

## **Fast Lane News Issue #6**

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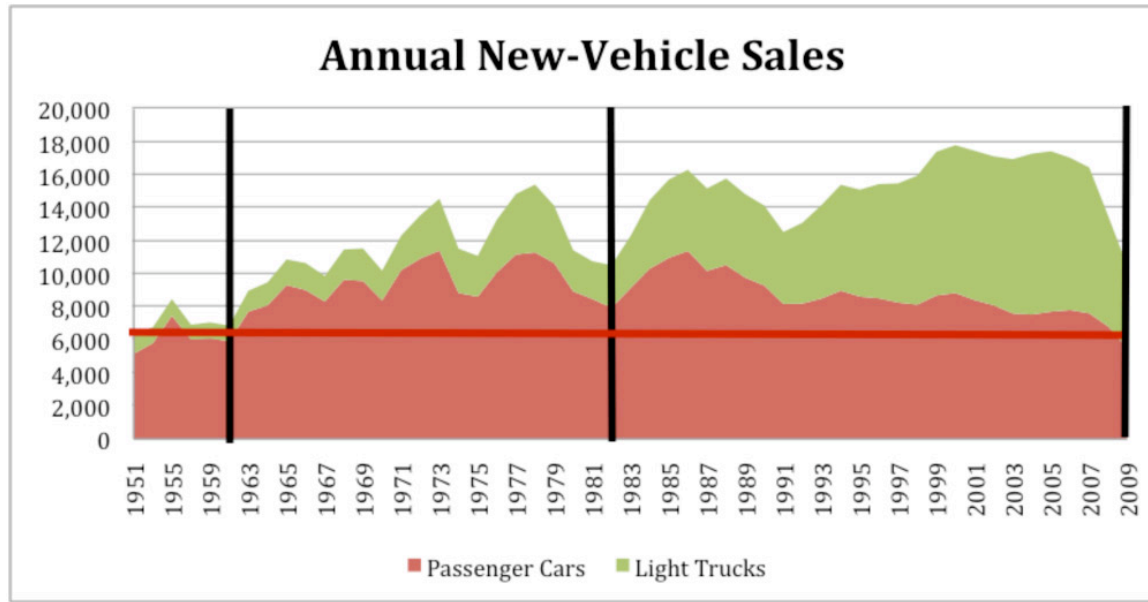
**2009 RECAP – TOP AUTOMOTIVE NEWS STORIES OF THE YEAR**

### **Déjà vu: Car Sales Worst in 21 Years**

“Domestic auto industry new-car sales in 1982 were the worst in 21 years.”  
Automotive News 1983 Market Data Book. New-vehicle sales for 2009 are expected to be the lowest in 27 years (since 1982).

Back then there were 4 domestic auto makers; American Motors, Chrysler, Ford and GM. Here we are 27 years later with half as many domestic auto makers, but the same headlines. As we look back over new-vehicle sales there are peaks and valleys in the total units sold each year. The deepest valleys seem to come every 20 to 25 years. In the chart below the red area represents the number of passenger cars sold each year and the green area shows the number of light trucks sold.

Overall, both follow the same basic pattern. The last few years light truck sales far outpaced passenger car sales, then when light truck sales tanked the overall drop was more precipitous than we have seen in the past. In 1961, new-vehicle sales dropped to 6.9 million units, after setting a new record in 1955 of 8.5 million. Then in 1982 sales fell to 10.5 million after rising to an all time high of 15.2 million in 1978. Now we are expecting 2009 to come in around 10.4 million units after setting a new sales record in 2000 of 17.8 million.



We have to ask: is there something about the auto industry that causes these significant drops in sales? Can we expect there to be another such decrease in business 20 years from now? Or is it something inherent in the US economy that causes these downturns and the auto industry is just a victim? We have 3 major downturns in the last 50 years to look at in order to find the answer.

The early 1960s recession was characterized by astronomically high unemployment rates, incredibly high inflation and a bad Gross National Product rating. These all worked together to cause consumer confidence in the system to plummet, and caused a downward spiral to develop that destroyed a number of businesses. This in turn caused unemployment to rise, and so the cycle began again.

The 1980s recession can be mostly attributed to the Iranian Revolution which took place in 1979. This revolution caused a sharp increase in the price of oil all around the world. The new regime exported oil at what were not only inconsistent levels, but at a much lower volume. This forced the price of oil up. The United States enacted a tight monetary policy to control inflation, and this led to another recession.

The late 2000s recession was essentially started by the collapse of the housing market. Then, bank collapses caused a sort of public panic. Also, the amount of available credit spiraled downward, making it almost impossible for anybody to get a loan. As consumer confidence continues to plunge, things continue to get worse. Many have called this recession the worst since World War 2.

At the core of all three recessions was something that negatively impacted consumer confidence and therefore spending. It makes sense considering that consumer spending accounts for about 60% of the country's GDP. In a future newsletter we will report on the comparison of consumer confidence changes and their relationship to sales in the industry.

## **Car Sales Surge in Last Week of December**

Edmunds is reporting that Edmunds.com has noticed a tremendous boost in web activity in the last week of December 2009.

“We could potentially reach a December SAAR of 11.7 million units given the current site traffic trend,” noted Edmunds.com Senior Analyst Jessica Caldwell. “Our Web site activity is through the roof, which makes sense as there are so many bargain-hunters scrambling to get year-end deals and cash in on the sales tax deduction opportunity that expires on December 31st.”

Past history suggests that the type of Edmunds.com visitor activity tracked for this study typically has a strong correlation to actual sales.

Site activity is up across the board; however, some brands are experiencing better than average interest in the past four days compared with the first three weeks of December. Here are some examples:

BMW – Increase of nearly 70 percent; may be due to heavily publicized “BMW Joy Sales Event.”

Chevrolet – Increase of nearly 85 percent; may be due to “Red Tag” event that includes “Holiday Cash.”

Ford – Increase of nearly 100 percent; may be due to “Ford Year-End Sales Event.”

Honda – Increase of nearly 100 percent; may be due to increased advertising of “Happy Honda Days.”

Pontiac – Over ten times as much activity; may be due to media hype about close-out deals.

Saturn – Nearly ten times as much activity; may be due to media hype about close-out deals.

Source: Edmunds.com Inc. (<http://www.edmunds.com/>)

## **Customers Are Different Today**

The industry is changing! Well duh. The question is, is it changing for the better? Are we making progress? Or are changes being made to survive the current economy not necessarily better—just different. The old saying, “If you always do what you have always done, you will always get what you always got,” is valid. The catch is not to just change something so that it is different, but to change things so that they are better.

Change is not always progress, as Henry Ford said. "A fever of newness had been everywhere confused with the spirit of progress." Just because it's new or different does not make it better.

In the early days of the performance parts and accessories industry innovators focused on making cars go faster. They knew cars and they knew their customers! They knew exactly what their customers wanted! With all the changes that have been instituted how well does the industry know its customers today? Have we drifted so far away from the roots of the industry that we know very little about them now?

For instance, a little over a third of the US population is under 25 years old, roughly 103 billion, and if they are your target customers do you know what part of the country they live in? Did you know that 38 billion of them live in the Southern part of the United States?

US Region	Percent	Number
Northeast	17.2%	17.7 billion
Midwest	22.0%	22.6 billion
South	36.9%	37.9 billion
West	23.9%	24.6 billion

How does that compare with where you ship your product? How does that compare to where the buyers of your product are?

By South we mean the following states: Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia.

The unfortunate fact is that many companies in the industry do not know where their customers really are. In which case, optimizing marketing efforts and ensuring a good ROI becomes a rather difficult task.

### **Big Block For Big Block Lovers**

What is currently being hailed as the biggest engine in the world is 44 feet high and generates 109,000 brake horsepower. It's a two-stroke turbocharged diesel designed to run large container ships. The cylinder bore is more than 37 inches and the stroke is nearly 98.5 inches, and the displacement is pegged at 111,063 cubic inches.

## **Interesting Read: The Inside Advantage**

by Robert H. Bloom with Dave Conti

Every company must make a brutal choice: Grow the business, or watch it die. Every enterprise has one strength that can form the foundation for future growth. Finding this hidden potential and becoming well known for it will grow the business. The 4-step Growth Discovery Process will guide you to a clear understanding of who your customers are and what your special offerings to those customers should be. Learn how to grow your business by capturing that moment when customers will select your product or service over those of your competitors.

## **Save Industry Jobs, Urge Immediate Action From Congress and Administration**

In a letter to the Obama Administration and Congress, the Motor & Equipment Manufacturers Association (MEMA) outlined several immediate, necessary measures to help restore access to credit and promote technology development in order to ensure a strong domestic motor vehicle parts manufacturing industry.

In 2009, parts manufacturers saw 50 reported bankruptcies and an estimated 200 liquidations in the industry. MEMA is calling upon Congress and the Administration to:

- 1) help assure sufficient capital for restructuring, consolidating and diversification
- 2) create technology funding programs that support long-term product and manufacturing technology innovation
- 3) pass legislation to expand the lending capacity of the SBA 7(a) program to \$5 million

"Parts manufacturers are the nation's largest manufacturing sector, and this industry continues to feel the severe, negative effects of bankruptcies and rapid consolidations," said Bob McKenna, MEMA's president and CEO. "This country needs a strong and stable supply base to promote the financial health of families and communities nationwide. The economic impact of this industry is felt not only by motor vehicle manufacturers but in the millions of other jobs that are dependent on motor vehicle parts manufacturers. The magnitude of the nation's job loss cannot be rectified without addressing the needs of supplier industry."

McKenna noted the need for more programs that focus on access to credit and the development of new technology. "With parts manufacturers responsible for two-thirds of the value of today's vehicles and nearly 30 percent of total motor vehicle research and development investment, our industry is helping to lead the way to the next generation of safer, cleaner, more fuel efficient vehicles."

"Without access to credit, loans, grants, and other programs that promote technology development, domestic parts manufacturing will be severely limited, and products to advance the goal of a new, national green economy will quickly be filled by competitors outside our borders."

## **2009 Recap – Top Automotive News Stories of the Year**

There's no sense in beating around the bush; 2009 was awful. Not just awful for a small group or an isolated industry, but awful in its unforgiving reach throughout the globe. Aside from a few that might have found success capitalizing on the plight and misfortune of others most people could not avoid the drama, failure, persistent ineptitude of others and unrelenting negativity that crashed down upon all of us. No one could escape it because it was everywhere! Celebrities were dying at a unfathomable rate, consumer pessimism and fear kept wallets shut and large corporations and governing bodies teamed up together to rally against consumers.

Making lemons of the situation or seeing the silver lining is more difficult this year than it has been in the past with the barrage of negativity. However, not everything that transpired during 2009 will want to be forgotten. Some of the "thinning of the heard" may prove to be a long-term benefit for those parties that are willing to evolve with the world.

**NASCAR Holds Steady** – Sponsorships were much harder to justify with many of the pro-stock car automotive manufacturers either struggling or needing financial assistance to survive. Teams were left without sufficient funding and some programs dried up. Nevertheless, NASCAR continued to be one of the most watched sporting events in the country.

**Ford Rebounds** – Not only did Ford have a strong market presence toward the tail end of the year it was the only domestic manufacturer to survive without the help of bailout intervention. In addition to the stability, Ford has become poised to use the momentum to carry it forward as it advances with anticipated product introductions. The Fusion and Taurus SHO become darlings of the media and consumers with heavily favorable reviews and the upcoming Fiesta, redesigned Focus and V6 Mustang should become enthusiast favorites.

**Volkswagen Gobbles up Porsche, Suzuki** – Aiming to become the world's largest automotive manufacturer, Volkswagen became an aggressive in the acquisition market by merging forces with Porsche and Suzuki. The partnership will allow the conglomerate to boast an increase in sales volume, but it also allows the joint ventures to capitalize on the experience and equipment of the other partners. Volkswagen has consumed other brands in the past and has successfully mated product developments and marketing with Audi to approach the market with distinct approaches and the newest projects will allow it to manufacture additional products tailored to the emerging markets of India and China.

**Warren Buffet Invests in Chinese Cars** – The financial guru and arguably the best-known investor in history began banking on the Chinese automotive industry to bring electric cars to market profitably. If his reputation and history are to be trusted, the investment should be taken seriously.

**Koreans Advance Quickly** – Hyundai and Kia are emerging from their stagnant image of cheap – both in price and quality – products. And they are doing it quickly. Both have launched new vehicles that are targeted at the millennials (consumers aged 18-30) and are supporting the products with quirky and successful marketing campaigns. Hyundai's Genesis Coupe and the Kia Soul and Forte are following a strikingly similar path as the launch of Scion and the Genesis Sedan will be the first Korean luxury brand separated from its siblings with a unique dealership structure. During 2009 these brands established the groundwork for a market shake-up reminiscent of what the Japanese brands did in the 70's and 80's.

**Internet Marketing** – The promise of blogs, social media networks, and upstart outlets came into fruition from established media moguls and upstarts in 2009. Viral marketing, Facebook pages and Twitter helped usher the Internet into the car world at a different pace than in the past. The Chevrolet Volt's chief engineer began tweeting answers to questions from consumers live at a product display, Ford initiated the Fiesta Movement to increase its visibility with internet- and video-savvy consumers and upstart blogs began shifting attention away from established media outlets.

**Toyota Becomes #1, Then Stalls** – Toyota became the world's largest automaker and immediately began to suffer from a PR quagmire. Recalls for rust issues and faulty pedals meant the brand was forced to initiate the largest set of recalls in history. When sales plummeted the maker slashed production and reeled in spending on racing programs and services. However, sales held steady and the third generation Prius has become a sales success.

**Chrysler and General Motors Survive, Others Do Not** – Chrysler and General Motors have been stung by negative consumer confidence since taking bailout money, but they have survived – even if leaner than before. Chrysler partnered with Fiat to bring small cars to North America and will be putting most of its efforts into these new models; the Fiat 500 being the first bet. General Motors will be approaching the future without some of the brands that have made it successful in the past. Hummer has been sold to a Chinese machinery company, Pontiac and Saturn have been closed and Saab is most likely going to be transformed into a niche brand or closed all together.

**Pony Car Wars Reignited** – A great story that became a broken record during 2009 was the renewed interest in American muscle. Muscle- and pony- cars have made a huge return and sales are even branching out to newer consumers. Designs from Chrysler, GM and Ford are better than ever and the efficient power of modern engines are attracting enthusiasts.