



## *Weekly Car Dealers Newsletter*

July 8, 2008

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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 August 11, 2008

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### [TOYOTA UNIT CUTS STAFF AMID WEAK U.S. SALES](#)

TOKYO -- A production unit of Toyota Motor Corp. said Tuesday it laid off about 800 contract workers in June and August to reduce production of vehicles bound for North America, as car sales in the U.S. continue to slump. However, a spokesman at Toyota Motor Kyushu Inc. said it will rehire 500 contract staff in the autumn or afterward to prepare to increase output, indicating it expects the production adjustment to end in several months. Toyota last week cut its U.S. sales projection for this year to 2.44 million vehicles from its previous plan of 2.64 million.

Source: [\*The Wall Street Journal\*](#)

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### [CHRYSLER, NISSAN IN TALKS TO TEAM UP ON KEY CARS](#)

DETROIT -- Chrysler LLC is in talks with Nissan Motor Co. about jointly producing midsize cars, a partnership that would move the U.S. auto maker toward a radical new business model. A partnership with Nissan on midsize sedans would put Chrysler on a path to becoming a marketer and seller of cars made by others. Under its earlier agreement with Nissan, which is based in Japan, Chrysler will start selling a subcompact car made by Nissan by about 2011. Chrysler also has a deal under which China's Chery Automobile Co. will make small cars for it. This outsourcing approach has worked for computer makers such as Dell Inc., which relies on key suppliers to develop major components, and does limited engineering itself. For the auto industry, using such a model on a wide scale could prove risky. Sophisticated car buyers who are aware that Nissan is manufacturing sedans for Chrysler might simply buy Nissan's version of the car. Source: [\*The Wall Street Journal\*](#)

*A Member of the MacKay Network*

**THE OTHER SIDE OF THE STORY: [CHRYSLER'S CAR PLANS IN QUESTION](#)**

Doubts prompted by reports of Nissan and Chrysler in talks to produce midsize car Reports that Chrysler LLC and Nissan Motor Co. are in discussions to jointly produce midsize cars raise questions about the future of Chrysler's car lineup. If the Auburn Hills automaker is turning to Nissan for help, progress may have slowed or hit a snag in Chrysler's effort to redevelop its midsize cars, analysts said Thursday. That initiative, dubbed Project D, involves a special team of top engineers and designers charged with developing replacements for the Chrysler Sebring and Dodge Avenger sedans. "Down the road, Chrysler could become a company that produces trucks and minivans and then largely sells others' cars," said Aaron Bragman, auto analyst at Global Insight Inc. *Source: [The Detroit News](#)*

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**[GET USED TO THE ROLLER COASTER](#)**

Just as everyone was getting used to the disaster we call the domestic automobile business — gasoline was way more than \$4 a gallon and oil was pushing \$150 a barrel — the unexpected happened. The prices of a barrel of oil and a gallon of gasoline started dropping. Where they will stop, nobody knows. Now the world is finding out just how important flexible manufacturing is and how important it will be in the future. No one can figure out whether the costs of commodities are permanent or will continue to swing wildly. If you decide to hedge by buying futures and there are some wild swings the wrong way, you're going to be in a very uncompetitive position. Automobile dealers are going to be very cautious about their inventory. Today, too many dealers have far too high an inventory of pickups and SUVs — that is, unless the price of gasoline drops another half dollar. Then, perhaps — and only perhaps — American consumers will revert to their old buying habits. It's a billion-dollar poker game these days, and few have a strong hand. *Source: Keith Crain, Automotive News*

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**DOMESTIC MODELS SHOW GAINS IN J.D. POWER QUALITY STUDY**

The results of the annual study by J.D. Power and Associates also show that the auto industry has made significant strides in improving long-term quality and that the difference between the top-ranked Lexus and last-place Land Rover is only two problems per vehicle, according to the *Detroit Free Press*.

Overall, J.D. Power's survey of 52,000 owners of 2005 model-year vehicles found a 5% reduction in problems to an average of 206 per 100 vehicles. Lexus topped the survey, as it has done for 14 years. Mercury and Cadillac took the second and third rankings, followed by Toyota and Acura. The results closely track the scores from J.D. Power's survey of new vehicle quality, which has shown a similar narrowing among models. The top five complaints: wind noise, noisy brakes, vehicle pulling left or right, instrument panel complaints and excessive window fogging.

Ford was the only Detroit automaker to have all of its brands rank above the industry average. GM brands were scattered throughout the rankings; Saab had the largest improvement of any brand, but scores for Buick, Chevrolet, GMC and Pontiac all worsened from last year's survey.

Chrysler again saw its three brands rank below the industry average. While Chrysler and Dodge vehicles improved on their scores, Jeep's problems increased.

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## **GOODWILL IMPAIRMENT PUSHES LITHIA MOTORS TO QUARTERLY LOSS**

Changes in accounting rules, a drop in same-store sales, and the cost of closing several stores drove Lithia Motors to report a loss of \$243.4 million for the second quarter, according to a report in the *Medford Mail Tribune*.

\$210.6 million of the loss is attributable to the impairment of goodwill carried on Lithia's books. Goodwill, or blue sky as it is known in the auto industry, is an intangible business asset representing the amount paid in excess of book value during a dealership acquisition. Changes to accounting policies several years ago ended the previous policy of annual amortization of goodwill and replaced it with a requirement for management to carry out impairment tests in conjunction with interim and annual reporting.

Lithia Motors chief executive Sid DeBoer said the non-cash charges stem from the firm's declining stock price as well as underperforming franchise locations.

"Our current book value is \$13.05, which does not include any appreciation of real estate values," Mr. DeBoer said. "Recent pending and completed store sales have indicated that franchise value and blue-sky exist, particularly with import and luxury brands and domestic stores in stronger market areas. For us to buy those stores today, we would probably have to pay what we spent before, so there is hidden value."

Aside from the charge-off, Lithia reported a profit on continuing operations.

Lithia has made a concerted effort to pay down its debt in recent months. It previously announced it would slash expenses by \$18 million by the end of August, but Mr. DeBoer said that goal was accomplished by the end of July.

Mr. DeBoer said Lithia has reduced its employee count by 1,000 over the past year, leaving about 5,000 on the payroll.

Mr. DeBoer said six dealership sales are under contract. Lithia also received unsolicited bids for two stores that weren't on its sell list and they are now under contract as well.

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## **EUROPE'S LUXURY CAR MAKERS FEEL PAIN**

The shift among consumers to smaller, more fuel-efficient cars has spread to Europe's premium auto makers... "There appears to be a trend toward smaller engines and smaller cars which makes it difficult to sustain profitability at current levels," says Adam Jonas, pan-European auto analyst at Morgan Stanley. Daimler Chief Executive Dieter Zetsche hinted last month that the company may launch some versions of the next-generation A-class and B-class compact cars in the U.S., expanding availability of Daimler's smaller cars. Last week, BMW CEO Norbert Reithofer said the company had canceled plans to produce an X7 SUV, in response to changing customer demands. *Source: [The Wall Street Journal](#)*

## PORSCHE RUSHING NEW CAYENNE

[Porsche](#) senses the tide turning against big SUVs-- and it's rushing a greener Cayenne to market, according to a [blog by Britain's Autocar](#).

Autocar reports the Stuttgart sportscar maker and latter-day SUV adopter is planning a lighter, more efficient Cayenne for market sometime after 2011. The Cayenne cousin, the [Volkswagen Touareg](#), is being replaced in late 2010 or 2011, they report, and [Porsche](#) boss Wendelin

Wiedeking is using his substantial influence at VW to make sure the replacement vehicles are lighter and cheaper to build.

The more compact new SUV has been seen by spy photographers and has been apparently mislabeled as a smaller-than-Cayenne SUV.

[Porsche](#) has said the next Cayenne will offer both diesel and [hybrid](#) powertrains, possibly derived from Audi's new 3.0-liter V-6 turbodiesel. The [hybrid](#) powertrain bows first in the [Porsche](#) Panamera sedan in 2010, and could give that vehicle 30-mpg fuel economy. *Source: Marty Padgett, The CarConnection.com*

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