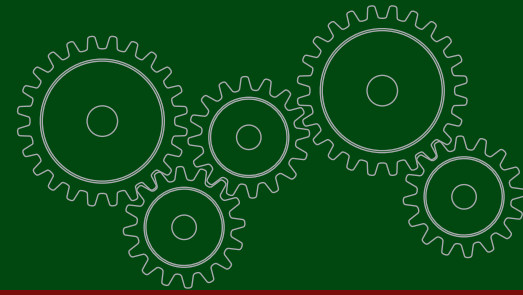




## MANHEIM CONSULTING

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*Accelerate Your Business*

### October 2008

#### OVERALL INDUSTRY:

- September auto sales down 26.6% from prior year; year-to-date sales down 12.8%, first time since February 1993 that the industry failed to reach one million units sold in a month (sold 965,160 vehicles). The SAAR was 12.2 million, down from August's 13.9 million (A SAAR of less than 15 million means a recession in the auto industry). Automotive News as source. Detroit Three as a group off 24.4% in September; GM down 15.6%, Ford down 36.3%, Chrysler down 32.8% (even Toyota was down 32.3%, their worst month in 20 years). For the first nine months, Detroit Three are off 19.3%; GM down 17.8%, Ford down 18.4% and Chrysler down 25.0% (Toyota down 10.4%).
- 2009 U.S. Light Vehicle Sales Forecasts range from 12-14 million, Automotive News, October 6, 2008. Details: Standard & Poor's—14.0 million; Edmunds.com—14.0 million; J.D. Power---13.5 million; Global Insight---13.5 million; CSM Worldwide---13.2 million; Stephens Inc.—12.0 to 13.4 million.
- "Hazardous Conditions: Auto Sales Fell Below A Million In September," New York Times, 10/02/08. "The credit crisis contributed heavily to the steep decline—analysts estimated that it cost the industry up to 100,000 vehicle sales in the final week of the month, on top of lost sales because of high gas prices and the shaky economy."
- "3 Strategies, With The Wolf At The Door: GM, Ford and Chrysler Place New-Product Bets," Automotive News, September 29, 2008. GM: Volt plug-in, and an array of hybrids, plus fuel-efficient diesels and gasoline engines (e.g., turbocharged 1.4 liter engine for the Cruze in 2010—Cobalt replacement—that would top 40 mpg) ; Ford: Small cars, small cars, small cars. Ford will bring 6 European small cars to the U.S., also will offer the cars with EcoBoost engines, which combine turbo-charging and direct injection; ; Chrysler: Plans to line up partners to develop small cars (already aligned with Nissan). Says it will market an electric car in 2010 and spread electrics through existing lineup.
- "What Detroit Likes About The Crisis: It's setting off a shakeout in the showrooms—and carmakers can cut back the number of dealerships," Business Week, October 13, 2008. General Motors will lose as many as 300 dealers this year, 50% more than usual (as of Sept. 1, has 6,550). NADA says 590 dealers have closed so far this year—compared to the 1,200 that disappeared between 2001 and 2008. Bel Air Partners estimates that of the 20,770 dealerships today, about 17,000 will be left in a year or two.



- Ford, GM and Chrysler have tried for years to reduce the number of dealerships, but state franchise laws meant they had to pay to make them go away. GM paid an estimated \$2 billion to buy out Oldsmobile dealers and to phase out the brand (settling dealer lawsuits etc.).
- “Luxury Brands Pack On Deals,” Wall Street Journal, September 9, 2008. Even luxury brands are getting bounced around by a choppy economy; several major luxury brands, including BMW, Land Rover, Mercedes, Lexus and Infiniti are promoting discounted leases or other price cutting deals to spur sales. In August, 63% of luxury-vehicle sales involved some kind of cut-rate financing, compared with 43% a year earlier, according to J D Power’s PIN Network. BMW trying to shift from 60% leases, 40% purchases to a 50-50 mix.
- “Detroit Crashes the Conventions (to make a point for Congressional subsidies),” Business Week, September 15, 2008. Why the rush: GM estimates that it will cost the industry \$100 billion in engineering and plant retooling costs for the automakers to get their fleet up to 35 mpg by 2020, one of the requirements of the energy bill passed last December that also provided for \$25 billion in subsidized loans to the industry.

#### GENERAL MOTORS:

- “GMAC Is Out of Leasing—At Least For Now,” Automotive News, October 6, 2008. In September, leases accounted for less than 2% of GM’s U.S. new-vehicle sales (a year earlier, it was 16.8%. For the full industry, it was 12.3% in September vs. 18.0% year prior). As recently as mid-year 2008, GMAC Financial Services was the nation’s largest auto lessor. GM cannot dictate GMAC’s leasing policy as last year, GM sold a controlling 51% share of GMAC to Cerberus Capital Management. Two examples of the change: Cadillac—8.1% of September sales were leases vs. 43.6% year prior, Buick 1.8% vs. 20.1% year prior. Incoming NADA chairman, who owns two GM stores in Iowa: “the virtual elimination of subvented leases has added \$70-\$90 a month to the retail cost of leases.”
- “Plugged In: GM’s Volt Could Get The Company—And The Country—Off Petroleum,” Time, September 29, 2008. When the Volt debuts in late 2010, it will be powered by a 400 pound lithium ion battery—an energy source that is silent and emission-free. It will allow the Volt to go up to 40 miles on a single charge without using a drop of gas. 80% of Americans drive less than 40 miles per day. Biggest sticking point: prove that the lithium ion battery can last 150,000 miles.

#### FORD:

- “65 MPG---But The U.S. Can’t Have It: Ford’s Sub-Compact Five Passenger Fiesta EConetic Is An Impressive Fuel Sipper—It Just Happens To Run On Diesel,” Business Week, September 15, 2008. Ford will start selling the car next month, but only in Europe. Main stumbling block to selling it in the U.S.—diesel fuel. Half of the cars sold in Europe last year were diesel, less than 10% in the U.S. Taxes aimed at





commercial trucks mean diesel costs from 40 cents to \$1 more per gallon than gasoline, plus Americans still think of diesel as smelly and old technology (even though it is 30% more fuel efficient than gas). Even if Ford imported it, at prevailing exchange rates it would sell for about \$25,700—vs. about \$24,000 for a Prius. Ford doesn't believe that it could charge enough to make money on it in the U.S.

- “Whipsaw: Just When Ford Catches Up to \$4 Gas with a huge overhaul of its factories, the price of fuel may come crashing back down. God forbid,” *Forbes*, September 15, 2008. In 2004, 70% of Ford's vehicle sales were light trucks (pickups, SUVs and minivans); by 2010, when its new crop of European small cars starts hitting the U.S., it expects that to drop to 38%. Ford is currently retrofitting three former large pickup and SUV plants to build the small cars. The largest of those, the Michigan Truck plant outside Detroit, in its heyday in 1999 built 300,000 Expeditions and Navigators, generating as much as \$15,000 profit on each one. Ford is also working on more fuel-efficient, higher horsepower engines in the larger vehicles Americans have historically preferred: by 2010, it will produce a V6 Explorer with more than 200 hp but that gets 26 mpg on the highway (and as a crossover).

#### HONDA:

- “Honda's Flexible Plants Provide Edge: Company Can Rejigger Vehicle Output To Match Consumer Demand Faster Than Its Rivals,” *Wall Street Journal*, September 23, 2008. A decade ago, Honda invested \$400 million in its three Ohio facilities to make them flexible (so they could stop importing the CR-V from Britain when the weak dollar was hurting profit margins). Those plants now can assemble 120 Civics, then stop and five minutes later, start assembling CR-Vs. That manufacturing dexterity is now emerging as a key strategic advantage. GM and Ford are now starting to do the same as they retrofit some assembly plants to build new models; until a few years ago, most plants in North America could make only one vehicle without substantial investment—if sales of that model dropped, they were stuck with a high fixed-cost, not fully utilized plant that was a drain on profits.

#### BMW:

- “BMW To Cut Volume And Jobs in the U.S.,” *Automotive News*, September 22, 2008. BMW's new North American chief—Jim O'Donnell—wants to stop pushing for maximum sales volume in a declining market—even if it means bringing 16 years of U.S. sales increases to a halt. Specific steps: cut lease volume at least 10 percentage points (was 63% in February, down to 50% in August); reduce incentive spending and the traditional December blowout (to get luxury car bragging rights); eliminate 90 North American jobs and change dealer bonuses to boost customer satisfaction.