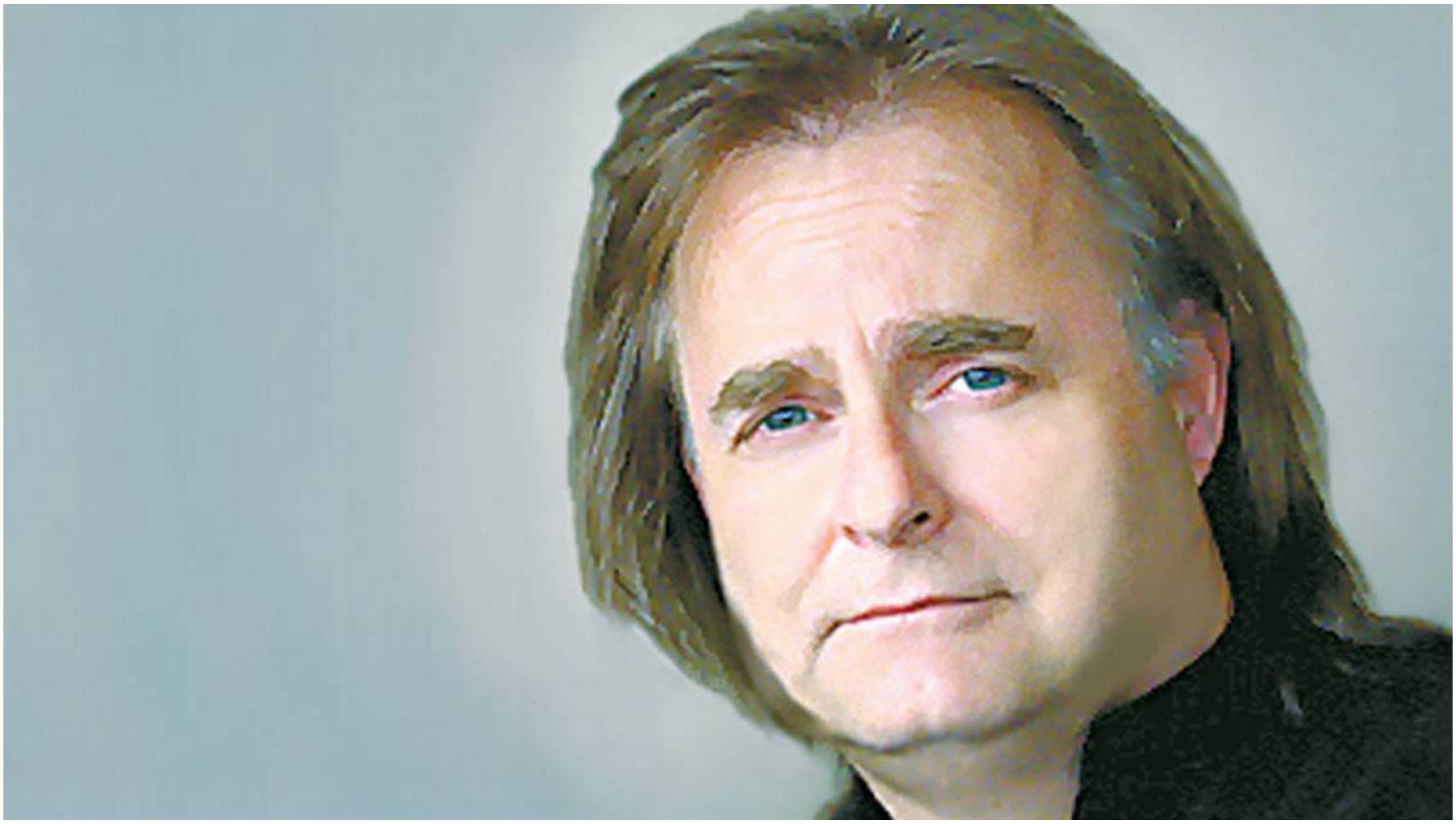
ED WALLACE

Turmoil Driven

BY ED WALLACE
OCTOBER 09, 2020 12:00 AM



Once again it's our weekly get-together to discuss the week-long cavalcade of silliness that's the hallmark of today's global auto industry. And this week's observation? It's impossible to say whether the billions of dollars wasted on things that will never come to pass make the silliness more tragic or simply add to the insanity of it all.

Well, let's begin. Things kicked off with the removal of Ford CEO Jim Hackett, with the excuse that he had put the company's salvation into high gear and it was time for him to drive off into the sunset. For those who have forgotten, three years ago when Hackett became CEO of Ford Motor Company, I wrote in this column that he didn't need to worry about his pay plan, as he wouldn't be at Ford for long. Instead I suggested Hackett simply pay attention to his golden parachute when he was told it was time to put his ripcord on the line and jump; Ford typically rewards those who have failed most generously as a parting gift. In his place comes Jim Farley, cousin to the late Saturday Night Live comedian Chris Farley and a very driven executive. In fact, on Farley's first day on the job he started his reorganization of the upper management team.

No real surprise there; he has a background with automakers, mostly Toyota, and Farley was responsible for the launch of that company's Scion brand in America. But that should not be held against him any more than if, 30 years ago, I claimed a milestone in broadcasting for accepting the first Yugo ad on radio. Farley later jumped to Ford and in short order headed Lincoln. That division sold 89,062 vehicles the year he took over and dropped to 81,694 units the next year, which was enough to get him a promotion to run Ford of Europe.

Farley arrived there at the same time as a new slate of vehicles, which had the effect of turning Ford's multi-year losses into $1 billion in profits.

In reality, Farley does love automobiles; and that alone is likely to make him a much better choice to run Ford. But again, the cautionary advice one gives anyone attaining the highest executive position with Ford: It's said investors want a return to double-digit profit margins on products, which Ford hasn't seen since 2016, when Mark Fields was CEO — and that didn't save his job at the time.

Internationally, the World Trade Organization ruled that the Trump Tariffs against China were both arbitrary and put in place without evidence of wrongdoing by China, and therefore illegal. Now hundreds of corporations are lining up at the Court of International Trade for their refunds on the "illegal" tariffs they were forced to pay for Chinese goods they imported during this Trade War, including, Tesla, Volvo, Ford, and Mercedes. And before it is all over, that line will include every last corporation that imported goods from China and paid the nullified tariffs to the U.S. Treasury. Mercedes' filing was particularly interesting; it accused the administration of "prosecution of unprecedented, unbounded, and unlimited trade war impacting over $500 billion in imports from the People's Republic of China." Umm, a couple of points: Americans don't care for the usage, "The People's Republic of China;" that concept seems so Chairman Mao-ish. Just say "China." It doesn't have the same negative connotation.

But the best story of the week comes to us courtesy of Warren Lunsford at Seeking Alpha, the investment community; he asserts that Tesla is about to be overtaken by the sheer economic force of the major automakers globally. Lunsford writes that Tesla "has had the electric vehicle market largely to itself for years." He then proceeds to explain that electric car sales are only 3 percent of the global market for new cars, or around 2 million units annually; and, as Tesla sold only 367,500 vehicles out of that 2 million, that means Tesla doesn't really own the global market for electric cars; General Motors has the same percentage of America's car market. He does point out that Tesla's volumes in Norway, the No. 1 electric car market in the world, have fallen 78 percent this year and the car is being outsold by the Audi e-Tron, VW Golf EV, Nissan Leaf, and Hyundai Kona. But his biggest point on why Tesla is about to get left in the dust is that VW publicly has committed $40 billion to new electric cars over the next five years, and that commitment might go as high as $91 billion. GM is in for $20 billion for new electrics, Ford $11 billion, Hyundai nearly $52 billion, and Mercedes another $40 billion. Then he contrasts little Tesla, spending only $1 billion per year on research and development. If that's his proof that Tesla is going to get wiped out, he might be on the wrong side of the financial bet.

Doubt that? Well, the real question and the smart money bet is how Tesla has come to control nearly 18 percent of the worldwide market for electric cars after spending so little on development costs. Because if Tesla loses money on every car sold — not including selling off the emission credits — on that small an expenditure, how is VW going to make money investing maybe $90 billion? Lunsford actually has his conclusion backwards. The real question is why every major automaker in the world isn't trying to figure out how Tesla has done so much for so little.

And recent automotive history proves that. In the late Eighties, as Chrysler was suffering again, Lee Iacocca cut a deal and purchased American Motors — not because he thought its Ambassador sedan was better than a Dodge Aries, but because it gave Chrysler the Jeep division, the moment before the sport utility craze took off in earnest. But because AMC was struggling, even with Renault as its business partner, those inside of Chrysler had a bit more arrogance after coming off the winning streak of the first real minivan era, led by Chrysler. So, along with the AMC purchase came Francois Castaing, head of product engineering and development at AMC. Now, many at Chrysler figured he might become a subordinate to them, but Iacocca had other ideas. He was fascinated by how many products American Motors had brought to market in a much shorter period than the Detroit Big Three — and by how Castaing and his crew had done so on very little money because of their cash flow system. Iacocca believed Castaing might be one of the true geniuses of the auto industry, just overlooked because he worked for the wrong company. Castaing headed up the first

Jeep Cherokee project that was so popular, and shortly after the buyout that vehicle alone accounted for nearly 30 percent of all of Chrysler's profits. More important, Castaing developed that product to where it's platform could be expanded to other vehicles; and the Grand Cherokee would come out of that.

Bob Lutz, at first apprehensive about Iacocca's viewpoints on this, found the closer he looked the more Iacocca had been right. Between Lutz's passion for vehicle design and Castaing's knowing how to bring new vehicles to market 25 percent faster than other car companies and for far less money, in the 1990s Chrysler saw its first real revival since the earliest days of the company; and by 1998 Lutz and Castaing's new Chrysler had the lowest costs of any car producer in the world. And that is why Daimler had to buy that company. It did so and then ran off Lutz, Castaing, and Chrysler head of production Dennis Pawley — then wondered why the whole thing fell apart almost immediately.

The point is that, according to MIT's 1989 five-year study of the auto industry, "The Machine That Changed the World," Mercedes used more man-hours fixing mistakes before shipment on an S Class sedan already built than Toyota used to build a Lexus LS 400, which shipped perfectly with no repairs needed. One of Daimler's reasons for buying Chrysler was to learn what they knew about fast, inexpensive car design and production, but it failed to keep those who held the secrets.

Lee Iacocca wanted to know how American Motors created cars so fast and for so much less money than other automakers. So he kept Francois Castaing. Mercedes wanted to buy those secrets too, but those guys took off.

Every company in the world should have Iacocca's vision on this. It's not beating Tesla to throw untold hundreds of billions at electric cars, it's finding out how Tesla does what it does on so little money. Still, my experience in the industry taught me that many high-ranking auto executives don't know even their own companies' histories, much less those of other automakers. Before they go another step, they should read the books on Iacocca buying AMC and from that they'll learn how to be Tesla. Spending a fortune to build a nuclear weapon to kill an ant seems, well, rather silly. Which brings us back to where this column started.

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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Driving Off into the Sunset

BY ED WALLACE
FEBRUARY 12, 2021 12:00 AM

It never occurred to me that one day I might be at a loss for words, but here we are. This will be my last column for the Fort Worth *Star-Telegram* after nearly 20 years, almost 1,000 columns and of those only six were rejected. Those numbers meant a great deal to me; they showed the *Star-Telegram* and staff believed in my work, even when they probably weren't crazy about the column they were about to publish.

To explain why this column is ending, I must take you back to why it came to exist. It was the time of 9/11; Art de la Torre, then running the newspaper's classified section, wanted something of an automotive nature to draw more