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COMMENTARY

Why Toyota Won

By JAMES P. WOMACK

February 13, 2006; Page A16

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 miasmatic 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 better 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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