THOMAS T. STALLKAMP
Former Vice Chairman of DaimlerChrysler and former President, Chrysler Corporation

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SCORE!

A Better Way to Do Busine$$

MOVING FROM CONFLICT TO COLLABORATION

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To the Chrysler team that implemented SCORE and to my best friends who continue to encourage me to try to change the system.

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Acknowledgments

Quite a bit of time has passed from when the idea of this book was first presented until it was finally completed. During that time, I consulted with numerous business friends, acquaintances, and colleagues who encouraged me to present the story of how the business climate in which we operate could be improved. The experience of living in the ups and downs of the automotive business for over 30 years gave me access to many people with colorful stories (sometimes too colorful to be printed), great ideas, and fascinating insights into what is wrong and what needs to be fixed.

The first group to thank is the employees of the former Chrysler Corporation who helped turn what began as a unique concept into a functioning program that was the envy of the industry. Of particular importance are the past and present members of

Chrysler's Procurement and Supply activity who made it actually exciting and fun as we worked jointly with suppliers to revive the company and to create a truly great enterprise. Among those who helped lead the change were Peter Rosenfeld, Barry Price, Steve Zimmer, Bernie Bedard, all of whom were part of a great team. Additionally, the team of fellow Chrysler officers that embraced the idea and joined to bring it to life: Francois Castaing, Denny Pawley, and Tom Gale. None of our efforts could have been successful without the leadership, support and humor of Bob Lutz, who helped tear down the old structure and ideas. His personal encouragement of the SCORE program was a primary reason we have a story to tell.

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* Extended Enterprise® is a Registered Trademark of DaimlerChrysler Corporation.

I particularly want to thank Jon Maples, now at Visteon, for his assistance, ideas, and help in implementing the programs outlined here while we worked together at Chrysler. While many people supported the initial idea, Jon's focus on measurement, process, and open communication were responsible for the growth of the collaboration program. I was fortunate to have him to bounce ideas off and to bring his considerable intellectual abilities into real practice.

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About the Author

Thomas T. Stallkamp is the founder and principal of Collaborative Management, LLC, a private consulting firm that specializes in implementing changes to business practices. He is also an industrial partner at Ripplewood Holdings, LLC, a private equity firm in New York.

Before he founded Collaborative Management, Stallkamp was CEO and chairman of MSX International, a global provider of collaborative enterprise services. Previously, Stallkamp was vice chairman of DaimlerChrysler Corporation. He also served as its president and a member of its board of management. During almost 20 years at Chrysler Corporation, he helped lead the company to new stability and growth in the uncommonly competitive automotive industry. During his tenure as president, Chrysler was the most profitable company in the auto industry.

Stallkamp became known for developing new business processes and enhanced partnerships with the automotive supply community, thereby improving product quality and cost efficiencies. He pioneered the development of a unique partnership approach to corporate supplier relations under Chrysler's Extended Enterprise® concept.

He serves on the boards of Visteon Corporation, Baxter International, and MSX International. He is also on the Board of Trustees of Babson College, where he is also an adjunct professor in its Graduate Entrepreneurship Center.

Stallkamp holds a Bachelor's degree in industrial management and economics, and a Master's degree in business administration from Miami University (Ohio); he received honorary doctorates from Georgetown University and Miami University. He resides with his wife in Birmingham, Michigan, and has two grown sons.

INTRODUCTION

The first three years into the twenty-first century have not been a high-water mark for American business management. Both businessmen and the general public have suffered through accounting scandals, management malfeasance, and blatant greed that make the actions of the old robber barons look tame. Governmental legislation and regulation have been enacted to restore the public confidence in business managers and to protect private investors. This turmoil and the resultant backlash of reform can be viewed as a cycle that will correct itself and permit business to resume as normal. But what if it doesn't?

In the summer of 2001, I gave a speech to a gathering of automotive executives, entitled "Fixing a Broken Economic Model—A Case for Supplier Alliances." In it, I suggested that the way the automotive industry dealt with its suppliers, dealers, and employees at that time had become too adversarial and that changes should be adopted before we ran out of time to react. The reaction was predictable: lots of agreement from the supply base and rejection from the automakers. I even got called into one of the Big Three automakers and asked to explain why I was fermenting such heresy. That told me I had struck a nerve.

This book contends that the basic business model that has developed over the last century might be broken and that, instead of reverting to "normal" practices and methods, we should consider a new model. The present model is based on the strong independence and separation of firms from other companies, which makes collaboration or alliances hard to propose and even harder to implement. This model forces companies to take adversarial positions when dealing with other firms and drives the merger activity that is prevalent even in today's economy.

This book is built on the premise that companies—and, more important, their managers—can adopt more collaborative and strategic partnerships with related firms, to help the economy maximize its growth into the future. Situations have changed in the last few years beyond the accounting and management scandals, requiring modern managers to adopt a new model based on relationships, measurement of goals, and common strategies. Capital continues to be limited even in periods of low interest rates, as banking institutions try to limit their exposure to risky industries. Global competition threatens our existing American business model by opening our own markets to new, more entrepreneurial firms from cultures that operate much differently than ours. As these firms enter our own market and establish a new presence, we cannot be sure that they will operate completely under the American form that has been so strong in the last century.

Although people have been talking and preaching about ways to increase collaborations for years, only a few successful examples have arisen. During my 20 years at the Chrysler Corporation, and through the merger of DaimlerChrysler, we developed a different management approach to dealing with our external suppliers and our own employees. Using the principles under Chrysler's Extended Enterprise concept, we were able to put collaboration into practice in the 1990s and prove that it could be more than a soft philosophical idea. During that period, we proved that closer and more strategic approaches to suppliers, employees, and other constituents could raise the level of corporate performance and financial results. Many other advanced companies, including Dell Computer and Intel, are now using the principles that we helped create. Even such old-line managements as the U.S. Air Force are exploring them. These principles are more difficult to use than the old-line command and control approach that is still the prevalent style, but strategic and planned collaboration is spreading rapidly.

If American business is to continue to thrive in the twenty-first century, as it did in the twentieth, we must make radical changes in how we run and manage our institutions. The current approach forces a separation of companies and legally insists on dealing at arm's length. This might be good for ensuring competition, but with its negative slant against close cooperation, it could be the reason we have seen some of the bizarre and massive moves to acquire or merge with other firms for growth. The well-intentioned changes that Congress and regulators are forcing onto business and management might be only Band-Aids that mask deeper issues. As we all try to rebuild confidence in American business, we should try to move forward instead of just patching up our wounds and regrouping to fight the same old fight.

I started this work to describe how companies can improve their financial performance by changing the way they approach their supply chain. But after more than 30 years in management positions at extremely large corporations, I now realize that we have to change our whole approach to management, with both our employees and our suppliers. That change must start at the very top of the organization and be thought through in detail to see how it impacts the existing corporate culture. Many of the examples and stories used in this book come from manufacturing or industrial settings, but the problems that adversarial management practices create impact all businesses, including those in the service and financial sectors. Little is unique across our management practices in America, and the idea of forming closer alliances affects any firm.

A word of caution is required to those of us who graduated with traditional MBA degrees: Our training and the way we have been practicing business over the years has instilled in us a great deal of cynicism and doubt toward any change in the way we practice management. The following chapters outline what is wrong with the current system that has served so well in the past, and present a new approach that, on the surface, violates some of the principles under which we now operate. Reflecting on the way it works now, on the difficulty communicating across people and firms, and on the long-standing after-effects of adversarial management will help you understand that the changes being recommended are possible, practical, and necessary. The chapters include ways to monitor, measure, and track how the new system is working, to hold bean counters and financial analysts at bay. When the macro results come in, the whole organization will become believers and realize that change is necessary.

I believe that, with its vastly increased global competition and the baggage of historical organizational thinking, the next few decades of the twenty-first century will be a laboratory for change that we must explore. The old ways of the past that centered on a command and control style of management are about to be blown away by a younger, more international, less loyal, and less tolerant workforce. This book is about finding a way to end the current adversarial tone of management. I hope that it can create change, not just discussion. Reactions to speeches that I have given to major industry audiences on this subject have encouraged me to go beyond the obvious scope of supply chain management and offer up a wholesale change in general management. Applied correctly, with significant planning, it can improve the culture of a firm and stimulate growth so that the next generation thinks it is rewarding to go into a business career.

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1

Breaking the Mold

There Has to Be a Better Way

All the powers of management at the Chrysler Corporation were seated in the massive leather chairs of the Executive Conference Room[1] on that still morning in 1990. The senior operating and administrative members of the company sat around the oval table, while various staff members eager to watch the show from safe positions (the peanut gallery, in company jargon) sat in chairs along the walls. At the head of the table was Bob Lutz, then president of Chrysler, who used this weekly meeting of his staff and others to review the operational and financial issues affecting the company in the short run. In short, this meeting was intended to cajole the functional areas under his command to update and inform each other on what was happening in their respective areas, even though information sharing was not an item that the Chrysler culture had previously encouraged. Lutz had arrived at Chrysler several years earlier from Ford, where he had been well schooled in the politics of command and control. At Chrysler, Lutz used his energy and personal enthusiasm to break down the silos of the separate functions and was beginning to build the team with which he would run the company successfully for the next eight years.

Jim Donlon, the corporate controller, who was not a part of the regular operating team but occasionally attended the meetings as an observer, had something urgent to say today. He rose from his seat in the hush to announce that the competition had launched a deadly new cost-reduction program that required an immediate response to keep Chrysler from losing ground.

It was a time of severely depressed demand and profitability for the "Big Three" manufacturers in the domestic auto industry, and Chrysler was perennially the weakest and most threatened of the bunch. The sit-up-in-your-chair heart of Donlon's report was that Ford was rumored to be implementing a forced mandatory price-reduction action on all its suppliers. The auto industry in Detroit is closely knit and the supply base members (and executive teams) were constantly comparing notes among themselves, so there were few secrets in town. Certainly, an action as drastic as this one could not be kept quiet for long.

Ford had electronically modified all its existing production purchase orders with its thousands of suppliers to pay only 95 percent of what had been previously negotiated with them. All invoices that the suppliers sent were factored to 95 percent of their value, and Ford sent the reduced amount as full payment. This action was both unorthodox and highly effective. Instead of having to negotiate with each of the thousands of suppliers and arrive at a potentially different answer with each, this mechanical method merely changed the prices at the push of a button, saving Ford millions in purchases. It also severely upset the supply base members. Because they were extremely fragmented and separate, they had no ability to resist as a collective group. Each firm was left to individually decide either to resist by not shipping and risk losing all revenue instantly, or to continue to ship and accept the new terms. The action was unpopular and created major issues in the press. But Ford used its own financial crisis to justify the action.

The Chrysler finance team's suggestion was that the company should take similar action immediately because the automotive supply base was very common across the Big Three manufacturers. If the supply base members conceded to the Ford action, Chrysler and GM would be at a competitive disadvantage unless they took similar actions.

At the time, I was heading up procurement and supply, as executive vice president at Chrysler. I took the floor and expressed the opinion that, although the Ford action was effective in the short term from their position, it would create more tension with the supply base in an already difficult atmosphere. It was unexpected in its timing, but not from its source; Ford had traditionally ranked low in surveys from suppliers for collaborative policies. Many of us had come from Ford to Chrysler during the dark days of the 1980 Federal Loan Guarantee Program, and we were familiar with the culture and attitude there that could produce such an unpopular and arbitrary action. I felt that if Chrysler were to follow, we would be endorsing a policy that seemed completely against the unique one we had been trying to build.

Fortunately, Lutz sided that day with my recommendation to break out on a different path, and we refused to follow Ford's action. We responded with a unique system built on mutual negotiation and shared savings that became a decade-long program at Chrysler. Known as the Extended Enterprise®, it became a unique way to reduce costs and improve supplier relations at the same time. But on that day in 1990, it would be an understatement to say we had a few disbelievers in the finance office who wanted us to take the same short-term action that Ford had done to boost our earnings. The program we developed worked, though, and showed not only Chrysler, but also the rest of the industry, that following what appear to be industry trends doesn't always produce the best answer.

This book analyzes the predominant way business managers handle relationships with other companies in their daily operation. It is almost impossible to find a company of any size that can exist solely by itself. Our economy operates in a web of related actions. You will see how the manner in which companies deal with these important interrelationships is not always logical and that there are many different approaches. It becomes a question of whether to stay the course and take predictable and accepted actions, or to try something different. Often it also involves the struggle for control and domination that has come to characterize many business dealings.

The Clash of Opposite Approaches

One of the best contrasts in styles and tactics in relationship management and their results occurred in Detroit in the last decade of the twentieth century. In 1992, Jack Smith, then chairman of

General Motors, brought over to the United States a Spanish cost expert he found within the company when he was in charge of GM Europe. Smith thought the unusual but apparently effective techniques that J. Ignacio Lopez wielded in Europe would be just the thing to turn around the rising costs of the larger enterprise of GM in the United States. Lopez arrived in Detroit in May of that year as a relatively unknown entity who immediately made a name for himself as the executive vice president of purchasing.

Lopez exhibited a confident and somewhat colorful personality as he entered a town that had learned long ago how the "game" of manufacturer/supplier relations was played. Lopez took pride in several unusual personal habits, such as wearing his watch on the opposite arm and following a strict "warrior" diet that required eating a rigid regimen of health foods seven times a day. He immediately set out to challenge the existing commercial system by banning GM employees from going to business lunches with suppliers, and he attacked the company's cost structures with a vengeance. His early success was considerable, in both his impact on the industry and his initial results to lower GM's prices.

The techniques that Lopez used were demanding and arbitrary. If suppliers would not agree to immediate price reductions, their contract was terminated and given to another lower-priced source. Existing multiyear contracts that had just been negotiated before his arrival were ripped up and substituted by aggressive market testing. One of Lopez's more flagrant actions was shipping proprietary drawings on patented items to offshore manufacturers with limited technology, to get a cheaper price. These lower-overhead quotes were then used to force the inventing firm into lowering its prices, or risk losing the business. Suppliers were forced to decide whether to continue with GM on the automaker's terms or to sever the relationship.

The supplier community reacted with both panic and anger. With his aggressive tactics, the new guy from Spain had changed the rules of the game that had been in play for decades. While they complained and griped, Lopez forced and coerced his suppliers into submission. Resistance to the strong-arm tactics often meant that parts were resourced to new companies offering lower costs to get into the GM "family." The opportunity to move into favored status with the largest automaker on the planet was too strong for many to resist. Long-established relationships were suddenly replaced with newly formed alliances with sources that sometimes were making a particular part for the first time.

The mission was too much for one man to accomplish single-handedly, so Lopez brought over a crew of disciples who had worked with him in Europe and who were familiar with his aggressive tactics. They were put in charge of the various departments and spread the warrior approach throughout the company. In just nine months, during 1992 and early 1993, Lopez transformed GM purchasing into an aggressive machine whose actions and tactics were often both brutal and arbitrary. But he produced results, and GM management never bothered to ask how he achieved them. Much later, when asked if he ever reflected on how Lopez was achieving such apparent success while working for him in Europe, Bob Eaton, who, as Smith's successor as chairman of GM Europe, had promoted Lopez to a vice president position, replied, "I never bothered to ask how he got the results he did; I just counted them up." Apparently, the end justified the means to him and his company.

Lopez did achieve results—or, at least, the financial community thought so. Merrill Lynch reported that he produced $300 million in savings in the fourth quarter of 1992. The story has a much more interesting ending, as discussed later, but as 1993 rolled around, Lopez and his adversarial role were the talk of Detroit, if not the automotive world. Coming on the heels of Chrysler's brush with financial troubles, the stage was set for a live experiment pitting two completely different approaches against each other.

A Completely Different Approach

I came into the job of running Chrysler's procurement and supply activity in 1990. After spending a career of almost two decades watching and participating in the harsh world of automotive procurement, I had decided it was time to try something different in management techniques. By the time 1992 arrived, the Chrysler Corporation was in full swing with its unique and different approach to managing suppliers. As mentioned earlier, Bob Lutz had given full corporate support to adopting a system utilizing the suppliers as partners with Chrysler in both production and development—that is, a collaborative approach to dealing with its supply base. Using a detailed proprietary goal and measurement system labeled SCORE, for Supplier Cost Reduction Effort, the company was wringing costs out of its system by soliciting and approving supplier ideas to change the old operating system. Suppliers were asked to outline ways in which doing business with Chrysler was creating costs in either their systems or Chrysler's systems. Instead of mandating reductions or price decreases, Chrysler offered to work with the supply base to implement submitted ideas that streamlined the business or eliminated redundant efforts and costs.

Although it took some time to get started, by 1992, the SCORE approach had been incorporated into a supply-management philosophy called the Extended Enterprise. The concept was to treat suppliers and dealers as independent extensions of the firm. Because their destiny and fortunes were directly linked to Chrysler's, the idea was to build a virtual team atmosphere in which all parties focused on reducing the cost of developing and producing vehicles. The constructive supply-side suggestions worked to reduce both the supplier's costs and those at Chrysler. There were no firm rules for submitting the ideas, and no area of the company was off-limits to outside ideas. An essential element was that the savings that resulted from these ideas were voluntary and up to the supplier to define and contribute. Chrysler did not dictate the amount nor the manner that savings were to be achieved. Instead, they turned the situation around and asked the suppliers to identify ways that they could reduce their costs in doing business through their own eyes, rather than from Chrysler's view. This was previously unheard of in an industry where the Big Three always dominated the control.

Chrysler encouraged its suppliers to contribute most of the savings in the way of price reductions, but it also encouraged them to keep some of them, to reinforce their profit margins and redirect it into their own businesses. This concept of sharing the savings with the suppliers was truly unique, and the supply base members quickly supported it. A relatively simple data system recorded and monitored the savings.

The approach required close cooperation among all areas of the company, especially procurement and engineering. These two normally separate departments jointly developed and shared the cost-reduction targets for SCORE. Weekly reports followed the submission of supplier ideas and were tracked to the appropriate internal area that would approve the suggestion. This prevented ideas from languishing in the system, as had previous attempts to solicit ideas from the supply base. This internal follow-up removed the skepticism that initially greeted the program. Chrysler's internal communications highlighted measurements of how suppliers were performing, and the mainstream media publicized the success stories, to help spread the word that this alternative program was working. The auto industry is a very close community, and word quickly spread about how the Extended Enterprise was working.

The Extended Enterprise concept also relied on the assumption that the business relationship would continue over time. Chrysler promoted the idea that as long as cost, quality, delivery, and technology targets were met, the business relationship would be preserved and not resourced. Instead of using traditional resourcing, if a problem in one of these areas occurred at Chrysler, the supplier was given a chance to correct it before an alternative supplier was introduced. Resourcing is a common practice in purchasing, in which an existing contract is terminated, and the production and revenue are moved to a new supplier.

The Chrysler system was in operation when Lopez arrived on the scene in Detroit. Although the Chrysler system had produced some significant initial savings that totaled more than $500 million in cumulative costs by mid-1992, some skeptics thought that this was low-hanging fruit and questioned whether it could be sustained. Many industry reporters and analysts waited to see if we could honor and hold to our promise of sharing the savings and respecting long-term commitments. The fortunes of Chrysler began to improve during this time because of both the cost reductions that SCORE and the Extended Enterprise produced, and the expanding volumes of minivans and sport utility vehicles. To continue its progress, Chrysler needed to accelerate its programs. The arrival of the Spaniard with a different approach at General Motors turned out to provide that acceleration.

Business Gravitates to the Easiest Relationship

The fury and turmoil that Lopez's actions at General Motors created played into the hands of Chrysler. We never considered Lopez a threat or an enemy, but the press quickly turned our two vastly different approaches into a personal battle. This was helped along by the business press, but even more by suppliers who had previously been skeptical of the Extended Enterprise. They needed to be shown that companies could be trusted because the system in which they had operated for so long played on mistrust and suspicion. Chrysler had begun to build a different order of doing things, but it was so contrary to the existing norm in the industry that it took another push to convince the doubters. GM and Lopez provided that additional emphasis.

As General Motors turned up the heat on its suppliers for more price concessions, the general climate became much more supportive of what we were trying to do at Chrysler. The supply bases were very similar between the two companies, as they are in any industry, be it aerospace, retail, or financial services. Suppliers in a given industry tend to isolate themselves to that industry because of common products and services and lower overall cost. Most industry analysts estimate that the amount of common suppliers in the domestic auto industry in the 1990s was 80 to 90 percent, meaning that the same supplier would provide similar parts to each of the Big Three automakers. Gone were the days when each company built its own loyal supporting cast of suppliers. The efficiencies of spreading costs over all three major manufacturers resulted in a very concentrated industry.

The aggressive and controversial actions of GM drove suppliers to look more closely at the more collaborative model being promoted at Chrysler. The comparisons were obvious. The GM model was arbitrary and dictatorial, and it placed the supplier at a disadvantage by always threatening to resource the business if a lower-cost manufacturer were found elsewhere. Chrysler's model was collaborative, based on shared savings, and it encouraged the suppliers to be in charge of their own businesses. The comparisons between the two systems were dramatic, and these helped fuel the controversy in Detroit over which system could produce the largest and most lasting results.

The Big Three purchasing executives had been meeting for several years before Lopez arrived to discuss common ways to improve the industry in areas such as communications, quality initiatives, and other nonproprietary or competitive areas. One of these common areas involved a survey of the supply base members to determine the relative differences in suppliers' perception of the automakers. A consulting firm of university professors was hired to quantify the differences between the Big Three manufacturers and the rest of the recent transplanted companies. After much negotiation, the Big Three purchasing departments all agreed to use this independent group to survey the common supply base. They developed a statistically valid survey to be sent to thousands of people who dealt with the original equipment manufacturers (OEMs). The three companies funded the survey, and each was allowed its own separate questions, although there were approximately 14 common questions on such things as trust factors, level of engagement, arbitrary cost pressures, and similar business issues.

The results of the study[2] confirmed what Chrysler believed. Relationships do matter, and there was a wide variance among the three Detroit manufacturers. It showed that there were large differences in the ways the domestic manufacturers approached their suppliers from the ways used by the newly arrived foreign-owned OEMs. The main difference was in the positive manner in which the foreign transplants established an atmosphere of trust and close cooperation with their suppliers.

Figure 1.1 shows the results for the critical category of supplier trust versus the benchmark in the industry, Toyota. While the Chrysler program was in effect, Chrysler consistently equaled Toyota. Only after the merger with Daimler-Benz in 1998 did it begin to fall as the emphasis became more traditional.

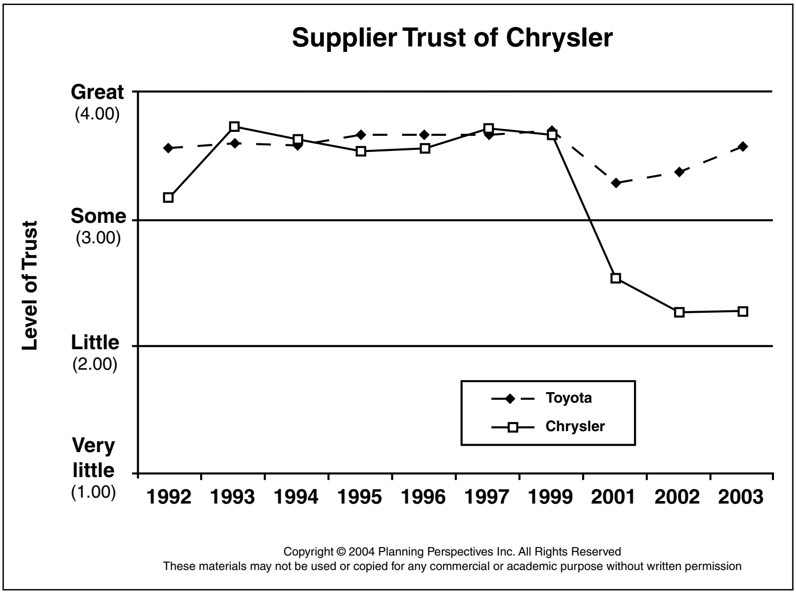

Figure 1.1—Supplier Trust of Chrysler

Although the domestic manufacturers continued to rank lower than the foreign transplants, Chrysler scored significantly higher than General Motors in such areas as trust, fairness in relationships, ability to generate cost savings, and ability to build relationships. Chrysler believed this survey accurately reflected the attitude in the industry and validated that the company was on the right track for changing the system.

The Final Chapter of Lopez

The final chapter in this controversial clash of philosophies came only nine months after Lopez arrived in the United States. Having generated much attention with his tactics, which were directly opposite to those of Chrysler, Lopez created one of the most bizarre chapters in American business. On March 13, 1993, Volkswagen ended a week of rumor and announced that it had hired Lopez away from General Motors and had offered him a seat on its management board as head of production and procurement. The story shocked both Jack Smith and the rest of the GM management, who had become impressed with his results of cost improvements. They quickly responded and announced on March 15 that they had persuaded Lopez to remain at GM by giving him more authority over production. GM scheduled a press conference for the following morning, at which Chairman Smith was to announce the retention and enlarged responsibility for Lopez. Instead, just one half-hour before the press briefing, Smith was forced to announce that his deal had fallen apart and confirmed that Lopez had again changed his mind and was indeed defecting to VW. The way the story unfolded, and the shock of the final resolution, further convinced the suppliers that trust and loyalty were not in the vocabulary of the once famous—now infamous—cost-cutter.

In a final twist, a short time later, General Motors announced that it was filing legal actions, including charges of criminal theft, against Lopez for stealing proprietary corporate documents and cost information that he took with him to VW. The case was pressed in federal court but was dropped several years later after

Lopez was critically injured and suffered permanent brain damage in an auto accident in Spain. At the time of Lopez's defection, though, GM moved to address the complaints of the suppliers and industry analysts by naming Richard Wagner, a young, personable, and rising financial executive, to replace Lopez, as a sign that the company needed to modify its adversarial approach. Wagner later replaced Smith as the CEO and chairman of General Motors.

Comparing the Two Approaches

On the surface, the GM/Lopez approach might not appear that different from the Chrysler Extended Enterprise approach in the results achieved. Both were cost-reduction programs, and both served their initial purposes in the short run because both companies reduced their cost base. But the differences are much more than just style and approach. The arbitrary nature of Lopez's demands created deep-seated animosity within the General Motors supply community that impacted their development of new products. Although some current prices were reduced, suppliers began to talk about turning down future contracts because their profitability was in question. Lopez's successor quickly moved to rebuild the element of trust, to avoid widespread defection from General Motors. More than 25 percent of the parts being procured had been resourced to new suppliers under Lopez in the short period of nine months he had been in power. Industry and financial analysts have cited this action as one of the reasons GM's quality deteriorated during this period. This resourcing created turmoil and dislocation in a system that was already fragile from a quality standpoint.

The Chrysler Extended Enterprise system encouraged continuity by having suppliers work toward defined targets on future programs as well as current ones. The targets for new models were based on market-driven prices supported by the projected selling price of the new vehicle. If a firm could meet those targets, it was awarded the business on a long-term basis. It could count on Chrysler not to arbitrarily change its mind and demand more concessions, as long as the objectives were met. In this manner, the stability of the commercial relationship was more secure. Stability meant less need for protection actions, such as front-loaded profits. If the contract was long term and the customer was predictable and reliable, the supplier's profits could be more evenly spread over the period. Suppliers viewed the Chrysler business as a better place to invest their limited development money.

Chrysler began to enjoy greater investment in new products because of the stable and defined relationships promoted there. Chrysler was able to introduce more new models faster using less of its own capital because suppliers were more inclined to bet on their futures. As previously mentioned, this then led to business relationships founded on predictability and fairness.

In a way, it was fortunate for General Motors that Lopez defected back to Europe when he did. If he had been permitted to continue, the animosity his approach created might have led to a major dislocation in supply at GM. There is a place where the short term meets the long term, and Lopez was on his way to destroying both with his unique relationship-management style.

A Call for Change

Clearly, the Lopez saga and the open clash between General Motors' and Chrysler Corporation's strategies is one of the most bizarre stories in the history of the largest industry in the world. It also highlights a real example of the differences between the two approaches to commerce, adversarial and collaborative.

Although this example deals with a specific industry, adversarial tactics and approaches dominate many other industries in American business. It is not limited just to the automotive industry, but it permeates such widely diverse industries as financial services, retail, and entertainment. In many ways, it seems to have become the standard way of managing commerce in this country.

The following chapters of this book challenge the existing commercial system and offer an alternative to the way many firms conduct business. Although the current system clearly works, it contains inefficiencies and does not get the most out of business relationships. As the global economy becomes much more competitive, the advantages of the American system are being reduced. Our labor costs continue to rise faster than in other countries. Our speed to market is hampered by having to communicate through a system that discourages open and shared development. Our industrial production in the United States is threatened as many industries mature and enter a declining phase, as witnessed by our automobile, steel, electronics, and apparel manufacturing.

Manufacturing is an essential element in any growing economy. The decline in the U.S. industrial base and the practice of lowering pay in service-sector jobs do not offer a happy outlook for the future of our country. We cannot become isolationist in our management practices, but we must look at the way we run our various businesses to see if we can adopt another approach. To regain our competitive advantage, American businesses must look at the way they operate and make substantial changes in the commercial system. Recent gains in productivity could be masking a problem that we are not creating enough jobs to maintain growth in employment over the long term. Increasing industrial production is one of the main ways for historic economic growth, and the declining production levels in this country send warning signs that we are running out of time to take action. This book outlines an alternative way that has worked in the past but that has not been widely embraced because it bucks the trend of commercial history and requires a different and difficult level of management interaction. But the situation facing our industrial manufacturing companies seems so severe that we must look at implementing some tough changes in the way we operate before the majority of our jobs go overseas and the United States becomes a service-dominated economy.

American businessmen like to think of themselves as action oriented and quick to make decisions. They now have in front of them a situation that requires some substantial changes instead of tweaks in the way we manage. It also requires a leap of faith in establishing trust between companies, just as humans do in the best personal relationships. Companies can make changes in attitude and direction to accomplish this transformation. What we have to do now is act before we run out of time and lose our industrial base forever. Time is clearly of the essence.

Endnotes

1. Some corporate facilities gnome who never was allowed into its lofty setting officially named the room Conference Room A, and the name stuck forever.

2. The study was performed by Planning Perspectives, Inc., initially for the Big Three OEMs separately. After 1995, it was performed jointly.

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