



Weekly Car Dealers Newsletter

July 30, 2007

This information that follows is taken from sources including *The Carconnection*, *Autoweek*, and other industry sources.

Week of July 30, 2007

**ALERT CHEVY DEALER FOILS HUGE INTERNATIONAL VEHICLE SALES SCHEME
AT WITZ' END: CAN DETROIT SURVIVE?
[CHRYSLER LOOKS TO REDUCE DEALER RANKS](#)
IS HYBRID FEVER COOLING?**

ALERT CHEVY DEALER FOILS HUGE INTERNATIONAL VEHICLE SALES SCHEME (An Ohio couple pleaded guilty to fraudulently buying \$2.7 million in vehicles for export)

An Ohio Chevrolet dealer's suspicions led authorities to unravel a multimillion-dollar international vehicle-selling scheme, according to a report in the *Cincinnati Enquirer*. A married couple pleaded guilty July 23 to dozens of charges stemming from their role in a plan to sell American-made vehicles overseas as "novelty items." The couple admitted to purchasing more than \$2.7 million in vehicles – GMC pickups, Hummers, Corvettes and Cadillac Escalades – at dealerships all over Ohio, to be shipped to a dealership in Australia. Those types of vehicles are not available in Australia, so they were being "ordered" by wealthy Australians who could afford to pay \$120,000 for a pickup that sells for \$40,000 in the U.S. The vehicles were to be reconfigured, switching the steering wheel from the left side to the right side, making vehicles compatible for use on Australian roads. In exchange for filling the Australian dealership's "orders" for the desired vehicles, the couple was paid about \$2,000 per vehicle, plus any applicable vehicle rebates. As a result, they netted about \$160,000 in profits. They each pleaded guilty to 31 charges of attempted tampering with records and a count of engaging in a pattern of corrupt activity. Prosecutors agreed to drop 31 other counts of document tampering against each defendant.

More people could be charged, possibly by officials in Australia. Authorities conducted a months-long investigation after Pulte Chevrolet grew leery of the couple's repeat purchases. From November 2005 through October 2006, the couple bought 25 vehicles from Pulte, each time signing papers declaring they would pay sales taxes in other states. The couple used bogus names and fake addresses in Kentucky, Georgia and Nevada on the documents – and avoided paying about \$186,000 in sales taxes.

AT WITZ' END: CAN DETROIT SURVIVE? By Gary Witzenburg, *TheCarConnection.com*

A lot of hands have been rightly wrung and ink well consumed lately over "Detroit's" prospects for survival. Given all U.S. companies' huge cost disadvantage vs. competitors based anywhere else, can our final three besieged U.S. automakers overcome that plus their union, an indifferent and often hostile federal government, our import-loving media and an apparent majority of Americans still refusing to believe they are worthy and competitive?

We recently asked a trio of trained observers and got some enlightening answers.

"We're in a very fragile time," says David E. Cole, chairman of the Ann Arbor-based Center for Automotive Research (CAR). "Without really big thinking in the labor negotiations, Ford is highly vulnerable and Chrysler is not survivable as a single-entity domestic company. Big thinking means things like trading healthcare debt for equity, which has been proposed and the union hates but might make tremendous sense. It's a new business model, it's happened at UPS and elsewhere, and we need a new business model between labor and management."

Yes, but do UAW leaders understand that? Will they bend and concede enough to save their members' jobs? "Odds are 75 percent they'll do something big and smart," Cole responds, "25 percent they'll do something small and stupid. They've already said they want to maintain a pattern, but if this is just another day at the bargaining table type of contract, it won't work. If they are wedded to incremental contracts, they could take Ford out, and if Ford goes out, the union will die. If there is any kind of a protracted strike, it will be killing itself."

Washington's role

Why is our government-unlike every other one in the world that is fortunate enough to have an auto industry-so indifferent to the strategic and economic importance of ours?

"The federal government has been more bent on persecuting the industry than supporting it. I think there's the history that being big is somehow associated with being evil," Cole goes on. And most people don't realize its economic contribution is so high. The value to the U.S. economy of a car-company job is three to four times that of an average job, with an economic multiplier of 7.5. That means for every automaker job, 6.5 jobs elsewhere-at suppliers and in communities-are supported by that income. Assembly plant jobs have an economic multiplier well over 10.

"One big problem," he continues, "is that our companies are totally responsible for legacy healthcare. There is no government sharing. Every one of the countries where their competitors are based has some type of national system that pools those costs across the entire economy. Our companies have to absorb that cost, so it's a very un-level playing field."

How would he rate their prospects halfway through a pivotal year when foreign brands for the first time will very likely own more than half of the U.S. new-vehicle market?

"GM is on the right course and has a very robust strategy," he asserts. "They're getting the right kind of leadership, common systems and the right things done organizationally. They've got the framework in place, but they have more to do. They can fine-tune different things. But I don't

have reservations on the product side. The last two to three years, their products have all been strong. The turnaround at GM is Ford's and Chrysler's worst nightmare.

"Ford needs a common system worldwide, so that product development and manufacturing-car, truck, Mazda, PAG-all operate on the same process. They tell me they're 2-1/2 years behind GM in getting things together. They also need to look aggressively for collaboration opportunities. I can't imagine why Ford is not in the middle of that dual-mode hybrid program, and it's open to them. Chrysler needs to find the right partners, where they can have global reach, access to technology and scale volumes on a global basis."

A common approach

Harbour Consulting president Ron Harbour, who visits 40-50 plants each year, concurs with Cole's assessment. "It's going to be really tough," he says. "GM is probably strongest of the three right now. They really get it and have made very significant improvement. As I travel globally, I see the same GM, the same measures, the same approach, the same everything."

"Ford has to get some product to market in the next year or two that really differentiates it, or they'll burn through that money very quickly, and there won't be anything left. Chrysler will depend on who's running it. They have worked hard to catch up and have made more progress more rapidly in the last five years than anybody else, but they are still a step behind GM."

Craig Cather, president and CEO of the respected forecasting and consulting firm CSM Worldwide, responds: "The Detroit Three have different challenges in front of them. Their problem in the United States is the fact that they have been around a long time and have built up cost structures over the years that are simply not sustainable. They all have very high legacy costs, and some are doing better at addressing that than others."

"We are quite optimistic about General Motors. We look at GM and are encouraged by the developments we see, including strong product and a very determined and disciplined strategy going forward. Ford has a lot to do, but when you look at it as a global organization, their only real problem is America. They're doing quite well in Europe and Asia, and those successes can be replicated in America. They have changes to make structurally, they're still heavy on cost, and they need to work on their product pipeline, but we're encouraged to see a new energy level in that organization with its new leadership. Chrysler has specific challenges but will have more autonomy to do what they need to do to grow as a global OEM and not be constrained to the degree that they may have been under the Daimler umbrella."

The bottom line

OK, guys, give us your bottom line.

"This whole legacy thing is a huge ball and chain around their ankles," Harbour says. "If I spend \$1,800 on legacy costs, that's \$1,800 I don't have to make a better car. The biggest dilemma the domestics have is creating, again, an image with the buying public that their products are equal to or better than the competition and worth the price on the window."

"In other areas, such as quality and plant cost, they've closed much of the gap. They need to retrench and do fewer vehicles, but do them really well, because they have a limited amount of

resources. Then they have to sweat out the things they can't control as much, like the legacy burden, government regulations and currency exchange rates."

"I would say we're leaning toward a really tough Big Two," Cole predicts, "Toyota and GM, with three and four up for grabs. Toyota and GM have global economies of scale. Toyota has had it for some time, GM has acquired it, and the value of that is enormous."

"These organizations have their backs against the wall," Cather sums up, "but we see a new urgency, and that urgency is ultimately going to make the Detroit industry stronger."

CHRYSLER LOOKS TO REDUCE DEALER RANKS

Chrysler Group has begun warning some of its weakest dealers that it may attempt to shut them down if they don't improve sales within six months, a sign the auto maker is moving more aggressively to cull its network of retail outlets. The move marks an effort by Cerberus Capital Management LP, which is completing its deal to buy a controlling stake in Chrysler from DaimlerChrysler AG, to stem the auto maker's losses in North America. In the past few months, Cerberus has discussed the need to slash dealer ranks with Chrysler executives as well as some of Chrysler's top dealers. Years of declining market share have left Chrysler, General Motors Corp. and Ford Motor Co. with a surfeit of dealers -- a competitive disadvantage. Too many dealers can lead to undercutting of prices, squeezing more-successful dealers and getting less bang for auto makers' marketing buck. Each company has been slowly reducing the number of stores in its sales network but is a long way from reaching the number it needs. Still, the (recent) moves could put pressure on dealers to sell or get out of the business. Source: [Wall Street Journal](#)

IS HYBRID FEVER COOLING? Interest wanes as mileages come down. Are some customers less willing to consider hybrid models once their optimistic high-mileage expectations become more realistic? A new study from J.D. Power and Associates suggests that the answer is yes. The firm's 2007 Alternative Powertrain Study found that among all new-car shoppers polled, 50 percent considered a vehicle with a hybrid powertrain. In 2006, 57 percent said that they considered a hybrid. J.D. Power found that hybrid-considering shoppers this year are willing to pay an extra \$2396 for a vehicle with the technology, but they expect to receive an 18.5-mpg improvement in fuel economy over a similar-size non-hybrid vehicle. The firm noted that consumer consideration for diesel vehicles has risen sharply, from 12 percent in 2006 to 23 percent in the 2007 study. Those considering diesels are willing to pay \$1491 for the option and expect an improvement of 15 mpg. The study also found that interest in hybrids may be waning especially among the youngest age group. Among those 16 to 25 years old, 60 percent considered a hybrid this year, compared with 73 percent in 2006. "In the 2006 study, we found customers often overestimated the fuel efficiency of hybrid-electric vehicles, and the decrease in consideration of hybrids in 2007 may be a result of their more realistic understanding of the actual fuel economy capabilities," said Mike Marshall, J.D. Power's director of automotive emerging technologies, in a company release.

Over the past year, the subject of real-world fuel economy from hybrid vehicles has seen heavy coverage in the mass media, including claims by vocal hybrid owners that they aren't able to meet EPA fuel economy regulations. For instance, a group of Honda Civic Hybrid owners is

suing the automaker in California for publicizing the Hybrid's fuel economy ratings of 49 city, 51 highway. The federal government's testing method for fuel economy is widely known to result in numbers higher than those achievable in real-world driving, especially for hybrid vehicles. However a new testing and calculation method being phased in for the 2008 model year will provide a more realistic estimate, with estimates falling an average of 12 percent in the city and eight percent on the highway. Several hybrid models have been affected far more dramatically. The Toyota Camry Hybrid's ratings have gone from 40 city, 38 highway for 2007 down to 33 city, 34 highway for 2008, and the Civic Hybrid has gone down to a more realistic 40 city, 45 highway. And the stellar 60-mpg city rating for the benchmark Toyota Prius has been cut to a humbler 48 mpg for 2008.
