



Weekly Car Dealers Newsletter

March 17, 2008

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POWER: BUYERS ARE NOT GOING GREEN THE RIGHT DECISION? CHRYSLER CLOSES PACIFICA [CAN LABOR WIN BIG BATTLE AGAINST TOYOTA?](#)

POWER: BUYERS ARE NOT GOING GREEN Even with gasoline threatening to move toward \$4 per gallon in some metropolitan areas, few new car buyers are prepared to lay out more cash for an “environmentally friendly” vehicle, according to a new survey J.D. Power & Associates. “The marketing buzz in the automotive industry is all about green cars and trucks,” said Jon Osborn, research director at J.D. Power and Associates. “While most consumers immediately think of hybrids when considering an environmentally friendly vehicle, the price premium of hybrids may be prohibitive.” Thus, while many new-vehicle buyers may have interest in purchasing an environmentally friendly vehicle, only 11 percent are “very willing” to pay more to do so, Osborn said.

The spring edition of the 2008 Power Auto Offline Media Report also found that new-vehicle buyers willing to pay more for environmentally friendly vehicles are more likely to be female and are highly educated. In addition, the study also found that one in 10 of the environmentally-conscious buyers have already purchased a new hybrid vehicle. The concentration of consumers willing to pay extra for an environmentally friendly vehicle also is largest in the western United States and smallest in the Midwest, the study found. The Power study also finds that new-vehicle buyers who indicate they are very willing to pay more for a vehicle that is environmentally friendly are also more likely to purchase compact vehicles than the average new-vehicle buyer. The environmentally conscious new-vehicle buyer also tends to have owned smaller vehicles previously, which indicates a propensity to consistently choose more fuel-efficient vehicle models, the study found. “However, consumers don’t have to buy a hybrid vehicle to be environmentally friendly. One can still be environmentally conscious by buying a more fuel-efficient vehicle that gets good gas mileage,” Osborn said.

Carmakers generally reported they found more consumers looking at smaller vehicles during February. Overall, however, new vehicles sales dropped more than 7 percent in February. “Despite heavy media attention on hybrid vehicles and the emergence of a greener auto industry, the hybrid market is still in its infancy, and currently comprises only about 2.2 percent of the new-vehicle market,” said Osborn. “However, this segment will continue to grow as more

hybrid models are offered in the marketplace, particularly since gasoline prices are likely to increase and more stringent gas mileage standards are expected to be imposed on automakers.” Overall, owners of hybrid vehicles tend to have more higher and higher household income. They are also about four years older than the average new-vehicle buyer - 54 vs. 50 years of age, Power & Associates found. They also tend to be advocates of their vehicles, and typically provide many more positive recommendations about their ownership experience than do other new-vehicle buyers.

In addition, hybrid buyers and potential hybrid buyers tend to read magazines as such as *The New Yorker*, *Sunset*, and *Wired*, and are likely to watch cable television channels such as CNN and CNN Headline News. The Spring Edition is based on responses from 44,931 principal drivers of new cars and trucks and measures media viewing and readership habits of new-vehicle buyers, focusing primarily on magazine readership and also including television viewing, radio listening, Internet usage and newspaper readership.—*Joseph Szczesny*

THE RIGHT DECISION? CHRYSLER CLOSES PACIFICA “I was as surprised as you,” said the high-ranking executive, when asked his reaction to Chrysler LLC’s decision to close Pacifica, its long-fabled advanced design center, in Southern California. The announcement, made late last week, shuts a facility that has come up with some of the most striking show cars to emerge from the ailing automaker in recent decades, like the Chrysler Chronos, shown above, and with more than a few of them eventually translating into production.

Our (*TheCarConnection.com*) source had worked closely with Pacifica and its team of talented, if eccentric, designers. So it took him by surprise to read the news on the wires, with nary a word from Chrysler’s new management. “They don’t tell us much,” the executive explained, despite the fact that Daimler still owns nearly 20 percent of its former American subsidiary. But the rest is in the hands of Cerberus Capital Management, the giant private equity fund that brought in Bob Nardelli, the former Home Depot boss, to try to save its damaged asset. Nardelli likes to argue that going private has given the carmaker a freedom that it couldn’t have as a publicly-traded company. And that’s true. Decisions can be made far more quickly, with less concern about how the stock market will react. That doesn’t mean the decisions are better, nor that the tempering effects of observation are bad. Nardelli is also quick to insist that Cerberus isn’t just in this for the short haul, hoping to strip Chrysler down to the bare essentials and either sell or whole or in part. But the Pacifica closure makes that just a little bit harder to believe.

There’s little doubt Chrysler has needed to make some big changes. What Cerberus inherited was a company with far too much capacity compared to demand; a maker whose products had missed the mark in numerous key segments; and which, due to its dependence on gas-guzzling trucks, is being battered by the run-up in fuel prices. Nonetheless, there’s increasing concern about some of the cuts being made. Yes, factories have to close, some temporarily, some permanently. Like its cross-town rivals, Chrysler needed the two-tier wage system and reduced health care bill conceded by the United Auto Workers Union. It desperately needs to eliminate undesirable products, paring down to the most critical and popular models. And it must bring its distribution network – read dealer count – down to competitive levels. But in its zeal to downsize, is Cerberus’s hand-picked management team going too far? Some of the workforce cuts threaten to eliminate core competencies that Chrysler will need to survive, some of my sources fear. They say Chrysler may simply not maintain the ability to develop future products

that have the technically sophisticated powertrains, solid platforms and, notably, the eye-catching designs that are needed to be competitive.

The latter point is particularly significant. In the three decades I've covered this industry, as Chrysler has ridden the proverbial rollercoaster, each revival has hinged on breakthrough design. The breathtaking cab-forward styling of the early 1990s changed the industry and positioned Chrysler as the trendsetter. Until recently, there was nothing more eagerly anticipated, among those attending the annual Detroit Auto Show, than Chrysler's concept car roll-out. If we were lucky, we'd be invited, later in the year, to actually drive the prototypes.

"This year, I don't even plan to take them up on the invitation," a seasoned colleague said, recently, reflecting the general perception that this year's crop was among the weakest we've seen from Chrysler in years. It might have been a fluke if we'd been seeing more striking designs on the production side. But while the Charger and Challenger muscle cars are great fun, there's been little real design innovation since the launch of the new aging 300 sedan. And recent sales numbers underscore that. Fixing that should start with some truly unexpected advanced concepts, but with Pacifica closing, it's questionable who will work that magic. If products like the Jeep Commander and Chrysler Sebring are any indication, it isn't happening at headquarters, in Auburn Hills, Michigan.

Chrysler clearly needs to make some major changes. But have the long knives now slashed into bone, in their bid to save the company? It's time for Nardelli and company to demonstrate they can do more than cut. Pacifica might have been a great, short-term balance sheet move, but it doesn't say much for the long-term steps needed to build back the muscle Chrysler needs to survive and thrive.

CAN LABOR WIN BIG BATTLE AGAINST TOYOTA? It has all the makings of an epic battle. Toyota Motor Co. is facing a vote, this week, by workers intent on organizing their assembly plant. It would be a major victory for the labor movement, if the vote goes against the automaker, marking the first time workers have voted in favor of a union at one of the Asian assembly plants in North America. The plant in question is in Cambridge, Ontario, and the union seeking a place on the line is, unexpectedly, the International Association of Machinists, rather than the Canadian Auto Workers Union, which represents all the Big Three plants in that country. But for organized labor, who represents workers is secondary to securing a win.

Since the first transplant arrived in North America, a quarter century ago, the union movement has suffered a steady string of defeats. That first factory, the Honda assembly line in Marysville, Ohio, remains without union. In fact, only a small number of "transplant" lines, whether run by Japanese, German or South Korean carmakers, stamps its products with the "made by union workers" label. And to a one, those exceptions are plants that started out as joint ventures between a foreign maker and one of the Big Three. These include the GM/Toyota-run NUMMI, in Fremont, California, and the Ford/Mazda plant, in Flat Rock, Michigan. Every effort to organize a purely foreign-owned plant has been beaten back – at least so far, which is why the automotive world will be watching so closely when workers at Toyota Motor Manufacturing Canada cast their ballots, on Thursday. "The support we're seeing is overwhelming," Machinists organizer Ian Morland told the Detroit Free Press. We'll see. In the U.S., the United Auto Workers Union has, on several occasions, thought it was bound for glory, only to cancel organizing votes, at the last minute, or to face ignominious defeat at the polls.

Why has it been so difficult? For one thing, most of the transplants in the U.S. have been opened in either right-to-work states or states less friendly to unions. Manufacturers like Toyota have aggressively fought unionization efforts. But the unions, both UAW and CAW, also deserve some of the blame. While it may look good to their current members to call a strike, the threat of labor strife only scares off those who aren't unionized. Many of these first-time autoworkers have been showered with what, to them, are lavish benefits and wages – and by and large, the foreign makers have come close to matching union pay.

But as the transplants become more firmly entrenched, troubles begin, no matter how benevolent they might think themselves. Workers at several Toyota plants in the U.S. have been complaining – and talking to unions – about on-the-job hazards and other issues. These are the same things that opened the door for the UAW, early last century, at the Big Three. So, while a victory in Cambridge wouldn't guarantee a revival of automotive labor unions, it would certainly be seen as a critical first step.
