

GM price plan may squeeze industry

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While General Motors Corp.'s decision Thursday to extend employee discounts on 2005 and some 2006 vehicles will keep prices low for consumers, a top Ford Motor Co. executive and other auto industry insiders say it's ominous news for domestic automakers.

"I think it's a big danger for the industry," Steve Lyons, vice president of sales, marketing and service at Ford's North American operations, said in an interview with the Free Press. "I don't think it's a healthy way to run the business long-term."

GM defended its program, saying it decided to continue the Employee Discount for Everyone plan because it has been so successful.

Said Paul Ballew, GM's executive director of global market and industry analysis: "Our goal is to continue to offer the consumers the best value in the business."

But several automotive and pricing experts agreed with Lyons that GM's move may be harmful to the world's largest automaker and some of its competitors.

GM, the experts said, seems unable to wean itself from the short-term sales high provided by discounting its products -- essentially forcing other automakers to follow suit and increasing the likelihood they will have to add rebates on top of discounted employee prices.

Lyons said he thought local automakers would begin phasing out employee-discount programs after the 2005 model year came to a close -- as GM said it would -- and begin pricing 2006 vehicles in a more rational way, closer to the actual price for which they usually sell.

"We felt it had run its course. We felt it was good for clearance time," Lyons said, noting that he didn't feel employee pricing was a sound strategy going forward.

Lyons said he would decide within the next day or two whether to change the Ford Family Plan program, which was slated to end Sept. 6 and already included some 2006 models.

Chrysler Group spokesman Kevin McCormick said the automaker would not change its Employee Pricing Plus program by adding 2006 models. The program is slated to run indefinitely, until the 2005 models are gone.

Rebecca Lindland, an automotive analyst with Global Insight Inc., a Massachusetts-based auto research firm, called the extension of employee pricing a kiss of death for GM.

"When do you stop it?" she asked. "When do you get back to paying full price for vehicles?"

Selling lots of vehicles doesn't necessarily translate into higher profits unless the cars and trucks are sold at the right price. Through June, for example, GM sales were up 2.1% in the United States, but the automaker lost \$1.4 billion through the same period.

GM's Employee Discount for Everyone program bumped sales up 46.9% in June, the month the effort started, and 15.2% in July. As a result, dealers nationwide have said they were running out of 2005-model cars and trucks.

Automakers report their August sales results Sept. 1, but analysts are already predicting that GM's sales will drop off as result of the inventory shortage.

David Healy of the brokerage firm Burnham Investment Research in New York predicts GM sales will be off 18%, compared with the same month a year ago. Meanwhile, John Casesa, an auto analyst with Merrill Lynch, anticipates GM sales will fall 10% in August.

"GM likely doesn't have enough inventory to maintain a strong sales pace," Casesa said in a note to investors. "And inevitably, the employee-pricing program is losing its effectiveness, as eventually happened to zero-percent financing, hot-button bonus cash programs, talk-show host car giveaways and other promotions."

Lyons said GM's expected drop-off in sales likely contributed to its decision to continue the employee-pricing program, a tactic that has brought GM positive results.

"I think GM was just feeling the pressure," Lyons said.

GM had previously said it would discontinue the Employee Discount for Everyone program Aug. 1, acknowledging that it needed to move to a new value-pricing strategy.

Under that method, GM said it would price new 2006 vehicles closer to the price they might actually sell for -- a move that would start to wean consumers off incentives and help GM improve the value of its eight brands and restore profits in the long-term.

"We're trying to restore some sanity to the pricing environment in our industry," Mark LaNeve, GM's vice president of North American sales and marketing, said Aug. 1.

On Aug. 2, at the same time cross-town rival Chrysler said it would continue its employee-discount program indefinitely, GM reversed its decision and said it would continue its employee-discount program through Sept. 6.

Now, GM has said it is going to continue for another month and include some 2006 full-size trucks and SUVs. The program now includes the 2006 versions of the Chevrolet Avalanche, Chevrolet Silverado, GMC Sierra, Chevrolet Tahoe, GMC Yukon, Chevrolet Suburban and Cadillac Escalade.

Ford already had included its 2006 Ford Escape and Expedition SUVs under its Ford Family Plan beginning Aug. 1.

GM said its new program is consistent with its so-called total value promise of providing compelling prices on well-packaged vehicles.

But Lindland said GM's often-changing position is creating confusion in the marketplace.

"You don't believe them anymore," she said of the company's decision to say the program will end and then continue it. "It just seems to be confusing for the consumer, and the beauty of employee discounting was it was so simple."

Greg Peters, chief executive officer of Zilliant, a privately held Texas company that helps a variety of firms optimize pricing and revenue, said he, too, was troubled by GM's employee-pricing strategy.

Zilliant, he said, has no automotive clients and is not actively seeking them.

"While the employee-pricing strategy may result in short-term gains," Peters said, "the long-term effects of these temporary price reductions could send the industry into a tailspin."

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