

TOM WALSH: Outsiders doubt Detroit auto revival

GM, Ford, UAW must be ready for a lot of hard work

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NEW YORK -- If you think Detroiters think poorly of our automakers and suppliers, it's doubly depressing to hear the rest of the country talk about the companies that make the Motor City go - or sputter.

Don't take this as a woe-is-us lament, but rather as a reminder of how difficult the return to prosperity will be for **General Motors Corp.** and **Ford Motor Co.** and how resolute the leaders of these companies and the **UAW** must be to pull it off.

"Too many brands, too many dealers, too many plants, too many people," Jerry Pyle said Thursday, listing the woes plaguing GM and Ford. Pyle, president of **Friedkin Automotive**, a Houston-based group of Toyota dealerships, was speaking at the ninth annual **Elite Dealer Summit** of money managers, analysts and the nation's largest auto dealer groups.

Pyle, previously a sales executive with Ford and Chrysler, said Toyota's 12 dealers in the Houston area sell about 3,000 vehicles apiece each year; Chevrolet's 18 dealers and Ford's 20 dealers in that region each sells about half that many.

"I don't really think there's a turnaround in sight" for the falling U.S. market share of GM and Ford, said Rob Hinchcliffe, auto analyst for **UBS Investment Research** in New York.

Noting that **DaimlerChrysler AG's Chrysler Group** improved its fortunes a couple years ago with the home-run success of the 300C sedan, Hinchcliffe added, "When I look at GM and Ford, it's hard to see a home run coming."

Sales of the new Ford Fusion midsize sedan have been solid, Hinchcliffe said. But aside from the bold exterior styling, the Fusion is derived from the Mazda 6, a 3-year-old platform of Ford's Japanese cousin.

Hinchcliffe said he believes GM and Ford have plenty of cash on hand to prolong the threat of bankruptcy and perhaps to fund a sustainable turnaround. He currently recommends selling GM stock; he has a neutral rating on Ford.

Walter Czarnecki, son of a former UAW shop steward, said he feels the same. But Czarnecki, executive vice president of Bloomfield Hills-based **Penske Corp.**, which controls the publicly

traded **United Auto Group** with 300 dealerships worldwide, also worries about whether Detroit's auto giants can keep up with more profitable competitors. The average U.S. Toyota dealer under UAG's umbrella sells 2,895 vehicles a year, compared with 1,553 for its GM dealers, 1,448 for Ford dealers and 1,065 for UAG's Chrysler dealers.

About 90% of UAG's revenue comes from foreign brands. "If you want to invest your money in an auto dealer, where would you put it?" he asked.

Herb Chambers owns 28 dealerships in the Boston area, about 70% foreign brands and 30% domestics. "The domestics don't make any money," he said, "but because they're depressed, the price is right to acquire them."

Sheldon Sandler, founder of **Bel Air Partners**, a New Jersey financial consulting firm specializing in auto retailing, said the priciest of the major dealerships to acquire now is Lexus, which commands a premium of six to 10 times annual profits, in addition to its property. BMW and Mercedes come next, followed by Honda and Toyota, at multiples of four times profits.

Cadillac, Chevrolet and Chrysler stores command premiums of two to 3 1/2 times annual earnings, but Pontiac, Ford, Buick and Lincoln Mercury dealers are sometimes worth no more than the value of the real estate they occupy, Sandler said.

The reason: population trends, which now tend to favor import brands. "Because of the aging boomer population, the luxury and near-luxury customer base is growing," said Glenn Mercer, an automotive specialist with **McKinsey & Co.** "And Detroit's Big Three don't have much of a viable presence in that segment."

Ouch. Ouch. And ouch again.

As a satisfied owner of four domestic vehicles, I know Detroit's not making junk. And in Michigan, where we see the pain of the domestic industry's travails so clearly, it's hard to hear the negativity from the outside world.

But these were the nation's biggest dealers of all brands. Their only bias is toward whatever brands make money for them.

If that picture is a grim one for Detroit, based on perceptions that are maddeningly difficult to change, well, it is what it is.

The leaders of GM, Ford, Chrysler, Delphi, the UAW and all the other major players in Detroit's automotive drama need to keep that in mind every time they think some issue is too tough to tackle right now.

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