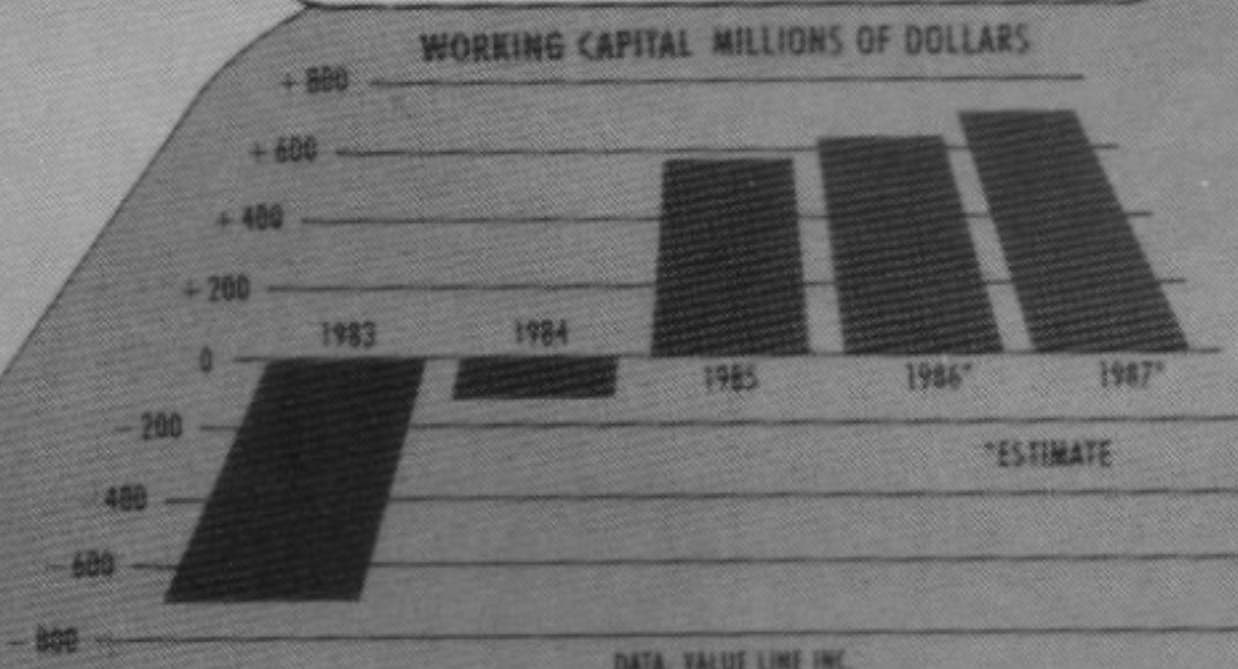
No other big financial acquisitions are likely. But Chrysler Financial Chairman Robert S. Miller Jr. believes he can expand his company by a further 50%, to \$30 billion in assets, by 1990. Virtually all that expansion, he says, will be non-automotive business. Miller figures Chrysler Financial's performance should result in better ratings on Wall Street and ensure a source of cheap money for automotive operations.

Keeping Chrysler's future car and truck programs well-watered with funds is critical. Chrysler plans to spend \$12.5 billion developing new vehicles and overhauling plants from now to 1990. It intends to bankroll the effort without borrowing, despite the industrywide sales slump analysts expect in late 1988 or 1989. Miller, who doubles as Chrysler vice-chairman and chief financial officer, vows to maintain "considerable liquidity" to avoid trouble. "Historically," he acknowledges, "this company committed the sin of jerking its product development people around, depending on what the cash balance was in the treasurer's office."

Merely getting products to market on time won't be enough to guarantee Chrysler's future. The company must also learn to match Japanese production costs—regardless of whether the dollar is strong or weak against the yen. A crucial element in cutting costs is keeping factories running as close to capacity as possible. "Their goal isn't necessarily to have the best products on the market, but to have products that will sell out the factory's production," says Ronald

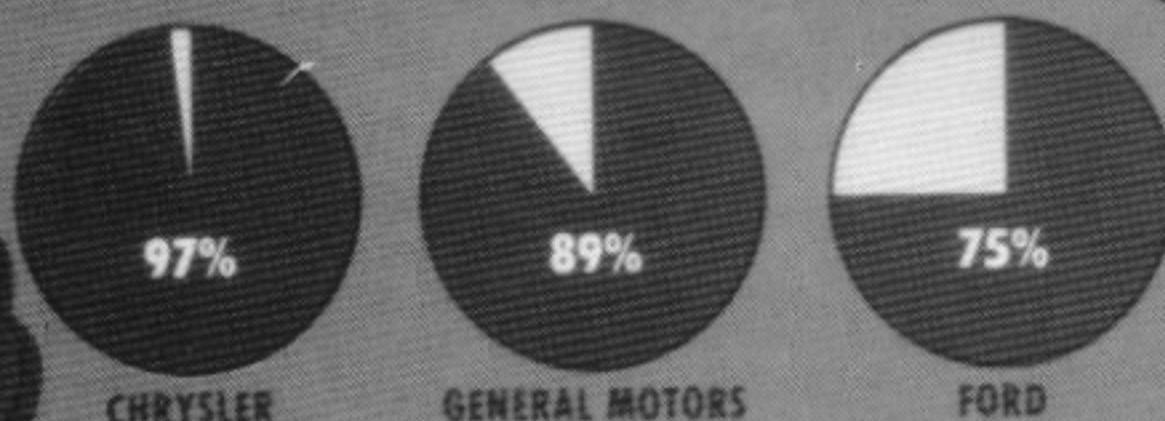
## DOWN THE ROAD: THE CHALLENGE FACING CHRYSLER

### ITS FINANCIAL POSITION IS STRONG...



### ...BUT IT MAY DEPEND TOO HEAVILY ON DOMESTIC AUTO SALES

#### 1985 TOTAL REVENUES



PERCENT FROM U.S. AND CANADA

DATA: COMPANY ANNUAL REPORTS



## THE MEN WHO MAKE CHRYSLER WORK

**T**here's never any question of who's in the limelight at Chrysler Corp. To many outsiders, Chairman Lee A. Iacocca is the company. But Iacocca, who turned 62 on Oct. 15, relies on the five other members of his executive committee to help him run the show. In contrast to the pre-Iacocca era, when some outside directors were included, the committee now consists solely of the company's own top operations executives. Like Iacocca himself, all five are former employees of Ford Motor Co.

With Chrysler's recent reorganization, they will take on heavier day-to-day responsibilities. Iacocca discourages speculation that he might leave before reaching retirement age—if then. But with a man who's so involved in so many outside activities and is still mentioned as a Presidential prospect, anything can happen. Whenever the Iacocca era ends, his successor most likely will be chosen from the executive committee.

■ **Gerald Greenwald.** An impeccable dresser who favors conservative suits with double-breasted jackets, Greenwald, 51, is the front-runner to succeed Iacocca. As chairman of the auto subsidiary, Chrysler Motors Corp., he holds the single most powerful position in the company after Iacocca. Greenwald is also the executive most often called upon to represent the company at public appearances when Iacocca isn't available.

Greenwald, the son of a chicken farmer, grew up in St. Louis and went on to graduate from Princeton University with a BA in economics. He quickly joined Ford to pursue a career in finance, spending considerable time in South America and Europe in the 1960s and 1970s. His last post at Ford was president of its manufacturing and sales operations in Venezuela, where one of his accomplishments was to carve out the biggest market share of any Ford subsidiary.

When Iacocca arrived at Chrysler in November, 1978, he was appalled at the haphazard financial controls. Six months later, he brought on Greenwald as controller. Greenwald quickly became Iacocca's right-hand man in mapping out the company's survival strategy. How is life on the executive committee under the new corporate structure? "It's the same old democratic process that it's always been," says Greenwald, setting up a familiar joke among Chrysler executives. "Everybody gets a vote. Lee gets six."

■ **Robert A. Lutz.** The latest refugee from Ford, Lutz joined Iacocca's team last June after a career that included positions at General Motors Corp. and BMW. As chairman of Ford of Europe Inc., Lutz, 54, implemented tough cost controls and demonstrated his willingness to sacrifice market share to get higher prices and improved profits. Describing Lutz as "an entrepreneur," Iacocca hired him as executive vice-president to oversee the company's top three growth priorities: trucks, international development, and component op-



POSSIBLE HEIRS (CLOCKWISE FROM TOP LEFT): BIDWELL, GREENWALD, SPERLICH, MILLER

erations. He has quickly become regarded as a contender to succeed Iacocca.

Lutz, who was born in Switzerland and maintains dual citizenship, is both aristocratic and folksy. When Chrysler introduced its 1987 cars in Dallas, Lutz readily doffed his tie to join more casually dressed participants in learning to rope cattle and dance the two-step.

■ **Bennett E. Bidwell.** The puckish Bidwell, 59, is arguably Detroit's most intuitive marketing expert. Disarmingly blunt and earthy, he is the glue that bonds Chrysler's dealers and Iacocca.

An Iacocca loyalist at Ford, Bidwell left there in 1981 to run Hertz Corp. but itched to return to the auto industry. He got his chance in 1983 when Iacocca recruited him as an executive vice-president to run Chrysler's sales and marketing operations. Without Iacocca's instinctive marketing skills, Bidwell's role at Chrysler would undoubtedly loom larger.

Bidwell became a vice-chairman of the parent company a year ago. He is

responsible for Washington lobbying, personnel, public affairs, corporate planning, and marketing strategies. But marketing remains his first love. "I'm not a grand strategist," he says jokingly in a voice that reveals traces of his New Hampshire roots. "I've got a dart board here, and I hurl things at it. If they stick, I get up, go over, and look at it and say, 'Oh, yeah, okay, we'll do that today.'"

■ **Harold K. Sperlich.** Sperlich, 56, is as enthusiastic about product development and production as Bidwell is about selling. An astoundingly hard worker, his schedule as president of Chrysler Motors, say insiders, is even tighter than Iacocca's, a man for whom he holds unabashed admiration.

Sperlich orchestrated Chrysler's K-car program and fathered its enormously successful minivan—a concept he first pushed unsuccessfully at Ford back in the 1970s. Sperlich came to Chrysler in 1977 after being fired at Ford for pressing too hard to add a small, front-wheel-drive car to Ford's lineup.

Intense almost to a fault, Sperlich epitomizes the can-do attitude that Chrysler developed during its crisis years. "The competition is so tough, everybody has to give 150%," he says. "We're like a five-man traveling basketball squad. Everybody gets all the playing time he wants."

■ **Robert S. Miller Jr.** At 44, Steve Miller is the youngest member of Chrysler's top echelon. He also has the most formal education, with degrees in economics and business administration from Stanford University and a degree from Harvard Law School. Miller's rise at Chrysler has been meteoric since he signed on in 1979 as assistant controller. He was named treasurer a year later and is credited with patching together the company's complicated bailout loans. Miller was rewarded with a promotion to chief financial officer in 1981, and he took over as chairman of Chrysler Financial Corp. in 1985. Seven months later he got the additional duties of vice-chairman of the parent company.

Miller, who is remarkably soft-spoken compared with the rest of Iacocca's lieutenants, loves a practical joke. He once shocked a roomful of bankers, assembled to grant bailout loans to Chrysler, by announcing that the company had gone bankrupt and wouldn't need their money after all. It was April Fool's Day.

*By William J. Hampton in Detroit*



# Cover Story

A. Glantz, auto analyst at Montgomery Securities in San Francisco.

Chrysler cut back enough in 1980 to break even on sales of only 1.1 million vehicles, compared with about 2.3 million previously. Its breakeven point has crept up to about 1.25 million units, but executives say it is a Chrysler commandment to prevent the level from climbing further. As production rises from the breakeven point to full capacity, Chrysler earns a profit of more than \$2,500 per vehicle.

His desire to keep the breakeven point low explains why Iacocca shuns building

slash manufacturing costs 30%, or \$2,500 per car, by 1995. Only about \$500 of the savings will result from cutting fixed costs. The rest, says Chrysler Motors Chairman Greenwald, must come from lower labor content, more efficient assembly methods, and a greater reliance on suppliers to "pre-assemble" such components as instrument panels and cooling systems. Greenwald says Chrysler has already identified and scheduled changes that are worth about \$1,200 per car.

Much of Chrysler's current cost advantage over other U.S. producers

five years ago. George F. Butts, vice-president for quality and productivity, says the simplification program has already reduced the number of parts most plants must handle from about 8,000 to fewer than 5,000.

Foreign-based auto makers, of course, have done the same thing for years. Chrysler tested the concept in April with its "America" subcompacts. The company added almost \$700 in optional equipment to the cars, cut their price by \$710, and offered shoppers a choice of only six colors, three trim packages, and two equipment options. The moves eliminated a total of 702 parts from the manufacturing process, helping Chrysler squeeze out a profit in spite of the cars' lower retail price. Concludes Greenwald: "You can cut way down on the options and still satisfy 99.5% of your customers."

Simplifying production also helps improve quality. Chrysler says its quality, as measured by warranty claims, is up 45% in seven years and now surpasses that of any other domestic producer. Ford disputes that claim, however, and Chrysler acknowledges that it must do more to satisfy the buyers who went to Chrysler because they admired its come-from-behind corporate image. "Today people like us before they buy our product because we survived, hung in, and seem to be innovating," says Vice-Chairman Bennett E. Bidwell. "Then they buy, and sometimes they don't like us as well. We've got to turn that around." That means bringing Chrysler's quality up to the level of Japanese cars, Bidwell says.

**'BIG TROUBLE.'** Improving customer satisfaction, observers say, could take years. In the meantime, Japanese producers are shifting toward the high end of the market at about the same pace as Chrysler. James P. Womack, research director for the International Motor Vehicle Program at Massachusetts Institute of Technology, predicts a collision in the late 1980s when Japan's U.S.-based auto plants begin cranking out more than 1 million upscale vehicles of their own each year. "GM is in big trouble," he warns. "Ford and Chrysler are only in less big trouble."

Womack's point is that the ultimate strength of all Detroit auto makers rests on their ability to match Japan's costs, not just each other's. Certainly Chrysler has taken an early lead over its domestic competitors. Its long-run success will depend on whether Iacocca can execute every aspect of his new strategy, without losing the sense of urgency that took hold when the company was running for its life.

*By William J. Hampton in Detroit*



**LUTZ: THE MOST RECENT REFUGEE FROM FORD, HE IS ALSO A CONTENDER TO SUCCEED IACOCCA**

new plants. He figures that increasing foreign competition, coupled with new Japanese auto plants under construction in the U.S., will soon leave the American market with the equivalent of about six assembly plants too many. GM is already hinting that it may mothball several factories soon. Iacocca says that Chrysler will be able to build 300,000 more cars and trucks by 1988 anyway, pointing to his company's AMC deal as an example of new capacity.

Iacocca has also combined with Mitsubishi Motors in a joint venture called Diamond-Star Motors Corp., which is scheduled to begin building cars in Illinois by 1988. And Iacocca announced on Oct. 20 a \$1.2 billion plan to rebuild Chrysler's aging Jefferson Avenue plant—the birthplace of the K-cars that were crucial in restoring Chrysler to good health. The facility will manufacture a truck to be phased in early in the next decade.

Meanwhile, a leaner production line is very much in vogue at Chrysler. The goal, dubbed the Liberty Project, is to

comes from shopping around for cheap sources of components, rather than making the parts itself. Chrysler gets 70% of its components from outside, including about 10% from overseas vendors. GM uses outside vendors for only 30% of its parts, and Ford for about 50%. "We're more the size and integration of a Japanese company than are [GM and Ford]," says Sperlich. "We have enough mass to be efficient, but we're small enough to be manageable."

**HELPFUL IMAGE.** Internally, Chrysler is streamlining production by shortening its list of equipment options. This year the company's new cars will average only 25 options, compared with about 60

*'We feel more accountable, and we feel responsible, but the big guy hasn't gone away'*