



Dennis DesRosiers

## North American Outlook

We like to publish a “State of the Union” piece on the North American automotive industry at least once a year. As of late, a lot of discussions have involved Ford and its presently precarious position. Capacity reductions in January and August, a management shuffle in September, senior management defections, and a strong public commitment to a truck-heavy lineup all provide ample fodder for the rumour mill.

In all the talk about Ford, GM’s problems seem to be forgotten. A company that many have described as “on the brink,” “troubled,” and “slow” is now being lauded as the most “together” of the Detroit-based automakers. The cynic would say that anything positive coming out about GM is the result of Ford’s scene-stealing negativity, but I’ve thought a lot about this and it occurred to me that, depending on how you look at it, one could regard the past half-century of GM’s history as a success story.

### **The Case for General Motors**

The great myth is that General Motors owned more than 50 percent of the North American

vehicle market during the 1950s. We have never been able to quantify this, but most myths are rooted in some form of truth. If it wasn’t 50 percent, it may have been 45 percent (or even higher), but the fact remains that General Motors was the dominant automotive entity during the immediate postwar period.

Common wisdom held that General Motors has been in a period of continual decline since the crippling blows dealt to the U.S. auto industry in the 1970s: the oil crises; difficult engineering challenges precipitated by ambitious legislative targets; a glut of inexpensive foreign nameplate competitors; and the incredible high quality of foreign vehicles. Most analysts measured the degree of GM’s decline by the amount of share it lost in the U.S. and Canadian vehicle markets, thus forming a negative view. GM did indeed decline from a high 40 share to a mid 20 share of the market, about half their peak performance. This is certainly not good.

While technically correct, this sort of analysis does not take into account the radically-changed nature of competition in the auto

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sector. GM went from being the largest of three (in the 1950s) to the largest of eight

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players (representing 23 unique brands). The pie has been subdivided beyond recognition, so one could argue that it is not fair to compare the GM of 2006 with the GM of 1966, 1976, or even 1986 (at least the GM that operates in North America).

One thing has remained constant over the 45 years for which we have detailed sales results: General Motors still dominates the market in North America. Historically, GM has always been first, Ford second, and DaimlerChrysler third. In the month-to-month sales

results, the second/third/fourth place finishers often jockey for position, but the above rank order usually holds true by the end of the year. Rather than comparing GM with the rest of the market, I believe it's more telling to compare it with the next-largest competitor. How large is GM compared to its greatest rival?

The results will surprise most. In 1960, General Motors sold 200,698 vehicles in Canada versus Ford's 99,746. Therefore, the difference in size between GM and Ford was 201.2 percent. This number rose and fell in the intervening years, but has recently rebounded to the same level. One would imagine that the gap is somewhat smaller these days, but in 2005, GM was 200.1 percent the size of Ford. A U.S. analysis would yield similar

results. In the 1960s GM was 70 percent bigger than its closest rival and in this decade GM is over 80 percent larger than its nearest rival.

This is a positive sign. The market has quadrupled in size, but GM has held onto its large dominance over the second place player. This is no small achievement.

A case can be made that restructuring from the dominant position is one of the reasons GM attracts positive spin these days. Meanwhile, at Ford, being the #2 player doesn't get the same lift.

Granted, GM still has serious problems. In no special order:

- Legacy healthcare costs
- Overcapacity
- Over-reliance on fleet sales, incentives, and extended model cycles
- Some lackluster products

However, big steps have been taken to address all of these issues, with a better GM hopefully emerging on the other side. Whereas, in 1995, it was fairly easy to predict what the GM of the future would look like (very negative), I cannot make the same sort of prognostication today (although likely positive).

## GM and Ford Market Shares

	GM MARKET SHARE	FORD MARKET SHARE	GM SIZE RELATIVE TO FORD
1960	38.4%	19.1%	201.2%
1970	30.6%	25.4%	120.4%
1980	46.7%	20.0%	233.3%
1990	34.2%	20.6%	166.3%
2000	29.9%	18.6%	160.5%
2001	29.3%	16.5%	177.2%
2002	30.0%	15.8%	190.5%
2003	28.0%	15.8%	177.4%
2004	28.2%	14.5%	195.1%
2005	27.8%	13.9%	200.1%
1960-1969	40.4%	23.8%	169.5%
1970-1979	38.6%	24.6%	156.9%
1980-1989	37.4%	20.5%	182.9%
1990-1999	32.0%	20.8%	153.5%
2000-2005	28.9%	15.8%	182.4%

Source: DesRosiers Automotive Consultants Inc., CVMA and AIAMC

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All of this notwithstanding, comparing GM with its next-best competitor makes it clear that the company is still a formidable competitor. What's also clear is that Ford is presently performing at a level dangerously close to its worst-ever period, the 1980-84 stretch where GM routinely doubled Ford's sales results.

Moreover, there appears to be a new tiering in the U.S. and Canadian vehicle markets. GM is still the dominant player, but any of four companies now fight it out for second place. In any particular month, you will find Ford, DaimlerChrysler, Toyota, and Honda swapping places and capturing the sought-after second place position. Likewise, any one of these companies could potentially take the number five slot. Following that, of course, is a long list of third tier and niche OEMs (nearly 20 companies in today's market) that round out the finishing order.

### **Ford: More Troubled Than We Thought?**

The recent turbulence in Dearborn has left us wondering about a few key issues. It seems as though Ford's "solutions" leave more questions than answers in their wake.

First, can an executive with no auto-sector experience fix Ford? Can this be taken as a statement that nothing is wrong with the product side of their business – that the only problems to tackle are on the manufacturing and distribution side? If that's the implicit assumption, I would be very disappointed.

The traditional view is that OEMs get into trouble with bad product, then hoist themselves out of the hole with great product. It's the rare non-car guy who can make decisions that resonate with the vehicle buying public. GM, for all their faults, brought in "Maximum Bob"

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### *Can an executive with no auto-sector experience fix Ford?*

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Lutz, whose hand is starting to show on some of their new models. The model that worked for Ford last time was Philip Caldwell, a classic Harvard Business School finance type and multi-decade industry veteran. He performed a textbook culling of products and plants, then gracefully bowed out and paved the way for Peterson and Poling, two "car people" who led the company into its mid-1980s renaissance. Alan Mulally may have done a spectacular job at Boeing, but

civilian jets and automobiles are at opposite ends of the marketing continuum. It's difficult to see how this man's experience plays to Ford's needs.

Second (and potentially most disturbing), is the rapid departure of Bill Ford. Is this an indication that the company is in deeper trouble than we have been led to believe? When the "golden boy" gets sent to the principal's office, there are usually some hidden gears at work beneath the surface.

Third, if a family member (Bill Ford) could not get the job done, how can a non-family member make these tough decisions? Part of the allure of Bill Ford was that he was the ultimate insider – he could unwind some of the old Ford legacy more easily than a non-family member. Ford needs to jettison some of its older models and plants; will Alan Mulally's knife be as sharp as Bill Ford's could have been?

Fourth, we wonder if the common explanation for Ford's current slump (i.e. being caught off-side in a time of high gas prices) is just convenient spin. Just a cursory look at the numbers indicates that – with the exception of the F-Series pickup – they haven't had very

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much in the way of big hits for quite a long time (and the F-Series is being hurt by the launch of the GMT900 products). The Mustang has been very successful, but it is a niche-market vehicle. In terms of volume vehicles, their entry level products are older and non-descript (e.g. Focus, Ranger, Escape), their mid-sized sales have been tepid (e.g. Freestyle, Five Hundred, Fusion, Freestar, etc.), and Lincoln is a brand in serious trouble. As I understand it, the biggest problems at Ford all roll on four wheels. Attempts to rejuvenate the company need to start with fantastic, exciting, on-target cars. At present, Ford's product portfolio is geared for the year 2000, not 2007. Even with their current restructuring announcements, one has to wait until 2008 to see most of the products that could be hits.

Fifth, is there time enough for Mulally to make the necessary

changes? As mentioned above, the real story at Ford is likely much worse than the PR folks let on. Ford has a great deal of money in the bank, but cash reserves can disappear quickly and it is crystal clear that they are still at least a year away

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from addressing some of their product holes. I was not aware that they had a big manufacturing problem, nor do I believe that the vaunted Toyota Production System (as applied by Boeing) can turn water into wine or move people back into large SUVs. On the other hand, if the Toyota Production System is indeed the solution, it still takes years to implement correctly - time Ford may not have.

Finally, some investment gurus downgraded Ford after their "Way Forward" press conference. You normally see the opposite so Wall Street clearly didn't like what they heard.

As far as the North American market outlook is concerned, a more detailed analysis is forthcoming. For now, however, it will suffice to say that the trends are looking very familiar. The market is soft but by no-means in free fall. Import nameplate OEMs have continued to gain market share over GM, Ford, and DaimlerChrysler, a development helped by the movement away from light trucks. Aided by a summer of high gas prices, small vehicles continue to grow in popularity. As fuel costs drop this fall, it will be interesting to see if this movement continues.

**DAR**

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Mail or fax to:  
 DesRosiers Automotive Consultants Inc.  
 80 Fulton Way, Suite 101  
 Richmond Hill, Ontario, L4B 1J5  
 Tel: 905.881.0400 Fax: 905.881.7456  
 Website: www.desrosiers.ca  
 E-mail: jill@desrosiers.ca