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ABOARD A SINKING SHIP

On November 2, 1978, the *Detroit Free Press* carried two headlines: CHRYSLER LOSSES ARE WORST EVER, and LEE IACOCCA JOINS CHRYSLER. Great timing! The day I came aboard, the company had announced a third-quarter loss of almost $160 million, the worst deficit in its history. “Oh, well,” I thought, “from here things can only get better.” Despite the huge losses, Chrysler’s stock closed up three eighths that day, which I took as a vote of confidence in my new administration. Ha, ha!

On my first day on the job, I had a little trouble getting to the office. To be honest, I wasn’t exactly sure where it *was*. I knew that Chrysler headquarters were in Highland Park, just off the Davison Expressway. But beyond that I had to ask for directions. I didn’t even know what ramp to get off.

I had been to Chrysler only once, when I was president of Ford. But in those days I had a driver, and I didn’t pay much attention to the route we followed. Every three years, the heads of the Big Three used to get together for what we called summit meetings, to prepare a joint strategy for labor negotiations. Henry Ford and I had gone to one of those meetings over in Highland Park. We were joined there by Lynn Townsend and John Riccardo of Chrysler as well as by the GM people and all the lawyers.

By the way, the union would get uptight about these meetings. They were sure that we were conspiring against them. Little did they know that these talks were always an exercise in total futility. As the marginal producer, Chrysler could never afford the possibility of a strike, so all our tough talk about dealing with the union came to naught.

When I got there that morning, Riccardo showed me around the place and introduced me to some of the officers. There was a meeting with a few of the top people, and, as usual, I lit up a cigar. Riccardo turned to his group and said: “You guys know I’ve always had a fetish about no cigar smoking in meetings. As of this morning, we’ve just rescinded that rule.” I took it as a good omen. From everything I had heard about Chrysler, rescinding some of the house rules sounded like a super idea.

Before the day was over, I noticed a couple of seemingly insignificant details that gave me pause. The first was that the office of the president, where Cafiero worked, was being used as a thoroughfare to get from one office to another. I watched in amazement as executives with coffee cups in their hands kept opening the door and walking right through the president’s office. Right away I knew the place was in a state of anarchy. Chrysler needed a dose of order and discipline—and quick.

Then there was the fact that Riccardo’s secretary seemed to be spending a lot of time taking personal calls on her own private phone. When the secretaries are goofing off, you know the place has dry rot. During the first couple of weeks in a new job, you look for telltale signs. You want to know what kind of fraternity you’ve joined. These are the signs I remember, and what they told me about Chrysler made me apprehensive about what I was getting myself into.

It turned out that my worries were justified. I soon stumbled upon my first major revelation: Chrysler didn’t really function like a company at all. Chrysler in 1978 was like Italy in the 1860s—the company consisted of a cluster of little duchies, each one run by a prima donna. It was a bunch of mini-empires, with nobody giving a damn about what anyone else was doing.

What I found at Chrysler were thirty-five vice-presidents, each with his own turf. There was no real committee setup, no cement in the organizational chart, no system of meetings to get people talking to each other. I couldn't believe, for example, that the guy running the engineering department wasn't in constant touch with his counterpart in manufacturing. But that's how it was. Everybody worked independently. I took one look at that system and I almost threw up. That's when I knew I was in really deep trouble.

Apparently these guys didn't believe in Newton's third law of motion—that for every action there's an equal and opposite reaction. Instead, they were all working in a vacuum. It was so bad that even this description doesn't begin to do it justice.

I'd call in a guy from engineering, and he'd stand there dumbfounded when I'd explain to him that we had a design problem or some other hitch in the engineering-manufacturing relationship. He might have the ability to invent a brilliant piece of engineering that would save us a lot of money. He might come up with a terrific new design. There was only one problem: he didn't know that the manufacturing people couldn't build it. Why? Because he had never talked to them about it.

Nobody at Chrysler seemed to understand that interaction among the different functions in a company is absolutely critical. People in engineering and manufacturing almost have to be sleeping together. These guys weren't even flirting!

Another example: sales and manufacturing were under the same vice-president. This was inconceivable to me because these were huge and primarily separate functions. To make matters worse, there was virtually no contact between the two areas. The manufacturing guys would build cars without ever checking with the sales guys. They just built them, stuck them in a yard, and then hoped that somebody would take them out of there. We ended up with a huge inventory and a financial nightmare.

The contrast between Chrysler's structure and Ford's was simply amazing. Nobody at Chrysler seemed to realize that you just can't run a big corporation without calling some pregame sessions to do blackboard work. Every member of the team has to understand what his job is and exactly how it fits in with every other job.

But instead of tying the loose ends together and looking at the larger picture, Riccardo and Bill McGagh, the treasurer, had to spend their time visiting all the banks that had lent Chrysler money. They were continually running from one bank to the next just to keep the outstanding loans intact. That meant they were dealing with the day-to-day crises, always focusing on next month instead of next year.

A couple of months after I arrived, something hit me like a ton of bricks. We were running out of cash! Before I came to Chrysler, I had been vaguely aware of a number of problems there, ranging from poor management techniques to skimping on research and development. But the one area where I had some degree of confidence was financial controls. After all, everybody in Detroit knew that Chrysler was run by financial men. We all assumed, therefore, that financial controls were given top priority.

But I soon discovered to my horror that Lynn Townsend (who had retired a couple of years earlier) and John Riccardo were basically a couple of accountants from the Detroit auditing firm of Touche Ross. What's more, they hadn't brought in any serious financial analysts. Their attitude seemed to be: "We'll handle that stuff ourselves." But there was no way they could do that in a company the size of Chrysler.

Gradually I was finding that Chrysler had no overall system of financial controls. To make matters worse, nobody in the whole place seemed to fully understand what was going on when it came to financial planning and projecting. Even the most rudimentary questions were impossible for them to answer. But never mind the answers: these guys didn't even know the questions!

At Ford, as soon as I became president I had asked for a list of all the plants, marked with the rate of return on investment for each one. But talking this way at Chrysler, I might as well have been speaking a foreign language. I couldn't find out *anything*.

This was probably the greatest jolt I've ever had in my business career. When I thought about it, I was bereft. (That's a euphemism for feeling lower than whale shit!) I already knew about the lousy cars. I was well aware of the bad morale and the deteriorating factories. But I simply had no idea that I wouldn't even be able to get hold of the right numbers so that we could begin to attack some of Chrysler's basic problems.

Lynn Townsend always enjoyed a good reputation as a financial man, but I think his decisions, like those of many businessmen, had more to do with the next quarter's profits than with the long-range good of the company. For years, Chrysler had been run by men who didn't really like the car business. And now the chickens were coming home to roost.

As a result, the company had begun to play follow the leader. As the smallest of the Big Three, Chrysler could have and should have been the industry front-runner when it came to developing new cars. But engineering, which had always been Chrysler's ace in the hole, became a low priority under Lynn Townsend. When profits started to fall, it was engineering and product development that paid the price.

Instead of concentrating on good cars, Lynn Townsend and his group started to expand overseas. In their zeal to become an international company, they bought European firms that were dead on their feet—companies that were dogs, such as Simca in France and Rootes in England. They were babes in the woods when it came to international operations. I began to think there were Chrysler people who didn't even know that the British drove on the left-hand side of the street!

Lynn Townsend was always popular with the stockholders, and as one of them, he himself became rich. But I don't think he ever really understood the fundamental business of the company. At one point during his administration, Chrysler was actually running marginal or losing operations on every continent except Antarctica.

Townsend did do some good things at Chrysler, such as establishing Chrysler Financial, a subsidiary that was designed to provide credit for both the dealers and the retail customers. Today

Chrysler Financial is a model of its kind. So Townsend certainly doesn't deserve all the blame for Chrysler's weak position. I often wondered: where the hell was the board when all of this was going on?

When I went to my first board meeting, I began to understand the problem. Chrysler's board of directors had even less information than their counterparts at Ford—and that's saying a mouthful. There were no slides and no financial reviews. Riccardo was giving a little pitch from the back of an envelope. This was hardly the way to be running the tenth largest corporation in the country.

When I became chairman, I moved in on the board members very gradually. I wasn't crazy enough to point my finger at a group that had just hired me and tell them: "It's your fault." But once or twice I did ask the board, as politely as I could: "How did management ever get their plans past such a distinguished group of businessmen? Didn't you guys get any information?"

Within the ranks, Chrysler's problems were not confined to top management. All through the company, people were scared and despondent. Nobody was doing anything right. I had never seen anything like it. The vice-presidents were all square pegs in round holes. Townsend and his people had taken guys who had performed well enough in one area and had moved them around at will. Their attitude was that a guy with talent could climb any mountain. After a few years of being shuffled around, everybody at Chrysler was doing something he wasn't trained for. And believe me, it showed.

The guy who ran parts and service in South America had been brought in as controller and he hated it. When I had to let him go, he was actually relieved. The guy who used to run the European operations had been shipped over here and been made vice-president of purchasing, although he'd never been in purchasing in his life. It was pathetic.

I felt terrible, because in their own environment these guys might have been great. They tried to explain their predicament by saying: "Hey, I never asked for this job. You're asking questions of a controller, and I don't know the answers. What I know about is parts and service. I'm really a catcher, but these guys have me playing shortstop. Hell, I don't know how to play shortstop. I could learn, but I need more time."

They all knew that I was coming in to clean house, and each one was afraid he was going to be the target. They had no certainty in their lives. They were living in fear—and for good reason. Over a three-year period I had to fire thirty-three out of the thirty-five vice-presidents. That's one a month!

In a few cases, I tried to resurrect some of the executives. But it didn't work—they just couldn't cut it. Charlie Beacham used to say that once a guy is over twenty-one, you'll never really change his style or his habits. You may think you can, but his self-image is locked in. Nobody is ever humble enough to learn after he's grown up.

Unfortunately, Beacham was right—as usual. When Paul Bergmoser came in, I remember saying to him: "Try to save some of these guys." He worked with them for six months. "It's impossible," he then told me. "These people have learned the Chrysler way of running their own show. They will never adjust. It's too late."

Problems always lead to other problems. When you have a guy who isn't very sure of himself on the job, the very last thing he wants is a guy backing him up who *is* sure of himself. He figures: "If the next guy is too good, he'll show me up—and eventually replace me." As a result, one incompetent manager brings along another. And all of them hide behind the overall weakness in the system.

Don't get me wrong. I don't mean that if somebody went to school to study accounting, he has to be dubbed an accountant for the rest of his career, no matter what his other skills may be. My point is simply that each guy has to have a management development plan early in his career. He has to be given enough time on a job to prove that he really learned that particular area.

You don't want to overdo specialization, because if you carry it to extremes, you'll never have general managers. Still, not everybody should be trained for general management.

All of Chrysler's problems really boiled down to the same thing: nobody knew who was on first. There was no team, only a collection of independent players, many of whom hadn't yet mastered their positions.

Now, it's one thing to say all that and to understand in theoretical terms what it means. Believe me, it's quite another matter to see it unfold in front of you in living color. It's pretty scary to witness one of the world's largest corporations, playing for billions of dollars, going down the tubes without anybody being able to stop it. This was a tremendous shock to me. And each day brought more bad news.

The only parallel I could think of was the situation that Henry Ford II had faced thirty-two years earlier. When young Henry came out of the Navy to join his grandfather's company, it was in ruins. In one department, so the story goes, expenses were estimated by weighing the invoices.

The Ford Motor Company had become a disaster because the old man ran it so poorly. He knew nothing about sound business practices. In those days, companies were routinely run by swashbuckling entrepreneurs rather than planners and managers.

But Chrysler was even worse. Chrysler couldn't blame its condition on its founder, who came from another era. The Chrysler fiasco had occurred after thirty years of postwar, scientific management. That in 1978 a huge company could still be run like a small grocery store was incomprehensible.

These problems didn't develop overnight. In Detroit auto circles, Chrysler's reputation had been sinking for years. The place had become known as a last resort: if somebody couldn't hack it elsewhere, he could always go to Chrysler. Chrysler executives had a better reputation for their golfing abilities than for any expertise with cars.

Not surprisingly, morale in Highland Park was very low. And if morale is low, the place becomes a sieve. All kinds of secrets start flowing out. When guys are upset and worried about going bankrupt and losing their jobs, then you've tripled your chances for leaks.

Industrial spying in the auto business is something that the press enjoys talking about—and occasionally indulging in. Spying had sometimes been a problem at Ford. One day in the early 1970s, a friend of mine from Chrysler showed me a packet of confidential materials from Ford that one of his people had purchased from one of ours. I showed the papers to Henry, who got very upset. He tried to put in a system to see how deep this spying and industrial espionage really went and to determine what, if anything, we could do about it.

But it's almost impossible to counter that stuff. We started installing shredding machines and giving out numbered copies of certain reports: 1 was Henry, 2 was Iacocca, and so on. Even then, there would be leaks. You could call in the twelve guys who had access to the report and say: "Somebody in this room is lying," but it wouldn't get you anywhere. I tried it a couple of times, but I never plugged those holes.

I've known a few cases where a company has gone to great lengths to get early photographs, grainy as they are, of somebody else's future cars. But generally, such pictures aren't very useful to the competition. For example, I've always assumed that General Motors had pictures of the Mustang two years before the car went on sale. But what did they really know? They wouldn't want to copy it until it hit the market, when they could see for themselves how well it was doing.

On the other hand, there are times when you might have some engineering work going on that's pretty exclusive. Or maybe you've had a breakthrough to get better fuel economy. Before you know it, the other guy's already got your results in his hands. These are the ones that really hurt.

At Chrysler, bad morale and security leaks were showing up on the balance sheets. They were the reasons why the company was doing so poorly while the rest of the auto industry was ending its best year in history. GM and Ford were reporting record sales and profits in 1978. GM alone sold close to 5.4 million cars, while Ford sold 2.6 million. Chrysler, as usual, was a distant third, with less than 1.2 million. More important, our share of the American car market had dropped from 12.2 percent to 11.1 percent within a single year—a tremendous decline. Our share of the truck market had dropped just as badly, from 12.9 percent to 11.8 percent.

Even worse, Chrysler had lost 7 percent in owner loyalty during the past two years. When I arrived on the scene, our owner loyalty rate was down to 36 percent. By comparison, Ford was at 53 percent, and that was a huge drop for them. GM was always pretty steady at around 70 percent.

We were already having trouble getting people to consider our products. Now the research was telling us that almost two thirds of the people we did attract were unhappy with us. They didn't expect to return and buy another Chrysler product.

Another point troubling me about our sales figures was that Chrysler had long been known as an older guy's car. When I came aboard, the median age for Dodge and Plymouth buyers was higher than that of Buick, Oldsmobile, Pontiac, or even Mercury customers. Our surveys continued to show that Chrysler owners were more likely to be blue-collar, older, less educated, and more concentrated in the northeastern and the midwestern industrial states than those who bought competing brands.

The demographics made clear what I already knew: Chrysler products were perceived as staid and a little boring. We needed some innovative cars in a hurry. If you stand still in this business, you get run over very quickly.

Fortunately, I wouldn't be starting from scratch. Chrysler had a long tradition of innovation, a tradition I was eager to continue. Not too many years earlier, a lot of young people had wanted a Chrysler because it was a hot item. Chrysler had Chargers and Dusters that ran down Main Street quicker than anybody's. Racing cars like high-winged Dodge Daytonas, the Chrysler 300 series, the Satellites and Barracudas were the ones that were clustered around drive-ins and hamburger stands from Maine to California.

Chrysler was also responsible for the ultimate street racer of them all, the Road Runner, with its 426-cubic-inch "Hemi" engine. This was a classic of the late 1960s—loud, fast, and almost as powerful as a locomotive. Every evening these muscle cars would race up and down Detroit's Woodward Avenue, where they were occasionally joined by professional engineers and car executives on their way back to the suburbs.

Yet now Chrysler was weak in the sunbelt, with its younger and more affluent drivers. We were especially weak in California—and that's the place that really counts. Although the car industry was born in Michigan, it came of age in California. California gave us our first vast system of freeways. It was the entry point for the youth market—with muscle cars and four on the floor and exotic wheel covers and live-in vans and crazy cars and various other permutations of the basic automobile that began in a factory in Michigan.

California has also contributed some things that we in Michigan aren't too happy about. One is the import boom. Californians buy more imported cars than the residents of any other state. Second, they've given us some supercharged emission standards that have almost transformed California itself into a foreign country.

It's been said many times before, but it's worth saying again: California is really the mirror into the future. Sometimes we don't like everything we see when we gaze into that mirror, but we'd be crazy if we didn't take a good, hard look.

We needed to succeed in California, but before we could do that, we had to change the product.

It wasn't only the style of Chrysler products that had a bad reputation. The company had also run into big problems with quality. Among the worst examples were the Aspen and Volaré, the successors to the highly acclaimed Dart and Valiant. The Dart and the Valiant ran forever, and they never should have been dropped. Instead they had been replaced by cars that often started to come apart after only a year or two.

Aspen and Volaré were introduced in 1975, but they should have been delayed a full six months. The company was hungry for cash, and this time Chrysler didn't honor the normal cycle of designing, testing, and building an automobile. The customers who bought Aspens and Volarés in 1975 were actually acting as Chrysler's development engineers. When these cars first came out, they were still in the development phase.

Looking back over the past twenty years or so, I can't think of any cars that caused more disappointment among customers than the Aspen and the Volaré. The Edsel was a different case: people just didn't want it. But with these cars, customers bought them in large numbers and got fooled. They went for the styling, especially the wagon, which Ford and GM didn't have in 1976.

But the Aspen and the Volaré simply weren't well made. The engines would stall when you stepped on the gas. The brakes would fail. The hoods would fly open. Customers complained, and more than three and a half million cars were brought back to the dealers for free repairs—free to the customer, that is. Chrysler had to foot the bill.

But then even cars that were mechanically sound started rusting. The Volaré's rusted fender program cost us $109 million—in 1980, when we could ill afford it. The fenders had rusted through because somebody wasn't paying enough attention to the process of rustproofing them. We weren't asked to recall them, but we had an obligation to our customers to fix them. Even though we stood behind them, the resale value of these cars plummeted, which hurt Chrysler's image badly.

Ford had gone through a similar problem. In 1957, we had come up with a beautiful car, the Fairlane 500, a styling gem that sold like hotcakes. But like the Volaré, it was poorly made. Francis Emerson, my fleet manager in Philadelphia, had one of the first four-doors to show to the managers of the major fleet accounts. The car was so poorly constructed that the rear doors would pop open when he hit a hard bump in the road. He licked the problem by tying the doors together from the inside with a clothesline. "I'm having a hell of a wild time demonstrating this car," he used to tell me. "They like the styling, but I can't let them get in the back seat!"

In those days, the typical Ford customer used to trade in his car every three years. Unfortunately, in 1960 we came up with another clinker, and I thought: "Now we've really got problems. A guy will tolerate one lemon. But what about the '57 customer who bought a new car because he liked the style and then found out the car was lousy? If he stuck with us and bought a ’60 Ford, he got burned twice in a row. That guy will never come back. He probably went over to GM or the imports.”

The ’75 Volaré was in that same category. Of course, GM has had its fiascos, too, like the Corvair. Here I find myself in rare agreement with Ralph Nader: the Corvair really was unsafe. The Vega, with its pancake aluminum engine, was another disaster. The Vega and the Corvair were both terrible cars, but GM is so big and powerful that it can withstand a disaster or two without suffering any major damage. Little Chrysler couldn’t afford any.

I can’t talk about bad cars without a few words on the Ford Pinto. We brought out the Pinto in 1971. We needed a subcompact, and this was the best one you could buy for under $2,000. A lot of people must have agreed—we sold over four hundred thousand Pintos in the first year alone. This made the car a great success and put it in the category of the Falcon and the Mustang.

Unhappily, the Pinto was involved in a number of accidents where the car burst into flames after a rear-end collision. There were lawsuits—hundreds of them. In 1978, in a major trial in Indiana, the Ford Motor Company was charged with reckless homicide. Ford was acquitted, but the damage to the company was incalculable.

There were two problems with the Pinto. First, the fuel tank was located behind the axle, so if the car got hit hard enough from behind, there was the possibility of a fire.

The Pinto was not the only car with this problem. In those days, *all* small cars had the fuel tank behind the axle. And all small cars were occasionally involved in fires.

But the Pinto also had a filler neck on the fuel tank that sometimes, in a collision, was ripped out on impact. When that happened, raw gas spilled out and frequently ignited.

We resisted making any changes, and that hurt us badly. Even Joan Claybrook, the tough director of the National Highway Traffic Safety Administration and a Nader protege, said to me one day: “It’s a shame you can’t do something about the Pinto. It’s really no worse than any other small car. You don't have an engineering problem as much as you have a legal and public-relations problem."

Whose fault was it? One obvious answer is that it was the fault of Ford's management—including me. There are plenty of people who would say that the legal and PR pressures involved in such a situation excuse management's stonewalling in the hope the problem will go away. It seems to me, though, that it is fair to hold management to a high standard, and to insist that they do what duty and common sense require, no matter what the pressures.

But there's absolutely no truth to the charge that we tried to save a few bucks and knowingly made a dangerous car. The auto industry has often been arrogant, but it's not that callous. The guys who built the Pinto had kids in college who were driving that car. Believe me, nobody sits down and thinks: "I'm deliberately going to make this car unsafe."

In the end, we voluntarily recalled almost a million and a half Pintos. This was in June 1978, the month before I was fired.

Meanwhile, at Chrysler, my initiation included one more major problem. In my first week on the job, I attended an informal meeting where ten thousand cars were taken out of the production schedule. A week later there was a more formal meeting. This time, *fifty thousand* cars were promptly withdrawn from the first-quarter schedule for 1979.

I was puzzled and distressed. What kind of profit mentality was this—taking cars willy-nilly out of production? I was horrified to discover that we didn't have dealer orders to build these cars, and there was no room to add any more cars to the already bulging factory inventory. This inventory was known as Chrysler's sales bank, which was nothing more than an excuse to keep the plants running when we didn't have dealer orders for the cars.

At regular intervals the Manufacturing Division would tell the Sales Division how many and what types of vehicles they were going to produce. Then it would be up to the Sales Division to try to sell them. This was completely ass backwards in my book. The company had recruited bright young college graduates who were sitting in hotel rooms day after day with their fingers stuck in a telephone, trying to peddle iron out of the sales bank to the dealers. And the system had been operating this way for years.

Most of the excess cars were kept on huge lots in the Detroit area. I'll never forget visiting the Michigan State Fairgrounds, jammed with thousands of unsold Chryslers, Dodges, and Plymouths, vivid evidence of the company's structural weakness. The volume would vary, but the number of cars was usually far and above what we could hope to sell.

In the summer of 1979, when Chrysler first approached the government for help, the sales bank contained eighty thousand unsold vehicles. At one point the number reached as high as a hundred thousand units, representing about $600 million in finished inventory. At a time when our cash was dwindling anyway and interest rates were high, the costs of carrying this inventory were astronomical. But even worse, the cars were just sitting there in the great outdoors and slowly deteriorating.

Building cars had become a gigantic guessing game. It had nothing to do with a customer ordering what he wanted on the car, or a dealer ordering what the customer was likely to ask for. Instead, it was some guy in the zone office saying: "I'll put power steering on this one and automatic transmission on that one. I'll make a thousand blues and a thousand greens." If a customer wanted red, too bad!

Something had to be done about all those cars, so at the end of every month the zone offices used to "move the iron" by running a fire sale. The zone guys used to spend at least one week a month on the phone just trying to move cars out of inventory. And the dealers got used to it. They soon learned that if they waited until the last week of the month, somebody from the zone office would call them and try to package ten cars for a special price. One way or another, the dealers could always get something off the regular wholesale price. At Ford, we had run occasional fire sales when inventories got too large. But here it was a way of life.

Like Pavlov's dogs, the dealers became dependent on these sales. They knew the day was coming, and they waited. They'd hear that bell ring and their hearts would start to beat faster because now they could buy their cars a little cheaper.

I knew that Chrysler would never be profitable unless we got rid of this system—permanently. I also knew it wouldn't be easy. A lot of people in the organization had become accustomed to the sales bank. They counted on it. Some were even addicted to it. When I vowed to wipe it out, they thought I was dreaming. At Chrysler, the sales bank was so big and so much a part of doing business it was hard to imagine life without it.

I talked tough to the dealers. I explained to them that the sales bank was destroying the company. I told them there was no place for a sales bank in our operation, that the phrase should be struck from the corporate vocabulary. I told them that from now on, they—not we—would be carrying the inventory. I also made it clear that we weren't going to build a car unless we had a specific order for it and that both the company and the dealers would benefit from running things right.

But it wasn't enough to improve our procedures in the future. We were still stuck with all those cars in the sales bank right now. As I explained to the dealers: "We can't sell these cars and trucks to Sears or J. C. Penney. You are our only customers, and somehow you're going to have to buy these products from us—and I mean *now*. I can't unbuild them and put the pieces back. And you can't leave me sitting with half a billion dollars tied up in inventory—no matter how it happened—while you selectively order the cars you think you would like to market and to hell with the rest."

It didn't happen overnight, but eventually the dealers took up the slack and we finally cleaned up the sales bank. It was incredibly difficult. Dealer inventories were already large, and interest rates were high. But the dealers did what was necessary, and within a couple of years we were finally running our plants to firm dealer orders.

Under our new system, salespeople sit down with each of our dealers. Together they plan the dealer's order for the next month, and they estimate his needs for the following two months. We get a firm commitment from the dealer, and that becomes our building schedule.

The dealer has to come through on his end, and we keep our part of the bargain. This means that we build the order right, keep the dealer posted, and deliver a quality product on time.

Today the system has integrity. We might go to a dealer and tell him that to participate in a certain rebate program he has to buy a hundred cars. He can then take it or leave it. But there's no way to fool around with that number, and there's no fire sale at the end of the month. As a result, we no longer operate in a daily panic. Today, unless a customer chooses to buy the car out of the dealer's inventory, his purchase is made to order and he can pick it up within a few weeks.

The sales bank was bad enough, but I also learned that Chrvsler had been running the world's largest leasing company. Instead of selling cars to Hertz and Avis, we had been leasing them. And every six months we were buying them back. Without protest we became used-car brokers. Our dealers didn't want these cars, so we had to dump them at auctions. The first year I was at Chrysler, I wrote off $88 million in used-car losses!

We chose the alternative: to sell the cars to the rental companies, even if the profit margin was minimal. Let *them* worry about how to get rid of the cars later. Sixty thousand used cars were about the last thing we needed.

The rental companies drive a hard bargain, but especially for Chrysler it's essential to be represented in their fleets. The average Hertz car is out with two or three guys a week, which means I've got two or three product demonstrations of one of my cars that week—to people who may never have driven a Chrysler product before. They get in and they ask: "Who builds this car?" We get a tremendous amount of mail from the rental customers saying: "Why don't you promote this car? Where has it been hiding? I rented a Reliant to drive from Seattle to San Francisco and I was amazed."

The rental cars get us exposure. They attract the youth market, the more affluent crowd, the professional, upscale guy who traditionally hasn't even considered one of our cars. We need much greater penetration in the Southwest and in California, and that's where the rental business is especially important.

Between the sales bank and the rental cars and various other problems, we had to write off $500 million in management mistakes before we could even begin to enjoy the lousy market that was prevailing in those days.

There was so much to do and so little time! I had to eliminate the thirty-five little duchies. I had to bring some cohesion and unity into the company. I had to get rid of the many people who didn't know what they were doing. I had to replace them by finding guys with experience who could move fast. And I had to install a system of financial controls as quickly as possible.

These problems were urgent, and their solutions all pointed in the same direction. I needed a good team of experienced people who could work with me in turning this company around before it completely fell apart. My highest priority was to put that team together before it was too late.