

A Shot at Redemption

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A tarnished Robert Nardelli sets out to fix creaky Chrysler. He's moved quickly with his drastic plan, but does he have the finesse to win over employees and dealers?

By Rob Carey

The second week of August was a bleak time for iconic automaker Chrysler. That Monday, its new private owners, Cerberus Capital Management, announced that Robert "Bob" Nardelli—recently shown the door by The Home Depot's board, with severance of more than \$100 million in hand—was its choice to be Chrysler's new CEO.

By Friday, business reporters at CNBC, The Wall Street Journal, and Fortune had taken turns blasting the decision. A headline on Fortune.com read, "Nardelli is Strike One for Chrysler." And Jim Cramer of CNBC's "Mad Money" told his national TV audience, "I can't think of a worse pick for the job than Bob Nardelli."

Even Lee Iacocca, the famed former Chrysler chief who helped turn around the company for the first time in the 1980s, said he was "shocked" by Cerberus' decision. Yikes.

The evidence the naysayers had to work with was compelling. Nardelli and Home Depot's board "mutually agreed" that he should resign after a six-year run that saw the following: a long-stalled stock price; archrival Lowe's outperforming Home Depot in customer service ratings and earnings-per-share growth; 100-percent turnover among the company's top 170 managers; and Nardelli repeatedly giving lousy performances at Home Depot's annual shareholder meetings, causing investors and employees alike to label him "autocratic" and "arrogant."

What a difference 10 weeks can make. By mid-October, the national leadership of the United Auto Workers had agreed to a Chrysler contract that will save the company billions, thanks to UAW concessions on health benefits and staggered buyouts for over 13,000 workers. (A few weeks later, that job-cut figure rose to 24,000—fully 30 percent of the Chrysler's workforce.) And in the wake of such drastic action, nearly 4,000 dealers gave a strong vote of confidence to the new leadership team as they left Chrysler's North American dealers meeting in late October. Their support came in large part because of the announcement that a new incentive program would replace the much-disliked current program as of this month.

Already, "I've seen internal correspondences citing how happy the dealers were with the level of engagement they got from the leadership team," says Jim Schroer, president and CEO of Minneapolis-based Carlson Marketing Worldwide, whose firm ran the Chrysler event. "To get that response from these dealers, who have been through so much over the years and are a very jaded group, really says something."

Indeed, this unexpected momentum swing at Chrysler speaks not only to the business acumen Nardelli developed as one of Jack Welch's top lieutenants at General Electric, but also to a lesson Nardelli apparently learned from his Home Depot experience that could help him become a legendary executive like his mentor. The lesson is this: Shrewd business decisions alone are not enough—it's good communication that wins the support of the workforce. And if you can't do that part well, entrust the job to colleagues who can.

Battling Perception

A 29-year veteran and Six Sigma superstar for General Electric, Nardelli possesses operational excellence that was touted ad nauseam when he was hired at Home Depot in late 2000. In Nardelli's four years heading up GE's Power Systems division, it went from breaking even to making a \$1.7 billion profit, with half of its revenue coming from new products. Based on this success, Jack Welch, GE's former

chairman and CEO, said in August that Nardelli "will make Chrysler more efficient than it has ever been."

But that specific praise is notable for what it lacks regarding the need to communicate a big-picture vision to workers. After the process of selecting his successor at GE ended in late 2000, Welch reportedly said that Nardelli's track record notwithstanding, "I had to go with my gut" and back Jeff Immelt for the position. In June 2002, Nardelli reflected on why he might have lost out on his dream job, telling Fortune that "There was always this rap against me about being functionally proficient but not very strategic." This would include his inability to properly articulate the need for actions that will move the company toward its goals.

At Home Depot, Nardelli's functional proficiency did result in a 70 percent rise in revenue and 93-percent rise in profit over his tenure. Nonetheless, he lost the perception battle because his communication strategy could not control dissent. And this happened precisely because "Nardelli went away from his personal strengths—he didn't make the big changes he wanted to make fast enough," says Six Sigma expert David Silverstein, CEO of Breakthrough Management Group in Longmont, Colo., and co-author of *Insourcing Innovation*. "If you are going to change the culture—and Nardelli was right to do it, because it was time for Home Depot to grow up—you do it fast. But he tried to phase in changes over years; it's possible he had veteran employees consulting him who said, 'You'd better go slowly or you will have a lot of dissension.'"

Compounding his error, Nardelli made awkward,—even angry—comments during the 2004 and 2006 shareholder meetings to counter the dissension, further weakening him. "If he had gotten all of the unpleasantness over with quickly and had to explain it only once, the remaining employees likely would have moved on and focused on the new direction, and the early grumblings wouldn't have been able to snowball," adds Silverstein. "When an executive acts fast, people see the effects of change sooner, and they more quickly come to trust that he made the right moves."

The Chrysler Chronicles

Nardelli appears determined not to make the same mistakes at Chrysler. His actions so far have been quick and substantial: the favorable conclusion of the UAW talks, which included tens of thousands of immediate job cuts and no guarantees on specific factories remaining open beyond five years. Then there were the decisions to eliminate several car models and slash the number of dealers.

But perhaps as important is that on the evidence of his first few months at Chrysler, it seems that Nardelli recognizes the things he does not master. "That is a rare trait for an auto company's CEO," says Carlson's Schroer, who was executive vice president of global sales, marketing and service for DaimlerChrysler, then Chrysler's owner, from 2000 to 2003, and whose responsibilities included helping to coordinate the annual dealers meeting.

So one of Nardelli's earliest moves to strengthen corporate's credibility and communications with its dealers was to lure industry luminary Jim Press away from Toyota, where dealer relations are renowned. The former president of Toyota's North American operations is now Chrysler's vice chairman and president (a title shared with Chrysler veteran Tom LaSorda). But Press' task, frankly, is this: Shore up relations with dealers by being in the field as often as possible, listen to their ideas and concerns, develop his own ideas from what he hears, and use all of that to make changes quickly that will help the dealers sell more cars.

"Nardelli probably thought, 'Okay, I've never managed a car-dealer network before,' and he wasn't famous for motivating the rank and file at the store level," says Schroer. "But he saw that the top-ranked showroom experience in the auto industry was that of Lexus, and that Jim Press was the one in charge of that experience. Nardelli managed to land a world-class talent in a hurry, and that boosted his credibility with dealers."

And as Nardelli attempts to shrink the bloated dealer network to keep more dealers focused on selling Chrysler, Jeep and Dodge vehicles, he's willing to let Press handle the lion's share of the interaction; this started even before October's dealers meeting. For instance, "the dealers know the system is overfranchised, but corporate has to facilitate dealer decisions to buy out underperformers," says



Schroer. "Press will have control in how easy or hard the experience will be for everyone."

Lastly, Nardelli acquiesced when Press pushed to scrap the existing incentive program, called the Volume Performance Allowance, to which dealers had long been hostile because quotas were deemed arbitrary and mostly unrealistic [for details, see "Anatomy of a Broken Program," at right]. "The dealers feel that the incentive plan the past few years was more of a strong-arm tactic than anything else," Schroer notes. "So improving dealer relations is the most delicate issue Chrysler faces—and that's a task Nardelli surely will let Jim Press handle."

Completing the Package

Actually, Nardelli's poaching of automotive-industry talent did not begin with Press. He was able to boost dealer confidence just two weeks into his tenure when he lured marketing whiz Deborah Meyer from Lexus to be Chrysler's CMO. "They took Press and Meyer from the Toyota/Lexus leadership, which was doing the best job in the industry," says Schroer. "Nardelli helped entice them with the challenge of reviving an American institution and creating their own legacy. It was a coup."

So despite the early funerals that many held for Chrysler, Nardelli just might have achieved enough momentum in the first few months at the helm to successfully turn this hulking ship. "It's such a different task to engage the entrepreneurs in your system, the dealers, versus regular employees. But the new leadership has already done it," Schroer says. "Since the dealer meeting, Press and Meyer have been out in the field, repeating, 'Hey, here we are, and we're listening to you.' The dealers feel they're finally being heard and that changes are coming quickly from that."

As for Nardelli, "He's a no-nonsense leader who doesn't try to be liked or be popular," says Silverstein. "But there is more to business success than efficient operations. Companies need all types of expertise, and the best business leaders know it almost never comes from one person. They check their egos and surround themselves with people whose skills complement theirs."

In the end, "Nardelli can do the hard things that must be done at Chrysler and still become a leader who is trusted, respected and followed," says Silverstein. "His employees and dealers just have to hear it the right way."



Sidebar: Burnishing the Brand

Unlike most other industries, the automotive sector enjoys ubiquitous branding; after all, its products zip down the world's highways, avenues and side streets every day. For Chrysler in particular, the "eye candy" of innovative design is what's always defined the positive notions of its brand.

Because of this, new CEO Robert Nardelli will have to rely on his designers to reinforce the elements that brought Chrysler such a loyal following in the '60s and early '70s. "This car company, more than any other, lives and dies on its new-product hits," says Carlson Marketing CEO Jim Schroer.

"The design team must be pushed to accentuate that passion for unique design," not only to attract present and past Chrysler owners, but also to pump up the dealers, says Barry LaBov, president of Fort Wayne, Ind.-based incentive firm LaBov and Beyond. "In this business, holding on to loyal customers who don't need discounts to come through the door puts a company in great shape."

What's more, the quality team—will surely see and hear a lot of Nardelli—will have to improve product rankings so that first-time buyers will feel comfortable plunking down cash for a sexy new model.

Finally, says LaBov, "the dealers feel they are every bit as important to the success of this company as anyone else. Their incentive plan will be different now [See p. 30, "Anatomy of a Broken Program"], but in this situation, that's just part of the package that can win them over. The dealers also need to see the DNA of the brand within the new designs, they need improved quality—and they need to see [Chrysler leadership's] commitment to them over the long term."

Sidebar: Anatomy of a Broken Program

The announcement at Chrysler's annual dealers meeting in October to end the controversial bonus program called Volume Performance Allowance (VPA) has made dealers happier than the program itself ever did.

VPA has been in place for several years; it replaced per-vehicle allotments that dealers received for marketing and other costs, such as providing fuel fill-ups for new cars. Here's how VPA worked: Every month, a computer program determined a different unit target for each dealer, with cash bonuses based on how much product was taken from the factory in addition to how many units the dealer sold. So a dealership might get \$300 per vehicle for meeting 85 percent of its goal and \$500 per vehicle for reaching 100 percent. Some dealers, however, were reportedly getting as much as \$700 per vehicle.

Many dealers acknowledge that the VPA often caused them to accept more units than they could realistically move, and then sell units late in the month at a loss of several hundred dollars apiece to meet goals that triggered bonuses. One dealer told The Detroit News that "You're frenetic at the end of the month to win the VPA…You will jump off the second floor to make it. And when you don't, you lament for days." Another dealer notes that "the plan is just terrible for smaller dealers."

What's more, a research report by Northwestern University's Kellogg School of Business released last May said this: "The company found that when dealers realized they could not meet their monthly goals, their sales efforts plummeted. Dealers waited for the next month—a new target—rather than push cars in a month for which the quota and bonus were out of reach. As a result, Chrysler sales cycled through booms and busts."

For 2008, Chrysler will pay dealers a direct bonus of \$200 when the dealer invoices a vehicle, and another \$200 when the vehicle sells. Beyond this, it's not clear whether Chrysler will reinstate the cash allotments that disappeared when VPA began.

One carrot that Bob Nardelli will try his hardest to keep dormant is any rebate or other cash-based customer enticement. "We don't want to put cash on the hood," Nardelli told CNBC in early November. "That just leads to a downward spiral."

While Nardelli may have fixed the worst problems with Chrysler's main incentive program, it still uses cash. So Incentive asked Arnold Light, a 40-year industry veteran, to suggest a better solution.

"What you have here is a dependence on cash, which becomes more like income and is not really an incentive," Light says. But he warns, Chrysler's incentive program has "been cash-based so long, it would be very difficult to do a pure incentive program without a cash portion."

The problem, he says is that the dealers probably see that cash as part of their compensation now. "Having said that," Light adds, "the new system of paying \$200 for every invoice might work—give them a little cash and then excite them with something else. Let me explain: When [a dealer] signs the invoice they get \$200. But, another \$200 credit to an online reward account is available, but is not validated until the vehicle is sold."

That \$200 credit can be used immediately or saved combined with others to redeem merchandise from an online catalog, Light says. "LCD televisions, Bose [sound systems], high-end stuff starting at \$200 and up. In this manner, the cash portion is intact, and the real incentive happens when the vehicle is sold. The dealer would also have the option of letting salespeople in the dealership pick items in the reward catalog."

This is an interim step, however. "Hopefully, the dealers can be weaned" off the cash altogether, Light adds, suggesting that, "next year, it goes to \$100 [cash] and \$300 [merchandise]."