

More Suppliers to Fail

Next 45 days looks grim for many

U.S. Innovation Lagging

New thinking on decline just when it's needed most

Auto Restructuring Not Over

Change to continue for another 20 years

WARD'S 2009 AutoWorld

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MANAGEMENT BRIEFING SEMINARS

Lexus LF-A, Affordable Sports Car Coming

The Lexus LF-A supercar is on, says Toyota Motor Corp. President and CEO Akio Toyoda, who also reveals an "affordable" sports car is on tap.

Toyoda says the auto maker "will soon bring to market" the LF-A, although he doesn't say what countries will retail the model.

The LF-A has appeared in concept form at various auto shows in recent years. It also grabbed attention during testing at Germany's famed Nurburgring track, which is where Toyoda, a race driver, says he drove it.

"I recently took a turn behind the wheel of the Lexus LF-A supercar during a 24-hour endurance competition in Germany on one of the world's toughest tracks. It was a great test for me and a good way to improve an exceptional car that we will soon bring to market."

Toyoda shows a video of himself roaring around the track and says the car he helped drive placed fourth in its class.

Toyoda appears anxious to inject some passion into Toyota's products, often criti-



Toyota Motor Corp.
President and CEO
Akio Toyoda.

cized for being appliance-like.

"My hope is I can transfer some enthusiasm from the race track to our vehicles and make driving fun for our customers around the world."

While the LF-A's estimated \$200,000 starting price will be out of reach for most consumers, Toyoda says he plans to "fast-

track" an affordable sports car that will come to market in the "next few years." (See related story on page 5.)

Meanwhile, he acknowledges the auto maker's struggle to determine the fate of its New United Motor Mfg. Inc. plant in Fremont, CA. Toyoda, himself, worked at

Continued on page 7.

Supplier Downsizing 'Needs to Happen,' Bloom Says

Car czar Ron Bloom says the President's Task Force on the Auto Industry does not intend to bail out struggling parts producers, because the thinning of the supply base must be allowed to run its natural course.

"We're not going to try to stop the rationalization, because preserving capacity

above the demand does nobody any favors," Bloom says in a question-and-answer session after his speech Wednesday.

Downsizing of the supply base "needs to happen," says Bloom, senior advisor to the U.S. Secretary of the Treasury and head of the auto task force. "It would be better if it happened in an orderly way, in a way that did not involve shutdowns of car manufacturing.

"But the government will not get in and decide which steering-wheel manufacturer ought to be the winner or exactly how many steering wheels (General Motors Co.) and Chrysler (Group LLC) and Ford (Motor Co.) and Toyota (Motor Corp.), etc., need. We're going to monitor, but we're not going to manage it."

Bloom says he doesn't know specifically how much contraction is necessary within the supply base. "But I think in the end, supply and demand tend to eventually meet.

"Unfortunately, I don't see an alternative

but to have capacity taken out of the supply base the same way it was taken out of the OEMs," he says, adding the task force fully understands the interrelationships between auto makers and parts producers.

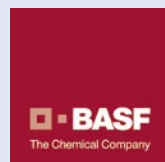
"We are deeply mindful of the importance of the supply base. You can't make cars without steering wheels, but you don't need steering wheels unless you have cars. We intend to be very careful and monitor closely

Continued on page 7.

Car czar Ron Bloom says auto task force will monitor suppliers closely.



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U.S. Industry Restructuring Far From Over

Automotive manufacturing jobs will be where they need to be around the world, says a top consultant, but that doesn't mean they all will leave North America.

"I don't believe in the demise of U.S. manufacturing," says John Hoeffcker, managing director of AlixPartners LLP. "We should not assume that manufacturing is leaving."

However, the U.S. should have a strong industry policy, which it doesn't have now.

"Globalization changes all the rules, whether in textiles, shipbuilding or automotive," Hoeffcker says. "The best companies in the world move from one continent to another. As a nation, we need to know where we want to play."

Policy is important, because wages and the strength of a currency have an important effect on costs in a global market. A recent AlixPartners study found Mexico is a more competitive manufacturing market today than China, in part because the yuan has strengthened more than the peso.

Wages for professionals in India, once about 20% of the rate for comparable jobs in the U.S., now are almost at parity.

"A decision made a year ago can be wrong this year because factors can change rapidly," Hoeffcker says at the 2009 CAR Management Briefing Seminars.

Global competition has aided consumers. New entrants have helped keep the relative price of a new vehicle the same since 1993, while the cost of country-specific items such as education and health care have doubled.

Other industries have gone through the same transformation. The textile industry is a well-known example. Clothing prices have fallen 20% in 20 years as global competition has increased.

The U.S. auto industry has another 20

to 25 years to go before its restructuring is complete, Hoeffcker says, but suppliers with a strong balance sheet and good execution, those in the top 25% of the industry, "will do unbelievably well."

These successful companies are taking sales from those that are failing. And although suppliers "need to take out more capacity, the best ones are getting more out of existing capacity."

Hoeffcker argues auto makers need to listen closely to customers, and suggests the "gadget generation" of young car buyers is not seduced by driving dynamics as much as by clever devices in the car.

"Ford (Motor Co.) has done a good job," he says. "The Sync (multi-media system) has been critical to sales."

EcoBoost and the LCD display on the new Ford Fusion that shows leafy vines growing to indicate green-driving success are other examples of technologies consumers will buy.

"I care about the engine and driving dynamics, but I'm in the 1%. The other 99% will be caring about the interior lifestyle, the look of something. Figuring out what is core to the consumer is critical."

And because electronics inspire the gadget generation, "there will be a different set of suppliers critical to their buying decisions," he says.

The other trend for the future is how to make money on inexpensive cars, Hoeffcker says.

To exploit the volume growth to come from emerging markets in Brazil, Russia, India and China, auto makers need to develop cars that cost one-tenth as much as an average U.S. car. That means a price tag closer to \$3,000 than \$30,000.

John Hoeffcker, managing director, AlixPartners LLP



AlixPartners has worked with 40 auto makers and 140 suppliers, helping them restructure or prepare for change. "In automotive, we are not even half way there yet in the restructuring of a great industry," Hoeffcker says.

U.S. restructuring began in the 1980s, when Japanese auto makers building plants here had a \$2,000 cost advantage in a market where companies made \$1,000 profit per vehicle, he says.

"Because we had defined benefits, we built up a cost structure that the new entrants didn't have. We had an industry that needed restructuring. The beauty of the last year is we have taken the field and flattened it out." ▶ William Diem

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China Not Necessarily Promised Land for Suppliers, Study Says
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Ford Launching Paint Process Globally

Hoping to maintain what it considers a competitive edge in vehicle painting, Ford Motor Co. has launched another innovative process for coating vehicles cost effectively, with minimal environmental impact and outstanding durability.

Bruce Hettle, executive director-manufacturing engineering at Ford, discusses the new Compact Painting Process during his World Class Manufacturing presentation here at the Center for Automotive Research's Management Briefing Seminars.

The process further leverages Ford's application of its "3-Wet" paint technology, which allows coatings to be applied wet, instead of heating and drying each layer individually with energy-consuming ovens. A simple integrated booth replaces multiple stages in the paint shop.

The Dearborn, MI, auto maker, along with its suppliers, launched the Compact Painting Process more than a year ago at the company's Econoline van plant in Avon Lake, OH.

"We have this in Nanjing, China, in production, and it will be in production in Cuautitlan (Mexico) in the first half next year with (the) new Fiesta," Hettle says.

"It will be in the Craiova, Romania, plant, and we're doing facility work there as we speak," he says.

"We're launching now in India, and we have people at the Michigan Assembly complex (formerly Michigan Truck Plant)



Bruce Hettle says Compact Process saves \$25 million.

with suppliers changing that plant over for this manufacturing process."

Michigan Assembly will be home to Ford Focus production next year.

With such a rapid global rollout, Hettle says Ford will achieve significant economies of scale, saving between \$5 and \$10 per vehicle on a cost-per-unit basis. Each application of the process will save Ford about \$25 million, he says.

Other advantages include reducing processing time more than 20%, carbon-dioxide emissions 50% and volatile organic compound emissions 5%.

▶ Tom Murphy

More Auto Suppliers to Start Failing in Next 45 Days

More suppliers are going to fail in the next 45 days as production ramps up and they have no money to buy materials.

If the government would help loosen credit so the companies could get working capital, suppliers could take part in a dynamic future, says Linda Hasenfratz, CEO of Canada's \$2 billion Linamar Corp. and chairperson of the Original Equipment Suppliers Assn.

"I am concerned the actions (already taken for suppliers) are not enough to support the supply base," she says.

"I'm very concerned that not allowing suppliers direct access to the funding they need has unnecessarily weakened the supply base, which as a result will not allow a rational consolidation of the industry. It could affect employment and technology for decades to come."

Hope for a policy change likely is a wispy dream. The request for additional supplier money already has been ignored, and Ron Bloom, the government's automotive task-force leader, tells the audience the White House will do nothing more for suppliers.

Bloom, citing Lear Corp.'s ability to find financing for its bankruptcy, says suppliers are getting credit now, although it might be expensive.

But Hasenfratz says OSEA members claim affordable credit isn't really there. The group's survey in May found 25% of its members already were breaking bank covenants, and another 25% said they would be in that boat by the end of the year.

"Production ramp-up is sure to create a huge issue for the supply base and more than likely trigger another wave of bankruptcies," says Hasenfratz. The ramp-up, after a 50% drop in output in the year's



Linda Hasenfratz.

first half, is happening at the same time "we don't have access to affordable credit."

Many banks are not interested in renegotiation or extending the tenure or level of loans, Hasenfratz says. Those that are willing are charging exorbitant fees at a time when the supply base can't afford additional cost. "The banking community is making the situation at the supply base much, much worse."

The good news for suppliers is that production will rise, and Hasenfratz says the government should continue to encourage consumers to buy cars with incentives.

"We appear to have hit a trough," she says, "and for those of us who survive...the trick is survival."

Production is not likely to rise to the levels of the past, Hasenfratz warns.

► *William Diem*

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Auto Industry Has Bottomed Out, Ford's Fields Says
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Analyst Predicts U.S. Policy Makers Will Favor GM, Chrysler

Government ownership of General Motors Co. and investment in Chrysler Group LLC will lead to policies favoring those companies, predicts Sean McAlinden, the chief economist for the Center for Automotive Research.

While the leader of the White House's Automotive Task Force, Ron Bloom, repeats emphatically that the Obama Admin. policy is to sell its investment as soon as practical, McAlinden doesn't believe it.

"Government participation...will result in national championships, and policy will replace competition, because they have a vested interest," he says.

McAlinden uses Renault SA as an example. France took over the company in 1946, because the owner had collaborated with



McAlinden: Policy will replace competition.

the Nazis. France still owns 15%, and Renault credits the government holding with giving the company stability, without fear of a hostile takeover.

McAlinden is not against the investment by the U.S. and Canada of more than \$100 billion in the auto industry.

"Without that money, commitment and support, we would have lost two of our three auto firms," he says.

Such intervention is not unprecedented, McAlinden notes. It is involved in every sector of industry, from agriculture to airlines. Autos are regulated on safety, fuel economy, site environmental policy, trade, highways and the legal tort system.

"How can the government resist favoring its own companies?" he asks. ► *William Diem*

NEWS

Open Mouth, Insert Foot... Again

"I've gotten myself in trouble on this one a number of times. I'll try and stick my foot back in my mouth again," says Toyota Motor Sales President Jim Lentz when asked the infamous "Prius-brand" question.

Lentz tries to clarify the creation of a Prius vehicle range is his personal passion and not Toyota's.

"The rest of the world hasn't agreed with my vision yet, (so) we're working on timing," he tells media gathered for a roundtable discussion Wednesday.

Lentz says the Prius has "tremendous brand equity" and could be a family of models. However, Toyota must be careful not to "slap" a Prius badge on just any hybrid.

A Little Pro Bono Goes Long Way

Bankruptcy lawyers are busy at Butzel Long, the Detroit firm that does about 40% of its business with automotive suppliers.

Meanwhile, the mergers and acquisitions department hasn't got much to do now, nor do most of the company's other departments.

The company has cut its costs in traditional ways. But it is optimistic enough about the future of the auto industry that it's also cutting its own revenue by working some hours off the clock to help clients get through the rough patch.

Taking Taurus for a Spin

The all-new Ford Taurus is bigger than a Toyota Avalon and Chevrolet Impala. So why does Ford insist on sending subtle messages to the contrary?

During a Tuesday session, Ford's Bruce Hettle plugs the "gorgeous" new Taurus.

"If you haven't seen this vehicle, it's going to be a tremendous hit in the marketplace," the director of manufacturing engineering says. "It's going to redefine the midsize sedan."



Ford Taurus.

Catch the "midsize" reference? That's subtle spin, an attempt to give the Taurus a boost by positioning it against big-volume players such as the Toyota Camry and Honda Accord, where the Taurus no longer has the production capacity to compete.

Come on, folks, call it what it is: a large sedan with a trunk big enough, as former Ford President Jim Padilla once infamously said, "to fit several bodies in the trunk."



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Sports Car Could Be Scion or Toyota

Toyota Motor Corp.'s upcoming new "affordable" sports car alluded to by President and CEO Akio Toyoda in a speech Wednesday will be branded either a Toyota or Scion, a top U.S. official says.

The sports car is the famed "Toyobaru" rear-wheel-drive model Toyota is co-developing with Subaru-maker Fuji Heavy Industries Ltd., Jim Lentz, president-Toyota Motor Sales U.S.A. Inc. reveals in a media roundtable at the 2009 Center for Automotive Research Management Briefing Seminars.

"I think it's going to be great for sales and great for the Toyota image," Lentz says of the car, which Toyota is fast-tracking for production in a "few years," as it tries to inject some vigor into its lineup.

Lentz says the model has been on a shortlist for production, but Toyota prioritized the Venza cross/utility vehicle.

"I can't say if we would have been better off bringing a sports car forward as opposed to the Venza," Lentz says. "I think (the) Venza was the better decision to make."

"Global limited resources" hampered an earlier debut of the sporty model, he says, declining to say if it is more of a "sports car" or "sports coupe."

In February, Toyota-brand Group Vice President Bob Carter told *Ward's* a sports car was desired but not a priority given tight

product-development resources.

Toyota models, Lentz admits, "could be more passionate and have better styling," but that doesn't necessarily mean the car will be branded a Toyota. Scion is due for a next-generation tC sport coupe, on sale in its current form since 2004.

Lentz says if the new model were to be branded a Toyota, there likely would be some market cannibalization from the tC. He says unequivocally the tC will have a next generation.

Pricing for the new sports car has yet to be determined, but Lentz says it will be important to price it within reach of Generation-Y buyers.

Volume targets also are unclear, but "high-volume and sports car are often difficult to use in the same sentence."

Meanwhile, the Lexus LF-A supercar that Toyoda announced Wednesday would go into production will be retailed in the U.S.

Whether the model will be available in both coupe and convertible form is still to be determined, as is pricing and its target demographic.

It is possible Toyota will be able to conquest Italian exotics with the LF-A, but officials say it also could appeal to current Lexus owners. The ideal buyer would be a person with a Lexus LS and an Italian



Lentz says new model under joint development with Subaru-maker Fuji.

exotic already in the garage.

While it will be a very low-volume model, bringing the LF-A to market will be important for Lexus to showcase its technological prowess, Lentz says.

► *Christie Schweinsberg*

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Scion Concept to Debut in New York Hints at Brand's Fourth Model

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American Product Innovation Lags Other Countries

Innovative thinking is declining in the U.S. at a time when it's never been needed more.

"Although we are considered one of the most innovative countries in the world, especially dominating the 20th century, the U.S. is sixth overall, right behind South Korea," says Jeff Disher, president-Disher Design and Development, using data from The Information Technology and Innovation Foundation.

Indeed, America's trading of high-tech products with other countries has been

negative since 2002, Disher says. Just 54% of patents applied for in 2008 were awarded, according to the U.S. Patent and Trademark Office.

Of these, 2% led to products on the market, and only 25% of those have been commercially successful, he says, noting that's equivalent to 0.25% of all patents applied for last year. "That's like one hit in 400 times at bat."

So what's slowing innovation? Often, companies are their own worst enemies, Disher says, citing poor execution, too many projects under development and lack of funding as key reasons for declining innovation in the U.S.

"It will take solving the right problems and solving problems right" for innovation to once again proliferate, he says.

Consumer desirability, business viability and technical feasibility should be equal components of new-product development. Yet, the first goal is where many companies fail, Disher says, citing New Coke.

"If you don't understand the market well enough, you don't understand the problem you're trying to solve."

A strong management team also is a big factor in successful innovation. Disher's firm uses "Whiteboard Wednesdays" to

clear the mental clutter.

Each week, executives hold a half-hour brainstorming session with potential clients that are "free taste tests" of what the firm can do, he says.

The company's innovative thinking has led to the creation of a sill plate for Ford Motor Co., used in the Ford Mustang. The plate utilizes one light-emitting diode instead of the industry standard of 16, saving the auto maker untold amounts of money.

Others speaking on Disher's panel, Accelerated Innovation, say fully integrating all parts of a company in the innovation process is key.

Magna International Inc.'s James Tobin says an auto maker's supply base needs to be brought into the innovation process early. Otherwise, the company runs the risk of finding out later a raw material needed to create a new product is not available.

Dana Clarke, president and CEO of Applied Innovation Alliance, says the stark difference in innovation between Silicon Valley and the auto industry is money. Most of the funding comes from venture capitalists, which like instant gratification that the auto industry's long lead times generally don't provide.

► *Christie Schweinsberg*



Innovation led to creation of one-LED sill plate, Jeff Disher says.



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Lexus LF-A, Affordable Sports Car Coming

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the site, known as NUMMI, and says Toyota still is studying whether to shutter the facility.

Toyoda speaks glowingly of the American market, and says despite current struggles U.S. new-car sales “will not only recover but come back stronger than ever.”

Toyoda cites research showing the U.S.



Toyota CEO Akio Toyoda took wheel of Lexus LF-A at Nurburgring.

population, in the next seven years, is poised to add 21 million people, 17 million of driving age. “All I can say to that is, God Bless America,” he jokes.

But the American auto industry will need to be transformed for the future, Toyoda says, adding peak oil prices are fast approaching and “we are at a once-in-a-century crossroads.”

He reiterates Toyota’s plans to lease a plug-in Prius hybrid-electric vehicle to fleet customers later this year, sell a battery-only electric vehicle by 2012 and bring a hydrogen fuel-cell car to market in 2015.

► *Christie Schweinsberg*

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Supplier Downsizing ‘Needs to Happen,’ Bloom Says

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what’s happening with the supply base.”

Bloom considers the government’s steps to usher GM and Chrysler through rapid bankruptcies this summer as an indirect method of shoring up suppliers to those auto makers.

“If you have a healthy OE, you don’t necessarily have a healthy supply base, but you have the necessary condition (to become healthy),” he says. “I think we put

the necessary conditions in place. I think we set the table for a revitalization of the supply base as well.”

Even though credit remains tight, Bloom says he is hopeful bankrupt suppliers such as Lear Corp. and Delphi Corp. can reform their business models.

► *Tom Murphy*

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