

# Honda & Ford have their own challenges

Dear friends,

This is week four of our series of articles designed to address the difference between perception and reality relative to the myth of import vehicles, or any vehicles, foreign or domestic, being better than G.M. vehicles.

Three weeks ago we printed an article that clearly shows more Americans buy GM products than any other make. In weeks since we published various articles about other manufacturers who have experienced problems that you may not have read about anywhere else.

Today we are reprinting various articles about Honda and Ford who are no different than any other manufacturer in that they also face quality issues. I think you'll find some of this information interesting. And for more information about "today's GM vehicles", stop by and let us show you "the rest of the story." You'll be impressed.

As always, I welcome your feedback, please feel free to e-mail me at [chuck@nicholsonauto.com](mailto:chuck@nicholsonauto.com).  
Thanks, Chuck Nicholson



## Ford's five-year funk

The relentless march of import brands has hurt Ford far more than GM.

There's no doubt the past five years have been brutal for the Detroit automakers. But, according to a January 9, 2006 Automotive News article, you may not realize just how unevenly the pain has been felt among the Big 3. The relentless U.S. sales onslaught by Asian automakers - revealed starkly again last week when final 2005 figures were released - has taken widely divergent bites out of General Motors, Ford Motor Co. and the Chrysler group. The bloodiest victim? Ford, by a staggering margin. Compare the 2005 and 2000 sales figures: Ford Motor, including its foreign brands, lost more than a million units of sales in the United States, a quarter of the automaker's 2000 volume. Sales of the Ford brand alone fell by 823,955 vehicles. Lincoln and Mercury also took severe hits. Put another way, Ford Motor lost the equivalent of three full Mercury divisions since 2000, which was the industry's biggest sales year on record. Mercury sold 359,143 units in 2000. Ford's five-year free fall occurred almost across the board, led by once vaunted nameplates: The Explorer SUV lost 205,369 units, down 46 percent. Ford's minivans - the Windstar and the Freestar -

lost 144,713 units, a 65 percent drop. The Ranger pickup lost 209,167 units, down 63 percent. The meltdown is all the more striking when you consider that Ford was surging in the mid-1990s. Alex Trotman, Ford's CEO at the time, even set his sights on overtaking GM as the world's largest automaker. The pain doesn't stop there. Last year marked the 10th straight year of market share decline for Ford's domestic brands. So just what happened at Ford?

"We lost our way," said Mark Fields, Ford Motor's fourth new head of North America in the past five years, at last week's Los Angeles auto show. "We lost touch with our customers-particularly our car customers." In 2005, Ford regained some traction in car sales, helped by the debut of the 2006 Ford Fusion sedan. But that didn't offset the collapse of the Explorer and other trucks, allowing the Chevy brand to grab the U.S. sales crown for the first time in 20 years. In 1995, Ford, Lincoln and Mercury held 25.7 percent of the U.S. market - nearly identical to GM's share in 2005 of 26.2 percent. By 2005, Ford Motor's domestic brand share had plunged to 17.4 percent. It's time to "change or die," said Fields.

## Honda needs its mojo back

### Can the automaker recapture its innovative spirit?

By James B. Treece  
Asia Editor of The Automotive News,  
February 2006.

From 1995 to 2000, Honda was the hottest, most innovative Japanese carmaker. A string of hits set Honda apart. Honda's reputation then was reminiscent of Sony Corp.'s in its glory days. Sony didn't unveil a trend-setting Walkman every year. But it came up with innovative hits just often enough to earn a premium image as an innovator and to charge premium prices.

Ditto Honda. Like Sony, though, Honda hasn't had a trendsetting hit in five years. Its hybrid Insight coupe, Accord Hybrid sedan and Pilot SUV broke ground in their own ways, but all missed the mark. Consumers received them with as much enthusiasm as they gave to Sony's answer to the iPod. The Ridgeline pickup is an example.

In January 2006, the Ridgeline was named North American truck of the year by 49 journalists. But consumer reaction to the Ridgeline shows just how far the Honda brand has fallen. But when Honda tried to charge the sort of hefty premium price that

the Honda brand once commanded, customers refused to pay it. The Ridgeline hasn't clicked with customers.

What went wrong?

For one thing, Honda lost the hunger that drove it to take risks. In the early 1990s, Honda was hurting. Mitsubishi and others were eating its lunch. Nobuhiko Kawamoto, named president in 1990, watched sales in Japan slide from 686,570 in 1990 to 549,112 in 1994. Kawamoto prodded his product planners, designers and engineers to come up with exciting new cars. They did and met the challenge.

In the process, though, Kawamoto drove Honda like a dictator. He took over much of the decision-making himself. Other top managers didn't build that risk-taking experience. When Kawamoto stepped down as president in 1998, the succeeding managers were not well-primed for the job. Honda lost momentum.

Honda needs its mojo back. It is too small a company to compete with the big boys otherwise. It needs to stand out and to have its brand stand for something. It has a history of exciting innovations, and it needs to get back to that tradition.

## Ford police car fires

The following article is certainly a controversial subject. We don't mean to appear insensitive and almost chose not to become involved in this issue. However, it's pretty obvious that consumers have not been made aware of this issue anywhere else, especially when considering the enormous number of vehicles involved. This matter could potentially affect five million vehicles that are still on the road today. Here's the story:

The Ford Motor Company continues to be plagued by ongoing allegations that a design flaw in its Crown Victoria police cruiser is responsible for fuel-fed fires that have killed at least 21 police officers who survived the initial collision but burned to death in the ensuing fire. In addition, numerous police officers have suffered severe, life altering burns. Hundreds more civilians, including taxi cab and limousine occupants, have also been killed or severely burned according to the Web site listed below.

According to engineers, the problem is the design of the Crown Victoria. The gas tank is behind the rear axle. When hit at high speed from the rear, the tank is crushed, leaks and explodes. In a deposition, Ford has admitted the fuel-fed fires in this line of sedans have already claimed more lives than the Ford Pinto when it was recalled in the mid-1970s. An estimated 5 million unprotected civilian Crown Victorias, Lincoln Town Cars and Mercury Grand Marquis are in use on roadways today.

A few years ago, Ford began retrofitting older models of the Crown Victoria police cars with protective fuel tank shields and in 2004 the shields became standard equipment on police car versions of the Crown Victoria. However, even since Shields have been installed as standard equipment, numerous additional fatal fires have occurred, one of which was in Ohio. On September 29, 2006 two Ohio State Highway patrolmen were burned to death in a '05 Ford police car. It was equipped with a shield.  
For more information see "[www.crownvictoriasafetyalert.com](http://www.crownvictoriasafetyalert.com)"

## Honda lawsuit

The Superior Court of the State of California has given preliminary approval of a proposed settlement of a class-action lawsuit by certain Honda owners versus American Honda Motor Co. to owners of record as of August 21, 2006.

On December 28, 2006 at the Superior Court in Oakland California, "a fairness hearing" will be held "to determine whether the proposed settlement is fair, adequate, and reasonable and should be finally approved."

The lawsuit came about "after angry owners swamped online forums and appealed to the National Highway Traffic Safety Administration for a safety recall because of a transmission that could slip out of gear, not go into gear, abruptly downshift or refuse to shift."

The plaintiffs in this class action law suit alleged that "the automatic transmissions in the class vehicles contain defects that may result in partial or complete failure of the automatic transmission at any speed."

If the Court gives final approval to the Proposed Settlement, class members will receive a warranty extension on their Class Vehicle automatic transmission extending the warranty period to 93 months from date of initial purchase or lease of the vehicle (an additional nine months) or 109,000 miles in service (an additional 9,000 miles), whichever comes first.

Honda has projected the cost of the settlement benefits to Class Members to be approximately \$90 million.

If the Settlement is not finally approved, there will be no reimbursement. Further, there will be no reimbursement for repairs or replacements performed prior to August 21, 2006. Vehicles in question are certain years of: Honda Accord, Honda Odyssey, Honda Prelude, and some Acuras.

## Ford loses \$5.8 billion

Ford Motor Co. posted its worst quarterly loss in 14 years for the third quarter, and warned that automotive operating losses will be even higher this quarter.

Ford reported a preliminary net loss of \$5.8 billion in the third quarter, compared with a net loss of \$284 million in the third quarter of 2005, according to the Oct. 24, 2006 Automotive News article. "Let me make it clear: These results are unacceptable," said CEO Alan Mulally on a conference call. But Mulally isn't the first Ford executive to spell out that recipe for success, says David Cole, chairman of the Center for Automotive Research. "The problem is, people have been saying it for a long time, but they haven't really been doing it," Cole said. "Now, it's the end of talk. They need to do it really fast." But fourth-quarter production in North America is slated to be 19 percent lower than a year ago. That's a big hit to earnings because automakers book profit on vehicles when they ship them to dealers, not when they sell.

Ford said that earnings and market share comparisons "will be unfavorable for the next three or four quarters."

North America is not Ford's only problem. Its troublesome Premier Automotive Group - Jaguar, Land Rover, Volvo and Aston Martin - is also showing signs of weakness. PAG posted a \$593 million pretax loss for the quarter, compared with a pretax loss of \$108 million a year ago, with sales down \$300 million and warranty costs at Jaguar and Land Rover escalating.

It was Ford's biggest quarterly loss since the first quarter of 1992, when it posted a net loss of \$6.7 billion. Ford executives said last week that the automaker will continue to post lower year-over-year operating results for the next three quarters.

That means Ford expects to post a fourth-quarter loss in its automotive operations of more than the \$1.8 billion pretax loss incurred in the third quarter.

## Honda Ridgeline, more car than truck

For years Honda only produced small vehicles. In 2005, Honda launched their first truck called "Ridgeline" with great fanfare. However, it soon became evident that the Ridgeline was a sales dud.

On August 1, 2005 Greg Migliore, a writer for The Automotive News wrote: "The Honda Ridgeline has a price problem. The V-6 pickup costs about \$10,000 more than other compact trucks in the United States."

And that is hurting sales, said Koichi Kondo, president of American Honda Motor Co. Honda built the Ridgeline by creating it from the Odyssey minivan platform. Engineers welded a frame to the Odyssey's unibody. It does not have a traditional truck frame.

A van-based pickup is not nearly strong enough to be used as a true truck by traditional truck owners. According to Power Information Network data, the Ridgelines average transaction price in July was \$31,602, nearly \$10,000 more than the average price of other compact trucks. The power information network is an affiliate of J.D. Power and Associates.

Honda executives in America acknowledge the higher prices. Even Honda dealers complain about the high price. Jim Roland, general sales manager of Heritage Honda in Baltimore, says: "It's a lovely vehicle. I think it's a tad overpriced. It's more or less priced up with the bigger trucks, but it's a small vehicle."

Although incentives could spur sales, Roland doesn't want to see Honda employ the tactic. He favors a more drastic approach: "I feel that they ought to drop the price-period."

With Ridgeline sales starting out slower than expected, Honda Motor Co. is cutting production of the new pickup.

Honda CFO Satoshi Aoki revealed the plans to cut production during a press conference announcing Honda's earnings for the quarter ended Sept. 30. Honda is taking 3,000 units out of its January-March production plan.

The full-year target was 50,000 but Honda sold only 25,787. On February 6, 2006 an article read: "Honda Motor Co. will cut light-truck output sharply at its Lincoln, Ala., plant to cope with high inventories." Honda did not specify which models will be cut back.

The cuts will reflect market demand, says Satoshi Aoki. Four models are under consideration for cuts: the Acura MDX and Honda Pilot SUVs; the Honda Ridgeline pickup; and the Odyssey minivan. Current inventory levels indicate that the MDX and Ridgeline are most likely to be cut.

The Ridgeline, though smaller than a traditional full-sized truck, is priced higher than most big trucks. Its base price is \$28,250, including freight. Early Ridgeline sales were almost entirely to Honda loyalists, says Tom Peyton, Honda Division marketing manager.

But Hondaphiles now account for fewer than one-third of Ridgeline sales, the company says. Honda is aiming for upscale buyers. Most conquests are young families coming out of an SUV or a minivan, Peyton said. "You really had to want our truck," Peyton says.

## Power stroke woes anger buyers, drive up warranty costs

James and Penny Schrader have bought Fords faithfully for 30 years. But persistent problems with the Power Stroke diesel engine in their 2004 F-250 pickup have unraveled three decades of brand loyalty according to a Dec. 12, 2005 Automotive News article. The Schraders, both 63, put a second mortgage on their home in Linden, Mich., to buy the \$45,000 truck. Now they say they'll probably never buy another Ford.

"My husband wouldn't look at anything else," says Penny Schrader of their pickup. "But I don't care how good their product was in the past. They haven't treated me well as a loyal customer."

The Schraders aren't alone. Ford Motor Co. has been sued by numerous consumers who bought 2003- and 2004-model Power Stroke trucks. The company also has fielded more than 12,000 consumer complaints, according to Ford's internal warranty data.

Not a minor flaw

This isn't a minor flaw that Ford can dispatch with basic service. The Power Stroke's warranty

repair costs are battering Ford's bottom line. In a conference call with Wall Street analysts last March, a company executive acknowledged that Ford's diesel-powered super-duty pickups suffered from quality problems.

Ford has declined to estimate the cost of fixing those defective Power Stroke engines. But Ford has acknowledged that its warranty costs ballooned by \$500 million through the first nine months of 2005, compared with the same period a year earlier.

Trouble from the start

The 6.0-liter Power Stroke engine has been troublesome from the day it was launched in the fall of 2002. It replaced a somewhat unrefined 7.3-liter diesel. The powertrain was built by a longtime Ford diesel supplier, International Truck and Engine Corp., of Melrose Park, Ill. For this version of the engine, International Truck designed a unique high-pressure fuel-injection system.

Most automakers use only electronic controls to operate the fuel injectors in a common-rail system. But the Power Stroke's fuel injectors are operated

by a high-pressure oil pump as well as electronics. Ford has voluntarily recalled the engine at least twice to fix various problems. The troubles have caused a rift in relations between Ford and International.

According to several of the 150-plus complaints posted on the Web site of the National Highway Traffic Safety Administration, some trucks never even made it home from the dealership before the fuel injectors or turbocharger failed.

The engine also has been plagued with leaky fuel injectors, oil leaks, broken turbochargers, wiring harness troubles, faulty sensors, defective exhaust gas recirculation valves and bad computers. Since the engine debuted three years ago, Ford has issued at least 77 technical service bulletins. These far above average, even for a new engine. These bulletins tell mechanics how to diagnose and fix various problems.

Less help from Ford?

When the Power Stroke's troubles surfaced, Ford tried hard to keep customers happy. In the sum-

mer of 2003, Ford took the unusual step of buying back 500 trucks, mostly because of fuel system problems.

But two diesel technicians say Ford has changed the way it deals with the engine problems. "When they first started out with the 6.0-liter, Ford had a team that was looking over every bit of it and just doing whatever it took to get them fixed," says Mark Ward, a master diesel technician at Landers McLarty Ford in Bentonville, Ark. "And then that just shut off like a light when Ford found out how much losses they were having." Ward contends Ford is trying to shift more repair costs onto consumers. "We used to replace turbochargers left and right if the fins had any damage to them" he says. "Now they (Ford) won't accept a turbo back with any fin damage. They are saying if there is any (turbocharger) fin damage whatsoever, it has to be from a dirty air filter. You have to inform the customer that Ford won't pay for that. It's \$700, plus the labor." The fin is the part of the turbocharger that is driven by engine's exhaust system.

## Ugly Honda?

The CR-V, Honda's small SUV has not sold well as Honda expected, so they decided to find out why. One thing they found was that while some people would buy any Asian vehicle, many Americans viewed the CR-V as being... well... ugly.

Honda designer Shoji Fujimaki charged with redesigning the CR-V crossover, was shocked when he got results of customer research in the United States.

"Many people said the car looked wimpy and boring," said Fujimaki, a 17-year Honda employee, at a September 4, 2006 Automotive News press event. "That made me feel bad because it was the first time that I realized that some people thought Hondas were like appliances."

In fact, the CR-V product planner, Christina Ra stated, "Frankly people were buying it in spite of its styling" and, she says, "Those who didn't buy often cited styling as the reason."

Another reason the CR-V hasn't sold in big numbers, according to a USA Today review, is that the CR-V is only available with a four cylinder while competitors such as the Chevrolet Equinox offers a six-cylinder, which has more power "when you're toting a load, driving in hilly terrain, passing on a two lane or merging into a fast big road."

Even with Chevrolet Equinox's superior power it still achieved comparable highway fuel mileage to the Honda. The article cited additional drawbacks to the Honda. No power seats. No automatic climate control. No front seat lumbar adjustment. No good place for the cellphone if the cup holders are in use. No auto-dimming mirror. No auto on-off headlights. No grocery bag hooks. No auxiliary sun visors (and the main visors don't slide, only swivel from front to side). Too, the six-disc CD changer whirred and buzzed loudly every time the vehicle was started and the control buttons are too small. Child-seat latches on the test vehicle were buried deep in the back seat upholstery, hard to find and use.

## Honda facing various challenges

On May 8, 2006, Automotive News reporter Kathy Jackson interviewed John Mendel, Honda senior VP of automobile operations on a wide variety of Honda challenges.

•Why is there such a big sales decline on the Accord hybrid? Do you plan to curtail production of the vehicle?

Mendel's answer: "We're looking at maybe taking some units out. The industry went down the road of performance hybrids."

•Acura can't seem to find its place. Sales are down on just about every nameplate this year. Why is that?

Mendel's answer: "What you see today is not what you'll see for the rest of the year with Acura. The RSX will go away at the end

of this year. We're looking at different variations to replace that vehicle, but I can't say anymore."

•Your flagship RL has not been selling well, and you have told dealers you will come out with an additional trim line this year. What type of trim line will that be?

Mendel's answer: "The current RL is a one-spec vehicle. This summer we will come out with another model that will give consumers a broader range of options, let them customize the vehicle a little more the way they want to. It's another choice for RL; it will be more toward the middle in the price range."

•What lessons did you learn from releasing that heavily loaded, expensive RL?

Mendel's answer: "We and the dealers learned that customers want more choices. We also learned that this was a big step up for Acura dealers. Acura is a brand that has been inconsistent, but now we're moving toward performance, luxury and technology."

•What about ethanol? Mendel's answer: "We offer it in South America. We're still testing it for emissions, mileage and fuel economy."

•The Honda Civic was once considered cool by the younger generation. It no longer is. What's with that?

Mendel's answer: "We're trying to make this known. The Civic is cool again, the last-generation Civic was vanilla, no emotion."

## Ford backs off hybrids

Here's what is really behind Ford Motor Co.'s decision to back off its promise that it would be able to manufacture 250,000 hybrids by 2010: Ford got sucked into the early hype for hybrids and misread the demand according to a July 3, 2006 Automotive News article. Ford CEO Bill Ford compounded that mistake by publicly committing the company to building too much capacity for a product unproven in the market. Doubts about Ford's ability to meet the hybrid goal emerged shortly after the plan was announced just nine months ago. In an interview with Automotive News in May, Nancy Gioia, Ford's director of sustainable mobility technology and hybrid vehicle programs, said the company had learned a lot about selling hybrids. Hybrids won't sell themselves. They need consistent marketing, she said. Also, a hybrid must look different. "People who drive hybrids want to make a statement that they are driving a hybrid," Gioia said.

Cost is probably another reason Ford is pulling back on hybrids. Each one it sells loses money, and there is almost no short-term hope of bringing costs down. Consumers considering hybrids, including the Toyota Camry and Honda Accord, have been weighing the costs and deciding that the vehicles are not worth the hefty premium, says Mike Jackson, director of North American vehicle forecasting for CSM Worldwide.

Hybrids also have lost traction because the pool of buyers is not as deep and wide as Ford expected, says Thad Malesh, an analyst who tracks alternative powertrains for the Automotive Technology Research Group in California. Hybrid sales have been inconsistent.

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Next week in this space we'll look at women leaders in the auto industry.