



UAW Has a Point When It Says Don't Blame the Union: Doron Levin

By Doron Levin



UAW contract negotiations

Aug. 2 (Bloomberg) -- Detroit's automakers are asking for unprecedented concessions this year in contract talks with the United Auto Workers union. They just may get them.

But if the union approves wage or benefit reductions of historic proportions, lower labor costs alone won't be enough to rescue the U.S. auto industry.

Financially wobbly U.S. automakers are struggling with a much deadlier problem than uncompetitive labor costs. Their entire playbook, the business model that for decades put millions of cars in American driveways and produced prodigious wealth, is obsolete.

One of Detroit's key innovations from the days when General Motors Corp., Ford Motor Co. and Chrysler Corp. called the shots in the U.S. vehicle market was a concept called the standard planning volume. Each manufacturer calculated market demand and how many of each model it intended to manufacture annually, in which colors and so forth.

Ford, for example, in the mid-1980s was targeting sales of 400,000 or so Ford Tauruses and Mercury Sables, sedans and wagons. The number neatly matched capacity at two Ford final-assembly plants.

When automakers successfully matched supply, demand and factory capacity, their dealers could sell Ford Mustangs, Dodge Caravans and Chevrolet Caprices at close to retail prices. If demand flagged, excess vehicles were discounted and profits fell. As the popularity of the Taurus waned, Ford discounted the car to daily-rental fleets.

Push Vs. Pull

The advent of Toyota Motor Corp., Honda Motor Co. and other foreign manufacturers broke Detroit's market monopoly. "Pushing" a standard volume of vehicles became much dicier as demand for Detroit's products dwindled.

Toyota and Honda had to estimate demand as well; but they tended to build fewer cars than they could sell. The Japanese also were adept at building multiple models on one assembly line; if demand for one was soft the volume of others might be increased.

By selling fewer cars than the market demanded, Honda and Toyota could discount less, which maintained the value of used Camrys and Accords. High resale values attracted new customers.

Japanese 'Pull'

The Japanese style was to let demand "pull" orders from dealers, rather than "push" vehicles to a sometimes reluctant market. Pulling rather than pushing gives a clearer picture of which styles, features, colors and option packages are popular.

Detroit has steadily alienated customers by forcing discounted vehicles into the market, such as those recycled from rental fleets, undermining resale values. The loss of 150,000 customers translates into one factory GM, Chrysler or Ford must close (with the loss of several thousand UAW jobs), matched by a new factory that Honda or Toyota can open.

GM, Ford and Chrysler executives insist, and correctly so, that they're more responsive than ever to the market. Assembly lines are more flexible. Detroit is adjusting, yet U.S. automakers remain mostly top-down organizations, tails wagging dogs, that dictate how many cars must be sold to pay the bills.

Labor Costs

The UAW has a point when it complains that GM, Ford and Chrysler unfairly and mistakenly blame labor costs for the industry's losses. Labor accounts for just 10 percent of production costs, the UAW says. Gutting union wages and benefits won't fix falling sales.

Above-market wages and benefits, especially for retiree health care, surely are a disadvantage. But a bigger drawback of UAW contracts is the lack of flexibility they impose on the corporations' operations.

How could any automaker respond to market forces when factory workers are promised job security, no matter what? Since workers draw pay even during layoffs and plants can't be shut until a contract expires, labor is a fixed cost rather than one that can and should vary according to demand for vehicles.

Detroit's production methods are shaped in part by financial commitments to UAW autoworkers and retirees. Falling sales and market share are seen as less critical than the need to keep assembly lines rolling, generating cash if not profit.

Bigger Losses

That's why U.S. automakers' factories keep spitting out cars that lose money: Losses actually would be greater if the cars didn't get built.

The UAW is aiming for another four-year contract when the current one expires Sept. 14. If the union hopes to reverse the horrific job losses that have decreased its ranks by two-thirds since the 1970s, it ought to focus less on wages and more on manufacturing flexibility. Perhaps the UAW ought to drop its historic opposition to temporary workers and consider expanding their use during slack times.

Top managements thus might be inspired to redouble market and product research, so much the better to create the new cars that consumers actually want.

To contact the writer of this column: Doron Levin in Southfield, Michigan, at dlevin5@bloomberg.net

Last Updated: August 2, 2007 00:07 EDT