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U.S. automakers need to leave survival mode, look to future

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The haunting final seconds of the movie The Graduate are a metaphor for the auto industry.

In the 1967 classic, young Ben and Elaine wrench free from parents and a nearly disastrous wedding and escape on a city bus. They drop into the back seat, sparkle momentarily with exuberance, then deflate: Drama's over; now what?

U.S. automakers are now in that back seat. Emerging from financial and market chaos not seen for decades, they now have to shift from crisis mode to their real business: building and selling vehicles buyers want now, while making multibillion-dollar bets on what they'll want later. They must shift from doing business as if their hair were on fire to the sober, long-view approach of more normal times.

"If you operate in emergency mode, you tend to lose sight of long-term plans. If you're in triage all the time, God help you," says Umesh Ramakrishnan, vice chairman at CTPartners, a global executive-search firm in daily contact with CEOs and directors at auto and other companies.

So it's back to work — with some new realities. Analysts, consultants and the automakers agree that for the long term, the survivors must make electric and other clean-fuel alternatives their mainstream task, not a niche.

Survivors must also defend their home market against emerging low-cost rivals such as China, India and Russia, while also trying to sell their products in those growing markets.

They must do it all without running up huge debts. And their future-business alchemy must get underway now, even though it's the worst U.S. sales market in modern history.

"Even though we probably are past the most acute point in the crisis, the industry still is in a period of massive change," says John Casesa, co-founder of auto consultancy Casesa Shapiro Group and before that, a longtime Wall Street industry analyst. All automakers have been slammed by the global recession and financial crisis. Even normally bulletproof Japanese automakers Toyota and Honda have lost money.

The 20 car companies doing business in the U.S. have sold 32.1% fewer new cars and trucks through the first seven months than they did a year ago, according to tracker Autodata. They're on pace to sell perhaps 10 million this year, vs. the 15 million to 17 million typical since 1994.

The collapse sent General Motors and Chrysler into Chapter 11 bankruptcy reorganization. Chrysler emerged in a partnership giving control and 20% ownership to Italy's Fiat Group. GM emerged July 10, and is 60.8% owned by the U.S. government, 11.7% by Canada.

Says Stephen Spivey, senior auto analyst at Frost & Sullivan: "The industry is undergoing major transition, and at the end of the transition, then what?"

Business is so dire throughout the auto world that, "We are back where we were 100 years ago, at a point where we must reinvent the automobile," Toyota Motor (TM) President Akio Toyoda said at an industry conference in Michigan last week.

Look for new blood

Just as Ben and Elaine can't go back to the world as it was, neither can car companies — even though it's been their habit. *"The industry has, sadly, been focused inward for so long, thought it had all the answers," Ramakrishnan says.*

Thus, he was happy to learn that Ford Motor, troubled but strongest of the Detroit 3, is recruiting high-level people outside the auto industry for fresh ideas on cost savings, alternative energy and software.

"You'd typically find hiring managers focusing on the auto industry — go find somebody from BMW or some other auto company," he says. That, he says, "is not going to take us out of the doldrums."

Detroit makers need new ideas to defend their home market while trying to expand globally.

"The next order of business is to prepare to defend against the inevitable attacks of emerging competition" from low-cost producers China and India, Casesa says, while figuring out how to sell in those potentially huge markets. The second priority, he says, is obvious: "Invest aggressively in a global product line," so a single development project results in global sales of vehicles using the same basic hardware.

"This is a Wal-Mart industry," in which a mainstream auto company must sell a million of each vehicle it develops to profit and survive, Fiat Group CEO Sergio Marchionne said in a speech to Swiss bankers last March. An auto company probably needs to "produce 5.5 million to 6 million vehicles per year to achieve the critical mass necessary to have any chance of making an economic profit," he said.

Marchionne now is CEO of Chrysler, too. Together, Chrysler and Fiat account for some 4 million vehicles annually, short of his standard and underscoring his challenges.

One way to defend the home turf is to develop the most-wanted vehicles faster than rivals.

"If you had to put it on a bumper sticker for the U.S. auto industry, it would be, 'We must lead again,' " says Jim Kessler, vice president for policy at Third Way, a not-for-profit Washington think tank usually described as "centrist" and involved with social, economic and political issues.

Kessler and his group think Detroit needs to get in front with "green" vehicles.

"A lot of people who care deeply about the environment feel that buying an American car is not better for America," he says. "They feel that buying a foreign car is better for America, based on the energy performance of the cars."

What should scare Detroit, Kessler says, is that the federal loans to GM and Chrysler "didn't generate a ton of sympathy from the American population." There was "no rallying to the defense of the automobile industry," he says. "In the early '80s, with Lee Iacocca (then-CEO of nearly bankrupt Chrysler), there was."

Get out in front

Detroit needs to "get there first," Kessler says, wherever "there" is. " 'Just-as-good' won't work."

If, for instance, Nissan's emphasis on electric cars — due here from Japan by the thousands in demonstration fleets starting next year, and in showrooms by 2012 — and Toyota's prominence in hybrids seem insurmountable, then Detroit automakers should jump to whatever they see as the next technology, Kessler says.

Simple idea, but not easy.

General Motors tried to do that by leapfrogging hybrids and plug-in electrics to go to hydrogen fuel-cell vehicles. It even put 100 hydrogen prototypes in the hands of consumers for testing. But pressure to field hybrids and electrics just to stay competitive forced GM to simultaneously quick-march development of its Chevrolet Volt battery sedan, due late next year.

GM's decision emphasizes a truism about success in the auto business often voiced by industry analyst and consultant Maryann Keller: What are people buying? Do we have some of those to sell?

In other words, make money now or you won't be in business later, no matter how appealing your future models may seem. Some of the challenges:

Chrysler. In the penurious embrace of Italy's financially fragile Fiat, Chrysler must stay in business on the strength of its vans and pickups for at least a year, probably two. It'll take that long before Chrysler versions of fuel-sipping, spiffy-driving Fiats are in showrooms to draw the mileage-conscious buyers who've rejected Chrysler.

Fiat "doesn't have much money to pour into this," Spivey says. "That's why it's not moving to get the models here sooner." *As Ramakrishnan bluntly puts it: "Two turkeys don't make an eagle.*"

GM. When the new GM was created on July 10, CEO Fritz Henderson talked about a "historic transformation" and "a new beginning."

GM sales analyst Mike DiGiovanni told Wall Street analysts and reporters last month that being out of bankruptcy means "we can turn our attention to selling vehicles." And that, he said, "is going to be a nice thing."

Ramakrishnan cautions, however: "GM has emerged from bankruptcy, but that doesn't mean it's ready to fly. It's still taxiing on the runway, getting up to speed, but at least it's out of the hangar."

GM could be distracted by the complications of selling its European Opel unit. Fiat tried to acquire Opel for no cash, as it did Chrysler, but other bidders emerged, only to be left twisting in the wind as the German government, unions and GM have failed to agree on a deal.

Ford Motor. It hasn't lined up at the federal emergency-loan window because it did its borrowing in 2006 — by mortgaging everything. But now, it must, in effect, buy itself back from lenders while the recession keeps it from making money in most quarters.

Ford is intent on boosting the array of small vehicles it sells here. It has adapted some European-market models for U.S. sale, such as the Transit Connect small commercial van and next year's Fiesta. It has developed others for global sale, such as the next-generation Focus, which will follow Fiesta into showrooms.

But small-vehicle sales have resulted in small, if any, profits in the U.S. And even with economies of scale, such as those that Fiat's Marchionne envisions, it's tough with small cars "to make the business equation work," says Ford CFO Lewis Booth.

"Ford has narrowly escaped the worst possible outcome in the U.S. crisis," says Casesa. But he adds, "It's one thing to avoid Chapter 11. It's quite another to go head-to-head with Volkswagen or Hyundai or (Chinese makers) BAIC or Chery."

Ford also risks distraction from its continuing effort to sell Swedish automaker Volvo.

But in the end ...

Perhaps the best survival advice comes from John Lampe, retired CEO of Firestone. He was on the hot seat for the 2000 to 2001 tire recalls following tire failures on Ford Explorers that resulted in about 200 deaths.

The crisis threatened to put the venerable company out of business, but by 2003, it had reorganized and was selling tires at sustainable profits.

Lampe offered this advice for surviving: "You can't let yourself get so wrapped up in managing the crisis that you forget you have a business to run."

How did Firestone do both at the same time, he was asked? "We worked our butts off."