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Big 3 can't afford to rest on laurels

Carmakers made money, gained market share in 2011 but still face serious challenges

BY BRYCE G. HOFFMAN (excerpt)

Detroit is back. At least its automakers are.

After years of declining sales and mounting losses, Detroit's Big Three made money and gained market share in 2011. Both General Motors Co. and Ford Motor Co. posted record earnings, while Chrysler Group LLC reported its first full-year net profit since 1995. Ford even restored dividends, which it suspended in 2007.

"What we experienced in 2011 is essentially the new reality, a reality where the Detroit Three have improved their balance sheets and are improving their pricing, honing down their portfolios and focusing on their core businesses," said Michael Robinet, managing director for IHS Automotive Consulting. "They've stuck to their knitting, and it's showing up in their performance."

And David Kudla, CEO of Mainstay Capital Management LLC, says there is every reason to believe they can keep it up.

"There's plenty of room for optimism, given that the industry is coming off a four- to five-year stretch of relatively weak unit sales, and the resulting pent-up demand will eventually need to be satisfied," Kudla said in a report released Wednesday.

The average car on the American road is now 11 years old, he said. That is a record. And he said the replacement rate is likely to rise to 20 percent in 2012 and reach 25 percent over the next four years.

But that does not mean Detroit's automakers can rest on their laurels. All three companies still face serious challenges, both at home and abroad.

The European automobile market is withering in the face of a mounting sovereign debt crisis. Sales are also slipping in South America, where Detroit's automakers face new and stiffer competition from Chinese and Korean manufacturers. And the Japanese are coming back with a vengeance in the United States after losing the better part of last year to the earthquake and tsunami that devastated their production base.

Yet perhaps the biggest challenge GM, Ford and Chrysler face is complacency. Detroit's history is a long litany of cautionary tales about automakers that squandered their success and failed to make hard-won changes stick.

"That always has happened," said David Cole, chairman emeritus of the Center for Automotive Research in Ann Arbor. "But I think the changes this time really are structural. They took out so much cost this time, and that is not coming back. In the past, you had tough years, but there was really little structural cost reduction."

This time, the Big Three used their near-death experience to wrest major concessions from the United Auto Workers, to renegotiate their debt with bondholders and to restructure their own operations. …

…Analysts say many of the changes made by Detroit's automakers are permanent. All three companies are making better use of global platforms to achieve greater economies of scale.

That is particularly true at Ford and GM…