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Chrysler bankruptcy shows auto turnaround a long way off

Greg Burns

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The historic bankruptcy of Chrysler LLC is just one more sign that this is the worst time ever for the car industry, but the best for business-turnaround experts.

Automotive industry work-out specialist Daniel Dooley is making a ton of money, he reports, but like so many Americans rich and not so rich, he won't be using it to buy a new car any time soon.

He's sticking with his 3-year-old Lexus, he told a group of fellow turnaround managers at their industry conference in Chicago this week.

"I'm fairly affluent. It's not that I can't afford the \$70,000," Dooley explained. "It just doesn't feel right."

Nothing feels right about the auto industry these days, and anybody who wants to feel better about it would be well-advised to steer clear of the Turnaround Management Association.

The Chicago-based trade group represents the executives brought in when all else fails, and they generally prefer to cut their losses.

These veteran managers of troubled companies generally doubt the wisdom of waiting around for business conditions to improve: They want action.

So maybe it should come as no surprise that they expect to see plenty of it as the Detroit Three becomes the Detroit Two -- or maybe the Detroit One and a Half.

Chrysler? "Toast," said Dooley, a principal at Chicago's Morris Anderson & Associates.

Ford? "Precarious," said Brad Coulter, a director at O'Keefe & Associates in Michigan.

General Motors? "It needs the rigor of bankruptcy," said Thomas Evans of Huron Consulting Group. He is based outside Detroit.

In a panel discussion, these corporate renewal gurus voiced doubts about America's automakers solving their problems without a major pileup.

Among the predictions:

¿All that will be left of Chrysler when the dust clears will be three nameplates: Jeep, Dodge Durango and Dodge Ram.

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GM will file for Chapter 11 by the end of May, and, unless the government dictates a restructuring plan, its bickering workers, retirees, dealers, lenders, bondholders and suppliers will keep it in front of a judge for years.

Even Ford, relatively strong, could be forced to seek bankruptcy or risk ceding a cost advantage to competitors operating under court supervision.

If U.S. automakers are in for a brutal couple of years, their parts suppliers could have it worse. Many have been strung along with just enough orders to keep them going, so the tipping point is near.

"This is a massive consolidation coming, at least 30 percent in 12 months," Dooley said.

Evans thinks that may be too optimistic: "It could be well over 40 percent of suppliers that go away. This is the steel industry all over again, times 20. It's just going to be a dismal, dismal market."

Not everybody foresees such utter gloom. At the Federal Reserve Bank of Chicago, economist William Testa said he believes vehicle sales "can't possibly stay down" at their current levels for too much longer. And while parts suppliers will consolidate, employment and plant capacity won't necessarily suffer in equal measure.

Anyone in the upper Midwest better hope so. Three million jobs ride on the auto industry, and it underpins the economy in car towns such as Kokomo, Ind. The collapse in auto sales is putting a hurt on industrial hot spots across Michigan, Ohio, Indiana, Illinois and Wisconsin, and relief can't come soon enough.

But is it reasonable to expect car buying to surge, even if the economy has hit bottom?

Pent-up demand, right?

Don't count on it, the turnaround experts warn. The recession is so severe that it weighs against any big rebound. Cars, they predict, will be on the road longer and longer.

As Dooley said, explaining why he'll be driving his Lexus for a while yet, "I lost how much in the stock market?"

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