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Detroit's dismal Decline and Fall

Winnovation: Rowan Gibson's December Column
December 17, 2008. By Rowan Gibson

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In March 2008, British Airways discontinued its decades-old daily service between London Heathrow and Detroit. Not exactly world-shattering news, you might think. But BA's decision was quite significant. They made it because passenger numbers had dwindled so pathetically low that the flights were no longer profitable. It's just one of a whole kaleidoscope of symptoms that signal Motor City's dismal decline.

Now, Detroit's "Big Three" automakers have been forced to beg for billions in bailout money to stave off bankruptcy. Yet, as far as I can see, not one of them seems to have a credible plan for long-term viability. All of which begs the burning question: How could such powerful car giants ever get in this sorry state?



Over twenty years ago, auto-industry analyst Maryann Keller wrote a book called *Rude Awakening: The Rise, Fall, and Struggle for Recovery of General Motors*. It recounts hair-raising stories of GM's arrogant excesses. One story involved a sales VP attending a regional sales meeting who insisted that his hotel room have a refrigerator filled with soft drinks. Since the hotel couldn't get the fridge up the stairs, GM's local people persuaded the hotel to take out the room's window and part of the wall, then use a crane to insert the fridge through the hole!

Another story involved a junior GM staffer who was assigned to stand for ages outside a hotel in a snowstorm, just so he could be there to open the door for an assistant general sales manager who was flying in from Central Office. GM even bought one of the hotel elevators and blocked it off so that this manager would have his own private elevator to use. And, as if that wasn't enough, the kitchen staff was instructed to test his glass of morning orange juice with a thermometer because Mr. Important wanted it served at a particular temperature!

This was the kind of insane stuff that continued to go on while the Japanese were stealing percentage point after percentage point of GM's U.S. market share. Fast forward to today, and we find that the five best-selling automobiles in North America are (in this order): the Toyota Camry, the Honda Accord, the Toyota Corolla, the Honda Civic, and the Nissan Altima. And, bailout or no bailout, the prognosis for Detroit is not looking good.

It seems the Big Three have taken an excessive, heavy-handed approach to almost everything they have touched over the last few decades. Including innovation. While Toyota, for example, took a careful, staged approach to building alternative powertrains (and scored big with its hybrid technology), GM famously blew billions of dollars on its massive but so far failed forays into electric and hydrogen-powered vehicles. In the late 1980s, Ford's top brass tried to push the company's engineers to be more innovative by setting up a high level "Committee for Creativity".

Yet rather than making the cultural environment more conducive to innovation, this initiative actually had the reverse effect. When engineers were brought in to report to the committee, they found that they were being judged, criticized, and ordered to work on their boss's pet projects. It became just another example of the massive hand of authority imposing itself and intimidating people. Instead of fostering or facilitating creativity, the committee was trying to command and control it. No wonder the structure was eventually scrapped.

In 1994, I had a conversation with strategy guru Gary Hamel about the state of innovation in Motor City. His gripe was that 'there has not been one fundamental



strategic innovation in the automobile industry in the last 40 to 50 years that has come out of Detroit'. A couple of years later, I related this to a former top manager at one of the Big Three. At first, his response seemed to contradict Hamel's view.

He said, 'Rowan, some of the most important and innovative ideas in the auto industry came out of Detroit'. But then, with a look of deep frustration and despair, he added, 'Very few of them were implemented'. The reason? People couldn't get the resources, the investment and the support they needed to make their ideas happen. As *The New York Times* put it recently, 'GM's biggest failing, reflected in a clear pattern over recent decades, has been its inability to strike a balance between those inside the company who pushed for innovation ahead of the curve, and the finance executives who worried more about returns on investment.'

Of course, uncontrollable external events in the U.S. economy have rapidly worsened Detroit's woes over the past few quarters. But, let's be honest, the Big Three have been hemorrhaging billions of dollars for years. In 2006 and 2007 alone, Chrysler lost over \$3 billion, Ford lost over \$15 billion, and GM lost over \$40 billion! Nobody can blame those numbers on the U.S. economy, because it was growing briskly for six straight years from 2001 through 2007, as were the sales figures of Detroit's Japanese and German competitors. Instead, the accusing finger is increasingly being pointed at the failure—particularly of GM—to successfully innovate; to continually come up with and commercialize new ideas (and new vehicles) that create meaningful value for customers.

GM candidly admitted this for the first time in a one-page advertisement that ran last week in *Automotive News*. In this open letter, entitled "GM's Commitment to the American People", the company frankly acknowledged that it had "disappointed" and sometimes even "betrayed" U.S. consumers with its lackluster products. Instead of innovating in response to shifts in the marketplace (come on, guys, the writing has been on the wall since the 1973 oil crisis, for crying out loud!), GM has been impossibly slow at adapting its cars to changing customer needs.

If, then, it's essentially an ineptitude at innovation that has driven Detroit's once-great industry leaders down the toilet, I would argue that companies of all shapes and sizes should sit up, take note and, more importantly, take action to make innovation happen inside their own organizations.

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