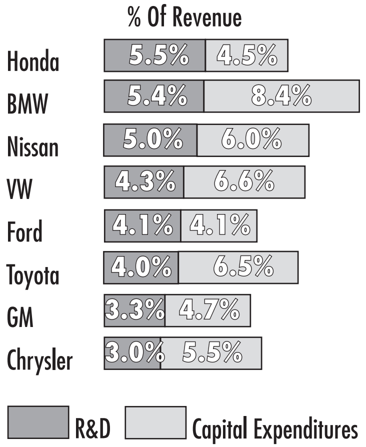
U.S. Auto Industry's Health Hinges On More Than Products



If domestic automakers are not able to reduce labor costs, R&D and capital expenditures—an area already underfunded compared to foreign manufacturers—may be at risk of further reductions.

R&D and Capital Expenditures

(NAPSA)—People concerned with the long-term viability of the domestic automobile industry, arguably the backbone of the nation's economy, must look beyond the products in dealer showrooms.

It is true that a record number of new or updated cars and trucks from U.S. automakers will hit the streets this year, with projections claiming an 80 percent increase in nameplates from 2000 to 2008. Their sales success will help dictate how quickly the domestic auto industry returns to profitability.

Another key factor for profitability is their efforts to significantly reduce operating costs, particularly those influenced by their workforce.

In today's hypercompetitive market, where the domestic automakers not only compete against each other but also against manufacturers from Asia and Europe, their labor cost disadvantage is significant.

Case in point: The Chrysler Group pays $30 more per hour in labor costs than Asian manufacturers that build cars in the U.S.

Half of this figure is attributed to union retiree-related costs, with the balance split between wages and fringe benefits. Based on third-party projections, this disparity could approach $41 per hour within the next two years.

Nationally, the automaker's union employees make an average of $35,000 more than the typical U.S. worker. For health care, organized labor employees pay only 7 percent of the costs, versus 32 percent for the average U.S. worker.

If labor costs are not reduced, what compromises must be made? Critical product development resources could be cut, reducing the number of vehicle choices and updates for consumers. Ultimately, this will result in a less competitive product lineup from the domestic automakers, which is just not a sustainable business model.

The stakes are even higher for the communities where the automakers operate. The threat of lost jobs, fewer tax dollars and a declining standard of living is ominous.

Most automotive industry executives and observers agree that fundamental changes must take place in how the domestic manufacturers structure their organizations.

There is hope, however. According to Harley Shaiken, labor professor at the University of California-Berkeley, "They [union officials and management] are very realistic about how tough times are right now. You've got constructive discussions between both sides. Both sides want to see healthier companies."

Considering the intense global competition and profitability challenges they face, time is of the essence. The long-term health of the U.S. auto industry is not just in selling more cars, but reducing costs.