



Weekly Car Dealers Newsletter

September 17, 2007

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NARDELLI: NO SURPRISES FOR A WHILE
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NARDELLI: NO SURPRISES FOR A WHILE After a lightning assault on the industry's senior executive rank, Chrysler's new CEO suggests there'll be no more surprises, at least not in the immediate future. For now, says Chairman Robert Nardelli, his focus will be on running the troubled automaker - and speeding up its recovery and turnaround plan. It's been a spectacular run in the weeks since the former Home Depot boss signed on with Chrysler, now a subsidiary of the private equity firm, Cerberus Capital Management. Not only have several former Chrysler all-stars, such as one-time design chief Tom Gale, agreed to consult with the carmaker, but a procession of top managers have agreed to work full-time at Chrysler headquarters, in Auburn Hills, Michigan. What one insider called the "oh, my god," move came Thursday, when Chrysler announced it had hired long-time Toyota chief Jim Press, the highest-ranking American ever to work for the Asian maker. He will serve as co-President, handling the retail side of the business while his counterpart, co-President (and previously Chrysler CEO) Tom LaSorda focuses on union negotiations and day-to-day metal-bending operations.

On Friday, Chrysler hired Phil Murtaugh, the man credited with building General Motors into the giant of the Chinese [auto](#) industry and, more recently, the American face on Shanghai Automotive Industry Co.'s board. Murtaugh is expected to help Chrysler expand its modest presence in the world's fastest-growing automotive market and likely also oversee exports to the U.S. and other markets. Chrysler recently inked a deal with the Chinese carmaker, Chery, to supply its American [dealers](#) with a new line of mini-compacts aimed at competing with the likes of the Toyota Yaris and Honda Fit. Murtaugh's hiring "is proof positive of our commitment to expand our product offerings worldwide," said Nardelli, following a speech to the Automotive Press Association of Detroit, on Friday. Critics contend the carmaker's North American focus has been one reason why it struggles so badly during economic hard times. Nardelli acknowledged it can be difficult bringing so many powerful egos into the same management suite, but he insisted it is possible. "The first thing we have to do is check our egos at the door," he said. His own hiring, and now the addition of Press, has led many analysts to speculate about LaSorda's long-term role at Chrysler. But in his speech and in a subsequent question-and-answer session, Nardelli took pains to praise the Canadian-born executive. And while he didn't promise LaSorda life-long tenure, Nardelli stressed the co-President will be around for some time. LaSorda is the architect of the turnaround plan Chrysler unveiled early this year, around the same time its

former German partners at DaimlerChrysler AG, indicated their interest in spinning off the faltering U.S. automaker. Unlike some new bosses, Nardelli said he chose not to pause that project while he got his arms around Chrysler's problems. Instead, he told the media members, "My goal isn't to slow things down but to speed things up."

Having so many talented senior managers, he explained, will permit a greater degree of "granularity," with each focused on a specific set of issues Chrysler must address. The challenge will be to get each executive to agree to a solution that might require trade-offs but will be, in the long run, in Chrysler's best interest.

How to measure Chrysler's success in turning things around? As a private company, it will no longer reveal some traditional data, notably including profit-and-loss figures. But Chrysler won't take "a bunker mentality," insisted Nardelli, a former star at GE. It will release plenty of other numbers by which its success - or failure - will be tracked, he promised, including sales, production and market share statistics.

VW: MORE "UP!" FOR TOKYO, L.A. While the automaker still needs "to do some homework," it is beginning to look like little more than a matter of time before Volkswagen officials approve a long-considered U.S. assembly plant. One of the key questions left to resolve is whether the automaker will use that facility to produce a product specifically for the American market, agreed several senior officials, or one or more high-volume models that could be exported around the world, in part, to take advantage of the steadily weakening U.S. dollar. The proposed plant, along with the recently-announced decision to move Volkswagen of America's headquarters to suburban Washington, D.C. , underscores the dramatic changes underfoot at the huge German manufacturer. Revitalizing VW's struggling U.S. operations will be critical for the automaker's plans to boost its worldwide sales from six million to eight million cars, trucks, and crossovers by 2010, stressed Volkswagen AG Chairman Martin Winterkorn. "We need a culture of new ideas," said Winterkorn, during a conversation at the Frankfurt Motor Show. And that, added VW's U.S. chief executive, Stefan Jacoby, is why he authorized the move from Detroit to D.C. But Jacoby's boss cautioned that "The move to Washington is just one piece in the puzzle." There's no question the "people's car" company needs to figure out that puzzle. U.S. sales have plunged, this decade, even as VW's global numbers have steadily climbed. For years, the automaker struggled to sell American motorists products primarily geared to the U.S. market. That's relatively easy when the dollar and Euro are in sync, but with exchange rates now painfully lopsided - and no short-term turnaround anticipated - this has become a formula for failure. And certainly for big losses, VWoA running up a reported \$2 billion in red ink during the last two years alone.

Going forward, the American subsidiary will attempt to focus more on its customers' needs and demands and with Winterkorn's blessing, that should mean product more closely in line with U.S. needs. In some cases, that could result in what industry insiders like to call "de-contenting." There may be less of the performance, comfort, and even some safety features that European buyers are willing to pay a premium for. The challenge will be to maintain what Jacoby calls the "VW-ness" of its products. "I don't want a Camry," he insisted, suggesting that while Toyota's mid-size mainstay may be rock solid when it comes to quality, it doesn't quite have the fun-to-drive fundamentals that VW buyers have long relished. Expect the German automaker's products to continue to command a premium, but where they're often 20 percent or more above middle-of-the-road entries, today, that could drop to a five-percent bump as VW brings

production costs more in line. Should all fall into place, Winterkorn is shooting for U.S. sales to triple over the next decade, to at least one million.

On a global basis, VW expects to drive up volumes by a full third, to an anticipated eight million, in 2010. To get there, it is rolling out an array of new products through its various brands, which include not only Volkswagen, but Audi, Škoda, and Seat - the latter two not sold in the States - and the premium marques, Bentley, Lamborghini, and Bugatti. Among the upcoming models that will wear the VW brand badge: the Tiguan, a compact SUV/crossover premiering in Frankfurt, a reborn Scirocco (which may not come to the U.S.), a new minivan developed in a joint venture with Chrysler, and a coupe version of the Passat. For the moment, Winterkorn was not ready to give full confirmation of the UP! minicar, a concept version of which has created quite a stir at the Frankfurt show. But when pressed, the executive acknowledged it will be likely to reach production in a couple years. A second concept version, sharing the New Small Family platform, will debut in Tokyo, next month, while a third variant is on tap for November's auto show in Los Angeles. Eventually, added Winterkorn, there could even be a fourth UP! model, and versions sold through other VWAG brands, such as Seat or Skoda. Winterkorn, meanwhile, confirmed that VW is working on developing several new pickups, but Adrian Hallmark, second in command in the U.S. , quickly cautioned that there are no plans to bring a truck to the States. "With four other projects in the pipeline (for the U.S.)," he stressed, "it's not a top priority," especially not with the pickup segment suffering the impact of rising fuel prices.

Going forward, VWoA will focus on four core product segments:

- *compact sedans, such as the Jetta;
- *compact SUVs, like the Tiguan;
- *mid-size sedans, like the Passat; and
- *mid-size SUVs, such as the Touareg.

That's not to say the automaker will ignore other segments. It will, for one thing, add the new, Chrysler-derived minivan. And like the corporate parent, it may add niche models, such as the Passat Coupe and even a larger sedan that would bridge the gap between Passat and the Phaeton.

That controversial, high-line luxury sedan - which competes against the BMW 7-Series and Mercedes' S-Class - has been dropped from the U.S. line-up, though it continues on sale in Europe, China, and other parts of the world. There has been plenty of confusion about Phaeton's future, even among VW insiders. Winterkorn's predecessor, Bernd Pischetsrieder, had planned to drop the four-door, but now, says the new CEO, "Phaeton will have a successor." Promisingly, that news actually led to an increase of nearly 40 percent in the car's European sales. Exactly what the next model will look like isn't clear, though the automaker recognizes there's a step-up gap it may need to fill between Passat and Phaeton. Also unclear, said Hallmark, is whether the luxury car will make a return to the U.S. While some markets are willing to accept the idea of an up-market Volkswagen, the brand has a very different image in the States - and a different buyer. Indeed, added Hallmark, when Phaeton launched, four years ago, only two percent of VW's U.S. buyer base could afford the car. "It's always going to be a stretch," he said, and before authorizing Phaeton's U.S. revival, VWoA officials will need to decide if it fits into the future vision they have for the brand, starting with their move to Virginia.

DETROIT LOSES VT. CO2 BATTLE Automakers have lost a key court fight in the State of Vermont, where a federal judge has opened the door for states to tightly regulate greenhouse

gas emissions. In and of itself, the decision by Judge William Sessions III only applies in the state of Vermont. In theory General Motors, [Ford](#) Motor Co., Chrysler LLC and Toyota Motor Corp., the principal companies involved in the suit, could simply stop selling big vehicles in Vermont to comply with the state regulations likely to follow in the wake of the ruling. However, the Vermont regulations are virtually identical to those in California, which are also being contested in court. The Vermont decision isn't controlling in California but it's very likely to influence the decision the federal court ruling in California and the California new [vehicle](#) market is too large, too rich and too important for carmakers to ignore. If the California controls on greenhouse gases stick, the automakers have no choice but to comply, which could force carmakers to design smaller, lighter and significantly more efficient vehicles.

Environmental groups, which have long pressed for tougher fuel economy and for the regulation of emissions of greenhouse gases such as carbon dioxide, are jubilant. "This ruling takes away the last excuse for delay - it's time for EPA to clear the way for cleaner [cars](#)," said Jim Tripp, General Counsel for Environmental Defense, who helped argue the Vermont case. "The U.S. auto industry should stop litigating and start innovating," he said.

In his 244-page opinion, Judge Sessions also indicated that he believed the automakers could meet the new standards.

Dave McCurdy, president of the Washington-based Alliance of Automobile Manufacturers, insisted only the federal government have the right to set fuel economy standards. The curbs on greenhouse gas emissions are little more than an end run around the federal fuel economy standards, he insisted. "Federal law is designed to ensure a consistent fuel economy program across the country," McCurdy said. "It makes sense that only the federal government can regulate fuel economy. Automakers support improving fuel economy standards nationally, rather than piecemeal and will continue to work with the Congress, the NHTSA and EPA to reduce our oil dependence while increasing fuel economy. "The Alliance will continue studying the decision and considering the options, including an appeal," he said.

Industry options, however, are relatively limited. Congress is pushing for tighter standards and in April, a business-friendly U.S. Supreme Court ruled in April states can demand the EPA issue regulations controlling the emission of so-called greenhouse gasses.
