CASE STUDY

DETROIT'S BIG THREE- AN AUTO BAILOUT

Detroit's Big Three was not the only automotive companies that want the government to come up with the much awaited financial help. Most prominent overseas automakers, Toyota Motor, recommended some form of federal aid to keep General Motors (GM, Fortune 500), Chrysler LLC and possibly Ford Motor (F, Fortune 500) out of bankruptcy. Toyota Motor (TM) spokeswoman Mira Sleilati said that they support Bush administration’s intention to provide the automakers help from the $700 billion approved to bail out banks and Wall Street firms because they “just want a strong, competitive healthy industry.” It seemed surprising at first instance, but later made sense after taking a closer look at the dynamics of the auto industry and the intertwined fates of its companies.

Toyota, Honda Motor (HMC) and other Asian auto manufacturers firmly believed that they would be all better off if GM and Chrysler survive. Majority of overseas automakers manufacture over 3 million vehicles a year at U.S. plants and were apprehensive about their production if one of the U.S. automakers collapsed. Auto parts supplier industry were most likely to bear the brunt of Big Three fiasco reason being that majority of parts in an automobile industry are produced by a single supplier. The disturbances in production could persistent for long time and Toyota might take months together to work through that and resume normal production.

Many dealers who were engaged in selling both U.S. and overseas auto brands could possibly ruin their overseas manufacturers’ dealer network and sales. It would be a severe hit to the traumatized U.S. economy that would further narrow down the demand for U.S. auto sales, which hit a 26-year low in November 2008.

The Overseas automakers decided not to let US Economy slow down further. US being the largest market for Toyota, Honda and Nissan reported lower US sales first time ever in the history. The economy was not in good shape with so many cutting backs are shutting down. In addition to all the melancholies, Toyota announced its decision to put the plan of opening a new plant in Mississippi on hold indefinitely, even though it is about 90% complete and was proposed to start building the first domestically produced Prius in 2011.

The US automakers were also concerned about their long term perspective. Toyota and Honda started sensing the direct competition from the newcomers in the US. US automaker fiasco could be the golden opportunity for the Chinese and Indian automakers to give a tough competition by forming a new low-cost company by buying the distressed assets of the failed company at rock bottom prices. It took decades, for the Korean manufacturers Hyundai and Kia to downscale the sales of Toyota’s and Honda’s small, low-priced vehicles but an incoming Indian or Chinese manufacturer could do that in no time.

The well-known automakers Toyota and Honda believed in building their own facilities from the ground up in order to expand and thus it was most unlikely for them to acquire or purchase other company’s assets.

- The typical retort is to strike off a competitor while he is down so why would Toyota help the Big three?

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