



## *Weekly Car Dealers Newsletter*

May 21, 2007

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

# Week of May 21, 2007

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**NEWS FROM MAY AUTO TEAM AMERICA MEETING  
WHERE WILL THE UAW GO WITH CERBERUS?  
CHRYSLER AND DAIMLER – WHO TOOK WHOM FOR A RIDE?  
FLINT: FORGET CHRYSLER, CAFE MATTERS  
ETHANOL VIPER GOES FOR RECORD**

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**NEWS FROM MAY AUTO TEAM AMERICA MEETING** I just returned from our May meeting and here are some noteworthy points that apply to us in Canada:

- Reynolds and Reynolds is dead, those of you using the systems will be receiving the new contract from UCS. Take it to your lawyer or call Paul Gillrie! There are many unusual clauses in the contract that you have not seen before. In fact there are many creative “click” charges (you click an icon on the screen or a special link) that if you do so increases your month maintenance cost for the life of the contract.
  - Microsoft has charged directions with their system and are at least 2 years away from rolling out the product
  - An Illinois dealer has been indicted on fraud for offshore tax planning. The new release is attached. These types of “non-resident” plans are in Canada, be aware of the risks.
  - Join us at our CFO meeting on June 13<sup>th</sup> for a further update on Cerberus and Chrysler and how it will affect the whole North American auto industry.
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**WHERE WILL THE UAW GO WITH CERBERUS?** The Chrysler-Cerberus deal this morning alleviates some of the torpor hanging over Auburn Hills, but there's plenty of reason for the automaker's employees to have concern over their future. And no workers are immune from that concern - even those in the United Auto Workers, which face their new owners just as the union's contracts are coming due for renegotiation.

UAW president Ron Gettelfinger realizes that negotiating a new labor deal with Cerberus, rather than DaimlerChrysler, will be radically different than previous deals. "The status quo is gone," Gettelfinger told *TheCarConnection.com*. "We're having to play the hand we're dealt." Gettelfinger, in Monday's tumult, pointed out that in the Cerberus deal, the UAW was provided assurances that there would be no significant job cuts and that Cerberus would indeed assume the \$19 billion pension liability from the Chrysler Group. But other industry observers noted that

private-equity funds are not notoriously patient, and while Chrysler will be able to focus on its turnaround behind the veil of private financing, job cuts are almost a certainty. To that point, the UAW leadership is looking for a "reaffirmation" regarding earlier promises and will want to get it in writing.

On Tuesday, Gettelfinger and his top lieutenants will meet with Cerberus management and selected members of Chrysler management at an undisclosed location to hash out the first steps of the Cerberus takeover. This summer, the UAW will begin its labor negotiations for a new contract - which, no doubt, will be an arduous and potentially paradigm-shifting process in Detroit. In the meantime, Cerberus has pulled out of a potential role in the restructuring of Delphi. Asked whether Cerberus pulled out of the Delphi deal because of UAW opposition, a union exec said, "no," adding that there's no animosity between the union and Cerberus as a result of the equity firm's stance on Delphi's restructuring.

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**CHRYSLER AND DAIMLER – WHO TOOK WHOM FOR A RIDE?** Some years back, author Bill Vlasic, collaborated on an excellent book about the behind-the-scenes machinations that led to that, ahem, "merger of equals," DaimlerChrysler. The bottom line of that effort, "*Taken for a Ride*", was that the skillful and Machiavellian maneuvers of former Daimler CEO Juergen Schrempp simply overwhelmed his less-than-brilliant counterpart, Chrysler Chairman Bob Eaton.

There's little doubt that Eaton was in over his head and may have simply wanted to ink a deal, no matter how lopsided. But in the wake of today's news, with DCX all but giving its U.S. subsidiary away to the private investment group Cerberus, one has to wonder who really took whom for a ride. The likely answer is that neither Daimler, through Schrempp, nor Chrysler and Eaton, had a clue what they were getting into. One man's Napoleonic grand vision, the other's insecurities and limited scope, led to the creation of an entity that never could and never would coalesce into the grand, trend-setting global entity that we were promised.

A big part of the problem can be found in Germany. There was a reason Schrempp used to refer to his own corporate headquarters as the "bullshit palace." And he wasn't even referring to corporate press releases. The problem is that the folks in Stuttgart believed their own BS. Worse, they had a hugely inflated sense of self – easy to understand, I guess, when you're building the benchmark luxury brand – and never really valued what they had with Chrysler. The resentment was palpable and as a result, the trans-Atlantic maker never really came close to achieving the potential synergies it needed to justify the takeover. Chrysler had its own issues and made mistake after mistake, notably continuing to build vehicles that far too few customers wanted to buy – then dumping them into storage lots and, ultimately, loss-making fleets. The U.S. automaker destroyed its own brand, further justifying the scorn of its German sibling.

It will be interesting to see what happens now, with the renamed Daimler AG maintaining a 19.9-percent stake in Chrysler. It would be ironic if it now treats the U.S. brand as a valuable investment and takes the steps necessary to make that pay off – perhaps sharing more of its parts, technology and even platforms. When Schrempp and Eaton jointly rang the opening bell at the New York Stock Exchange in November 1998, they insisted their new entity would be a role model for the rest of the industry, perhaps for business, in general. In a sense, they were right. The dissolution of this trans-Atlantic marriage shows exactly how a mix of hubris and self-delusion can lead to some incredibly bad decisions. And now, in the breakup's wake, it's the acquisition by Cerberus that may be the real sign of things to come.

**FLINT: FORGET CHRYSLER, CAFE MATTERS** More Okay, a few words about Chrysler.

Morale is growing at the Auburn Hills, Mich., headquarters as well it should. The new owners have said they want to build the business, not sell it off. That's good but we must wait to see what they really do, and that is months away. Frankly, Chrysler management has done a poor job. They overbuilt cars and trucks, hid inventories, crammed unwanted vehicles down dealers' throats, issued rebates and fleet deals that caused a huge first quarter losses, and came up with marketing epitomized by the infamous "Lingerie Bowl" and "Put another Spiff on the Hood" thinking. If this team doesn't shape up, they'll be shipped out, but apparently they still have one more chance. Becoming a private company doesn't change the labor situation at all. Chrysler still must honor its contract with its high wages, work rules, pension and medical costs. Changing this by bankruptcy still makes little sense (who wants to buy a car from a bankrupt company?). And the next contract will be decided by negotiations at GM, not at Chrysler, and Chrysler will do a "me too." The union might be conciliatory and offer Chrysler the same savings on healthcare that it's given to GM and Ford. There is one plus factor for the new owners: the Canadian Auto Workers, a separate union, seems to understand the crisis better than the UAW and seems ready to make any concession to save jobs in Canada. This should pressure the American UAW to wake up on concessions lest more production shift to the land of the Maple Leaf.

**On to fuel economy**

That's Chrysler. Now, fuel economy - ultimately a much bigger problem for Detroit.

President Bush has ordered government agencies to develop plans to reduce auto oil use and get it done before he leaves office at the end of next year. That makes it almost certain that something will be done, because the Congress is pushing legislation that would raise CAFE, the Corporate Average Fuel Economy, to 35 miles per gallon over a decade. The Senate has already passed such a law and the House is working on one. The industry has a fighting chance to delay things in the House, but you don't have to be a weatherman to know which way the wind is blowing. More fuel conservation is going to be ordered. In fact, it's getting hysterical. "Everyone has an energy plan for 2020," wrote Thomas L. Friedman, the *New York Times'* two-time Pulitzer Prize-winning columnist. "But we need one for 2007 that will start to have an impact by 2008." He wants an immediate gasoline tax increase of "50 cents to \$1 a gallon at the pump." That's hysteria for sure, but the hysterics are running wild today. So we've got to ask ourselves just what can the industry do to raise fuel economy. Fuel-cell engines turn the wheels with electricity created through hydrogen-oxygen mating. This still is pie-in-the-sky stuff. Don't count on it.

Plug-in hybrids are a step closer than fuel cells. Batteries, probably lithium ion, run the car for 30 miles. When they grow weak, a small car engine - gasoline, diesel, whatever - creates electricity to keep it going. The car can be plugged in overnight to give the batteries a starting charge. Still pie-in-the-sky but a maybe. The trouble is there are no batteries yet that do the job. Hybrids work, and are here. But no one is following Toyota (and Honda to some extent) by making small hybrids. Instead they go in expensive models (like the big Lexus) or pickups and SUVs (coming this fall). The problem must be the cost: a \$5000 battery pack on a \$16,000 car is a big markup but less so on a \$75,000 car. Toyota's great success is the Prius (EPA 48 mpg city, 45 highway) which is the size of its small Corolla.

Toyota gets \$5000 to \$10,000 more for a Prius than a Corolla, but no one else has tried to duplicate that. Hybrid numbers are sure to grow but there's no other big-volume Prius in sight yet. So it's not that big a part of the answer. Diesel has lots of promise but that's all now. The added cost is thousands of dollars per engine, plus more for anti-pollution equipment to meet the tough U.S. rules. If every vehicle sold in the U.S. built were a diesel, we might reach the 35 miles-per-gallon average. But then the air would be oily and we might all have cancer, so it's not happening yet.

### **No miracles**

The point of all that is that there are no easy answers or miracle cures, at least not yet. What about alcohol, ethanol, gasohol? Yes, but the problem here is that people are beginning to realize that using fuel crops for fuel (and biodiesel is included, too) can push up the price of food. Use all the corn for ethanol and we won't be able to afford meat, because the price of feed will skyrocket. It's happening now. Possibly alcohol can be made cheaply from waste products (switch grass, anyone?) but that is yet to be proven. So we'll have to wait. There are ways to push up fuel economy on gasoline engines: superchargers and turbochargers, diesel-like compression ratios, six- and seven-speed transmissions, ever more computer controls, lighter weight, more aluminum. But it all costs money, thousands of dollars per car. The easy tricks are already used, says GM Vice Chairman Robert Lutz.

Adding a few thousand dollars to a \$75,000 BMW is one thing, adding several thousand dollars to a \$16,000 Ford Focus is something else. However, I for one would think it's a better idea than running up the gasoline tax, to say \$7 or \$8 a gallon, which would catch our attention for sure.

It's going to be a lot of work to get that fuel economy up. No time to waste.

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**ETHANOL VIPER GOES FOR RECORD** Karl Jacob is trying to go where no driver has gone before - and he's doing it powered by ethanol. The self-labeled "car enthusiast and entrepreneur" will try on May 18 to set a world speed record for a standing mile in a street-legal, E85-powered Dodge Viper. Jacob says he's doing it to prove that alternative fuels and high performance aren't mutually exclusive.

"The E85 Viper proves that [enthusiasts] can continue pursuing their passion without having to rely on conventional fuel," Jacob said.

Jacob converted his Viper to run on E85 for a prior attempt in April, which ended in mechanical difficulties. The second try will take place at the Mojave Air and Space Port in Mojave, Calif.

Jacob is posting information on his ethanol Viper and his speed attempts at his Web site, [www.e85viper.com](http://www.e85viper.com).

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