

Successes & Strategies - February, 2010

by Larry Rice, Director of Strategic Consulting

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Lessons from the Takeover of GM & Chrysler

As many of you know, I am a native Detroit. Detroit and Boston have a lot in common. Driving around both towns largely stinks, due to the condition of the roads and the number of vehicles on them. Both have industries that each is primarily known for: Detroit cranks out cars with the auto industry and Boston cranks out brainiacs with the education industry. The brain industry seems to keep going strong, with colleges and universities' ability to raise prices virtually every year for the last 30 + years, while demand remains high. I wish the same could be said for the domestic automobile industry.

As I write this, GM is largely owned by the government and Chrysler is largely owned by Fiat. Fiat? So what the heck happened? More importantly, what can the rest of us learn from this debacle? The readers of this newsletter are largely small and medium-sized entrepreneurial businesses. Can a smaller business make the mistakes that these behemoths did? You bet you can, just on a smaller scale.

Here is my down-sized list of advice to avoid being another GM or Chrysler:

- **Always be aware of your competitors and their plans** - Many of the problems that the Big 3 face today could have been avoided with an aggressive plan to address the new Japanese competitors 30+ years ago. By not addressing costs, quality and management/labor relations in a big way, they left the door open for foreign competition to get a foothold that should have been much more difficult to obtain. You should periodically (at least annually) sit down and do a competitive analysis of your industry. Look at your competitors' advantages and determine whether you need to do something NOW to address it. If you have lost business to your competition, best find out exactly the reason they left. Do NOT assume you know why. Ask them directly if you can. If you hear a trend of reasons, you better do something. Fast.
- **Project your cash flow** - The difference between GM, Chrysler & Ford who did not have government intervention? Ford better understood the predicament it was in from a cash flow perspective... *over two years ago*. At that time, it mortgaged everything for cash in what it saw then as a fight for long-term survival. Nothing is certain moving forward but Ford has thus far weathered the storm, while making small market share gains and important investments in new vehicles and technology which will keep the business moving forward. By projecting cash

flow forward, at least 6 months, and updating the cash flow projection monthly, you will have an early warning system in place to help you take steps to avoid the catastrophe of running out of money.

- **Your team is not your enemy** - The biggest mistake with the domestic auto industry was made long before the current management teams were in place. The mistake of decades of animus between management and labor has only recently been turned around so that everyone has begun working together for their common goals. They still have a long way to go which only proves that implementing a management-by-fear-and-intimidation ideology (or for that matter letting your employees run the place!) will get you nowhere. Often, it is your non-skilled employees who will come up with the best ideas on how to improve business processes. Treat them poorly and you'll get nothing beyond the bare minimum of effort. Include your team in strategy sessions and get feedback from them constantly.
- **Perception is reality** - Since we know this to be true, we absolutely must understand how our customers perceive us because that is the reality of our relationship with them. If it is good, we can ask for referrals, ask them to buy more stuff from us, etc. If it is poor, we can begin to repair that perception with some excellent reality. We won't know which until we solicit feedback from them. This can be done via personal conversations, surveys (anonymous surveys would presumably get the greatest amount of truth), customer advisory boards, any number of methods. Americans perceive things about American maker vehicles which are no longer true in many cases. Certain American cars have equal and in some cases better quality construction than their foreign competitors. As you can see, it has been very difficult for them to get that message across. If you communicate, positively, proactively and frequently with your customers, you can shape their perceptions and avoid being a business victim.

Many of the problems that plague huge multinational corporations are often the same problems entrepreneurial-type businesses face. We can see on a national basis what happens when businesses take their eye off the ball. Don't make their mistakes because the government will not be bailing you out, that is for certain.

See you next month.



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Rodman & Rodman, PC | 3 Newton Executive Park | Suite 101 | Newton | MA | 02462-1433