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Business

Chrysler's Bid For Survival

by Frank Langfitt

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David Zalubowski

On Tuesday, Chrysler will present the government with two roads to viability: one as an independent business; the other in partnership with Fiat, the Italian carmaker. AP

Morning Edition, February 16, 2009 · General Motors and Chrysler will submit plans to the government on Tuesday in an effort to prove that they can be viable companies. And Chrysler will ask for at least \$3 billion more in taxpayer loans.

But auto analysts say that any more government money should not be used to help Chrysler continue as is. Instead, they say, Chrysler should use the money to wind down its business or merge with a stronger automaker.

Time To Shut Down?

In recent months, a consensus has been building around Chrysler: As an independent company, it's finished. NPR recently talked to nine auto analysts about Chrysler's predicament; only one thought Chrysler could make it alone.

And most said the best course could be an orderly shutdown of the automaker and the sale of its best brands to outside companies.

"From many perspectives, possibly the best solution for Chrysler right now is really a controlled wind-down of the organization," says Michael Robinet, an auto forecaster with the Michigan company CSM Worldwide.

"It just doesn't appear to be a recoverable sort of a situation now," says Bill Visnic, a senior editor at Edmunds.com, the auto consumer Web site.

Brian Johnson, an analyst with Barclays Capital in New York, says, "We simply have too much capacity, too many brands, too many factories, and Chrysler is the least viable company."

Chrysler says it has no plans to shut down.

"We understand at Chrysler there are always skeptics out there; I'm pretty sure that none of those people have had an opportunity to see our plan," says Stuart Schorr, a company spokesman. "The submission that we're going to give to the Treasury Department will outline Chrysler's plans for the company to be viable over the long term, under a number of different scenarios, including continued difficult economic times that we face today."

Two Paths For Chrysler

Schorr says the plan would include 24 new products and at least two paths to viability — one as an independent firm; the other in partnership with Fiat, the Italian carmaker.

Chrysler has at least two big problems: It doesn't have attractive small cars, or a global distribution system.

Fiat is offering to provide both in exchange for an ownership share in Chrysler and a foothold in the U.S. market.

Here is how Frank Klegon, who oversees Chrysler's product development, described the arrangement:

"The alliance will give us access to Fiat Group vehicle platforms, which will complement our current product portfolio with fuel-efficient, environmentally friendly small cars and powertrain technology."

Changing Fiat's Image

Fiat hasn't sold cars in the U.S. since the early 1980s. Reliability was such a problem back then, owners joked that Fiat stood for "Fix It Again, Tony."

The company is better now. The Fiat 500, a little runabout, is a success in Europe.

But Maryann Keller, an automotive consultant and author, says Fiat can't save Chrysler in the short term. She says building Fiats here will take a lot of investment and time to revamp factories.

"We're talking probably billions of dollars and a few years if everything worked perfectly," she says. "Who's going to provide that money?"

Not Fiat. It has said it won't put any cash into Chrysler.

Nor Cerberus Capital Management, the private equity firm that bought Chrysler in 2007. But the deal has turned into a disaster, and Cerberus is desperate to get out.

Patrick Anderson, a Michigan economist who focuses on the auto industry, says the fact that Cerberus and Fiat won't support Chrysler makes the pitch for government aid that much harder.

"If normal investors don't want to put their own money at risk, we should be asking ourselves whether the taxpayers should ever put a dime in there," he says.

Chrysler was running out of cash in December, and the Treasury Department stepped in with a \$4 billion loan. And since Cerberus took over, Chrysler has been slashing expenses. Last year, it offered buyouts and early retirement packages that eliminated about 5,000 white-collar jobs.

Kim Korth, who runs IRN, an auto consulting firm in Grand Rapids, Mich., says buyouts help the bottom line but have cost Chrysler talent.

"There are very few people of any historic basis in Chrysler, or any significant in-depth competence, that are still there," she says. "I think there's been a concern that Cerberus — the owner — is not committed to the long-term business plan. And I think they decided that this was probably to some degree a sinking ship."

Chrysler's Assets

But Chrysler does have some valuable product lines.

Jesse Toprak, a senior analyst with Edmunds.com, says the Chrysler minivans and some of the Jeep models could be attractive to other companies — including foreign ones.

"If you go anywhere in the emerging world — you go to Asia or Eastern Europe or South America — if you have a Jeep Grand Cherokee, it's a symbol that you made it," he says.

But Aaron Bragman, an analyst with IHS Global Insight, says selling some of these stronger lines — like the Dodge Ram — to other firms could be tough in a down economy: "There aren't any buyers; there isn't anybody out there who has the cash, who has the financing or who has really the interest in taking on these brands."

Bragman is more optimistic about Chrysler than most. He says the Fiat deal could be a big boost.

But he also says that with much lower demand for vehicles, sustaining three Detroit auto companies may not be possible.

"This is really the new reality of the auto industry globally: It's going to be smaller, there are going to be fewer players, and whether or not Chrysler is still part of it is really, I think, going to be decided in the next two months," Bragman says.

The government will have until the end of March to decide whether Chrysler and GM can survive long term.

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Cat's Paw (izza Southpaw) wrote:

OK Enzo,

On unions, economist Adam Smith noted the imbalance in the rights of workers in regards to owners (or "masters"). In *The Wealth of Nations*, Book I, chapter 8, Smith wrote:

We rarely hear, it has been said, of the combination of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labor above their actual rate[.]

When workers combine, masters ... never cease to call aloud for the assistance of the civil magistrate, and the rigorous execution of those laws which have been enacted with so much severity against the combination of servants, laborers, and journeymen.

Your sentiment implies you sympathise with the masters, not with the workers.

But unless you are in the top 8% of the population that has captured 50% of the nation's wealth, your sympathies are in the wrong place.

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