

# The Big Picture for Pontiac

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PONTIAC OVERVIEW — Pontiac is trying to recapture past glory. That will be difficult. Up and down through the '90s, Pontiac has been selling only about 5 cars recently for every 10 it sold back in 1986.

<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
841,000	659,000	715,000	638,000	627,000
<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
513,000	550,000	573,000	621,000	599,000
<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
551,000	609,000	537,000	616,400	613,600

Pontiac sales in this decade: 533,403 in 2001, 516,832 in 2002, 475,615 in 2003, 476,397 in 2004, 437,806 in 2005 and 410,229 in 2006.

So far this year: Sales fell 14.1% in the first 9 months of 2007 (276,589 sold vs. 321,957 year-ago).

GM's biggest problem: It's been losing a lot of money. The company lost \$10.6 billion in 2005 and another \$2 billion in 2006.

Ford and DaimlerChrysler are in a similar position. Ford lost a whopping \$12.7 billion in 2006, and the Chrysler Group lost \$1.46 billion. On May 15, 2007, Daimler announced that it will rid itself of Chrysler. Cerberus, a private equity firm, will buy 80 percent of Chrysler for \$7.4 billion, most of which will be pumped into the new corporation's automotive and financial operations. In effect, Daimler is *giving* Chrysler away to dump the company and its \$19-billion in pension and healthcare liabilities — a burden that adds \$1,000+ to the manufacturing cost of each vehicle.

By contrast, Toyota earned a profit of \$14 billion on sales of \$204 billion in the fiscal year that ended on 3/31/07. The company is adding new North American plants and jobs. One reason: Last year a typical Toyota worker earned about \$47 an hour in wages and benefits vs. about \$65 for a UAW worker. Another: strong sales of cars that we want to buy.

GM has improved its performance, importantly by growing its business internationally, becoming less dependent on North America. (In the second quarter of 2007, 35 percent of GM's automotive revenue came from outside North America, up from 18 percent year-ago). GM plans to trim 30,000 hourly jobs and close 12 production facilities over the next several years. A sweeping restructuring has already cut its North American workforce to less than half its size a decade ago, but GM is still a long way from solving its fundamental problem: it pays about \$2,500 more

than its Asian competitors to build a vehicle in North America — \$1,500 of which comes from "legacy burdens," the cost of worker and retiree benefits. (With 2.5 retirees for each active worker, GM's projected retiree obligations have ballooned to \$87 billion for pensions and \$60 billion for health care.)

The domestic Big 3 all face the same problem. This disadvantage vs. Asian competitors has been magnified further by Detroit's need for larger incentives to move its vehicles. All three companies need significant concessions on these "legacy burdens" from the United Auto Workers union in this year's contract negotiations — especially on health care costs.

GM has cut back on incentive spending to wean consumers from the big incentives it has offered for the last several years. But high gasoline prices and the weak housing market have reduced demand for full-size trucks and SUVs, GM's most profitable vehicles (estimated profit margins: \$7,000 to \$10,000). In this tough competitive sales environment, the company may have to bump up its incentive offers.

In addition to slashing production and restructuring their businesses to cut their fixed costs dramatically, Detroit's Big 3 must accelerate their efforts to design and produce the smaller, more efficient vehicles that Americans want to buy as they face the prospect of permanently higher fuel prices. Unfortunately, those smaller cars generate much smaller profits than full-size pickups and SUVs.

In September, 2006 GM bumped its engine and transmission warranty on 2007 models to five years/100,000 miles to improve consumers' perception of their vehicle ownership experience. The bigger challenge: to design and build cars that consumers will prefer to Asian and European competition.

October 1 Pontiac inventories: G5/8,500, 79 days' sales. G6/29,000, 64 days' sales. Grand Prix/7,300, 18 days. Solstice: 7,600/157 days. Vibe/10,700, 90 days. Torrent: 6,000, 44 days. The market averages: cars/50 days, trucks/67 days. An ideal supply: 50-to-70-days, providing enough choices without burdensome interest carrying charges for dealers.

Initial product quality? According to J. D. Power's Initial Quality Survey for 2007 models, Pontiac's initial build quality is below the industry average. Pontiac ranked #21 of 35 automobile nameplates. It was #20 in '06, #22 in '05, #20 in '04. Among GM's other divisions, Buick ranked #14, Chevrolet #15, GMC

#18, Saturn #19, Cadillac #25. (Japanese competitors: Honda ranked #4, Toyota #6, Nissan #19.)

Long-term reliability? In J. D. Power's 2007 Dependability Index study of 3-year-old 2004 models, Pontiac ranked #16 of 38 nameplates. The complete rankings are listed in the piece, "What They Don't Want You To Know About Product Quality."

In its April Annual Auto issue *Consumer Reports* rates vehicle reliability, based on frequency-of-repair data from subscriber questionnaires. I'd check their data at a library and avoid vehicles rated below average. (Or visit [www.consumerreports.org](http://www.consumerreports.org), where you can purchase access to all the data for \$4.95.) I'd also check to see if recent models of my vehicle were on their list of "Used Cars To Avoid."

Like all GM franchisees, Pontiac's 2,763 dealers have a "hidden profit" in every deal of 3% of the total sticker price (MSRP), excluding the destination charge. It's called holdback, and it's built into the invoice price, then later returned by GM. He won't share his holdback with you, but if you remind him that you know about it, it will be harder for him to plead poverty to what looks like a slim-profit deal.

Understand that all auto manufacturers, including GM, offer their dealers secret, "below-the-radar" cash-bonus programs that are based on objectives set on a dealer-by-dealer basis. We describe these programs in the piece titled "The Truth About Dealer Cash Incentives," — a *must-read* for our customers.

If you plan to lease, study the two-pager on leasing. (We don't include it if you've told us you're buying.) Before you sign a lease, you may call us at 562/433-8489 between 9:00AM and 4:00PM Pacific time. We'll run the numbers with you, look up the residual value in the Automotive Lease Guide, and tell you what we think about the deal. But keep us in loss prevention, not triage; once you sign the document, you're stuck with the payments. (If we can't take the call immediately, leave a message and we will return your call.)

- **G6** — The Grand Am was replaced by the G6, a car designed to recast Pontiac as a more sophisticated performance nameplate. The G6 lineup: sedan, coupe and hardtop convertible. Sales gained 26.3% to 157,644 in 2006, an average of 4.8 per month per dealer. (The G6 is Pontiac's best selling vehicle, accounting for 40 percent of units.)

So far this year: G6 sales fell 9.2% in the first 9 months (110,473 sold vs. 121,642 year-ago).

**Transactions:** GT sedans sold for \$200 over invoice in Boone, IA, \$100 over in Alvin, TX, \$19 over in Greenfield, IN, right at the invoice price in Westmin-

ster, MD and \$200 *below* invoice in Leroy, NY. A GT coupe went for \$200 over invoice in Ann Arbor, MI.

Product note: The front-wheel drive G6 was slated to be restyled and re-engineered for the 2010 model year. But GM wants to shift the G6 and all Pontiac cars to rear-wheel drive platforms to position the nameplate as the "affordable performance brand" and further distinguish Pontiacs from Chevrolets. The target date for a rear-drive G6: the 2012 model year. But that plan has been put on hold, pending the outcome of the U.S. Congress's push to dramatically improve CAFÉ (Corporate Average Fuel Economy) standards. Stay tuned.

- **GRAND PRIX** — A restyled and re-engineered Grand Prix helped increase sales 4.9% to 131,551 in 2004. But sales fell 7.0% to 122,398 in 2005, then dropped another 11.2% to 108,634 in 2006, when the average dealer sold 3.3 per month.

So far this year: Sales dropped 14.1% in the first 9 months (72,567 sold vs. 84,496 year-ago).

#### Reported transaction prices:

- \$600 over invoice in Columbia, MD, Davie, FL and North Babylon, NY. \$500 over in Farmington Hills, MI. Customers in Hawthorne, CA and Irving, TX also paid \$500 over. \$563 over in St. Louis. \$560 over in Clinton, IA and \$550 over in San Jose, CA.

- \$383 over in Danville, KY, Fredericksburg, PA and New York City. \$350 over in Oakland, CA. \$300 over in Boston, Kansas City and Greensboro, NC. \$250 over for in Belvidere, IL. \$224 over in Wichita, KS. \$200 over in Fairfield, CT, Topeka, KS and Brunswick, OH. \$176 over in Alexandria, VA. \$153 over in Fairfield, CT. \$100 over in Shoreline, WA, Miami, FL, Atlanta, GA and East Lansing, MI.

- Right at invoice in Cincinnati, Philadelphia, Syracuse, NY and Cliffside Park, NJ. \$200 *below* invoice in Glenview, IL. \$250 *below* in Rockville, MD. And \$305 *below* in Akron, OH.

Product note: The Grand Prix is being dropped from the lineup. Production ends this fall. Most of the last models are being sold to daily rental fleets.

- **VIBE** — The Vibe, an entry-level sport wagon based on the Toyota Corolla arrived as a 2003 model. (Toyota's version is called the Matrix.)

Vibe sales edged up 3.5% to 58,894 in 2004, then gained 9.1% to 64,271 in 2005, when the average dealer sold 1.9 per month. Toyota Matrix 2005 sales: 90,258, 6.2 per dealer per month.

Vibe sales tumbled 29.6% to 45,221 in 2006. And Toyota sold 58,689 Matrixes last year.

So far this year: More bad vibes. Sales plunged another 26.6% in the first 9 months (27,909 sold vs. 38,004 year-ago).

One problem: The car is aimed at young prospects, and most young people wouldn't be caught dead in a Pontiac store. The "fax/email attack" will generate some very attractive price proposals.

#### **Vibe deals reported:**

- \$500 over invoice in McMinnville, OR. \$463 over for a factory-ordered car in Seattle, WA. \$277 over in Chesapeake, VA. \$193 over in Arlington, MA. \$200 over in Antioch, CA. \$197 over in Medina, OH. \$172 over in Rochester, NY. \$154 over in La Grande, OR. \$100 over in Hampton, SC. \$100 over in Liberty Lake, WA. \$40 over in Beloit, WI. \$25 over in Keyport, NJ. \$15 over in Torrance, CA.

- Right at invoice in Houston, TX and Richboro, PA. \$3 below invoice in Sacramento, CA. \$76 below invoice in Richboro, PA. \$140 below in Titusville, FL. \$150 below in Bronx, NY. \$300 below in Roslyn, NY. \$421 below in Homosassa, FL. \$622 below in Prescott, AZ. And \$2,260 below invoice in El Monte, CA.

- **TORRENT** — This compact sport wagon, a cousin to the Chevy Equinox, arrived in August, 2005. 43,174 were sold in 2006, an average of just 1.3 per month per dealer.

So far this year: Torrent sales plunged 22.9% in the first 9 months (26,141 sold vs. 33,925 year-ago).

This vehicle has been greeted by the sound of one hand clapping. The "fax/email attack" should be deadly.

**Torrent transactions:** \$228 over invoice in Seattle, WAW. Right at the invoice price in Peekskill, NY. \$250 below invoice in Newberry, SC. \$300 below in Raynham, MA. \$479 below in Des Moines, IA.

Product note: With Pontiac paired with GMC in most dealerships, the plan is for Pontiac to become an all-car lineup. Torrent production will end in January 2010. The Torrent's replacement will be a GMC offering, launched in early 2010 as a 2011 model.

- **SOLSTICE** — This small, \$25,000 rear-wheel drive roadster arrived in August, 2005. 19,710 were sold in 2006 — an average of 7.1 per dealer in 12 months. It was a "hot" car that was tough to deal on most of the year, but no car stays hot forever. (One transaction: \$200 over invoice in Victorville, CA.)

Proof: In the first 9 months of 2007, Solstice sales fell 17.7% (13,069 sold vs. 15,878 year-ago).

Product note: A fastback coupe will be added for the 2009 model year. The Solstice will be restyled and re-engineered for the 2011 model year.

- **G5** — This entry-level G5 coupe, a sibling of the Chevy Cobalt coupe, arrived in August 2006 as a 2007 model. Priced just under \$15,000. 7,902 G5s were sold in the August-December '06 period, an average of only 2.8 per dealer in the entire 5 months.

So far this year: 20,730 were sold in the first 9 months — 7.5 per dealer.

Using the "fax/email attack" on this one should be like shooting fish in a barrel.

Product note: GM will probably replace this car with a rear-drive entry-level car as early as 2010.

#### **FUTURE PRODUCT PLANS**

- The G8, a sporty new RWD midsize sedan is due in January, powered by V-6 and V-8 engines. Think of it as Pontiac's flagship sedan, "up a notch" from the Grand prix in performance, content and price.

Pontiac's Home Phone Number— If you've got questions for them, their customer assistance and information phone number is 800-762-2737. You'll find product information and a "dealer locator" on Pontiac's website: [www.pontiac.com](http://www.pontiac.com).

*James Bragg*

P.S. You will typically pay the Pontiac dealer group advertising charge as an additional expense — usually 1% to 2% of the invoice price. (See the note on this subject in the piece titled "To Our Customers.")