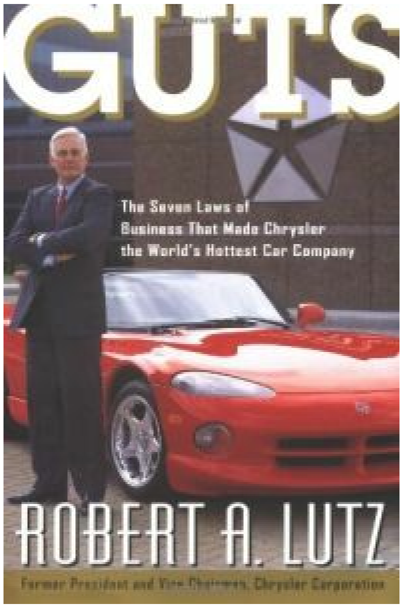

Book Guts

The Seven Laws of Business that Made Chrysler the World's Hottest Car Company

Robert A. Lutz
Wiley, 1998
First Edition:1998

Recommendation

Former Chrysler president and vice-chairman Robert A. Lutz proves that sometimes a corporate leader can write a terrific book (it just doesn't happen very often). If Lutz ever decides to get out of the corporate arena entirely, he would make a fabulous comedian. Known as a colorful and brilliant leader ever since he turned Chrysler around in the early '90s, he shares the ideas that saved the company as well as others he believes could help any organization succeed. Lutz is direct, holds nothing back and points out the lunacy behind most corporate decisions. *BooksInShort* thinks of him as the Dennis Miller of corporate honchos. He fills his how-to book with plenty of examples from his Chrysler days, making it a provocative page-turner that any businessperson can relish.

Take-Aways

- Robert A. Lutz, former president and vice-chairman of Chrysler, turned the car company around in the early 1990's.
- Lutz is considered a product-development genius and a creative, irreverent leader.
- Lutz believes that business success comes only from a strategy of opposites: tough financial controls coupled with provocative and creative product development.
- Lutz's Immutable Laws of Business, Number One: The customer isn't always right.
- Two: The primary purpose of business is not to make money.
- Three: When everybody else is doing it, don't.
- Four: Too much quality can ruin you.
- Five: Financial controls are bad.
- Six: Disruptive people are an asset.
- Seven: Teamwork isn't always good..

Summary

Chrysler's Second Turnaround

In the early 1990s, Chrysler recovered from its second near-death experience and not only enjoyed record profits, but it was also named Forbes Magazine's "Company of the Year." The man who was at the forefront of the car company's historic renaissance was its product-development genius and iconoclastic leader, Robert A. Lutz, who was then Chrysler's president and vice-chairman.

He credits the firm's turnaround to its embrace (at his urging) of a deliberately schizophrenic corporate culture. He wanted tough financial controls coupled with a rock-the-boat, provocative, highly creative product development process. This strategy resulted in a large family of successful products, beginning with the radical and enormously popular Dodge Viper sports car.

> "Who in his or her right mind believes the customer is always right? Not I. I've seen too many customers who hadn't a clue about what they wanted."

On May 7, 1998, Chrysler and Germany's Daimler Benz (owner of Mercedes) shocked the international business world when they announced the merger of their companies, the largest industrial merger to date. Chrysler had turned itself around to become the world's most profitable car company, one that Daimler - the gold standard of European car makers - sought as a partner.

> "Betting on a category-buster takes guts. And since guts are in perennially short supply, marketers often settle for what seems a safer course: making incremental changes in existing products."

Robert A. Lutz believes that every organization must cultivate this split personality, combining common sense with unbridled creativity. The leader's role, he says, is maintaining the balance between the two. The dynamic tension between these two elements enables companies to introduce new products and achieve record profits. Embracing opposites is unusual in the business world, but it can bring about innovation and financial success.

Lutz's personal life reflects the balance of opposites he uses in business. He's a vegetarian who loves a good cigar, a high-achiever who didn't graduate from high school until he was 22 and a former Marine fighter pilot inspired by the lyrics of the Rolling Stones. He went into the automobile business because he actually likes cars.

> "Quality has become a kind of Holy Grail, chased after by almost everyone. Yet few of the chasers, I think, really know what they are chasing. They assume their idea of quality is synonymous with the customer's. It may not be."

He translated his accumulated wisdom into Lutz's Immutable Laws of Business:

Law One: The Customer Isn't Always Right

Even though this flies in the face of everything that you may have been taught about business and commerce, if you're honest you'll admit that it's true - the customer isn't always right. Customer's wishes are often misleading and, on surveys, they often tell you what they think you want to hear or what will make them look good. Listening to customer's so-called preferences has landed many a carmaker in trouble - producing altered models that no one buys.

Law Two: The Primary Purpose of Business is Not to Make Money

You're probably shocked to hear this, too. Of course, a business must make money. But companies that do make a lot of money almost never have that as their goal. Instead, they tend to be run by enthusiasts who, in the normal course of meeting their own tastes and curiosities, come up with incredible products and services that make customers want to "rip their trouser pockets reaching for their wallets."

> "You'd be surprised how many CEOs believe, thanks to what they've read in the business press (vive la fad cycle!), that the best way to generate breakthrough ideas is to stick a group of employees in a room and let 'consensus' be their only guide."

To make money, a business must come up with products and services that demand attention.

Law Three: When Everybody Else is Doing It, Don’t

It’s hard to resist fads, especially when those who profit from them invite you to play. You can and should resist their influence.

The media "fad spin cycle" works like this:

- An article is published that says that more and more companies, it seems, are doing X, and then it goes on to list all of the benefits of doing X.
- A CEO sees the article, sends it to his or her subordinates with a note: "Why aren’t we doing X?" The note implies that the company wouldn’t be in the fix it’s in today if only it had done X three years ago.
- When analysts are asked why the company’s stock is languishing, they explain: "It isn’t doing X."
- The company does X. It makes a big announcement and invests heavily in coffee mugs that say, "Yesiree, we’re doing X."
- The first article appears questioning the wisdom of corporate America’s headlong rush toward X.
- The business press openly criticizes managers who were too quick to embrace X.
- Huge piles of coffee mugs go begging.
- The first article appears advocating a whole new strategy, Y.

Is everyone opening a factory in some new market? Maybe you should, too - but not because everyone else is doing it. Make your decisions based on the factors that really count, not on trends or fads.

Law Four: Too Much Quality Can Ruin You

Quality has become the new "Holy Grail" that nearly everyone in business is chasing. Yet few of the chasers really know what they’re chasing. They assume that their idea of quality is the same as the customer’s. It may not be. When it’s not, consumers are bombarded with quality they never asked for, didn’t want and aren’t about to pay for (let alone pay a premium for).

> “The kind of products we started building at Chrysler were, in reality, the kind of products that we ourselves wanted to drive - cars and trucks that oozed passion, the same kind of passion that we didn’t mind wearing on our sleeves.”

Ford had to recall 1.7 million trucks when it was discovered that the company put too much anticorrosion coating on the lug nuts, so the nuts were coming loose, causing wheels to drop right off the trucks. Imagine a conversation with an accident investigator that begins, "Well, ma’am, the good news is, your wheels are entirely corrosion free. The bad news is that they’re no longer on your car."

> “It’s hard to predict with certainty which products will succeed. Indeed, some of the most unlikely ones become the biggest hits.”

An overzealous pursuit of quality has even, on occasion, been known to jeopardize the reputations of brands already known for their excellence. Quality actually has less to do with getting rid of negatives than it does with adding strong positives. Products perceived as high quality aren’t always useful or practical. For example, women’s shoes seen in Vogue have little to do with walking comfortably. Given two extremes - "zero defects with no delight" and "delight with a few squeaks in it" - the public will always buy the latter.

Law Five: Financial Controls Are Bad

You’re probably gasping again. The financial side of business is much too obsessed with imposing the tight controls that Wall Street loves. Is it because they believe tight controls cut waste? If they believe that, they’re wrong.

Tight controls harm in three ways:

- They can jeopardize an organization’s ability to exploit big opportunities - When Robert Lutz was at Ford of Europe, one of their cars was "getting murdered in the market" because it didn’t have a high-tech cassette tape deck. Ford of Europe would only have had to spend $40,000 (the cost of engineering and tooling for the tape deck) to protect an $8 million business. The finance division didn’t want to do it.

- Because measurements are based on past performance, controls tend to sanctify the status quo. They promote a false sense of order and predictability. This gives the impression that the future is solely a matter of extrapolation, prompting managers to say such foolish things as, "That can't happen; it's not in the five-year plan."
- With financial controls, looser frequently is better - But if you make your controls too loose, you'll find yourself in the midst of chaos.

Law Six: Disruptive People Are an Asset

Corporate culture prefers people who don't make waves, who don't suggest new ideas, who don't voice any concerns - in short, "yes" men and "yes" women who just follow orders, don't think and keep their mouths shut. Yet, so-called disruptive people are actually change agents.

> “It's time to stop the madness! It's time to 'out' the idiots. It's time to expose fatuous phonies for what they really are.”

They create change, but since people most often resist change, change agents are rarely liked. They are, by definition, innovators and catalysts. Every breakthrough or invention in history has been at the hands of a change agent who would, ironically, be seen by today's corporate culture as a pain in the behind who ought to be fired as a poor excuse for a team player.

> “When the going gets tough and the situation appears hopeless, that's when inspirational leadership is the most needed and the most effective.”

Observe and listen to so-called disruptive people. As Dr. Ernst Fuhrmann, Porsche's CEO in the '70s, noted, "Great employees are often the most difficult employees. But not all of the most difficult are great employees." Collectively, though they're "a pool from which pearls emerge. Even the greatest change agents - those who, if given free rein could take the organization to the top - have to learn to temper their behavior or they could self-destruct. You need to be "just irritating enough to set change in motion, but not so irritating that superiors and colleagues conclude that they're better off without you."

Seven: Teamwork Isn't Always Good

Teams, teams, teams, all you ever hear about are teams, as if they are a gift from heaven, the answer to every problem in the universe, the ticket to the top of the business heap. Teamwork isn't always the answer. Harnessed properly, teams can do miracles - a team of just 80 people took Chrysler's Viper from show car to show room in only 36 months, a record at that time - but usually teams are not harnessed properly. Most mediocre products of any kind, from movies to cars, result from too much teamwork. Teams prefer the safe, the familiar, the middle of the road. They fear originality.

An individual - such as Steven Spielberg - may possess the vision and courage to suggest a Schindler's List, but not a team. Teamwork demands compromise, and breakthroughs do not come from compromise. Yet, many CEOs believe the best way to generate breakthrough ideas and innovations is via team consensus. The truth is, most groups end up devoting far more time and effort to the practice of teamsmanship - promoting group harmony, smoothing and protecting egos - than they do to working. Consensus usually kills innovation, instead of creating it. Innovation can't survive the permission process that's part of teamwork. Fear, coupled with some team members' inability to put ego aside and understand an innovative vision, can quickly kill anything daring. If everyone has to agree to the idea before it can be considered viable, progress and innovation will always suffer.

> “Driving an organization toward beneficial change requires enormous energy, conviction, persuasiveness, and ultimately, stubbornness.”

Teams are bad at initiating provocative ideas and, when entrusted with someone else's great idea, teams usually mess it up. Teamwork almost ruined Chrysler's Viper. The Viper was designed specifically to appeal to a particular kind of car buyer, not to everyone. A "car marketing plan" team came up with a modified proposal to create a bunch of different kinds of Vipers, so that it could now be a car for everyone. This would have stripped the Viper of its biggest strength - uniqueness - and it would've also more than quadrupled the cost. Senior management turned down the team's proposal and Viper as originally conceived went on to stardom.

The Idiot Constant

Teamwork without strong leadership leads to waste, bad decisions and failed products and services. Leaders must demand originality, not consensus and compromise. Assign each team a leader who will insist that hard choices be made. Remember, too, that teams are no different from any aggregation of humanity: The percentage of idiots remains constant. They will comprise 20% of every team put together by anyone, for any reason. What can a leader do about this? Raise standards so that the 20% of employees at the bottom drop out. More importantly, you can make sure that the idiots don't end up in management. The biggest reason why the Dilbert comic strip is so popular is that the "Dilbert Principle" really is true: Today, idiots don't just rise to their level of incompetence (as the famous Peter Principle stated); today's idiots are being promoted straight into management without being competent at anything. They know all the buzzwords, all the jargon and all the rules of the game, so they fake a true understanding of issues. That means, it's time to 'out' the idiots.

About the Author

Robert A. Lutz is the former president and vice-chairman of Chrysler Corporation. He has held senior management positions in four of the world's top car companies: Ford, General Motors, BMW and Chrysler. *Automotive News* calls him "The towering figure in the American automobile industry in the last three decades."
