Marchionne wants a partner but says FCA can survive alone ‘in mediocrity’

Larry P. Vellequette and Luca Ciferri
lvellequette@crain.com
ETROIT — Compared with its larger and far richer global counterparts, Fiat Chrysler Automobiles faces a set of problems that appears almost insurmountable.

FCA trails its competitors in profit margin, r&d spending, fuel economy, hybrid technology, self-driving cars — you name it. At a time of unprecedented capital investment needs in the auto industry, FCA is the only major carmaker in the world with more debt than cash.

Ouch.

So what’s the level of desperation? CEO Sergio Marchionne insists FCA is not desperate at all, that the company can survive on its own — “in mediocrity.” Given a choice, he’d choose another path. He says FCA needs a partner and that it’s a no-brainer who that partner should be: General Motors. (See Page 1.)

Marchionne acknowledges extreme challenges compared with larger global automakers. Many of them, he says, are because of the financial weakness and years of neglect as Chrysler was coming out of its 2009 bankruptcy.

Six years later, it is still feeling the effects, even with Jeep selling at stratospheric levels and FCA overall ringing up over five years of consecutive monthly sales gains in the U.S.

Marchionne says if FCA continues “globalizing Jeep at the speed of light” and developing Alfa Romeo and other premium vehicles, it will have sufficient capital to survive for the long term.

“Jeep ‘is the biggest insurance policy I have because that brand was the best part of Chrysler by a long, long stretch.’”

Sergio Marchionne, CEO, FCA
Squeezed

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Heavier than its predecessor. That means higher fuel consumption as competitors launch lighter models on new platforms. So over time, the weight disadvantage increases for FCA.

In 2014, FCA’s U.S. fleet averaged 21.1 mpg, last among all volume automakers in corporate average fuel economy, trailing full-line Nissan by 5.7 mpg.

Today, with the exception of a $1.4 million LaFerrari, you can’t buy a hybrid from any of FCA’s 11 brands. You can, however, purchase a battery-electric Fiat 500e in California and parts of Oregon, but if you do, FCA will lose about $14,000 on the transaction, according to Marchionne.

While companies such as Toyota, Ford and Hyundai-Kia sell the same products in China, the U.S. and Europe, FCA is still the sum of four regional and marginally interconnected regions, with shrinking sales in economically stricken Brazil and a negligible presence in Asia-Pacific, for now.

The group appears to have made no progress in connected car and autonomous driving, which Marchionne calls a Pandora’s box of problems.

Finally, of all major global automakers, only FCA has a net debt — $8 billion. Every other company is in a net cash position.

Marchionne acknowledges FCA’s challenges. Work to do on hybrids? “Absolutely true.” Lower margins? “Absolutely true.” Failing to modernize “neglected” factories that it got from Chrysler’s previous owner, Cerberus? “Absolutely true.”

Sergio Marchionne is 63 and the first to admit that he won’t stick around as CEO of Fiat Chrysler Automobiles forever. But he may remain a bit longer than expected.

In March, Marchionne said he would remain in his role until 2018, but he told Automotive News in August that he could hang on until 2020.

“I can do this for another five years if you push me, right? Beyond that, I ain’t gonna do it, and I don’t want to,” he said.

So who follows him into the hot seat at FCA?

Marchionne said he spends six weeks each year reviewing personnel files, on the lookout for talent in order to groom them for leadership.

“My purpose in life is to find the Kuniskises of the world, the Manleys, the Biglands, the Palmers,” he said.

He was referring to his top lieutenants — Dodge brand head Tim Kuniskis, 48; Jeep brand boss Mike Manley, 51; U.S. and Canada sales chief Reid Bigland, 48; and CFO Richard Palmer, 48.

“I’ve got a crew of kids that are growing properly,” said Marchionne. “I think I will still be afraid to let them alone into the woods because they’ll come back with a [expletive] bloody nose and no legs, but there’s going to be a point in time in which I’m going to have to let them go... into the woods alone and see what they can find.”

Marchionne recalled his first days as CEO of Fiat S.p.A., which had burned through a string of CEOs before his arrival in 2004. Stability in top positions is important, which is why he said he tries to “establish a culture where leadership matters.”

He said part of growing a leadership class includes allowing people to make mistakes and take responsibility for them.

“I told them, ‘One of you is going to do what I do one day. I don’t know who that is, but one of you is going to do it.’

“When you sit in my shoes,” Marchionne said, “it’s all your fault, all of it. I can’t do it all by myself. But certainly not stellar, and I don’t see sort of phenomenal improvements in earnings going forward.

Tesla CEO Elon Musk

“I underestimated Elon. I like him a lot. That’s the problem,” he said. “He is the real deal as a disruptor. I think he sees things that other people don’t see. Do I think everything he says will materialize on his time frame? No, but I do think he brings a lot of industrial dynamics that he sees? I think the chances are less than 50 percent... but his value to me as an industry participant is that he’s a phenomenal disruptor, and this industry needs disruption — as much as we all worry about that disruption.”

Disruptors and disruption

“I think it’s healthy. I think it may break a couple of bones, but it will reconstitute a much stronger organism. And so I invite them in. I invite the Apples, I invite Uber, I invite Google. They should all come, and we’re talking to them all.”

The Giulia is risky... because a lot of good people have tried to do this stuff, and by definition not everybody’s going to be successful. I think we have put in all the safeguards into that bet that we can, including the fact that I can stop the investment cycle if I want to.”

The Giulia carries impressive performance numbers but, more important for FCA, rides on a new platform that...
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can be used globally to underpin different rear-wheel-drive cars, crossovers and SUVs for several brands.
For example, at a dealer show in Las Vegas last week, Dodge showed a next-generation Charger and a convertible Barracuda that will be developed off the Giulia’s platform.
Most of those future products — for Dodge, Jeep, Maserati and Chrysler, as well as Alfa — are still years away. For now, Marchionne must run FCA as it is and wait to see if his Alfa bet pays off.

Regional problems
Waiting for Alfa might prove difficult. Since Fiat and Chrysler’s shotgun wedding in 2009, the combined company hasn’t seen a quarter when all of its global regions were firing on all cylinders. Early on, the North American Free Trade Agreement area was weak as the automaker dumped billions into its lineup and its factories to restore years of neglect from Chrysler’s former owners. But just as North America was turning the corner, Europe collapsed.

“All the money that I make now is a question of rebuilding equity. If I went to the public market and I raise 10 billion, 15 billion, debt levels would go down. But I’ve got a significant shareholder [the Agnelli family] who’s got a 30 percent stake in FCA.”

Sergio Marchionne

Now, as Europe stabilizes, Marchionne said FCA is “walking on eggs” because of a potential political vacuum in the Brain London America. And in Asia-Pacific and China in particular, sales of its high-end imported Maserati luxury cars are slowing substantially.

“If he goes it alone, Marchionne’s global response plan is simple. It’s Jeep, which last year sold over 1 million vehicles for the first time in its history and this year is on track to hit 1.2 million.

This summer, workers in Brazil began producing the Renegade subcompact SUV in a massive new plant in Pernambuco. FCA expects the Renegade to drive revenue and profit in Brazil.

Adding brands from the former Chrysler Group in 2011 did help in 1988, Fiat Auto was fighting head-to-head with Volkswagen Group to be Europe’s No.1 automaker. Last year, FCA sales were less than a fourth of what VW sold — 767,858 vs. 3,313,435.

In the first half of 2015, FCA sales rose by 13 percent to 472,823 vehicles in a market that includes the 28 countries of the European Union, plus Switzerland, Iceland and Norway. The overall market grew 8.2 percent to 7.4 million units.

The Renegade added 27,590 sales in the first half, while the 500X — launched early this year — accounted for 30,436 buyers in the same period, according to JATO Dynamics.

Jeep helping to power FCA in Europe
Thanks to a strong start for the Jeep Renegade and its sibling, the Fiat 500X, Fiat Chrysler’s sales in Europe are recovering faster than the overall market.

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But FCA has far to go to regain the ground lost in the last decade due to lack of new product launches. Last year, FCA was tipped by Hyundai-Kia, sliding to the No. 8 spot among auto groups in Europe.

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Adding brands from the former Chrysler Group in 2011 did little to help Fiat’s fortunes in Europe, where only Jeep sells a significant volume. Indeed, in the last nine months, Jeep has been the fastest growing brand in the region — up 174 percent in the first half of 2015 alone.

Ram and Dodge are not sold in Europe, while the Chrysler brand is being discontinued after an ill-fated combination with Lancia.

The Fiat brand ranked ninth in the first half, behind Audi, BMW and Mercedes-Benz and marginally ahead of VW Group’s value brand, Skoda.

Jeep Renegade sales in Europe hit 27,590 in the first half.