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Chrysler: From Bankruptcy to Rebirth (A)

“Right now, it is critical that we establish a clear road map forward and get operations up and running again,” said Sergio Marchionne, the CEO of Chrysler Group LLC and of the Fiat Group, to members of the Chrysler board. “We can’t afford to delay.”

Chrysler had just reported another drop in year-over-year vehicle sales. For the month of August 2009, Chrysler’s sales were down 15.4%; Ford and Toyota, however, both reported double-digit growth. Much of Ford’s and Toyota’s growth was attributed to the US government’s “cash-for-clunkers” program, which offered consumers a limited-time rebate of up to \$4,500 to trade in old, gas-guzzling vehicles for new, more fuel-efficient ones. Chrysler, unlike its competitors, was unable to fully capitalize on the government program primarily because the company lacked inventory and had a small selection of fuel-efficient vehicles to choose from.

In September, Chrysler’s supply of vehicles stood at historic lows. Inventory levels were at a 28-day supply. In response, Chrysler’s management added shifts to factory floors and asked workers to clock-in overtime.¹ The low inventory was due to the decision by Chrysler’s management to idle most of its factories while the company went through a 41-day bankruptcy. The bankruptcy, which was facilitated by the US government, resulted in Chrysler forming a global alliance with Fiat.

Marchionne, who was appointed CEO of Chrysler in June 2009 as part of the alliance agreement, was feverishly working to reshape the organization, which had been off course for years. In his first few months at the helm, Marchionne replaced longtime Chrysler executives and brought in senior leaders from Fiat. In October, Marchionne announced that Chrysler would create a separate brand for its Dodge Ram trucks and signaled new directions for the Chrysler and Dodge brands.

The new management team drafted a five-year business plan that outlined Chrysler’s future products, operating strategy, and financial goals. To move forward on the plan, however, the board of directors, Fiat, the United Auto Workers union, the US government, and management all needed to sign off on it. This would be no easy task, as each stakeholder had unique interests in Chrysler.