



THE U.S. AUTO INDUSTRY: THE SEQUEL A Lesson from Hollywood

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Thank you.

I love the movies ... not just going to the theater or sitting in my living room watching them ... but also studying how the industry evolved from silent films to talkies to Technicolor to computer generated actors to the decline of the studio system and the advent of videotapes, DVDs and digital movies on your iPhone.

We ... all of us in the auto industry ... can learn a lot from that industry and its history as we reshape the future of our own.

Let's take short trip back to the 1960s. It was a decade that shaped my generation and changed the world forever.

Nearly half of America's population was under 18 years old. It was a young, affluent society. American teenagers had \$22 billion a year at their disposal ... about \$132 billion in today's dollars. And they had minds of their own. They were rewriting morals and customs and creating a culture clash. There were protests on college campuses, riots in the streets and women's liberation was taking hold.

Entertainment was changing. The Beatles were everywhere. We could listen to our own music on the radio or on 8-tracks in our cars. Everyone wanted to go to Woodstock.

Movies were changing, too. The studio system was declining because many films were being made on location in other countries or were using studio facilities abroad, such as Pinewood in England.

In the early part the decade ... the 1960 to 1965 model years ... family movies like Mary Poppins, My Fair Lady and The Sound of Music were among the biggest money-makers and most popular. As the decade came to a close, people flocked to see other movies like Bonnie and Clyde and The Graduate.

But there was one movie that reshaped the industry ... "Who's Afraid of Virginia Woolf?" starring Elizabeth Taylor and Richard Burton. It polarized critics. It became a topic in coffee shops, the nightly news ... and on the floor of Congress. It was the first movie marketed by a major studio

with such vulgar language and nudity that it did not meet the Production Code censorship guidelines and was denied the seal of approval.

As a result, MGM distributed the film through a subsidiary company so it could bypass the agreement that no Motion Picture Association of America member would distribute a film without that seal of approval.

That movie was the catalyst that changed the movie picture industry forever ... but not without controversy and putting teeth into the Motion Picture Association of America in the form of a 5'5" dynamo named Jack Valenti. He became president of the Association in 1966 when the movie industry was in the midst of its own perfect storm.

With the backdoor distribution of "Who's Afraid of Virginia Woolf?" the movie studios had lost the trust of movie-goers. Moms and dads were afraid their children would see smut in every movie because they had no way to know which movies were childproof.

And the movie studios also lost what little support they had on the floor of Congress, as only the Congressmen from the affected districts in California and New York, and their senators, felt obliged to publicly defend their actions.

With the new social currents, filmmakers wanting to make THEIR films, but with possible government intervention looming, Valenti gathered all constituents together ... the National Association of Theatre Owners, the International Film Importers & Distributors of America, the actors, writers, directors and producers guilds, craft unions, critics from religious organizations and the heads of the Motion Picture Association of America's member companies.

Together they came up with a voluntary rating system – G for general audiences, M for mature audiences, R for restricted finally X. The public was pleased. Valenti had created a compact between the consumer and the product.

Now I want to warn you ... the rest of this speech is X-rated ... for aberrational thought.

Our industry has a lot in common with the movie industry.

Like the movie industry the auto industry has dramatically impacted the U.S. economy for more than 100 years.

Like the movie industry no one really pays attention to how the sausage is made in the auto industry. When a movie gets to the theater people only see the big-name stars and the famous producers and directors, not the writers, camera people, grips, sound engineers and so on. When a vehicle gets to the dealership no one sees the designers, engineers, skilled trades, production workers or the back shop of the dealership. There is so much more to both industries. They create billions of dollars in jobs and products and they cannot be ignored nor disrespected.

On March 13, 2000 Valenti testified before the United States Trade Deficit Review Commission on the impact of unfair trade practices on the film industry.

"The American movie industry is unique," he told them. "Like America herself, the movie industry is a melting pot. The actors, writers, director and craftspeople that fuel the motion picture industry come from all over the world.

Although the industry is colloquially referred to as ‘Hollywood’ ... a small patch of geography in California ... in fact, the stories and creators that comprise the industry are very international.” Jack went on to tell them that the motion picture industry is an essential component of the information economy and that it employed almost 7 million people in the United States in 1997 ... and he made it clear ... that “Hollywood” resided in almost every congressional district in America.

The auto industry is not unlike the movie industry.

It is a melting pot for talent that fuels the creation ... and sale ... of the most sophisticated and complex consumer product on earth.

Although the domestic industry is colloquially referred to as “Detroit,” it, too, is just a patch of geography in Michigan. Its stories and creators are very international.

And, it, too, is an essential component of the information economy and is a huge industry that today represents more than 6 million jobs in the United States. You see ... Detroit ... also resides in every Congressional district in America ... in the thirty-seven states where there is supplier plant ... and in every congressional district where there is a dealer.

We have clout, and we need to use it.

We have a responsibility, and we need to acknowledge it.

Ladies and gentleman we need ...no ... we must have ... an American Automotive Industry Association taking a page from Jack Valenti’s successful playbook. Let’s call it A2IA.

It must be an association that represents everyone ... the automakers, suppliers, dealers, labor, environmentalists. We must speak with one common voice. The group must also include OESA, MEMA, NADA and NAM so we are aligned in our goals and messaging.

That doesn’t mean singing Kum By Ya around the campfire. We will not always agree on everything, but we need everyone’s input to become commonly attuned and work to together to market the domestic auto industry to all the U.S. geography ... Main Street, Wall Street, Pennsylvania Avenue and Capitol Hill.

Take a look at these slides.

There are 435 Congressional districts ... the automakers have facilities in 38 ... the suppliers in 191 ... and the dealers have operations in every single one of them.

Let’s remember that in each of those small towns the plant or the dealership is often the big employer ... the one that helps sponsor the Little League ... the parades ... the fireworks on the 4th of July ... the local United Way.

They are the main voice on Main Street and they can be part of a much bigger political machine with a loud voice, if we have the same footprint across the country.

For example, Washington does not seem to comprehend that U.S. automotive suppliers represent a \$240 billion industry.

That it employs more than 700,000 people at about 8,600 domestic plant locations across the country.

That supplier products account for more than two-thirds of the content on each new vehicle and that there are 2.9 jobs in the auto supply chain for every one assembly job.

For the record those numbers are from the Center for Automotive Research.

Does it realize ... the U.S. auto industry invests \$10 billion in this country in plants and equipment each year? That's according to *Driving the Future: The New American Auto Industry* put out by The Automotive Trade Policy Council.

In addition, the study said the U.S.-based auto industry is second only to the semiconductor industry in R&D, spending \$12 billion in 2007 alone.

Does it realize that without the work of GM, Ford and Chrysler, the U.S. could be forced to import critical technologies such as batteries, biofuel technology, advanced internal combustion engines and transmissions, hybrid systems, and fuel cells?

That, in itself, has all the markings of a national security disaster.

Does it understand that the auto industry has one of the largest economic multipliers of any sector of the U.S. economy? Its growth or contraction can be detected in changes in the U.S. gross domestic product. A recent report by the Center for Automotive Research says that in many states, employment in automotive and automotive parts manufacturing ranks among the top three manufacturing industries.

We must become political animals to get these messages out and we must find the best political animal to do it.

In 2001 Valenti met with a White Houses delegation on how the movie industry could help with the War on Terror.

At a press conference following the meeting he told the media that despite the sometimes contentious relationship between the worlds of entertainment and politics, "there was a seamless web of unity that was really quite affectionate to behold. This was about contributing Hollywood's creative imagination and their persuasion skills to help in this war effort so that one day Americans can lead normal lives again."

That was great press. Just how much good press and White House acknowledgement did GM get for its Keep America Rolling campaign?

Just how much good press and White House acknowledgement did GM, Ford and Chrysler get when Hurricane Katrina slammed into Louisiana and Alabama on August 29, 2005 and they jumped right in with aid?

GM donated \$400,000 to the American Red Cross 2005 Relief Fund, pledged to match up to \$250,000 more in employee contributions and sent more than 150 vehicles to the stricken area for use in relief work.

Ford and the UAW quickly made a joint donation of \$100,000 to the Red Cross. The Chrysler Group gave \$150,000 to the Red Cross and \$200,000 to local New Orleans charities.

Between them, the three Detroit auto companies gave more than \$18 million in cash and vehicles to the Katrina relief effort ... no strings attached ... and America hardly knew it happened.

I don't have to tell you that right now the domestic auto industry is not positioned well with the American people or with Washington.

That puts all of us in great peril. We need to prove we can police ourselves. We need to get people to believe the U.S. industry is essential to the welfare of this country. We need to have input on creating a realistic U.S. energy policy with teeth ... on finally developing a manufacturing policy for this nation ... on defining a safety policy ... on crafting a trade policy.

We have to earn that right and that trust. We must revolutionize the image of the domestic auto industry.

We need to let people know GM, Ford and Chrysler make vehicles Americans want to buy ... that 50 percent of the products sold in this country come from those companies.

We need to let them know the best-selling vehicle in the U.S. is a Ford ... that the No. 2 seller is a GM product ... that motor vehicles and parts are the single largest export from the U.S., topping aerospace, medical equipment and communications.

We need to let them know J.D. Power's studies show that three of the top five brands for dependability are American-made ... Buick, Cadillac and Mercury ... that the 2008 Chevy Malibu is the highest ranked midsize car in initial quality ... that the 2008 Chevy Silverado ranks highest in large truck quality ... that Ford quality is on par with Toyota and Honda.

We need to let them know Ford has the most five-star safety rated vehicles in the industry and GM has the same number of vehicles as Toyota that achieved the top safety rating, according to the Insurance Institute for Highway Safety.

We need to let them know GM, Ford and Chrysler build fuel-efficient vehicles ... that GM has twice as many models that get 30 mpg or better than its nearest competitor. GM's four new midsize crossover vehicles have best-in-class fuel economy. GM has eight hybrids on the road today, with a total of 20 planned by 2012. The 2-Mode Chevy Tahoe full-size SUV was named Green Car of the Year in 2007.

The new Ford Fusion Hybrid and Mercury Milan Hybrid beat the Toyota Camry Hybrid by 6 miles per gallon. In minivans, Chrysler is better than both Nissan and Toyota and basically tied with Honda.

We need to let them know the latest Harbour Report shows GM has more plants leading their respective segments in productivity than any other competitor, foreign or domestic.

We need to let them the nation's national security is tied to the domestic auto industry. The auto and defense industries have an interwoven supply chain that includes such basic industries as tool and die shops, foundries, castings operations and electronics producers.

From a military perspective these lower tier suppliers are critical to national security. Two-thirds of all research and development is created by manufacturing companies, and they hold 80 percent of all patents.

Benjamin Franklin once said, "A little neglect may breed mischief; for want of a nail, the horse was lost. For want of a horse, the rider was lost. For want of a rider, the message was lost. For want of a message, the battle was lost. For want of a battle, the war was lost. For want of a war, the kingdom was lost ... and all, for want of a nail."

The domestic auto industry is that nail. As an industry it is our duty to make sure our kingdom is not lost for want of that nail.

We need an offense, not a defense. We need ideological vision not the pessimism of those who see the future as only bleak and not as good as the past.

When Sam Goldwin wanted to make his case in Washington he didn't always go; he sent Jack Valenti.

Sam Goldwin knew that Washington would never be his stage. He knew, as the other studio executives learned, that Washington played by its own rules and the industry would be better served with a specialist, a person comfortable in that environment.

We need an American Automotive Industry Association ... the A2IA ... led by someone with the commitment, passion, connections and fire in his gut that Jack Valenti had for the movie industry. And we need to support him ... or her.

Jack used to invite senators, representatives, committee staffers and media to dinner-and-a-movie receptions where he would show blockbuster movies that wouldn't be out for weeks. A reporter covering import-export tariffs might sit next to William Safire or Alan Greenspan.

Jack accomplished a lot with dinner and movie. Think what we could accomplish with dinner and a drive ... or a drive and dinner if there is wine involved ... of new not-yet-public vehicles.

I have never met anyone that doesn't get goose bumps when they see a styling mockup of a car of the future.

Think what we could accomplish if the head of the A2IA could call out the big guns like Jack Valenti did in 1983 when he brought Kirk Douglas, Charlton Heston and Warren Beatty to Washington to testify before Congress when the FCC wanted to change syndication rules that forbade broadcasters owning any of the shows their aired.

We need to bring out the big guns to speak on our behalf. The problem is right now the big guns are pointed at us. We need some ammunition to change the game.

The A2IA could spearhead the public debate ... and the mechanics of the industry's transformation.

For example, we need a common Product Creation Process that connects the automakers, suppliers, associations, universities, government agencies, unions and others.

I'm talking about an open-source, internet based, information portal that allows everyone in the automotive community access. Yes, the foreign automakers and suppliers, too. This is no pipe dream. There is a group working on this strategy right now.

Wouldn't it be smart for Washington to invest in an infrastructure that ensures the U.S. becomes a global leader in design, development and manufacturing of sustainable transportation?

If we can get our act together ... If we can learn to speak with one voice, we can ask the Obama Administration to help fund this collaborative, next-generation management and product development process ... Product Creation 2.0, if you will.

Just imagine what could come from the ability tap into such an institutional brain as we go through the most comprehensive technological change our industry has experienced in the last 100 years as we move toward more fuel efficient vehicles.

Just imagine what would happen if we could get the waste out of the product develop process and just did value-add work. We would blow Washington away with our financials and our streamlined processes.

The result will be a new business model that creates jobs and wealth, makes the U.S. auto industry globally competitive, allows it to profitably build the high demand, fuel-efficient vehicles customers demand, keeps R&D in the U.S. and helps rebuild the American infrastructure.

The choices we make now will determine how we reinvent ourselves.

If there was ever a time to create the A2IA it is now.

Washington, we don't see what you see. We see an industry that is ready to take the steps necessary to move forward and has the technology and know-how to do it. We've set our sights on the future. To paraphrase Arnold Schwarzenegger, "We'll be back."

There is no doubt the auto industry needs to change. We have gone beyond the tipping point. Change is unstoppable ... but we can steer it in a better direction ... although we need to pick up speed.

Today there are three scenarios facing the group in this room ...bankruptcy ... irrelevance ... or sustainable growth and prosperity. I prefer and believe in the last one. Like many movies our future is "not yet rated." I, for one, think we have every possibility of winning an Oscar and a Golden Globe.

During World War II Winston Churchill once said "Do not let us speak of darker days: let us speak rather of sterner days. These are not dark days. These are great days ... the greatest days our country has ever lived and we must all thank God that we have been allowed, each of us according to our stations, to play a part in making these days memorable in history."

A good crisis is a terrible thing to waste. Let's not waste this one.