ED WALLACE

The Mergers

BY ED WALLACE
FEBRUARY 05, 2021 12:00 AM

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In the beginning, the automobile industry was marked by the creation of some of the most famous names in motoring — Benz, Daimler, Opel, Ford, Buick, Lincoln, et al. But once these great companies were formed they underwent periods of expansion, contraction, and lots of failure, struggling to survive, until merger mania became the norm.

Few remember, but Cadillac is the result of Henry Ford’s second failed car company, while Lincoln was going under and in time was purchased by Ford. General Motors was the ultimate consolidator, buying up Buick, Oldsmobile, Oakland (renamed Pontiac), and Cadillac and doing a stock swap with creator Billy Durant to bring his Chevrolet auto company into the mix. Walter Chrysler left GM to save the Maxwell Motor Company; once that was accomplished, he renamed the firm after himself before purchasing Dodge, which had been closed because the Dodge Brothers had died in the Spanish Flu pandemic.

The automotive merger phenomenon existed in Germany, too; over the decades Volkswagen would bring into its fold Porsche, Audi, SEAT, and others. Daimler and Benz were forced into a merger by their bankers back in the 1920s. GM bought Opel.

But nothing is more tragically humorous than the constant re-jigging of the British motor industry over a 70-year period starting at the end of the Second World War. In spite of having lost tragic numbers of young males in two world wars back to back, in 1950 the United Kingdom had a population of around 50 million

individuals; that wasn't really enough potential consumers to keep afloat all the British auto manufacturers at the time. In 1952 Morris, Austin, and Healey merged to become the British Motor Corporation; and, while the term rationalization apparently wasn't in vogue at the time, the logic presented to bankers and the public was the same as it is today: By creating a larger automaker from the sum of its parts, money would be saved on engineering, design, costs of parts, and assembly.

Just to be clear, however, the most critical issue for any automaker is making sure its factories run as close to 100 percent utilization as possible. That, more than anything else, dramatically lowers the selling cost of the product. It is that last piece of the manufacturing puzzle as to why automobile manufacturers don't sell direct to the public; new car buyers' buying patterns are not predictable, but a great franchised dealer with an open credit line can and will buy vehicles every week, whether they need them or not. That's why the system works as it does now.

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Back in England by the mid-Sixties things still weren't looking great; so Jaguar and British Daimler were allowed into BMC, newly renamed British Motors Holding. Two years later Standard, Leyland, and Rover were added, and again a name change, this time to British Leyland. And nowhere along the way did these firms manage to make much money, in spite of the perceived logic of all of the costs to be saved by combining the automakers.

In 1989 Ford jumped up and paid over $2 billion to cull Jaguar from the pack; General Motors bought into Sweden's Saab at the same time, and Ford would later buy Volvo. Honda had purchased a stake in Rover, which was progressing well enough that Honda doubling their British investment. But in the 1990s BMW swooped in and purchased control of Rover, only to sell off Land Rover to Ford a few years later, and then dump Rover's car division on an investment group called Phoenix.

Volkswagen rushed in and acquired Rolls-Royce and Bentley, but without realizing Rolls-Royce did not own the rights to its name. No, that was held by Rolls-Royce Aerospace, which decided it didn't want a company whose name translated to "The People's Car" owning a cherished bit of British automotive industry. And as Rolls-Royce PLC had a financial interest in BMW, and the German automaker was already supplying engines for Rolls vehicles, a squeeze was put on VW to step aside. Which it did over the next few years, keeping Bentley for VW; and Rolls went to BMW.

However, as mentioned, BMW sold Land Rover to Ford, which created Jaguar Land Rover — which, a few years later, Ford dumped to India's Tata Motors, best known as the manufacturer of a $4,000 car that often caught on fire. Ford also walked on Aston Martin at about the same time, and for the most part ended its time in the British motor industry. It's hard to believe that just a couple of years earlier Ford had opened a design center in London for all of its luxury makes worldwide.

You will notice this merger mania nonsense is the automotive version of spin the bottle.

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Intermission: Let's take a moment to catch our breath and let your head quit spinning.

During the late Nineties Daimler went hunting for American and Japanese partners. Here it found a willing partner in Chrysler, at the time the most profitable car company in America and possibly the world per car built. Given the wisdom of what was being sold to the public as a merger of equals, with Daimler's personnel suggesting this would give Chrysler the Mercedes halo for mass market cars, the reality was something completely different. First, Chrysler was concerned with a hostile takeover due to its stock price, which had

almost happened with investor Kirk Kerkorian. So, by selling Chrysler to Daimler, but calling it a "merger of equals," that was the automotive equivalent of keeping the fox out of the henhouse by the chickens' joining a wolf pack.

Oh, and Chrysler CEO Bob Eaton walked away with over a $100 million paycheck. This led Lee Iacocca, the man who had saved Chrysler in the Eighties, to say that bringing Eaton into Chrysler was the worst decision he had made in his life.

The real truth is that Daimler, like all the German automakers, was trying to catch up on how to manufacture automobiles more efficiently. Mercedes and BMW had their backsides handed to them a few years earlier, when Japanese luxury cars landed on the American coasts and captured the nation's market for those vehicles. In Chrysler, Daimler had a front-row seat from which to learn how to do large-scale manufacturing at a reasonable cost and improve quality. Although the car-buying public believes otherwise, in the late Nineties Chrysler quality was superior to that of Mercedes.

Let's not forget that Carlos Ghosn went from Michelin to Renault; he reorganized it so successfully that it was minting profits by the year Daimler bought Chrysler. And then Renault used that financial windfall to purchase 43 percent of Nissan, which at the time was extremely troubled, and sent Ghosn to turn *that* company around. In time Daimler dumped Chrysler onto Cerberus Capital Management, which in turn nearly folded with the Financial Meltdown of 2008 — giving the U.S. government the choice of either letting Chrysler fold or giving the company to Fiat for nothing.

Who in their wildest imagination would ever dream that Daimler Benz would nearly kill Chrysler — and Fiat would bring it back to its glory days as an automotive giant? But as soon as that happened the late Sergio Marchionne, head of Fiat Chrysler, started hunting for yet another large merger, giving all the same statements about the high cost of automobile manufacturing, and how mergers cut engineering and design costs, lower the cost of buying parts, and so on. The same speech we've heard since 1952 and the creation of British Motor Company. Had the CEO of that British firm copyrighted his speech on the alleged wisdom of automotive mergers and licensed it out to every CEO involved in a future purchase of another car company, I believe British Motors would have made billions on that copyright.

Renault-Nissan brought Mitsubishi into their little group and, as of right now, they really don't get along very well. Meanwhile, Carlos Tavares of Peugeot Citroen was literally paid to take Opel and Vauxhall off GM's hands not long ago, making them profitable in record time, and now has added Fiat Chrysler to the mix. The new firm is to be called Stellantis, from the Latin word meaning "sprinkle with stars." Only because there is no Latin term meaning "sprinkle with investment bankers."

Our apologies for not having the time to bring up minor mergers, and partnerships such as Hyundai and Kia, GM and Daewoo, and American Motors and Renault.

Now, since Renault and Nissan's CEO's arrest in Japan a couple of years ago, a new Renault head was found in Luca de Meo, formerly with VW's SEAT in Spain. And he announced a new plan for getting Renault's profits back where they once were by, you guessed it, cutting platforms cars ride on, ceasing to build unprofitable cars, closing inefficient facilities, and so on. All the while trashing Carlos Ghosn for his expansion plans for both Renault and Nissan-Mitsubishi. Luca seems to have forgotten that his current plan was once Ghosn's when he turned that company around.

The public tends to see the auto industry as relatively stable. But underneath it all, it's constantly an industry in collapse, merged and then like an old engine, rebuilt.

Ed Wallace is a recipient of the Gerald R. Loeb Award for business journalism, bestowed by the Anderson School of Business at UCLA, and hosts the top-rated talk show, Wheels, 8:00 to 1:00 Saturdays on 570 KLIF AM. Email: edwallace570@gmail.com

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