

Automotive News

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Suppliers' U.S. spending spree

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Remember those appeals from carmakers as the Great Recession receded, trying to coax shell-shocked suppliers to turn the factory lights back on and reinvest in parts-making capacity?

According to a new study, automotive parts makers have heeded the call — big time.

Mexico trails as automakers call for more capacity

Over the past decade, 2006 through 2015, auto suppliers spent \$48.4 billion building or expanding factories in the United States, Canada and Mexico, according to the study by the Center for Automotive Research in Ann Arbor, Mich.

What's more — contrary to popular perceptions — auto-sector in-

vestment is not fleeing to low-cost Mexico at the expense of the U.S. Instead, the vast bulk of new supplier investment has come to the U.S.

The study, commissioned by a group of Southern U.S. states to ascertain where North America's automotive investment is going, shows that one of the biggest con-

cerns of the post-recession industry — insufficient supplier capacity amid surging new-vehicle production — has been resolved.

CAR's data show that parts makers invested \$3.4 billion over the past 10 years to build or expand fac-

see **SUPPLIERS**, Page 62

Factory funds

Investments in new and expanded plants, 2006 through 2015, in millions

U.S.	\$44,400
Mexico	\$3,400
Canada	\$580

Source: Center for Automotive Research

► **SPECIAL SECTION:** Changes in where and how automakers build vehicles are shaking up suppliers and supply chains. | **PAGES 35-57** |



future product pipeline
THIRD IN A 9-PART SERIES | EUROPE

European brands continue to add nameplates and variants. They also seek to set themselves apart from the hoi polloi with advanced technologies that move closer to autonomous driving. Coverage begins on **PAGE 20** |

futurismo
Want to see the future? In "Futurismo," our new podcast, *Automotive News* explores ways car-sharing could transform how we get around. Details on **PAGE 64** |

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All the news from Traverse City: autonews.com/tcity



Regulatory run-ins. Sloppy sales reporting. Is the pressure getting to FCA?

ROUGH RIDE

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When Fiat Chrysler Automobiles CEO Sergio Marchionne laid out his latest five-year plan in 2014, he admitted the strategy relied on "near-perfect execution."

But the 27 months since then haven't been anywhere close to perfect.

As the Italian-American automaker chases its five-year goal of boosting global sales 59 percent to 7 million annually, it has had to march through a minefield of safety issues and recalls, sapping resources and causing unwanted distractions.

Last week brought another setback: Facing a dealership lawsuit and a federal investigation, FCA US overhauled the way it reports monthly sales numbers. In the process, it surrendered a key symbol of its post-bankruptcy resurgence: a 75-month streak of growing U.S. sales.

Mix in signs of stagnant demand in the U.S. and mounting challenges around the globe, and it all points to a bumpy ride into the sunset for the 64-year-old Marchionne, who has said he'll retire at the end of 2018, once he sees his 2014 plan to completion.

Marchionne, who saved Fiat in 2004 and helped

see **FCA**, Page 65

Ford's Q3 warning jolts the industry

Abrupt shift from April's confidence

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DETROIT — After boasting of record profits earlier in the year, Ford Motor Co. last week dropped a profit warning as jarring as concrete blocks hitting the bed of an aluminum pickup.

Executives said the automaker is spending more than anticipated on incentives as U.S. vehicle demand softens, generating less revenue than expected in China and facing at least a \$1 billion hit over the next three years from the Brexit vote in Europe.

One Wall Street analyst, Adam Jonas of Morgan Stanley, called the abrupt shift in attitude a possible "watershed" moment for the industry, which largely had brushed aside bubbling concerns about plateauing U.S. sales and rising discounts. Many of the looming threats that Ford CEO Mark Fields laid out are issues other automakers also have to confront, but Ford is the first to acknowledge them so starkly.

"We remain committed to our 2016 guidance, but we're facing risks to achieving that," Fields said after Ford posted a 9 percent de-



Fields: "We're facing risks."

see **FORD**, Page 67

Following his success as a pro basketball player, Vinnie Johnson established Piston Group to create economic vitality, jobs and opportunity in Detroit.



"Suppliers are our teammates."
HAU THAI-TANG
Group Vice President of Global Purchasing



"Henry Ford II wanted to provide business opportunities to minorities and small businesses," said Hau Thai-Tang. Decades later, Ford is recognized for having one of the leading Supplier Diversity Development Programs in the country and across industries. Thai-Tang and his global purchasing team continually work to find and create lasting relationships with suppliers around the world. "We identify diverse suppliers and work to help them build their business with us and others. In return, it helps create jobs, which then creates community investments," said Thai-Tang. In 2015, the Michigan Minority Supplier Development Council named Ford "Corporation of the Year," for the sixth consecutive year, at the annual ACE Awards program. "It's our mission as a socially responsible corporation to help grow opportunities for everyone, including minorities, women and veteran business enterprises. We also place a high value on having a supply base that mirrors the diversity of our customers." Find out more about Ford at social.ford.com.

*Andra Rush, founder of Rush Group, which operates Detroit Manufacturing Systems, leads the largest woman-owned business in Michigan.**

*Ranked by 2015 revenue by Crain's Detroit Business.



AUTOMOTIVE NEWS ILLUSTRATION

Diesel 'defeat devices' used more than you think

EU law gives VW, others leeway to protect engine, safeguard vehicle

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Normally companies prefer their news releases to be bite-sized morsels no longer than a page.

So when the media leveled allegations of emissions fraud against General Motors' European unit, the nine-page response detailing GM's position hinted at panic. It was titled "Statement of the Adam Opel AG on the Current Diesel Discussion," but one of Germany's leading newspapers suggested an alternate headline: "The longest denial in corporate history."

Opel's response typified the wariness of automakers swept up in the emissions controversy that has engulfed Europe's diesel industry since the U.S. EPA discovered the fraud at Volkswagen.

Zetsche: "It will be very helpful to have clear regulation."

"If you look into the regulations, people digging into the legislation itself, they all come back saying it's utterly complex."

Erik Jonnaert, attorney

Ongoing news reports revealed a reality that might surprise those outside the world of powertrain engineers and regulators. "Defeat devices" gained prominence thanks to VW, which used such software to turn off its emissions controls outside of government testing. But other automakers in Europe make liberal use of officially sanctioned devices in diesel vehicles that spew nearly as many toxins as VW's.

The result is that, even though Europe has mandated a radical decrease in nitrogen oxide, or NOx, emissions over recent years, the use of these "devices" — essentially software code embedded in the engine control unit — means that real-world emissions are considerably worse.

A variety of euphemisms such as "en-

gine calibration," "acoustic function," "thermal window" — or in the U.S., "auxiliary emissions control devices" — describe conditions under which car-makers may minimize or switch off their expensive exhaust-treatment systems in the name of guaranteeing mechanical durability.

A recent investigation of 53 diesel models by Germany's transportation ministry discovered broad use of these legal defeat devices. For example, officials found a 1.6-liter diesel BMW 2 series emitted more than five times the legal NOx limit on the road. The 1.5-liter diesel in Renault's Dacia Sandero emitted 1,025 milligrams per kilometer on the road — 13 times higher than the ceiling in the EU's laboratory testing.

Part of the reason the devices are widely used in Europe traces back to a loophole in the European Union's emissions law. In Europe, the law gives automakers wide discretion to use defeat devices to protect the engine or safeguard the vehicle.

Andrew Fulbrook, director of IHS Automotive's global powertrain and com-

see **DEFEAT**, Page 66

Rethinking India

General Motors is pulling back on plans announced barely a year ago to invest \$1 billion in its India operations. Those plans included

- Developing a modular vehicle platform for developing markets
- 10 new domestically manufactured vehicles
- Doubling market share by 2020
- Establishing a low-cost export hub

GM's bold approach: Staying conservative

Pullback in India reflects new discipline

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DETROIT — A year ago, Mary Barra traveled to New Delhi to tell the world that General Motors would spend \$1 billion to launch a slew of new vehicles in India and establish the country as an export hub for emerging markets.

Less than 12 months later that plan was put on hold, GM officials in India disclosed last week. India's crackdown on diesels and a shift in market preferences away from big people movers prodded GM executives to pause and rethink their strategy.

NEWS ANALYSIS

Seems logical: Conditions changed and GM shifted course. But for GM, swift decisions and pulling back from a potential growth market haven't always come so naturally.

"In the past," one GM executive said of the India move, "because of the potential of that market, we'd have kept throwing billions at it until we got it right."

Companies rarely earn respect for what they *don't* do. But for GM, the reassessment in India is the latest milestone along a path to becoming a more disciplined

company. It joins a growing list of proof points — retreating from manufacturing in money-losing Indonesia, yanking Chevy from Europe, largely winding down Russian operations — that show Barra & Co. are at least applying a consistent strategic focus, swiftly switching gears when outside forces dictate.

"GM has taken a more vigilant stance in determining where it is and isn't profitable, and is acting on that — a departure from the ways of GM past," Barclays Capital analyst Brian Johnson wrote in a research note last year.

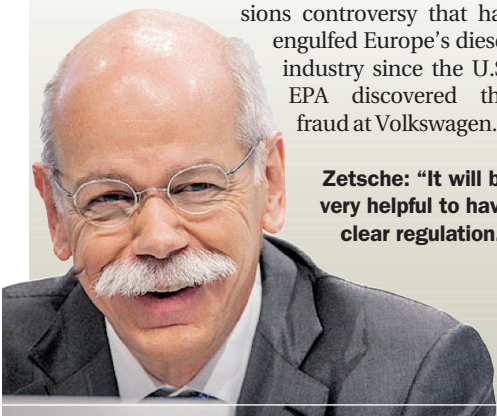
For GM watchers, there seem to be two overarching concerns about the company. One is long term: whether it can adapt and lead as autonomous driving and new personal-mobility services threaten the future of the car-ownership model. It'll take years before we have an answer to that.

But the other concern is rooted in GM's past:



"We'll continue to execute our plan with discipline to keep driving profitable growth ... generating strong returns on invested capital."

Mary Barra



AN sales, marketing staff shift roles

DETROIT — *Automotive News* has made several changes to its advertising and marketing teams:

■ Karen Rentschler, 48, will become chief commercial officer, a new position directing sales and events. She has been a regional sales manager since joining *Automotive News* in 1992.

■ Nicole Wrobel, 41, will be chief marketing and strategy officer. She will be responsible for directing marketing initiatives across events, audience development and online.

She also will continue to lead the audience and digital teams at *Automotive News* as well as the Content Studio. Wrobel came to *Automotive News* in 2012 as online business director.



Rentschler: Directs sales and events



Wrobel: Leads marketing initiatives

■ Rick Greer, 57, will become senior sales adviser, assisting Rentschler and her team in the transition. He joined *Automotive News* in 1993 and has been sales director for the past eight years.

"Under Rick's management, *Automotive News* has grown at a rapid pace, expanding into new mar-

kets and creating a wealth of successful new products," said Publisher and Editor Jason Stein.

"We are confident that through Karen and Nicole's leadership, *Automotive News* will continue to flourish and serve its readers and clients."

The changes take effect Oct. 3. **AN**

CORRECTIONS

■ A story and table on Page 4 of the July 25 issue contained incorrect tallies of automakers' minority-owned dealerships. The National Association of Minority Automobile Dealers says it is reviewing the data in its 2015 Minority Dealer Census.

HOW TO REACH US

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Ghosn has warned that heads could roll for failing to reach his operating margin goal.

BLOOMBERG

Nissan backs off Ghosn's 8% goals

Currency troubles force reassessment of targets

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YOKOHAMA, Japan — With currency changes cutting into its earnings, Nissan Motor Co. is backing away from CEO Carlos Ghosn's bold goal of an 8 percent operating profit margin by next March.

Profits are also being undercut by falling sales in the home market, triggered by a stop-sale of minicars involved in an emissions-testing scandal, the automaker said last week with the release of its quarterly earnings, and by rising incentives in the United States to move passenger vehicles such as the Versa and Altima sedans.

Corporate Vice President Joji Tagawa said last week that Nissan also is withdrawing its much publicized goal of reaching an 8 percent global market share by the end of this fiscal year, March 31, 2017.

"In this fiscal year, we are not thinking of achieving it," Tagawa said.

Ghosn has made statements in the past year to acknowledge that his 8 percent market share goal might take longer to achieve. But he indicated no flexibility on his 8 percent operating profit objective.

As recently as last autumn, he warned that heads

see **NISSAN**, Page 61

Automotive News wins Azbee awards

Automotive News won several national Azbee journalism awards from the American Society of Business Publication Editors for work published in 2015.

Automotive News won:

■ Gold in the Feature Series category for "Industry on Trial," a multipart look at Fiat Chrysler Automobiles CEO Sergio Marchionne's critique of the auto industry's penchant for burning through capital.

■ Gold in the News Analysis category for "A lunch date, then a breakup," which gave the back story on a split between AutoNation Inc. and TrueCar.

■ Gold for "Setting the Pace for Safety," a look at the Insurance Institute for Highway Safety, and Bronze for "Toyota 2.0," an analysis of the transformation of the world's largest automaker, both in the category of Company Profile.

■ Silver in the Impact/Investigative category for "IIHS takes closer look" about the institute's additional tests of all automakers' pickups after *Automotive News* alerted it to extra safety equipment that Ford Motor Co. had installed on the top-selling SuperCrew model — the single model that IIHS normally tests — but not on its Regular Cab or SuperCab F-150s.

In addition, *Automotive News* won an Honorable Mention in the category of Best Cross-Platform Package of the Year for "100 Leading Women," which encompassed print coverage, webcasts and an event.

Automotive News and *Investment News*, a sibling publication at Crain Communications Inc., were also top 10 finalists for Magazine of the Year. **AN**

Mazda's U.S. sales pinch profits

Yen's rise takes a big toll on the bottom line

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TOKYO — Mazda's stumbling U.S. sales helped drag down the Japanese parent company's financial performance in the quarter just ended.

But the bigger problem is something that neither Mazda Motor Corp. nor any other Japanese automaker can do much about right now: The rising yen is deflating Japanese companies' profits.

Mazda last week reported a 42 percent drop in its global net income. Net income plunged to ¥21.23 billion (\$207.0 million) for the three months ending June 30, while operating profit fell 1.7 percent to \$511.3 million, Managing Executive Officer Tet-

suya Fujimoto said while announcing the results on Friday, July 29.

Even as worldwide sales of Mazda vehicles increased 1.3 percent to 375,000 units, company revenue decreased 3.7 percent from a year earlier, to \$7.47 billion.

Mazda's U.S. vehicle sales fell 8.6 percent in the first six months of this year, compared with a 1.4 percent rise for the U.S. industry as a whole. For the April-June quarter, Mazda's North America's regional operating profit declined 19 percent to \$109.2 million.

But as one of Japan's most export-dependent automakers, Mazda is especially sensitive to recent trend in currency exchange. Roughly 80 percent of Mazda's Japanese factory output is exported. Currency

A bad spring for Mazda

Mazda's earnings took a hit in the April-June quarter, compared with the same period in 2015.

■ **Global net income:** -42%

■ **North American operating profit:** -19%

■ **Global revenue:** -3.7%

■ **Currency hit to operating profit:** \$330.5 million

changes slashed \$330.5 million off the company's operating profit in the quarter.

Fujimoto said the rollout of two higher-margin vehicles this year will help soften the currency blow going forward. In the quarter, the CX-9 crossover arrived in the U.S., while the CX-4 crossover landed in China. **AN**



Lexus of Omaha is one of 11 dealerships involved in the Lexus Plus pilot program. Brand execs think it's a better way to sell luxury cars.

LESS STRESS TEST

Lexus shoppers warm to no-haggle, no-handoff sales model

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OMAHA, Neb. — When customers come in to shop at Lexus of Omaha, one of the test labs for a new sales process called Lexus Plus, salesman Jeff Bahnsen starts off by running through the program's concept statement. It assures them that he alone will take them through the entire purchase and explains why the dealership's prices are non-negotiable.



Bahnsen: Happy customers

suits them best.

For each vehicle, a label on the windshield shows customers the sticker price, factory incentives and additional discounts that go into the final no-haggle price. (An IS sedan with a sticker price of \$46,494 recently carried a no-haggle price of \$40,719.)

If a buyer wants to walk out because of



the no-haggle policy, Bahnsen reiterates that the quoted final price is indeed final and won't change later. Some customers leave, only to return after doing more research, Bahnsen says. But for the vast majority, it never comes to that.

"They're happy as heck," Bahnsen said. "The fear level is gone. The anxiety is gone."

Lexus execs are convinced that this is a better way to sell luxury cars, and they are betting on it to further differentiate

1 price, 1 salesperson

Lexus Plus, a pilot program being tested at 11 dealerships, has 2 main pillars.

1. Upfront pricing: A Lexus Plus dealer provides a negotiation-free, market-value price for a new or used vehicle and transparent pricing for service work.

2. Dedicated consultants: Customers work with one sales consultant throughout the sales process, from appointment scheduling to F&I to delivery, and have a single point of contact during their service visits.

Source: Lexus

the Lexus brand from competitors. But rather than forcing the change on skeptical dealers, they are rolling it out as a voluntary experiment in the hope that it will spread organically to more of its 236 U.S. dealerships. In some markets, that means a Lexus Plus operator competes against a traditional Lexus dealer not far down the road.

It's still early, but Lexus officials are en-

see **LEXUS**, Page 66

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*Ford Credit and Lincoln Automotive Financial Services received the highest numerical scores among mass market (2015) and luxury (2013-2015), respectively, in the J.D. Power Consumer Financing Studies. 2015 based on 19,522 responses measuring experiences of new-vehicle purchasers or lessees surveyed July-Sept. 2015. Your experiences may vary. jdpower.com.



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Nissan adds single-cab Titan

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NASHVILLE — Nissan North America is beefing up its large pickup lineup with the first-ever single-cab version of the Titan. The 2017 Titan single cab and Titan XD single cab are aimed at the commercial, fleet and work truck market.

They are scheduled to reach U.S. showrooms in late fall.

"This is where we see a huge opportunity that we've never been able to reach before," said Rich Miller, Nissan's product planning director for trucks, SUVs and commercial vehicles. "This is the basic work truck. It is the contractor, the welder, the guy with the generator in the back."

The Titan, redesigned for 2016, will eventually come with three cab configurations — single cab, crew cab and a future king cab — and three bed lengths, three engines and five trim levels.

The single-cab variation is expected to account for 15 percent of Titan sales once the full line is on the market, Miller says.

The Titan XD single cab will be equipped with a Cummins 5.0-liter V-8 turbodiesel engine or a 5.6-liter gasoline V-8 engine. The Titan single cab, which has a shorter wheelbase than the XD, will come with the V-8 gasoline engine only, but a V-6 engine will be added later.

The single-cab version of the Titan, a rugged but affordable entry point for the



work-truck market, represents Nissan's biggest step to vie for U.S. commercial truck users dominated by the Detroit 3.

"This version of the Titan plants a flag in the ground that we're here to compete for the full-sized commercial vehicle business," says Phil O'Connor, Nissan's director and chief marketing manager for trucks. "It allows us to get on the shopping list of commercial fleet buyers for the first time."

The 2017 Nissan Titan single cab is scheduled to reach U.S. showrooms in late fall. Nissan expects the single cab to account for about 15 percent of Titan sales.

U.S. sales of the Titan edged up 0.8 percent to 6,099 vehicles in the first half of the year.

Pricing of the Titan single cab will be announced closer to market launch. **AN**



BRIAN WILLIAMS/SPIEDBILDE PHOTOS

Mercedes delays diesel version of C-class sedan

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Mercedes-Benz will take at least a year longer than once planned to introduce the diesel-powered version of the C-class sedan.

The C300d had been slated to go on sale in the U.S. during the first quarter of 2016. Timing for a diesel version of the GLC compact crossover also has slipped from the 2016 time frame that executives mentioned last year. A Mercedes spokesman said there is no firm date for either vehicle's release.

"The latest plan is sometime in 2017 (mid-2017 is a reasonable estimate, not firm), but this is certainly subject to change," the spokesman, Rob Moran, wrote in an email.

The delay comes in the wake of Volkswagen's diesel emissions violations and more intense U.S. regulatory scrutiny of all models, especially diesels. Other automakers, such as BMW and Porsche, have also had to push back the launch of diesel models in the U.S.

Mercedes sells one diesel model in the U.S., the 2016 GLE300d. The company plans to introduce the 2017 diesel version of the GLE



Mercedes' C-class sedan is now slated to get a diesel in 2017.

midsize crossover by year end, Moran said, as well as the 2017 GLS350d, the diesel version of the brand's large SUV.

2016 was always going to be a light year for diesels for Mercedes, Dietmar Exler, CEO of Mercedes-Benz USA, said in May. Diesel models are more prevalent on the crossover side of the Mercedes lineup, and the brand has updated nearly its entire roster of crossovers and SUVs over the last year. Diesel models usually lag gasoline models by up to a year, Exler said.

"We are a little bit in the lower-volume selling for diesels right now, anyhow," Exler said. "But we would have been there no matter what — because of the launch schedule."

Exler said diesels account for about 1.2 percent of Mercedes' U.S. sales. **AN**



Hyundai's hot hatch

Hyundai's performance division is close to fielding its first production model for the U.S. Based on new spy photos, the 2018 Elantra GT N features a lower profile and sportier styling than the standard compact hatchback. Hyundai's answer to Volkswagen's Golf GTI and Ford's Focus ST, the Elantra GT N likely will be powered by a turbocharged four-cylinder engine and feature a more dynamically tuned suspension. It's expected to reach the U.S. next year.

A 4-cylinder McLaren? Don't count on it

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LONDON — McLaren Automotive CEO Mike Flewitt has said the British supercar maker needs to downsize its V-8, but he has ruled out a four-cylinder option. So expect a V-6 as part of a hybrid powertrain.

McLaren announced a hybrid plan this spring as part of a strategy to develop 15 new models by 2022 at a cost of £1 billion (\$1.31 billion at current exchange rates). But the company gave no indication of the size or cylinder count.

Flewitt said the new hybrid powerplant would "halve" emissions compared with the current entry Sports Series V-8. It will be launched by the end of the decade,



Flewitt: Hybrid powertrain

he said. But it won't be a four-cylinder.

"If there were no electric vehicles then yes, we'd get to four cylinders, but I actually think EVs are at the end of the journey," he told journalists in July at an event here.

Flewitt said McLaren is working on a "game-changing" electric supercar set to go on sale by around 2022 but said that hybrid power was the technology needed in the medium term to comply with global emissions regulations.

Special agreements in the U.S and Europe mean McLaren doesn't need to meet corporate average fuel economy standards. But it still must show consistent improvements, Flewitt said.

— Nick Gibbs



New hybrids will be much cheaper than McLaren's \$1.1 million P1.



KGP PHOTOGRAPHY

Mercedes-AMG GT droptop

Mercedes-Benz will introduce a convertible version of its Mercedes-AMG GT sports car in 2017. Spy shots of the vehicle emerged last week just days after parent Daimler AG showed the product on a slide as part an investor presentation. According to the slide, the car is called the GT C Roadster. According to sources, it will debut this fall at the Paris auto show and go on sale in the U.S. in the second half of next year.

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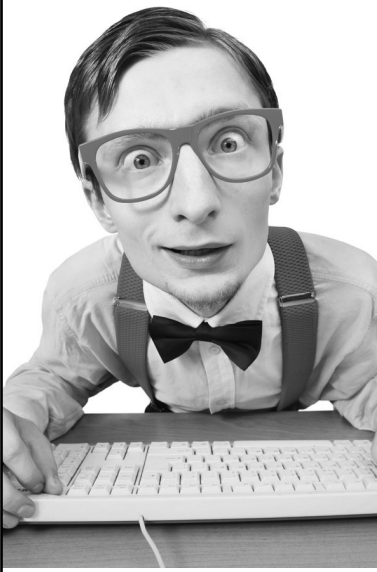
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M-B pulls Drive Pilot ad after complaint

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ATLANTA — Mercedes-Benz USA pulled an ad for the redesigned 2017 E-class sedan last week after consumer and safety advocates called the spot misleading in its depiction of the vehicle's driver-assist systems and urged the Federal Trade Commission to investigate.

In a letter to FTC Chairwoman Edith Ramirez, the critics of the ad — including leaders at *Consumer Reports* and the Center for Auto Safety — said the sedan doesn't meet the National Highway Traffic Safety Administration's definition of a fully or partially self-driving car but is "marketed in a way that a reasonable consumer would believe" it can drive itself. The ad, they wrote, could give "a false sense of security in the ability of the car to operate autonomously."

At issue is an optional package that Mercedes calls Drive Pilot, which includes advanced adaptive cruise control and automated steering and allows the sedan to follow traffic and keep its lane at speeds of up to 130 mph.

The letter comes amid intense scrutiny of autonomous driving systems after regulators disclosed that a Tesla Model S driver died in a crash with the vehicle's Autopilot driver-assist systems activated. Federal safety agencies are investigating the crash, and Tesla has been criticized for how it marketed the system, and for the Autopilot name.

Mercedes spokeswoman Donna Boland told *Automotive News* that the automaker decided to take the ad out of circulation because of the contested claims. The 2017 E class is "a significant step towards achieving our vision of an accident-free future," Boland wrote in an email. "We do not want any potential confusion in the marketplace to detract from the giant step forward



Mercedes' ad at one point shows an E-class driver removing his hands from the wheel. Critics said the ad could give "a false sense of security in the ability of the car to operate autonomously."



The 2017 E class, a Mercedes spokeswoman wrote, is "a significant step towards achieving our vision of an accident-free future."

in vehicle safety the 2017 E class represents."

A YouTube version of the contested ad, titled

"The Future," shows Mercedes' F 015 self-driving concept car being overtaken by the E class while a narrator says, "Is the world truly ready for a vehicle that can drive itself? Ready or not, the future is here."

At one point, the E-class driver removes his hands from the wheel, and the car appears to briefly steer itself and later park itself.

The fine print at the bottom of the screen contains this caveat: "Vehicle cannot drive itself, but has automated driving features."

That YouTube ad is now marked as private and unavailable for viewing. **AN**

Ryan Beene contributed to this report.

Stop-sales punish publics' profits

Dealership groups struggle to cope with thousands of idled vehicles

Jamie LaReau
jlaureau@crain.com

Second-quarter profits at the publicly traded dealership groups — mixed amid weak new-vehicle sales — took a hit from the thousands of vehicles languishing on lots under stop-sale orders, waiting for recall repairs. Now those groups are taking on the problem.

"We are going to get more aggressive in our pricing to blow some of this out," said Jeff Dyke, Sonic Automotive Inc.'s executive vice president of operations.

Most vehicles on stop-sale orders have been recalled because of potentially faulty Takata airbag inflators. BMW and Honda are two of the brands most affected. Until parts are available, dealership groups' options are limited.

At Asbury Automotive Group Inc., "We're looking at nearby lots to park these vehicles," said CEO Craig Monaghan. "It has become very disruptive."

About 500 of Sonic's 4,300 used vehicles are idled by stop-sale orders. "It's going to plague us until we get all the parts in,"

CFO Heath Byrd said.

Byrd hopes to repair the vehicles and sell them by year end. Sonic will discount affected BMW 3 and 5 series and Honda Accords. Dyke said Sonic will rely on profit from its finance and insurance operations to offset the front-end profit hit from discounting.

About 10 percent of Asbury's used-car inventory, valued at \$16 million, is under a stop-sale order, COO David Hult said, with the affected used inventory "as high as 40 percent at certain locations." He said most vehicles likely won't be fixed until later this quarter or next quarter.

But, Monaghan added, "When we get the airbags, we think [those vehicles] are going to be very marketable."

Group 1 Automotive Inc. has about 500 new and 600 used vehicles in its inventory under stop-sale orders, said CEO Earl Hesterberg. They represent less than 2 percent of Group 1's U.S. new-vehicle inventory and about 4 percent of its used.

"The minute one of those cars is fixed, we've got to make the decision whether it becomes retail or

Weak vehicle sales cut into earnings

Publicly traded auto retailers' second-quarter earnings were hurt by weak unit sales, in part reflecting vehicles under stop-sale orders.

	NET	CHANGE	REVENUE	CHANGE
Asbury	\$36.7 million	-11%	\$1.63 billion	-4%
Sonic	\$22.8 million	54%	\$2.38 billion	-1.7%
Penske	\$95 million	-0.7%	\$5.25 billion	6.8%
Lithia	\$51.4 million	0.4%	\$2.13 billion	6.8%
Group 1	\$46.6 million	0.6%	\$2.78 billion	2.1%
AutoNation	\$112 million	-2.7%	\$5.44 billion	4.2%

Source: Companies

we wholesale it," said Pete DeLongchamps, Group 1's vice president of manufacturer relations, financial services and public affairs.

Roger Penske, chairman of Penske Automotive Group Inc., aims to sell his stop-sale vehicles at retail.

"We're not going to discount them," he said. "We want to take these cars and recondition them because we get some internal gross profit in the parts and service area by doing the reconditioning and then retailing them."

Sales of about 2,200 used and 400 new vehicles in Penske's U.S. inventory, valued at \$57 million, are on hold.

Penske expects to have a "good portion" of the stop-sale used vehicles reconditioned and ready for sale within 60 to 90 days. So

far, Penske has reconditioned about half of its used BMW inventory, he said. "We're on the right end of the curve."

AutoNation Inc. had roughly 20 percent of its used-vehicle inventory — about 6,900 units — grounded because of stop-sale orders at the end of June. About three-quarters of those were related to the Takata recall, the company said.

CEO Mike Jackson said the stop-sale situation was the top factor contributing to AutoNation's second-quarter decline in used-car sales and profits. He sees improvement this quarter as replacement airbags start to arrive with more regularity, enabling vehicles to be repaired and

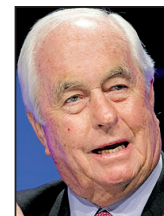
see **PUBLICS**, Page 67



Dyke: "More aggressive in our pricing"



Monaghan: "It has become very disruptive."



Penske: "On the right end of the curve"



Jackson: Peak disruption still to come.

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Cars.com wants to amplify store reviews

DealerRater purchase aims to broaden reach

Vince Bond Jr.
vbond@crain.com

Cars.com says dealerships are full of great salespeople who add value to the in-store experience.

The third-party shopping site's planned purchase of review site DealerRater will help dealerships spread the word about strong employees to a wider spectrum of potential customers, says Cars.com CEO Alex Vetter.

"I think this is a critical time because there are several new online-only players that are entering into the space, and they're trying to cut dealers out of the equation. Cars.com has

always known that a great dealer experience can be found if you do your homework online," Vetter told *Automotive News*. "We're helping dealers get the word out that their buying experience is as good, if not far superior, than some of these digital-only retailers."

Cars.com's acquisition of DealerRater will create a database of more than 4 million consumer-submitted reviews of dealerships, salespeople and service centers. Terms of the deal were not disclosed.

Those reviews and future ones will be dispersed across Cars.com — potentially including its related sites, Auto.com and Pickup-Trucks.com — and DealerRater as well as other sites that DealerRater already is integrated with, including Kelley Blue Book and Autotrader.

DealerRater, formed in 2002, has compiled

Consumers speak

Consumer-written reviews of dealerships are available on these sites.

General	Auto-industry specific	
■ Yelp	■ DealerRater	■ Edmunds.com
■ Google	■ Cars.com	■ Kelley Blue Book*
	■ Autotrader*	

*uses DealerRater reviews

more than 2.5 million reviews across 41,000 U.S. and Canadian dealerships. Over 14 million consumers access DealerRater content across the web each month.

Cars.com has its own, though smaller, database of dealership reviews. Cars.com hosts millions of new- and used-vehicle listings along with price tools and editorial content.

DealerRater CEO Gary Tucker told *Automotive News* that he will remain with the company after the acquisition. DealerRater will retain its name.

According to a study from marketing company Digital Air Strike, 79 percent of car buyers and 68 percent of service customers say review sites are among the most helpful tools when choosing a dealership.

Online consumer reviews are word-of-mouth marketing — one of the oldest forms of marketing and probably the most cost-efficient, Vetter said.

"Online reviews are becoming more critical than ever in all shopping categories, but even more so in the auto category," Vetter said. Consumers "trust reviews as much as they do their family and friends." **AN**

Sonic will offer online car-buying

Jamie LaReau
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By early next year, Sonic Automotive Inc. will launch an online sales initiative, called Sonic Digital One-Stop, that will allow consumers to shop for a vehicle, get a trade appraisal and complete the purchase online without setting foot in a store. A Sonic employee will deliver the car to the consumer, possibly as soon as the same day.

"A large part of our customer base will still want to come to the dealership and put their hands on the car," Vice Chairman David Smith said. "But with smartphones and other technology, the ability to view a car online is so good, and the quality of vehicles is so good, that fewer people will have the need to test drive it."

Sonic, which started developing Sonic Digital One-Stop about six months ago, plans to launch it by year end or in the first quarter.

The Charlotte, N.C., dealership group is working with "a couple" of vendors on development, said Jeff Dyke, Sonic's executive vice president of operations. He declined to name the vendors or disclose the project's cost.

The technology integrates with Sonic's One Sonic-One Experience technology. "It's not coming from a third party," Dyke said. "So it all works together seamlessly."

Sonic introduced One Sonic-One Experience at five dealerships in Charlotte in 2014. It offers no-haggle pricing with the goal of completing a purchase in 45 minutes or less using one sales rep armed with an iPad. The nationwide rollout is expected to take all of this year.

Sonic Digital One-Stop will require "four to five pieces of paper" to be signed at delivery to meet state laws, Dyke said.

"That could literally change overnight," said CEO Scott Smith. "You can buy a house with your signature on an iPad. The holdup is government regulations." **AN**



Dyke: Works seamlessly



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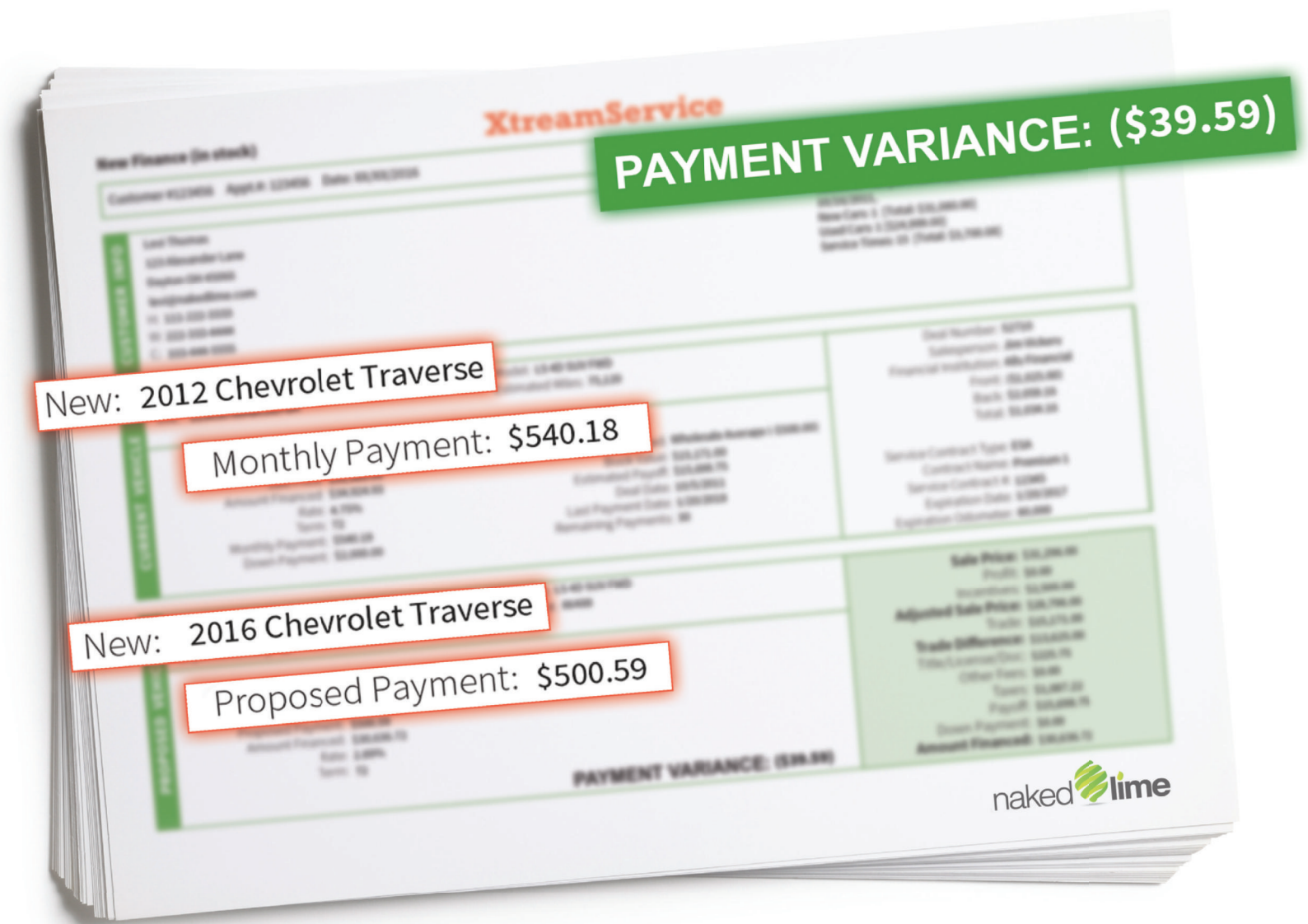
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FCA owes industry, investors complete sales information

Fiat Chrysler's partial restatement of monthly sales for the past five years is the latest embarrassment to an auto industry struggling for credibility with investors and consumers.

Such restatements are rare.

But the abrupt change follows revelations by *Automotive News* and Bloomberg News that the Securities and Exchange Commission and the Department of Justice are investigating FCA's U.S. sales reporting practices.

In a press release accompanying the notice of restatement, FCA US took pains to distinguish between the quarterly revenue it reports to regulators and monthly sales reports. Revenue is booked on wholesaling vehicles to dealers and fleet customers, FCA declared, so "the process of reporting monthly retail unit sales has no impact" on that.

That may be true, but the logic doesn't wash. Monthly sales reports by public companies are entirely material to investors.

Auto executives may lament their modest market valuations and look enviously at Tesla Motors shares priced at lofty premiums, even though the company doesn't reveal monthly sales and continues to operate at a loss.

But investors know how volatile auto-sales cycles can be and how quickly such a capital-intensive sector can rack up losses.

For them, analyzing monthly sales data is a key risk-management exercise.

For now, Tesla enjoys the benefit of being considered more a technology play than an automaker. But as it transitions into a larger-scale manufacturer, investors will demand more information.

Privately owned companies are free to withhold financial information from everybody but tax authorities. For everyone else, transparency is simply the cost of business for taking advantage of public companies' greater access to lower-cost capital.

FCA US has unfinished business. It must complete its sales restatement by promptly releasing brand- and model-level detail for the past 66 months. It should do so, not as a sop to regulators but as an affirmation to investors that FCA has nothing to hide.

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COMMENT

Testing should be on test tracks

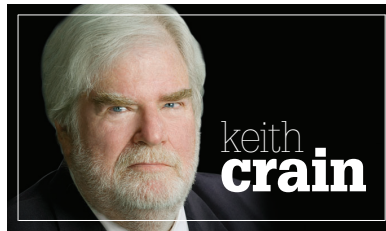
When the time comes that autonomous cars have been tested and proven with millions of miles of trouble-free operation, there will be a huge potential market for commercialization.

But until that time, we should make sure that companies don't use our highways as their own private proving grounds. If the American public found out that aircraft manufacturers were using the skies to test a new autopilot, there would be outrage, and all tests would be halted immediately.

The same procedures should be used for auto testing as for aviation. Otherwise, auto tests could be killing and injuring drivers and passengers for as long as it might take to make certain that autonomous systems are safe and reliable.

There are lots of test tracks and other facilities available to ensure safe 24-hour testing for potential manufacturers.

To allow real-world testing of



keith
crain

driverless cars on the streets and highways of America is reckless and irresponsible. It is inconceivable that after over a hundred years of automotive development, there are executives who would condone any testing of such vehicles on public roads. It is wrong and should stop immediately.

One of the most important aspects of testing should be crash avoidance. Obviously, no one would suggest that phase of testing should be done anywhere but in a test environment where all aspects of the vehicles could be monitored.

The value of a safe driverless car is huge. There are plenty of potential

customers for such a vehicle, but it would seem that in their rush to the marketplace, companies are ignoring the basics of vehicle testing and reliability.

It could take years to prove the systems are reliable and safe.

For some reason, manufacturers have been blinded by the potential of autonomous vehicles and either because of greed or their competitive nature have ignored basic engineering safety.

No one denies the potential of driverless vehicles. But to rush into production without adequate testing is irresponsible. To allow untested systems on our nation's highways prematurely would, in all likelihood, kill the promise of such systems.

We want and need a safe driverless vehicle. But before that vehicle can come to market, it will need strenuous testing.

It took at least a decade to get airbags into production cars, and they are saving thousands of lives.

Let's not replace safety with greed.

COMMENT

How a safety pioneer got his start

Today, it's hard to imagine just how rudimentary auto safety was in the mid-20th century, largely ignored by manufacturers and the public alike before Ralph Nader's 1965 expose, *Unsafe at Any Speed*. Nader's pioneering consumer advocacy confused most Americans, who couldn't understand his angle. Researching a 1969 *Time* cover story, a reporter kept asking Nader's mother what motivated him. Bewildered, he finally blurted, "What makes Ralph tick?" She replied, "What makes you not tick?"

Here, condensed from remarks at his July 21 induction into the *Automotive Hall of Fame*, Nader, 82, reveals what sparked his interest in automotive safety and makes a plea for continued vigilance.



I did a lot of hitchhiking, all over the country and back and forth to Princeton and Harvard. Truck drivers would pick me up. I really loved to hitchhike because I learned so much.

And sometimes we were first at a crash, before the emergency vehicles, and it was mind-blowing to me. Shredded flesh, screams, fires, limbs torn apart.

I would look at cars that crashed, photographs, and I would see the steering column come back right into the driver. And I would see people spilled out on the road. I got curious because that didn't happen usually in auto racing. In auto racing, they had seat belts, they had roll bars. And they survived incredible crashes.

All this started percolating. At Harvard Law School I did a third-year paper on unsafe automotive design and legal liability. I realized that there was nothing on unsafe cars and bad highways. The cases all revolved around driver-to-driver combat: who was negligent, who was not.

I met a retired engineer from

American Motors, Henry Wakeland. He told me about the enormous self-censorship inside the industry.

He said, "They're all afraid."

I said, "Afraid of what?"

"Afraid of being marked as troublemakers, non-players on the team."

At the same time, I was reading ads by General Motors, boasting that they had 21,000 scientists and engineers. But what were they doing other than production engineering? Were they engaged in innovation for better brakes, tires, better crashworthiness?

Then I stumbled on a work by Hugh DeHaven. He began to ask how some people fell out of four-story buildings and survived. His analysis was that shrubbery or soft mud mitigated the effect of g-forces when they hit the ground. This sounds very rudimentary now, but in motor-vehicle terms, it was considered quite radical.

There wasn't much literature on crashworthiness in automotive engineering magazines. That wasn't by accident.

I had a lot of contacts inside the auto companies. I'd come to Detroit, we'd get into a cab and we'd go all around the airport while they were feeding me information and materials in plain envelopes. These were patriots. They were not willing to risk their jobs and their career, but they felt a professional obligation.

Well, then came legislation. The legislation would not have passed without a half a dozen reporters and Helen Kahn of *Automotive News*. It's not enough just to put the facts on the table if nobody was aware of them.

The other thing that made it possible was a handful of members of Congress. And I mean a handful: Senator Abraham Ribicoff, Senator Gaylord Nelson, Senator Warren Magnuson, Congressman Benjamin

Rosenthal, Congressman John Moss.

All in all it taught me an interesting lesson. Major changes in American history are made when very few people have the facts, have stamina, and represent, perhaps, the very quiet majority opinion. Abraham Lincoln said with public sentiment behind you, you can do anything.

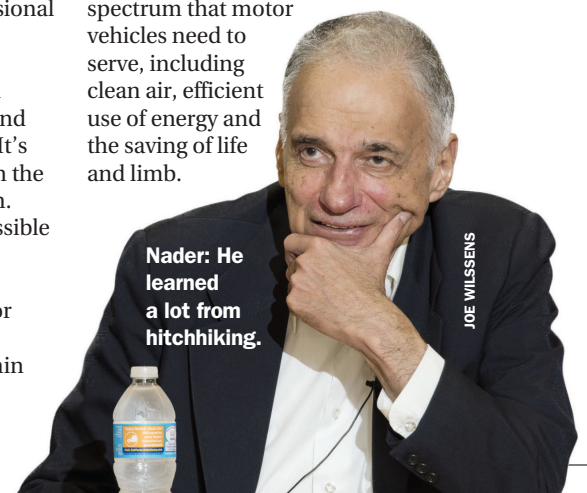
Today, cars are much safer, less polluting, modestly more fuel-efficient. But there's a long way to go.

Suppliers are the sparkplug of innovation. They confronted "not invented here" syndrome. The bureaucracies of the manufacturers are their principal enemy in protecting the lives on the highway.

Bureaucracies suppress conscience. They retaliate against moral courage. They inhibit ideas. They require obedience. They reward stagnation and elevate it, as long as the profits come in.

[Noting Volkswagen's diesel emissions cheating and safety defect scandals at General Motors and Takata:] We've ceased just to see carelessness, ignorance and indifference. These are increasingly criminal acts, not prosecuted, because there's no criminal penalty in motor vehicle safety law. Corporate lobbyists got that excised in 1966.

And so I appeal to all of you here and your colleagues to think of a broader spectrum that motor vehicles need to serve, including clean air, efficient use of energy and the saving of life and limb.



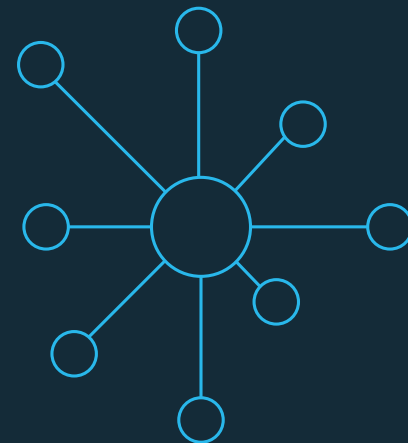
Nader: He learned a lot from hitchhiking.

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NAMAD: Prepare for decline

'Once a downturn hits, it's difficult to turn things around,' president says

Arlena Sawyers
asawyers@crain.com

MIAMI BEACH, Fla. — Watch expenses, conserve cash and shore up your parts and service operations. Good advice for dealers anytime.

Even better advice now, especially if a widely predicted decline in new-vehicle sales is on the horizon, says the National Association of Minority Automobile Dealers.

The nation's largest minority dealer group drove home these simple but important points at an all-members town hall meeting during the association's annual conference here in July, said NAMAD President Damon Lester.

Lester said NAMAD is taking industry predictions of slowing new-vehicle sales seriously and wants its members to be prepared.

About 400 minority-owned dealerships exited the industry during the last recession, he said. NAMAD doesn't want another mass exodus, hence the warnings to be ready.

"Any processes they may need to implement as far as increasing sales and increasing throughput, increasing repair orders — they should start to do that now to build up their customer base, particularly in service and parts so they can survive any potential economic downturn," Lester said.

"Interest rates have been at historical, all-time lows. Any kind of increase or bump in it can change a dealership's day-to-day operations, particularly as it relates to cash flow. We learned from the recession that once a downturn hits, it's difficult to turn things around."

Lester describes the industrywide growth of 32 minority-owned dealerships last year to 1,128 at the end of



Lester: Take steps to build customer base.



Moorehead: Next slump could be 18 months away.

2015 as "modest." That's after three or four years of being "pretty much flat after coming out of the recession."

The next economic downturn could be just 18 months away, said Tom Moorehead, who owns BMW, Mini and Rolls-Royce dealerships in the Washington area. The past NAMAD chairman is working at his stores to create efficiencies and wring out costs.

For example, employee turnover has been very costly, so Moorehead is careful about hiring and has job candidates take profile exams to assess competencies.

Every two years, he solicits bids for all goods and services he buys to make sure he isn't overpaying. He bought a machine that enables him to repair customers' damaged wheels, a service he used to farm out to third-party vendors, he said. Buying his customers' off-lease vehicle returns that he can press into certified pre-owned service will come in handy if new-vehicle sales slip, he said.

Said Lester: "We don't know what [the next recession] will look like, but we've urged people to really hunker down and make sure that all of their expenses are tight." **AN**

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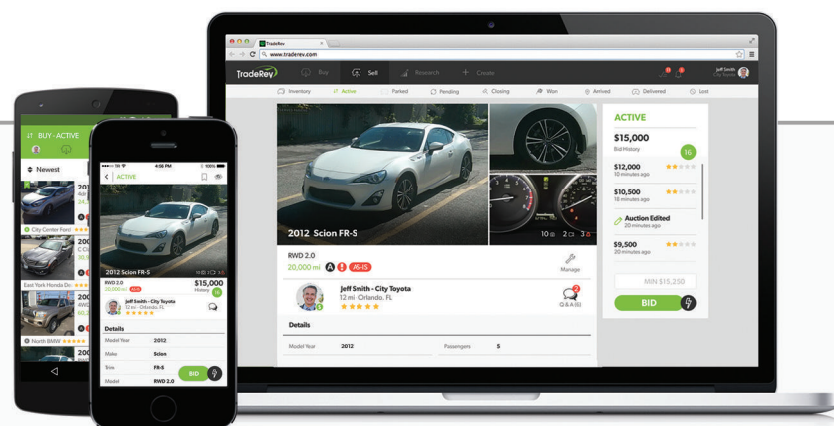
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TradeRev
Revolutionizing Automotive Sales

Dealer embraces factory targets, incentives

Sales, satisfaction goals are retailer's templates for growth

Jamie LaReau
jlareau@crain.com

Scott Smith has made a practice of investing in poorly performing stores specifically to hit manufacturers' sales targets and earn dealer incentives.

But instead of pocketing the payouts, he plows the money back into his business.

"We've invested half the money we've made in gains, back into the business," said Smith, CEO of Automotive Associates of Atlanta. "The dealers who hit the factory's numbers are the ones who are investing all or half of their incentive money back into the store."

BEST PRACTICES

While many dealers dislike stair-step programs and customer-satisfaction targets, Smith sees them as guides to help him develop better business habits and raise profits.

He studies the data on which the factories grade him, especially the satisfaction surveys posed to customers.

From those, Smith and his managers have gleaned creative ways to invest effectively in people, processes and advertising to boost business.

"Manufacturers give dealers sales objectives and the data of the customers who haven't been in your store but need to be data-mined," Smith said. "It's up to you what you do with it. I had to culturally change the thought process in my business."

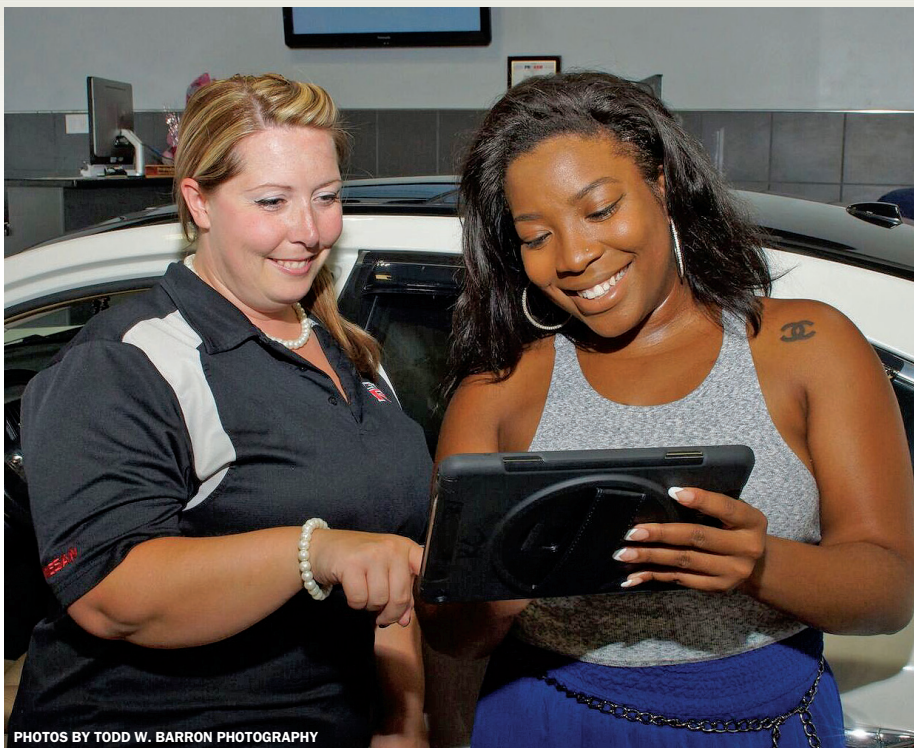
Automotive Associates of Atlanta owns three Nissan, two Kia and one Toyota store. It sells about 15,000 new and used vehicles a year.

Money talks

Smith, newly elected president of the Southeast region of the Nissan dealer advisory board, has focused on his Nissan stores because, he said, Nissan has the toughest performance objectives of the brands he sells.

But Nissan also offers the biggest payouts to those who hit them, he said. In 2015, the Nissan dealers who hit 100 percent of their objectives made \$1 million net profit more than those who fell short, Smith said.

Combining payouts in the last quarter of 2014 and first quarter of this year, Smith earned \$1.4 million from Nissan for hitting



PHOTOS BY TODD W. BARRON PHOTOGRAPHY

Above and above right, service advisers at Nissan of Union City, one of dealer Scott Smith's stores, use iPads to get customers through the service lane quickly. Use of iPads is among changes that Smith says have helped his stores' customer satisfaction scores to rise.

Reinvesting rewards

Atlanta dealer Scott Smith has turned around poorly performing stores by earning factory incentives, then reinvesting those incentive dollars in the dealerships.

his numbers, he said. In contrast, he said, he earns about \$25,000 per quarter in bonus cash from Kia and about \$30,000 to \$40,000 from Toyota.

Of his Nissan gains, he has reinvested more than \$400,000 into his Nissan dealerships' people and advertising.

For example, Smith pays his service managers a bonus of \$15,000 to \$20,000 a year if the service departments hit the factory targets.

"Let your staff share in it," Smith said. "You've got to get their buy-in for it to work and money talks. People like reward."

In 2013, Smith began one of his first investments by hiring nine service valet greeters, three at each Nissan store's service drive. He armed them with iPads so they could immediately check in arriving customers and get them serviced quickly.

He also eliminated cashiers.

"Nissan told us if a customer had a conflict about their bill, they got frustrated having to wait for the service adviser to come to the

"They use an iPad and there's a built-in process that goes through all the questions with the customers. It's shown huge results in customer retention."

Scott Smith, CEO
Automotive Associates of Atlanta

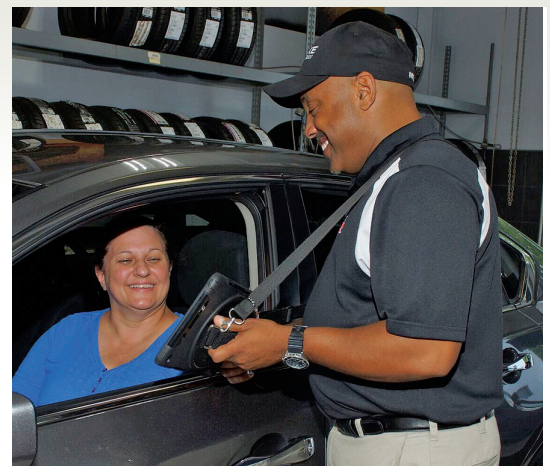
cashier window to explain it," Smith said. "The service adviser does it all now. It eliminated a lot of the price issues."

The cost to hire the greeters and buy the iPads was about \$150,000 annually, but eliminating the cashiers saved him about \$70,000. The result is his Nissan stores consistently rate in the top three of his region for customer satisfaction scores. That helped him earn a bonus check of \$765,000 from Nissan in the first quarter of 2015.

Around that time, he started washing and vacuuming every car in for service. Smith said he pulled that idea from Nissan's customer survey, which asked: "Was your car delivered to you washed and cleaned?"

"That's one of the questions we're graded on," Smith said. "We basically used the template they gave us as a playbook to exceed the customer's expectation."

The car wash and vacuuming costs \$60,000 to \$70,000 annually at each Nissan store, which is expensive, Smith said. But it's



funded from the incentive gains he earns from hitting other service objectives, and adding the perk has helped raise his average customer satisfaction scores by two percentage points per store. He has now added the service at his Kia and Toyota stores.

Little extras

Smith also restructured his business development centers early last year, creating one center to focus on sales and another on service at each Nissan store. He hired six additional people. Their main job: Hit Nissan's customer retention objectives.

"There is a dealer in my district who missed the retention number by one car and it cost him \$104,000," Smith said. "So by hitting it, that more than pays for their hours."

He also designated a team leader at each store's business development centers. He tied the leaders' compensation to hitting Nissan's performance objectives.

Smith also added two delivery specialists in each Nissan store around the same time. Customers responded so well, he hired two at all of his stores.

"They use an iPad and there's a built-in process that goes through all the questions with the customers," Smith said. "It's shown huge results in customer retention."

Then there are little touches that Smith funds from his incentive money.

"If we're too busy on a Saturday, we will tell customers, 'We'll buy you dinner and we'll fill your gas tank for you for free when you return,'" Smith said.

Smith said Nissan's customer questions and grades are tough, but have inspired him to expand his Web marketing presence and tweak his online messaging to focus on winning new customers and retaining existing ones.

"It forced me to look at my business," Smith said. "I've reinvested a lot, but they're paying me more to do it. The objectives are high, I admit it, but if you keep doing what you did before, you'll keep getting what you've been getting." **AN**

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Infiniti pushes performance, technology



Infiniti's emphasis on sporty driving coincides with the luxury brand's launch of the redesigned Q60 coupe this year.

Red Sport trim, 'Empower the Drive' tag line aim to reposition the brand

Hans Greimel
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YOKOHAMA, Japan — A year and a half after taking the helm, Infiniti President Roland Krueger is repositioning the luxury brand with a focus on sporty driving with the new S-badged performance models.

The brand is also debuting a fresh global tag line, "Empower the Drive," to accompany the U.S. launch of the redesigned Q60 coupe this year.

Nissan Motor Co.'s premium

brand will fortify its lineup with an expanded range of Red Sport trim packages, Krueger said at a briefing this month at Nissan's global headquarters here.

For a small brand such as Infiniti, standing out means picking your battles, he said.

"I would call it the next step of evolution," Krueger said. "We want to be a leader in some of the technologies and some of the performance. That is an ambition of us, No. 1."



Krueger: "We want to be a leader in some of the technologies and some of the performance. That is an ambition of us, No. 1."

Infiniti is staking a claim to three areas: engine technology, autonomous drive systems and design. Nissan CEO Carlos Ghosn is betting the formula will turbocharge Infiniti's meager sales and lift it into the upper tier of luxury marques.

Last year, Infiniti sold 215,250 vehicles worldwide. In the first six months of 2016, sales were up 7 percent to 110,200.

First twin-turbo

Infiniti hopes to get on more luxury shopping lists by focusing on what's under the hood. That starts with a new VR30 twin-turbo V-6 engine in the next Q60. Infiniti's first twin-turbo, it will deliver 400 hp.

Krueger said other powerplants are on the way. While declining to give details, he dangled plans for a new engine technology he called "truly new and revolutionary."

The ultimate goal is cultivating more performance cred.

Infiniti has stopped short of rolling out a full-fledged performance subbrand such as Mercedes-Benz's AMG or BMW's M. But it has moved in that direction with its Red Sport stamp.

Denoted by a red "S" on tail and side panels, the performance trim debuted this spring on the 400-hp version of the Q50 sedan and was extended to the current Q60.

That will be applied to other models with beefy engines and suspensions, said Krueger, who was recruited to Infiniti from BMW to lend German flair.

"We will have this differentiation in the luxury space," Krueger said. "It's a bit more subtle. It is connected to the engine and the engine performance and also the suspension. But we are going into exactly what we call a grade walk of this kind of vehicle, one by one."

Autonomous

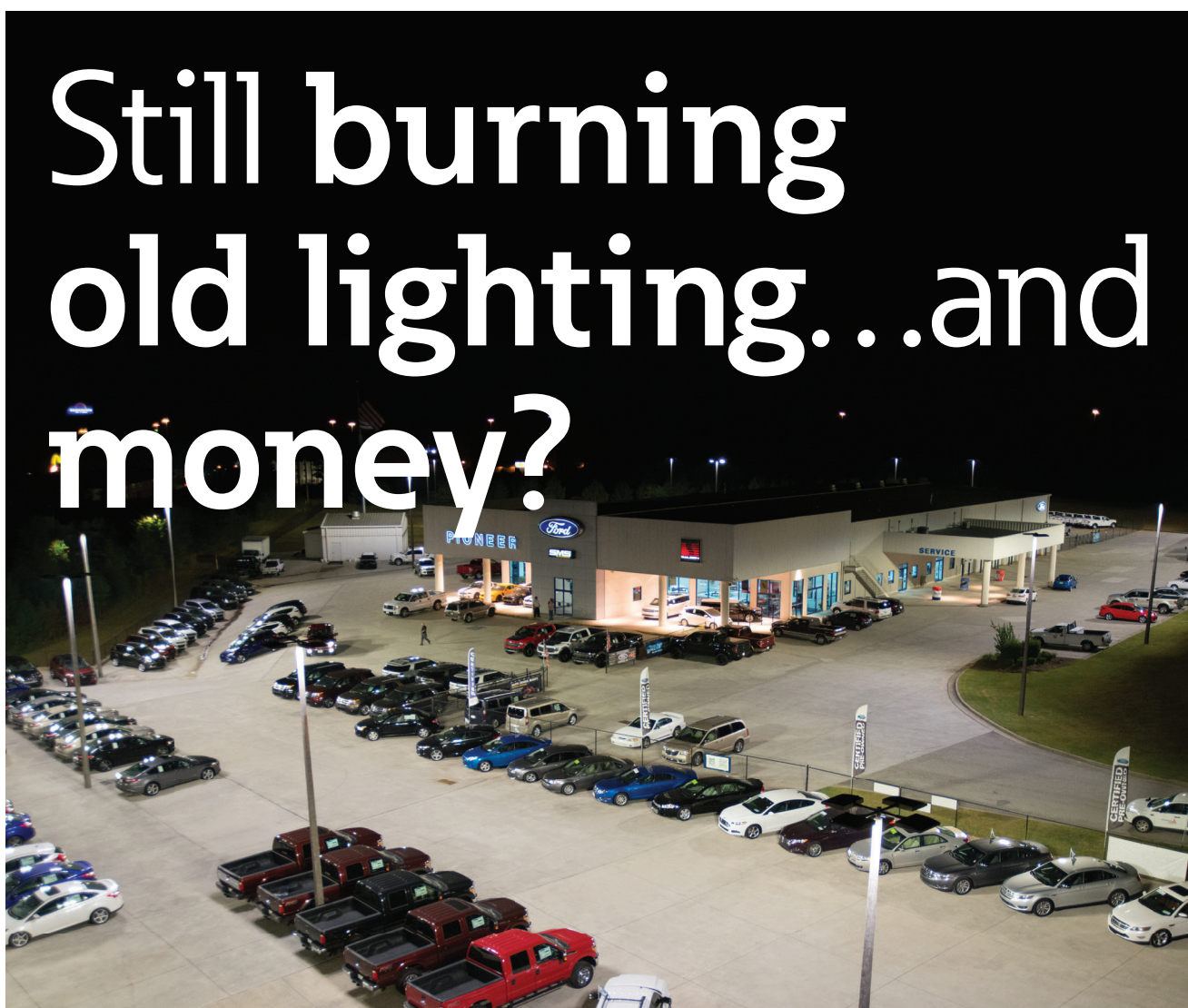
At the same time, Infiniti will piggyback on the autonomous driving technologies being introduced by its corporate sibling brand Nissan. The systems for both brands will be marketed as ProPilot.

The technology will appear in phases, starting with a single-lane, self-steering function. The next step will allow automated driving across multiple lanes, and the rollout will culminate in a sophisticated autonomous system that will allow "intersection autonomy."

Krueger did not give a timeline, but Nissan aims to launch all three by 2020.

Dovetailing with Infiniti's new tag line, however, it will be autonomous drive with a twist.

"We want to be driver-centric yet passenger minded. So we will not take the driver out of the equation," Krueger said. "At the same time, we will have autonomous technologies that give the car additional capabilities that the driver chooses to use or not." **AN**



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PART 3: EUROPE | BMW | MINI | MERCEDES-BENZ | SMART | JAGUAR | LAND ROVER | VOLVO

Self-driving tech is the new differentiator

Luxury brands consistently need new technology to stay ahead of volume brands creeping into their segments. The new differentiator will be self-driving cars. It's more than talk, with at least three luxury marques promising that autonomous cars will likely be on the road at the turn of the decade. Until that time, BMW, Jaguar, Land Rover, Mercedes-Benz and Volvo are investing heavily and testing the technologies today with semiautonomous features that will stop, steer, brake and even park a vehicle with the driver standing outside it.

These technologies will be refined and fine-tuned in the coming years. The competition isn't just with one another but relative newcomer Tesla and high-tech companies including Apple and Google. One example is BMW's next flagship — the iNext autonomous electric car — which BMW gave a glimpse of when it showed the Vision Next 100 concept in March. BMW is partnering with Intel and Mobileye to develop technology for

the iNext and a fleet of self-driving vehicles. BMW has said the iNext will have autonomous driving, digital connectivity and intelligent, lightweight design as well as a radically different interior and exterior design. The iNext is expected to go on sale in 2021 and compete with similar models from Audi and Mercedes-Benz. It would be positioned above the 7-series sedan as a brand flagship. **AN**



BMW Vision Next 100



Diana T. Kurylko writes about BMW, Jaguar, Land Rover, Mini and Volvo for Automotive News.



Amy Wilson reports on Mercedes-Benz and Smart for Automotive News. She is based in Atlanta.

WHAT DO THE TERMS MEAN?

■ **Freshen:** Minor changes to interior and exterior, such as new grille, fascia, front and rear lights or seat surfaces.

■ **Re-engineering:** Significant engineering changes, such as revised powertrain, chassis, suspension, center stack or interior. Often includes some new sheet metal.

■ **Redesign:** New platform, powertrain, interior and sheet metal. Engine and transmission could be carried over.

TIMELINE

	2016	2017	2018	2019	2020
BMW	740e xDrive iPerformance launch Centennial 7-series sedan launch	1-series sedan launch 2-series coupe, convertible freshen 5-series sedan redesign X2 launch X3 redesign X4 freshen X5 redesign?	M1 launch 3-series sedan redesign Z5 launch 5-series GT, station wagon redesign 7-series sedan freshen i8 roadster launch X1 freshen X6 redesign X7 launch	2-series Gran Coupe launch M3 redesign 3-series GT redesign 6-series coupe redesign i5/i6 launch? X7 plug-in hybrid launch	M2 Gran Coupe launch 3-series plug-in hybrid redesign 4-series coupe redesign 8-series/9-series launch?
Mini		Cooper Hardtop 4 Door freshen Countryman redesign	Cooper Hardtop redesign	Clubman freshen	Plug-in electric debut
M-B	CLA freshen C-class convertible debut S-class convertibles debut GLC coupe debut	GLA freshen E-class coupe redesign E-class convertible redesign E-class wagon redesign S-class sedan freshen GT convertible debut	A-class sedan debut? GLB debut? C-class sedan freshen CLS redesign GLE redesign G class freshen	CLA redesign GLC freshen GLE coupe redesign GLS redesign Sprinter redesign	GLA redesign E-class sedan freshen S-class sedan redesign
Smart	ForTwo convertible redesign ForTwo electric-drive coupe redesign			ForTwo freshen?	
Land Rover	Range Rover freshen Range Rover Evoque convertible debut	Discovery debut Range Rover Sport freshen	Range Rover Sport Coupe debut	Discovery Sport freshen Defender debut	Range Rover redesign
Jaguar	XE 20d launch XF 20d launch F-Type SVR launch F-Pace 20d launch	XE coupe, station wagon launch?	XF freshen XJ redesign	XJ coupe launch? F-Pace freshen J-Pace launch	
Volvo		XC40 redesign S40 redesign? V40 redesign? V90 redesign S90 Cross Country debut	XC60 redesign? V60 wagon redesign V60 Cross Country redesign? S60 redesign? XC90 redesign?	S60 Cross Country redesign?	



BMW 740E XDRIVE IPERFORMANCE



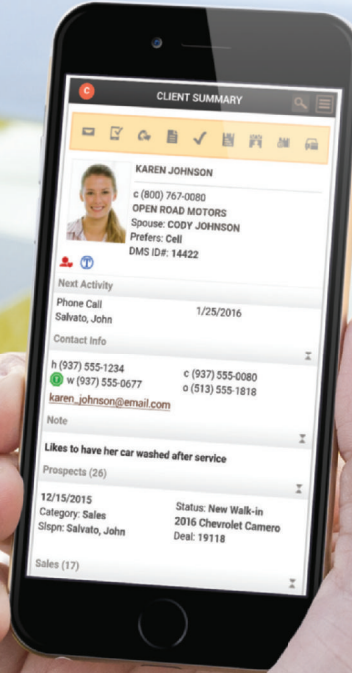
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BMW sets its sights on self-driving cars

Diana T. Kurylko
dkurylko@crain.com

The brand that dubs itself the Ultimate Driving Machine marked its 100th anniversary this year by announcing a major strategic shift into self-driving cars for its i electric vehicle unit.

BMW gave a glimpse of its future direction at its anniversary celebration in Munich in March and the iNext self-driving car that will be its new flagship in 2021.

BMW has said the iNext will have autonomous driving, digital connectivity and intelligent, lightweight design as well as a radically different interior and exterior design.

1 series: The 1-series sedan, scheduled to arrive in 2017, will be front-wheel drive, riding on BMW's new UKL architecture. The 1-series sedan targets Audi's A3 sedan and Mercedes-Benz's CLA. Like the competition, the new BMW model has been developed to support fwd and all-wheel drive. The car's appearance was previewed last November at the Guangzhou auto show, where the Concept Compact Sedan debuted. The car has a long wheelbase and the traditional BMW short front overhang.

Expect U.S. sales of the sedan to begin in early 2017, with an M1 performance version a year or two later.

2 series: The 2-series soft-top convertible went on sale in early 2015 and won't be freshened until 2017 at the earliest — the same time as the 2-series coupe.

A 2-series Gran Coupe — a four-door with coupelike styling — is expected in 2019, followed by an M high-performance model in 2020 or 2021.

3 series: The 3-series sedan will switch to the CLAR cluster scalable architecture when it is redesigned in 2018. When a new factory opens in late 2019 in San Luis Potosi, Mexico, North American cars will then be sourced from there. Because its chief competitor, the Mercedes-Benz C-class sedan, has grown in interior and exterior room, the 3-series four-door likely also will become slightly longer and roomier. Expect more semiautonomous features as well as an upgraded interior and improved handling.

A redesigned M variant is expected in 2019, followed by a redesigned plug-in hybrid in 2020.

The GT wagon will be redesigned in 2019 or 2020.

4 series: The coupe and convertible will be redesigned — the coupe in 2020 and the open-air car a year later.

It's not clear whether the four-door Gran Coupe with coupelike styling will be redesigned.

Z5: The current Z4 debuted in the spring of 2009 and is the oldest model in BMW's lineup. BMW is jointly developing a replacement for the Z4 two-door sports car with Toyota. Details are sparse, but the project is moving slowly because BMW has other priorities and a small roadster would have limited sales. The sporty coupe will go on sale in 2018 and may be named the Z5.

In the meantime, the lineup keeps expanding



Spy photos of what may be called the Z5 show a roadster that's larger than the Z4.

Spy photos show a roadster that's larger than the Z4. The rear-wheel-drive car will have a BMW engine as well as a lightweight chassis and plug-in hybrid powertrain from Toyota.

5 series: The redesigned midsize sedan will be shown at the Detroit auto show in January with sales beginning in early 2017. The sedan will switch to the CLAR platform featuring high-strength steel, carbon fiber and aluminum modules and components. Because of the new architecture, the 5 series is expected to weigh significantly less than today's car with better handling and agility. BMW will migrate new semiautonomous driving features from the 7-series sedan to the 5 series, perhaps even gesture control. Awd, a station wagon, M high-performance, diesel and hybrid variants are expected — they'll be spaced out over a period of at least two years.

The bulbous GT wagon based on the 5-series sedan will return. The redesigned five-door will shed its controversial rear end for a more flowing style similar to that of the 3-series GT. The GT will go on sale in 2017 or early 2018.

6 series: The 6-series coupe, convertible and four-door Gran Coupe with coupelike styling may be redesigned in 2019. Or, according to reports, BMW may drop the convertible and the

Gran Coupe to make way for a new 8-series family. The 6 series also will switch to the CLAR architecture and feature an air suspension and a new inline six-cylinder turbo engine.

7 series: The 740e xDrive iPerformance plug-in hybrid goes on sale in early September.

A special centennial 7-series model to mark BMW's 100th anniversary goes on sale at the end of the year. Only 100 will be made, and just five are allocated for the United States. Pricing will be announced later in the year.

A freshening of the 7 series is expected in 2018.

8 series or 9 series:

BMW is considering two

alternatives for a car above the 7 series. One is a four-door with coupelike styling on a stretched wheelbase that would be called the 9 series. That car would compete with the Mercedes-Benz Maybach and could come as soon as 2020.

Or, BMW could opt for a bigger coupe and convertible and call it the 8 series. Either way, the new cars probably would have high-output V-8 and V-12 engines, with M high-performance and plug-in electric variants.

BMW has been playing with a new ultra-luxury car since the Concept CS debuted at the Shanghai auto show in 2007, but it shelved plans to focus on the i electric range. Now that it has a new CEO, work has resumed.

i3: The compact battery-electric car gets a new 33-kilowatt-hour battery for the 2017 model year, increasing the range on a single charge to 114 miles, up from the current 81 miles.

The REx range extender model with a two-cylinder engine also will get the new battery, and the fuel tank capacity will grow to 2.4 gallons from 1.9. BMW had shut off the fuel pump on U.S. cars at 1.9 gallons to meet California certification levels. BMW has not released the REx range, saying it is awaiting EPA certification.

i5/i6: An EV and plug-in hybrid are in the works, though details on the vehicle's configuration and name are mixed. BMW is reportedly looking at a bigger vehicle than the i3 that could be as large as the 3 series or even have an SUV-like configuration. The car would compete with Tesla's Model 3 and have a comparable range — more than 200 miles on a single charge. According to reports, BMW would equip the EV with a range extender, similar to what it has on the i3, but based on the latest battery-cell technology.

see **BMW**,
Page 30



Concept Compact: Previews 1-series sedan



The i Vision Future Interaction concept gives a hint about the styling and technologies of a roadster version of the i8 plug-in hybrid.



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Mercedes stretches at both ends of lineup

More performance variants, tech innovations

Amy Wilson
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ATLANTA — Mercedes-Benz will expand its U.S. portfolio with more vehicles at both the top and bottom of the lineup.

While it mulls a pickup for the U.S., the brand continues to expand its AMG line with a range of high-end and midlevel performance vehicles. It's looking to add to the ultraluxury Mercedes-Maybach subbrand, perhaps with an SUV to take on the Bentley Bentayga. Meanwhile, it will stretch down farther into entry-luxury territory.

Technology innovation will continue, with semiautonomous driving features proliferating across the lineup. And Mercedes will add more plug-in hybrid, electric and other alternative powertrain models.

CLA: A freshened version of the brand's entry model will debut this fall with new front and rear bumpers, wheels, interior updates and new standard safety and semiautonomous driving features. A redesign of the front-wheel-drive sedan is expected to go on sale in the U.S. in 2019. Mercedes will shift some production of its compacts to a plant in Mexico being built with Nissan Motor Co., and new variants are expected.

A class: One of the variants under development is another small sedan intended as an Audi A3-fighter. It likely would carry the A-class name and could debut in the second half of 2018.

B-class Electric Drive: The electric vehicle, which went on sale in 2014 in a handful of states, could be redesigned in 2019.

GLA: The compact crossover will be freshened in the fall of 2017, with a redesign likely in 2020. Mercedes is preparing a variant, dubbed the GLB for now, to be assembled at the Mexico factory as early as 2018. The partnership with Nissan makes viable multiple variants that may not have met the business case on their own. With more compact entries, Mercedes has a better chance of bringing younger buyers into the brand's stable sooner than their wallets otherwise would have allowed.

C class: The rear-wheel-drive sedan will be freshened in the fall of 2018 for the U.S. The redesigned C300 and C300 4MATIC coupes went on sale in May, with the Mercedes-AMG C43 and C63 coupes arriving at dealerships by this fall. The C43 coupe is a new midrange extension of the AMG portfolio, meant to bridge the gap between the conventional models and the high-end C63.

The new C-class convertible — with C300, AMG C43 and AMG C63 models — will go on sale in the fall.

While the C300d, a diesel version of the C-class sedan, had been slated to go on sale in the first quarter of 2016, it's not on the market yet.

CLS: The redesigned CLS, a four-door styled like a coupe, is expected to go on sale in the U.S. in the second half of 2018. It shares the architecture underpinning the E class so likely will get the kind of updates the E-class sedan received with this year's redesign.

E class: The first of the redesigned E-class sedans — the entry-level E300 and E300 4MATIC models — went on sale in late June with, for the first time in the U.S., four-cylinder engines. The sedan, now on the new Modular Rear-wheel-drive Architecture, is lighter, longer and roomier than the outgoing model. Mercedes says it has the brand's most advanced suite of semiautonomous driving technologies ever.

More variants will follow. The redesigned E400 4MATIC wagon and Mercedes-AMG E43 performance sedan go on sale by early

2017. High-performance Mercedes-AMG E63 models also are expected next year and could be shown at this fall's Los Angeles Auto Show. A redesigned coupe is expected by late summer 2017, and a redesigned convertible in late 2017 or early 2018. An all-terrain wagon variant in development has been spotted on road tests and could go on sale next year.

The sedan will be freshened in 2020.

S class: The flagship sedan will be freshened in the fall of 2017, picking up more safety and semiautonomous driving technology and new interior features from the redesigned E-class sedan. The S-class sedan will be redesigned in 2020.

New S550, AMG S63 and V-12 AMG S65 convertibles will go on sale by the end of the summer.

An S550 Mercedes-Maybach 4MATIC will go on sale this fall. The 4.6-liter, V-8-powered S550 is the Maybach subbrand's second variant.

SLC: The freshened and renamed roadster went on sale in the U.S. earlier this year. A redesign is likely at the beginning of next decade when the SLC will move to the new Modular Sport Architecture for sports cars.

SL: The larger roadster also was freshened and went on sale in the U.S. earlier this year. It is expected to be redesigned by the end of the decade and move to the lighter, more flexible MSA architecture.

AMG GT, GT4: The new 577-hp Mercedes-AMG GT R will arrive at U.S. dealerships by the middle of 2017. It joins the GT S, which arrived in 2015, and the base GT, which goes on sale in the U.S. this fall. A GT convertible also is in development. It will debut at the Paris auto show and go on sale in the second half of next year.

Mercedes is mulling a four-door, four-seat entry to the AMG GT family. Dubbed the GT4, the vehicle would be positioned to challenge the Porsche Panamera, Audi RS 7 and BMW M6 Gran Coupe.

It would be based on a different platform, using the MRA architecture that will support the redesigned CLS and E class. Output from the likely 4.0-liter V-8 is expected to range from 500 to 600 hp. It could arrive in the first half of 2018.

GLC: The redesigned and renamed compact crossover went on sale late last year. The new GLC coupe, with a stretched and lowered roofline, goes on sale later this year or by early 2017. A 500-plus-hp S version is possible. The AMG GLC43 coupe will be out early in 2017 with the AMG GLC43 version of the conventional body style coming in fall 2017.

The GLC will be freshened in 2019.

GLE: The midsize crossover, which was freshened and renamed last year, will be redesigned in 2018 with an autumn on-sale date in the U.S. A coupe variant is expected in 2019.

GLS: The freshened and renamed full-sized crossover went on sale this spring. It is expected to be redesigned in 2019 and move to the Modular High Architecture for crossovers.

Mercedes may use the GLS as a base for an ultraluxury utility carrying the Mercedes-Maybach name. Global sales chief Ola Kaelenius said that such a move could come only after the GLS moves to the next-generation platform, making it 2019 or later.

G class: The military-style SUV got a



The Mercedes-Benz S550 convertible goes on sale by the end of the summer.

downsized base engine, plus a new 621-hp V-12 AMG G65 model and very modest visible changes late last year. The extra-tall G550 will arrive in the U.S. early next year. There have been rumors Mercedes will redesign the venerable G-Wagen, which dates to 1979. A heavy refresh is likely by the end of 2018. The vehicle will get wider but keep its boxy styling.

Vans: Mercedes-Benz Vans USA launched the midsize Metris commercial van late last year. The large Sprinter commercial van is slated for a redesign in late 2019.

Pickup: It's still not clear whether Mercedes will ultimately sell its new pickup, possibly named the GLT, in the U.S. Daimler AG and Renault-Nissan are developing the midsize pickup jointly for global markets. Mercedes' U.S. chief Dietmar Exler said this spring there is no set timetable for deciding whether to sell the pickup here. No decision yet means it's unlikely the U.S. would get the truck at global launch, expected in the second half of 2017. Mercedes could reveal the pickup's design at the Paris show this fall.

Alternate powertrain: Daimler is working on a host of electric, plug-in hybrid and fuel cell vehicles, spending \$5.95 billion in the next two years alone. Mercedes likely will show a long-range electric crossover at the Paris show, possibly dubbed ELC. It has been referred to as the company's Tesla fighter and could go on sale in the U.S. in 2019.

Mercedes executives say the brand will introduce a suite of electric vehicles with stand-alone designs. It has been rumored that at least four new electric models could arrive by the end of the decade. An electric GT sports car has even been floated for early next decade.

Mercedes launched plug-in hybrid versions of the GLE crossover earlier this year in the U.S., following the S550e plug-in last year. A plug-in C-class sedan goes on sale this fall. More plug-ins will follow, including an E class and more crossover models. A GLC plug-in is likely in 2018. The company also said it will launch the Mercedes-Benz GLC F-Cell, a plug-in fuel cell vehicle, in 2017. It is expected to go on sale in 2018 in the U.S. **AN**



The C300 coupe went on sale in May.

Smart hopes tweaks, tech will reverse sales decline

ATLANTA — With gasoline cheap and truck sales booming, demand for Daimler AG's Smart microcar is weak.

In the U.S., the brand sells only the tiny ForTwo two-seater, positioning it as a city car easy to maneuver and park in tight urban neighborhoods. Smart says it won't sell the four-seat ForFour here.

But U.S. sales keep dropping. After three straight years around 10,000, the brand sold just 7,484 cars in 2015 as it has begun to transition to redesigned models. During the first half of 2016, sales dropped another 28 percent.

ForTwo: The redesigned two-seater went on sale in late 2015. Redesigned versions of two derivatives go on sale this year: a convertible this fall and an electric-drive version near the end of the year. Smart says it won't introduce a crossover or SUV-styled variant. Instead, the brand is investing in better in-car smartphone connectivity and adding new services in large cities — phone-aided car-sharing and parking assistance, for example — to appeal to more buyers.

Minor freshenings for the ForTwo and its variants could happen near the end of the decade.

— Amy Wilson

1

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future product pipeline



Volvo's 40.1 concept, shown in May in Gothenburg, Sweden, gave a glimpse of the future XC40.

Volvo's product revival continues with 40 series

XC40 to be 1st of 3 compact entries developed with Geely

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Volvo is on a roll with new products that are striking a chord with consumers and garnering accolades.

It helps that, after being sold by Ford in 2010, the Swedish brand had to start from scratch and develop two platforms and a family of

three- and four-cylinder engines that can be combined with electric motors. By late 2018, Volvo will be building the S60 sedan in a green-field plant in South Carolina for the world market.

Volvo said it will have seven new or redesigned vehicles by the end of 2017. The XC90 crossover that went on sale in spring of 2015 was the first, followed by the S90 flagship sedan this summer.

Volvo wants to be perceived as a luxury player on the same field as Mercedes-Benz, BMW and Audi. Its new models showcase high technology — including standard semi-autonomous features on the 90 family that includes a sedan, future station wagon and future Cross Country model.

S40, XC40, V40: The XC40 is the first of three compact entry Volvo models being developed jointly with parent company Geely on a front-wheel-drive platform called the Compact Modular Architecture, or CMA. Volvo opted for joint development for better economies of scale, which would allow it to price the vehicles aggressively.

Two CMA concepts were shown in May in Gothenburg, Sweden: the 40.1 concept, which gave a glimpse at the future XC40, and the 40.2, a notchback sedan that would likely be called the S40. The third variant, the V40 station wagon, was not shown.

The 40 series vehicles will use not only the CMA flexible architecture but Volvo's family of three- and four-cylinder engines and hybrid and electric powertrains. Advanced safety and semiautonomous driving features will trickle down to the compacts.

The vehicles will be smaller and less expensive than the compact Volvo S60 sedan, in the same way

that the compact Mercedes CLA sedan is priced below the compact C class. The Volvo 40 series will compete with other entry luxury vehicles such as the Mercedes GLA and BMW X1 on the crossover side and the CLA and Audi A3 on the car side.

Fwd with a new three-cylinder engine will be standard on the 40 series. A new seven-speed dual-clutch transmission is expected. All-wheel-drive models will use Volvo's four-cylinder engines.

The XC40 will go on sale next year and the S40 will likely follow by year end or in early 2018. There is no timetable for the V40, but considering the launch cadence of the XC40 and S40, a 2017 or 2018 launch is possible.

XC60: The redesigned midsize crossover is expected in 2017 or early 2018.

V60: The V60 wagon, one of Volvo's newer cars in the U.S., will be redesigned in 2018. The taller Cross Country variant will be redesigned in 2018 or 2019.

S60: The compact car will be redesigned and go on sale in late 2018 or early 2019. The factory in South Carolina will produce the S60 for the world.

The Cross Country and stretched S60 Inscription are likely in 2019.

XC90: The redesigned crossover went on sale last year featuring new styling, safety technologies, more fuel-efficient engines and a more premium interior than its predecessor. It may be freshened in 2018.

S90: Volvo's flagship sedan went on sale this summer. The Cross Country version is expected in 2017. There may be a coupe derivative called the C90.

V90: The midsize station wagon is to go on sale early next year. **AN**



Volvo's 40.2 concept, a sedan that would likely be called the S40

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Jaguar not done after key XE, F-Pace adds

What's next: Diesels, SVRs, larger crossover

Diana T. Kurylko
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Jaguar has rounded out its product range with the all-new XE compact sedan and the F-Pace crossover that went on sale in late May.

The two vehicles are crucial to Jaguar's growth, which has been stymied because of a limited range. The sedan and crossover are expected to account for about half of Jaguar's U.S. sales in the coming years.

Jaguar also is adding new high-performance versions of its flagship F-Type two-door. The F-Type SVR cars will compete with models made by AMG, the Mercedes-Benz high-performance unit, and BMW's M.

XE: The compact sedan with standard rear-wheel drive and a six-speed automatic transmission gets a diesel engine this fall. The new Ingenium family of diesels will power the XE 20d with a 2.0-liter four-cylinder with 180 hp and 318 pounds-feet of torque.

A coupe and possibly a station wagon could arrive in early 2017.

XF: A diesel version goes on sale this summer powered by the same Ingenium diesel



Spy photos of the seven-seat, three-row J-Pace show a vehicle similar in size to the Audi Q7.

engine that's going into the smaller XE sedan. The midsize XF sedan was redesigned less than a year ago, so no major changes are expected until a freshening in 2018.

XJ: Jaguar's replacement of the large sedan isn't expected until 2018. A four-seat coupe may be produced in 2019.

F-Type: The SVR version will go on sale in the summer as both a coupe and convert-

ible. Jaguar says the F-Type high-performance models will be the brand's fastest and most powerful production cars.

The engine is an upgraded, supercharged 5.0-liter V-8 with 575 hp, up from 550 hp in the R model — the current fastest F-Type. The car races to 60 mph in 3.5 seconds. The coupe has a top speed of 200 mph, and the convertible 195 mph.

F-Pace: The rwd and all-wheel-drive com-



A diesel model of the new F-Pace crossover will be added in late summer.

pact crossover went on sale in late spring. A diesel model will be added in late summer. No other changes are expected until it is refreshed in 2018 or 2019.

J-Pace: A seven-seat, three-row crossover the size of sibling brand Land Rover's Range Rover models is likely in 2019. The J-Pace may come in a short- and long-wheelbase. Spy photos show a vehicle that's similar in size to the Audi Q7 and Mercedes-Benz GLS. The grille is different from that of the F-Pace, and the rear overhang is shorter. The J-Pace may use Jaguar's aluminum-intensive construction. There's talk about giving the full-size crossover a plug-in hybrid diesel powertrain. An SVR high-performance model is likely. **AN**

Defender: A 3rd leg in Land Rover lineup

Discovery due; Range Rover plans coupe

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Within a few years, Land Rover will have three distinct families of vehicles.

The Discovery lineup gets its second vehicle, a larger SUV, early next year.

The upscale Range Rover family gets a coupe in the next two years to compete with similar, lower-roof vehicles from Mercedes-Benz and BMW.

The third leg, the revived Defender, will debut in 2019. That family also is expected to have two or three new vehicles.

Land Rover LR4 (Discovery): The SUV will be renamed Discovery when it is replaced early next year. The seven-seat Discovery will be unveiled at the Paris auto show in September. It is the second SUV in the Discovery family.

Discovery Sport: The compact SUV will be freshened in three years.

Range Rover: The flagship Range Rover is 4 years old and due for a freshening late this year or in early 2017.

A redesigned Range Rover is due in 2020, but expect equipment and

Two views of the Range Rover Evoque convertible, which arrives this fall



technology additions earlier.

A coupe that would be positioned above the Evoque has been seen in spy photos. It may be called the Range Rover Sport Coupe. It is due in 2018.

The new Range Rover would have an aluminum-intensive architecture — the same one as sibling brand Jaguar's F-Pace. It would compete with the Mercedes-Benz GLE Coupe and the BMW X4 and X6 — vehicles that have coupelike styling.

Range Rover Sport: A freshening is likely in 2017.

Range Rover Evoque: The compact crossover gets a convertible this fall.

Defender: The iconic, rugged and square-shaped SUV is slated to return in 2019 with a variety of body styles. Whether it retains the shape



of the past is questionable as Land Rover focuses on aerodynamics and a high use of aluminum.

It will be the least expensive Land

Rover and the third leg in the Land Rover vehicle lineup.

The Defender will move to unibody construction but maintain its off-road capabilities.

Land Rover had to discontinue the Defender's U.S. sales because the vehicle no longer met federal safety regulations that required driver- and passenger-side airbags. It also nixed the steel-based DC100, a Defender replacement concept shown in 2011 at Frankfurt. **AN**

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future product pipeline

5th Mini model? Execs making up minds

Diana T. Kurylko
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Mini is close to having replaced four key models and now has to decide on a fifth.

A pickup is out of the question, a roadster may be too expensive and have a limited market while a sedan would give needed volume. But Mini executives aren't sure a sedan is what they want because of the brand's sporty image.

Several timetables for a decision given by executives have come and gone, and it's unclear where the fifth vehicle stands. The last target for a green light was by year end.

Paceman: The coupe version of the Clubman goes out of production at year end.

Cooper: The Hardtop, a three-door hatch, is the first car using BMW Group's front-wheel-drive architecture. It will be redesigned in 2018, at the earliest.



The Hardtop 4 Door, a five-passenger hatchback, will be freshened in late 2017 or early 2018. The redesigned convertible just went on sale in March, so it's several years away from a refresh.

Clubman: The new Clubman is Mini's first entry into the compact market. The larger and more conventional car will be freshened in 2019 at the earliest.

Countryman: The crossover will be redesigned next year

The Countryman won't grow much when it's redesigned.

and become more luxurious and upscale, like all the replaced models. But it won't grow in size like the Clubman did. Customers have told Mini the Countryman is large enough so, at most, it will grow an inch or two in length and roominess. The car will, however, move further upscale in the use of materials, and more options will be offered. All-wheel drive will continue to be an option.

Electric car: Mini will get a plug-in electric vehicle in the next few years, but it has not disclosed which model will get the powertrain. The car was announced as part of parent-company BMW's 100th anniversary strategic plan. **AN**

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BMW

continued from Page 22

i8: A roadster version of BMW's sporty plug-in hybrid coupe will debut in 2018. BMW gave a hint about styling and advanced technologies for the car with the i Vision Future Interaction concept shown in January at the Consumer Electronics Show in Las Vegas.

The concept featured autonomous driving control innovations, gesture controls, touch-sensitive services and voice control. The roadster, like the 7-series sedan, could park itself with the driver standing outside the car.

X1: The X1 xDrive28i was redesigned a year ago when it switched to the UKL fwd platform. Only the awd model with a four-cylinder engine is sold in the U.S. No changes are expected until 2018, when BMW's smallest crossover is freshened.

X2: A coupelike version of the X1 will debut at the Paris auto show in September, with U.S. sales starting in early 2017.

X3: The X3 will be redesigned in 2017, and there's talk of plug-in hybrid and M high-performance models.

Because it will sit on the CLAR architecture, rather than the 3-series sedan platform, the replacement X3 is expected to gain interior space. BMW will offer more upscale options as well as an M Sport equipment package. Expect the third-generation X3 to get the X5's plug-in hybrid powertrain.

X4: The crossover with coupelike styling likely will be freshened in 2017 or 2018.

X5: There are reports that the X5 will be redesigned and switched to the CLAR platform sooner than expected, perhaps as early as late 2017.

X6: Another crossover with coupelike styling, the X6 will be redesigned in 2018 at the earliest.

X7: The full-size crossover goes on sale in late 2018. It will be produced at BMW's factory in Spartanburg, S.C.

BMW will sell two versions of its new crossover: the already-announced seven-seater and a \$100,000-plus four-seater with a distinct look. The uber-luxurious X7 is part of BMW's plans to expand what it calls its GKL models (short for *Grand Klasse* in German), which include the redesigned 7-series sedan. Both X7s' styling will differ from the X5, currently BMW's largest crossover. A plug-in hybrid is likely in 2019. **AN**

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fixed operations

Dream Service team works late

N.C. dealership boosts capacity from 3 to 11 p.m.

Jack Walsworth
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Some technicians and service writers at Fred Anderson Toyota start work at 3 p.m.

And they don't call it a day until 11 p.m., Monday through Thursday.

In April, the Raleigh, N.C., dealership launched what it calls its "Dream Service" program with a dedicated staff that works on vehicles when most other service departments are closed.

Bryan Galloway, fixed operations director for Anderson Automotive

Leaving lights on

Facts about Fred Anderson Toyota's Dream Service

Service hours: 3-11 p.m., Mon.-Thurs.

Staffing: 5 service advisers, 11 techs, 1 shuttle driver

Promise to customers: If a car arrives by 9 p.m. and parts are in stock, the work will be done by 7 a.m. the next day.

Average volume: 62 customers a day

Most common jobs: Oil changes, brake repair, tire rotations, state inspections

Group, said the service business has been growing year over year. Essentially, the store ran out of room and turned to later hours as a



Service Director David Nettesheim, standing in front, second from left, General Manager Andy Little, standing in front, third from left, and Service Manager Sean Mehaffey, kneeling on the left, with members of the Fred Anderson Toyota Dream Service team. "This is a way to get people through in a convenient manner," Little said.

way to boost capacity.

The Dream Service program is not the dealership's first attempt to get more customers through its service bays.

About three years ago, the service department added Sunday hours. Sunday business continued to grow to the point that 80 to 90 cars would be serviced on a typical Sunday.

"We had a hard time getting people through," said Andy Little, the dealership's general manager. "This is a way to get people through in a

convenient manner."

Routine maintenance such as oil changes, brake repair, tire rotations and state inspections make up about three-quarters of the Dream Service team's work, Galloway noted.

Guaranteed to be done

The deadline for customers to arrive is 9 p.m. If the technicians have all the required components, the service department guarantees to have the work finished by 7 a.m.

the next day.

"There's a new customer out there who works later shifts," Galloway said. "Not everybody is 8 a.m. to 5 p.m."

The Dream Service team is made up of five service advisers, 11 technicians and a full-time driver for a shuttle, which runs until 9 p.m.

The shuttle has proved to be popular among customers, who are encouraged to take advantage of it as

see **DREAM**, Page 34

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Calming buyers after canceling service perks

Nick Bunkley
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Customers who bought a vehicle from Hooman Toyota of Long Beach, Calif., were told they could get free oil changes, "tires for life" and other perks that the dealership said were worth nearly \$7,000.

Then the dealership was sold, and the new owner declined to continue the perks. That turned the former loyalty-building "VIP" program into

a big headache for the dealership groups on both sides of the transaction. The sudden switcheroo prompted irate owners to vent on social media. A local TV station aired an unflattering news segment on the now-invalid offers.

The angered buyers include Adam Fukuyama, who bought a Toyota Tacoma just days before the dealership was sold and moved about two miles away. Fukuyama said the free benefits were a big reason the dealership got his business in June, a year after his brother bought a Tacoma there.

"I asked the sales guy if the VIP program would be honored if they moved and sold to new owners, and he said yes," Fukuyama, who posted a one-star review on Yelp for the store, now called West Coast Toyota, wrote in an email. "I asked a

few times actually, and he said yes every time."

The dealership's new owner, Ken Garff Automotive Group, has been working to calm frustrations and win customers over since taking possession in early June. It studied the VIP program while negotiating the deal. Executives, realizing the change would be unpopular, proactively held coaching sessions with managers and trained front-line employees — many of whom stayed through the ownership change — on how to respond when people complained.

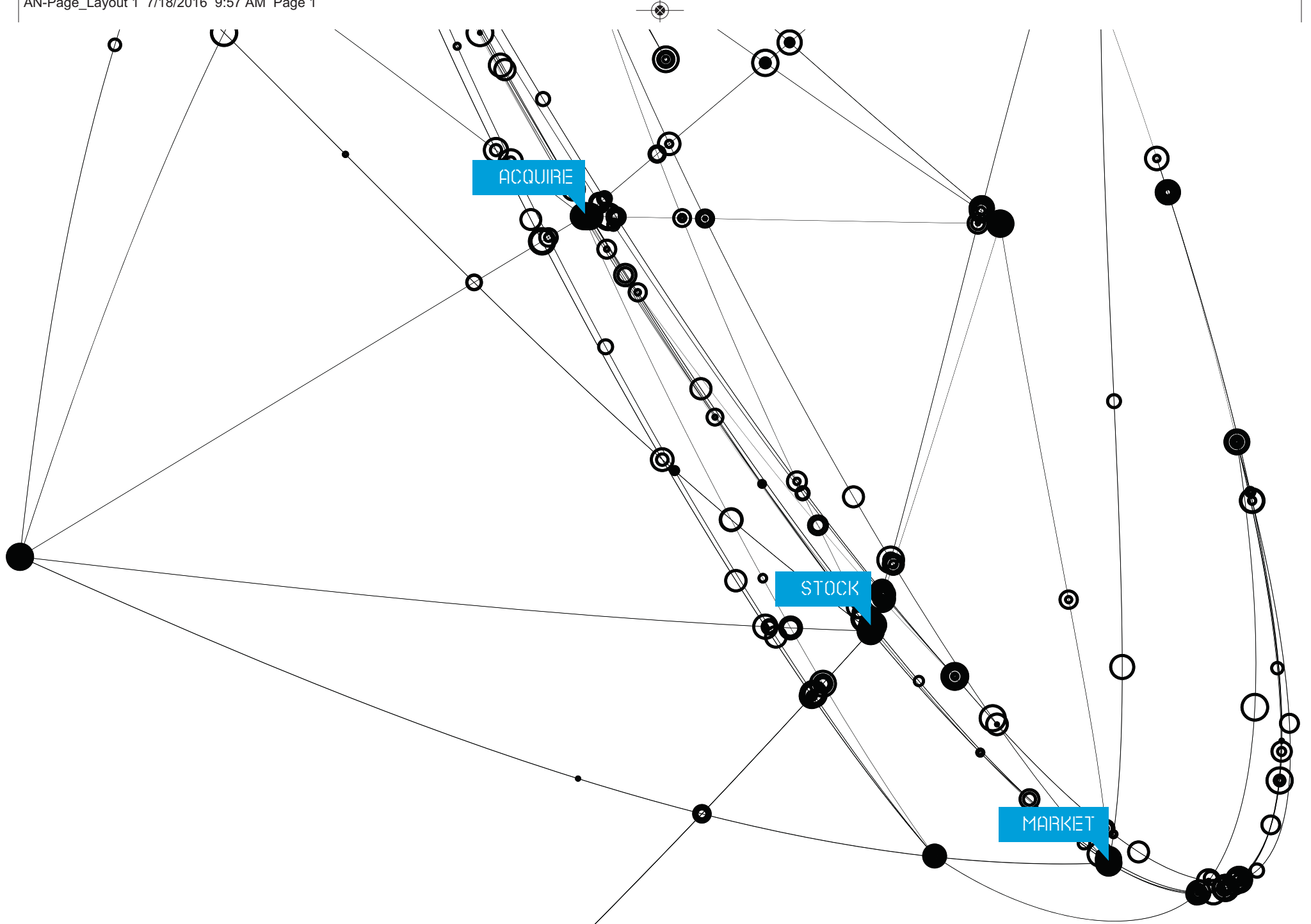
"What we do in our company is going to be different than what others do," John Garff, the group's president, told *Automotive News*. "If for every store we bought we adopted the prior dealer's differentiation strategy, we would be all over the map."

Ken Garff Automotive Group of Salt Lake City ranks No. 8 on *Automotive News*' list of the top 150 dealership groups based in the U.S. with retail sales of 71,703 new vehicles in 2015.

Former owner Hooman Nissani, president of the Hooman Automotive Group, said he offers similar perks at his six other dealerships but can't honor the deal for his former Toyota customers because Garff inherited them.

"They bought the customer base, so we couldn't promote something like that," Nissani said. "The cus-

see **PERKS**, Page 34



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DREAM

Adding hours reduces wait times

continued from Page 32

there are a movie theater, a grocery store and a mall nearby. The shuttle will drop customers off anywhere within 10 miles of the dealership.

"It's all for convenience," said David Nettesheim, service director at Fred Anderson Toyota.

Hiring

Not surprisingly, hiring for the Dream Service team was an obstacle at first.

"Our biggest problem initially was staffing," Nettesheim said. "We did not have enough people when we first started. So instead of waiting a few extra weeks to staff

up, we cut back on our nighttime appointments for the first couple weeks to compensate for being a few people short of where we are now."

Once staffing was figured out, the dealership quickly found that there was strong customer traffic in the later hours.

"We hit the ground running with a full plate," Nettesheim said.

The program now averages 62 customers a day. That figure is in addition to the 200 customers that bring their vehicles in for service during normal business hours.

All told, the service department includes 52 technicians and 24 service advisers, covering 38 service bays. The dealership has more than 100,000 active service customers, Nettesheim said.

Fred Anderson Toyota is a part of Anderson Automotive Group,

which ranks No. 69 on *Automotive News'* list of the top 150 dealership groups based in the U.S. with retail sales of 13,606 new vehicles in 2015.

Fred Anderson Toyota sold 3,710 new vehicles and 2,282 used vehicles in 2015.

Scheduling ease

Adding Dream Service also has helped out with scheduling and wait times at the service department.

"We were having to schedule out two to three days in advance," Galloway said of operations before the extended hours.

Now, Nettesheim said, wait times have been reduced by 20 to 25 minutes across the board.

Eventually, the dealership hopes to have two completely different shifts: a true morning shift and a true evening shift. **AN**

PERKS

Quick response to negative reviews

continued from Page 32

tomers are not mad at us. They're just mad at the situation."

John Garff said staff members have been monitoring the issue closely, quickly responding to negative reviews and social-media rants.

West Coast Toyota addresses the ownership change on its website, offering Hooman customers discounts on maintenance packages and every fourth tire free. It also explains that Toyota Motor Sales U.S.A. now gives free oil changes for the first two years.

Very important perks

Hooman Toyota promoted its VIP Customer Privileges program as saving an average customer \$6,747 over 5 years. Here's what was included.

Oil changes: \$657

Tires for life: \$1,650

One car wash, vacuum per week: \$3,750

Source: HoomanScion.com

Loaner vehicles: \$390

Express shuttle: \$300

Flat-tire repair, road hazard replacement: Not estimated

Those actions appear to be calming the storm.

Of the 58 calls received one recent afternoon and evening, only one was related to the VIP perks, Garff said. Though the program was heavily advertised, it wasn't part of a buyer's contract and there was no cost or enrollment process, so there was no obliga-

tion that new owners continue it, he said.

"What we do owe them is the dignity and the respect to listen to them and do what we can to make it right," Garff said. "The most important thing is to work one-to-one with each customer to earn their trust and earn their business." **AN**



To get more consideration, Lincoln has opened an Experience Center in Newport Beach, Calif., where visitors can check out vehicles and tech.

Lincoln's selling an experience at the luxury mall

Nick Bunkley

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Lincoln has a new gambit to regain brand awareness among luxury shoppers. It's located between a Starbucks and a spa offering a "15-minute laser and light facial."

The brand has opened a gallery called the "Lincoln Experience Center" at Fashion Island, a chic outdoor mall with towering palm trees and a dancing marble fountain in tony Newport Beach, Calif. Visitors can sit in Lincoln vehicles and explore the latest technology while sipping a complimentary tea or espresso.

Interested in taking the next step? There's a private room to Skype with a salesperson at a nearby dealership to arrange a test drive. The dealer would then handle everything related to the purchase process, so Lincoln helps provide leads but doesn't step on its retailers' toes.

"We wanted to find a way to bring the vehicle to these clients who don't currently have us on the shopping list," said Andrew Ashman, Lincoln's manager of sales operations and client experience. "When we can get the client to sit in and actually touch our vehicles, consideration jumps by 30 to 35 points."

More galleries

The gallery opening follows Lincoln's announcement in June that customers nationwide will get free pickup and delivery for service appointments starting with its 2017 models. They are two key elements of a strategy executives call "The Lincoln Way," the 99-year-old brand's largest-ever investment in personalized services and experiences for customers.

Lincoln plans to open another gallery next year in Frisco, Texas, in a shopping and entertainment district that's part of the Dallas Cowboys' new headquarters. Ford Motor Co. paid for naming rights to the Cowboys' training facility, which will be called the Ford Center at the Star and includes a 12,000-seat domed stadium to serve as the home field for Frisco's high schools.

Lincoln has not announced the Frisco gallery, but details about its

location at the Cowboys campus and 2017 opening date were hidden in the coding on lincolnexperience-center.com. Lincoln also is considering locations in Miami and New York City, two people with knowledge of the plan said.

'Coastal momentum'

Lincoln has been pushing particularly hard to make some noise on the import-dominated West and East coasts. It said sales rose 28 percent last year in California and 17 percent in Florida, compared with gains of 7.1 percent nationwide for the brand and 7.7 percent for all luxury brands. In the first half of 2016, Lincoln said its U.S. sales rose 13 percent, with half of that growth coming from California, Florida, New York, New Jersey and Massachusetts.

"We're starting to see great coastal momentum that's coming on with Lincoln," Mark LaNeve, Ford Motor's vice president for U.S. marketing, sales and service, said on a July 1 conference call.

Lincoln's mall foray comes soon after Cadillac opened a coffee shop and art gallery in Manhattan's SoHo neighborhood. Both ventures are aimed at getting the brands back into the same conversation as BMW, Mercedes-Benz and Lexus.

"You're selling an experience, and you've got to do something different than ... everybody else," said Dave Sullivan, an analyst with AutoPacific. "It's getting people in one of the most exclusive shopping areas of the country talking about it again."

The California gallery, in the same corner of Fashion Island as a Tesla showroom, has been open since early July. Its website lists special events, including live music, sculpting, jewelry fitting and pasta making. Salespeople at Tuttle-Click Lincoln, a dealership 12 miles to the east in Irvine, have taken customers to Fashion Island to see the new Continental sedan, which goes on sale this fall.

"Every consumer that I speak to that's been there, they come back raving about the hospitality," said Sean McCartney, the dealership's general manager. "It looks, smells and tastes like luxury when you walk in there." **AN**

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New plant in Mexico will usher in major changes for Toyota | **PAGE 36** |

Automotive News **INSIGHT**

STATE OF SUPPLIERS

Automotive News **INSIGHT**

AUGUST 1, 2016 • 35

New solutions in supply chains

Auto companies are making bold moves in how and where they build new vehicles, and it is whipping change through their supply bases, from Michigan to Mexico to Munich. Ford, Tesla, Toyota, Volvo, BMW, General Motors – the industry is hustling to seize the opportunity of booming U.S. car sales. Moving fast means bringing supply chains along at the same speed.

And that is generating new solutions in parts-making, logistics and automaker-supplier relationships.

VOLVO'S CATCH-UP GAME

South Carolina's European supply base makes things easier for automaker

Diana T. Kurylko
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At last, Volvo is joining other luxury automakers in sourcing vehicles in the United States.

Making that happen — and catching up with competition that has been building luxury vehicles here for years — will take the Chinese-owned Swedish brand into some supply chain operations that are new to Volvo, and also to the rest of the U.S. auto industry.

When it gets up and running in 2018, Volvo Car USA's first U.S. auto plant, in Ridgeville, S.C., will build the new-generation S60 sedan using about 40 percent locally sourced components.

That is about 20 percent less locally sourced parts than the company relied on to launch its auto factories in China in recent years, according the company executive overseeing the plant project.

The U.S. plant will instead rely on outside suppliers for major parts, including metal stamping, says Katarina Fjording,

Volvo vice president of purchasing and manufacturing for the Americas.

That is a strategic decision for Volvo, a play to make the S60 cost-competitive enough to build in the United States for global markets.



Kerssemakers: Architect of Volvo's comeback plan

The \$500 million factory goes into production in the third quarter of 2018. Volvo plans to start small with initial annual production of 65,000 vehicles. A decision on which second vehicle to add there will be made within 18 months, says Lex Kerssemakers, CEO of Volvo Car USA and the architect of Volvo's entry in U.S. automaking.

Suppliers near

Volvo bucked a trend among luxury automakers in North America by opting for an assembly plant in the United States instead of Mexico. Competitors Audi, BMW, Infiniti and Mercedes-Benz have embarked on a Mexico production strategy.



“The Southeast has an automotive cluster of OEMs and suppliers. It makes a good foundation to put a business here.”

Katarina Fjording
Volvo vice president of purchasing and manufacturing for the Americas

■ Q&A: Meet the woman behind Volvo's beachhead | **PAGE 57** |

Volvo went with South Carolina for largely one reason: suppliers.

The availability of suppliers familiar with the demands of luxury brands in the Southeast led Volvo to decide on the U.S. location, Kerssemakers says.

Fjording, who is heading the creation of Volvo's new supply base, says, “The Southeast has an automotive cluster of OEMs and suppliers. It makes a good foundation to put a business here.”

BMW is a 2½-hour drive away in Spartanburg, S.C., and Mercedes-Benz builds cars, crossovers and SUVs in Vance, Ala. Both have developed a substantial supplier base that includes many of the European giants such as Bosch and Valeo that

are common to the Euro-luxury automakers. BMW has about 40 suppliers near its Spartanburg factory.

It was important to Volvo that suppliers had U.S. operations, Fjording says. “Otherwise, they would be starting the same journey as us,” she says — a risk Volvo did not want as it tries to restore its fortunes in the U.S.

Many of BMW's U.S. suppliers, as well as some parts companies from China and some supplier plants in Europe, will make components for the Ridgeville plant, she says. Fjording contends that those U.S. suppliers are in a special luxury tier and

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Toyota, suppliers rethink manufacturing

New plant in Mexico will usher in big changes

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Never known for radical changes, Toyota Motor Corp. is about to make a radical change.

And it is relying heavily on its suppliers to figure out how.

Toyota's plan to build the next-generation Corolla at a new factory in central Mexico in 2019 will take the automaker and its supply chain through a makeover on how they design, produce and deliver parts; how Toyota designs and produces vehicles from them; what materials the group uses; and how the chain makes product changes along the way.

Simply constructing an auto factory is a tall enough task for any manufacturer. Building one in a location where the automaker has no real track record is even more challenging. But when Toyota's \$1 billion plant in the Mexican state of Guanajuato comes online, it will be the first operation built from the ground up to embrace the Toyota New Global Architecture.

TNGA, as company executives call it, is a response to the Great Recession of 2009 and the economic and product-preference changes that followed. It is the result of Toyota's decision to make its vehicles more flexible in design and lighter in weight; to make its factories smaller and nimbler; and to make supply chains all over the world better able to change course on short notice, more capable of improving their products and better able to help Toyota compete.

It's a handful.

And until now, Toyota officials have shed scant light on the details of how it all will work. But as planning and execution get underway for the Mexico project, North American officials are beginning to reveal some of their thinking on what they want and how they will get there.

"We've had many, many communication meetings with suppliers," Robert Young, Toyota's North American senior vice president for purchasing, told *Automotive News*. "We've had this tremendous amount of go-and-see with suppliers in Mexico, to their plants in Japan as well, so we're trying to ensure that our suppliers clearly understand what we're trying to accomplish, how and when, so that they can align their schedules accordingly."

Young says the conversations have been going on for the last two to three years.

"We've been front loading our collaboration with many of our supplier partners to try and come up with the best design solutions that allow us to optimize the manufacturing processes within our suppliers' facilities," he said.

Supplier harmony

Although the project was made public only last year, meticulous planning for it has been going on for years to make sure that Toyota and its North American suppliers are in harmony when it launches.

But even then, Guanajuato will not deliver the first TNGA vehicle in North America. That distinction will fall to Toyota's oldest North American auto plant, in Georgetown, Ky., when it delivers the next Camry sedan, likely in 2017.

By launching a new TNGA model with a seasoned work force, Georgetown will help Toyota figure out the logistics involved in the new system.

"We're learning the capability of how to launch this in the Midwest,"

A new Toyota manufacturing vision takes shape

2012: Toyota CEO Akio Toyoda unveils a plan, called Toyota New Global Architecture, to make vehicles lighter and more flexible, create them faster and cut their manufacturing cost.

2013: Toyota begins conferring with suppliers about how to integrate components into TNGA manufacturing in North America.

2014: Toyota reveals its fourth-generation Prius will be built on a TNGA platform in Japan.

2015: The automaker unveils plans to spend \$1 billion to construct an assembly plant in Guanajuato, Mexico, the first built to manufacture TNGA platforms.

2019: Guanajuato will begin producing a new-generation Corolla with lessons learned from launching a redesigned TNGA Camry in Georgetown, Ky.

said Young. "We'll take those learning points and apply them to Mexico. So from a risk standpoint, we think we can manage it."

Lighter components

What TNGA will physically involve is slowly coming into focus.

Mike Bafan is Toyota Motor Manufacturing's president in charge of the new car plant in Celaya, Guanajuato. He is also president of Toyota Motor Manufacturing de Baja California, on the west coast of Mexico, which produces Tacoma pickups. Before coming to Toyota 10 years ago, Bafan spent 22 years with General Motors, including serving as production manager at GM's full-size truck plant in Fort Wayne, Ind.

"TNGA allows us to produce vehicles with a lower center of gravity," Bafan said of the new mission. "Much lighter, more compact components, delivering to customers the kind of driving performance and fuel efficiency and visibility ... customers come to expect from us. So all of that has an impact on how we design our product and how we want our suppliers to be with us on the same wavelength."

TNGA is also about using less to create more, Bafan says, meaning less raw material, less energy, less real estate and less investment. Toyota wants to bring its suppliers in on these new techniques as they produce commodities for the new architecture.

Young, who is also senior vice president for supplier engineering development,



Young: "Front loading" talks



Bafan: Use less, create more.



Production of the Camry will help Toyota figure out the logistics of the new system.

says the project is a "blank sheet of paper for our partner suppliers."

"We're asking our suppliers to rethink their entire process, whether it's the production and engineering team, the conveyance and logistics team — whatever it might be — to rethink some of their legacy methodology and come up with the best solutions for TNGA."

Toyota also is sharing its internal plans and ideas with its supply chain to show what Toyota is doing to improve its own manufacturing methods for TNGA. It is up to the individual suppliers what methods they choose to get where they need to go, but Toyota is not being shy about spreading the ideas behind TNGA across the manufacturing chain.

"We do have some hard metrics that we've shared with our suppliers and anyone we've talked to," Bafan said. "For example, the floor space in the facility will be reduced by 40 percent compared to 2008 levels. Our investment will be reduced by 40 percent compared to 2008, and, of course, our CO2 emissions will see a 52 percent reduction versus our North American benchmark levels."

Still just in time

Many things will not change under the TNGA plan, Young emphasizes.

"For the majority of our suppliers, there will be kind of a limited impact as a result of supplying Guana-

juato," he said. "We'll maintain our just-in-time philosophy with our suppliers. But they have to be prepared to shift with us, and typically, they can do it in a shorter lead time than we've been able to do it historically."

But there will be changes.

■ Toyota is working through how it will better manage bulky parts with high logistics costs. It is analyzing what large parts need to be produced near-site and which need to be on-site at the Guanajuato facility.

■ Those questions could mean that logistics are set up differently than what suppliers have been accustomed to at Toyota's other North American Corolla production centers, near Tupelo, Miss., and in Cambridge, Ontario. Production of the model will be discontinued at Cambridge.

■ Rethinking logistics could mean a re-ordering of where suppliers stand in the chain, Young indicates.

"There are certain commodities where there potentially will be change," he said. "That may mean that, all of a sudden, you become a sequence supplier and you're delivering line-side, which is something that might be brand new to you."

New partners?

Toyota also is working through the details of picking partners in Guanajuato. It already is clear that Toyota will do things differently than it did at its Tundra plant in San Antonio. That plant was also a remote geography for Toyota's suppliers, and Toyota resolved its needs by bringing nearly two dozen suppliers on-site at the factory, Young notes.

In contrast, Toyota sees in central Mexico not a remote patch on the supplier map but an existing supplier community with a long history of working for a variety of brands. Toyota now is picking and choosing suppliers, commodity by commodity.

"In some places, we'll use existing supplier locations in central Mexico. In a couple of cases, of course, we're go-

see TOYOTA, Page 56

The Toyota New Global Architecture is meant to make vehicles more flexible and lighter in weight.





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Employees are trained to work in BMW's Mexico plant, which is counting on new methods and technologies for greater efficiency.

In Mexico, BMW builds supply base from scratch

Innovations aim to streamline work

Diana T. Kurylko
dkurylko@crain.com

SAN LUIS POTOSI, Mexico — To reach productivity benchmarks at its Mexico factory, BMW AG will embrace a new and innovative supply chain and logistics plan.

The German luxury maker won't simply transfer its supply base from its other North American factory,

which opened 22 years ago in Spartanburg, S.C. And it won't demand that suppliers serving the South Carolina plant set up shop in Mexico, says Oliver Zipse, BMW board member for production.

Instead, it will create a new North American supply base.

"We will see all the latest state of the art here," Zipse promised.

Those innovations will include:

- Assembly of parts modules for sequential delivery by BMW employees, operating apart from the vehicle production line.

- A GPS-based logistics web "geofence" that will track components coming into the plant and alert BMW about delays or problems.

- A nearby supplier park that can ship products in sequence as they are needed.

The factory will begin production in 2019, making BMW's best-selling car in the United States, the 3-series sedan. It will be capable of building any of the automaker's rear-wheel-drive vehicles that use BMW's new flexible Cluster Architecture on one line. At capacity, the plant will be able to produce 150,000 vehicles annually and has been designed for easy expansion, Zipse says. It will include body and paint shops and an assembly line, but not metal stamping. The press shop will be outsourced.

The Mexico factory also has been designed so components come in at one end of the plant — a logistics advantage over the Spartanburg layout. The South Carolina plant layout has evolved over the last 22 years as

the plant expanded. It now has what the company calls "fingers" of activity protruding along three corridors for 80 percent just-in-time deliveries to the assembly line.



Zipse: Designed to expand easily

In Mexico, BMW has the luxury of making parts delivery more streamlined from the beginning.

"You will have a substantial amount of direct assembly, where trucks end up at the delivery line," Zipse said.

Hola, neighbor

The venture also will make BMW a bit chummier with General Motors. The 300-acre San Luis Potosi site is adjacent to an established industrial park where many suppliers make components to serve a nearby GM plant, in operation since 2009.

Spartanburg does not have an adjoining supplier park, or even one in the near vicinity. And when that plant started from scratch in 1994 making the 3-series sedan, it also did not have the luxury of taking advantage of a neighbor's established local supply chain. Compared with Mexico in 2016, Spartanburg of 1994 was a remote spot on the North American automotive supply chain map.

BMW began the search for a second production site in 2011, when the German automaker foresaw the global car market expanding quickly. BMW has ridden the wave of that market growth since launching North American manufacturing. Spartanburg started with the capacity to build about 70,000 cars a year. It is now the company's largest auto plant, with expectations to produce 450,000 crossovers this year.

By comparison, with an initial ca-

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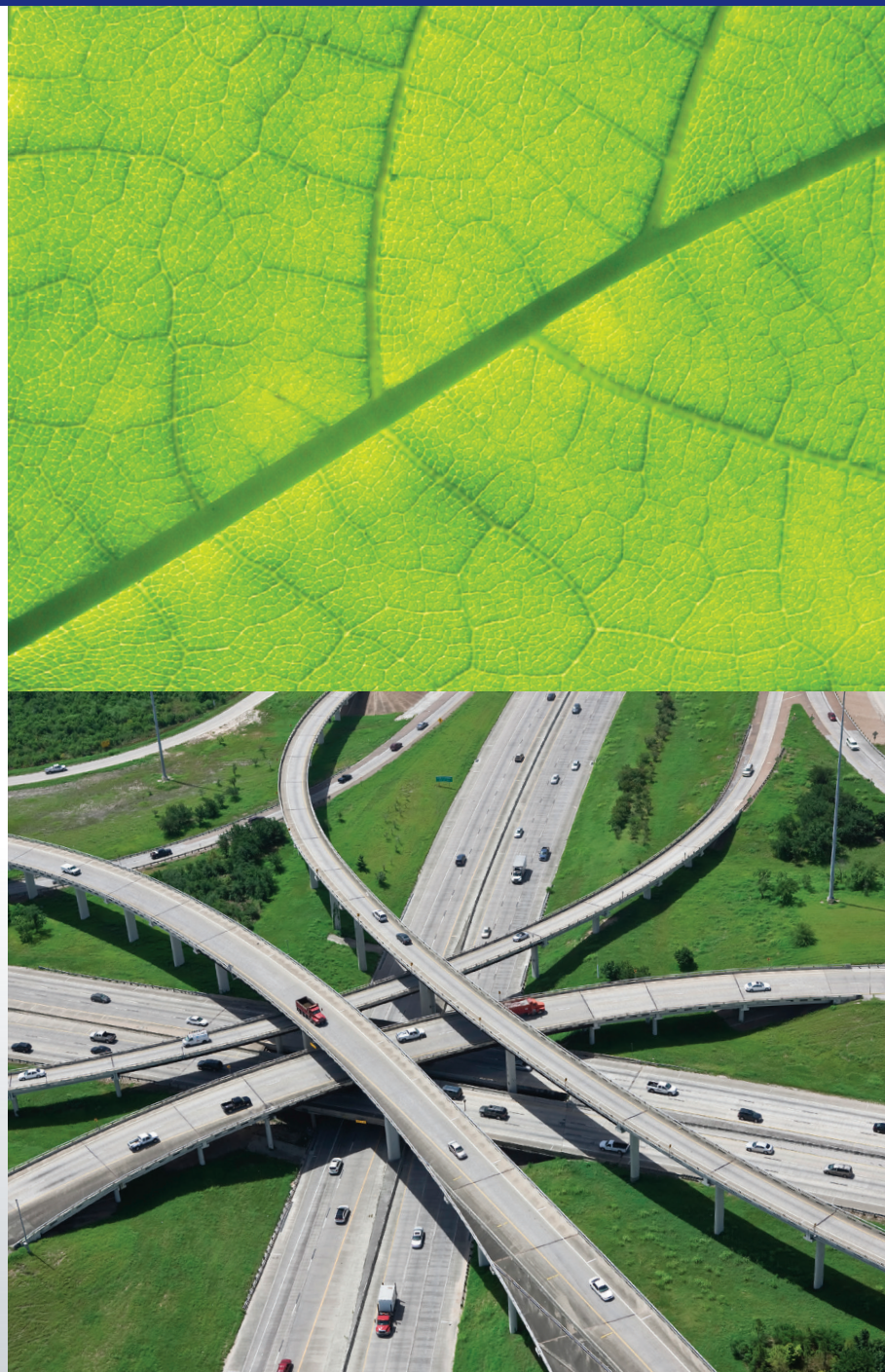
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STATE OF **SUPPLIERS**

BMW's plan for Mexico

Project: San Luis Potosi, Mexico
Investment: \$1 billion
Product: BMW 3 series
Annual capacity: 150,000 cars
Production start: 2019
Supplier plans: Tap into existing Mexico parts industry, bring some parts from BMW's South Carolina supply base, assemble some parts internally, embrace suppliers that are new to BMW, import some content from Europe



The San Luis Potosi plant, shown in a rendering, has been designed so parts come in at one end.

BMW Suppliers, parts mainly from N.A.

continued from Page 38
 capacity of 150,000 vehicles a year, San Luis Potosi is beginning at more than twice the scale that Spartanburg had.

Premium-brand quality?

Mexico is a rapidly evolving location for automaking. Today, no premium brands manufacture in Mexico. But by the time BMW opens there, Audi will be making Q5 crossovers in San Jose Chiapa, and Mercedes-Benz will be building crossovers at a joint factory with Infiniti in Aguascalientes, starting next year.

These evolutions make it less of a concern to BMW that the Mexican supply base hasn't mass-produced parts for premium brands yet, Zipse says.

BMW will use suppliers and parts mainly from North America, including some that already are supplying Spartanburg. But about 120 BMW suppliers already have locations in Mexico, and last year alone, about \$2.5 billion worth of Mexican-made parts were exported to BMW plants worldwide, including the United States, BMW estimates.

"It is already a substantial supplier base for our business," Zipse said.

Hermann Bohrer, former director of BMW's Munich factory, has been put in charge of the Mexico manufacturing operation. He said some suppliers "will come to supply only us" but declined to give specifics.

When choosing suppliers, BMW will not source parts based on whether the company already is serving BMW in the United States, but it will look at whether "they are competent with good technology and cost-efficient," Zipse said. For example, the automaker has decided to source painted bumpers from the Chinese supplier Minghua de Mexico, which is constructing a nearby plant.

Wiring harnesses will be provided by Draexlmaier Group, headquartered in the German state of Bavaria, where BMW is based. Zipse also mentions Magna International of Canada as a likely source.

"The overall assessment is we will have enough local suppliers around here to build premium vehicles," he said of the new location in Mexico.

The Tier 2 challenge

Guido Vildoza, senior manager, Americas, for IHS Automotive in Lexington, Mass., notes that Detroit 3 vehicles that retail for more than \$40,000 have been built in Mexico in the past for Cadillac, Lincoln and Saab.

"It's not the first time Mexico has moved in that direction," he said. "But this is the first time we will see a German premium build."

"Tier 1 suppliers are well-established," he confirmed. "But we find a challenge in Tier 2s and Tier 3s. That is where we have holes."

Armando Cortes Galicia, automotive industry coordinator for the Mexican trade agency ProMexico, says that since the BMW plant announcement in 2014, more than 40 new parts suppliers have arrived in the state of San Luis Potosi. Another 11 major suppliers have expanded there.

see **BMW**, Page 42



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STATE OF SUPPLIERS

Hermann Bohrer heads the Mexico operation. BMW is working with the government to ease transportation bottlenecks, he says.



BMW

continued from Page 40

But one of their competitors may be BMW itself.

The new auto plant will rely on what Zipse calls “modular insourcing, not from the outside — for flexibility reasons.”

BMW will take over some components itself partly to guarantee a facet that is important to the BMW brand: the ability to have last-minute assembly flexibility. That is primarily so that a customer or dealer order can be changed up to 10 days before the vehicle is manufactured. BMW is striving to allow last-minute changes up to six days

before the manufacture date.

Because the parts modules coming to the line will be large and have to arrive in production sequence, BMW chose to have them built by its employees.

That is a new element of vehicle assembly for BMW, Zipse says. And it is the sort of design consideration that impacts an automaker’s supply-chain decisions.

BMW wants its plant to be flexible enough to allow the brand to satisfy customers. But San Luis Potosi also must be a cost-efficient investment. Insourcing modules provides more production flexibility, but it triggers other plant costs.

By assembling modules on a lane that is off the vehicle production

line, the plant will be a little less expensive to construct, he says. But insourcing modules will create storage needs for large components.

“You have to be careful your sequence costs do not become outrageous,” Zipse commented. “Your plant might look simpler but not be flexible. That is very expensive.”

Traffic and clogged ports

There are advantages to building in Mexico, such as lower labor costs. “But we will have disadvantages,” Zipse acknowledged. “The most obvious is the engine is produced in England, Germany or Austria, and you have to transport it.”

There are major transportation bottlenecks at certain times of the day, Hermann says. Ford also is building a factory in the area, and when added to BMW’s parts logistics and production-related traffic, the problems will multiply. In Veracruz, where shipments will arrive for the plant, “the harbor is full,” he said. “We are working with the government on the infrastructure.”

Guido Vildoza believes Mexico’s industry already is feeling the strain of the country’s railroads and ports running close to capacity. But that is while operating at the industry’s current output, and Mexico is in the midst of a growth boom.

According to Fuasto Curvas Mesa, director general of the country’s automobile industry trade group, the Asociacion Mexicana de la Industria Automotriz, Mexican auto production will increase from 3.4 million vehicles last year to more than 5 million by 2020. Mexico is the seventh largest automotive producer in the world, Mexican industry and government officials said.

The pinch of growth is pushing BMW to deploy new logistics ideas for its parts in Mexico.

Manfred Erlacher, president of BMW Manufacturing Co., says logistics there will be aided by the introduction of an Internet-based technology referred to as a geofence. The geofence monitors parts deliveries within a specified distance of the assembly line using location-aware devices. It shows BMW production planners the status of each delivery truck and what it is carrying. In the event of a delay, BMW can use the database to find alternate sources or adjust the production schedule if necessary.

The geofence is being piloted in Spartanburg by three suppliers. If successful, it will be transferred to Mexico for the supply chain. It would allow BMW to keep only a two- to four-hour supply of components at the plant, Erlacher explains.

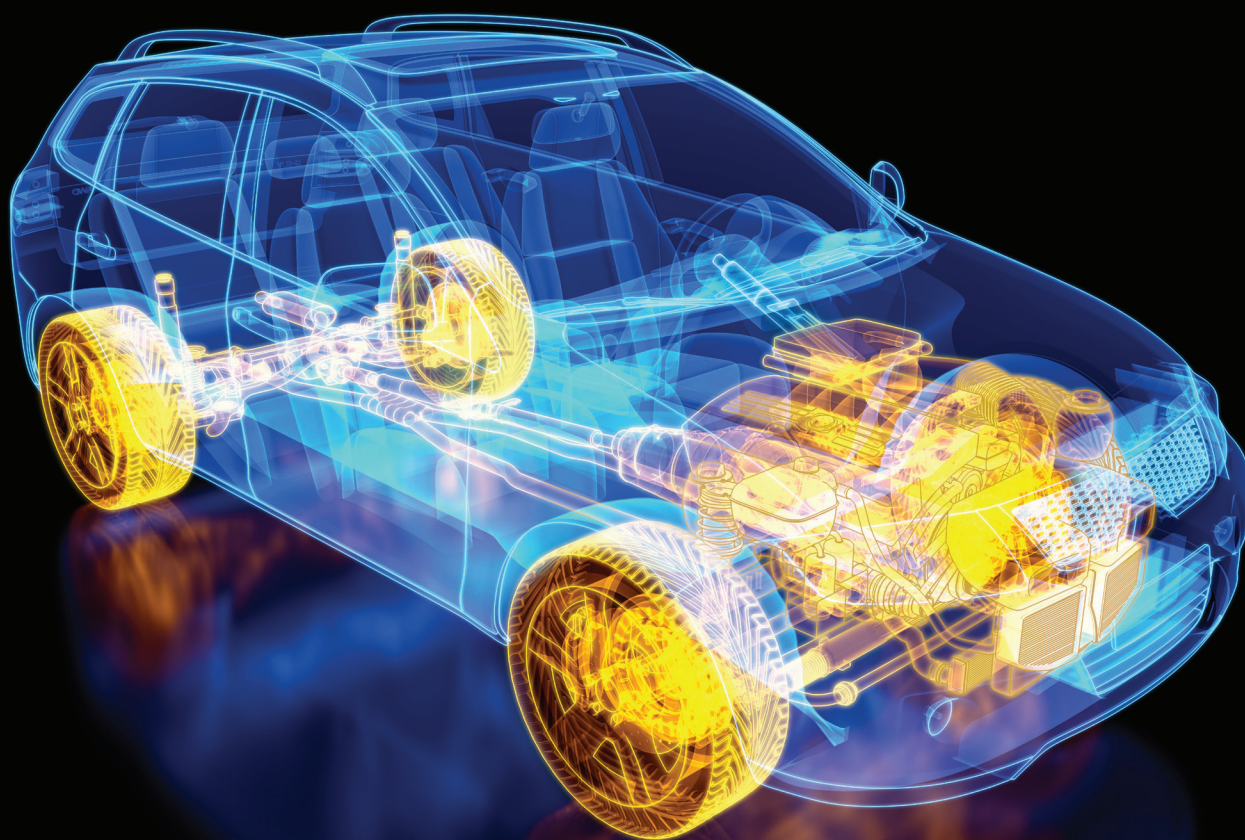
Aid not disclosed

Creating all this in Mexico from scratch is a costly project. BMW says it will spend \$1 billion on the plant.

The Mexican government provided aid for the project, but government officials would not disclose how much. BMW will not pay local or state taxes for 10 years. Mexican reports have said BMW’s aid will total about \$236 million.

The price tag demonstrates the enormity of the decision for the automaker. A new plant requires real estate and investment dollars — but it also requires new solutions and technology to bring in the parts to make it possible. **AN**

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Super Duty spurs supplier rush to Ky.

Ford investment, central location lure foreign parts makers

Nick Bunkley
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Suppliers from Thailand, Spain and France are among those putting down roots in a region known as much for bourbon and horses as auto manufacturing, as Ford Motor Co. launches the next generation of its F-series Super Duty pickups in Louisville, Ky.

The newcomers from the parts industry say Kentucky is an ideal location to supply not only Ford but the Japanese, Korean and German plants that have sprung up across the Southeast.

The \$1.3 billion renovation of Ford's massive Kentucky Truck Plant for the Super Duty, which follows the F-150 in switching from steel body panels to aluminum, is rippling across Louisville and well beyond. Many of the investments and new jobs have

come from foreign companies that have been reticent to expand elsewhere in the U.S. but see Ford's Louisville plants as solid long-term bets.



Behrendt: Ford shares product plans early.

"We are engaging our suppliers very early," said Birgit Behrendt, Ford's vice president of global programs and purchasing operations. "We really

share with our suppliers very early our product-cycle plans and the manufacturing footprint that goes with that, so they have the ability to look at the region in its entirety."

Thai Summit America Corp. broke ground in May on a \$110 million plant in Bardstonsville, Ky., to supply Ford with aluminum sheet-metal stampings and welded parts. It's expected to create 216 jobs and will be Thai Summit's second U.S. location, after a factory in Michigan that makes some parts for the aluminum-bodied F-150, among other vehicles.

Grupo Antolin, which makes doors, seats, lighting and instrument panels, is investing \$13.7 million in two new plants in Louisville. The Spanish company hasn't said which automakers it will supply, but one of the plants is located just outside Ford's Super Duty plant. They're expected to have 200 employees within four years.

Faurecia SA in June opened a plant to make seats for the Super Duty and for Ford chassis-cab trucks built in Ohio. It will employ more than 500 people in a fringe suburb of Louisville.

"The irony is we're a French company," Nik Endrud, president of Faurecia Automotive North America, told *Automotive News* in June. "France isn't known as the land of the pickup truck. But we're developing a really good position in pickup trucks."

Regional momentum

Those companies join other foreign suppliers that have come to Kentucky over the last decade, including Mexico-based Metalisa, which builds high-strength steel frames for the F-150; Germany-based Mubea, Webasto and Bosch Automotive Steering; and INFAC Corp. of South Korea.

Kentucky has a well-established base of Japanese suppliers clustered around the 30-year-old Toyota Motor Manufacturing plant in Georgetown, about 60 miles east of Louisville. The influx of investment from other parts of the world is a newer phenomenon linked in part to Ford's growth.

Though some companies were drawn to



Ford's \$1.3 billion renovation of its Kentucky Truck Plant, above and below, has helped give suppliers confidence to expand in the region.

What stirred Ford's Kentucky supply base

- Ford is spending \$1.3 billion to retool its Kentucky Truck Plant.
- Large amounts of aluminum are needed to make the Super Duty's new body.
- SUVs built in the same plant are expected to get aluminum bodies in 2017.
- Demand for the newly freshened, Louisville-built Escape crossover is surging.
- Proximity to auto plants across the South makes for ideal location.

sites in greater Louisville, others have set up in more rural areas just off the six major interstates crisscrossing Kentucky.

Louisville was well south of the country's automotive manufacturing hub when Ford opened two large plants there in 1955 and 1969, but the industry's southern migration has put Kentucky in the heart of the action. Ford's growth there in recent years — and the Super Duty project in particular — has ignited a flurry of investment.

Auto suppliers announced about \$900 million worth of investment in Kentucky last year, according to the Kentucky Cabinet for Economic Development. Through April, the state had learned of commitments for 2016 totaling another \$155 million.

"Kentucky is extraordinarily well-positioned," said Dave Tatman, former manager of General Motors' Corvette plant in Bowling Green, Ky., and now executive director of the 2-year-old Kentucky Auto Industry Association. "You can do a lot of things leg-



islatively and with regulation to attract businesses, but we also have to thank our God-given gift of being centrally located between Michigan and Ohio and everything way down to Mexico."

Super Duty redesign

Ford employs 12,500 people in Louisville working on more than 9 million square feet of factory floors. Louisville Assembly, on the city's south side, is running full bore to keep up with demand for the Escape and Lincoln MKC small crossovers, while the Super Duty and Ford's biggest SUVs, the Expedition and Lincoln Navigator, are made across town at Kentucky Truck, which added 2,000 jobs this year.

The Louisville plants each built more vehicles last year than any of Ford's other U.S. plants, accounting for more than a quarter of its North American production, according to the Automotive News Data Center. The products they make are among the automaker's most popular and profitable nameplates, which company officials say

makes suppliers more willing to build or expand nearby.

"When suppliers look at making investment, and they have choices as they look across their customer base, this is a very attractive product portfolio and a very attractive region for them," Behrendt said.

The Super Duty's aluminum redesign, which hits the market this fall, provided an opportunity to make the parts-buying process for it more efficient, but Behrendt said Ford wanted significant continuity rather than an all-new network of suppliers. Where changes were needed, it sought to expand its relationships with businesses that already had made commitments to Ford on other recently overhauled products.

"We were looking at suppliers that had already come and made investments for the Escape or for the F-150 and to benefit from the synergies," she said.

Many of the new and expanded supplier plants around the Louisville operations are

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Aluminum parts producers have expanded in anticipation of the redesigned Ford F-series Super Duty.

FORD Kentucky officials pitch to suppliers

continued from Page 44

the result of Ford providing those companies a path to a lasting relationship with the automaker rather than bringing them on just to support a single vehicle program, Behrendt said.

"When they make investments, they have choices, they have finite capital resources. They are very conscientious and look not just at today but also to the future," she said.

"We want to make sure that our

suppliers have a long-term planning horizon."

Several aluminum parts producers have expanded or announced plans to do so in anticipation of the redesigned Super Duty as well as other vehicles that are likely to use more of the lightweight metal. Ford is expected to overhaul the Expedition and Navigator in 2017 to have aluminum bodies, though it hasn't confirmed plans for them beyond showing a Navigator concept this year.

"We've seen a lot of development with companies that are involved with aluminum in the past year or so," reported Jack Mazurak, communications director for the Kentucky Cabinet for Economic Development.

Logan Aluminum, a joint venture of Novelis Corp. and Tri-Arrows Aluminum Corp. that makes rolled sheets for beverage cans, began a \$240 million expansion in Russellville, Ky., last fall. The company said it plans to add 190 jobs and start making heavier-gauge aluminum for automotive uses. Novelis also supplies aluminum for the F-150.

One of Logan's customers, Quiver Ventures, built a \$150 million plant in Bowling Green, saying it will supply automakers across the U.S. Also in Bowling Green, Kobe Aluminum Automotive Products announced a \$57 million expansion last fall. Those followed a \$350 million expansion in Lewisport, Ky., west of Louisville, by Aleris, a Belgian company, to add heat-treatment and finishing capabilities for wide aluminum auto-body sheet.

State officials cite U.S. Geological Survey data to claim that Kentucky has the nation's top aluminum-producing capacity and that the metal accounts for \$2 billion of the state's gross domestic product. One quarter of all the aluminum made in the U.S. comes from a pair of large smelters in Kentucky.

With the U.S. industry running at record pace, Kentucky officials are appealing to suppliers around the world to consider the logistics of the area when considering North American investment.

Ford operates two of the four auto assembly plants in Kentucky, they point out. Ford's Louisville output alone makes Kentucky the nation's No. 2 producer of light trucks, the state says. GM makes Corvettes in Bowling Green, 100 miles south of Louisville.

Beyond that, in Tennessee, are GM's Spring Hill assembly plant, Nissan North America in Smyrna and Volkswagen Group of America in Chattanooga, all within 300 miles of Louisville.

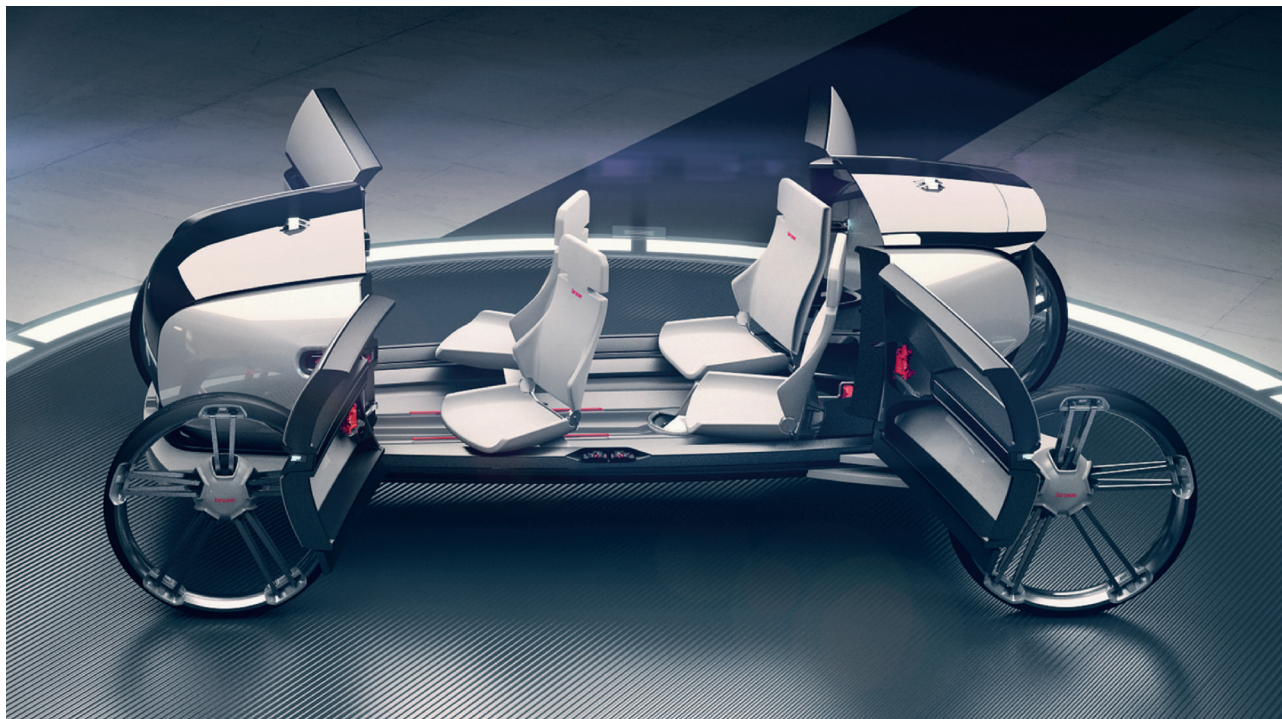
In the opposite direction, American Honda and Toyota have plants in southern Indiana and central Ohio. And Louisville puts suppliers in the middle of those plants, with easy access to the heavily trafficked Ohio River and UPS' global air hub known as Worldport.

This is the message Kentucky officials are broadcasting to suppliers around the world these days:

"If you want to ship your part to anywhere in the world within 48 hours," said John Gant, director of economic development for the community development agency Louisville Forward, "Louisville is where you need to be." **AN**

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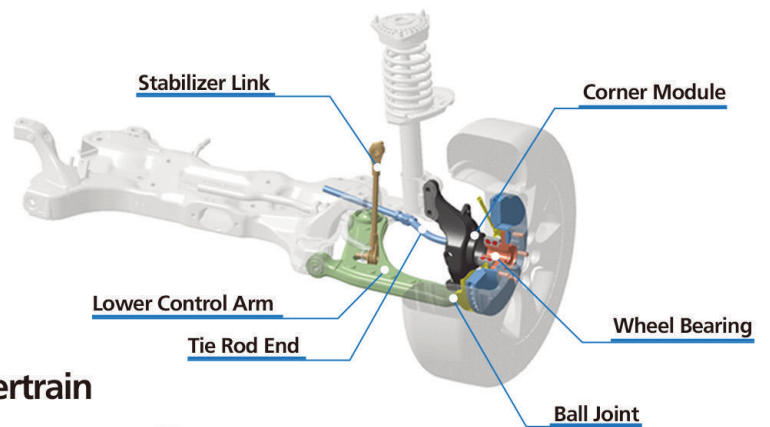
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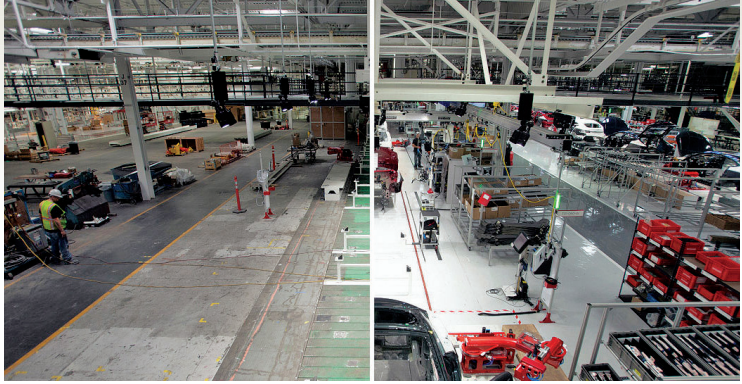


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Test for Tesla: Luring suppliers to Calif.



Tesla has transformed a vacant part of the former New United Motor Manufacturing Inc. plant in Fremont, Calif., left, into a trim line, right.

For now, many parts are shipped thousands of miles

Lindsay Chappell
lchappell@crain.com

As Tesla Motors slowly increases the small production volumes of its assembly plant in Fremont, Calif., CEO Elon Musk is reliving a challenge that also bedeviled the world's biggest automaker when it owned the plant.

For all its scale and prestige, even Toyota Motor Corp. struggled to get its supply chain to manufacture nearby in California.

Musk is determined to build Tesla into a large-volume producer of electric vehicles. But the supply industry reality is that parts makers are reluctant to invest in capacity in a remote location where there are no other potential customers.

Especially California.

"Nobody wants to open a factory in California," says a former executive of Toyota's North American manufacturing operations, who worked with Toyota's suppliers but asked not to be named. "For all the reasons everybody knows too well: It's high cost. Real estate is expensive. The regulations are difficult. Environmental impact issues are trouble. You name it.

"We had some success recruiting suppliers — but not as much as we wanted."

Tesla declined several invitations to talk about prospects for localizing its supply base around the Fremont factory, a huge plant that it bought from Toyota in 2010 for the bargain sum of \$42 million. But sources familiar with its efforts say that while meaningful localization has not yet happened, the situation is subject to change.

"I'm hearing from a few of our fellow suppliers that they are really thinking about it now," says a supplier executive from the Midwest-Southeast U.S. automotive belt whose company supplies Tesla but asked not to be named. "A couple of them have told me they are at least considering the idea of a California plant. And I think some will do it.

"It's really hard to make it work. But when you talk to Tesla's people, they are so pumped about what they're doing that you really believe in the project."

The project is anything but modest.

Musk wants to build a full range of EVs at the former Toyota plant, which is in turn a former General Motors plant. Fremont is 2,400 miles from Detroit and the traditional U.S. supply base that is centered there. Toyota and GM operated the California plant from 1984 until 2009 as New United Motor Manufacturing Inc., producing Toyota and GM-badged vehicles. GM's financial crisis of 2008-09 caused it to bail out of the plant. Toyota continued to operate alone there until 2010.

Adequate volumes?

Musk told analysts this year that Tesla will produce 500,000 vehicles in 2018, up from about 50,000 last year. The company has frustrated onlookers by not reporting its sales volumes, so it is unclear how many vehicles a month the plant is building.

This year, Tesla unveiled its plan to produce the Model 3 there, a compact EV with a base price of around \$35,000. Tesla subsequently said it has received 400,000 advance orders for the Model 3, although that number does not provide any measure of annual factory volume.

At least until then, a large share of the parts that supply the company's Model X crossover and Model S sedan are being shipped from 1,500 to 2,500 miles to the east. That is not the ideal just-in-time arrangement that the industry prefers. Most automakers are striving to work with

Challenges in supplying Tesla

- Tesla's Fremont, Calif., plant is 2,000 miles from the center of U.S. parts production.
- There are no other California auto assembly plants.
- Tesla's premium-segment market is low volume.
- Tesla remains an unproven customer in the industry.
- Suppliers are uncertain about Tesla's quest for vertical integration.

synchronized deliveries of key parts, and suppliers operating close enough to meet face-to-face if production glitches occur.

Vertical integration

Trip Chowdhry, an analyst with Global Equities Research who is tracking Tesla's development, predicts Tesla will increase the number of components it brings in-house in a bid to become "the world's most vertically integrated carmaker."

That might be frustrating to traditional North American parts makers, Chowdhry says, but it represents what he believes will be a shift in the way automakers build vehicles.

"There are things that are true of the auto industry in general that are not necessarily the case for Tesla. And suppliers are one example," Chowdhry says. "Tesla will do well as a vertically integrated manufacturer, making its own parts. Making parts in-house depends on developing the skills to do it. And Tesla is very determined to develop those skills."

On the other side of the argument is Tesla's decision to outsource one of the most critical parts of its cars — the electric-battery powertrain.

Tesla's electronics supplier, Panasonic, is helping Tesla build the "gigafactory," a lithium ion battery system plant near Reno, Nev., 240 miles from the Tesla plant. The gigafactory sits close to the Nevada-California state line, safely outside California for regulatory and legal purposes, but as close to Tesla as possible.

The former Toyota executive observes that the gigafactory is a supply chain improvement over what Toyota had at NUMMI. NUMMI relied on powertrains being shipped from Toyota's engine operations in the eastern U.S., more than 2,000 miles away, at considerable expense. By contrast, Tesla will ship its powertrain only 240 miles, starting next year.

Chowdhry believes the supply chain picture will continue to evolve as Tesla ramps up production.

"In the early days at Tesla, nobody wanted to even do business with them," he says. "They were unknown. You didn't know if they were going to fail.

"Now they're gaining speed and suppliers see them as a good customer to grow with," he says.

"So I believe, over time, you'll see a lot more suppliers getting close to them." **AN**

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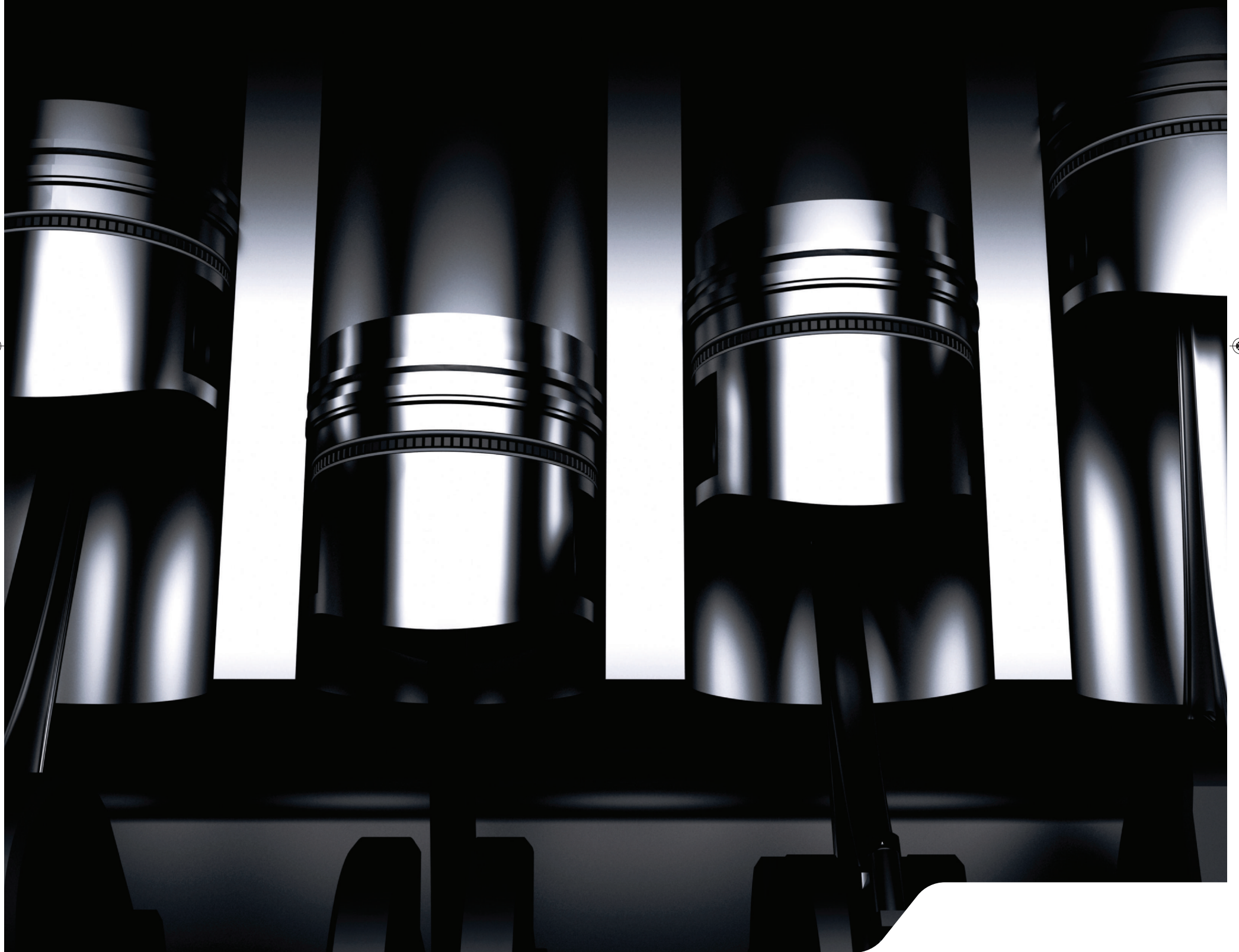
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New wave of European suppliers hits South

Expansions follow automakers' lead

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BIRMINGHAM, Ala. — Call it The Great Migration, Part 2. As European automakers Mercedes, BMW, Volkswagen and Volvo build or expand their assembly plants in the Southeast, a new wave of Tier 2 and Tier 3 European suppliers are coming to set up their first North American factories.

The companies typically are small, often family-owned and frequently German. And in some cases, they come because their customers — in-

cluding European mega-suppliers Continental AG, Robert Bosch GmbH and ZF — ask them to.

"We are seeing another wave of European suppliers," said Steve Sewell, executive vice president of the Economic Development Partnership of Alabama. "It's the increase in North American vehicle production that really made a convincing case for those companies to be here."

One such company is Rausch & Pausch — also known as RAPA — a supplier of high-precision power-train components, such as a canis-

ter that injects lubricant into the transmission for stop-start systems.

In 2012, the company accepted ZF's invitation to build a U.S. factory, and after considering dozens of sites in the South, it settled in Auburn, Ala.

Why Auburn? The town has a growing German expat community, now that eight German suppliers are located there. And Auburn University's engineering school caters to the auto industry, says Kelly Nelson, RAPA's plant manager.



Sewell: Case is convincing

"There is a nice German footprint in Auburn already, and the university's engineering department has taken off," Nelson said.

The region's prevailing wages are not an important factor, says Nelson, since RAPA's \$20 million factory is highly automated. The plant ships its components to ZF in South Carolina and to a Fiat Chrysler plant in Kokomo, Ind., which produces ZF transmissions. Other customers include Tesla, Continental and Thyssenkrupp.

From 2006 through 2015, suppli-

ers spent \$44.4 billion on new plants and expansions in the United States, according to the Book of Deals, a database maintained by the Center for Automotive Research in Ann Arbor, Mich.

Consider the ripple effect caused by Mercedes-Benz in late 2009 when it announced that its assembly plant in Vance, Ala., would add the C-class sedan to its production of crossovers. In response to Mercedes' plan to invest \$2 billion there over five years, its Alabama suppliers spent \$1.2 billion to expand their own factories plus \$298 million to build parts plants in the area.

One of the expansions came from Inteva Products, which already was producing instrument panels and door modules for Mercedes in Gadsden, 96 miles northeast of Vance. But with news of the coming C class, the supplier spent nearly \$32 million to expand production of panoramic sunroofs, instrument panels and window regulators.

Sunroofs are now the biggest revenue producer of the portfolio. To make room for sunroof production, the plant cleared out half of its floor space, built a warehouse for raw materials and assigned nearly half of its 580 employees to produce the roofs.

Inteva's sunroof is only one on a long list of components that were needed to transform the Mercedes plant to build both crossovers and sedans. To glimpse the river of parts required to keep Vance humming, one might consult BLG Logistics Inc., the Bremen, Germany-based logistics provider that runs three on-site warehouses in Vance.

To prepare for the C class and other new models, BLG hired 250 additional employees and spent \$22.9 million on new facilities. The nerve center of its network is the Mercedes logistics center inside the assembly plant, where 500 trucks and shipping containers are unloaded daily.

There, BLG employees take delivery of 30,000 types of parts and prepare them for final assembly. Some C-class parts are shipped from Bremen to Charleston, S.C., and then trucked to Vance — a four-week journey.

But BLG handles 57 sequenced components — such as steering wheels, seats and instrument panels — that must be produced in factories within 10 miles of Vance, says Maik Sievers, BLG's director of logistics.

"There are millions of variations for seats," Sievers noted, "so you have to manufacture them in sequence. There is no warehouse big enough to store them all."

That's why just-in-time factories clustered around any given assembly plant are "sticky" — that is, not easily moved to another region.

That's not so true for Tier 2 factories that serve multiple customers, says Jay Baron, president of the Center for Automotive Research.

The Great Lakes region already has a concentration of such suppliers, along with tool-and-die makers and raw material producers. Now Mexico and the southern states are trying to build their own networks, Baron says.

"I think the real battleground will be the development of new supply chains of Tier 2 and Tier 3 manufacturers," he said. "Going forward, that's where the growth will come." **AN**

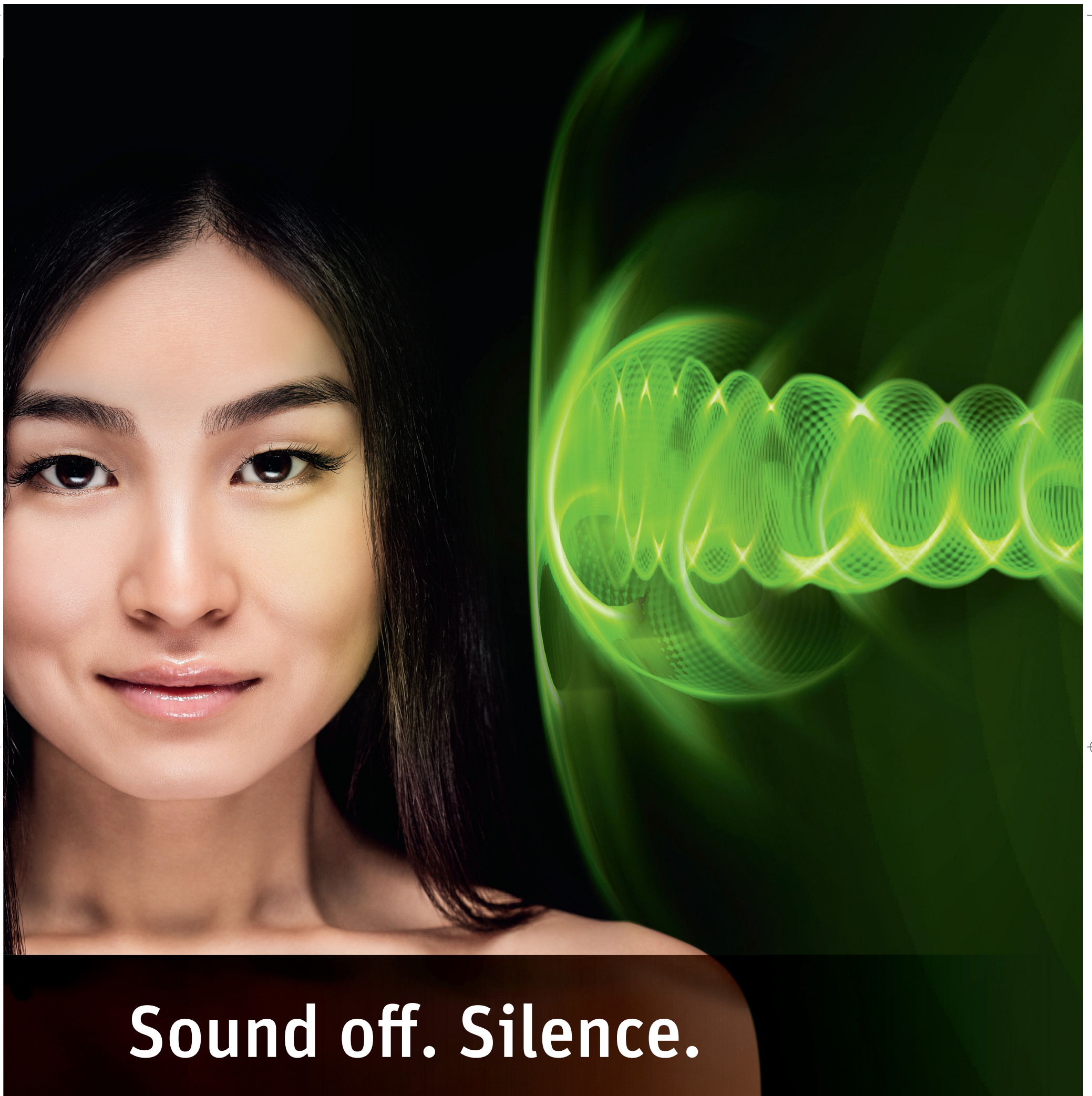
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GM's supplier-friendly initiatives bear fruit

Early collaboration and no-bid contracts

Mike Colias
mcolias@crain.com

DETROIT — For a program as massive as General Motors' next-generation full-sized truck platform, the automaker typically would begin inking supply contracts roughly three years before the start of production.

But GM's purchasing enterprise isn't doing typical GM things these days.

On the upcoming full-sized truck

program — code-named T1XX — and other recent vehicles, GM is introducing new practices and more rewarding contracts to encourage its suppliers to work more closely with the automaker, share creative solutions and reduce costs.

Just ask Ray Scott, head of Lear Corp.'s seating division. Scott's team began huddling with GM's product developers nearly four years ahead of production to design the seats that will go into the next-gen full-size pickups, including the Chevrolet Sil-

verado. That was so early that the hard points of the trucks' interior weren't locked in, giving Scott's people far more influence on the design.

Lear worked with GM's designers and engineers on how best to integrate the seats into the floor. That made it easier to reduce mass. And there were sizable cost savings because Lear had time to line up its



Scott: Influence on the design

own suppliers for foam, trim covers and other components. On a typical vehicle program in the past, the schedule already would have been pre-determined by GM and locked in place.

"It basically allowed us to build a crafted seat," Scott said "You're in prior to everything being defined. So you can really influence the craftsmanship, the integration, the design and mass and cost."

The end result: better seats for the next-gen pickups at a lower cost than the seats on the current full-sized truck platform, K2XX, GM

GM's new ideas

GM is trying these initiatives to make its push for faster change more attractive to suppliers

- Contracts for some parts cover 2 product cycles.
- Tier 1 suppliers are involved in programs a year earlier than in the past.
- Select suppliers are offered no-bid contracts.

purchasing boss Steve Kiefer says.

"In the past, there would have been a lot of compromises and cost in the design because we wouldn't have been able to make changes to the interior space while we were incorporating their product."

Industry sources expect GM to launch the first vehicles off the T1XX platform, a redesigned Chevrolet Silverado and GMC Sierra, in the second half of 2018. Kiefer and Scott declined to discuss the timing.

Making nice

Earlier collaboration is one of the hallmarks of GM's changing approach to its suppliers. Since GM's 2009 bankruptcy, its executives have been saying all the right things to convince skeptical suppliers that the old, beat-'em-up-on-price days are in the past. Kiefer and the two purchasing chiefs who preceded him — Grace Lieblein and Bob Socia — have shaped a number of programs to bolster supplier trust and make it easier to do business with GM's \$90 billion-a-year purchasing empire. The new GM approach includes the chance for no-bid contracts and even the offer of contracts covering multiple generations of a vehicle program.

The effort is proving appealing to suppliers, although some say it remains a work in progress. Some say GM's pricing pressure is as fierce as ever, and some are chafed that their particular components are not being offered two generations of vehicle programs. GM says the approach works only for certain components.

But it is clear through the supply base that GM is trying to improve its supplier relations. The automaker's approval ratings moved sharply higher in this year's closely watched Planning Perspectives survey of suppliers. And the initiatives have gone from talking to bearing fruit just in time for some of the industry's biggest vehicle programs.

German air-filtration maker Mann+Hummel is riding one of those waves.

Mann+Hummel is supplying systems on several of GM's midsize and large crossovers, including the recently launched GMC Acadia and Cadillac XT5. That platform, C1XX, will underpin at least a half-dozen models. Mann+Hummel was brought in under one of GM's new-

see **GM**, next page



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STATE OF SUPPLIERS

GM

continued from previous page

leaf initiatives — and none too soon.

It was late 2013, and the supplier had just lost out on two major GM programs: The next-generation Chevy Cruze compact, launched this spring, and GM's new Epsilon midsize car platform, which underpins the redesigned 2016 Chevy Malibu and several other nameplates.

Mann+Hummel had supplied the previous Cruze program but lost the new one. In response, it went all out for the Epsilon contract, spending more than \$1 million on r&d and manpower.

For Mann+Hummel, a 21-time recipient of GM's annual supplier award, getting passed over on Epsilon was a kick in the gut, says Mike Ternes, Mann+Hummel's director of business and product development for the Americas.

The supplier could not afford to continue chasing GM's programs, he says.

A strategic approach

That was when GM implemented a new supplier initiative called the Strategic Sourcing Process. GM purchasing execs approached Ternes and his team to discuss multiple crossover programs. They wanted Mann+Hummel on them. And most important, GM made it clear that it was Mann+Hummel's business to lose.

"They set out a very clear road map," Ternes said. "They said: 'We want to take a very strategic approach on these big programs. Let's do a lot of pre-development work. Yes, you're going to spend some money. But you're going to be my guy.'"

Mann+Hummel was one of the first suppliers to subject itself to GM's One Cost Model. In exchange for the early commitment to Mann+Hummel, the supplier agreed to allow GM purchasing and engineering staffers to visit its plants and analyze its internal cost data. Under the terms of the deal, each year a cost analysis would determine whether any more savings can be wrung out.

Such a working arrangement might be scary stuff to an auto supplier. But Ternes says GM did not intend the new approach as a blunt instrument to extract better pricing.

"They didn't come in pounding their chest and saying 'You're too expensive,'" Ternes said. "They just tried to understand our costs."

Long-term assurance

The innovation brought about another benefit.

Because GM assured Mann+Hummel that it was the preferred supplier, Mann+Hummel could dedicate more engineers to the program earlier in the schedule than it would have in a competitive-bid situation.

The more transparent cost information paved the way for the supplier to offer GM three choices of air-induction systems at different prices — a sort of a la carte menu of good, better and best component approaches. Mann+Hummel could give GM a choice between less costly parts and pricier systems to reduce engine noise.

"That early engagement allows you to work on multiple engineering scenarios," Ternes said. "In the past, we'd barely have time to do one."

Compressed schedules

Time is becoming a more valuable resource than ever for suppliers. That's because product cycles for GM and most other automakers are being compressed, leaving suppliers with less time to amortize equipment and tooling over the life of the vehicle program. About seven years elapsed between the current GM full-sized truck platform, K2XX, and the previous one. The next cycle will be squeezed into about 5½ years.

Offering a supplier a contract for two consecutive generations of a vehicle "makes it easier for the supplier to justify giving the automaker a high level of intellectual property," said Michael Robinet, managing director of advisory services at research firm IHS Automotive. "You get two cycles to pay for it. It's gotten to the point where OEMs need to give a stronger commitment because that supplier is not going to give you its best technology without that."

That's what makes GM's multi-generation contracts so enticing, Lear's Scott says. He says Lear is already making investments now that are geared for the generation that follows T1XX, which is proba-

bly nearly a decade out.

"When you don't know that you have the next generation, it really limits the clarity of where you can put your investment and your staffing for the future," Scott said.

Even in cases in which the automaker already knows that the next redesign will bring significant changes, earlier involvement with the supplier brings benefits, GM's Kiefer says.

"If you can bring these guys in early and say, 'OK, we want to be able to change this after five years. How can we design this now so you can design your equipment and tools now to get the re-use benefit?'" Kiefer said. "That's something we weren't able to do in the past." **AN**



Lear Corp. supplied the seats for General Motors' current full-sized pickups. A 2016 Chevrolet Silverado High Country is shown.

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MOTION AND MOBILITY

Infiniti, Mercedes share a car — and suppliers

Partnerships can complicate sourcing of components

Jim Henry
autonews@crain.com

When Infiniti's new QX30 compact crossover hits U.S. showrooms this month, it will put Nissan's luxury brand into a growing vehicle segment.

But the racy crossover will represent something bigger for the automaker: It is part of a wave of global products being created through a loose partnership between the Renault-Nissan Alliance and Daimler AG. So far, those products include engines, electric powertrains, small cars and premium vehicles.

Infiniti's QX30 is built on the Mercedes-Benz GLA architecture and uses engines made by Mercedes. But the vehicle is assembled on a Nissan-engineered production line at Nissan's plant in Sunderland, England, where the company invested \$330 million to put the QX30 into production.

But beyond planning and designing such shared products, the real challenges are figuring out how to build them economically, where to make their parts and who will supply the parts.

And when two automakers share a vehicle platform in two locations, who gets the parts business? The first automaker's supply chain? The second automaker's? Or do the automakers create redundant supply bases?

The question is complicated.

Nissan has produced vehicles since 1986 at Sunderland, now one of the largest auto plants in Europe, and Sunderland is surrounded by long-standing Nissan suppliers, many of them feeding parts on a just-in-time basis.

But for the new QX30, rather than duplicating suppliers, Daimler and its suppliers in mainland Europe dominate the Infiniti's composition.

Infiniti declined to divulge the identity of the QX30's suppliers. But they are a combination of Continental and U.K. sources.

Whose business?

Mercedes provides the basic platform, plus the 2.0-liter, turbocharged four-cylinder engine. Mercedes provides the transmission, a seven-speed, dual-clutch automatic; the all-wheel drive for the QX30 AWD model; and the vehicle's suspension, including a rear multilink setup. Mercedes also supplies the model's driver-assist safety technologies such as lane-keeping and intelligent cruise control.

Infiniti designed the QX30's exterior and much of the interior. But many of its customer-facing controls, such as the buttons for the seats, side-mirror remote control, and heating, ventilation and air conditioning appear to be straight from Mercedes.

"They come from very similar beginnings, but the cars feel and drive quite different," says Keith St. Clair, director of product planning for Infiniti Americas. But to maintain its own brand touch and feel, Infiniti also custom-tunes the suspension, the throttle and the transmission.

The result, according to Mark Snyder, Nissan's deputy chief engineer in Japan, is a unique vehicle with the QX30's ride falling "more on the sporty side, and not so much on the luxury side."

Infiniti used its own seat supplier for the QX30, Johnson Controls. The vehicle also contains Infiniti's InTouch infotainment system, as well as Nissan's Around View Monitor, based on four cameras that provide a single, 360-degree bird's-eye view of the car and its surroundings.

Globally, automakers hope to consolidate platforms and spread development and parts-procurement costs over the greatest possible volume.

As of 2015, the global industry's 20 most-produced platforms accounted for about 46 percent of production volume, up from about 40 percent in 2010, according to analysts for Technavio Research.

Gourav Ganguly, a Technavio automotive analyst, says the Renault-Nissan Alliance, formed in 1999, has become a leader in sharing platforms and parts procurement. Ganguly believes that what makes it succeed is the cross-ownership between Renault and Nissan, with Renault owning 43.4 percent of



The Infiniti QX30 is built at Sunderland, England, in one of the largest auto plants in Europe.

Not your usual Japanese suppliers

Some of the parts the new British-built Infiniti QX30 will source from Continental Europe as a shared vehicle architecture with the Mercedes Benz GLA.

PART	SUPPLIER
Climate control system	Behr-Hella/Germany
Cooler module	IBS Filtran/Germany
Rear link assembly	Gestamp/Germany
Front member assembly	Gestamp/Germany
Booster lines	TI Automotive/Czech Rep.
Brake discs	Brembo/Poland
Trunk lids, fenders	Gestamp/Spain

Source: Supplier Business/IHS Automotive

Nissan, and Nissan owning 15 percent of Renault.

Renault-Nissan and Daimler also now have small-scale cross-ownership.

Speaking of global automakers in general, Ganguly identifies the difficulty of making product-sharing ventures work: "These carmakers are quite afraid of exchanging technologies unless they have some skin in the game" in the form of cross-ownership, he says.

Sales opportunity

Automakers are weighing the benefits of cooperating with each other vs. the risk of helping a competitor, says Jeff Schuster, senior vice president of forecasting at LMC Automotive.

"If you were to look at combined purchasing, you're going to get economies of scale," Schuster says. "Higher volume means lower piece prices, and you get a better deal. From the supplier side you get a bigger deal, potentially in multiple locations. You get scale as well. You're able to lock in a bigger piece of booked business."

In the future, joint projects such as the GLA-QX30 platform-sharing could create more opportunities for suppliers, says Scott Ferriman, president of Mahle Industries Inc. in Farmington Hills, Mich.

Ferriman says his North American subsidiary is not a supplier to the QX30, but Mahle's German operations supply a long list of components for the crossover, including pistons, radiators and valves.

Ferriman says Mahle has different strengths with each of the two automakers, so cooperation between Nissan and Daimler could translate into an opportunity to pitch more business to both.

It helps in a sharing arrangement if an automaker is open to working with new suppliers.

Snyder, the Nissan engineer, says Nissan is open to suppliers from outside its familiar circle. "Nissan used to have a very Japanese-type *keiretsu*, but we have more or less eliminated that now," he says.

Adds Technavio's Ganguly: "The Renault-Nissan-Daimler alliance will serve as an example for OEMs looking to harness platform and procurement synergies without undergoing full operational integration." **AN**

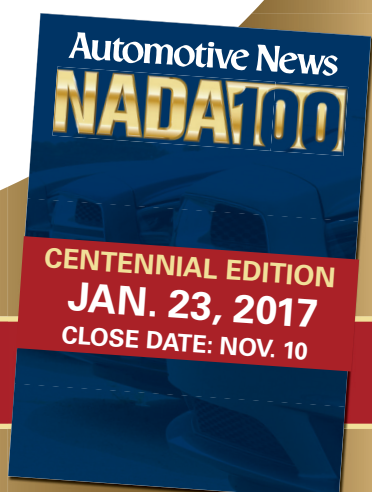
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Mobis wants to crack into North America

Korean giant expands global capacity

Hans Greimel
hgreimel@crain.com

SEOUL — For years, Hyundai Mobis Co., the top supplier to the Hyundai-Kia group, hasn't had the global footprint to expand business much beyond those longtime sugar daddies.

But that is poised to change with Mobis adding factories in Mexico, Europe and China in a bid to build its international reach.

The new capacity will churn out new products targeting new customers.

"Before, limited global capacity didn't allow us to serve global customers," says Cho Jae-mok, director of the South Korean company's international parts business group. "These new facilities with added capacity will help us have more business with new customers."

"On the top of their list is having a global footprint. Five years ago, it was a handicap for us. We didn't have a big footprint in North America or Europe."

Cho Jae-mok, Mobis director of international parts business group

The development means that Mobis, No. 6 on the *Automotive News* list of the top 100 global suppliers, will be competing to break into North American supply chains where it has never been a competitor.

The expansion also underscores how an international network is crucial to becoming a top-tier supplier, even for a behemoth such as Hyundai Mobis. The company is South Korea's biggest auto parts maker, but 80 percent of its sales come from group partners Hyundai Motor Co. and Kia Motors Corp.

The company makes chassis, cockpit and front-end modules; airbag and seat belt systems; steering and braking components; lighting and multimedia systems.

Direct sales to automakers, excluding aftermarket business, increased to \$26.26 billion in fiscal 2015, from \$25.46 billion the year before.

But to grow and compete globally, it needs a wider revenue stream.

"We have a very limited customer portfolio," Cho said in an interview last month at the supplier's global headquarters here. Customers want suppliers who can deliver identical products at mass volume through multiple locations around the world.

"On the top of their list is having a global footprint," Cho said. "Five years ago, it was a handicap for us. We didn't have a big footprint in North America or Europe."

It's a mantra heard often in Japan and increasingly in South Korea, where automakers and suppliers are traditionally aligned in vertically symbiotic relationships.

Many Asian suppliers grew rich riding the relationships with ever-growing automakers. But those ties became tested as Japanese and Korean automakers began expanding

overseas, often tapping foreign suppliers that were already operating in the new markets.

Having a wider customer base is one way suppliers can follow their main automakers worldwide. It helps them get more return on the huge investment of a new factory.

Mobis plans to do just that with a plant it opened in April in Monterrey, Mexico.

The company built the factory to supply braking and lighting to a new Kia assembly plant. Mobis built its plant with enough annual

capacity to supply 1 million vehicles. But only half is dedicated to Kia. Mobis hopes to soak up the remaining 500,000 in capacity by winning other automakers.

What's more, it has space to expand the total annual capacity to 2 million vehicles.

"We have a lot of flexibility to cover large growth in demand," Cho said.

The Mexico factory is Mobis' fifth in North America. But it is the first with speculative capacity for future customers. The others are dedicated to single customers. Two facto-

see **MOBIS**, Page 57



Mobis' Detroit plant supplies FCA, its biggest customer outside Hyundai-Kia.

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The woman behind Volvo's U.S. beachhead

Katarina Fjording, Volvo vice president of purchasing and manufacturing for the Americas, is heading the construction of the brand's \$500 million greenfield factory in South Carolina.

She will oversee the manufacturing plant and work on the selection of suppliers to build the new generation of the S60 compact sedan for global markets.

Fjording, a native of Gothenburg, Sweden, oversaw construction of Volvo's factories in Daqing and Chengdu, China. The Chengdu factory opened in 2013 and produces the long-wheelbase S60 Inscription — which is also exported to the United States — and the S60 sedan for Asia. The Daqing plant opened in 2014 and makes the previous-generation XC90 crossover. Volvo also

opened an engine plant in 2013 in Zhangjiakou, China, that makes engines for vehicles sold in Asia.

Fjording, a mechanical engineer, joined Volvo as a design engineer on the 850. Her Volvo career has included stints as director of new-model programs, executive director of manufacturing engineering for Asia, and vice president of manufacturing for Asia.

This is Fjording's second assignment in the United States. She spent six years in Detroit and Chicago working for Ford Motor Co., which sold Volvo to Geely Automobile in 2010. She was interviewed by Staff Reporter Diana T. Kurylko.

Q: Before Volvo decided to build its U.S. plant, how critical was it to know how many of its traditional suppliers had North American production capabilities?

A: It's important that they have operations here. If they start from scratch it means they are starting the same journey as us, and it would add to the overall risk. We prefer them to have business here. Our suppliers of direct materials, and it's the usual suspects, already have some operations in the major automotive markets — Europe, Asia and North America. That is not really an issue. There is a pretty big selection to choose from.

Will a U.S. purchasing team select suppliers, or will the decisions be made in Sweden?

It is a mix. We selected some suppliers here. We are more involved in localized suppliers here.

We have a global working structure to make sure we're efficient from a global perspective, with a global sourcing board.



Katarina Fjording says Volvo wants suppliers to its U.S. plant to have operations in North America.

PHOTO COURTESY CLEMSON UNIVERSITY

When we make the final decisions, that's in Sweden so that we can connect all the dots. And of course the platform sourcing is led from headquarters.

Because Volvo is owned by a Chinese company, will Chinese suppliers — some of which have track records with Volvo — get opportunities to supply the South Carolina plant?

Yes. Generally, the goal it is to build where we sell and source where we build. You can't turn things around overnight. We have to source some components globally for the whole "60 vehicle cluster," and we tend to do that where it is most efficient, where it is most cost effective with shipping, and the actual cost of the component.

Some components will come from China because they are globally sourced. Some will come from Europe going to all the plants.

And we are hoping now that some components will come from North America going to all the plants as well. These are opportunities. We can look, now that we have an organization in place, and you can take it to the next level.

"Some components will come from China because they are globally sourced. Some will come from Europe going to all the plants. And we are hoping now that some components will come from North America going to all the plants as well."

You managed Volvo's production and engine plant startups in China. How similar will the U.S. project be to those?

There are certain common denominators in a plant this size. They have to follow certain steps.

The actual working climate and political and legal climate are different, so you have to adapt to the nation and region that you are operating in.

What is highly different for this project is that we will have high complexity because we are doing a brand-new car, the S60, on a very young platform, the [Scalable Product Architecture] platform. And we will have a

different volume. We will also have a different ramp-up schedule.

What are the major differences between this factory and those in China?

Here we will have a higher degree of automation. We'll have more logistics outsourced in terms of the actual building. The supply chain or the supplier role will be similar.

But we are going to be less dependent on how quickly they can supply us, in terms of being nearby.

You mean parts won't be required to arrive within two or four hours of when they are needed on the assembly line?

Yes. We're going to work within a fixed plan, so if they stay within that we don't have a problem.

So sequential assembly won't be as important?

We're going to basically have a 10-day fixed plan and we will stick to that. We do measure the percentage of build-to-sequence but that's an internal measure that we do for all our plants. We're less sensitive to this here and we can allow things to come in the 10-day fixed plan. We can be flexible shifting things around to manage any urgent needs or wants.

Will these parts be stored in a big warehouse?

We'll have a warehouse and outsource logistics building. We choose to have them outside rather than in the building. In China we have both half inside and half outside.

Will the plant do anything different in logistics?

We'll outsource a little more. And we are building some things from scratch. Logistics footprints are increasingly complex, especially it we want to do cross-shipping and global sourcing.

We are becoming more global, so we are looking into the possibility of having some commodities coming only from one region to supply plants locally.

It will vary by region. In some areas, we'll have a buffer of a few weeks to cover shipments coming in by boat. There are surprises every now and then in logistics and we want to make sure that we safeguard for that.

Here in the Southeast, we'll have lower stock for just-in-time items, but a larger stock of the ones coming from Europe or Asia. **AN**

MOBIS

Plants in Czech Republic, China get room to grow

continued from Page 55

ries are dedicated to Chrysler, one is committed to Kia and another is working for Hyundai.

That same strategy of seeking new customers by building speculative capacity is being applied to a lighting plant scheduled to open in mid-2017 in the Czech Republic and another new plant in China.

Mobis wants sales to carmakers outside Hyundai-Kia to account for around 30 percent of its global sales by 2025, from around 20 percent today, Cho said.

Mobis is targeting expanded sales to General Motors as well as Ford Motor Co. and Japanese manufacturers in North America.

Mobis hopes to scoop business in new technologies that aren't already locked down by established global giants, such as Germany's Robert

Bosch GmbH or Denso Corp. of Japan.

New products include such offerings as electric parking brakes, Cho said.

"It's tough for us to win business when it would require them to change a supplier," Cho said. "It's easier when they are starting with a new part."

Mobis also sees potential in components that don't require lengthy certification reviews. That covers such products as lighting, steering, multimedia and electronics, Cho said.

Fiat Chrysler Automobiles is the biggest customer outside of Hyundai and Kia, accounting for about 80 percent of Mobis' sales outside the group. Mobis has two plants in the Detroit and Toledo, Ohio, areas making chassis modules, or completed chassis systems, for Jeep.

Mobis hopes to lift its North American sales to non-Hyundai-Kia customers by 50 percent over the next seven to eight years, Cho said. To support its American expansion, Mobis opened an r&d center in Plymouth, Mich., in October. With room for as many as 300 employees, Cho said, the Mobis Technical Center of North America handles development, purchasing and sales. **AN**



Mobis built its Plymouth, Mich., tech center to support North American growth.

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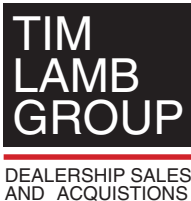
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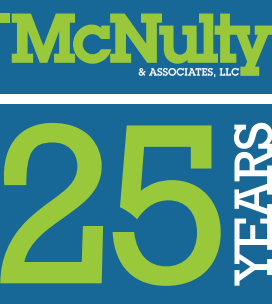
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Most-read story: How Honda's purchase got found out by Porsche

➤ Porsche on top again

Porsche paced the industry for the 12th consecutive year in J.D. Power's latest study of new-vehicle appeal, while Toyota, Mitsubishi and Volvo had the largest improvements among brands with more than one nameplate.

➤ Porsche will skip Detroit auto show

Porsche plans to focus on auto shows in New York and Los Angeles, its most important U.S. markets for sports cars. Porsche will not exhibit at the 2017 Detroit show. The automaker's display at the Chicago Auto Show will double.



➤ VW diesel emissions settlement gets OK

A federal judge granted preliminary approval for a \$10 billion settlement in which Volkswagen will offer to buy back as many as 475,000 polluting 2.0-liter diesel-powered vehicles. An Oct. 18 hearing for final approval has been set.

on our radar

- **8.1-8.4:** Center for Automotive Research Management Briefing Seminars in Traverse City
- **8.2:** U.S. sales release
- **8.3:** Tesla earnings



➤ A lighter Ferrari platform

Collaboration between Ferrari and Altair Product Design will give the exotic carmaker a 15 percent lighter platform for several new flagship vehicle derivatives. Crash protection will be enhanced, while noise, vibration and harshness will be reduced.



➤ Ford embraces Apple CarPlay, Android Auto

Ford will introduce Apple CarPlay and Android Auto smartphone connectivity on its full lineup of 2017 vehicles, marking the fastest rollout of the technology by an automaker in the U.S.

From Automotive News and Reuters

NISSAN

North America fails to deliver big gains

continued from Page 4

could roll if the Japanese carmaker misses his operating profit margin target.

"Eight percent operating margin is a commitment. This is a clean-houser," Ghosn said at the time, referring to a need to broom staff if the company falls short.

Nissan is getting close — operating margin expanded to 7.2 percent in the latest quarter, from 7.0 percent a year earlier.

But the pace of improvement will make it difficult to deliver Ghosn's goals, the automaker has conceded.

Tagawa said the appreciation of the Japanese yen is slowing Nissan's march to the goal, contained in Ghosn's so-called Power 88 midterm business plan.

"Through the fiscal year, it may be difficult to attain 8 percent," Tagawa said on Wednesday, July 27, while announcing fiscal first-quarter earnings results.

Ghosn announced the Power 88 midterm goals in June 2011.

A worsening foreign exchange

Nissan's 8% quest

Nissan now says it will be difficult to reach CEO Carlos Ghosn's goal of an 8% global operating profit margin by March 31, 2017. Here are some milestones.

- **June 2011:** Ghosn announces his goal; margin is 7.2%
- **June 2015:** Margin is 7.0%
- **June 2016:** Margin reaches 7.2%
- **July 2016:** Company says 8% may not happen this fiscal year.

equation is expected to wreak havoc on Japanese automakers' bottom lines this earnings season.

Nissan's operating profit slid 9.2 percent to ¥175.83 billion, or \$1.71 billion, in the April-June quarter, while net income fell 11 percent to \$1.33 billion. Worldwide revenue decreased 8.4 percent to \$25.84 billion in the quarter, as global sales dipped 0.6 percent to 1.29 million vehicles.

Excluding foreign exchange losses, Nissan would have posted a 3.2 percent increase in revenue and a 38 percent surge in operating profit for the quarter, Tagawa said.

"Our business, per se, is not in a problematic situation," he clarified.

But unfavorable exchange rates lopped \$889.1 million out of Nissan's operating profit. Falling sales volume in Japan, where Nissan suspended sales of minicars supplied by Mitsubishi Motors Corp. due to faulty emissions testing, also hurt performance in the quarter.

Even North America, Nissan's biggest market and traditional cash cow, failed to deliver big gains. Regional operating profit was also hit by swinging foreign exchange rates, especially the yen's appreciation against the Mexican peso and Canadian dollar. The yen surged 11 percent in value against the U.S. dollar in the just-ended fiscal first quarter, compared with a year earlier.

Even as North American vehicle sales climbed 8.9 percent to 529,000 units for the quarter, regional operating profit fell 17 percent to \$774.1 million for the period.

Higher U.S. incentive spending on passenger cars such as the Versa and Altima also hurt. Nissan's lineup is more car-heavy than many competitors, Tagawa said.

Those models require more cash on the hood, Tagawa said. "The sales competition is very fierce." **AN**

SUPPLIERS

Observer sees 3 regions fighting for investment

continued from Page 1

tories in Mexico. But during the same period, suppliers spent more than 13 times that amount, \$44.4 billion, building and expanding auto-parts factories in the U.S.

The financial figures may surprise many this summer, with job losses to Mexico serving as a heated talking point in the U.S. presidential campaign.

According to CAR's analysis, the Southeast U.S. has become a more formidable manufacturing center over the past decade, with an inflow of Tier 1, 2 and 3 suppliers. While not as geographically compact as the industry around Detroit, the Southern U.S. now has a critical mass of Japanese, German, Korean and American high-volume customers to consider.

The CAR study was sponsored by the Southern Automotive Research Alliance, whose members are Alabama, Kentucky, Louisiana, Mississippi, South Carolina and Tennessee. The alliance's goal is to encourage further investment in the Southern states as a region.

Of the three North American nations, Canada has prospered the least over the past decade, attracting only \$580 million in supplier investments.

"They are hurting," CAR researcher Bernard Swiecki says. "Canada has a number of challenging issues."

Among them: Canada's currency tends to fluctuate, which makes some manufacturers nervous. It no longer has a big advantage in health care costs. And its supply base is now farther from the industry's growth corridors of the Southeast U.S. and Mexico.

Anchored

Another point driven home by the CAR research is that supplier capacity is not moving, as the public debate often characterizes it. Rather, it is growing.

There is no question that Mexico, as a production base, is going to boom in the coming years. Nine of the last 11 new North American vehicle-assembly plants have gone to Mexico. And suppliers are investing there to support them.

But CAR's data indicate that, even as Mexico rises, vastly more investment dollars are going into U.S. locations — in the Great Lakes region and the Southeast.

In the post-recession surge of 2010 through June 2016, the auto industry, including automakers, invested \$80.7 billion in U.S. operations, compared with \$25.8 billion in Mexico, according to CAR data.

Of the U.S. industry total, \$15.6 billion went into building or expanding plants in Southern states, while more than three times that much, \$50.0 billion, went into plants in the Great Lakes region.

The Great Lakes region is attracting more investment because it has a higher concentration of factories, CAR CEO Jay Baron says.

Suppliers will invest in additional plants in



Gestamp is making a large investment in its Chattanooga operations, above and above right, where its biggest global customer, Volkswagen, is expanding its vehicle production capacity.



wages to compete for such workers, Bass says. Over the past five years, the plant has hired 500 workers.

Bullish

Another European supplier riding the North American comeback is Spanish metal-stamper Gestamp Automocion.

The company arrived in North America in 2004 when it purchased a just-completed stamping plant from Oxford Automotive in McCalla, Ala. The building was little more than an empty shell at the time, with two presses and seven employees. But it sat just 17 miles from the Mercedes-Benz assembly plant in Vance, a perfect location for a just-in-time supplier.

Gestamp began producing underbody components for the Mercedes M class and R class, and in 2013 it added a \$21 million production line to keep up with Mercedes' own expansion to produce C-class sedans.

Gestamp now employs 660 people and is building a second factory across the street to produce underbody components for the next-generation GLE crossover and GLS SUV.

"We want to be close to our customer," says Jeff Wilson, CEO of Gestamp North America Inc. "We have a very strong relationship with the Mercedes plant."

But Gestamp's biggest global customer is Volkswagen, so the supplier also is making a large investment in Chattanooga, where VW is expanding its vehicle production capacity. Gestamp has added a hot-stamping line there, and two new plants nearby will produce body panels and chassis components.

Gestamp also now has four stamping plants in Mexico, with plans to build two more. To pay for all this, Wilson's capital budget this year jumped to \$350 million from \$250 million last year.

By 2020, Wilson expects to boost his North American sales to \$2.2 billion. In 2015, Gestamp North America had original-equipment auto parts sales of \$1.6 billion, according to *Automotive News'* top suppliers list for the region.

"For the next five years, we feel pretty confident about the market," he says. "We don't see anything in the near future that is going to interrupt our new production." **AN**

Another world

Big gaps remain in the wage rates of auto-assembly workers in North America. Some manufacturers say Mexico's wage advantage is not the chief driver of investment decisions.

AVERAGE HOURLY WAGE	
Canada	\$31.29
U.S.	\$27.83
Mexico	\$ 6.12

Source: Center for Automotive Research

Investment magnet

U.S. vehicle production is projected to slip. Mexico's will grow, attracting more supplier investment.

	VEHICLE OUTPUT	
	2015	2020 (EST.)
U.S.	11.9 million	11.5 million
Mexico	3.5 million	5 million

Source: Center for Automotive Research

the South as foreign automakers expand production there, he predicts. And that could lead to a three-sided competition for investment among the Great Lakes, the South and Mexico.

"I think the next real battleground will be the development of new supply chains," Baron says. "That battle depends on the competitiveness of those three regions."

Shrinking, spending

Typical of the suppliers beckoned back to the market is Germany's ThyssenKrupp AG.

Nearly a decade after shrinking its U.S. operations in 2006, the steel supplier announced plans for \$879 million for North American capital spending through 2020, with a focus on steering systems, axles, suspensions and engine components.

That money helped bankroll the expansion of five plants in Danville, Ill.; Terre

Haute, Ind.; and Hamilton, Ohio. The Terre Haute plant makes steering systems; three factories in Danville produce camshafts and crankshafts, and the Hamilton plant manufactures Bilstein shock absorbers.

ThyssenKrupp also has invested heavily in Mexico, where 10 plants produce steering systems, axles, aluminum blanks, springs and stabilizers.

Low wages were not a big factor in ThyssenKrupp's decision to build in Mexico, says Patrick Bass, CEO of ThyssenKrupp North America Inc.

"It's a misnomer to say we're going to Mexico for the cheap labor," Bass says. "We are capital-intensive, and we are talent-intensive. We are not looking for common laborers."

ThyssenKrupp's factories require technicians who understand statistical process control — the key to efficient production. Local community colleges have provided a steady supply of skilled workers, Bass says.

The Ohio shock absorber plant has raised

GM

Execs are aware of lingering questions

continued from Page 3

whether the company might return to its fat and sassy ways. Will it start making too many vehicles and overload dealership lots? Will it chase market share or segments, overextend itself into too many regions with too many brands? Most importantly, will it be caught unprepared again when the inevitable market downturn hits?

Barra and her team are keenly aware of those lingering questions. It's why they rarely miss a chance to remind analysts of their more disciplined approach, including Barra's final remarks on a conference call last month to discuss GM's blowout second-quarter earnings: "We'll continue to execute our plan with discipline to keep driving profitable growth ... generating strong returns on invested capital."

Net income more than doubled, to \$2.87 billion.

Signs of that approach are showing up on the product-development and sales fronts, too.



De Nysschen: Projects pared



Batey: GM shows discipline.

Take Cadillac. Brand chief Johan de Nysschen in early 2015 started the clock on a \$12 billion investment plan that was to include eight new models by 2020.

But even on that rebuilding pro-

ject — one deemed of paramount importance inside GM because of luxury's potential to pad the bottom line — GM is showing restraint.

At least two projects that de Nysschen has talked about are on hold indefinitely: an entry-level car to take on the Audi A3 and Mercedes CLA; and a big, range-topping, Mercedes S class-fighting sedan, sources have said.

Although the projects were not formally approved, they've been trimmed from the wish list for now, again a response to market conditions, namely slumping sedan demand.

GM's avowed discipline in the U.S. — its focus on retail sales over fleet, tamer incentives and leaner inventories — has tested executives' resolve in recent months amid a slide in overall market share.

In light of the second-quarter profit numbers, GM execs felt vindicated.

"I could quite easily inflate my financial results if I decided to wholesale another 10,000 [Chevy] Sonics," GM North America President Alan Batey told reporters last week. But, he said, "we're going to have discipline." **AN**

DEALERS



50 with Chevrolet

Leonard Northcutt, center, dealer principal of Northcutt Chevrolet-Buick in Enid, Okla., receives a 50-year award for Chevrolet from Mark Gilbert, left, Chevrolet's zone manager for Oklahoma and West Texas. Northcutt is retiring; his son, Scott, right, succeeds him.



40 with Nissan

John Deery, right, of John Deery Motors in Cedar Falls, Iowa, receives a 40-year award for Nissan from Tim Hirst, Nissan North America dealer operations manager.



40 with BMW

Abigail Kampmann, owner of BMW of San Antonio, received a 40-year award from BMW of North America. With her is her father, Jack Guenther, founder of the dealership.



25 with Chrysler

Daniel Feeny, left, president of Feeny Chrysler-Jeep-Dodge-Ram in Elgin, Ill., and **Timothy Feeny**, general manager, received a 25-year award for Chrysler from Fiat Chrysler.

DEALERSHIP BUY/SELL

This Automotive News feature lists recent dealership acquisitions as reported by brokers, official announcements and news media.

Dominguez/Hanigan

BUYER: Steve Dominguez
SELLER: Mike Hanigan
OLD NAME: Hanigan Chevrolet-Buick-GMC, Payette, Idaho
NEW NAME: Steve's Hometown Chevrolet-Buick-GMC
MORE: Performance Brokerage Services was the adviser.

Garff/Nissani

BUYER: Ken Garff Automotive Group
SELLER: Hooman Nissani
OLD NAME: Hooman Toyota-Scion of Long Beach, Long Beach, Calif.
NEW NAME: West Coast Toyota
MORE: Performance Brokerage Services advised the seller.

LaFontaine/Snethkamp

BUYER: Ryan LaFontaine
SELLER: Donna Snethkamp
OLD NAME: Bill Snethkamp's Chrysler-Dodge-Jeep Ram, Lansing, Mich.
NEW NAME: LaFontaine Chrysler-Dodge-Jeep-Ram of Lansing

Larry H. Miller/Moreland

BUYER: Larry H. Miller Dealerships
SELLER: Doug Moreland
OLD NAMES: Cherry Creek Dodge, Fiat of Denver, Denver; Colorado Chrysler-Jeep, Aurora, Colo.
NEW NAMES: Larry H. Miller Dodge-Ram Cherry Creek, Larry H. Miller Fiat of Denver, Larry H. Miller Colorado Chrysler-Jeep

Rydell/Hanks

BUYER: Rydell Group
SELLER: Dennis Hanks
OLD NAME: Dennis Hanks Chevrolet, Ozark, Mo.
NEW NAME: Ozark Chevrolet
MORE: Midwest Brokerage was the adviser.

Sames/Yaklin

BUYER: Sames Auto Group
SELLER: Eddie Yaklin
OLD NAME: Eddie Yaklin Ford-Nissan, Kingsville, Texas
NEW NAME: Sames Ford-Nissan of Kingsville
MORE: Performance Brokerage Services was the adviser.

Smith/Leigh

BUYER: Smith Auto Group
SELLER: Leigh Automotive
NAME: Mercedes-Benz of Tuscaloosa, Tuscaloosa, Ala.
MORE: Alan Haig and Nate Klebach of Haig Partners advised the seller.

Yaklin/Ford

BUYERS: Eddie and Justin Yaklin
SELLER: Bobby Ford
OLD NAME: Bobby Ford, Richwood, Texas
NEW NAME: Yaklin Ford of Lake Jackson
MORE: Performance Brokerage Services was the adviser.

Zender/Campbell, Olson, Semple

BUYER: Zender family
SELLERS: Robin Campbell, Paul Olson, Chris Semple
NAME: Big Rock Chrysler-Dodge-Jeep-Ram, Hinton, Alberta

You may submit information about a dealership acquisition on our website. Here's how.

- Go to autonews.com.
- Near the top of our home page, put your cursor on "DEALERS." A menu will open.
- Put your cursor on "Dealers" on the menu, and another menu will open on the right.
- Click on "Dealership Buy/Sell." A page will open.
- On the upper right, you'll see "Submit your Dealership Buy/Sell information. CLICK HERE." Do that to open a form.
- Fill it out. Click on "Submit."

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- Gary Tillery, Dealer Principal-Tillery Buick GMC and J.D. Byrider franchisee

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Automotive News

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Imagining the auto industry in the car-sharing era

Shiraz Ahmed
sahmed@crain.com

When I graduated from Northwestern University in 2013 my dream was to live and work in a city where I could get anywhere I wanted or needed by bicycle or public transportation.

I ended up in Detroit at *Automotive News* and was all set to confound my new co-workers: an auto journalist dead set against buying a car. After six months, I gave in and signed a lease for a gorgeous ruby red 2013 Honda Civic.

Ah well, I'm still fascinated by the

idea of a future absent of personal car ownership. And so, I've noticed, are the big automakers.

Thus in Episode 1 of Season 1 of our new podcast, "Futurismo" — which debuts today, Aug. 1 — we set out to find people around the country who are living without the burden and convenience of car ownership.

Naturally, they are all 20-somethings living in big urban areas where it's easy to go without a car, right?



Ahmed

Actually, no. We discovered busy people in rural regions and in large sprawling metropolitan areas with precious little public transportation who are doing quite nicely without a vehicle.

We found car fanatics and truck drivers and people of all ages who have gone off the car-ownership grid.

Meet these converts to the cult of car-sharing who are featured in "Futurismo."

Are they trailblazers in the transportation future? Harbingers of a different auto industry?

Let us ponder. **AN**

"Futurismo" Season 1: The Upheaval in Mobility

- **Aug. 1:** Converts to the Cult of Car-Sharing
- **Aug. 8:** The Enablers: A New Breed of Transportation Providers
- **Aug. 15:** Automakers and the Third Age of Mobility
- **Aug. 29:** Car Sharing and the New Auto Finance Ecosystem
- **Sept. 5:** Cynics and Skeptics
- **Sept. 12:** The Ownerless Car

» How Automotive News is exploring the distant vistas of the auto industry with a new podcast

The future? We're in it

The auto industry is a daily grind, right?

It's marketing war rooms where stressed-out sales generals scramble to adjust regional incentives to match the latest move by a competitor.

Or it's zone office staffers pushing dealers to take on inventory, or bean counters busily crunching numbers for the next quarterly report, or engineers sleeping on the factory floor to meet a vehicle launch target.

The car industry is action-oriented, a consumer business with immediate needs. It's all about *today*.

Oh sure, it takes four or five years to develop a new product, which sounds like a long time. But in the auto industry five years is roughly equivalent to the day after tomorrow.

So when do you catch your breath and *really* ponder the future?

When do you engage in the intellectual exercise of considering ... not just what the auto business will look like 10, 15 or 25 years from now ... but what *transportation* will look like?

That's where the real action is. That's where you really need to be smart.

A visionary

In fact, the industry has a tradition of long-range visioning. In 1939, General Motors stunned the crowds at the New York World's Fair with its Futurama exhibit — an epic display of crystal ball-gazing created by legendary industrial designer Norman Bel Geddes.

Shiraz Ahmed, 25, an interactive reporter and producer at *Automotive News*, had never heard of Futurama until joining our staff. But after a bit of reading and looking over old photographs of the exhibit — and then

speaking with Donald Albrecht, curator of Architecture and Design at the Museum of the City of New York — Ahmed had discovered in the industry's past a way to look at its future.

Albrecht's 2013 exhibit on Bel Geddes' life and work painted the designer as a man whose great contribution to society was to envision a future of urban design that quickly became familiar.

Investigating ideas

Ahmed was inspired.

Now he is the young brains behind *Automotive News*' new podcast series "Futurismo."

"At the end of GM's Futurama," Ahmed says, "visitors were given a button to wear proudly as they wandered the fairgrounds. It proclaimed, in big, bold, capital letters: 'I HAVE SEEN THE FUTURE.'"

Our beat at "Futurismo" is the next quarter century of the car business. The assignment is to reveal trends and technology that could revolutionize the way automakers, suppliers and dealers do business.

We're investigating the ideas just now bubbling up, the ones that will determine whether the auto industry of the distant future will even be recognizable to us.

"Futurismo" will also present the youthful men and women we expect to manage the industry 25 years from now, the gifted young minds with uninhibited, intuitive and forceful imaginations that can soar and ferret out secrets of the far-off future.

The first season of "Futurismo" will consist of six episodes.

Season 1, Episode 1 begins with a look at the future of mobility itself. **AN**

Excerpts from
Season 1, Episode 1



Listen at
autonews.com/podcast.

they said it...



Music licensing consultant Drew Bayers, 35, goes without a car — and lives in Los Angeles!

"When you meet someone the first time there's always that element of surprise or astonishment when they find out, A, that I don't have a car, B, that I don't necessarily plan to get one ... and C, that I've made it work for 15 years."



Gregg Zullo, 48, a freight broker in Portland, Ore., comes from a family with "gasoline in the blood."

"It's funny that as a car guy, I don't drive a car. That's a great conundrum. I do own a bike, but the rest of the time I use Car2Go. It seems to work out pretty well. If I were to win the lottery I'd probably get a garage full of great, fun, quirky cars, because I like them so much. But right now, for what I need and what I'm doing, a car-sharing program is perfect."



Brian Schwartz, 24, is a business intelligence analyst at a social media security provider in Baltimore. When his grandfather wanted to get rid of a car, he offered it to Schwartz, who wasn't interested.

"It was going to be a whole thing like I'd have to pay for parking, get insurance. There was this whole list of things that came with this freedom of having a car that I just wasn't willing to take on at this juncture. I've told myself I don't necessarily need a car for 10 years, until I'm either financially at a point where it's a luxury I can afford or I end up moving back to the suburbs. But I'd like to remain carless as long as I could."

FCA

'Stretch goal' may have intensified sales pressure

continued from Page 1

rescue Chrysler five years later, says the goals remain within reach.

"This leadership team believes that the numbers for 2018 are achievable," he said last week in announcing a 25 percent increase in second-quarter net income.

Investors don't seem to share that optimism, driving shares down despite FCA's announcement that it was increasing its profit expectations for 2016 to 5.5 billion euros.

And dealers have to wonder how many potential buyers have been put off by news coverage of the federal investigation, last year's smackdown by safety regulators over the way FCA dragged its heels on 23 recall campaigns, and still more investigations into how the automaker handled the recall of a transmission shifter problem that may have contributed to the high-profile death of actor Anton Yelchin.

"It's a death by a thousand cuts," said Anthony Johndrow, CEO of Reputation Economy Advisors, a reputation management firm. "A few more of these headlines, and consumers are going to start wondering: What else are they screwing up?"

Busy weekends

FCA's regulatory troubles have grown so intense that on July 20, Marchionne handed one of his most trusted lieutenants, Mark Chernoby, a newly created title: chief technical compliance officer.

That makes Chernoby one of the few top executives at FCA with just one job title, giving him a clear mandate to focus on global regulatory issues.

Elsewhere, insiders say, the company culture gives top execs too many job responsibilities, tying them up in status meetings with less time to do their jobs. The pressure to perform gobbles up managers' time, with many meetings scheduled for weekends as if Saturdays and Sundays were just other workdays.

"I do admire the dedication that employees have demonstrated; I think they want to be part of a success story," said Rebecca Lindland, senior analyst at Kelley Blue Book, who has consulted for FCA and sat through some Saturday meetings. "But I do think they have suffered from really being stretched to the breaking point. I think that's why we're seeing some of these issues."

FCA has been wrangling with safety regulators in the U.S. since June 2013, when it initially declined a National Highway Traffic Safety Administration request to recall older-model Jeeps over

FCA's regulatory hits

■ **June 2013:** FCA declines National Highway Traffic Safety Administration request to recall 2.7 million older-model Jeeps that the agency said were susceptible to fire because of their rear-mounted fuel tanks.

Ultimately, FCA and NHTSA agreed to a "safety campaign" to install trailer hitch assemblies on up to 1.56 million of the vehicles.

Price tag: \$151 million

■ **July 2015:** FCA signs sweeping consent decree with NHTSA over its past handling of recalls; agrees to 3rd-party monitoring of its recall process and to buy back up to 200,000 heavy-duty pickups, along with fines and education efforts.

Price tag: Up to \$105 million

■ **July 2016:** FCA's 9 regional business centers, its U.S. headquarters and employees' homes visited by Securities and Exchange Commission and U.S. Department of Justice investigators looking at its sales reporting practices.

Price tag: Unknown

a potential fire risk. Last year, NHTSA brought FCA to heel over its handling of a broader set of recalls, imposing a three-year consent agreement that included up to \$105 million in civil penalties and mandatory actions that required sweeping changes to FCA's recall processes.

Later in 2015, the company booked a \$667 million charge to its global reserves to reflect the "current regulatory and recall environment."

"I do admire the dedication that employees have demonstrated; I think they want to be part of a success story."

Rebecca Lindland
Kelley Blue Book

Marchionne said last week during FCA's earnings call that the company is finally getting a handle on recalls. "We have devoted significant resources, both in manpower and skills, to this task," he said.

Yet FCA's recall woes continue. In June, it issued a software fix affecting more than 811,000 Jeep Grand Cherokees, Dodge Chargers

and Chrysler 300s with a shifter design issue that may have contributed to the June 19 death of Yelchin, who appeared in the most recent *Star Trek* movies.

'Moons have to align'

When Marchionne laid out his five-year plan in 2014, analysts were skeptical the company could hit his goal of 7 million global sales. FCA has seen tremendous growth in the U.S. and China, but sales in other global

A primer on FCA's sales restatement

■ What happened?

On Tuesday, July 26, Fiat Chrysler restated its monthly sales figures for the past 5 years and in the process said its 75-month streak of U.S. sales increases actually ended in September 2013 after 41 months.

■ What sparked this?

FCA said it was responding to media reports of a federal investigation into the way it reports monthly sales. The Securities and Exchange Commission and Department of Justice are investigating FCA and have convened a federal grand jury to look into the sales-reporting issue. FCA said it wanted to straighten things out and stressed that although the process may seem sloppy and inaccurate, it was not trying to defraud anyone or inflate sales. In fact, over the past 5 years, FCA sold 18,996 more vehicles than it reported. But it acknowledged that according to its restated figures, its streak of consecutive sales increases ended nearly 3 years ago.

■ Does this affect revenue?

No. For the most part, FCA books revenue when vehicles are shipped to a dealer or fleet customer. So it doesn't matter when the dealer sells that car. But the monthly sales growth streaks could still matter to investors, who look at sales patterns as a measure of a company's financial health.

■ What caused the confusion?

Two things. First, some dealers reported sales that were later "unwound," meaning the vehicles weren't actually sold. FCA's previous sales reporting method didn't fully account for these unwound transactions. Second, the carmaker had what it called a "reserve" of vehicles destined for fleet customers that had left the factory but weren't booked as sales until the company decided — for reasons it said were "subjective" — to add them to its sales figures.

■ What's changing?

FCA says that dealers will now have to subtract unwound sales from their monthly reports. And fleet sales will be booked as soon as the vehicles are shipped to customers.

Counting changes

FCA's revised tallies show U.S. sales actually have been underreported over the past 5 years, even though some previously reported monthly advances are now in the books as declines.

	NEW METHOD	OLD METHOD	DIFFERENCE
2011	1,376,582	1,369,114	+7,468
2012	1,642,796	1,651,787	-8,991
2013	1,799,637	1,800,368	-731
2014	2,105,605	2,090,639	+14,966
2015	2,257,641	2,243,907	+13,734
2016*	1,144,809	1,152,259	-7,450
TOTAL	10,327,070	10,308,074	+18,996

*Through June Source: Fiat Chrysler



markets have been mixed. Last year's global sales were 4.6 million, or about two-thirds of the way to the target.

"It was a stretch goal for sure," Lindland said, but not an irrational one. FCA has the breadth and depth of product to meet consumer demand in a variety of marketplaces, she said. "But it also means everything has to go really well. All the moons have to align, and the markets have to align, and that just hasn't happened for them."

That has only intensified sales pressure, with some dealers saying they've been asked to do extraordinary things to hit sales targets. Dealerships owned by Napleton Automotive Group filed a civil racketeering case against FCA this year in U.S. District Court in Chicago, alleging in part that FCA pressured them to contort sales figures.

FCA called the allegations "baseless" and a "smear campaign" brought by struggling dealerships.

FCA confirmed July 18 that its sales reporting process was under investigation by the Securities and Exchange Commission and the Department of Justice. Federal investigators visited all nine of FCA's regional business centers on July 11 and spoke with current and former employees as part of their investigation, an FCA source told *Automotive News*. That investigation was sparked by the

Napleton lawsuit, according to Bloomberg.

For dealers, monthly sales pressure comes in the form of FCA's Volume Growth Program, a stair-step incentive plan that pays dealerships lucrative rewards for meeting aggressive targets. Don Lee, president of Lee Auto Malls, which operates two Chrysler-Dodge-Jeep-Ram stores in Maine, said the VGP target number is "always a struggle."

"We start each month always saying, 'Is this number going to be an easy hit?' And the answer is always no," Lee said. "We push every single day, and rarely do we hit the number prior to the last day of the month. We manage to hit it more than we don't, but that's the nature of the goal."

'Bear with us'

As FCA approaches the final two years of its five-year business plan, Marchionne has taken the company into uncharted territory in an effort to increase its profit margins. The company will end passenger car production in the U.S. by early 2017 to free up capacity to build even more high-margin Jeep SUVs and Ram pickups.

Marchionne told analysts last week that, once that plan is completed, FCA's North American profit margin — which was 7.9 percent during the second quarter of 2016 — could rival General Motors' 12.1 percent. And he said the rest of the company's aggressive goals for 2018, which aim for 9 billion euros in operating profit and zero industrial debt, remain "achievable."

Indeed, Marchionne said he's grown more comfortable with those aspects of the plan since 2014.

"So just bear with us as we work our way through the details," Marchionne told analysts. "But I think we'll give you a better view at the beginning of 2017 as we launch into the second-last year of this plan and see whether we can bring it home." **AN**



Dodge Charger: Needed software fix over shifter

LEXUS

At Omaha dealership, less stress for employees

continued from Page 4

couraged by the response they have gotten so far from the 11 dealerships involved in the Lexus Plus pilot program.

"We're seeing some good sales results," said Matt Kaleba, national manager for future retailing and incentives for Lexus. "We're seeing some outstanding customer satisfaction results. So all of the things we're hoping to see, we're starting to see early on."

Two big takeaways, says Robert Mueeting, Lexus of Omaha's general manager: Buyers love having a single salesperson to work with — even more than no-haggle pricing — and dealership employees enjoy a sales process that is less stressful.

"We were always the person behind the curtain," Mueeting said. "We were the bad guys."

'Everybody's serving Starbucks'

A second wave of Lexus Plus opportunities is likely coming soon, Kaleba said in an interview. Dealers are showing interest in signing up for Lexus' extensive Plus training, which helps dealers set their price matrix for new and used vehicles and devise their own compensation plan.

"We believe in this model, but we also be-

lieve that it's got to be right for the dealer," Kaleba said. "The dealer has to believe it's right for them. Otherwise, it's probably going to be a challenge at best."

One true believer is Mickey Anderson, president of the Baxter Auto group, which has 22 dealerships with luxury and non-luxury brands, including Lexus of Omaha and another Lexus store in Nebraska that's also part of the Plus beta program.

Anderson said he already had been thinking about how to build on the service and amenities that luxury buyers had grown accustomed to. Lexus Plus, launched in May, was the answer. But first he had to sell it to his team.

"Here's the speech I give to my employees," he said in an interview at Lexus of Omaha. "Everybody's serving Starbucks coffee and everybody's got free loaner cars, and even Cadillac will wash your car when you come in for service. And so how are we going to break from the pack and truly deliver a better experience? What would it look like if we gave the customers exactly what they wanted?"

And what they want, he said, is to be able to trust the deal being offered by salespeople and get through the process in a couple hours. As long as dealers don't change the process, "customers just have to keep experiencing the same bad experience over and over and over again."

For Lexus of Omaha, changing the process meant a reorganization of the dealership

and a steep learning curve. After all, Lexus Plus means a single point person for customers and "upfront pricing" for new cars, used cars, service and everything else that's for sale. Amid robust debate over the implementation, members of the staff had to pore over a huge training manual that Anderson compares with the proverbial Manhattan phone book.

No more back-and-forth

"One of the processes that was really important is to get rid of all of the processes," he said. That gives the control back to the buyer who doesn't want to spend all day in a car dealership jumping through hoops.

The early results at Omaha of Lexus are positive given the radical overhaul going on inside its gleaming, two-story structure, salespeople and executives said. Sales are steady, average transaction prices are comparable, not a single salesperson has left, and few sales have been lost from buyers who insist on negotiating.

And Anderson said he is very strict about the implementation. That's because buyers have been trained over decades to wheel and deal for extras in the hope of getting a fair price in the end. For customers to trust the no-haggle price promise, he said, that kind of back-and-forth needs to be eliminated.

"If we gave one set of floor mats to one guy," he said, "I think it wipes the whole thing out." **AN**



Dealer Mickey Anderson: Customers want to be able to trust the deal a salesperson offers.

DEFEAT

Sentence provided a legal loophole

continued from Page 3

pliance forecasting, says the U.S. is less affected because it requires manufacturers to submit a list of such devices.

"It provides the regulator with an opportunity to agree or disagree with the OEM in his interpretation of the definition of an [auxiliary emissions control device] and if it is a defeat device or not," he said. "It's a clear requirement."

In Opel's case, Germany's most influential news weekly, *Der Spiegel*, ran a cover story accusing the GM unit of using software that instructed its Zafira multipurpose vehicle's diesel engine not to clean nitrogen oxides around 80 percent of the time.

The exhaust gas after-treatment system was set to switch off at specific altitudes, vehicle speeds or weather conditions — circumstances that seemed to fall just outside the test parameters used in the EU's driving cycle.

Opel denied it had done anything illegal, but did not dispute many of the findings. Instead it dismissed them as "misleading oversimplifications and misinterpretations of the complicated interrelationships of a modern emissions control system."

Ambient temperatures, air pressure and engine load are just some of the 17,000-plus variables taken into consideration by its software, Opel said. As such, fishing out a few elements in isolation of one another presented a distorted picture.

"Such a complex system cannot be broken down into individual parameters," it argued.

Whereas switching off at 2,789 feet above sea level may seem connected to the fact that the highest testing ground in Europe is found at 2,165 feet, Opel said this in reality was designed to prevent excessive

sooting as oxygen levels in the air decrease the farther up a car travels. Other reasons were to stop ammonia from seeping out into the air, which occurs when too much urea is injected into the after-treatment system.

Industry executives appear increasingly sensitive when it comes to this hot-button topic. Either they risk coming across as if they are concealing information from the public or they end up sounding like they want to cow critics into submission by bombarding them with technical details, such as citing 17,000 parameters.

A 'minefield'

When approached by *Automotive News*, the CEO of a German services provider that specializes in engine testing, emissions and development said talking on the record amid such a charged atmosphere was the political equivalent of voluntarily walking straight into a "minefield."

"What bothers me is the mutual finger-pointing [between politicians and manufacturers]. We are all sitting in the same boat," he grumbled, adding that both sides bore their fair share of guilt for the EU law at the root of the problem.

Roughly nine years ago, a bill was passed in Brussels detailing the process to receive approvals for light vehicles. It banned the use of defeat devices, which it defined as any emissions control sensor that reduces the effectiveness of the system "under conditions which may reasonably be expected to be encountered in normal vehicle operation and use."

But lawmakers added a seemingly innocuous qualification, over which the industry and politicians now blame each other for the image crisis: "The prohibition shall not apply where the need for the device is justified in terms of protecting the engine against damage or accident and for safe operation of the vehicle."

This sentence opened a legally

sanctioned back door for defeat devices in almost any situation because safety is traditionally considered paramount. In Volkswagen's domestic market of Germany, independent testing officials complained they were even barred from inspecting the engine management software because this was classified a trade secret.

IHS' Fulbrook notes that the EU does not require automakers to declare what devices they use to switch off or minimize emissions controls, "certainly not as clear as the U.S." That allows an automaker "to use his interpretation with very little regulatory oversight," he said.

"What bothers me is the mutual finger-pointing [between politicians and manufacturers]. We are all sitting in the same boat."

CEO of a German services provider

Automakers such as Renault, Suzuki and Hyundai have defended use of defeat devices as necessary to prevent engine damage at certain temperatures, a German investigative committee reported.

As a result of the broad use of defeat devices, the gap between actual and EU laboratory emissions widened continuously over time. Even as the maximum permissible limits for nitrogen oxides sank with new legislation, cars continued to belch out NOx in much higher concentrations in the real world.

Once hooked up to portable emissions measurement systems, Europe's most advanced diesels were pumping out more than seven times their legal limit on average as soon as they left a laboratory vs. just more than three times the limit in 2005.

And that's not just Volkswagen. In fact, only the best performer met

the legal limit on the road, while the worst found by the International Council on Clean Transportation had 24 or 25 times that level.

Carmakers' assurances

Vicente Franco, a senior researcher with the council, says carmakers prefer using less-effective lean NOx traps, or LNTs, because they are cheaper than urea-based selective catalytic reduction and don't pose the added problem of fitting a urea tank somewhere in the car. But the lean NOx traps result in a parasitic loss of fuel that carmakers felt customers would not accept.

"There's a 3-4 percent consumption penalty that you have to pay if an LNT is fully operational, so there is an incentive to cut corners or change the calibrations," Franco said. "These systems are fully operational during the homologation test in the laboratory, but then on the road it can be a substantially different picture."

Regulators chose to take the assurances of Europe's carmakers at face value when it came to justifications for using defeat devices for engine protection.

"Other governments, member states, as well as members of parliament were never interested in the subject, because it was so technical. Nobody was excited about the details," said Erik Jonnaert, a Harvard-trained lawyer based in Brussels. "If you look into the regulations, people digging into the legislation itself, they all come back saying it's utterly complex."

Jonnaert, a Belgian national, is paid to know his way around European automotive legislation like no other. As secretary general of industry association ACEA, he is the chief lobbyist for Europe's carmakers in Brussels and has witnessed the industry's loss of trust and credibility with regulators.

Amid the constant recriminations in the industry, Germany's auto industry hopes new legislation in Europe known as RDE — for real dri-

ving emissions — will end the controversy.

"We do believe that it will be very helpful to have clear regulation which eliminates these areas of gray where interpretations and perspectives of what is legitimate, what is the real intention of the law and what is written in the law," said Daimler CEO Dieter Zetsche in his capacity as president of the ACEA.

Under RDE, nitrogen emissions for new models will soon be tested in a real-world environment for the first time as part of the approval process.

"Real driving emissions is actually a blessing for the industry," said Matthias Hofstetter, a senior powertrain engineer at Porsche, who believes the regulation can restore carmakers' lost credibility.

Any potential temptation on the part of a carmaker to minimize or switch the after-treatment system off on the road after 6.8 miles or at ambient temperatures outside the 68-86 degrees Fahrenheit range — both parameters specified under Europe's outgoing test cycle — would endanger certification.

This most likely will lead other companies to follow France's PSA Group and introduce the more expensive selective catalytic reduction technology across their diesel fleet, possibly in addition to lean NOx traps, despite added costs estimated at around \$400 per car. Opel has pledged to use selective catalytic reduction on all future compression-ignition engines as of June 2018.

For its part, GM's European unit claims it wants to come clean, and avoid in the future the need to deny as "grossly misleading" allegations that its after-treatment systems were programmed to remain off 80 percent of the time.

"We already suggested at the end of last year that all manufacturers in Europe should disclose their calibration philosophy to the authorities," Opel said in its denial, "and we are working to do so as part of all our future type approvals." **AN**

Customer Incentives

Incentives in this table are a summary of retail programs offered. Programs may vary by region and model.

Cash rebate Finance rate

BMW GROUP

Expires Aug. 31.

2017 models

BMW 640, 640 Gran Coupe,		
650, 650 Gran Coupe,		
740, ALPINA B6		
Gran Coupe, M6,		
M6 Gran Coupe,		
X3, X4	0.9-9.9%	
i8	0.9-7.9%	
Mini Cooper*	0.9-9.9%	

2016 models

BMW i3, i8	0.9-7.9%	
228, 320, 328, 328 Gran Turismo,		
328d, 335 Gran Turismo,		
330e, 340, 428, 428 Gran Coupe,		
435, 435 Gran Coupe, 528, 535, 535 Gran Turismo,		
535d, 550, 550 Gran Turismo,		
640, 640 Gran Coupe, 650, 650 Gran Coupe,		
740, 750, ActiveHybrid 5, ALPINA B6 Gran Coupe,		
M2, M3, M4, M5, M6, M6 Gran Coupe,		
M235, X1, X3, X4, X5, X5 eDrive,		
X5 M, X6, X6 M, Z4	0.9-9.9%	
Mini Countryman	0-8.9%	
Cooper*	0-9.9%	

FORD MOTOR CO.

Expires Sept. 6. In lieu of rebates, cut-rate financing is available.

2017 models

Lincoln MKZ (Incl. Hybrid),		
MKC	\$500	0-7.9%
Navigator L, Navigator	\$1,000	0.9-8.9%
Continental		0-7.9%

2016 models

Lincoln MKZ (Incl. Hybrid)	\$1,000-\$2,500	0-5.9%
MKT	\$1,000-\$1,500	0-5.9%
MKC	\$1,000-\$1,250	0-5.9%
Navigator, Navigator L,		
MKX	\$1,000	0-5.9%
MKS	\$1,000	0-8.9%

AMERICAN HONDA MOTOR CO.

Expires Sept. 6.

2017 models

Acura ILX, MDX, RDX	1.9-2.9%
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2016 models

Acura ILX, MDX, RLX, TLX	1.9-2.9%
Honda Accord, CR-V, Odyssey	0.9-4.9%

HYUNDAI-KIA

Expires Sept. 6. In lieu of rebates, cut-rate financing is available.

2017 models

Kia Forte, Sorento	\$500-\$1,000	0.9-9.3%
Sportage		0.9-9.3%

2016 models

Kia Cadenza, Forte, Forte Koup, Optima,		
Optima Hybrid, Rio,		
Sedona, Soul,		
Sorento, Sportage	\$1,000-\$2,500	0-9.9%
Soul EV		0-9.9%
K900		0.9-9.3%

TOYOTA MOTOR SALES

Expires Sept. 6.

2016 models

Lexus GS 200t,		
LS 460	\$2,500-\$5,000	0.9%
ES 300h, ES 350,		
GS F, GS 350,		
IS 200t, IS 300,		
IS 350, RC F	\$1,000-\$5,000	0.9%
CT 200h	\$1,000-\$3,500	0-0.9%
RC 200t, RC 300,		
RC 350	\$500-\$2,500	0.9%
NX 200t, NX 300h	\$500	1.9-2.9%
RX 350, RX 450h		1.9-2.9%

*Applies to select models only



FORD
One big surprise was the Brexit vote

continued from Page 1
cline in second-quarter net income, which fell short of Wall Street estimates. "We're seeing more pressure throughout the business for the remainder of this year, so as a result, we're calling for the second half of this year, and particularly the third quarter, to be much weaker than normal."

The comments were a significant departure from Ford's confidence in April, when the company posted its highest quarterly pretax profit ever. "Essentially everything has improved," CFO Bob Shanks said April 28. "We're reconfirming all of our guidance to be as good as if not better than the record year that we had in 2015."



Shanks: CFO upbeat in April

Among the biggest surprises since April was the Brexit vote June 23, in which the United Kingdom elected to leave the European Union. Ford said it now sees a weaker U.K. market costing the company \$200 million this year and as much as \$500 million in each of the following two years.

Higher incentives

Ford said it also has been caught off guard by U.S. incentives rising faster than anticipated. Higher North American incentive spending cost Ford \$2.2 billion more in the first half than in the same period a year ago.

Much of that was linked to the F-150, which came with little in the way of discounts during the model changeover in early 2015. But Fields said Ford has spent more than intended as automakers fight harder for market share amid slowing sales.

Last week, Ford reduced its full-year U.S. sales outlook for the industry to between 17.4 million and 17.9 million vehicles, including medium and heavy trucks. That would equate to about 17 million to 17.5 million light vehicles, which still would rank among the industry's four best years. Its previous forecast was 17.5 million to 18.5 million, whereas industry sales last year including medium and heavy trucks were 17.8 million.

So far this year, Ford Motor's light-vehicle sales have outpaced the U.S. market. The automaker sold 1,345,170 vehicles in the first six months, up 4.4 percent. That compares with an overall market increase of 1.4 percent, lifting Ford's share from 15.1 percent last year to 15.6 percent.

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F-series sales surged in June despite Chevy ads targeting the F-150.

Ford results

	Q2 2016	CHANGE FROM Q2 2015
Net income	\$1.97 billion	-9%
North America pretax profit	\$2.7 billion	-5%
Europe pretax profit	\$467 million	190%
Ford Credit pretax profit	\$400 million	-21%
Revenue	\$39.5 billion	6%
Cash flow	\$4.2 billion	1.21%

Source: Ford



U.S. sales of its top-selling vehicle, the hugely profitable F series, were up 11 percent in the first half, including a 29 percent surge in June amid an aggressive Chevrolet ad campaign showing the bed of Ford's aluminum-bodied F-150 pickup being gashed by a toolbox and a load of landscaping blocks.

"The competitive environment has increased as growth has slowed," Fields said. "The bottom line is that we've seen a tougher pricing environment this [second] quarter, and we will face one going forward."

Ford's warning contrasts with more-optimistic guidance from other automakers and suppliers recently. On July 21, General Motors raised its full-year earnings-per-share outlook, and on Wednesday, July 27, Fiat Chrysler upped its projections for revenue and earnings. A day later, supplier Lear Corp. said it would exceed its previous forecast for earnings and free cash flow.

'A lot of obstacles'

Shares of Ford, which had risen 10 percent in July, lost most of that gain Thursday, July 28, after the executives' warnings played into pessimism on Wall Street about the Detroit 3's potential for growth, even after GM's second-quarter net income more than doubled.

"They've just got a lot of obstacles in front of them all at the same time," said David Whiston, an analyst with Morningstar. "It's not like we're on the verge of a recession, but the market wants to see growth, and they're not seeing it. There was already a lot of negative market sentiment around auto stocks, so Ford's news just gives more fuel to the fire."

AutoNation Inc. CEO Mike Jackson criticized Ford during an earnings call on Friday, July 29, for unreasonable stair-step incentive targets, saying the retailer's Ford stores had been given targets to increase sales in the third quarter by up to 40 percent. "Well, that's just not going to happen," Jackson said. "It's totally unrealistic, and we're not going to chase it. It is disruptive in the marketplace, and it causes irrational behavior, and there's a price tag for that."

Jackson allowed that the situation could improve in three months if Ford's third-quarter targets clear inventory gluts while production is being cut. But the approach is still "not the best way to get there," he said. Jackson added that the industry is at a "crucial point" with three major automakers — Ford, Nissan and Fiat Chrysler — operating massive stair-step programs.

Jonas, the Morgan Stanley analyst, said Ford's about-face shows that some of the plans put into place under former CEO Alan Mulally are backfiring as the market shifts away from the small cars that were widely seen as the industry's future only a few years ago.

"Ford's prior leadership had made very large product and engineering bets on fuel efficiency across many areas including segments, weight reduction and engine downsizing," Jonas wrote. "While such initiatives are an important part of the long-term strategic planning of any global auto firm, Ford appeared to pursue such efforts with a greater level of zeal. These efforts proved successful in terms of share and profit in a \$100 [per barrel] oil environment but maybe present a pricing and market share challenge in the current environment given changing consumer preferences, however short term."

Fields said Ford has begun "an aggressive companywide attack plan on costs" to improve profits despite growing headwinds. Among the steps Ford will take are manufacturing cuts and improved "go-to-market plans" in the U.S. and China to generate more revenue, though the company would not say whether job cuts are possible. Ford already had scheduled five weeks of downtime in the second half of 2016 at the Michigan Assembly Plant in suburban Detroit, which builds the Focus and C-Max small cars.

"We're going to have to deliver stronger actions on cost," Fields said. "We're going to have to go back and find every dollar of revenue that we can get." AN

Amy Wilson contributed to this report.

Plant overtime

Week ending Aug. 6

FCA NA	
Brampton, Ontario	car
Toledo (Ohio) North	truck
Toledo (Ohio) Supplier Park	truck
Warren, Mich.	truck

Ford Motor Co.	
Chicago	car/truck
Dearborn, Mich.	truck
Kansas City Truck (Mo.)	truck
Kentucky Truck (Louisville)	truck
Louisville (Ky.) Assembly	truck

General Motors	
Arlington, Texas	truck
Bowling Green, Ky.	car
Ingersoll, Ontario (CAMI)	truck
Lansing (Mich.) Delta Township	truck
Wentzville, Mo.	truck

Hyundai Montgomery, Ala.	car
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Kia West Point, Ga.	car/truck
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Volkswagen Chattanooga	car
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Note: Overtime could be daily, Saturday or both.

Plant downtime

Resumes

FCA NA	
Windsor, Ontario	Aug. 8

Ford Motor Co.	
Cuautitlan, Mexico	Aug. 8
Detroit Chassis	Aug. 8
Hermosillo, Mexico	Aug. 8

Source: Automotive News Data Center

PUBLICS
Pay from factories offsets some losses

continued from Page 8
retailed. But he noted that the recall is still expanding. Jackson said he expects the peak of the disruption to be in the second half of this year, with improvement before year end.

"I think we'll still be talking about Takata in 2017 as an issue, but it's hard to judge," Jackson said. "It really depends on how the suppliers ramp up production of replacement units."

Some of the financial hit is being offset by compensation paid "by certain manufacturers," Jackson said. He expects that compensation to be more than \$3 million, and to cover about 60 percent of the used inventory AutoNation has on hold.

Added Group 1's DeLongchamps: "The manufacturers are being relatively generous with depreciation and making sure the dealers aren't taking too big of a hit."

That financial assistance makes the stop-sale a "nonevent" for Lithia Motors Inc., said CEO Bryan DeBoer. About 1,100 of Lithia's new and used vehicles, or 2 percent, are under a stop-sale order.

"It's an opportunity," DeBoer said. "The manufacturers are paying us to keep the car and they're high-demand vehicles. It's going to fix itself."

Under Lithia's decentralized structure, each of its 139 stores' general managers decide how to handle it.

DeBoer said some of Lithia's general managers are "buying cars; we have guys deciding to wholesale them, but most are sitting on them." AN

Arlena Sawyers, Jack Walsworth and Amy Wilson contributed to this report.

final assembly

▶ **Traverse City:** Go to autonews.com this week for coverage of the CAR Management Briefing Seminars.

Under the hood of Acura's NSX racer: An asterisk

Win on Sunday, sell a significantly different version on Monday. That's the old adage about the value of auto racing, at least according to **Acura**. Last week, Honda's luxe division was getting ready to enter a race-prepped GT3 version of its recent NSX supercar in the practice sessions of the Pirelli World Challenge at the Mid-Ohio course in Lexington, Ohio.

The entry previewed Acura's plans to get the NSX GT3 homologated for full FIA

competition in North America for 2017. And it added Acura to the long list of automakers that have sought to prove their sports cars' mettle in track-based competition in an effort to juice sales and gather data.

There's also the marketing opportunity Acura will have in showing its car up against the likes of established supercar marques like McLaren, Ferrari and Porsche.

But there's something askew about Acura's effort: The automaker wants to burnish the cred of the current NSX, an all-wheel-drive



Acura NSX GT3: Acura seeks to burnish the cred of the NSX, but it had to change the car.

hybrid supercar. And how is it doing that? With a rear-wheel-drive, nonhybrid racer. That is, in making the NSX raceworthy, Acura is stripping the NSX-ness out of it, including the hybrid SH-AWD system the automaker is so keen to promote as a link to other models in its lineup.

"We would like nothing more than to be able to race it with SH-AWD intact," Sage

Marie, Acura spokesman, told *Automotive News*. "We view it as a performance advantage, and unfortunately, the rules of the GT3 category don't allow for it."

Sure, it's likely the brand will make a street-legal version of the NSX GT3. (Type R, anyone?) But right now, the GT3 is a rare case of a racing effort doing just as much to remind people what the brand isn't as what it is.

Bugatti's showrooms are missing something

Imagine an entire global network of dealerships without a single vehicle in them. This isn't a new, digitally inspired direct-sales innovation but the reality of selling cars costing a shade under \$3 million apiece.

When Volkswagen's prestige **Bugatti** brand started selling the 1,001-hp Veyron supercar in 2005, dealers were allowed to add the brand to an existing showroom alongside other luxury marques.

Now, Bugatti is rolling out the 1,500-hp Chiron, the Veyron's successor, and it is demanding all 32 of its dealers (12 in the U.S.) build separate showrooms just for the single model. Currently, about half have the separate showrooms.

"Our goal is to have 100 percent stand-alone dealers when the cars are delivered in autumn," Stefan Brungs, head of sales and marketing for the brand, told *Automotive News* at the opening of a stand-alone showroom in central London, separated out from a Bentley dealership.



Lucky London: This stand-alone Bugatti showroom had a Chiron on hand, but most won't.

Except the dealerships won't have cars in them.

"We do not have demonstrators," Brungs said. "If we had 32 demonstrators, that would be quite a lot [of money]," he said. Instead, each continent has just two test cars that Bugatti will bring to the interested customer.

The dealers might be car-free, but Bugatti is very specific about the ambience of what it still calls "showrooms."

"We expect a showroom designed according to our standards, and a dedicated salesperson that is 100 percent Bugatti and goes through all the training," Brungs said.

In the London showroom, the design includes carbon-fiber and leather armchairs from the upscale Bugatti Home Collection.

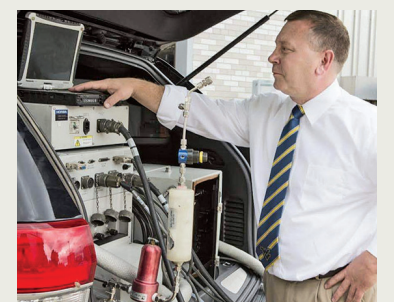
Bugatti said it has received 200 orders for the 500 Chirons it plans to build over the next seven to eight years.

Minority stores: Who leads? Who lags?

Here are the top 5 and bottom 5 brands in terms of minority-owned dealerships as a percentage of their dealership base.

	% OF ROOFTOPS OWNED BY MINORITIES
Top 5	
Fiat/Alfa Romeo	14%
Lexus	9.7%
Infiniti	9.7%
Hyundai	9.2%
Jaguar	8.2%
Bottom 5	
Mitsubishi	5%
Subaru	5%
Ford	4.9%
Acura	3.6%
Mazda	3.3%

Source: NAMAD 2015 Minority Dealership Statistics Report



UAW leadership faces another anxious autumn

Less than a year after a contentious contract ratification process with the Detroit 3, UAW President Dennis Williams faces another potential headache: Donald Trump, whose direct appeal to blue-collar workers threatens to drive a new wedge between the union's leadership and some of its rank-and-file members.



COMMENT

Polls show Trump has successfully tapped into the disaffection among manufacturing workers over globalization and free-trade deals such as the North American Free Trade Agreement and the proposed Trans-Pacific Partnership.

Many blue-collar voters feel as though Washington — and even the UAW — has left them behind over the last few decades as jobs moved out of the country and wages stagnated.

Trump has largely avoided specifics about how he would craft better trade deals or restore manufacturing jobs. But that doesn't

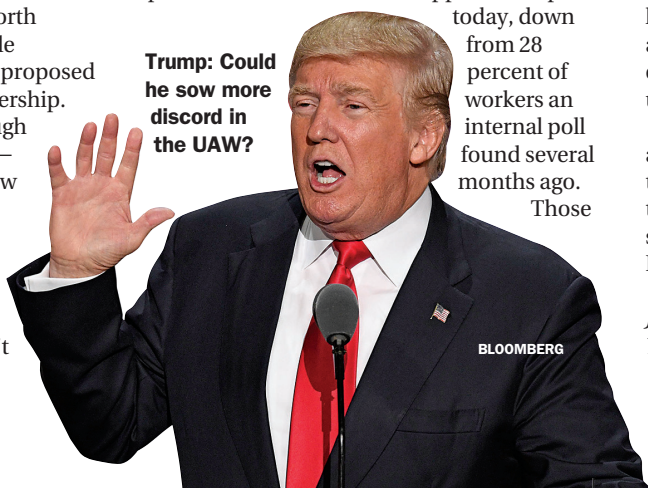
seem to matter to some blue-collar voters. When presented with a choice between Trump and Hillary Clinton — who championed TPP before backtracking and whose husband signed NAFTA into law — many of these workers are giving Trump the benefit of the doubt.

Williams, speaking in Philadelphia last week, said the UAW would do everything it could to rally support for Clinton. To help his case, Williams said, Clinton "made every indication" during a sit-down with her that she would renegotiate NAFTA as president.

"The more we educate our members, the more they will support Hillary Clinton," he said.

Williams said he estimates that 18 to 19 percent of UAW members support Trump today, down from 28 percent of workers an internal poll found several months ago.

Trump: Could he sow more discord in the UAW?



Clinton: Willing to renegotiate NAFTA?

Williams: Rallying support for Clinton.

numbers, if accurate, suggest that the UAW leadership is communicating with its members more effectively than last year, when Williams admitted the union was caught off guard by an anti-ratification campaign on social media that led to embarrassing setbacks in contract votes at General Motors and Fiat Chrysler and exposed a disconnect between the priorities of union leadership and a large share of workers.

At the same time, the UAW leadership can't afford to get complacent on messaging. Even that 18 percent, if it holds, could be enough to tip the scale to Trump in key battleground states and lock the union out of the White House for four or eight years.

John Irwin covers labor for *Automotive News*. You may email him at jirwin@crain.com.

the final say ...

"I still have sleepless nights trying to figure out how I'm going to pay the guys the next pay cycle."

Dan Carder, director of West Virginia University's Center for Alternative Fuels Engines and Emissions, which helped unearth the Volkswagen diesel emissions scandal.

Last week, a federal court approved a nearly \$15 billion settlement for Volkswagen to settle claims by consumers and state and federal regulators, but the VWU lab continues to struggle with funding shortages, *The New York Times* reports. Carder hopes to capture a slice of the \$4.7 billion in the settlement allotted for research into clean transportation and projects, the report said, or land contracts to check VW's fixes.



Kevin Spivey – CSG Director of Sales, Ally
Ashton Thurneyssen – Regional Operations Manager, SolarCity
Rob Garland – CSG Director of Sales, Ally

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