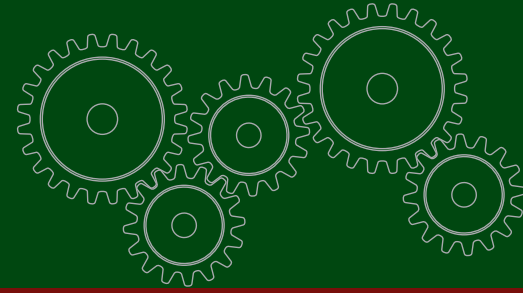




## MANHEIM CONSULTING

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*Accelerate Your Business*

### April 2008

#### OVERALL INDUSTRY:

- March auto sales down by 12%--even Toyota was off 10%--and Q1 sales were down 8%. March declines ranged from 3.2% at Honda to 19% at both Chrysler and GM (Ford off 14%). The SAAR—seasonally adjusted annual rate—of new vehicle sales dropped to 14.8 million; the industry sold 16.1 million in 2007 and 16.6 million in 2006. Detroit Three market share in March dropped to 48.4%, third month ever in which imports outsold domestic brands. For the Detroit Three for the first quarter, 2008 sales vs. 2007 sales were all down: Ford down 9%, GM down 11% and Chrysler down 16%.
- Even luxury car sales are down—13% in March—but evidence suggests that luxury car buyers are holding off rather than trading down. Examples of some of the decreases for luxury car nameplates during the month of March: Lexus off 14%, BMW off 9%, Mercedes-Benz off 4%, Cadillac off 8%, Acura off 22% and Infiniti off 0.4%.
- The usual suspects as to why: falling consumer confidence, declining home prices (and less equity to tap for loans), gas prices continuing to rise (to an all time high earlier this week of \$3.35 a gallon) and a job market where 232,000 jobs were lost in the first quarter and unemployment rose to 5.1% last month.
- Most industry sales forecasts for 2008 have been revised downward significantly: Merrill Lynch recently lowered theirs from 16 million to 15.3 m, J.D. Power's forecast is now 14.95 million.
- Minivan sales continue to drop. They peaked in 2000 at 1.37 million, dropped last year to 807,000; for the first two months of 2008, they are off 24% from 2007. Ford and GM have gotten out of the minivan market.
- Two reasons why diesel demand remains strong (almost \$4.00 a gallon and about 70 cents per gallon higher than unleaded regular): basic demand (particularly in Europe as consumers continue to switch to diesel powered vehicles) and it can be used to power industrial plants as well as transportation. The Department of Energy sees diesel demand growing at less than 1% this year—same as for gasoline—but it will grow twice as fast in 2009. Since just February 1, diesel prices have jumped 16% vs. 8% for gas (as of March 11).



#### GENERAL MOTORS:

- “Malibu Attracts Import-Minded Buyers:” According to a J.D. Power Survey, both Toyota and Nissan were among the 10 most frequently traded vehicles by December through February buyers of the 2008 Malibu. 4% of the Malibu trade-ins were Toyotas, 3% were Nissans. Those percentages aren’t a landslide, but compared to zero in the past, an encouraging trend.

#### FORD:

- “Why Ford Can Double (share price—currently near at 25-year low of \$6.49)—Barron’s, April 7, 2008. Things Ford has going in its favor as CEO Alan Mulally strategically shrinks the company: strong overseas profit growth, benefit from a weaker dollar and the best quality of the Detroit Three and very close to Toyota and Honda. Consumer Reports recently rated Ford’s portfolio by far the highest quality of the Big Three, and better than most imports. Warranty expense in 2007 fell \$1 billion and price-per-vehicle rose \$1,000 as Ford sent fewer cars into rental fleets.
- Ford’s recent sale of Jaguar/Land Rover to India’s Tata Motors for a NET of \$1.7 billion (\$2.3 billion minus Ford agreeing to kick in \$600 million into Jaguar and Land Rover’s pension funds when the deal closes) represents a total NET LOSS of \$13.6 billion (adding up the \$2.5 billion paid for Jaguar in 1990/\$10 billion poured into it since then and the \$2.8 billion paid for Land Rover in 2000).
- “Simplified Designs To Trim Ford’s Costs:” Ford (as well as GM and Chrysler) has always had huge numbers of options for cars and trucks that drove up manufacturing costs. Example: the Lincoln Navigator has 128 possible console combinations, CEO Alan Mulally recently told attendees at the Morgan Stanley Global Automotive Conference. They are working feverishly to reduce this type of high cost complexity and waste.

#### CHRYSLER:

- A major challenge/issue for Chrysler is that only 9% of their sales volume is in the overseas growth markets; for Ford it is 57%, for GM 60%. 91% of Chrysler’s sales are in slow to no growth North America. Two other major challenges: 70+% of their vehicle sales are in non-fuel efficient light duty trucks (SUVs, pickups and minivans) and substandard quality continues to be a drawback. Chrysler had just two vehicles in Consumer Reports list of 104 recommended models for 2008—same as Kia; four of its models rank in the bottom ten of Consumer Reports’ worst cars for 2008.
- “Key Chrysler Product Developer Resigns:” Michael Donoughe, highly regarded product guy who two months ago had been named to head up Project D to replace the current slow selling mid-size Chrysler Sebring and Dodge Avnger, resigned suddenly. No indication of where he is going, strong indication of clashes with senior management.





- Chrysler's current market share now at 12.9% (16-17% in its heydays).

#### TOYOTA/LEXUS:

- "Lexus: Too Japanese For The Japanese:" Toyota introduced its Lexus brand in Japan three years ago, but so far, it has not displaced the German luxury carmakers who dominate the luxury market in Japan. (Lexus debuted in the U.S. in 1989). 80% of the early Lexus buyers in Japan were former Toyota drivers; only 5% came from Mercedes or BMW. However, no one is counting Lexus out in Japan: Toyota has 45% of the car market there, it has built 160 plush Lexus dealerships at an estimated cost of \$10 million each, it has booked tons of prime time TV ad slots and it added the flagship \$77,000+ Lexus LS to its lineup in September 2006 (accounted for half of 2007 Lexus sales in Japan). Lexus will also add its first SUV to the lineup in Japan next year and ranked first last year in a J.D. Power Buyer survey. Autocar Japan figures it will take Lexus three to five years to create a brand image to rival BMW, Audi or Mercedes.

#### BMW:

- "BMW's Cheap Thrill: The New 1-Series:" (Fortune, April 14). Reviewer's bottom line: "with the 1-Series, BMW achieves outsized performance from the lowest-priced BMW on the market." Smartest thing they did—and the opposite of the strategy of many auto companies in the past—was that the "didn't shrink and 'decontent' a 3 Series to create the 1:"—no cheapening or stripped down version. All the goodies that BMW has on its higher priced models are either standard or available on the 1.

#### CARMAX:

- Although their 4Q net income was down 48% (largely due to rising costs at their finance unit), net \$ sales were up 8.6%, unit sales were up 11%, same store sales were up 3% and they still plan to open 14 new locations this year. CarMax currently operates 90 used-car superstores.