Prospects looking grim for state's auto industry

It's no secret that the domestic automobile industry is facing terrible times.

Daimler-Chrysler is still preoccupied with the major downsizing and restructuring effort that followed what now looks like an ill-advised and badly executed takeover by the Germans.

Literally fighting for its life, Ford recently announced record losses and has just embarked on a plan to close five manufacturing plants and cut 35,000 jobs worldwide.

Phil Power

Even General Motors, amazingly converted from perennial also-ran into top dog, is still slashing costs. Worse, industry experts estimate that up to a quarter of all U.S. automotive supplier companies, tool and die firms and equipment manufacturers will face insolvency this year.

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To better understand what's really going on behind the superficiality of all the headlines, I called my old friend David Cole, president of the Center for Automotive Research and unquestionably our ranking expert on the automobile industry.

Cole's prognosis is grim: "The business model that has defined the auto industry for the past half century is broken and there is a clear understanding that the industry as a whole must restructure in order to remain competitive."

According to Cole, the basic economic logic of the supply side of the industry has been to run the plants at maximum capacity in order to reduce per unit manufacturing costs and to provoke the highest possible volume of sales. On the demand side, the idea has been simultaneously to reduce cost and add value — less emissions, better mileage, new models — to stimulate consumer demand.

Clearly, the workings of this largely free market have produced better products, great savings and good deals for customers. For example, buying a car 10 years ago cost the average consumer around 30 weeks of income. Today, buying a (much improved) new car costs the average Joe just a bit more than 22 weeks in wages.

But according to Cole's analysis, two major forces for change have today brought the auto industry to its worst place since the early 1980s:

The vastly increased competitive pressure exerted by three major world automotive industries — Asian, European and American — all focusing much of their production and marketing capacity on a single North American market. Everybody's trying to make and sell cars to the Americans, which results in very tough price and quality competition on the one hand and enormously expensive excess manufacturing capacity on the other.

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In this intensely competitive environment, the ever-increasing costs of research and development, new product design and regulatory mandates simply cannot be fully passed on to customers.

The result: Vast pressure on profits.

Ford is losing money at a never-before equaled pace; something like $10 billion in assets are gone from its balance sheet. Chrysler has lost $8 billion since the acquisition. Only GM is showing earnings in excess of projections, plainly the outcome of an enormous company-wide effort to cut costs and restructure the corporation that took place for the entire decade of the 1990s.

Cole reports all this is happening at greater and greater speed, witness GM's amazing reversal of roles with Ford over just the past 18 months. Just as great high school football players discover everybody's just as fast as they are once they start playing college ball, even giant players in the auto industry are discovering in shock just how fast things can change in a ferociously competitive environment.

Cole's bottom line: "Something's got to change. The old business model is simply not sustainable."

Maybe the recession will come to an end later this year, but I wouldn't bet that things will get a lot better in Michigan for quite a long time.

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Home court advantage doesn't buy much these days, retailers find

Tedd Schneider

They're hometown stores, so we pull for them with the same kind of passion we exhibit for our professional sports teams. We all want Kmart and Jacobson's to succeed.

The local roots for both retailers run deep. Kmart has that gleaming headquarters building in Troy, of course. But the national discount chain ran its first-ever Blue Light Special from a single store (then owned by the S.S. Kresge Co.) on Ford Road in Garden City in 1962.

Jacobson's – the 134-year old Jackson-based company with 23 stores in Michigan, Ohio and Florida – forged much of it's identity as southeastern Michigan's premier high-end department store. In fact, as the original anchor store at Livonia's Laurel Park Place, Jacobson's played a huge role in making "upscale" shopping a short trip for people living and working in the western suburbs. Those (seeming) half-day commutes to Ann Arbor or the far reaches of Oakland County just weren't necessary any longer.

But because the two chains – whose financial difficulties have become front-page news in recent days – aren't nameless, faceless companies run from some far-away locale we also tend to give them a pass when it comes to measuring up to the competition. While that's only human, it's not necessarily the best way to ensure either their long-term business health or our range of shopping choices.

The sad fact is that while the current recession has certainly exacerbated the situation, there are other reasons Kmart was forced to file for Chapter 11 bankruptcy protection this week, following Jacobson's move in that direction just nine days ago. Reasons that have nothing to do with poor holiday sales or the aftermath of the Sept. 11 terrorist attacks.

Most local shoppers could probably rattle them off without missing a beat. And odd as it sounds, many (myself included) have considerable experience whipping out their wallets at both the tony department stores and bargain-basement discounters – sometimes during the same shopping trip.

Just step inside any local Kmart, particularly one of the older stores like the one on Seven Mile at Farmington Road in Livonia or the one on Ann Arbor Road in Plymouth Township. You'll find cluttered, narrow aisles with merchandise stacked so high and haphazardly that it's difficult to see the directional signs hanging from the ceiling. The store layout thwarts anyone even thinking about making a five-minute stop at lunch hour or on the way home from work.

True, the Super K on Ford Road in Canton and other newer stores feature better lighting, wider aisles and a cleaner look. But if the retailer's own, southeastern Michigan back yard is an example of it's nationwide store replacement strategy, there just aren't enough of them to make a substantial difference. Not when you're competing with the likes of Wal-Mart and Target, deep-pocketed chains that have for the last decade seemingly opened a new store every other week in virtually every American suburb large enough to accommodate one of their monster-sized parking lots.

Convenience is one reason many consumers choose their discount store. But industry analysts will tell you that prices are the biggest factor. Finding heavily advertised sale items in stock at Kmart is sometimes a challenge. In fact, an acquaintance once suggested (in jest, I think) that they change the store name to Raincheck City. And sure enough, every Kmart CEO from Joseph Antonini to the recently demoted Chuck Conaway has talked at one time or another about "new technology" that will "revolutionize" the retailer's "inventory control system." Attention, Kmart executives: it hasn't happened.

Jacobson's also struggles to compete with national retailers in its category. This wasn't so much a problem when you practically had to hop in a car and drive all the way to Chicago (OK, maybe Troy) for the closest upscale shopping experience. But over the last 10-15 years, national chains like Neiman Marcus and Nordstrom's have built stores in or near virtually every Midwest city. They offer the same kind of merchandise, service and attention to detail that Jake's built its reputation on over more than a century.

They also offer something Jacobson's apparently can't match. Buzz, hype and image. Who doesn't know which store issues the famous (and really ridiculous, when you think about it) Christmas catalogue that gets guaranteed free print and television exposure every year? That may not have much to do with a quality shopping experience, but in an age where media – and attention spans – are more fragmented than ever, it counts for something.

Certainly, the hope here is that both retailers can turn things around in short order. For their employees, their investors and the local economy. But consumers – even those who carry fond memories of local institutions – won't turn a blind eye to their shortcomings forever.

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