



Dennis DesRosiers

The 2008 North American International Auto Show

With the Detroit show's typically epic media days behind us, I'm finding it easier than usual to process what I've seen. First, where before there existed few differences - or, rather, subtle differences - in the way our three North American automakers approached the market, there are chasms now forming between the players that will soon determine tomorrow's winners and losers.

Second, despite these differences in overall strategy, most manufacturers (with several key exceptions) still struggle with the 'horsepower vs. environment' issue - some

with more success than others, but all with notable movement on both ends of the spectrum.

Third, beyond the omnipresent Green vs. Mean suite of issues, another major takeaway concerns the enlarged Chinese attendance at this year's NAIAS. Despite promises to the contrary, I remain convinced that large-scale Chinese entry into the North American vehicle market remains several years away.

Last, it is becoming clearer with every passing year that certain companies are moving away from their traditional roles as vehicle

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Canadian Light Vehicle Market 2000-2007

Year	Total Market	Entry Level	Entry Level Share	Mid-Size/Family	Mid-Size Family Share	Large/Luxury/Sport	Large/Luxury/Sport Share	Primarily Commercial	Primarily Commercial Share
2000	1,549,441	536,797	34.6%	623,570	40.2%	154,435	10.0%	234,639	15.1%
2001	1,570,629	598,691	38.1%	599,990	38.2%	153,729	9.8%	218,219	13.9%
2002	1,703,246	648,709	38.1%	650,341	38.2%	169,583	10.0%	234,613	13.8%
2003	1,593,506	610,554	38.3%	585,870	36.8%	166,980	10.5%	230,102	14.4%
2004	1,534,415	609,622	39.7%	514,849	33.6%	168,632	11.0%	241,312	15.7%
2005	1,583,291	677,142	42.8%	493,686	31.2%	179,462	11.3%	233,001	14.7%
2006	1,614,701	735,048	45.5%	460,752	28.5%	184,309	11.4%	234,592	14.5%
2007	1,653,388	786,186	47.6%	436,893	26.4%	179,201	10.8%	251,108	15.2%
Change	2.4%	7.0%		-5.2%		-2.8%		7.0%	

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

Crossover Utility Vehicles in Canada 2000-2007

Year	Total Market	Crossovers Vehicles	% Share of Total Market	GM, Ford, DCX Units	GM, Ford, DCX Share of Crossovers	Japanese Units	Japanese Share of Crossovers	European Units	European Share of Crossovers	Korean Units	Korean Share of Crossovers
2000	1,549,441	52,294	3.4%	14,922	28.5%	29,726	56.8%	1,840	3.5%	5,806	11.1%
2001	1,570,629	97,779	6.2%	37,729	38.6%	45,920	47.0%	2,802	2.9%	11,328	11.6%
2002	1,703,246	120,540	7.1%	43,179	35.8%	62,356	51.7%	3,231	2.7%	11,774	9.8%
2003	1,593,506	133,981	8.4%	46,319	34.6%	69,738	52.1%	5,635	4.2%	12,289	9.2%
2004	1,534,415	146,622	9.6%	54,641	37.3%	69,730	47.6%	7,719	5.3%	14,532	9.9%
2005	1,583,291	182,257	11.5%	71,047	39.0%	74,926	41.1%	8,412	4.6%	27,872	15.3%
2006	1,614,701	239,582	14.8%	112,755	47.1%	88,283	36.8%	8,779	3.7%	29,765	12.4%
2007	1,653,388	292,435	17.7%	143,263	49.0%	96,956	33.2%	9,461	3.2%	42,755	14.6%

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

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integrators in the North American market - vertically integrated companies capable of shepherding products from conception to showroom. In parallel with this decline, other companies are becoming even more integrated, happily assuming the responsibilities that others have cast off.

Green with Envy

There was a time - not too long ago - when you could walk into any domestic nameplate showroom and purchase a lozenge-shaped car. Your choice - Lumina, Taurus or Intrepid. Go back even further and you could purchase one of several identical boxes. Today, however, choice rules the roost. You can have bold and boxy (Chrysler), geometric and planar (Ford), or advanced lozenge (Chevrolet) - all attractive and all quite different. This divergence in design language mirrors an even larger

divergence in overall product development and environmental strategies.

For a preview of the coming wars, I direct your attention to the 'green' ascendancy developed and enjoyed by Toyota. A decision in the 1990s to pursue hybrid technology early and thoroughly has resulted in the Japanese hegemon's ownership of the issue. There's room for an

While the basic powertrain ideas hewed close to the Volt's path, the Chrysler Group concepts were original and - dare I say - inspired.

American company to co-manage the portfolio and the newly rejuvenated Detroit manufacturers are all making bids for the title.

As of January 2008, General Motors is winning the media offensive. Last year's Chevrolet

Volt concept was a game changing publicity salvo that hasn't stopped raining influence on GM's competitors. So thoroughly did it clear the decks that Chrysler's habitually horsepower-heavy lineup of concepts was lacking even a single gasoline-powered vehicle. The freshly de-merged third-place OEM showed three concepts - one all electric and two Volt-style hybrids with "range extender" backup power sources.

Prior to the show, I was worried that Chrysler's Volt-inspired concepts would come off as just that - derivative, unimaginative and potentially indicative of the fact that even the injection of Jim Press and his lifetime of Toyota management experience into Chrysler's ailing bloodstream couldn't swing Auburn Hills in the right direction. I'm happy to report that my skepticism was mostly unwarranted. While the

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New and Used Vehicle Sales in Canada 2000-2007 (Thousands)

	New Sales 000's	Percent New	Used Sales 000's	Percent Used	Total Sales 000's	Total Units in Operation (Millions)	Sales as a Percent Of UIO
2000	1,549	43.4%	2,019	56.6%	3,569	17,101	20.9%
2001	1,571	43.7%	2,022	56.3%	3,592	17,668	20.3%
2002	1,703	44.4%	2,133	55.6%	3,837	17,911	21.4%
2003	1,594	41.6%	2,238	58.4%	3,832	18,207	21.0%
2004	1,534	40.1%	2,290	59.9%	3,825	18,709	20.4%
2005	1,583	40.6%	2,320	59.4%	3,903	18,883	20.7%
2006	1,615	41.0%	2,325	59.0%	3,939	19,365	20.3%
2007	1,653	39.0%	2,591	61.0%	4,244	19,782	21.5%
2007/2006	2.4%		11.5%		7.7%	2.2%	

Source: DesRosiers Automotive Consultants Inc., AIAMC, CVMA and Registration Data © R.L. Polk & Company, 2006 data released 2007.

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basic powertrain ideas hewed close to the Volt's path, the Chrysler Group concepts were original and - dare I say - inspired. The Dodge Zeo, an electric vehicle with classic (but not retro) sports car proportions, might very well have been my favourite concept of the show.

Despite all of the Volt-style talk, Chrysler's production

lineup remains heavy on E85, light on diesel and traditional hybrid technologies. On the other side of town, Rick Wagoner and his management team have given the impression - right or wrong - that General Motors has turned the environmental corner with greater speed than its competitors. Building on last year's successes, GM showed two concepts (the Cadillac

Provoq and Saab 9-4X) using the Volt's E-Flex architecture.

GM had a tough rope to walk, allocating floor space and presentation time to both environmentally friendly offerings and CAFE-reducing products like the new Corvette ZR-1 and Cadillac CTS V-Series.

While neither pushed the envelope, both appeared more production-feasible than the Chrysler dreams.

Used Vehicle Sales by Channel 2000-2007

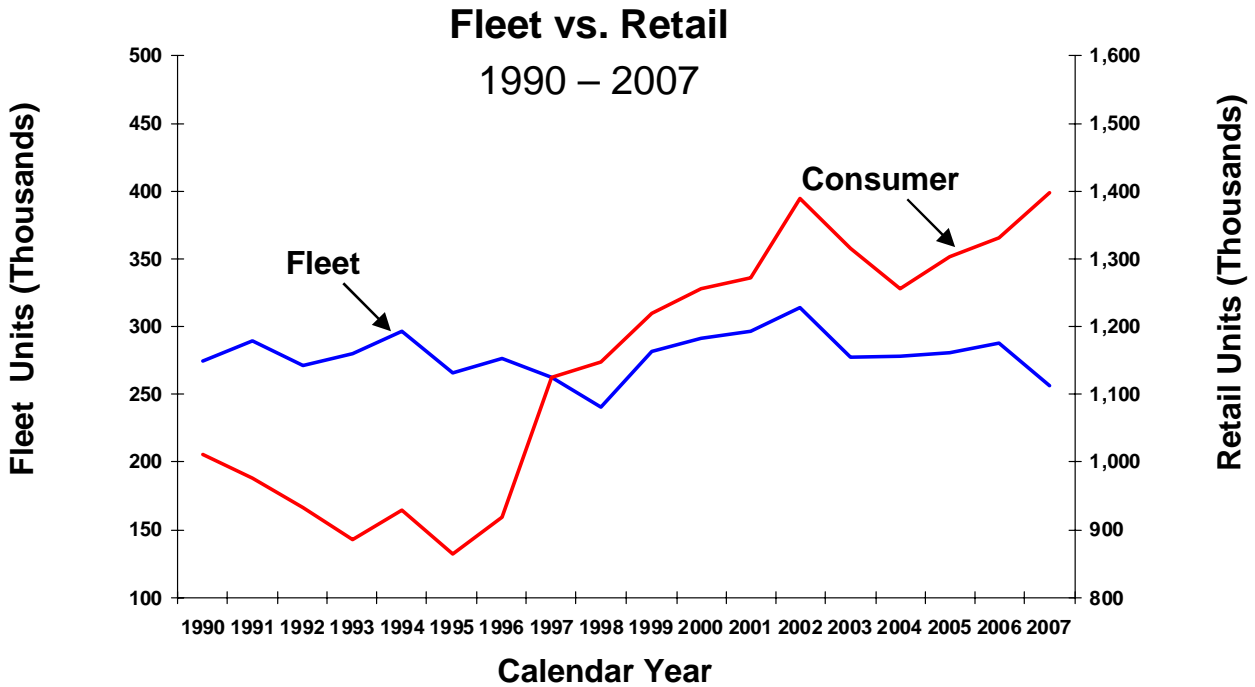
Year	New Car Dealer	Independent Used Car Dealer	Private Sale	Total	Total Units in Operation	Sales as a Percent Of UIO
2000	919	408	693	2,019	17,101	11.8%
2001	868	403	751	2,022	17,668	11.4%
2002	909	418	806	2,133	17,911	11.9%
2003	899	489	850	2,238	18,207	12.3%
2004	908	528	854	2,290	18,709	12.2%
2005	905	570	846	2,320	18,883	12.3%
2006	906	593	825	2,325	19,365	12.0%
2007	915	759	915	2,589	19,782	13.1%
2007/2006	1.0%	27.9%	10.9%	11.4%	2.2%	

Source: DesRosiers Automotive Consultants Inc., AIAMC, CVMA and Registration Data © R.L. Polk & Company, 2006 data released 2007.

With its Ford Explorer America concept vehicle, Ford has chosen to drive down a less radical, more realistic road towards an improved CAFE showing. Using a turbocharged four-cylinder engine putting out horsepower and torque equivalent to a large V6 or a

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Canadian Light Vehicle Sales 1990-2007



Source: DesRosiers Automotive Consultants Inc, CVMA and AIAMC

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small V8, the Explorer America seems to take its powertrain cues from vehicles like the Mazda CX-7 and Acura RDX - albeit on a larger scale. If this concept (or something like it) sees production (and further, if the production version sees success), it will mark an important paradigm shift in the SUV market.

So: We have a number of production GM hybrids, a promising GM serial-hybrid (read: Volt) architecture that seems nearer to production than competing systems, and a GM commitment to non-grain-based Ethanol. On the other

side of town, Chrysler is equally committed to E85, but their hybrid portfolio is weak and their "range extender" hybrids are ultimately faddish and Volt-inspired. Ford has opted to pursue the "small engine, big power" strategy, teaming small displacement engines with

My unscientific back-of-envelope calculation from about ten key vehicle introductions in Detroit measured about 10 percent more horsepower and about 1 percent better fuel efficiency from each product.

sophisticated turbo-charging and engine management technology

to achieve substantial efficiency gains.

The long-standing dichotomy between horsepower and fuel efficiency remains a challenge as well. Mixed messages abound, with normally stoic executives almost red-faced when introducing their latest guilty pleasures. GM had a tough rope to walk, allocating floor space and presentation time to both environmentally friendly offerings and CAFE-reducing products like the new Corvette ZR1 and Cadillac CTS V-Series. Similarly, both Chrysler and Ford had to balance the introduction of new

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full-size pickups (typically the least fuel-efficient vehicles on the road) with in-the-same-breath mentions of fuel efficiency, hybrids, E85, diesel, and any other buzzwords necessary to draw attention away from the 12 MPG monoliths taking up stage space. The dualism evinced in today's vehicle market is quite astonishing.

I fully believe that this industry is caught in a sort-of purgatory between two forces that are accelerating toward each other and will eventually collide, crashing badly. On one side are consumers who sit in focus groups and tell the OEM to deliver more performance

I have seen the products and I've talked with the players - and my hat would be sincerely tipped if they were capable of moving a significant number of vehicles under their own brand name within the next two years.

(measured by horsepower, torque and bold design). On the other side of the equation are government types, environmental groups and the same consumers from the first group who tell their moderators and survey takers that they also want a more environmentally-

friendly vehicle. These forces are on a collision course of epic proportions and from what I saw in Detroit, the first group is winning the battle.

What else would you expect an OEM to do? Give the consumer what he wants (ie., horses) or to play to a vaguely-defined coastal guilt over climate change? The little bit of profit that still exists in this industry is still found on the horsepower side of the equation. My unscientific back-of-envelope calculation from about ten key vehicle introductions in Detroit measured about 10 percent more horsepower and about 1 percent better fuel efficiency from each product. This is an impressive achievement and the OEMs deserve a lot of credit for deliver the horses that consumers crave with no efficiency penalties, but a 35 miles per gallon CAFE average is just twelve years away and so far there is little evidence that this laudable goal can be met without huge disruption in the market. As explained earlier, all manufacturers have climate change-focused concept portfolios, but the claims made for these styling exercises are pie-in-the-sky and may never happen.

China comes to Nixon

Ignoring the Chinese at this year's NAIAS was simply not possible. The journalists' pool in Detroit has always had an international ring, but there was a marked uptick in the amount of Chinese I overheard in the media pit before each press conference. Clearly the home market has taken an interest in the American goings-on, and this interest was doubtlessly fostered by a strongly increased presence among Chinese OEMs at the show.

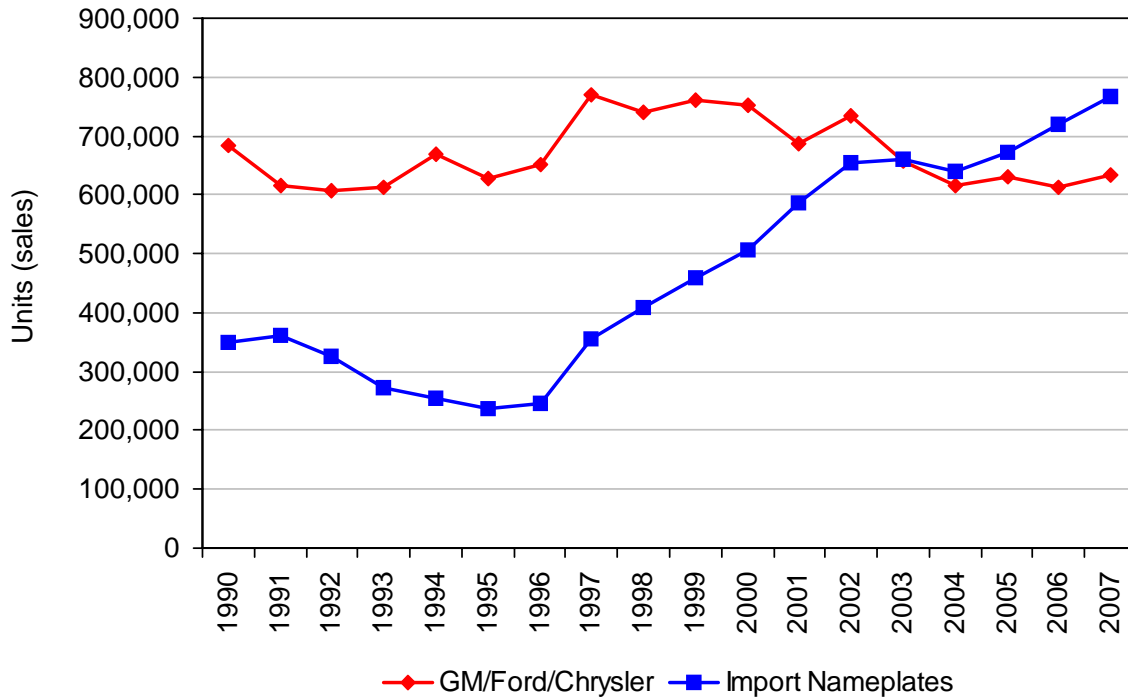
Changfeng, Chamco, Geely, BYD, and Tang Hua all had booths within the traditionally-aftermarket-oriented Michigan Hall basement room. With the exception of Tang Hua (a manufacturer of limited speed electric vehicles), all showed products that were better - in a general sense - than previous Chinese offerings at Detroit, but were still several years from North American market readiness.

Canada and the United States comprise two of the most international, competitive, and discriminating vehicle markets on the planet. I have no doubt that Chinese OEMs will eventually establish a foothold in North America, but I'm very skeptical in their ability to meet

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Canadian Consumer Market (All Light Vehicles)

1990 - 2007



Source: DesRosiers Automotive Consultants Inc, CVMA and AIAMC

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current timelines.

Representatives from some brands claimed they'd have products and distribution by the first quarter of 2009. I have seen the products and I've talked with the players - and my hat would be sincerely tipped if they were capable of moving a significant number of vehicles under their own brand name within the next two years. Perhaps the Chinese will be here in five years, but such a prospect remains unlikely in the near term.

I have a great deal more confidence that the first mass-market Chinese vehicle to enter Canada will be a captive import

- a Chinese designed and built vehicle being sold under an established OEM's banner. Much hay has been made of Chrysler's talks with Chery and I believe that this partnership will yield fruit much sooner than - for instance - Chamco's clever-but-hasty market entry strategy. This year's show made me even more of a skeptic as far as China is concerned.

A Changing of the Guard

A suspicion that has dogged me for years coalesced into belief during the show. The North American arms of Chrysler and Ford appear to be moving away from their established roles as

full-scale vehicle integrators - companies that handle the design, engineering, parts-sourcing, supplier relations, manufacturing, and distribution

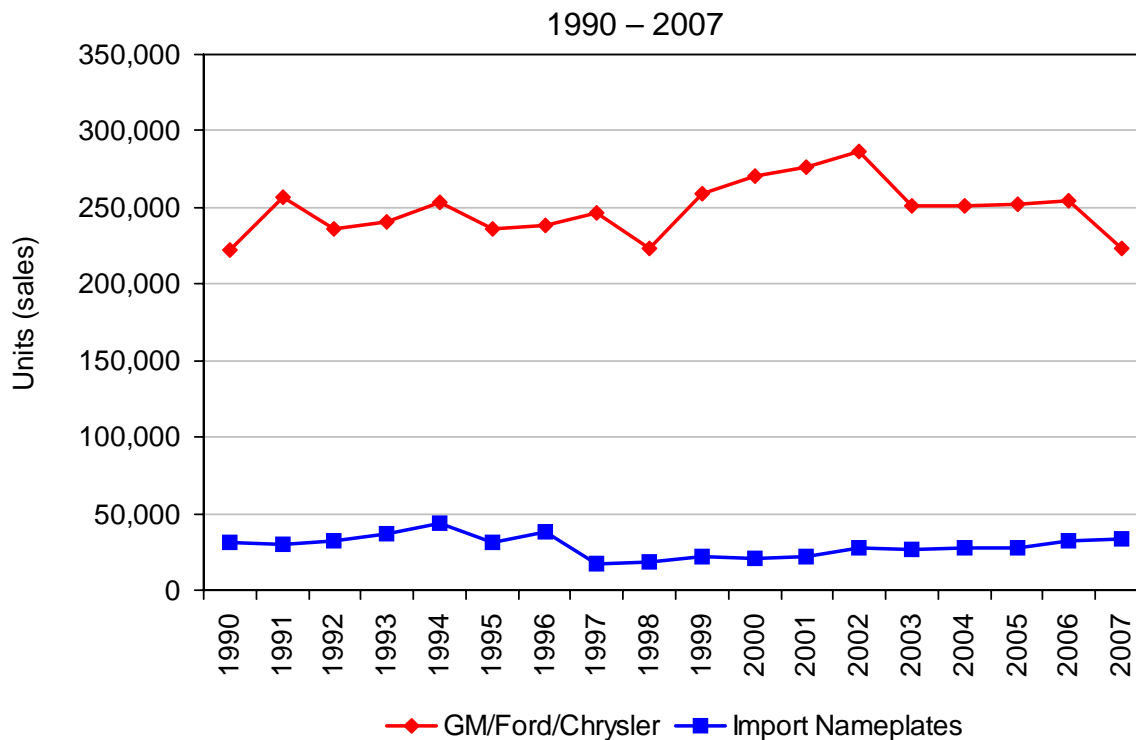
It is possible that if or when Cerberus finishes with their foray into the world of cars, Chrysler will simply be a North American distributor of vehicles produced by a half-dozen global manufacturing entities.

of cars and trucks. Ford, for instance, sells just a single passenger car (Mustang) whose roots can be traced to the United States. The Focus (Ford Europe), Fusion

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Canadian Fleet Market (All Light Vehicles)



Source: DesRosiers Automotive Consultants Inc, CVMA and AIAMC

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(Mazda6 platform), and Taurus (Volvo platform) are all products featuring fundamental engineering performed abroad. This is not necessarily a negative development, as Ford has clearly recognized that its core competency lies in the world of light trucks (all of which, with the exception of the Edge and MKX, are engineered in the US).

Indeed, much engineering work seems to lie in the hands of foreign partners or powerful suppliers. There may come a time when brands like Ford or Chrysler simply operate as distribution companies. I sincerely doubt this will happen

anytime within the foreseeable future, but the seeds of this

If you strip away the pre-show spin and evaluate the events with a less jaundiced eye, then I would have to say that this was a pretty good show - not the best, but certainly an improvement over last year.

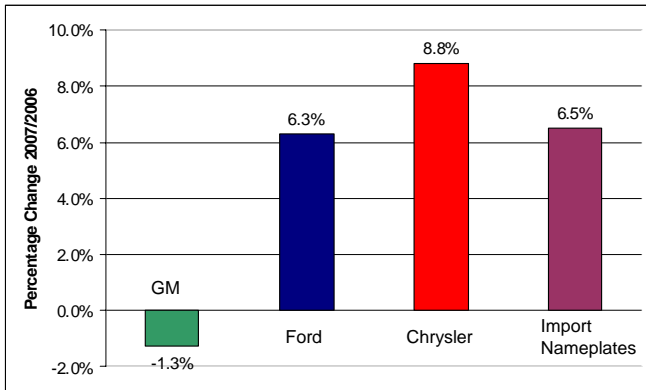
trend have already been planted. If you look at the longer term production numbers in North America you will notice that in terms of volume, GM has become Ford, Ford has become Chrysler, and Chrysler - well, Chrysler is a very good company, but it is

currently pigeonholed in North America as Cerberus casts about for alliances around the world. It is possible that if or when Cerberus finishes with their foray into the world of cars, Chrysler will simply be a North American distributor of vehicles produced by a half-dozen global manufacturing entities.

On the other side of this equation are the Japanese, led by Toyota and Honda, who are moving very rapidly from being distribution companies in North America to becoming some of the most fully integrated vehicle companies on this continent. This development represents a

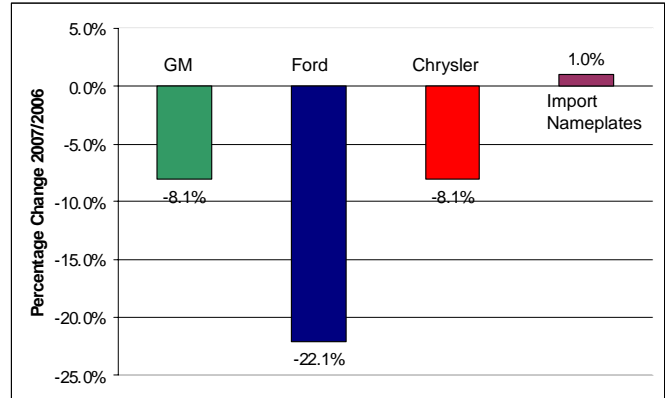
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Consumer Retail Market - Sales Trends 2007 vs. 2006



Source: DesRosiers Automotive Consultants Inc, CVMA and AIAMC

Fleet Market - Sales Trends 2007 vs. 2006



Source: DesRosiers Automotive Consultants Inc, CVMA and AIAMC

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complete role reversal with Chrysler and possibly Ford. These players' ever-growing manufacturing presences in the US, coupled with the heavy leverage they are making of US design, research, and development facilities (and the roughly 300 suppliers that have followed them into North America) indicates that some companies still see promise and opportunity in a labour market others are fleeing.

Was it a Good Show or a Bad Show?

The question I am most often asked at auto shows is whether I think it was a good show or a bad show. Every time I get this question, I feel as though I need to couch my answers. We are extremely guilty in this industry of over-hyping and allowing things to

spin out of control. Expectations are raised so high within the tight-knit community of auto journalists that even the best show disappoints. This year's NAIAS was no exception.

If you strip away the pre-show spin and evaluate the events with a less jaundiced eye, then I would have to say that this was a pretty good show - not the best, but certainly an improvement over last year. It is important to remember that Detroit/Michigan is a one state recession zone. Roughly a million automotive jobs have been blown out the door in Michigan, with local production down about by a few million units and the three Detroit-based vehicle companies mired in necessary-but-wrenching restructurings. I'd say that their

showmanship was quite strong considering the unfriendly environment in which they have found themselves in January 2008.

At the end of the day, this is a consumer show meant to sell or at least get people interested in new cars and trucks. Not a lot of consumers in Michigan are going to darken the door of a showroom this year so, as in previous years, most of the OEMs kept some of their powder dry for other big consumer shows in LA, Chicago, and New York. When they do this, it takes away from Detroit. We will never see the NAIAS get back to its over-the-top roots until GM, Ford and Chrysler have stabilized and Michigan has been revitalized - and that, my friends, is still a few years out.

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