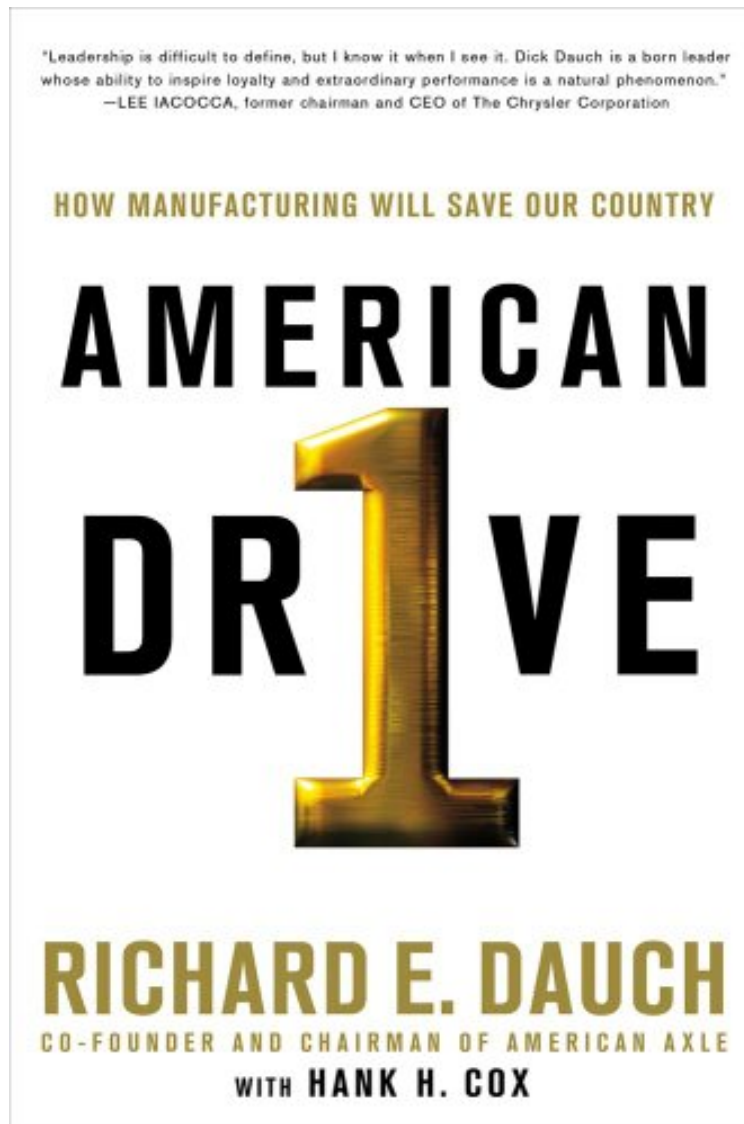


American Drive: How Manufacturing Will Save Our Country

Richard Dauch, Hank H. Cox

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Richard Dauch, Hank H. Cox : American Drive: How Manufacturing Will Save Our Country before purchasing it in order to gage whether or not it would be worth my time, and all praised American Drive: How Manufacturing Will Save Our Country:

0 of 0 people found the following review helpful. Highly motivating and inspiring case study!By Arvind SrivastavaWow! What an example of entrepreneurship!! Highly motivating story of vision, transformation and determination of being successful against all odds. Must read for any manufacturing leader and improvement professional.0 of 0 people found the following review helpful. Five StarsBy Patricia A. HassenGreat product!0 of 0 people found the following review helpful. ReviewBy JWILLIAMDick Dauch shares a facinating insiders view of the

decline of the Detroit auto industry. As one who was there, his analysis rings true. The entitlement attitude of the Detroiters is so pervasive as to derail almost any solution. Dauch also provides a solid guideline for success in manufacturing or almost any venture. A must read for anyone who wants to build a successful business.

Politicians, voters, executives, and employees all want the answer to one question: How can America compete with cheap foreign labor, and restore skilled, well-paying jobs to our economy? American Drive answers that question. An executive with nearly thirty years in the trenches of the hard-nosed Detroit automobile industry, Richard E. "Dick" Dauch had long dreamed of running his own manufacturing company. From his first job on the plant floor at General Motors to his crucial role in helping to rescue Chrysler from the brink of bankruptcy, Dauch focused passionately, and relentlessly, on quality, productivity, and flexibility in manufacturing. In 1993 he took on the challenge of his life, buying a lagging axle supply and parts business from GM, along with five rusting, unprofitable, union-controlled, near-decrepit plants in the heart of a crime-ridden Detroit and a deteriorating environment in Buffalo, New York. The newly created "stand-alone" company was named American Axle and Manufacturing. Dauch set out to create a world-class industrial automotive manufacturer. He bought and bulldozed the crack, liquor, and prostitution businesses that surrounded the company and rebuilt the plants. He upward educated, trained, and expanded the skill sets of the workforce, struck tough bargains with unions, and solved massive quality problems that were costing tens of millions every year and undermining customer satisfaction. Within one year of opening the doors, AAM had turned an astounding \$66 million in profit. In American Drive, Dauch narrates the story of AAM against the backdrop of his nearly fifty years in the auto industry, from its glory days to its decline in the face of foreign competition, government bailouts, battles with unions, and the recent Great Recession. Tough, smart, inspiring, high-energy, and opinionated, Dauch offers memorable lessons on leadership, advanced product technology, communication, negotiation, and making profits in the most difficult times. Dauch's story transcends the auto industry and draws a blueprint for job creation, manufacturing competitiveness, economic growth, and excellence in America.

"A unique view of manufacturing and its role in the future of the United States...A refreshingly different view of manufacturing that clearly identifies what is necessary to compete globally." Kirkus
"Leadership is difficult to define, but I know it when I see it. Dauch is a born leader whose ability to inspire loyalty and extraordinary performance is a natural phenomenon." Lee Iacocca, former chairman and CEO of the Chrysler Corporation
"The story of Dick Dauch and his success in business, in the community, and with his family makes a great read. There are important lessons for all of us--about discipline, courage, passion, education, competitiveness, loyalty, and values. Read it and marvel. Read it and learn." Dr. Martin C. Jischke, president emeritus, Purdue University
"Dick builds strong teams that share a desire for enterprise and personal success. He provides clarity of purpose, rules of engagement, and rewards systems that result in exceptional business performance." Jim McCaslin, former president and COO of the Harley Davidson Motor Company
"Dick is an inspirational leader, a straight guy, somebody you would follow over a hill out of your trench into battle. He has a terrific command personality. In my business, when you have a company with a good structural situation and investment premise, and your management is a ten, which is what Dick Dauch is, you're going to have a terrific success." Stephen A. Schwarzman, chairman, CEO, and co-founder of the Blackstone Group
"I most admire people who operate well in times of adversity. Even in the worst of times, Dick Dauch had a positive sense of the future and was committed to investing in the future." Peter G. Peterson, chairman of the Peter G. Peterson Foundation and co-founder and chairman emeritus of the Blackstone Group
"Dick Dauch took a group of underperforming assets and built a business that is arguably among the top suppliers in the automotive industry by developing a vision that focused on execution, quality, and a can-do attitude." Roger S. Penske, chairman of the board and CEO of Penske Automotive Group, Inc.
About the Author RICHARD E. DAUCH is chairman, CEO, and co-founder of American Axle and Manufacturing. He is a former manufacturing executive at Chevrolet, Chrysler, and Volkswagen, and has worked in the automotive industry for more than forty-eight years.
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The Wheels Come Off
Adversity has the same effect on a man that severe training has on a pugilist: it reduces him to his fighting weight.—Josh Billings
It was late summer 2009 when I reached the rock bottom of my professional career in a highly visible and dramatic crisis that threatened economic doom for my company, American Axle Manufacturing (AAM), along with the trusty crew that had helped me create the company and steer it for sixteen years through the choppy waters that always beset the auto industry.³ I stood at my office window on the seventh floor of our headquarters on Holbrook Avenue in Detroit, overlooking our lineup of clean, modern factories—now mostly empty and inactive—that we had worked so hard to rebuild. I recalled the grotesque array of rust-bucket manufacturing plants surrounded by drug dens, vacant boarded up houses, and rubbish-strewn parking lots that greeted us when we took over from GM on March 1, 1994. I swelled with pride to think of the countless hours of hard work, thoughtful planning, and creative innovation we brought to bear to transform that industrial wasteland into a world-class, competitive, global company. We had made a name for ourselves of which we were all justly proud. Now, because of forces beyond our control, it was all teetering on the brink of destruction. In The

Perfect Storm by Sebastian Junger, a fishing boat named the Andrea Gail is caught up in violent weather when a hurricane coming up from the south encounters two powerful weather fronts coming from the northwest and the northeast, producing gale winds and massive seas that spell doom for that boat and everyone on it. The Andrea Gail's crew was composed of veteran seamen who knew what they were doing. They brought many years of experience and knowledge to their work. They were tough and resourceful. But sometimes knowledge and experience and toughness are not enough. Sometimes the impersonal forces of nature will overwhelm the most resilient people. That storm was like nothing those fellows had ever seen, and it swallowed them. I and my team, like the crew on that fishing boat, were seasoned veterans, in our case with four decades in the auto industry. We knew we were in a difficult business and took nothing for granted. We foresaw every known contingency based on our years of experience dealing with all manner of challenges and crises that attend our industry—changing product lines, labor disruptions, economic downturns, intensifying and sometimes unfair foreign competition. We had seen it all, or thought we had. We knew what we were doing, and we were tough, but nothing in our experience prepared us adequately for what we were facing this time. We were caught up in a perfect storm of converging economic forces that threw the entire U.S. auto industry into its worst tailspin since the Great Depression and left many once-great companies in bankruptcy. The question was, would American Axle Manufacturing be one of them? We had the first hints of trouble to come in 2005 when our profits fell for the first time ever. Our net income in the fourth quarter fell to \$4.5 million, down from \$31.3 million in the same period the year before. Our full year income for 2005 dropped to \$56 million from \$159.5 million in 2004. Times were hard, but we were still making profits, which is more than I could say for the competition. In fact, by early 2006, several Tier One auto suppliers, many of them our major competitors, had already gone into bankruptcy—among them Delphi, Dana, Collins Aikman, Federal-Mogul, Meridian, and Tower Automotive. We were better prepared for lean times than the competition. Robert Sherefkin, writing in Crain's Detroit Business in March 2006, attributed the plight of Dana to competition from us, quoting a Dana manager who said we put a lot of pressure on their margins. "AAM is still vulnerable," he wrote, "profits fell last year, but it has weathered the storm better than most, and certainly better than Dana." The storm was only beginning. General Motors, our biggest customer, was reporting declining sales and planning severe employee cutbacks. Of course, this was nothing new. For as long as I had been in the auto industry—including tours at GM, VWoA and Chrysler—we had endured boom and bust cycles. The major auto companies and their suppliers would lose money during a recession, then recover when the economy bounced back. But this time the bounce back was to be a long time coming. The overall economy was beginning a nose dive that we now realize was the leading edge of the longest and deepest recession since the Great Depression—but we did not realize it at the time. The proximate cause was the housing bubble that finally burst, as bubbles always do eventually. Over a period of several years, housing prices had risen at a dizzying pace, making consumers feel much wealthier than they actually were. All of that paper wealth had helped boost sales of cars, trucks and SUVs—our bread and butter vehicles—but that wealth, and the consumer confidence it generated, disappeared almost overnight. Within a couple years, housing fell through the floor. Home foreclosures became commonplace. Millions of home owners found themselves "under water," meaning they owed more on their homes than they were worth. People in that situation are unlikely to buy a new car, pickup truck, or SUV. Vehicle sales were beginning a slide that would only get steeper with each passing month and year. The handwriting was on the wall, but few of us could read it. I was quoted in the Detroit Free Press on March 26, 2006, predicting that, "Everybody will start coming out of this thing in the second half of 2007." I was basing that on past experience with previous recessions. I had no way of knowing that this recession would be in another class altogether. Any recession by itself is bad enough, but even worse was the timing of this one—when the Big Three auto companies were more vulnerable than ever before because they had lost their competitive edge. Tier One auto suppliers like American Axle Manufacturing were equally vulnerable because we were very dependent on the Big Three—in our case on GM and Chrysler—to purchase our products. That is a basic law of life in Detroit: When the Big Three catch a cold, Tier One suppliers like AAM get pneumonia. A fundamental problem for GM and most Tier One suppliers like us, which left us acutely vulnerable to a steep economic downturn, was high labor costs resulting from inflated wage scales and extravagant benefits promoted and defended by the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). This situation had evolved over a period of several decades when the Big Three claimed the lion's share of the U.S. market, and fell into a habit of caving to the UAW every time contracts came up for renegotiation. The companies figured they could just pass along the increased labor costs to consumers, and for a long time they were able to do just that. But foreign competition was undermining their market dominance and exposing the danger of uncompetitive wages and benefits. In a world of intense global competition, no industry can afford to price itself out of the market the way the U.S. auto industry had done. Our chickens were at last coming home to roost. At the time, a typical employee of the Big Three enjoyed a fully loaded wage and benefit package equal to about \$75 per hour. I know that because most of our AAM associates enjoyed the same level of compensation as employees of Chrysler, Ford, and General Motors. Granted, we were not saddled with the same level of "legacy" costs as the Big Three—mainly pensions and medical care for legions of

retirees—because we had launched relatively recently in 1994. Yet by the time our major Tier One competitors emerged from bankruptcy with dramatically reduced labor cost burdens, our competitive position was adversely affected. They were competing against Japanese automakers operating in the nonunion southern states that paid less in wages and benefits and carried fewer legacy costs. We were competing with other Tier One suppliers whose workers earned less than half what we were still paying. It is hard to compete and make a profit in that situation. Impossible, in fact. Another major bone of contention, and one I spoke out about often, was the so-called “jobs bank,” a program in which laid-off hourly UAW workers were paid nearly full wages and benefits while their employers tried to find them new jobs. At the time, we had 1,100 workers in the jobs bank—receiving full pay for sitting around doing nothing. The Detroit News summed it up in an editorial on May 23, 2006: “Anyone with a lick of common sense knows that paying people not to work is bad for business. So called jobs banks at the Big Three and their suppliers with United Auto Workers contracts cost hundreds of millions of dollars a year to maintain with zero return for the companies.” The editorial said correctly that the auto companies were spending between \$100,000 and \$130,000 a year for wages and benefits for each employee sitting idly in a jobs bank, up to \$2 billion in 2006 for employees, “many of whom have been reporting to the job to read, watch movies and do crossword puzzles for years.” It was that kind of economic insanity that had been pushing the U.S. auto industry toward the brink for years, and when the big recession set in, it was to prove the straw that helped break the camel’s back. But hindsight is always perfect. At the time, we assumed we were in for another typical economic downturn such as we had endured often before. We laid off workers in response to declining demand and we implemented a round of severe cost cutting. (I should stress here that cutting costs did not include research and...