

Detroit Bailout – Think twice before throwing good money after bad

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Detroit is Hurting

American auto manufacturers stand on the brink of bankruptcy, with a potentially cataclysmic effect on the domestic economy. However, before appropriating billions of dollars for the auto industry, Congress should think twice, or the money will be squandered.

Since 2005, the combined losses of GM, Ford, and Chrysler have exceeded \$100 billion. This problem pre-existed the economic meltdown this fall with over five hundred auto suppliers driven out of business in the last several years. The issue goes beyond operational inefficiency in Detroit; it's more serious.

Strategic Flaws

How has this come to pass? It goes deeper than adversarial, unaffordable union relationships and products that are not preferred by a growing number of consumers. Today, most cars are assembled from components provided by outside suppliers. Unlike their Japanese rivals, Detroit used adversarial, short sighted relationships with their key suppliers, to the detriment of all. Constant margin squeezing has economically decimated the supply base, resulting in savings for Detroit at the expense of consumer value and financially weakened suppliers - a flawed strategy.

Japanese manufacturers in the U.S. took a very different road, establishing collaborative, win-win relationships resulting in valuable innovation flows and superior quality throughout the value chain that won over consumers (see [OEM Study on impact of trust](#)). Toyota, Honda, and their U.S.-based suppliers profitably gained market share while GM, Ford, and Chrysler went into the tank.

It's been tried before

The Japanese approach has been tried in Detroit before, with extremely successful results. In 1991, faced with continued losses, Chrysler changed from conflict to collaboration with its suppliers. Joint problem solving, process flow improvements, and new streams of innovation delivered more than \$5 billion to Chrysler, and their suppliers profited too.

Unfortunately in 1998, Daimler bought Chrysler and dismantled the collaborative, high-trust system, returning to adversarial business as usual. This approach takes constancy of purpose and a change of philosophy that seems missing from Detroit's leadership, with the possible exception of Ford's recent management changes.

What Congress Must Demand

The Detroit battleship is going aground. Before pumping billions into the automakers, Congress must demand a considerable change in course to ensure taxpayer money will truly make a positive difference. Suppliers account for significantly more than half of automaker's expenses. Focusing on collaborative innovation with its suppliers will make the biggest difference between a successful recovery and a tragic, long-term decline in this country's manufacturing base. Should this require senior management changes, so be it. Without clear requirements for such a change, why should taxpayers trust their money will be spent any better than Detroit has spent its own?

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Note: Thomas Stallkamp was the V.P. of Procurement and later CEO of Chrysler who, in the 1990s, master-minded the shift to a collaboratively based relationship with suppliers.