

Chrysler's bankruptcy case study essay

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America's third-largest car manufacturer, Chrysler, has declared itself bankrupt after some of its smaller lenders refused a Treasury Department demand to reduce the amount of money the troubled automaker owed them, casting a cloud of uncertainty over tens of thousands of jobs at factories, suppliers and dealers.

The negotiations ended with the 83-year-old Detroit carmaker putting its future in the hands of the courts, albeit an 11th-hour deal with Italy's largest carmaker, Fiat, to pool technology in building new vehicles. Both the administration and Chrysler expressed hope that the bankruptcy stage would be effective and completed within 30 to 60 days, clearing the company's liabilities and allowing it to emerge in healthy shape. But legal experts questioned whether this will be achievable and factory workers expressed fear for their jobs. Chrysler employs 54, 000 people, but tens of thousands more work for parts companies and in motor dealerships that depend on the firm for business. About 115, 000 retired Chrysler workers depend on the company for healthcare and benefits. Problem Chrysler is reorganizing under Chapter 11 of the United States Bankruptcy Code allowing the company to sell assets, rid the company of liabilities and restructure its debt, creating a new Chrysler. Should Chrysler fail to successfully reorganize, it might turn to a Chapter 7 bankruptcy, which would mean liquidation.

Objectives for Problem Solution The company should aim to meet the public's desire for a car. They need to adapt to the demand for smaller, more fuel-efficient cars. And to be able to avoid the stigma attached to bankruptcy from deterring car buyers, aside from improving their car's quality to their utmost capacity, it would prove to be a good idea to associate their products'

name with Fiat – Italy's number one car manufacturer. Alternative Course of Action Instead of filing for bankruptcy, former Chrysler owner Cerberus Capital Management could have opted for other methods. One, they could execute a cost-cutting campaign led by someone with a lot of history in this respect, while developing the qualities of their cars into a more environmentally-friendly, fuel-efficient ones that would effectively compete in the market.

The other, they could hire the engineers behind the top selling cars in the market by offering them more captivating wages than they are already receiving from competing companies then advertising the abrupt change of quality in their cars so they could have a massive pull from the market. S. W. O. T ANALYSIS Strengths Domination of minivan market.

Chrysler has been the dominant of minivan market for over 25 years.

Chrysler and Dodge hold over 40% share of U. S.

minivan market. This position would bring the company advantages over the competitors if the Chrysler gives more focus on this market. Focus on

customer Chrysler is the first auto company having Chief Customer Officer.

The company has given more focus on customer care by appointing Douglas Betts to the Chief Customer Officer. This move is a significant improvement in customer services and able to create great competitive advantage.

Weaknesses Small and declining market share. Chrysler's overall market share is small and declining.

Though the company gained a bit improvement in market share by September 2010, it is still too small in comparison with other automakers. Management problems Analysts notice that the new owner does not have experience in auto industry and “ doesn't want to be in the auto business; it is in the money business”. Quality problems Chrysler's vehicles usually present in the list of worst vehicles ranked by Consumer Reports and J. D. Power.

This will definitely have negative effects on the customer's buying decision. Opportunities Partnership with Fiat The strategic partnership with Fiat would create opportunities for Chrysler. Fiat is well known for its smaller cars. Thus, the partnership with Fiat would be helpful for Chrysler to produce small car for new markets. Increasing demand for green cars The green car market is on the rise and forecast to top 3 million by 2015, of which U.

S. market will account for 55%. As manufacturing green cars is one of the Chrysler's focuses, this will be a great opportunity for the company to improve its position. Threats. Disappointed dealers Under the control of Daimler, the dealer consolidation initiative “ had drained their passion for selling cars” because they had to “ take more products than they could possibly sell”.

The new owner has not resolved the problem and this would be a big obstacle for the company's business. Reliance on U. S. market Chrysler is known to be reliant on U.

S. market as more than 90% of its sales come from North America.

Therefore, the company would be very vulnerable with the declining demand and fierce competition in this market.

Conclusion Within the 30 to 60 days period of bankruptcy provided to Chrysler to recover from its debt, whether the company would succeed or fail depends on the increase of profit Fiat would bring into the company through their manufacturing of small cars. Before the given period ends, if Chrysler is able to gain enough profit as to eliminate their debts then the business survives and will continue in the automotive industry, if not then its liquidation might be pursued by the government and hence shall be its end. If the latter would be the case then Fiat would also face its own financial struggle for investing in its partnership with Chrysler.