

# PART 5 - THE SKY IS FALLING - THE SKY IS FALLING

## HYBRIDS

With today's high priced gasoline, few automotive subjects invoke more conversations than the subject of hybrids. Hollywood has embraced the trendy hybrid and it seems that whenever the "glamorous people" adopt an issue, the media jumps all over it and soon it's the latest greatest "gotta have" product...good...bad...or indifferent. We all know that our country must do something to decrease our dependency on foreign oil. Each and every automaker desperately wants to be the first one to bring safe, dependable, alternate fuel vehicles to the market that will be affordable to the consumer and profitable to the maker. It should be noted that hybrids are not the only alternate fuel propulsion system automakers are experimenting with. Hydrogen fuel cells, ethanol fuel, natural gas, and diesels are other alternate fuel systems being perfected. Relative to hybrids, I'll share a couple of facts that most people aren't aware of.



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- Number One - Did you know that there is more than one type of hybrid? GM will provide consumers with three distinct hybrid propulsion systems that vary in fuel economy savings and cost.
  - Number Two - Did you know that GM is the real hybrid leader whose current hybrids "are making a positive impact the whole country could feel?" I'll explain GM's hybrid program in next weeks article. You may be surprised.
- Back to the hybrid concept, let's examine some issues that surround every automakers hybrid efforts.

## PREMIUM PRICE VERSUS LESS THAN EXPECTED MPG

Hybrids cost more. In some cases...a lot more. In projecting demand, J.D. Power and Associates has assumed a \$4,000 price premium for hybrids in general compared with tradition gas vehicles. In March '05 the "USA Today" stated that Toyota expects to charge hefty premiums - about \$5,000 to \$8,000 for standard hybrid SUV's and \$11,360 more for their luxury model.

For the sake of comparison, let's use the \$4,000 price premium for a small hybrid car. Last month the "USA Today" ran an article entitled "Cost savings may not offset higher price for hybrids" the article read, "*Gas-electric hybrid vehicles are better for the planet than the pocketbook, a new study finds. The premium automakers charge for the advanced technology isn't completely offset by gas savings and federal tax credits over the five years that owners typically keep all vehicles, the analysis by Edmunds.com for USA Today says. The study, the latest on break-even points of hybrid cars, shows that in most cases, an owner would have to drive a hybrid tens of thousands of extra miles a year or gasoline would have to hit stratospheric levels to reach a break-even point with a comparable gas-powered model. The study shows, "If people go in with the idea they are saving money, they are mistaken," says Jesse Toprak, pricing director for Edmunds.com, an auto research site.*" For example, the article indicated that in order for a Honda Accord hybrid owner to break even, compared with a non-hybrid model, gasoline would have to cost \$9.20 per gallon for 5 years. Or, if gas was "only" \$2.28 per gallon, the Honda owner would have to drive it 60,000 miles each year for 5 years. That's just to break even. A Honda Civic owner would have to drive 63,000 miles per year for 5 years to break even. And that's if hybrids actually get the promised MPG.

Relative to poor mileage a 7-11-05 article in Automotive News stated, "*Toyota has been stung by complaints from Prius buyers who expected to get close to the EPA estimates,*" but are not coming close. Many Prius drivers report getting about 11 mpg less than its EPA ratings.

## RELIABILITY

Reliability of today's hybrids is a huge question mark. Some Toyota hybrid owners are already experiencing serious problems. According to the "USA Today" on June 2, 2005, "*The National Highway Traffic Safety Administration said Wednesday that it has received 33 reports of engines stalling, the vast majority while the car was being driven 35 to 65 miles per hour. NHTSA's "preliminary evaluation" covers an estimated 75,000 Priuses from the 2004 and 2005 model years. All the complaints "reported that the engine shut down suddenly without warning," a NHTSA memo states. At least half the complaints "reported that when the engine shut off, the vehicle would not restart and had to be towed." The article continued, "NHTSA noted that Toyota issued service advisories three times last year to address software problems in the Prius, which depends heavily on onboard computers.*"

Today's hybrids are complex with as many as 50% more parts, which makes it more expensive to build. In addition hybrids "depend heavily on computers." So, ask yourself this - if they are having reliability issues now, how expensive will it be to repair today's early hybrids next year when the warranty has expired? What about routine maintenance costs?

## DEPRECIATION

Depreciation costs are impossible to predict at this point. However, it's a safe bet to say that if today's early hybrid vehicles perform well with promised fuel mileage, are reliable, and not expensive to repair after the warranty has expired, they will have a good resale value. On the other hand, if they don't perform well, don't deliver promised fuel mileage, break down often, and are expensive to repair and maintain, the value of used hybrid models will drop like a rock leaving customers who financed it owing way more than its worth.

## AT PRESENT, HYBRIDS ARE IMAGE BUILDERS

Currently, no automaker is making a profit on hybrids. All are losing money on hybrids even with the premium prices they charge customers. Hybrids are expensive to build because they have 2 engines, one gas and one electric, and since there are so few built, auto manufacturers can't spread their cost enough. Out of 16,000,000 passenger vehicles that automakers will sell in the USA this year, only about 200,000 will be hybrids. So why do automakers build hybrids and then sell them at a loss? The answer is to experiment, gain experience, and build their image. A good company image tends to make consumers look more kindly at every vehicle that company builds. In January 2005 General Motors Vice President, Robert Lutz, was pretty blunt about it when he stated, "*We failed to appreciate what Toyota has basically treated as an advertising expense,*" Lutz says. *In hindsight, he says: "We should have said, 'We'll lose \$100 million a year on hybrids, but we'll take our advertising budget of \$3 billion, make it \$2.9 billion and treat it as an advertising expense.'"*

Hybrids are new and the jury is still out as to which alternate fuel power plants (hybrids, hydrogen fuel cell, diesels, natural gas, etc.) will ultimately prove to be the most viable choices. And, you can be sure one will emerge on top. If it does turn out to be hybrids you can bet that tomorrow's hybrids will be cheaper and more reliable. It just isn't today's hybrids. Honda agrees. John Mendel, senior VP of American Honda, indicated in a 7-18-05 Automotive News article that he is not enthused with hybrids even though Honda builds them. He stated "*I do not think they are the best solution. Right now hybrids don't make sense economically.*" The Honda VP thinks that natural gas powered cars are, "*a lot better deal for the consumer than hybrids.*"

## WHY DOESN'T GM HAVE A HYBRID?

They do - lots of them. In fact GM has more hybrids in service today than Toyota, Honda, and Ford combined. I'll explain in next week's article, Hybrids Part 2.

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