

## Carmakers target R&D departments to survive

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By John Reed

As global car sales collapse, carmakers are shelving more vehicles and warning that cuts to their research and development budgets - the future lifeblood of their businesses - will be next.

Car companies, after slashing sales forecasts and idling underused plants, are now reviewing their product lines and making painful choices to delay or pull the plug on planned models.

Ford Motor last week said it was postponing production of a new version of its Transit van as it announced plans to cut 850 jobs at the Southampton, UK plant that makes it.

Fiat's Alfa Romeo and Lancia brands have delayed launching their planned Alfa 940 and Ypsilon models, which were planned for this year, until 2010.

Honda and Cadillac recently announced they were dropping their S2000 and XLR roadsters after the current model year. BMW last year shelved plans to produce the CS, a sleek, high-end car - and the X7, which would have been its largest sport utility vehicle.

The delays mean further trouble for the financially fragile auto supply sector, as suppliers are forced to spread the cost of their own investments across fewer models.

Carmakers, which are traditionally loath to talk about reducing R&D, warn that this will be next as they cut costs across their operations. "The global auto industry is under extreme pressure right now as a direct result of the financial crisis," says Christoph Huss, president of the international Association of Automotive Engineers and a group vice-president at BMW. "It is inevitable that some companies will be forced to review certain production and engineering projects, along with wider spending cuts in areas like marketing."

Mr Huss insists that cutting R&D is "not a viable option", given the regulatory pressure they face globally to produce cleaner and safer cars.

However, industry consultants say many car companies are already in effect doing so by delaying or mothballing new models.

"Everybody's cutting to the bone," says Michael Robinet, vice-president for global forecasts with CSM Worldwide, an industry consultancy. "The danger is that they will begin sawing off limbs."

The squeeze is strongest at America's cash-poor domestic carmakers, which face pressure from regulators to build higher mileage-per-gallon vehicles even as they make painful cost cuts to their operations to avoid bankruptcy.

General Motors recently suspended work on a plant in Flint, Michigan due to make engines for the Chevrolet Volt and Cruze, two showcase models, in the troubled carmaker's efforts to revamp a line-up dominated by larger vehicles. GM will initially import engines for the cars but says it plans to build them in Flint later.

America's three main domestic carmakers are counting on the government to help them re-tool their plants to make cleaner cars from a \$25bn Department of Energy loan package approved last year. Steven Chu, energy secretary, on Friday said he planned to speed up a review of the loan applications.

France's government has pledged to help support PSA Peugeot Citroën and Renault's investments in electric cars and new technologies. Further measures to support the industry are expected this week.

As the crisis continues, analysts expect carmakers to cut more high-risk and niche vehicles from their portfolios, concentrating on small and midsize offerings and lower-emission technologies they need to meet regulatory requirements. "The industry is going to have to go back to the basics," Mr Robnet says.

Carmakers, after shortening models' lifecycles over the past decade, may now also move to lengthen them, but analysts say they will be watching their rivals' product plans. "If you do it and your competitors don't, you lose out," says Philippe Houchois, European automobiles analyst with UBS.

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