

May 6, 2008

Mr. Daniel Howes  
The Detroit News  
615 W. Lafayette Blvd.  
Detroit, MI 48226

Dear Dan:

I found your May 2<sup>nd</sup> article on Chrysler's problems intriguing. As a former automotive executive it's clear to me that your analysis is spot on, particularly the need for Chrysler to restructure (to become what and how to do it are still the unknowns).

While Chrysler's strategy to partner with companies like Nissan in an effort to bring smaller cars to market with minimum capital investment is an effective way to quickly right-size the company, it won't necessarily guarantee that an alliance between the two will work.

You're certainly right about the "intricate web of carefully crafted foreign alliances" that "could all blow up."

As an automotive consultant, I've found that bringing companies together to increase synergies is daunting and, based on recent history, is often extremely unproductive. The current failure rate for partnerships, according to my research is above 70%. The Daimler-Chrysler debacle is a glaring example.

The most common causes of failure cited by CEOs are:

- Cultural differences (49%)
- Poor or unclear leadership (49%)
- Poor integration of processes (46%)

But there still is hope for Chrysler (as well as the other domestics) despite the hour.

As corporations like Chrysler attempt to re-invent themselves in order to compete in a global marketplace, a new business model must be adopted based not on linking several product development processes together or by using replication-based manufacturing methods. Those simply won't work. Global enterprises are too big and too complex to simply try and fit together like puzzle pieces. Instead, management must begin to look at non-traditional performance indicators to discover the hidden, structural issues that have hindered them from achieving the results they expected and implement countermeasures.

The obvious need for partnerships, mergers and acquisitions in order to achieve the critical mass required to maintain a viable global footprint is, however, one of the critical factors for enabling success. Another factor is the coordination and management of communication methods, knowledge transfers and systems thinking that is desperately needed in this new business environment.

A third factor, based on today's global economy, is the need for companies to adopt a new business model based on the equation: customer value minus supply chain operations equals profit, and throw out the old paradigm: selling price minus cost equals profit.

Traditional methods used in the past to compete with low-cost manufacturers based on cost and profit methods no longer work effectively in a global economy and will continue to erode a company's sustainability unless significant changes in this

mindset and corporate culture are made by its leaders; but so few understand the scope of the needed change.

I do think the team at Cerberus at least recognizes this, evidenced by their present product sharing plans with Volkswagen, Fiat, and Chery. But Chrysler has not partnered with another automaker on creating a new product, like the D-Car Project, which they desperately need in order to recapture momentum in the midsize market.

I'm sure Frank Klegon, Chrysler executive vice president for product development, understands the stakes involved in a successful launch. Klegon has hinted at discussions with China's Chery Automotive Co. about developing a midsize car; but how to go about it is either unknown or unclear.

On the manufacturing side, Tom LaSorda, a Chrysler president and vice chairman, is equally cautious. He recently stated that forging the right tactical partnerships is critical to the long-term success of Chrysler. His uncertainty, based on personal experience, is equally obvious.

It won't be easy to turn around, but if any domestic OEM has a chance to make global partnerships work it could be Chrysler because it is a private company not accountable to shareholders and quarterly financials, which gives it greater flexibility and latitude in decision-making. Chrysler recently announced that it is talking to potential joint venture partners in China to boost sales in that nascent marketplace.

Chrysler can become leaner and more agile in the marketplace and stands a good chance of becoming profitable more quickly than anticipated. But to do this the Chrysler team must be able to view its Product Realization Process in an innovative way that allows them to immediately react to market variations. Otherwise, without new approaches, old responses will yield old results.

The key to Chrysler's ability to enter into successful mergers and partnerships that are self-sustaining and profitable long-term is the product development area where 80% of product cost and 100% of product value is determined upfront. I know quite a bit about this area, having worked in it for almost 40 years.

From concept to launch, you must get it right the first time, especially if you're developing a collaborative global platform for different markets. The stakes are huge and I think Bob Nardelli and his team know this. They're now engaged in product sharing with OEMs like Nissan to test the waters.

If you would like to know how I think Chrysler and the other domestics can succeed in today's global marketplace, please call me at 248-379-4378.

Sincerely,

Mike Juras

Mike Juras is chief executive officer of Vertare LLC, a Bloomfield Hills-based automotive product development consulting firm specializing in lean principles and agile manufacturing technologies. Juras, who spent a 30-year career at General Motors as a Director of Engineering and Chief Engineer, pioneered the implementation of lean engineering and played a key role in facilitating knowledge transfers and establishing learning partnerships between GM and several Japanese manufacturers. As Executive Vice President of a Tier One automotive supplier, he developed a global business operating system and initiated integration of a major European acquisition into the company.