Viewpoint

Achieving Extraordinary Customer Satisfaction: The Renewal of Rover Group

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Rover Group is currently the largest UK-based automobile manufacturer. Its products have included many famous brands, such as Austin, Morris, Triumph, MG, Jaguar, Leyland trucks, Land Rover, and the Rover brand itself. In the early 1970s, the company was effectively owned by the British Government and was called „British Leyland“ or „BL.“

In 1971 BL was at its peak. It produced more than 1 million vehicles (almost equal to Nissan and Toyota in that year) and employed more than 200,000 people. It held a 10 percent share of the European market and 40 percent of the U.K. market. However, BL had a reputation for products that were innovative but also unreliable. In the 1970s and '80s, fierce competition and the neglect of both product quality and customer satisfaction led to BL's decline. Between 1973 and 1987, cumulative losses exceeded $4.5 billion.

In the late 1980s, to staunch these losses, the company undertook major restructuring. In 1988, under the name Rover Group, it left government ownership and became part of the public company British Aerospace. Today, Rover Group is a $6 billion subsidiary, accounting for some 40 percent of British Aerospace turnover. We now produce some 500,000 vehicles per year, employ 33,000 people, and have a European market share of just over 2 percent.

The dramatic renewal in Rover Group over the past five years has been driven not by market share, but by a product strategy and a cultural change program dedicated to „Extraordinary Customer Satisfaction.“ We have done on a slightly smaller scale what GM is now striving to do. Today we have not only happy customers but happy shareholders. Despite the unprecedented recession in the United Kingdom, we are providing positive cash flow for our owners and offering our employees unprecedented levels of job satisfaction and security.

How have we done it? In many ways, our approach mirrored that promoted by Arthur D. Little in its „High Performance Business“ model. We formulated strategies to satisfy all our stakeholders, paid detailed attention to processes, and aligned our organization and resources to match those strategies and processes. In Rover's case, this process had four main elements:

- Recognition of the need for a strategic alliance (with Honda)
- Formulation of a clearly defined, differentiating product strategy
- Wholehearted embracing of the principles of quality management and continuous improvement
- Mobilization of every ounce of effort from our employees

The Honda Alliance

BL's collaboration with Honda actually began in the late 1970s. Reflecting BL's tradition of innovation, we were the first major Western vehicle manufacturer to co-develop a new product with a Japanese manufacturer. The rationale was simple: BL needed a new product but had no cash, while Honda wanted experience in Europe. In 1981 BL launched its first Hondabased product manufactured in the United Kingdom. Two further products followed in 1984 and 1986. In each case, the collaboration was tactical rather than strategic.

However, by 1987 Honda's plans for Europe were becoming clearer, and the new management team at Rover (headed by Sir Graham Day) was formulating strategies for Rover's future. A strategic alliance appeared to make a lot of sense. Both Rover and Honda were low-volume manufacturers in Europe.

Both companies wanted distinctive, differentiated products optimized for the European market. By coordinating product plans and sharing all aspects of design, development, purchasing, and manufacture, we hoped to achieve viable economies of scale.

And so it proceeded. The largest-volume models of both Rover and Honda in Europe (Rover 200 and 400/Honda Concerto and Rover 600/Honda Accord) have progressed as common European projects. Both sides have gained competitive advantage in several ways. We have lowered our costs by using common suppliers and sharing development, tooling, and component production. In addition, Honda has learned quickly about Europe, while Rover has learned many „Honda ways.“

In 1990, we cemented the strategic alliance in a cross-shareholding arrangement. Honda took a 20 percent share in Rover Group and Rover Group took a 20 percent share in Honda's U.K. operations. As a consequence, both sides now have direct financial motivation to help each other succeed.

Despite much press speculation that Honda will eventually acquire a majority share in Rover, acquisition is not a „Honda way,“ and in any event Honda has its own U.K. manufacturing facilities. We see the friendly relationship between Honda and Rover continuing for the mutual benefit of both companies.

Although the Honda alliance has been a major element in our overall strategy, Rover has also continued to develop several models independently, including small cars, the new MGRV8 sports car, and the complete Land Rover range. In addition, we have nurtured our own core competencies in engines. Maintaining this degree of independence is important to us as a means of retaining key competitive skills.

The Product Strategy

In the face of lower-cost, high-volume competitors, Rover Group needed a coherent, differentiated product strategy. Since 1988, the Group focused on three brands:

• Rover passenger cars (small, medium, large)

• Land Rover, an image-leader in off-road 4x4 vehicles

• MG, a one-time leader in the sports car business, presently dormant

For each product line and for the company as a whole, we targeted the vision of „.*Extra*ordinary Customer Satisfaction.“ The key to this vision is the „*Extra.*“ As discussed below, this vision had common implications for all our product lines, but we also had to recognize their different starting positions and strategies.

Rover cars started with an image problem. Customers had the perception – based on the reputations of older models – that the new Rover cars might be unreliable. In terms of *actual* performance, however, the latest products were achieving best-in-class ratings for quality, reliability, and overall customer satisfaction. The strategy for Rover Cars, therefore, was to refurbish their image, focusing on our vehicles' genuine excellence and unique design characteristics, principally craftsmanship and Britishness. We have used conservatism and elegance in vehicle styling, together with luxurious, comfortable interiors, to provide cars that look and feel totally different from either mass-market, plastic-interior vehicles or the starker German premium products. As the Rover Cars image has improved, we have been able to move our product positioning steadily up-market.

Land Rover's position was quite different. This brand is internationally known as a leader in ultimate off-road performance. The strategy for Land Rover has been to capitalize on its image as „The Best 4 x 4 x Far“ and to grow in volume. At the same time, we have transferred knowledge gained through our Honda relationship to improve quality and cost to levels comparable to key Japanese competition.

MG had still another history. Back in the 1970s, MGs were simple little cars that epitomized sportiness and fun for many young people. Mazda captured that market in the late 1980s with its Miata/MX5. Since MG was not a primary contributor to corporate revenue, its revival has been of lower priority. I can't say much more here, except „wait and see!“

Quality Management and Continuous Improvement

As a company that manufactures vehicles and components for Honda, we had to learn very quickly how to apply the principles of quality management in all functional areas. Our approach to quality was rigorous and methodical.

We began by translating the vision of extraordinary customer satisfaction into four key business thrusts, each with clearly defined year-by-year targets. We then evaluated the company's business processes and identified nine processes that exert critical leverage on each of the thrusts and on the overall vision. The four key thrusts were:

• Achieve world-class levels of customer satisfaction (both product and service)

• Move up-market

• Reduce break-even

• Grow international markets

The nine critical processes ranged from „hard“ processes such as new product introduction, manufacture, and logistics to „soft“ processes such as people management, corporate learning, and business planning. For each process, we established detailed benchmarks for which we set year-by-year targets. In establishing these benchmarks, our relationship with Honda was invaluable. We did not just send experts to Japan to observe what Honda did. Instead, we sent whole teams to *work* in the Honda plant in Marysville, Ohio. Here, on the factory floor, they learned the real „Honda ways“ in an English-speaking environment. Thus we eliminated the risk of language misinterpretation, so often a problem when benchmarking Japanese companies.

One critical area for benchmarking was the product development process. Here we adopted Honda's process in its totality. Although this shared process is truly essential only for our joint product development efforts, we follow the same process and disciplines on our own programs. A unique feature of this process is the discipline in achieving 100 percent quality prior to start of production. This minimizes post-launch changes and maximizes customer satisfaction. Key elements are;

• Process control via physical milestones (e.g., first prototype) rather than paper „status reports“

• Consensus-building at each process milestone

To communicate our quality strategy, we documented the vision, thrusts, processes, and benchmark targets in a simple chart that every employee has at his or her own workplace (Exhibit 1). The chart makes it clear how the subprocesses and benchmarks of every office, factory, and work-call feed into the overall strategy of the firm. This relationship is detailed further in Exhibit 2. The overall quality management process creates a structured, coherent pyramid in which every employee can identify and *measure* his or her contribution to the progress of the company.

As a result, measurement has become a way of life, not just on the factory floor but in accounts payable, the pensions department, and the cafeteria. How can we improve our performance – whether in paying suppliers or in serving sandwiches – unless we measure it? Every department or team has its measures and targets and is using continuous improvement to deliver them.

Exhibit 1

Strategy/Process Correlation

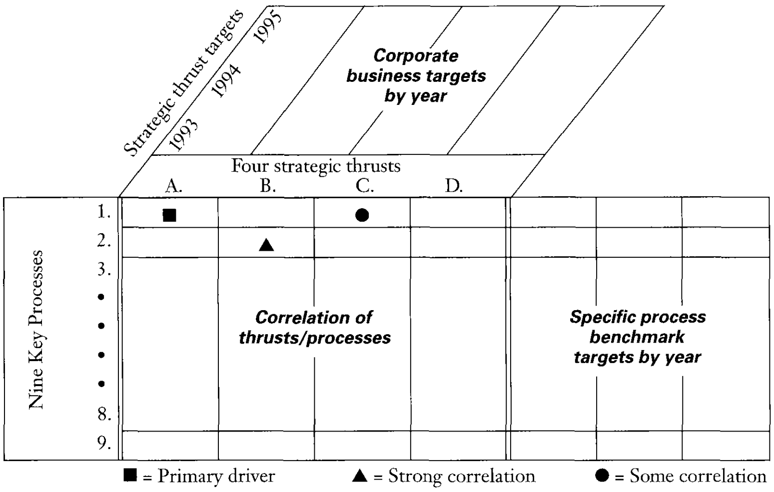
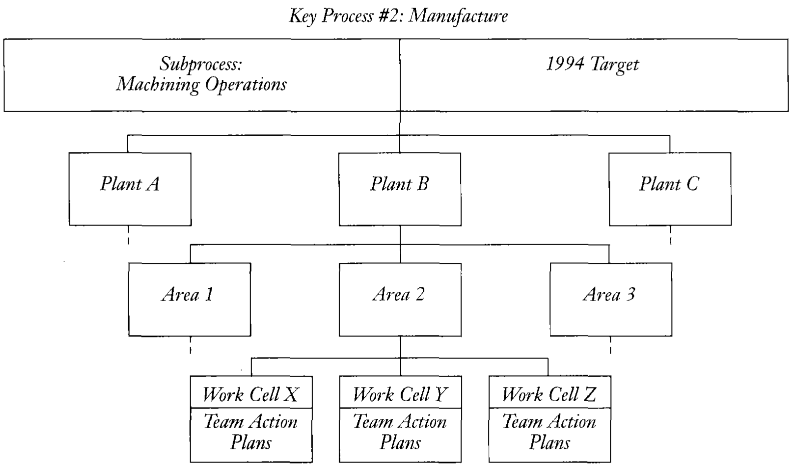


Exhibit 2

Pyramid of Process Benchmarks



Employee Motivation

In transforming the old BL into the new Rover Group, the mobilization and motivation of our work force has been a particularly challenging task. But we are achieving it. Our employees know that we are striving for a single-status company of „associates.“ We’ve already done many of the „usual“ things:

• We’ve eliminated staff/hourly distinction.

• We all eat in the same cafeteria.

• We have no privileged car parking (even for the chairman).

• We all wear the same uniform with full name and no title.

• We all follow the same cost guidelines, such as flying economy.

• Our „Bright-I’s“ suggestion scheme is garnering more than one suggestion per associate per month in some areas, and we are implementing more than 75 percent of these suggestions.

• We are doing all we can to recognize the dignity of every employee and the importance of his or her contribution, as well as the dignity and contributions of our suppliers and dealers.

In addition, we have undertaken some leading-edge initiatives. One of these is the Rover Learning Business. This program, which has replaced our old training department, is managed as a stand-alone operation charged with promoting the personal development of every associate who wishes to improve himself or herself. Our goal is to have at least 90 percent of our associates voluntarily develop themselves, and we are well on the road to achieving this. Each participating associate is helped to construct a „personal development file“ in conjunction with his or her supervisor and learning counselor. This file includes not only work-related learning but also personal study initiatives ranging from languages to hotel management. Why hotel management? Well, some associates don’t want to work on the assembly line beyond the age of 50 and are actively planning their next entrepreneurial careers while working at Rover. Another leading-edge program is the Skills Matrix. At Rover, we tackle all major projects via dedicated, multifunctional teams. The Skills Matrix is a database that contains information on the education, experience, and personal skills of all our associates. It helps us manage this complexity and provide the best resources for each team. Although we initially developed it for allocating engineering resources, we now use it across the company. For example, when I needed recently to find a fluent German speaker with product development experience, the Skills Matrix pointed me to a young designer we had recently hired from Mercedes. Of equal interest, it revealed that we have more fluent German speakers working on our assembly lines than we do in our European Sales organization. Personal development files seem to be working!

The benefits of associate motivation have been fundamental to Rover’s renewal. Without highly motivated associates, we could not have achieved the investment efficiency that has kept us competitive. By global auto industry standards, Rover is not a big player. Nonetheless, we must fund the huge „price of entry“ to stay in the business. New products are our lifeblood, and these cost money – lots of it. Through necessity we have learned how to develop world-class products on a low budget – a competence that is shared by our Japanese competitors and that GM and Ford no doubt long for. This competence rests on associate motivation. For example, in 1992 we had dedicated teams working on three product proposals. When we made spending cuts, these three projects went „below the line“ of affordability. However, thanks to the guts and determination of the project teams and the see-what-you-can do attitude of top management, two of these projects are now „above the line“ at a fraction of our original planned investment, and the third team is pursuing a creative outsourcing route. We will have those new products. Many large companies are striving for this sort of motivation and team empowerment. They should be aware that it presents certain challenges of its own. Our five-year experience with this operating style has taught us, above all else, that teams need guidance. Having 30 empowered but undirected teams out there bouncing around like billiard balls can be ten times worse than having three „power chimneys.“ In a motivated, empowered organization, the role of top management is no longer checking, chastising, and conflict resolution. Management’s role is to provide clear guidance that everyone can understand. This means establishing the vision, strategies, and terms of reference within which these energetic billiard balls will willingly confine themselves. This is the new intellectual challenge for management.

Extraordinary Customer Satisfaction has served Rover Group well as a vision. Through our detailed work in strategy, process improvement, and people management, we are renewing the firm. There is still much to do and the vision will continually evolve. But, with the dedicated commitment of our associates, we are facing the future with confidence.

Alan D. Martin is presently business strategy director for Rover Group, responsible for group strategic direction and the business planning process. Prior to joining Rover, he was a senior staff member at Arthur D. Little and a key contributor to the company´s automotive and product creation process practice areas.