

Strategic Analysis of Chrysler in the 2008 Crisis

Yara Hamdan

E-mail:eng.yhamdan@hotmail.com

Abstract

This research studies the strategies followed by Chrysler Corporation before and during the 2008 economic crisis, and analyses the gaps that led it to get into bankruptcy. At the beginning, a brief demonstration of Chrysler's structure and culture is discussed, and then the strategic factors analysis starts showing what policies were implemented and the success or failure of them.

Keywords: Chrysler, Economic crisis, Strategic factors, Bankruptcy, Restructuring.

1. Introduction

Chrysler Motors LLC is the third largest automobile manufacturer in the USA. It started in 1920s, and acquired other smaller auto manufacturer and brands. Now it is manufacturing the Chrysler, Jeep, and Dodge brands.

2. Chrysler's trouble in the 2008 crisis

In 2008 crisis, auto demand decreased. Chrysler got in financial trouble (high debt), so it was forced to file for bankruptcy on April 2009.

The bankruptcy restructuring was as follows:

- a) Alliance with Fiat (Italian auto manufacturer)
- b) Shares divided among Fiat, US government & others.

3. Internal Strategic Analysis for Chrysler:

3.1 Chrysler's Structure

The company produces multi products (brands & classes), so the structure it has is the SBU structure as follows:

- a) 24 subsidiaries in the USA
- b) Mexican subsidiaries
- c) Canadian subsidiaries

3.2 Chrysler's Culture

Chrysler had an American culture, which is considered as strength. The main features of this culture are as follows:

- a) Efficiency
- b) Empowerment
- c) Creativity
- d) Informal relationships
- e) Pay structure: High incentives & salaries for top management
- f) Working styles: Less time on meetings & discussions
- g) Experimenting by trial and error

4. External Strategic Analysis

This analysis focuses of the Identification of Strategic Factors, analyzing them and how Chrysler's management responded to with, what strategies they followed for each, and their results.

4.1 Identification of Strategic Factors

- a) Fuel prices. (Threat)

- b) Customers Preferences. (Opportunity)
- c) Innovation. (Opportunity)
- d) Competitors. (Threat)
- e) Global Financial Crisis. (Threat)

4.1.1 Fuel Prices

Fuel prices increased in 2008, & previously in the 70's, so demand shifted into fuel efficient cars.

Chrysler's Strategy was that it continued producing large fuel consuming trucks, & ignoring fuel prices increase. This was a failed strategy that resulted in getting Chrysler in trouble.

4.1.2 Customers Preferences

This is related to the high prices of fuel, where consumers turned to fuel efficient cars.

Chrysler's Strategy was that it continued producing large trucks, & didn't live up to consumers' preferences.

Also, this strategy resulted in failure.

4.1.3 Innovation

This was an opportunity on producing fuel efficient cars.

Chrysler's Strategy was that it didn't focus neither invest in R&D, it ignored energy alternatives, and also ignored global warming & environment protection.

Result: Failure.

4.1.4 Competitors

Japanese Competitors; TOYOTA & HONDA, entered US market in late 70's & dominated a very large market segment.

Chrysler's Strategy was that it ignored them & didn't consider them as a threat, and let them dominate the middle class market segment.

Result: Failure.

4.1.5 Global Financial Crisis

Global economy declined causing very low demand in auto industry, leaving Chrysler in high debt from creditors, and with no reserves.

Chrysler's Strategy was as the following:

- a) Asked for US\$ 7 Billion federal loan, & got US\$ 4Billion, so this was not successful.
- b) Asked for another 2 Billion (above 7 B). This was not approved till they submit a viability plan with specific terms & actions to be done.
- c) Submit Viability Plan with the following terms:
 - Finalize alliance with Fiat. This was successful.
 - Negotiate with UAW & CAW. This was successful.
 - Restructure debt from creditors. This was not successful.

Result: Viability plan was not successful.

- d) Filing for Bankruptcy and restructuring as follows:
 - Changing the CEO
 - Finalize Strategic alliance with Fiat.
 - Produce Fuel-efficient cars.
 - Shares are divided among Fiat, Employees Association (VEBA), US government, & Canadian Government.

Result: Restructuring was Successful.

Conclusion

Market is always unstable & changing, so keeping close monitor on these changes & adapting & responding to them is very important to stay within it.

So, it very important to always keep up with the market trend & shifts in preferences & demand.

References

Thomas Wheelen, J. David Hunger, Pearson, 2010. “Strategic Management and Business Policy toward Global Sustainability”, 13th Edition.