The latest bad news is now in from GM and Ford: 60,000 U.S. and Canadian jobs will go in the next few years, 24 giant factories will close, and North American losses in the billions will continue. Clearly MoTown needs a new approach and it's natural in the car industry to think that the secret must be a killer model -- a Toyota Prius hybrid or some other concept to replace the big pickups and SUVs that floated the American firms for 15 years.

Actually, it's not a new car model that's needed. It's a new business model. Toyota is leading the charge against Detroit -- largely from inside the U.S. -- with a fundamentally different approach to business that my MIT research team in the 1990s labeled "lean" enterprise. Compared with these Toyota practices, GM and Ford's approach has five fatal weaknesses:

• **GM and Ford can't design vehicles that Americans want to pay "Toyota money" for.** And this is not a matter of bad bets on product concepts or dumb engineers. It's a matter of Toyota's better engineering system, using simple concepts like chief engineers with real responsibility for products, concurrent and simultaneous engineering practices, and sophisticated knowledge capture methods. The Prius is not the result of a hunch or luck but rather the likely result of a development system that tries out many approaches to every problem, then gets the winning concept to the customer very quickly with low engineering cost, low manufacturing cost, and near perfect quality. (That's not to say that Toyota can't produce a dud -- the first generation Previa minivan and Tundra pickup stand out -- but the likelihood of producing winners is higher than with traditional development systems.)

• **GM and Ford are clueless as to how to work with their suppliers.** Sometimes they try to crush their bones -- which only works when the suppliers have any profits to squeeze, and few currently do. Then they embrace contentless cooperation that makes everyone feel better briefly but fails to produce lower costs, higher quality, or new and better technology. Toyota, by contrast, is getting brilliant results and lower prices from American suppliers like Delphi while also giving suppliers adequate profit margins. How? By relentlessly analyzing every step in their shared design and production process to take out the waste and put in the quality.

• **GM and Ford have miasmic management cultures.** These turn competent people into Dilberts. By contrast, Toyota does a brilliant job of making one person responsible for every key business process, like the chief engineer overseeing each new model. And it teaches managers how to ask the right questions (rather than give the usual big-boss
answers) in order to engage everyone involved in every process to go faster and do a
tbetter job with fewer resources. A Dilbert-free environment naturally emerges, but not
because everyone has received cultural training to spur teamwork. Rather, if ordinary
people -- Dilberts even -- are put in a great business process they become great team
players.

• **GM and Ford cling to their wide range of brands:** Chevy, Pontiac, Buick, Cadillac,
Saab, GMC, and Hummer at GM; Ford, Mercury, Lincoln, Mazda, Jaguar, Volvo, Aston
Martin, and Range Rover at Ford. And they still talk about brand revitalization as the way
ahead. Yet the most successful car companies in the world -- Toyota and BMW -- have
only two or three brands. And this is not an accident. Indeed, it's hard to see how any
modern day car maker can support more than three truly distinctive brands -- a buzzy,
"what's new" brand (Scion, Mini); a value-for-money, hassle-free-transportation brand
(Toyota); and a distinctive "aspirational" brand for folks who just need something better
than the other fellow's (Lexus, BMW). A plethora of brands that can't pull their
weight drains management energy and company coffers.

• **GM and Ford still treat customers as strangers engaged in one-time transactions.**
Toyota's Lexus, by contrast, has created a new and better customer experience.
Customers cheerfully pay more for the car and the service and then come back for more
cars because they love the treatment. As Toyota applies its fabled process management to
retailing to take out costs, which it is now starting to do at Lexus, customer touch
becomes the final weapon in the Toyota arsenal.

But note: I haven't mentioned the creaky factories, vast pension obligations, and cranky
unions that commentators on the current situation seem obsessed with. In fact, Ford and
GM's factories are now good enough to compete in terms of labor productivity and
quality. They just can't support employees with no work in "job banks" and unsustainable
pension and healthcare benefits for retirees as the companies continue to shrink. Union
and management both know this, yet no accommodation has been reached on these issues
because their conversation has broken down. With zero confidence that management
knows what it is doing, a union will try to get what it can now rather than look at the long
term. In consequence, unless GM and Ford soon present a plausible path to a brighter
future -- combining a better business model with significant short-term pain during
the transition -- there may be no long term.

There is no mystery about the lean business model. All of the elements are operating in
this country every day at Toyota and at many other American companies in a range of
industries. What is mysterious is why GM and Ford can't embrace it. And what is
dismaying is how many of their employees are likely to suffer if they don't. But
finally, what is reassuring for the country is that if GM and Ford can't fix their problems,
they will simply be replaced by new players in America, led by Toyota, who can.

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