At Witz' End: Can Detroit Survive?

We ask the experts – and get some hope.

Gary Witzenburg (2007-07-23)
By Gary Witzenburg

A lot of hands have been rightly wrung and ink well consumed lately over "Detroit's" prospects for survival. Given all U.S. companies' huge cost disadvantage vs. competitors based anywhere else, can our final three besieged U.S. automakers overcome that plus their union, an indifferent and often hostile federal government, our import-loving media and an apparent majority of Americans still refusing to believe they are worthy and competitive?

We recently asked a trio of trained observers and got some enlightening answers.

"We're in a very fragile time," says David E. Cole, chairman of the Ann Arbor-based Center for Automotive Research (CAR). "Without really big thinking in the labor negotiations, Ford is highly vulnerable and Chrysler is not survivable as a single-entity domestic company. Big thinking means things like trading healthcare debt for equity, which has been proposed and the union hates but might make tremendous sense. It's a new business model, it's happened at UPS and elsewhere, and we need a new business model between labor and management."

Yes, but do UAW leaders understand that? Will they bend and concede enough to save their members' jobs? "Odds are 75 percent they'll do something big and smart," Cole responds, "25 percent they'll do something small and stupid. They've already said they want to maintain a pattern, but if this is just an another day at the bargaining table type of contract, it won't work. If they are wedded to incremental contracts, they could take Ford out, and if Ford goes out, the union will die. If there is any kind of a protracted strike, it will be killing itself."

Washington's role

Why is our government-unlike every other one in the world that is fortunate enough to have an auto industry-so indifferent to the strategic and economic importance of ours?

"The federal government has been more bent on persecuting the industry than supporting it. I think there's the history that being big is somehow associated with being evil," Cole goes on. And most people don't realize its economic contribution is so high. The value to the U.S. economy of a car-company job is three to four times that of an average job, with an economic multiplier of 7.5. That means for every automaker job, 6.5 jobs elsewhere-at suppliers and in communities-are supported by that income. Assembly plant jobs have an economic multiplier well over 10.

"One big problem," he continues, "is that our companies are totally responsible for legacy healthcare. There is no government sharing. Every one of the countries where their competitors are based has some type of national system that pools those costs across the entire economy. Our companies have to absorb that cost, so it's a very un-level playing field."

How would he rate their prospects halfway through a pivotal year when foreign brands for the first time will very likely own more than half of the U.S. new-vehicle market?

"GM is on the right course and has a very robust strategy," he asserts. "They're getting the right kind of leadership, common systems and the right things done organizationally. They've got the framework in place, but they have more to do. They can fine-tune different things. But I don't have reservations on the product side. The last two to three years, their products have all been strong. The turnaround at GM is Ford's and Chrysler's worst nightmare.

"Ford needs a common system worldwide, so that product development and manufacturing-car, truck, Mazda, PAG-all operate on the same process. They tell me they're 2-1/2 years behind GM in getting things together. They also need to look aggressively for collaboration opportunities. I can't imagine why Ford is not in the middle of that dual-mode hybrid program, and it's open to them. Chrysler needs to find the right partners, where they can have global reach, access to technology and scale volumes on a global basis."

A common approach

Harbour Consulting president Ron Harbour, who visits 40-50 plants each year, concurs with Cole's assessment. "It's going to be really tough," he says. "GM is probably strongest of the three right now. They really get it and have made very significant improvement. As I travel globally, I see the same GM, the same measures, the same approach, the same everything.

"Ford has to get some product to market in the next year or two that really differentiates it, or they'll burn through that money very quickly, and there won't be anything left. Chrysler will depend on who's running it. They have worked hard to catch up and have made more progress more rapidly in the last five years than anybody else, but they are still a step behind GM."

Craig Cather, president and CEO of the respected forecasting and consulting firm CSM Worldwide, responds: "The Detroit Three have different challenges in front of them. Their problem in the United States is the fact that they have been around a long time and have built up cost structures over the years that are simply not sustainable. They all have very high legacy costs, and some are doing better at addressing that than others.

"We are quite optimistic about General Motors. We look at GM and are encouraged by the developments we see, including strong product and a very determined and disciplined strategy going forward. Ford has a lot to do, but when you look at it as a global organization, their only real problem is America. They're doing quite well In Europe and Asia, and those successes can be replicated in America. They have changes to make structurally, they're still heavy on cost, and they need to work on their product pipeline, but we're encouraged to see a new energy level in that organization with its new leadership. Chrysler has specific challenges but will have more autonomy to do what they need to do to grow as a global OEM and not be constrained to the degree that they may have been under the Daimler umbrella."

The bottom line

OK, guys, give us your bottom line.

"This whole legacy thing is a huge ball and chain around their ankles," Harbour says. "If I spend $1,800 on legacy costs, that's $1,800 I don't have to make a better car. The biggest dilemma the domestics have is creating, again, an image with the buying public that their products are equal to or better than the competition and worth the price on the window."

"In other areas, such as quality and plant cost, they've closed much of the gap. They need to retrench and do fewer vehicles, but do them really well, because they have a limited amount of resources. Then they have to sweat out the things they can't control as much, like the legacy burden, government regulations and currency exchange rates."

"I would say we're leaning toward a really tough Big Two," Cole predicts, "Toyota and GM, with three and four up for grabs. Toyota and GM have global economies of scale. Toyota has had it for some time, GM has acquired it, and the value of that is enormous."

"These organizations have their backs against the wall," Cather sums up, "but we see a new urgency, and that urgency is ultimately going to make the Detroit industry stronger."

Related Articles

Car Dealers Lobby Against 35 MPG by Marty Padgett (7/17/2007)
Big dealer groups try to head off tough standards.

At Witz' End: The 35-MPG Showroom by Gary Witzenburg (6/27/2007)
"Sorry, no vehicles meet your specifications."

June Sales: GM, Ford Drop by Joseph Szczesny (7/9/2007)
Asian brands stride forward while Detroit staggers.