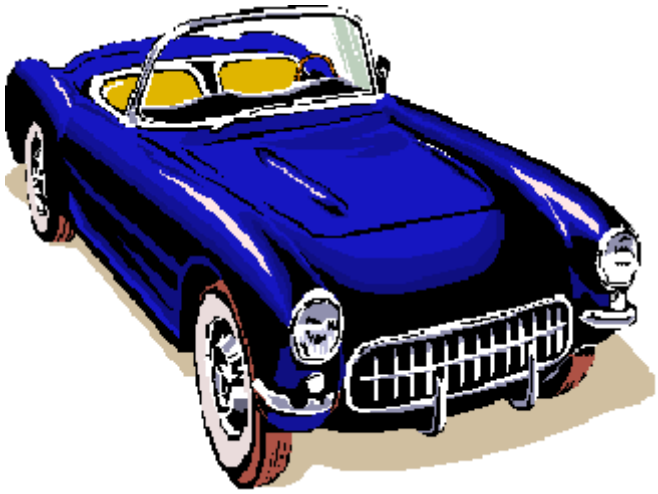
McLARTY & CO

Value Beyond Service



Weekly Car Dealers Newsletter

November 6, 2007

This information that follows is taken from sources including *The Carconnection, Autoweek,* and other industry sources. For more information please call our Edmonton office.

Week of November 6, 2007

CUSTOMIZATION MOVES THE METAL
JUST LIKE YOU REMEMBER IT-ONLY MORE SO
WHY ATTACK JUST FIVE PERCENT OF IT?
CAN GM KEEP MOMENTUM UP?
TOP TEN SELLERS (SEPT YTD 2007) / WHAT"S NEW FOR 2008 MODEL YEAR

CUSTOMIZATION MOVES THE METAL Properly customized cars can move the metal faster and raise profit margins. That was the message Wednesday, Oct. 31, at the *Automotive News* dealer forum panel discussion at the Specialty Equipment Market Association show.

Subaru dealer Bill Kolb Jr., one of the panelists, told an audience of about 250 new-car dealers and dealership employees how he creates his own brand of customized Subaru Legacies by installing such features as leather interiors, special wheels, sunroofs and electronic gear.

Kolb said he then creates special badges that he places on the cars, and advertises the cars in detail on his store's Web page.

Kolb said his sales volume went from five new cars a month to more than 180. "I use accessories and badges to differentiate my inventory. I sell more cars with increased profit," he said.

Kolb says his unique models help him better compete not only with other brandsbut also with other Subaru dealers. His store is in New York's Rockland County.

Hummer General Manager Martin Walsh said Hummer division, General Motors' most accessorized brand, has big plans to increase the ways a buyer can customize an H2 or H3.

He said the brand plans to double the number of accessories consumers can buy from dealers, continue rolling out limited-edition models and launch Hummer Custom Designs, a program that enables buyers to order expensive low-production, high-end models.

"Customization is here to stay. It's not a trend but an expectation. And the profits are there for the taking," Walsh said. The average Hummer buyer adds $1,000 to $2,000 worth of accessories at purchase, he said.

Regardless of the brand, adding accessories sells vehicles. Even during Ford's sales slump this year, customized Mustangs, Tauruses and F-series trucks are rolling off the lot at Ciener-Woods Ford in Kernersville, N.C.

Ed Woods, general manager of the store, says the Ford F-series trucks he customizes with special wheels, running boards and other items give him an advantage over other Ford dealers in the area.

"You need to make your inventory unique from the competition," he said. Woods adds about $1,000 worth of accessories to the cars he customizes.

Tom Carre, of DTC Retail Consulting, said 50 percent of consumers that are offered the opportunity to purchase accessories will buy them. He told dealers they need to set up a sales process that motivates salespeople to offer accessories when customers are shopping for vehicles.

"You need a sales plan," he told dealers, "that offers a sales process 100 percent of the time to 100 percent of your customers."

Carre also gave these tips to dealers:

- ☐ Clearly mark the price of the accessories.
- ☐ Establish a spiffs program that rewards salespeople for selling accessories.
- ☐ Change showroom displays of accessories frequently.
- ☐ Sell gift certificates for accessories so that customers can return later and buy them as gifts.
- ☐ Use only high-quality parts and find a high-quality installer if the items are not going to be put on the vehicle at the dealership.

"Customers tend to forget the great price when something they buy breaks," Carre said. "You have to have good quality."

JUST LIKE YOU REMEMBER IT-ONLY MORE SO - 2009 TOYOTA COROLLA Preview
Toyota 's tenth-generation Corolla has a new, strong identity, the Japanese automaker said in a release announcing the first details and official photos of the American-market version.

Over more than 40 years Toyota has sold 30 million Corollas, making it one of the best-selling nameplates of all time.

Toyota says the new Corolla will be offered in a new body style with five different trim levels: Standard, LE, XLE, S, and XRS. The latter two grades are outfitted with more sporting flair, Toyota says.

As for the body, the automaker says it's about the same size as before, at 178.7 inches long with a 102.7-inch wheelbase. Repackaging grants it more room for passengers and luggage, Toyota claims, and a new suspension gives it more assured, comfortable handling. The S and XRS versions wear a body kit to distinguish them from the plainer versions of the four-door stalwart. Inside, Toyota promises more storage bins and pockets and trays and cupholders and armrests than before, though the Container Store likely doesn't have to worry itself.

There are more substantial changes under the hood, where three Corollas - the Standard, LE, and XLE models - sport a 1.8-liter four-cylinder engine. It's good for 132 horsepower and 128 pound-feet of torque, and when outfitted with the stock five-speed manual, the Corollas with 1.8-liters will sip fuel at a rate of 27/35 mpg. (A four-speed automatic will be an option.)

The XRS version gets a larger powerplant, a 2.4-liter four with 158 hp and 162 lb- ft. Combined with a five-speed manual it can achieve 22.30 mpg; a five-speed automatic will also be offered.

All Corollas will come with dual front, side and curtain airbags, as well as anti-lock brakes. Stability and traction control will be an option.

Other standard gear will include a CD stereo with XM capability and an auxiliary audio jack; a tilt/telescope steering wheel; 60/40 split folding rear seats; and a rear defogger. The S version will add the body kit, a leather-wrapped steering wheel and more speakers for the audio system, while the XRS gets 17-inch wheels, a strut tower brace, stability control, and leather and metallic trim.

Options will include a CD changer; satellite radio; power windows and locks; Bluetooth; a moonroof; and a navigation system.

The Corolla goes on sale in February 2008.

WHY ATTACK JUST FIVE PERCENT OF IT? Corporate Average Fuel Economy(CAFE) the 0.2% solution If CO2 causes global warming, why are critics attacking cars alone?

The man-made global warming theory touted by technologically challenged alarmists, agenda-driven politicians, and their willing accomplices in the mainstream media holds that increasing levels of carbon dioxide (CO2) in our atmosphere is causing our planet to warm, potentially catastrophically. They scold us for burning carbon-based fuel in our automobiles, try to shame us into switching to tiny cars, walking or riding bikes to "save the planet," and cry for dramatically increased Corporate Average Fuel Economy (CAFE) levels.

With many excellent reasons to improve vehicle efficiency, all automakers have worked diligently to do so across their lineups. They do so to stay competitive and satisfy customers' recently increasing demand for it, while simultaneously ramping up their vehicles' levels of luxury, convenience, performance, and safety - all of which adds fuel-consuming weight - to meet ever-higher expectations.

But even if you believe that man-made carbon dioxide - which is not a "pollutant" but the fizz in your beer or soda and the harmless gas that all air-breathing animals exhale - is a major climate change contributor, you should understand how ridiculously futile increasing vehicle CAFE would be as a means of reducing it.

Cars' contribution

The U.S. Environment Protection Agency (EPA) says that 20 percent of the total new CO2 produced in this country by carbon fuel consumption comes from passenger cars and light trucks. The EPA attributes 12 percent to "other transportation" (heavy trucks, planes, trains, boats, and ships), 31 percent to industry, 19 percent to residential, 16 percent to commercial sources, and two percent to agriculture.

So if cutting CO2 is so critically important to the future of our fragile planet, what about that other 80 percent? Are there federal CO2 limits on planes, trains, boats, and big trucks? Nope. The nearly one-third from industry? Nope (long-time limits on actual smog-producing "smokestack" emissions, yes, but not CO2). The 37 percent that comes from from agricultural, residential, and commercial? Nope. Does EPA even count man-made CO2 from lawnmowers, snow-blowers, backyard barbeques, and beers? If so, it has not tried to regulate any of it.

So why is media, public, and regulatory attention focused exclusively on that one-fifth from cars and light trucks?

"That's a good question," says Charles Territo, Communications Director for the Alliance of Automobile Manufacturers, which represents GM, Ford, Chrysler, VW, Porsche, BMW, Toyota, Mazda, and Mitsubishi in Washington . "For the last 30 years, the auto industry has been the only industry that is carbon constrained through the regulation of fuel economy, and we certainly have wondered why it is the only one. Even if you agree that CO2 has to be reduced, there has to be a comprehensive plan. You can't just get reductions from the auto industry and say you are doing something about it."

Despite the rapid economic, population, and fuel-usage growth of China, India and other developing countries, the U.S. is blamed for 25 percent of the planet's human-caused CO2. So the 20 percent of *that* the EPA attributes to U.S. cars and light trucks is just *five* percent of the world's newly generated man-made CO2. But only *four* percent of new CO2 is man-made; 96 percent comes from natural

sources, primarily decaying plant and animal life and solar heating of sea water. So U.S. autos contribute five percent of that four percent, or just *0.2 percent* of new CO2 added to the atmospheric mix. That is what CAFE targets.

And consider that the U.S. vehicle fleet, currently about 250 million cars and trucks, is growing at the rate of six million a year. Even if those new ones get incrementally more fuel-efficient, their per-vehicle improvements will be overwhelmed by that explosive growth.

Would you buy a 35-mpg car?

Legislators, media, and citizens with no understanding of technology or costs share the naive belief that greatly increased CAFE standards will make the same kinds of cars and trucks we enjoy today much more efficient. Those who know better know that's a pipe dream.

One engineer who has worked on CAFE compliance for decades says that to meet a 35-mpg CAFE, passenger cars will have to average 38-39 mpg and trucks 25-28 mpg, and achieving those levels will require virtually all of both to be either diesel or gas-electric hybrids at a probable incremental OEM *cost* (not retail price) of $5000 to $8000 per vehicle. He also points out that EPA uses "harmonic averaging" to emphasize fuel *consumption* (gallons per mile) rather than fuel economy (mpg). "In CAFE math," he says, "to offset a 25-mpg vehicle to get a 35-mpg average, believe it or not, you need a car that gets *58.3* mpg, not 45."

High-CAFE boosters also believe that whatever ultra-efficient vehicles their proposed 35-mpg car and truck standards would bring, people would have no choice but to buy them. But those less thirsty cars (and trucks, if any) would be dramatically smaller and lighter - less room, less comfort, less capability, far fewer features. And due to expensive technology, lightweight materials, and diesel and/or hybrid powertrains, they would be *substantially* more expensive.

Most people buy or lease a new vehicle because they want one, not because they really need one. They invest in a new model because it is clearly better and more desirable than the one it will replace. But if the old, less fuel-efficient one is otherwise far more desirable, why would most not recondition and keep it, maybe indefinitely, and invest the difference in their homes, education, or retirement? CAFE can't force consumers to buy what they don't want.

Given that scenario, the demand for good used vehicles would skyrocket, and what may remain of the auto industry will have to survive on parts and service to keep them running. Is that far-fetched? Resourceful car owners in Castro's Cuba have kept 1950s vehicles going for five decades *without* access to proper replacement parts.

Better solution

If U.S. policymakers *really* want to reduce Americans' consumption of motor-vehicle fuel, they must muster the courage to somehow increase its cost. It should be abundantly obvious to even the dimmest political minds that higher fuel prices will motivate Americans to buy more fuel-efficient vehicles and drive them less - as they do in Europe, Asia, and almost everywhere else. And that boosting CAFE to increase vehicle fuel economy, by contrast, *reduces* the cost of driving, which encourages larger vehicles and more and faster driving.

Most of us remember the infamous 1974 seat-belt/ignition interlock, a well-meaning rule that Congress quickly rescinded as soon as it realized that the NHTSA had issued a mandate that consumers would not accept. That unfortunate mistake was corrected quickly and fairly

inexpensively. But unreasonable and potentially disastrous CAFE requirements will not be easily corrected once in place and *billions* of dollars have been wasted trying to meet them.

CAN GM KEEP MOMENTUM UP? - LUTZ SEES CHALLENGES AND OPPORTUNITIES How quickly things can change. Little more than a year ago, the mood was one of gloom and doom at General Motors headquarters, along theDetroit River. Sales and share were plunging, losses were mounting, and its Japanese arch-rival, Toyota, seemed poised to take the lead in global sales.
As 2007 draws to a close, however, GM's sales and share are stabilizing. Its balance sheet is improving. Toyota is suddenly the one in trouble. It lost global sales leadership back to GM during the third quarter, and in the all-important U.S. market, the Japanese maker is suffering from a string of well-publicized quality snafus.

What may matter most, though, is that GM is rolling out an array of new products that are winning raves - and new buyers. The Chevrolet Malibu, in particular, is being hailed by critics as the first GM mid-size sedan in decades to pose a credible threat in a segment long dominated by the Asians.

"The role of that car (the Malibu) is to gain credibility and stabilize GM's presence in this very large segment," says the U.S. automaker's vice chairman and "car czar," Bob Lutz.

But the man behind GM's ongoing product assault admits that the Malibu alone won't turn things around after years of steady decline.

"We were off our game for 20 years, losing our momentum," Lutz acknowledges, after a day of driving the Malibu with journalists. "So, it's going to take time. It took 20 to 30 years to get, reputationally, where we are today, and it's going to take another two to three years to get a new generation of buyers into GM."

Windows of opportunity

Some analysts would actually see that as overly optimistic. "Out where I live, you don't even see GM products, other than the occasional truck, and that is going to take a long time to change," contends a veteran industry analyst who, because of his work with the automaker, asked not to be identified by name.

Indeed, Lutz concedes that there's a broad public distrust of domestic products, especially in the so-called "smile regions" of the country, the East, West, and Gulf Coasts, and that this skepticism is "much deeper" when it comes to the Big Three giant, General Motors, than it is for Detroit's other manufacturers, Ford and Chrysler.

At the same time, Lutz beams, "It is clear, there is a window of opportunity" that's been opened up by the unexpected problems plaguing arch-rival Toyota. The Japanese marque was recently chastised by the influential *Consumer Reports* magazine, which took several key models, including the V-6 Camry sedan and the four-wheel-drive Tundra pickup, off its Recommended Buy list. Other consumer surveys have dogged Toyota for declining quality and lackluster customer service.

Ironically, some analysts, such as Art Spinella, of CNW Marketing, have used the term, "GM-like," to describe the problems plaguing Toyota . Too big, they caution, and too arrogant. Such criticism may be overly harsh, and the Japanese maker has certainly proved itself capable of quickly fixing problems. So, says Lutz, there's little reason to slow down to enjoy the moment.

"We celebrate on the run," he cautions, adding that "We still have substantial…problems in North America," which have to be fixed. Profitability isn't anywhere near what Wall Street demands. Productivity is improving, but by no means at the industry benchmark. The new contract with union workers closed 75 percent of the cost gap with foreign-owned assembly plants, but there's still a gap. And while studies by the vaunted J.D. Power and Associates, among others, show that GM's quality numbers are rising, they're still by no means the best-in-class.

So, don't worry about GM getting cocky again, insists the septuagenarian former Marine pilot. "I think I'll be retired - or dead," he jokes, before "I will start worrying about reemerging arrogance" at GM.

The fuel-economy push

Though a decade past the point when a top manager would normally retire, Lutz shows no inclination to step down. And his ramrod posture underscores his good health. But despite his generally confident demeanor, Lutz has a lot to worry about.

The biggest challenge, he is asked, and he hesitates only the slightest moment before firing back a question of his own: "Tell me what fuel economy regulations will be. We will live or die on that challenge."

Congress has been studying several proposals which could push the current Corporate Average Fuel Economy, or CAFE, standards well into the 30-mile-per-gallon range. It's a figure Lutz absolutely insists is un-doable - at least not with the current sort of products American motorists prefer. It would force the industry to sell the sort of downsized cars and crossovers now seen in Europe and Japan, he contends, and virtually eliminate the pickups, SUVs, and other light trucks that account for about half of today's U.S. market.

Meeting the challenge would require expensive technology, Lutz contends, so a car like the Malibu , which will average about $24,000, would jump to $34,000.

So, says Lutz, the ongoing debate is holding GM's plans hostage. By now, the automaker would be locking down its product programs through 2012 and even 2013. Instead, "anything beyond 2011 is fuzzy," the executive laments.

And that only underscores why GM can't afford to celebrate, despite the applause it is getting these days for products like Malibu . The turnaround it has experienced over the last 18 months could just as quickly reverse course once again.

Top Ten Sellers - September YTD 2007

Passenger Car			Light Truck		
1	Honda Civic	54,577	1	Ford F-Series	57,354
2	Mazda3	40,722	2	Dodge Caravan	44,000
3	Toyota Corolla	33,754	3	Dodge Ram Pickup	33,056
4	Toyota Yaris	28,576	4	GMC Sierra	31,589
5	Chevrolet Cobalt	26,648	5	Chevrolet Silverado	31,282
6	Toyota Camry	22,744	6	Ford Escape/Hybrid	24,756
7	Pontiac Pursuit/G5	20,331	7	Ford Ranger	18,071
8	Ford Focus	18,387	8	Pontiac Montana SV6	15,354
9	Toyota Matrix	17,953	9	Chevrolet Uplander	15,060
10	Nissan Versa	17,612	10	Honda CR-V	14,902

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

Segments based on AIAMC segmentation

** Brand new models for 2007 calendar year*

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What's New For 2008 Model Year

- Ford allocates production of the Lincoln Town Car to the St. Thomas assembly plant after closing down the Wixom, MI production facility in May 2007, where the Town Car was assembled since its debut in 1981.

- General Motors moves production of the new Saturn Vue from the Spring Hill, TN assembly plant to Ramos Arzipe production facility. The Spring Hill facility will be idled until 2009-2010 when production begins on a new LAMBDA sourced Chevrolet crossover.

- The Twin Cities Assembly Plant built in 1924, the oldest Ford Plant still in operation, will be closed in 2008 along with the Norfolk, VA plant as part of Ford's Way Forward Plan. The Twin Cities Assembly Plant currently builds the Ford Ranger and Mazda B-Series. There have been no replacements named for production of these two vehicles. DAR

Canada Passenger Car Sourcing

CHRYSLER	
Brampton, Ont.	Chrysler 300 Series Dodge Charger
FORD	
St. Thomas, Ont.	Ford Crown Victoria Lincoln Town Car Mercury Grand Marquis
GENERAL MOTORS	
Oshawa, Plant 1	Chevrolet Impala
Oshawa, Plant 2	Buick Allure/LaCrosse
HONDA	
Allison, Ont. Plant 1	Acura CSX Honda Civic Sedan/Coupe
Allison, Ont. Plant 2	Honda Civic Sedan
TOYOTA	
Cambridge, Ont.	Toyota Corolla, Matrix

Source: DesRosiers Automotive Consultants Inc. and Ward's Automotive Reports

Canada Light Truck Sourcing

CAMI	
Ingersoll, Ont.	Chevrolet Equinox Pontiac Torrent Suzuki XL7
CHRYSLER	
Brampton, Ont.	Dodge Magnum
Windsor, Ont.	Chrysler Pacifica, Town and Country Dodge Caravan
FORD	
Oakville, Ont.	Ford Edge Lincoln MKX
GENERAL MOTORS	
Oshawa, Ont.	Chevrolet Silverado GMC Sierra
HONDA	
Allison, Ont. Plant 2	Acura MDX Honda Ridgeline
TOYOTA	
Cambridge, Ont.	Lexus RX 350

Source: DesRosiers Automotive Consultants Inc. and Ward's Automotive Reports