

Saving Chrysler

At the struggling automaker, private-equity ownership drives IT to slash costs through outsourcing and retool to compete globally
By Stephanie Overby

No one thought it would get this bad. But this summer, the U.S. auto market officially hit the skids, putting car manufacturers on track to rack up the worst sales year in a decade.

As gas rose to more than \$4 a gallon, commodity prices hit the roof and consumers rejected gas-guzzling SUVs and minivans—or, crippled by the housing crisis and credit crunch, put off new vehicle purchases indefinitely—June's U.S. car sales numbers were a clear sign that things had gone from bad to worse for an industry that was already suffering. General Motor's sales fell 18 percent. Ford's slid 28 percent. Even Toyota, which analysts predict could soon overtake GM as the U.S. auto sales leader, hit a serious speed

bump, with its sales dropping 21 percent.

And there, at the bottom of the heap, was Chrysler.

The Auburn Hills, Mich., automaker's June sales fell 36 percent compared with 2007 sales. In North America, where Chrysler does 91 percent of its business, its market share shrank to less than 10 percent for the first time in years. July provided little relief, with U.S. vehicle sales falling to 16-year lows and Chrysler announcing a 29 percent decrease in sales compared to last year. And that was after Chrysler had announced plans to lay off nearly 30 percent of its employees, reduce

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CHRYSLER BY THE NUMBERS

Headquarters: Auburn Hills, Mich.

CEO: Robert Nardelli

CIO: Jan Bertsch

COMPANY

\$49 billion	2007 revenue (estimated)
33	Plants
15,000	Suppliers
21	Parts depots
4,000	North American dealers
1,500	International dealers

INFORMATION TECHNOLOGY MANAGEMENT GROUP

1,000	Employees
5	Data centers
4,000	Engineering workstations
3,200	Terabytes of connected storage
37,000	PCs
2,000	BlackBerry devices
1,100	Unique applications (500 considered mission-critical; 78 percent developed in-house)

its product portfolio and shut down its plants for two weeks this summer.

This can't be been what Cerberus Capital Management, the New York-based private-equity firm, which bought a majority stake in Chrysler last August, was hoping the headlines would be, leading up to its one-year anniversary. This year was to be one of painful cuts, to be sure, but one resulting in a return to profitability in 2009, a notion Cerberus and Chrysler executives have since abandoned.

A turnaround was always going to be challenging for Chrysler given today's auto industry focus on global markets, fuel-efficient vehicles and onboard technological innovation. Unlike Ford and GM, which have large foreign operations, Chrysler does little business abroad. It remains dependent on heavy vehicles, like large pickups, sport utilities and minivans. And its vehicles' technical bells and whistles don't match up to the competition, says David Cole, chairman of the nonprofit Center for Automotive Research (CAR). Chrysler has nothing like GM's OnStar system, Toyota's hybrid power-train technology, Ford's Sync communications and entertainment system developed in conjunction with Microsoft, or BMW's onboard computing.

Long-term success for the 83-year-old company means not just sandbagging until 2010, when experts predict the market will turn around, but a fundamental shift in business strategy. Being private could give Chrysler a head start compared to public automakers that have to ensure quarterly improvements to satisfy investors. Chairman and CEO Robert Nardelli touts the company he steers as "newly independent, reinventing ourselves for success" and has taken to calling the company a "\$60 billion startup with an owner-operator mentality." It's a reference to Chrysler's revenues of \$62 billion in 2006—its last full year as part of a public company—that glosses over that year's \$1.5 billion loss. (*Fortune* magazine listed Chrysler LLC as the fourth-largest privately held company in the country with \$49 billion in 2007 revenues, although the company will not

confirm that figure.) Still, "Chrysler has the opportunity to change and become an agile company," says Thilo Koslowski, vice president of automotive and vehicle technology for Gartner.

To do so, the automaker must embrace unconventional partnerships with competitors to access emerging markets and introduce new vehicles and features. It must retool manufacturing and business processes to be more agile and efficient. And, to free up the capital to invest in these changes, it must become a drastically smaller company. At the heart of Chrysler's transformation is its information technology organization, which itself must not only shrink in size and get fiscally focused, but support the more agile and global Chrysler of the future.

That means more partnering for cost cutting and access to new ideas—specifically, through two IT services deals: one with Computer Sciences Corporation (CSC) to manage IT infrastructure and another with Tata Consultancy Services (TCS) for applications development and maintenance. It also means restructuring to support the outsourced environment, aligning internal IT staff more closely with the business—and doing it with a staff that's half its original size. "The goal is to move from order taker to innovation partner. It requires a change in thinking, a shift in focus and, in some cases, skills," says Jan Bertsch, senior vice president, treasurer and CIO at Chrysler. "We want to drive—not just react—to business growth."

IT is critical to the turnaround, say onlookers, but success is far from assured. "IT ultimately needs to enable automotive companies to remain agile and better respond to market needs," says Koslowski. "The move to make their own IT departments more efficient and rely more on partners is something we're seeing more and more in the automotive industry, though maybe not on the same scale as Chrysler. We'll have to see how well it works for them. There's potential there, but no guarantee of success."

Back from the Ashes Again

Where is Lee Iacocca when you need him?

The last time Chrysler faced a situation this dire—on the tail end of the 1970s oil crisis—it was Iacocca who made the tough decisions that got the company back on track. He resized the company, secured a significant loan guarantee from the government and introduced the K-Car line of inexpensive, fuel-efficient cars.

Chrysler's new management brought the former CEO in to rally the troops in June. But this time, it seems understood that there will be no government guarantees, no product to save the day, no turnaround by downsizing alone. A more fundamental strategy shift is necessary.

Always the underdog of Detroit's Big Three, Chrysler has slipped to fifth in sales—behind GM, Ford, Toyota and Honda—in its home market. Its perfor-



mance in the near-decade as part of Daimler (which purchased the company in 1998) was mixed. There wasn't enough in common between the two giant automakers to pay off financially. "They couldn't ever get any economies of scale," explains CAR's Cole.

One of Chrysler's great traits, say industry watchers, has been its willingness to take a chance on a new vehicle. Most notable was its introduction of the minivan in 1982, which paved the way in transportation options for millions

Jan Bertsch, Chrysler SVP, treasurer and CIO, wants her IT department to "drive—not just react—to business growth."

of future soccer moms and dads. But in later years, particularly under Daimler rule, the results were less than stellar. The Chrysler Crossfire, a high-design roadster built for Chrysler by Karmann of Germany, wowed car show audiences but stalled in dealer lots when it was rolled out in 2003. The introduction of the full-size Jeep Commander SUV in

2006 was poorly timed. The new products were an expensive hit or miss for Daimler; Chrysler experienced years of yo-yo profit and loss, ending 2006 in the red. And Daimler, which had laid out \$36 billion in stock for a profitable Chrysler, decided all bets were off.

Last February, Daimler announced a three-year recovery and transformation plan that would eliminate 13,000 jobs at Chrysler (16 percent of its workforce) and enable a return to profitability by 2008. Chrysler was to focus on cost cutting in the short term and pursue long-term global sales growth along with a product portfolio that included more fuel-efficient, small vehicles. But the German mother company made it clear it was considering all options, including a sale.

At the time, there were some small IT outsourcing deals on the books, but the majority of IT work was done in-house by employees and supplemental contractors. Seventy percent of the IT budget was dedicated to keeping the lights on.

Cerberus won the bidding war in May 2007, paying \$7.4 billion for an 80 percent stake in the company (of which Daimler got just \$1.4 billion, the rest going to fund Chrysler's industrial and finance operations). In August, the renamed Chrysler LLC became the first privately held major U.S. automaker in more than 50 years. And a plan to transform IT moved into high gear.

Cash Is King

Private-equity firms have earned a reputation for cold-bloodedness. Cerberus, named for the hell hound of Greek myth who had a snake for a tail, has little cause to fight the characterization. It invests in distressed companies, creates clear and ambitious financial targets and pursues those targets relentlessly to ready its investment for divestiture at a profit. "Most public companies are not that ruthless," says Alex Cullen, research director with Forrester Research. Private-equity firms "make a lot of money for their partners because they are ruthless." The process usually takes four to five years, according to the Private Equity Council.

Within days of finalizing the Chrysler deal, Cerberus named Nardelli, former CEO of Home Depot and Jack Welch acolyte of GE, Chrysler's chief executive. Nardelli was quick to extol the benefits of private ownership. "It helps us be lean, agile, decisive and fast to act on market opportunities," he reiterated at the International Motor Press Association breakfast in March.

That would be a big shift for any car-

to say" whether Cerberus would have shelled out for Chrysler if it had known last year what would happen to gas prices, though he added that the private-equity firm was not second-guessing its investment. Chrysler spokeswoman Mary Beth Halprin confirms that Cerberus's über-goal—the 2009 return to profitability—"has been adjusted," based on current market conditions. "We haven't given a revised time frame, due to the continuing

named the VP and CIO for Chrysler and Mercedes-Benz in 2006. Technology, she says, has always taken a back seat to cars. "Understanding the financial side of the business is critical and it's the basis for all business decisions including IT investments," says Bertsch.

"We're living in times of unprecedented change, and my personality is pretty well-suited to change. I'm always pressing for new things and challenging the status

Previously, Chrysler business partners felt they could bring in supplemental IT employees anytime they needed help. In an outsourced environment, they'll have to prioritize projects and work within structured processes.

maker, say analysts. Chrysler may have introduced some innovative products over the years, but like most auto manufacturers, it takes nearly four years to bring them to market. A few carmakers, notably Honda and Toyota, have invested in digital manufacturing systems that enable them to be more flexible, adjusting product production and volumes to changing market conditions and shaving up to a year off the automobile product lifecycle. (To learn about India's Tata Motors' embrace of digital manufacturing, see "Digital Manufacturing Makes Automakers More Agile," Page 38.) "At Chrysler, that hasn't been the case," says Gartner's Koslowski, but it's important now. "Alignment between supply and demand—and the processes and technologies that will enable that—is something that Chrysler is focusing on quite a bit."

Experts say that a private owner like Cerberus could offer more breathing room to make fundamental changes—a couple of years instead of a single quarter.

Patience is a virtue now. Early this summer, Chrysler implemented its third round of cost cutting since November, raising vehicle prices 2 percent, shutting down a minivan plant and decreasing production of one of its most popular vehicles: the Dodge Ram pickup. All while fighting off rumors of impending bankruptcy.

Nardelli admitted at a *Wall Street Journal* conference in June that it is "hard

changes in the marketplace," she adds.

Meanwhile, Chrysler's management must be laser-focused on cash flow. They're working to improve working capital, dispose of nonearning assets and, where it makes sense, reinvesting in product development and innovation, Nardelli has said.

For Bertsch and her team, that means IT must lower its fixed costs—and fast. "The feeling of senior management was that IT was spending too large a portion of its budget on maintenance and not enough on strategic new initiatives," explains Bertsch, noting that both applications and maintenance costs have been a drain. Chrysler's IT department is not alone in that criticism. "The auto industry is rationalizing more and more across all departments," says Gartner's Koslowski, "and IT is an area where the company wasn't always sure the investment was bringing the value it needed to."

Private equity brings that critique into sharper relief. Says Forrester's Cullen: "It's not a hostile environment, per se, but nothing's taken for granted. No IT investment will be made unless it's essential to keep business running or helps some aspect of a future sale."

Bertsch, a native Detroit, may be uniquely suited to the CIO role in this iteration of Chrysler. She spent her 29-year auto industry career in finance at Ford and Daimler-Chrysler before being

quo," she says. "I knew we had to consider a lot of options as we decided how to react to this challenge and transform our company and the IT organization."

Global Partnering for Cost Cutting and Profit

IT's goals go beyond cost cutting to supporting and enabling the more global company Chrysler has to become. The company lost any real international connections it had when it cut ties with Daimler. And according to some critics inside and outside Chrysler, the company has not only relied too much on U.S. sales, it's been too reliant on American suppliers and partners to design and build its cars. To compete in the global car market, they say, Chrysler must partner abroad. "No matter how big they are, automakers can't be unique in every aspect of car design. So it makes sense to partner not just for cost arbitrage, but innovation arbitrage," says C.K. Prahalad, coauthor of *The New Age of Innovation* and professor of corporate strategy at the University of Michigan Ross School of Business.

Indeed, the few positive pronouncements that have come out of the cloistered new Chrysler have been its deals with foreign suppliers and competitors. On the supplier side, Chrysler will be the first American automaker to source some of its seats from an Indian company, Delhi-based Krishna Maruti. In product develop-



February 2007 Daimler-Chrysler announces a three-year plan for Chrysler that would eliminate 13,000 jobs (16 percent of its workforce); Chrysler's IT organization begins to explore outsourcing options.

August Cerberus takes control; Robert Nardelli is named chairman and CEO. Jan Bertsch is named CIO.

December Chrysler disputes media reports that it is in serious financial trouble.

June Chrysler's U.S. market share drops below 10 percent. Announces more cuts.



August Posts a \$1.1 billion operating profit for the first half of 2008, though still losing money overall.

A ROUGH ROAD

Despite steps since 2006 to repair Chrysler's sputtering fortunes, the company hits one bump after another



December 2006 Chrysler loses \$1.5 billion.

May Private-equity firm Cerberus Capital Management pays \$7.4 billion for an 80 percent stake in Chrysler.

November Chrysler announces that it will lay off up to 12,000 additional workers (15 percent of workforce) and eliminate four product lines.

April 2008 Chrysler signs outsourcing deals with Tata Consultancy Services and Computer Sciences Corp.

July Chrysler shuts down all but its most essential operations for two weeks to save money.



ment and sales, it appears no partnerships are off-limits. In April, Chrysler signed a deal with Nissan whereby the Japanese manufacturer will supply Chrysler with a version of its subcompact sedan, and Chrysler will give Nissan a version of its full-size pickup. And in July, the American automaker inked a deal with China's Chery to build small cars in Asia that Chrysler can market globally.

Those moves mean that IT must support a dispersed organization that extends beyond Chrysler and beyond the United States while still reducing IT costs. To make the transformation, IT must do more partnering of its own.

Last winter—pre-Cerberus—the IT organization was trying to figure out how to reinvent itself to support Chrysler's three-year turnaround plan. "We took a good hard look at ourselves—where we were most efficient and where we should partner with other suppliers," says Bertsch, who worked at Ford for 20

years before heading over to Chrysler in 2001. That benchmarking and analysis took five months and concluded that IT could benefit from outsourcing more on both the applications and infrastructure sides of the house. Doing so may enable the IT group to focus on partnering with the business on agile manufacturing processes or international partnerships. "They're outsourcing [the maintenance] so they can focus on more strategic projects that will enable the company to be more agile and responsive," says Koslowski.

Industry watchers say that when Cerberus took over and Bertsch was named CIO, the pressure to outsource increased. Bertsch would not confirm that the new bosses pushed outsourcing harder but says Cerberus executives have been a great "thought partner" for her and her team. (Chrysler added treasurer to Bertsch's role last month.)

Private-equity investors are keen to outsource in many functional areas of

business to cut costs quickly. "They can't afford to get bogged down in things that don't work," explains Stephen Kotler, CFO of private-equity firm Watermill Group. Watermill brings in Indian outsourcer Patni Computer Systems to assess the IT infrastructure, strategy and sufficiency of IT assets of its potential acquisitions, and often take over portions of the target's IT portfolio once a deal is concluded. A private-equity firm will look at the time and money it would take to manage mission-critical IT projects and coordinate the necessary changes with internal IT staff versus an external partner. In most cases, says Kotler, outsourcing is more expedient and cost effective.

In 2001 and 2002 under Daimler, Chrysler had signed some smaller outsourcing deals with a handful of Indian providers and a North American provider. "We were mainly in time and material mode, leveraging labor cost arbitrage rather than leveraging best practices,"

recalls Alex Beylin, Chrysler's information technology management director who oversees the applications group and the IT transformation. But they weren't sending out nearly as much IT work as rival GM, which had bought EDS in the mid-'80s, spun it off in 1996, then signed on a 10-year deal with the IT services provider. More recently, GM CIO Ralph Szygenda has marketed himself as a pioneer of what he calls the "third wave" of outsourcing, in which competing IT service providers work together to support GM. "My cross-town peers are dealing with the same things, although they're

says Bertsch, is that CSC will bring efficiencies and economies of scale to the infrastructure side of the house, while TCS helps IT reduce the size and scope of its complex suite of large applications. "We don't want to tell our global suppliers what the best practices are in supporting us anymore," says Beylin. "We want to empower them to do that."

The service providers also give Chrysler IT more global reach, says Bertsch. "We foresaw our future with a desire to grow internationally," says Bertsch. "We needed to make sure IT was positioned to provide all the expertise and support we

how well the company can adjust internally," he adds, to support the dramatic increase in outsourcing.

The Pain of Change

And it has been a huge adjustment for Chrysler, where the average tenure of employees is 20 years.

Most painful, perhaps, have been the layoffs. Bertsch says she's hesitant to talk about headcount numbers in detail because "it has not been a one-event kind of situation." Some employees were eligible to retire. The outsourcers hired some. Some stayed on at Chrysler. Others

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—JAN BERTSCH, SVP, TREASURER AND CIO, CHRYSLER

in different phases," says Bertsch. "GM has outsourced a lot sooner and maybe more portions of the business."

Once Chrysler's IT leaders decided what they wanted to outsource—and after taking several months to disentangle Chrysler from Daimler—they signed two outsourcing deals to limit uncertainty and defections within the IT workforce. "We didn't want our subject-matter experts uncertain about where their career paths were headed," says Bertsch. "So we came to a decision to transfer the business as quickly as we could."

In early April, Chrysler signed a deal with Mumbai-based TCS for application and maintenance support services for an undisclosed amount (TCS, like Tata Motors, is a part of the Tata Group, although it operates as an independent company). A few days later, Chrysler confirmed a deal with CSC, also for an undisclosed amount, to provide mainframe, server and storage services worldwide, and applications support, maintenance and development services for a portion of Chrysler's application portfolio.

Chrysler had worked with TCS on smaller development and maintenance projects in the past. The hope this time,

could." Not only will CSC and TCS be able to leverage their scale and efficiency to Chrysler's advantage, she says, the hope is that they can introduce new processes to Chrysler and bring innovative ideas to the IT organization. Beylin says he's finalizing a framework, in conjunction with CSC and TCS, to foster collaboration and, hopefully, innovation between Chrysler and its IT partners. The outsourcers will be required to put together business cases for better ways to do things.

Though Chrysler won't provide any specifics, Bertsch says that IT has already seen benefits from the deals, despite the training, travel and separation costs associated with the transfer of work to the IT service providers. "We're seeing relatively quick payback here," says Bertsch. "And it's something we think is sustainable."

But improvements to IT operations aren't guaranteed when a company outsources large components of it, says Gartner's Koslowski. "It has a lot to do with

were simply let go. The bottom line is that Chrysler's internal IT staff will be half its original size. Bertsch started a year ago with a team of 2,000, including contract workers. By the end of the reorganization, she'll have just 1,000.

"It's the biggest transformation IT has gone through here," says Bertsch. And the most difficult one. "It's personal, and it's important to all of us," she says. Communication with staff about outsourcing plans has been constant. "We were very open with why we felt the transformation was necessary, what we found during our months of study, why we chose certain suppliers, the results of the quoting process," says Bertsch. "Now that we are where we are, people may finally appreciate some of that."

Still, she acknowledges that morale took a hit. The transition of the majority of the infrastructure work to CSC happened quickly, but the transition of application work is ongoing.

Nevertheless, Bertsch says, she has been surprised by how well the remaining team has pulled together. "I was completely overwhelmed by the way the team has tried to execute such a difficult transition," she says. The massive reor-

Outsourcing Infrastructure

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DIGITAL MANUFACTURING MAKES AUTOMAKERS MORE AGILE

Software helps Tata Motors plan manufacturing processes, cut time to market

Like other automakers, profits for India's Tata Motors are being squeezed: On July 30, the company reported a 30 percent drop in net income despite a 14.4 percent increase in sales. Analysts blame increased steel prices.

To cope with rising costs, Tata Motors deployed a digital manufacturing system—Dassault Systèmes' Digital Enterprise Lean Manufacturing Interactive Application (Delmia)—to make its processes more efficient.

Honda and Toyota have also invested in digital manu-



Tata Motors Nano

facturing technology. Meanwhile, General Motors has built its own plant management system, which includes a tool for modeling and validating plant floor systems.

"For an automotive company, a key competitive advantage is its ability to introduce new products

in a very short span of time. We realized that the design of our existing manufacturing process was slowing us down," recalls Probir Mitra, former senior general manager for IT at Tata Motors, who retired earlier this year.

Delmia, which cost the company \$60 million, automates previously manual processes in product design and production-engineering planning—steps that include planning manufacturing processes, designing a plant's layout and simulating the impact of those plans. The application integrates with SAP to provide processing data, which is used to cost out a product.

The system enabled Tata Motors to reduce manufacturing planning costs for its highly touted Nano by 20 percent. The car is expected to list for \$2,500 when it becomes available this fall.

Tata Motors also uses Delmia to optimize factory

layouts as well as to simulate a change of product on an existing line. Assembly-line robots can be programmed offline, instead of waiting for holidays or scheduling a shutdown. As a result, time to market for new passenger vehicles has been reduced by at least six months.

Although Tata Motors has used Delmia to model production for variants of the same product line (for example, hatchback and sedan versions of the same car model), Nitin Rajurkar, general manager for technology production services with the company's passenger car business unit, isn't certain how the system would perform when different models are produced at the same facility. "We haven't yet validated that," he says. "We want to know how the system will cope with multiple variants."

—Gunjan Trivedi and Elana Varon

ganization is "very, very uncomfortable for employees, but it's also brought some level of stability and a somewhat longer-term focus," notes CAR's Cole. "Often, when there's that sense of urgency, people tend to all pull together."

Accepting the reality of a much smaller IT group is only one hurdle Bertsch's team faces. "We're talking about preparing our folks for cultural, process, even in some ways behavioral changes about how someone manages his or her work," Bertsch says. For example, as with any company that outsources its IT, those who remain have to learn a different way of managing demand from the business units. "If that's not managed well, that demand will go direct to the outsourcers, who can have a field day with it, depending on how the contract is written," warns Forrester's

Cullen. Previously, business partners felt they could bring in supplemental IT employees anytime they needed help. In an outsourced environment, they'll have to prioritize projects and work within structured processes.

Chrysler IT staff also need the skills to manage a vendor, instead of managing the work of IT itself. Bertsch's remaining employees will focus on managing suppliers, maintaining the relationship with business users and planning IT architecture. The upside, says Bertsch, is that her team will have more time to partner with product development, sales and marketing, or manufacturing and engineering. Take the new Nissan deal. "Before, we were spending so much time and budget on just maintaining," says Bertsch. "Now as we're building these new partner-

ships on the international front, we can be involved from a technology standpoint in how we integrate with them."

But all these big plans for the future have to be made amid today's punishing business climate. Bertsch knows she can't do anything about the cost of commodities, the credit markets, the price of a gallon of gas. But those things, she says, just make her team's goals more critical. "There are always those things in the environment that you can control," says Bertsch. "We're going through the transformation here and changing the way our business model works so we can operate differently in the future." **CIO**

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