



Weekly Car Dealers Newsletter

September 24, 2007

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

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**CHALLENGER, ENVI COMING FROM CHRYSLER
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CHALLENGER, ENVI COMING FROM CHRYSLER

2006 Dodge Challenger Drive

Chrysler LLC officials have confirmed the production version of the two-door Dodge Challenger will be unveiled at the Chicago Auto Show in February. Camouflaged Challengers have been spotted driving around Detroit, and the car's retro exterior lines are making it easy to spot. Chrysler officials, however, declined to comment on when the new Challenger will reach showrooms. Deborah Meyer, who joined Chrysler in mid-August after a tour of duty with Toyota, said it was going to be an exciting year for Chrysler. Meyer, in her first public appearance since joining Chrysler, told reporters she was looking forward to her mission with the new Chrysler. Meyer did not have a hand in designing the marketing campaign for the Chrysler minivans that will go on sale Oct. 1. The campaign is significantly toned down from recent ad runs for vehicles like the Nitro and Caliber. Those ads, and their controversial themes, left dealers bewildered and alienated some audiences, particularly the gay market. The minivan campaign is family-oriented and takes deliberate aim at consumers in their 30s and 40s, who have children living with them at home and have very active lifestyles. The campaign also designed to spark some new life in a segment that some analysts have written off as dying.

ENVI for electric

Chrysler also announced it is setting up a new organization to focus on bringing electric vehicles and related advanced-propulsion technologies to market. No date has been set for launching an all-electric Chrysler, but Chrysler will have hybrid SUVs ready in 2008. The new organization, ENVI, will be headed Lou Rhodes, a Chrysler veteran. Rhodes will report to Frank Klegon, Chrysler executive vice president of product development, and Simon Boag, executive vice president of procurement and supply, who will serve as ENVI's co-chairman. "The creation of ENVI allows us to focus on the development of a new generation of environmentally responsible Chrysler, Jeep, and Dodge vehicles," said Robert Nardelli, Chrysler chairman and CEO. "Under Lou's leadership, ENVI will develop electric-propulsion vehicles that will provide customers with more fuel-efficient vehicle options." Even though it is located within the company, ENVI will have

an opportunity to create a unique, entrepreneurial culture all of its own, Chrysler officials said.

FORD FOCUSES AWAY FROM HATCHES Just a week after Ford, in Frankfurt, showed a facelifted 2008 version of its European-market Focus and pulled the wraps off a concept called the Verve, which is expected to herald the design direction of future global small cars, the Dearborn automaker gave U.S. and Canadian automotive press - some of which were in attendance at Frankfurt - an up-close look at the 2008 U.S.-market Focus. The version of the Focus that North America gets, which was first shown at the Detroit auto show this January, gets a very different redesign, with styling cues borrowed from several of Ford's recent U.S. market successes, namely the Fusion and Edge. Like those vehicles, the Fusion gets a prominent chromed grille with horizontal bars - two here, instead of three in the aforementioned vehicles - along with revised sheetmetal all around, a cleaned-up rear appearance, and a revised, sleeker roofline. In recent years, the U.S. Focus has remained competitive with the bulk of the market but has hardly been at the head of the pack by most assessments. It has lagged especially in refinement, ride quality, and interior appointments, and remains based on the first-generation global Focus that was first introduced nearly a decade ago, while that global version has continued to evolve, as a second-generation car, since 2005. Ford aims to solve those issues and make the Focus a great deal more appealing with this latest iteration of the U.S. Focus, which is a step more than a stop-gap refresh but short of a full redesign. The new version boasts a dramatically improved interior, plus a completely recalibrated suspension, better road-noise isolation, and a number of other changes.

The only thing missing here, to us and to a lot of shoppers, is a hatchback.

Since its U.S. launch in 1999, the Focus has been offered in a wide range of body styles, including three- and five-door hatchbacks, four-door sedans, and wagons. The hatchbacks and wagons have never been big sellers in our market, but they have, albeit, been a significant portion of Focus sales. That's before mentioning that hatchbacks are clearly in the midst of a revival that's been underway for several years, albeit gradually. With the success of hatchback body styles of vehicles such as the Nissan Versa and Mazda 3, plus cars like Dodge's hatchback-only Caliber and the upcoming Saturn Astra, the increased supply and demand is clear. So it's curious that Ford decided on the coupe, a model it hasn't had since the ZX2 model offered in the previous, ovoid-styled Escort line. Beth Donovan, product marketing engineer for small and medium cars, said that among cars in this size class, sedans cover 65 percent of the market, and the Focus sedan and coupe that were decided on results in "the best car for the most of the market." Donovan added that during the Focus's development time (about 32 months, according to chief nameplate engineer, Marcio Alfonso), the market share of hatchbacks in the Focus's segment rose from 7 to 11 percent. A third bodystyle in this new Focus lineup isn't ruled out completely, said Donovan, adding that a five-door hatchback would have been the product team's third preference.

North American design chief Peter Horbury alluded to one of the reasons why the company decided to do a coupe; while coupes and sedans typically carry different rooflines, especially toward the rear of the car, he confirmed that the roofline is identical between the sedan and coupe - with the coupe's proportions slightly compromised to achieve that - a choice apparently made to keep manufacturing and development costs down. Stay tuned later this week as we bring you our take on how the revamped Focus drives, and give a rundown on Ford's much-anticipated new Sync interface.

WILL SALES SLOW IN 2008? – Greenspan: stop whinning and start building.

The economic environment is slowly climbing to the top of the list of concerns for consumers and carmakers alike ahead of the meeting of the Federal Reserve Board this week. The American industry's big guns - General Motors chief executive Rick Wagoner, Ford Motor Co. chairman Alan Mulally, and Chrysler chairman Robert Nardelli, have all called for the Federal Reserve Board to cut interest rates. "I would say we should be looking at (rate cuts) to get some confidence, some consumer confidence back and to get some energy back into the markets and some cash back into the markets, which would be good for all of us," Nardelli said recently. As it is, most major forecasts for new car sales have been reduced. J.D. Power & Associates said it now expects sales of only 16.2 million vehicles this year. Doubt also is beginning to creep in about the forecasts for 2008 and some observers are beginning to speculate car sales won't recover until 2009.

Meanwhile, the threat from another hurricane in the Gulf of Mexico drove oil prices over \$80 per barrel briefly. The recent upward pressure on oil, despite a commitment from OPEC to pump 500,000 more barrels of oil per days, has left American gasoline prices near the \$3 per gallon price. Gasoline prices haven't retreated much, except for brief periods, since Hurricane Katrina came ashore outside of New Orleans two years ago, undermining consumer confidence and wrecking the long-range economic and consumer behavior models used by the automakers.

The steady upward pressure on the price of oil also has undermined the price of the dollar. Years ago when the U.S. dollar was fundamentally strong, currency fluctuations really didn't matter much, and the Federal Reserve board could, when necessary, simply ignore them. A falling dollar basically meant that a few German and handful of French companies had to raise prices a bit. Nobody really blinked if the price of a Mercedes-Benz crept up a couple of percent.

The world has changed fairly dramatically, however, since the late 1990s and early 2000s, when then-Fed Chairman Alan Greenspan could stabilize the economic environment by cutting rates. This time around the situation surrounding the falling value of the dollar is more complicated. Cutting rates also would weaken the dollar further and wind up exacerbating the situation. Consequently, Americans could wind up paying more for a lot more products that are now imported rather than made in the U.S., including foodstuffs, oil, and all kinds of basic materials such steel and aluminum used in a wide array of products. The conventional wisdom is that oil and other raw materials have gotten more expensive because of the swift expansion of the Chinese and Indian economies, which also caught commentators by surprise. However, another factor has been the decline in the value of the dollar, which has prompted producers to raise prices on materials sold in dollars in the global market. This time around, it's not only Mercedes-Benz and BMW that will pay the prices. Domestic carmakers also now have a growing stake in making sure the dollar isn't scuttled in the rush for lower rates.

The other difficulty is the unfolding housing bust, which likely will require a workout phase similar to the one put in place after the savings and loan disaster of the late 1980s. For automakers, it also means another round of belt-tightening that goes beyond Detroit's Big Three. Volkswagen has already announced some cuts and other companies are likely to follow. Greenspan, punctuating a week of unhappy news in Detroit, told the CBS' *60 Minutes* that the Big Three should quit whining about a rate cut and concentrate on building better vehicles.