

Automotive Reviews

Automotive Reviews

VOL 2 NO 21

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5 copies. . . . \$794 10 copies. . . . \$1191 15 copies. . . . \$1588

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HOLDEN'S - CHAPMAN HAS HIS SAY

'Our car exports have doubled this year. Our longer-term export potential is 40,000 cars a year.'



CHUCK CHAPMAN - HIS 12 YEARS AT HOLDEN'S

Chuck Chapman's 32-year career with General Motors has been almost evenly divided into three parts - working for 11 years at Buick as an engineer in a small design department, nine years as chief engineer (later director of engineering for Europe) at Opel and 12 years as managing director (later chairman) at Holden's.

His role as chief engineer at Opel was to pull GM cars up to European standards. Opel had a very stodgy image as a builder of middle class unexciting cars. That image was thrown off with cars like the Rallye Kadett and the Opel GT. Opel became a design force in the GM world. Exports to the US reached levels of more than 100,000 units and later Opel overtook Volkswagen for European market leadership.

Chuck Chapman started at GMH in January 1976. His role here was similar - to orchestrate an engineering-led holding action on declining shore. In the 12 intervening years, Holden's underwent more drama, more trauma and more change than at any time in its history. It lost the race to outrun the consequences of uncontrolled growth, lost the product planning bet on oil prices, lost shore, lost leadership and lost \$700 million.

Today the company operates in a very different environment to the one Mr Chapman found in 1976. Holden's was then pre-eminent through sheer inertia with management completely oblivious to the financial and competitive crush that lay ahead. Kingswood was king of the road, Torano was king of the mountain and Holden dealers were on top of the pile.

Over-confidence was prevailing. Holden's directors had never ever driven competitive cars, let alone European pacesetters. Financial pressures, created by a series of careerist American managing directors who foiled to take the knife to the size of the organisation because it might rock the boat, were building up to crisis point. The warning signs were already in place with exports down from 41,000 units in 1973 to 7500 units in 1975. The buck stopped at Chuck Chapman.

The workforce was 26,000 people. It now numbers 9600 people. While the future of Dondenong hangs in the balance, Woodville, Acacia Ridge and Pogewood have been shut - thus closing the book on earlier sometimes irrational state government inducements to shore in the Holden production bonanza. The Pogewood closure was particularly painful. Mr Chapman once described it as "Murphy's Law squared".

As the plans for the 80s were put in place, product decisions were made in an environment where bureaucrats were floating a corporate average fuel economy of 36 miles per gallon by 1985. The predictions seemed right at the time. But the failure of the predicted energy crunch to

materialise in its worst form left Holden's with over-capacity and under-cashed. The engine plant began sucking Holden's domestic potential dry because predicted engine demand from Europe was over-estimated. Costs outweighed sales.

Those on the sidelines questioned apparent inaction as decisions that needed to be taken were delayed by lack of funds or by long-standing executives who had never known what it was like to work in the shadow of adversity. The company was tied up in the shackles of its past and it needed the focus of the re-organisation and the financial relief from the Corporation to allow it to regenerate.

The McKinsey recommendations were implemented just 12 months ago after much behind-the-scenes activity which involved younger management deciding Holden's future directions. Some of the Holden veterans from the 60s and 70s stood aside to let the new blood move more freely.

Mr Chapman, having set the scene, leaves Holden's trading profitably. All sections of the reconstructed company are performing better than budget in spite of a continuing lack of demand in our domestic car market. Holden's is the biggest exporter of manufactured goods in the country with export sales of cars and parts at about \$1.7 million per working day.

The company has recaptured number two place in the total market and, with an expected jump in light commercial shore in the next few years courtesy of Toyota, can see itself as number one in Australia again. Car exports have doubled in the last 12 months to 18,000 units and the engine plant running at close to capacity not only to meet European demand, but to supply engines to Korea and the United States as well. Export sales of CKD and CBU cars could reach 40,000 units in a few years - about the same as in the heady days of the early 70s when they peaked at 41,000 units.

Most important, Holden's will be linked with Toyota in a joint venture under the Button Plan. Of all the partners they could have chosen in this game of musical chairs, Holden's has linked with the most financially potent ally and, of all the Japanese car companies, the one that thinks most like GM.

GM chairman, Roger Smith, once said Mr Chapman would not leave Australia until he finished what he set out to do. That job is done and now the company enters the new phase of a joint venture with Toyota and the drive to a return to market leadership. The job now goes to a salesman, John Bagshaw, darling of the dealers, more disciplined from his dozen years in GM management, but with the pressure of very high expectations placed on his performance. He has three years in which to fulfil his ambitions. He will be 65 years old in 1990.

In the following interview, Chuck Chapman and sales director, Rob McEniry, talk with Automotive Reviews publisher, John Mellor, about Holden's past, present and - without mentioning Toyota - future:

When you got to Australia, what kind of organisation did you find?

It was a very confusing manufacturing arrangement because Holden had historically been structured around CKD manufacturing plants in the different states. They closed the Perth plant but they still had assembly plants in each of the other major capital cities and had grown to a structure in which the challenge had changed.

The internationalisation of the world automobile business caught up with Australia. In looking back, the Australian industry grew in a little bit of a vacuum when the Japanese and European manufacturing capacity was in ashes. There was great opportunity to grow local industry, but it was very much sheltered from the lack of competition from those two major centres.

'The Australian car industry grew in a vacuum when the European and Japanese manufacturing capacity was in ashes.'

Before I got here in the early 1970s, they had a bit of a shock when imports began to come in in full measure from Japan and changed the whole competitive nature of the business.

Why were 30,000 exports lost during the Whitlam years?

Inflation threw the cost structure out of wack. That was a major factor. The other was that South Africa was a major customer and the fuel crisis of the early 70s completely changed the structure of the South African market. There were also changes in the car tax structure (against six cylinder engines) in New Zealand, Thailand, Indonesia and Hong Kong as a result of imported fuel costs.

So you arrived with excess capacity, reduced export markets and increased competition from the Japanese. Did you realise the degree of rationalisation that was going to have to take place when you first came?

No, I would have to say I did not. It really takes several months and even a couple of years to really get a feel for the business.

The other thing was that I came about a month after the Fraser Government came to power. The Whitlam Government had started to re-write the automobile plan to add two more manufacturers and the plan was almost in place when Fraser came to power. There was very little change to that plan when the Fraser Government implemented it in June.

So Toyota and Nissan were added to the plan manufacturers and there was already more capacity in the country than was really necessary.

'There was a lingering antagonism associated with the Vietnam War.'

Why do you think was that done when a Labor Government is now bent on eliminating two manufacturers?

There were several reasons. Japan was increasingly becoming one of Australia's major trading partners mainly through the export of minerals. I think there was also a lingering antagonism associated with the Vietnam war. The three companies here were American multi-nationals and there was some feeling that there ought to be a mix. Also the three American companies were not seen as offering small cars and, as an aftermath of the energy crisis, it was felt that there should be people brought in who were specialist in small cars.

What were the major reasons for GM's loss of leadership. You put Commodore and Camira in place and they looked like the right decisions at the time. Ford looked like they were going the wrong way. What went wrong?

Oil went to \$US42 a barrel and there were predictions of it going to \$US60 and \$US75. The down-sizing program GM was putting in place world-wide seemed to be a good one. Then, as some had predicted, the market price for world oil went back to \$US28 a barrel. We discontinued our big car line and I think we lost in not having a little larger car for the Australian market. We also had more facilities and people than we really needed to run the business and it took us too long to downsize (the organisation) and get into shape. The changes around us happened at a much faster rate than you can possibly handle when you have got such a big organisation to screw down.

In hindsight, did you get rid of the Kingswood line too early?

In hindsight we did. At one time some of our people were forecasting that the large car group would drop to about 15 per cent of the market - even down to 9 per cent. So the product program in place when I got here was basically to replace the Kingswood with the Commodore, to drop the WB short wheelbase line and, later, to move into an intermediate world car to replace the Torana. I agreed with that basically.

I guess the worst decision I ever made was over the WB. At the time we came out with the WB we had two versions - a low-cost version which would have been like a Kingswood Premier and the Statesman version. Late in the day, as we got close to production, we had some serious problems so we had to defer the low-cost version. This was the time when we were working under the momentum of all these predictions that the high car group was going down to 15 per cent. About the time the car was going to be introduced, I was persuaded to drop the low-cost version. That was the dumbest thing we ever did.

'Killing the low-cost version of the WB was the dumbest thing we ever did.'

I have always felt that, even on a long wheelbase, a six cylinder low-cost version would have done much better than the Statesman version because, by the time we came out with the WB, the fuel crisis had reached its peak of hysteria and we had trouble selling the WB with the V8.

To what extent would the low-cost version have helped?

I think we would have held our penetration and made up for the loss of the short wheelbase model.

Was that your most serious problem?

There have been some very difficult problems at Holden. Our engine problem was a very, very difficult one and most people have not recognised it. Ford have always, due to good planning or good luck, had that four litre six. That was always a blessing against our 3.3 litre engine even though we had the V8 compensating at the top of the line. There was certainly a lot of anxiety and consternation when we decided to use the Nissan engine and transmission, but I think the two organisations made a hell of a fine product out of the VL. However, with future product programs, we finally have an engine coming that is a better displacement for this market.

Right at the moment I feel very content about the product program and I think the next two or three years will be very good.

How do you see the last 10 or 11 years, any highlights?

I have enjoyed living and working in Australia. But, in the automobile business, Australia is a little bit like England - a wonderful place to live, but a very tough place to work.

But I am very pleased with the progress we have made in bringing the organisation down to size, re-organising, putting new young people in charge and getting our product program in very good shape. What is going to be coming out in the next few years is very exciting. We have been putting the organisation into a position where it is going to be profitable - some people might say at long last.

Do you ever regret being posted here?

No, I never even thought about it because I never look over the shoulder. Once you decide to do something, you get on with it.

'Everything we did seemed to create headlines.'

What is your view of the way the media focusses on Holden's?

This was my first general management experience - previously I had always dealt with the media on a very technical level - and we were the tall poppy. So it was a little unsettling that everything that "The General" did seemed to create headlines while our smaller competitors could do something and never even make the newspaper. But that is part of the business of being a prominent manufacturer and you get used to it after a while.

The media is a very mixed group. By and large we have been treated fairly enough by the motoring press and the knowledgeable people in the financial community - although it has not been all beer and skittles. But once you get outside of the specialist and knowledgeable press group and you get into the front page and the sub-editors looking for the sensational "rape, murder, crash and flood" you have just got to hold out. Anything can come out of those articles - sometimes appalling.

At great cost to the image of the company?

Yes, but in society that is all own own fault. It is obviously what we choose to watch and read and that is what the people have to put in the paper.

Are you pleased with the progress of the company since its re-organisation?

The performance the organisation has been most gratifying. We have exceeded the financial projections that were laid when the companies were split. I think the managers have done a tremendous job - especially when you consider how much further the market has fallen since we decided to break the companies.

I was surprised that the size of the change did not cause more problems. We had a few things we had to tidy up two or three months after the organisation was formed but, by and large, the process had delivered an organisation that did not need a whole lot of modification once we were running.

'We have exceeded the financial projections we set when the companies split.'

Some would have expected the old GM inertia to bring the whole thing to a grinding halt?

One of the secrets was that the players running the company after the reorganisation had a major say in that re-organisation. Most of the people understood the reasons for the change and the purpose behind the structure.

Are the business groups performing well?

Yes. Some are performing better than others.

Which are the ones which have the most promise?

They are very different businesses. The engine company is entered into an export mode and it has quite a different opportunity and challenge to the Motor Company which is competing with vehicles here in Australia.

Each group is kind of a new venture in itself. The stamping has new presses commissioned a few months ago in South Australia and has a lot of successful outside business in pressed metal. Of course, we have major new model programs to occupy ourselves in the next year or two with some major new facilities. Plastics is still a relatively new business for us and growing. It is a key business in our new models and one that has taken a little bit longer for us to get up to a competitive level. The assembly group is doing very well. In the engine company, the foundry is out-selling castings overseas and has some very encouraging results.

All the groups have been concentrating hard on the quality issue and I am very gratified that tremendous gains in quality are being fed back through customer appreciation.

What do you think the major achievement of the re-organisation has been?

I think the major achievement is to move back to becoming a profitable enterprise.

And are you doing that?

Yes.

Are you trading profitably now?

We anticipate that we will make a trading profit for the year. Every month is an adventure. We did not predict the stock market crash. We thought the market turned up in September and was beginning to show good pulse and that we were off and running. But we are still anticipating a profit.

Clearly the removal of that debt burden would have been one of the key factors.

I am talking of profit at the trading level. I am not talking at the net level. We still have some debts and we are still paying the banks.

Will the business units eventually become individual companies?

We have two free standing business units at the present time - the motor company and the engine company. We do not yet have separate accounting and P&L statements on each one of the other business units. We are looking at setting them up one by one and asking ourselves if we really want to go into making them separate companies. However, it is our intention that they either be competitive or they are not going to be in the business. That also means that they have to be competitive in certain areas in those businesses. For example, if there is a type of part in the plastics business in which we cannot really compete then we will forget it. But there are lots of parts where we are competitive.

Will you be competing for plastics business outside of your own?

At the moment we do not have the capacity because we have been sourcing more and more parts, particularly the big pieces like bumpers. We find that we are most competitive in the large machines but that is also where we have the least capacity. So until that sorts itself out we cannot go outside and aggressively compete for the big business.

Is there room for significant car export growth from Holden's?

We think so. We have increasing interest in Indonesia and Thailand - still small volume but large potential. Suddenly we are beginning to get some interest in a lot of countries where two years ago they would not have given us a look.

RM: We are starting to get a lot of interest from our previous markets like the Caribbean, African countries and South East Asia. A couple of things that have done that - the two litre engine in the VL and exchange rates. The new model has generated a lot of interest because in a lot of those markets it is exactly what they are after. Engine size is very relevant so we see some opportunity.

What kind of export volume do you think could develop for Holdens?

This year our export volume will have doubled over 1986. Including NZ, we will be looking at around 18,000 to 20,000 CKD and CBU units this year.

Over the long term you could be back to the 40,000s?

I think there is a good chance to do 40,000 export units.

If you were doing those sorts of volumes, would there be any reason to share a Commodore?

On the subject of partnerships we are just not in a position to talk, I'm sorry.

If I was you, I would not share it.

I probably wouldn't either

What about export parts growth?

A good part of our parts growth comes out of the engine company. We have some good potential for castings, particularly with the high quality castings from the process developed for the Family Two engine. We are very competitive in quality and cost for a wide range of parts. It looks pretty good but it goes up and down. In the foundry we are running at about 70 to 75 per cent of capacity. We will continue to knock on doors and get some interesting casting business.

What are the current strengths of Holden?

The people and the organisation. We have developed a very competent executive group. We are not perfect and we do not have the best of everybody but I think we have above average performers in most areas of the organisation.

What about light commercials, that wouldn't be an area of great pride at the moment?

RM: Heavy commercials are going pretty well but we are particularly disappointed about light commercials. But I think you will see us starting to creep back. The 4x4 and forward control van substitution for the six cylinder passenger vehicle have really disappeared now and we have an all new range in light commercials next year.

Further down the track you will see us start filling the gaps a bit more - in 4x4s and other appropriate product for the commercial line. Our dealers are still very keen to sell commercial vehicles so, once we can offer them a good product and start getting behind it, I think we will see it pick up - around 10 per cent would be very pleasing.

It that achievable?

RM: It is not going to happen overnight. In saying the dealers are all very keen, there are still some credibility gaps left to be plugged up between the factory and the dealer network in respect to commercial vehicles.

Why has it got down to where it is? There is not that much wrong with the products?

RM: Over the last couple of years when the market has been going down, our competitors have been prepared to heavily promote and bonus light commercials to get ratio. We have not been prepared to do that. One of the reasons has been the financial position of the company. We have not been prepared to give money away.

CC: There is one other thing. We are not a subsidiary of the source of the vehicles so there is not the incentive to take the loss at the source. In one case, the contract to Australia is in Australian dollars. And there are other things they can do. Maybe that is a good long-term strategy, but the loss has to be absorbed somewhere.

RM: We are confident that it will come back. It is not going to happen overnight. I think the latter half of 1988 you will start to see a pick up.

What kind of total market share do you think you can get in your own right - not joint venture share?

RM: I think we can get around the 22-23 per cent.

Can you be number one again?

CC: Yes, I honestly believe we can. I think V car is going to be a very important ingredient in that. The whole ratio has the potential to change a lot with the three groups.

But the five sales organisations will still be in place.

RM: They might be but the model range they will be selling will decrease. I am assuming the five organisations remain when I say 23 per cent. I think Ford will come back to around that area and I think we will get pretty close to them.

Is 22 to 23 per cent enough to get leadership in the future market?

RM: I think it is. Remember every point you gain you are taking two away from the leader - 25 per cent would be clearly market leader against Ford.

Can three manufacturing groups all be profitable or will it still be a case of someone's profit being someone else's loss?

CC: If each one had a good product program they could be profitable.

Can the dealer network continue the way it has been going or will it need to rationalise like the car makers?

I don't think the car plan is going to wrench them per se, but it has been my observation that there is an increasing throughput through the more efficient dealers and a decreasing number of dealers. I would assume that will continue. I think the ratio of profits between new and used and parts and so forth is a bit cyclical. The profits tend to shift into the used business when you have a rapid price rise and, when you get a ripper of a year like 1985, it shoots back into the new.

What do you think Rob. Will it be a strengthening of the strong and a shake-out of the weak?

RM: Yes, but I not sure whether the industry plan itself will do that or the market size will do it. I think the market is doing it now and I think it will continue for a couple of years. The shakeout may in fact be blamed on the car plan but I think it will be mainly market driven.

Nor do I think manufacturers will deliberately take action to restructure or change the number of dealers they have. They will allow market forces and attrition to take its course rather than take action that may put them in an uncompetitive position.

Without question, the Australian customer is over-served in just about every industry including banking, retail and white goods. This has caused a problem with costs and profitability and the sorts of things that are going on (in the economy) will cause a shake-out - again market driven.

Is it better to export parts from Australia to a variety of markets or one vehicle into niche markets?

CC: I wonder if you can really look at them as opposing forces or supplemental. Obviously you get a lot more export sales when you send out one car rather than a lot of parts, yet our engine company would look at it quite differently. I really think there is a real opportunity in niche markets for cars if the country is able to maintain a low inflation rate, a stable wage policy and a reasonable exchange rate. But I don't think that precludes or necessarily is a cross purposes with the selective export of components.

"Japanese production operations are being dislocated and there is every opportunity for parts people to take advantage. They had better get in there in the next few years or else forget it."

If you look at the process that is going on in Japan, they have shown a remarkable resilience against the initial impacts of the exchange rate. While they were already high achievers in cost reduction, they made some super-human efforts when the exchange rate appreciated so drastically. But even the Japanese feel they may have run out of the "richest ore veins".

Many of the companies I talk to are looking at moving their operations to Thailand, Taiwan and even the US. In that process, operations are being dislocated and I think there is a unique opportunity for parts people to get in and seize the nettle and take advantage of the very high costs in Japan - land, raw materials, transportation. But if the parts makers are going to get in there, then they had better do it in the next few years or else forget it.

Are they good enough to win the business?

I think many people are trying to help the suppliers because many of suppliers do not quite know how to go about it. It is a forbidding challenge for a small company to suddenly go out and knock on doors in foreign countries with strange cultures and different government regulations. I think through Austrade and others there is some real effort to help. But the performance and commitment of the suppliers is mixed.

Do you think the majority of Australian suppliers can cut the ice and make it as exporters?

Not the majority, but there are some very dedicated ones and there is a nucleus of 30 or 40 with a large enough commitment.

Where does that leave the others - out of business or just on the fringe?

It's a good question. Many manufacturers of components can be competitive in their own market and may not be inclined or capable of competing overseas. They could be marginally competitive at home but when they export it goes the other way. They have to carry the in-line inventory and pay the transportation costs. So the competitive edge has to be much larger for export than domestic sales.

"The competitive edge has to be so much larger for export than for domestic sales."

Do you think Australia can have a really competitive car industry under the car plan? Do you think it is going to work?

It isn't going to work by itself, but I think it can work and I think Australia can have a competitive car industry. The things that are happening in terms of co-operation between unions, suppliers, companies and governments is so much better today than it was 12 years ago. It is really remarkable

And amazing that the plan has not needed major change.

I think it was a very interesting consultative process in which the the Industry Council got all the indians in the tent, they all put forth what the problems were and from that the plan was drafted. What is interesting is that the plan has changed less and less going forward.

What would you like to see change?

I think the people of Australia and the industry itself need to recognise the nation's need for a viable manufacturing industry. The technology required to support a manufacturing industry brings so many positive ripples that go right through the economy. A manufacturing industry brings all kinds of skills and benefits to this country. It is going to be very hard for countries to support themselves based just on service industries.

I also think it is unfortunate that the tax structure is so slanted against the manufacturing industries. We have a very high sales tax on our product. There are very few taxes on most services and non-manufacturing industries. Somehow the country has to re-align its tax system to be equitable.

"It is going to be very hard for countries to support themselves on service industries."

One of the tragedies of the last election was that Joh's candidacy drove the two major parties right to water when it came to a consumer or value added tax. That really nailed us on the cross for an indefinite period.

Do you think the car plan will need some modification to work?

I think it is pretty well on line. I think the structure is there to do minor tuning adjustments that may be needed. I think it is a remarkably lasting document and process and they just need to persevere through to 1992 and let it happen.....

Of course, for all practical purposes 1992 is here. Do you want to buy some quota?

"One of the tragedies of the last election was that Joh's candidacy drove the two major parties right to water when it came to a consumer or value added tax. That really nailed us on the cross for an indefinite period."