



Dennis DesRosiers

The 2010 Detroit Show

Ford President Alan Mulally stood before a packed Cobo crowd, one hand clenched in a Clintonesque pointing fist, the other casually pocketed. He rocked back and beamed his best 'aw shucks' smile - and he said things that were probably true. My colleagues writing for business sections or enthusiast magazines may have been disappointed with the generally-boring array of products on display at this year's North American International Auto Show (NAIAS), but presentations like Mulally's made Detroit 2010 a feast for analysts. With candor, restrained pomp and a not-insignificant amount of deserved swagger, he resurrected dystopic Detroit as a bully pulpit to launch his company's most important global product.

The new Ford Focus is remarkable because it heralds a long-due normalization of global engineering efforts, but its true significance lies in a very basic fact: It is probably the best compact ever released by an American car company. It evinces none of the rough edges or obvious compromises that have forever plagued its predecessors and competitors. The values have changed and the value - to the consumer and to the company - is self-evident.

There were countless other plain truths on display in Detroit. I like to walk the show to get broad impressions, talking to people of all stripes and at all levels within the industry. Out of the wash come key impressions and ideas, some of which have been expanded into themes in the paragraphs that follow. Join me for a walk around the NAIAS.

The auto industry has a pulse

Compared to Detroit's dour 2009 showing, this year's outing was like watching the final minutes of ET.

Studied (but misunderstood), perceived as a burden (not a benefit) and treated as a palliative patient, Spielberg's benevolent alien came back to life. In 2010, the auto industry had a heartbeat.

A pulse - faint - but a pulse nonetheless. The industry is on a path to better times, charging modest sales gains in each successive month. Although the Detroit show was tiny compared to previous years (and relatively thin from a product perspective), there were signs of life. Most companies held press conferences or staged reveals (Chrysler the key exception), some OEMs showed imaginative concepts (GM the most noteworthy), others launched production vehicles and all were covered by a press contingent fuller and more energized than in the previous year.

That said, the show was small. Spaces vacated by cost-cutting automakers were filled with electric vehicle displays (e.g. an "Electric Avenue" on the show floor filled with pricey and unrealistic city cars, flash-in-the-pan Chinese concoctions and 1970s-retro kitsch) and parts supplier booths, seemingly out of sync with everything else going on in the massive hall. The industry is far from its mid-decade highs, but at least it's breathing again. Last year's T-shirts ("Detroit: Where the weak are killed and eaten") were nowhere to be seen, thankfully tucked into history's laundry basket.

Breathless politicking

To paraphrase a classic comedy routine, "I went to a political convention and an auto show broke out!"

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This sector has become utterly beholden to the various levels of government that are simultaneously funding product development and regulating the nature of the products developed. Press conferences at Detroit 2010 spent more time playing to political themes than true customer desires, with fuel efficiency jammed down throats at every display and public fêtings of House Speaker Nancy Pelosi and Michigan Governor Jennifer Granholm drawing more press attention than some vehicle introductions. This is exactly what was predicted when the Government Two were born: the replacement of corporate bean counters with politically-motivated counterparts.

Don't let money flows distract from the agendas at work in present-day autodom. All OEMs are singing the legislative tune - a song we must trust since every single company is terrified of standing up and actually delivering the cars consumers want. The prevailing view through much of the 'regulated era' was that the auto sector ignored Washington. No more; the politicians have won this round and will continue winning if the consumer is sufficiently sated with agenda-driven compromises and party-vetted products. Fortunately, Adam Smith's invisible hand remains stronger than Uncle Sam's descending fist.

Spin, spin, spin!

Speaker Pelosi told us all is fixed and, like Ray Stevens sang in the 1970's, "Everything is Beautiful." GM CEO Ed Whitacre has assured us that GM will make the government "proud." Fiat boss Sergio Marchionne lectures that his companies' competitors are dysfunctional, all failing to learn

lessons from this recession. In other words, when Chrysler doesn't meet expectations, it will be because of what the other OEMs have done (or not done), leaving Auburn Hills blameless.

If this is truly the case, Chrysler is toast. With no press conferences, no new products and a handful of paint-and-tape special editions comprising its 2011 excitement, Marchionne did a yeoman's job working the floor at numerous breakfasts, lunches, dinners and roundtable discussions with invited media. He is a consummate salesman, contrasting the Chrysler turnaround's alleged simplicity with the mire he faced at Fiat. This talking point is clearly meant to blunt criticisms from virtually every analyst in the world, the majority of whom worry that Chrysler remains in dire straits.

We hope that Marchionne's confidence is well-rooted, but if his company's tone-deaf Detroit showing stands as any indication, fear is still justified. Chrysler's rebadging the unfortunate-looking Lancia Delta and providing company reps with no information whatsoever was ill-considered (to be charitable). We wonder if reality will soon penetrate the bubble of Yes Men surrounding this company's decision makers.

Consumers will not compromise

Automakers have clearly decided that the American consumer will not compromise on size or performance. This can be read as a repudiation of the 'mix change' idea (i.e., that American car buyers will adopt a leaner mix of vehicles in similar fashion to those in Canada and Mexico). As such, the only way to meet federal

targets will be through technology, and Detroit 2010 was most certainly a technology conference as much as it was an auto show.

When half of BMW's booth ("booth" undersells the grandeur of NAIAS outposts; "pavilion" would be more appropriate) is dedicated to their various "Efficient Dynamics" systems instead of actual saleable products, we have a problem. When expensive, unproven and presently-unmarketable technologies dominate the floor of the Detroit Three booths, we have a big problem. The issues are manifest, but the most pressing is that all of the efficiency kit required to meet upcoming fuel consumption standards represents an additional \$3,000 to \$5,000 per vehicle. Quite simply, this will have the effect of further shrinking the market for new vehicles. As economists have noted for hundreds of years (and merchants have known for thousands), consumers will buy less when you increase the cost of one good relative to another. Used vehicles will always be a viable alternative if the cost of new vehicles rises [too] sharply.

If consumers buy fewer new cars and light trucks, a spiral could form whereby lower volumes increase the time to amortize the cost of new technology, further increasing end-user costs. Government would then be forced to further increase subsidies to ward off additional industrial failures.

Just as onerous is the fact that technology can be rushed, but not

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to the degree required by present legislation. Time is a precious resource of which all vehicle companies are presently starved. A collision between hard science and arbitrary political promises is set to occur in 2016, with our industry either paying massive fines, removing key products from the market or going cap-in-hand to Washington to beg for extended timeframes. If the latter course is pursued, legislators will inevitably punish the industry by acceding to the time requests but tying the extension to ever tougher standards.

Isolation breeds delusion

One's mind makes curious bargains when trapped in a vacuum. In a world of conditions and compromises and situational everything, it's difficult to name any absolutes. Best diet? Best economic recovery strategy? Best car?

Chrysler and GM are very lucky to have a long runway ahead, as they both have a ways to go before their houses are in order. Chrysler's show display was an embarrassment, but given their present state of disarray, I'm not as hard on them as most analysts. Fiat has had scant time to work its magic, and with few arrows in the quiver (aside from the curiously-absent Grand Cherokee) they couldn't have done much differently. Chrysler will need to impress at Detroit in 2011 and 12.

The matter of General Motors is entirely different and potentially more troubling. If taken in isolation, GM has an exciting story

that can be told in compelling ways. However, when GM's story is placed in its natural context (i.e., among its global peer group), it's clear that some distance remains. It's hard to believe that body cladding (GMC Acadia Denali) and badge engineering (GMC Terrain) - staples of the Old GM and perfectly terrible answers to focus group blather - still run rife. Similarly, the formalization of two Cadillac sub-brands (V-Series and Platinum) seems oddly similar to the slow-but-steady proliferation of confusing and redundant names that marked the worst of GM's efforts over the past three decades.

Even if the product is good - and some of it is very good - it's hard to believe that the ship will be righted with a new Denali. At the other end of the booth, Chevrolet's new Cruze compact sedan is impressive relative to any C-segment vehicle GM has ever released, but look beyond the castle walls and it merely equals the competition. Furthermore, with a beam-axle rear suspension, it fails to match the independently-sprung segment leaders. There are cost and packaging advantages to the setup chosen by GM, but the market appears to value the ride, handling and high-speed composure benefits delivered by competing products with greater suspension refinement. The new Ford Focus, introduced months after the Cruze but ostensibly benefiting from just as much development time, appears to be the superior product.

We are impressed with GM's two B-segment vehicles (production Chevy Spark and concept Chevrolet Aveo RS), but there isn't any profit in these vehicles. American subcompact buyers represent just 3 percent of the

total market, yet these vehicles accounted for a good chunk of Chevrolet's Washington-driven press conference. The fact that competitive subcompacts are finally re-entering the North American market is excellent for Canadian consumers, but the emphasis placed on these vehicles at the Detroit show is indicative of the degree to which legislative goals are out-of-step with popular will.

Cadillac had two undisputed hits with the CTS Coupe V-Series and XTS concept. Vehicles like these are proof-positive that GM has the ability to engineer greatness. Marketing these cars is another matter, however. Audi, BMW, Lexus and Mercedes-Benz now own the luxury segment and all operate with stand-alone dealerships. Luxury is the single segment where an automaker needs both product and a superior dealer experience. As long as Cadillac dealers are forced to share space with their sister GM brands, the dealer experience will be mimicked, not replicated or improved-upon.

It will be interesting to see how GM and Chrysler cope over the next few years. The former has superior product on the showroom floor and superior product in the pipeline, while the latter has a very dynamic leader and energetic management team. GM has much more latent strength than Chrysler, so the key to GM's future lies in the appointment of a leader who can capitalize on this potential. They can only hope to find

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someone as clear headed as Ford got in Alan Mulally.

So - Which company will do better? GM (great product but interim management) or Chrysler (no product but dynamic management). Product usually wins, but I'll be watching this story very closely.

Plug-in hybrids are going nowhere fast

Someone visiting the Detroit show on any given year would get a skewed view of the future. Diesel, ethanol, hydrogen fuel cells, full-electric: all have been hailed as the Next Big Thing and all received their 15 minutes in recent years. In each succeeding year, the previous technology has been all but forgotten and new equipment is heralded as The Answer.

Detroit 2010 was abuzz with plug-in hybrids and I have every reason to believe that a similar fate awaits this technology. Yes, there was much talk in circles automotive and general, but it's crucial to remember that the NAIAS is as much a political convention as an auto industry conference or consumer trade show. Plug-in mania was what the politicians wanted and it's what they got. Remember: the technology for many of these proposed vehicles is so brutally expensive as to radically limit their market. They are largely curios, parked on a desolate row behind other displays and bearing little resemblance to anything remotely saleable in the United States. Even plug-in lease programs like those conducted by BMW and Toyota are political catnip, with unit costs grossly outstripping whatever

token revenues are collected from carefully-chosen participants.

The barriers to plug-in electric technology going mainstream are real and they are serious - and they are a decade or more from being overcome. Winning today's battle is the now-familiar gas-electric hybrid setup, first introduced by Toyota in the late-1990s and now adopted by all major manufacturers. The past decade's experience with this technology has been so successful that hybrids are now poised to go mainstream with serious volume across all segments in the market.

In other words, Toyota won.

Europe returns to the mainstream

This has been creeping for many years, but Detroit 2010 was all about European cars and European values. Both best-in-show vehicles (Ford's Focus and Transit Connect) were engineered on the Continent and hew to the Euro formula: tight suspension, compact dimensions, high quality construction.

General Motors was hot on Ford's heels with the Buick Regal. In fact, some of the first words uttered during the introduction of the Regal GS concept were, "This is actually the German-engineered Opel Insignia." The Chevrolet Aveo RS, while not a European product, was described as a "real hot-hatch," referencing a segment created by Volkswagen and popular in the UK and Western Europe.

Meanwhile, at Chrysler, a large portion of the short and medium-term product plan involves the retailing of rebranded Italian cars in the United States. The contrast between the company's legacy

products and its upcoming Fiat/Lancia/Alfa models was unmistakable.

In a general sense, it appears that many aspects of the European mold have been taken as gospel among the Detroit Three. With a pronounced focus on C-segment products, an acceptance of German-style luxury as the ascendant model and a surprising reliance on European subsidiaries for core platform essentials, it has become clear that "Japanese Quality" - while still a design goal - has taken a very public backseat to European size, engineering and experiential characteristics.

A number of this year's media presentations made frequent use of words like "city," "urban," "tight spaces," "agility" and "maneuverability." New B and C-size cars and concepts were shown driving through towering concrete landscapes, zipping around supertalls and street-parking with ease. Crowded environs are the norm in much of the Old World, but the American built form is a wider one. Whatever happened to the vast spaces and suburban/ex-urban geographies in which the majority of Americans reside? Frederick Jackson Turner wrote in 1893 of the disappearing American frontier, but it took an additional 117 years for wide-open America to truly vanish from the minds of its political stewards. With the seat of power once again shifted to the coasts, Middle America has undergone yet another marginalization. **DAR**