Autos heading toward 'normal' downturn

auto talk

Dan McCosh

The other day I was invited to discuss the recent spate of record quarters reported by the U.S. auto industry at one of those weekly news seminars on local television.

Explaining the significance of record auto profits normally is one of those subjects I avoid discussing in mixed company, just as I avoid predicting who the next chairman of General Motors will be. Regardless, like most print journalists with an ego problem, given an opportunity to be on television, I relented and offered my expertise.

Then I rushed to the library to look up the latest auto financial statements.

Ignorance alone never stopped me from offering my opinion. The main reason I never comment on record auto profits is because it is a subject complex enough to support nearly any half -as. . . . On further thought, maybe it is my kind of topic. But I digress.

The combined total of $3.54 billion in Big Three earnings did, in fact set an earnings record of sorts for a single quarter, if you ignore the current low state of the dollar, inflationary adjustment, and Chrysler's acquisition of AMC — some of the factors that make "records" inevitable as long as the economy doesn't slow down.

The next piece of information quickly offered by managements looking over their shoulders at United Auto Workers contract negotiations is that profits as a percentage of sales (also near-record levels) aren't so hot. Then they go on to warn, like Diana Ross, that good times won't last forever.

MOST OF THIS I tend to ignore as more or less standard balance sheet blather. I also ignore other quirks common to major U.S. corporations, such as discovering in the fine print that if all the current lawsuits go against them, the settlements exceed the corporate net worth. Or how the pension fund isn't really funded. It never is.

In fact, other than noting that these are pretty good times in the auto business, there isn't much to say about record profits.

Still, it seems kind of weird that a reasonable approximation of prosperity continues in an industry town that is more accustomed to heart-stopping business ups and downs.

This despite the fact that if you keep whistling away the gloom based on trade figures, national debt and the pending reformation of the European Economic Community, there is an argument that it should be a good time for the car business.

Baby boomers are just getting in their stride as consumers, keep having families and discovering why their fathers bought Oldsmobiles. Employment is high, as is consumer spending. In an odd kind of way, the strongest argument that a recession is just around the corner is that there hasn't been one recently. This is the kind of thinking that would have had us fighting World War VI by now if it was pursued by the defense department.

In fact, the auto industry hasn't had a "normal" downturn since the end of World War II. Instead, there have been a series of shocks precipitated by modern events: postwar worldwide industrialization, the oil crisis, environmental legislation, changes in world currency, etc.

Today, energy costs are rising, but slowly; the dollar is gaining strength, but not rapidly; interest rates are bouncing around, and most domestic car lines are as competitive as they have ever been against import competition.

That's pretty dull stuff for television. But all I could say was that with auto sales softening, along with production schedules, we seem to be heading into the rarest economic event of all — a "normal" business downturn, like they tell you about in business school.

Dan McCosh is the automotive editor of Popular Science.

Every product reaches maturity

By Mary DiPaolo
special writer

Market maturity represents the stage during an industry's product life cycle when sales level off and the competition is the toughest.

Many competitors have entered the market in the battle for profits and are very aggressive. Generally speaking, profits fall during this stage because promotion costs keep increasing as some competitors cut prices to attract business. Even during market maturity, new competitors can arrive on the scene in hopes of capturing valuable market share.

To compete effectively, persuasive promotion appeals are critical because the industry's products or services differ only slightly, if at all. Distribution methods also become more intense during this stage in order for the products or service to remain available to potential customers.

To boost sales during this stage, many companies improve their product or service for the same or a different customer market — and let it start off on a different cycle. They may also withdraw or phase out their product before the next life cycle stage (market decline) sets in. Examples of product industries now in the market maturity stage include most groceries, cosmetics and household appliances.

MARKET DECLINE is one stage that most companies try to avoid. During market decline, new products replace the old. Price competition from dying products may become more vigorous, but it's the strongest brands that usually generate some profit until the end. To minimize losses during this stage, many companies pursue a "phase out" strategy. This may involve selective ordering so that production can end with a minimum of unused inventory.

It may also mean shifting the sales force to other jobs or laying them off. Advertising and other promotional efforts may be canceled because there is no point in promoting for the long run any more. Such actions will influence company morale if little or nothing is done to prepare employees and suppliers for the phaseout.

As new products replace those that have been eliminated, the product life starts over again. But developing a new product demands much time and talent — and still the risks and costs of failure are high. As product life cycle analysis is a process used to describe and evaluate industry success over the long term, so are the activities associated with new product development. The five-step process through which any new product moves includes idea generation, screening, idea evaluation, development and commercialization.

Next week, we will discuss this process in more detail as it pertains to both industrial and consumer markets.

Mary DiPaolo is the owner of MarkeTrends, a Farmington Hills-based business consulting firm. She is also producer and host of the cable television series, "Chamber Perspectives."