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Where the Auto Industry Should be Going

IDEAS & STRATEGIES FROM FORWARD THINKING INDUSTRY

FIRST IN A 3-PART SERIES -- Auto Industry in Transition

Lessons Learned from "Cash for Clunkers"
Commentary and Opinion by Philip Moorcroft

By most measures, the "Cash for Clunkers" program was a success. All told, 700,000 cars were sold (and an equal number of 'clunkers' were taken off the road). However, the program was nearly a victim of its own success as a lack of cash flow forced some dealers to pull out of the program.

What key lessons can be learned? First and foremost, cash flow is critically important to any organization. Companies need to be cognizant that cash flow is just as important as profit. Without a source of cash flow, even profitable ventures will fail.

Secondly, domestic automakers need to take a closer look at their competitors. What are they doing right? Toyota was the top seller in the program, while Chrysler came in seventh with only one-third of the sales of Toyota. Toyota has less than half the number of dealers as Chrysler. Both GM and Chrysler have indicated their strategy is to emulate Toyota by trimming weak dealers and tightening their dealer network, a significant portion of total vehicle expenses. Clearly having fewer dealers does not negatively impact sales.

Finally, August sales should be understood as a positive 'blip' as opposed to a trend. "Cash for Clunkers" customers are not representative of everyday buyers. Forecasts should be based upon other factors.

NEXT: ***What the automotive leadership needs to be doing...***

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