

# The Researcher

Volume 50

June 2006

## 2006/2007 Officers

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## Planning Ahead....

**AMRC Fall Conference**

October 1-4, 2006

Hotel Santa Fe

Santa Fe, NM

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## A Message From the President, Nancy Wang



Dear Fellow AMRC Members,

For the next year, it will be my honor and privilege to serve as your President during this, AMRC's 40<sup>th</sup> Anniversary Year.

Growing up being an avid Green Bay Packer fan, it was natural for me to pick a football theme to reflect upon during this next year, where I am the Head Coach, the Board will be my Assistant Coaches, the Committee Chairs my Trainers and every member will be Team Players. With this football analogy in mind, if you're going to be a member of the team, we need dedication and hard work from everyone.

The three goals that I need your help to accomplish this year are:

1. Establish an on-line *Certified Automotive Market Research Certificate Program* with a College or University that will add a "degree" of professionalism to automotive market research, enhance your resume and add value to our member company organizations.
2. Make the [www.amrc.org](http://www.amrc.org) web site more robust by refreshing it, adding a job network area, updating our vendor section and adding a topical resource section.
3. Establish new "Classes of Membership" such as retiree, student, or distributor.

In addition to these specific goals, we are in need of "Talent Scouts" (recommending new member companies), "Succession Plans" (in case our team members are traded, retire or their contracts aren't renewed), and contributions from everyone (no benchwarmers).

This summer, Market Research and Planning (MR&P) will be conducting a membership survey. I encourage you to take the time to respond to it. MR&P will also be updating our vendor list. This, in combination with the website refresh, will be a great tool for your research needs.

So, as we start the first quarter of play, if any of this sounds exciting to you, please let me know where you would like to be placed. Every AMRC member should be on at least one "Special Team (Committee)." Our Trainers (the Committee Chairs) will be recruiting this Summer for mini-camps (Committee Meetings) to be held prior to the Fall Conference in Santa Fe, New Mexico from October 1-4, 2006. In this newsletter, you will find the Trainers (Committee Chairs) contact information. To be a part of any committee is easy, simply contact the committee chair and ask for an invitation to the next meeting.

Why should you participate on any team? To build a network of industry contacts, industry resources and industry knowledge that creates value for your company, your profession, and your career as a person who has a stake in automotive market research. As I said earlier, we expect contributions from everyone because only as you contribute will you understand the value of being on the AMRC team.

As we kick-off this new year, I look forward to working with each of you to have a winning season. Now, you've got the game plan, you know the plays you can make, and now it's your turn to execute it. As Vince Lombardi once said, "*Individual commitment to a group effort - that is what makes a team work, a company work, a society work, a civilization work.*" So, it's up to us to make this organization work. The ball is in your hands. The question is what will you do with it?

Now get out there and make me proud,

Your President

Nancy Wang

## AMRC 2006-2007 Officers



Al Peinado    Nancy Wang    Joe Eschenbrenner    Hal Bruckner    Darren Greene

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Dear AMRC Friends:

I'd like to thank the AMRC board and membership for the "Lifetime Achievement" award given me at the Spring Conference. After almost 30 years of active and less active membership at times, it was really appreciated. It is one of those happenings that brings mixed emotions. I'll miss AMRC, the friendships, learning, and peer contact. It is a great professional organization.

Early retirement from Dana has found me establishing my own consulting firm, CO OP SOURCE, LLC, completing several projects very successfully and looking forward to teaching part-time in the fall, as well. Give us a shot on presenting a proposal/bid on research/consulting that may arise. We are targeting projects of firms where research is focused on business development, through generic or acquisition means, into same or new markets. We, as well, work with firms to establish marketing processes in each and across segments of marketing (advertising, PR, trade shows, research, etc.) to bring about a complete integrated approach.

Thanks again and I wish AMRC and all its members the best.

Ken Krompak  
419-250-8803  
kkcurrency@yahoo.com

### Sales & Marketing Manager Position

1. Identification of Sales Regions and recruitment of qualified Sales Representative Organizations to cover the North American market.
2. Define product sectors to main and sub categories and set out all main customers in each category. Establish locations of identified customers and direct sales organizations or company personnel to reach these customers.
3. Establish disciplined routine to monitor progress of appointed sales organizations and sales staff. Set objectives and record simple measurable values to evaluate achievement towards fulfillment of the objectives.
4. Determine appropriate strategy to address identified markets and develop tactical plan with sales entities to achieve same. These markets include for example the following:
  - a. Automotive OEM
  - b. Automotive 2<sup>nd</sup>. Tier.
  - c. Automotive aftermarket.
  - d. Electronics.
  - e. Appliance.
  - f. Sports Equipment.
  - g. House wares
  - h. Hardware.
  - i. Plumbing.
  - j. Power tools.
  - k. Machinery & Industrial Equipment.
  - l. Point of Display.
  - m. Marine.
  - n. R.V. Vehicles.
5. Develop simple reporting system to provide visibility over the Pipe line of sales entities in terms of value of realistic enquiries and negotiations.
6. Analyze existing customer account pace reporting and implement actions to correct evidence of reduction in sales. Provide visibility over findings and corrective action.
7. Finalize Internet Site Upgrade and establish lead tracking reporting and visibility over internet leads and leads from other sources including Thomas Registry. Ensure that all enquiries that are directed to the company are promptly attended to.
8. Develop adequate supply of sales collateral including brochures and sales boards.

**If interested or know someone that might be, contact:** Diane Schade, Select Staffing  
Phone: (847) 520-0660 Fax: (847) 520-9508  
dianeselect@aol.com

## Alternative Powertrain Panel

**Darren Greene, Moderator**

**By: Sharon L. Clemons, ZF Group North American Operations - HQ and Tech Center**

### Panel Members:

*Brian Wynne, President, Electric Drive Transportation Association*

*Gary Vasilash, Editor-in-Chief, Automotive Design & Production*

*Rob Simon, Director-Business Development, JD Powers Automotive Forecasting*

*Lonnie Miller, Managing Director, Polk Center for Automotive Studies*

Brian Wynne, President, Electric Drive Transportation Association initiated the panel discussion by giving the definition of Electric Drive (**ED**). Taken from his discussion, ED is defined as moving the wheels via a motor powered solely by a battery, or the combination of a battery and an internal combustion engine or a fuel cell. It is used in vehicles ranging from scooters to forklifts, passenger cars, buses, commercial trucks and now in prototype military applications.

Mr. Wynne went on to ask, "Why does ED hold a promising future?" Some reasons could be:

- Improve air quality
- ED technology is affordable. You can't beat the extremely low refueling costs - about one-third the gasoline costs to operate an internal-combustion engine vehicle, or as little as \$30 a month to run an ED vehicle. And with no tune-ups, oil changes or smog checks, maintenance costs are almost non-existent.
- ED technology is quiet. Noise pollution is a growing concern, whether you live in the city or a suburb.
- Reduce Greenhouse Gas Emissions

The remaining panel members concentrated on the Hybrids and its presence in the U.S (now and in the future) which is detailed below:

#### 1. Why buy Hybrids?

- Better gas mileage / fuel efficient (64.1%)
- Tax credits (5.5%)
- Environmentally correct - pollute less (11.7%)

#### 2. What are the concerns about Hybrids?

- Cost (60.6%)
- Mistrust of technology (16.6%)
- Not enough vehicle selections (34.9%)
- Maintenance: Are we well-trained (41.7%)
- Is this just a fad?
- Will it be another Honda Insight with poor volumes of 666 for the entire 2005?

#### 3. Data facts about Hybrids?

- U.S. market dominance (1.3% sales in 2005) – believed to be 5% by 2010
- California rules with 26.4% of the market (L.A. alone is 11%)
- Demographics: Highly educated consumers with advanced degrees with higher household income; lower % of males owners
- Although Hybrid and Diesel demographics are very similar, U.S. consumers are more loyal to Hybrids because of the industry's failure to educate us on new technology. We are still stuck on Diesels' bad reputation of loudness and dirty

(Continued on Next Page)

## Alternative Powertrain Panel (Continued)

### 4. Hybrids in the market today and in the future.

- Toyota managed to cut cost yet still have a unique look and position in the market. Because of this, the Prius is still king with 52.6% of the market share in 2005. Also, Toyota offer the highest U.S. tax credits out of all the Hybrids.
- In contrast, there are some strugglers such as the Ford Escape and the Honda Accord. Reason being unsuccessful badging and high premiums – not to mention competing with its non-Hybrids model (Ford Escape vs. the Escape Hybrid for example).

Available Now	Coming Soon
Honda Accord	BMW X3
Honda Civic	Chevy Equinox
Honda Insight	Chevy Malibu
Toyota Prius	Chevy Suburban
Toyota Camry	Chevy Tahoe
Ford Escape	Chevy Avalanche
Lexus RX400H	Dodge Durango
Mercury Mariner	GMC Yukon
Toyota Highlander	Lexus LS
Nissan Altima	Mercedes R
Dodge Ram	Toyota Sienna
Hyundai Accent	Audi Q7
Kia Rio	Cadillac Escalade
Lexus GS	Chevy Silverado
Mazda Tribute	Ford Fusion
Saturn Vue	GMC Sierra
	Mercedes GL
	Mercury Milan
	Porsche Cayenne
	Toyota Avalon
	Toyota Sequoia
	Toyota Tundra

### 5. Other Markets

- **Asian:** Strangely, represents small fraction of sales with smaller vehicles. Economic conditions have limited its success.
- **Europe:** Sales represents ½% of the total European market and will remain slow because of Diesel loyalty
- **Emerging markets:** Up charges are the most concern and because of this, Hybrids don't currently fit.

### 6. Future of Hybrids

- Global sales will continue to increase with just under 90K by 2013.
- People don't want to sacrifice size, performance or luxury. As a result, more Hybrid SUVs and Luxury cars will be introduced.
- Aftermarket opportunities will surface for regional jobbers and parts distributors.

**Jim Meil, Eaton Corp.**  
**By: Linda Keller, BridgestoneFirestone**

Jim Meil is the Chief Economist at Eaton Corporation. He has won several economic forecasting awards. For 2003, Jim was selected as one of the top ten economic forecasters by USA Today and Jim won The Wall Street Journal's first-quarter 2005 Economic Forecasting Survey.

Jim started and ended by presenting key points on global economic prospects:

- 2006 is stronger than anticipated
- Concerns
  - major industrialized country central banks are all tightening now (could they overdo?)
  - commodity price rise, utilization rate increases
- Consumer, business sentiment signals remain solid, here and overseas
- USA yield curve now rising uniformly as short & long rates rise
- Risk of slow year-end 2006 increases if central banks keep tightening on inflation worries.

Jim's presentation covered the state of the economy and the drivers affecting it, which include: U.S. Manufacturing, Personal Disposable Income, Consumer Sentiment, Employment, 10-Year Treasury Rates & 90-Day T-Bills, Yield Curve and Recessions, Light Vehicle Sales, Oil and Sources of Global Oil Demand Growth, Commodities, Truck Capacity and Utilization, Truck Orders and Builds, Average Eurozone Interest Rates, European and Brazil Light Vehicle Production (stable at high rates), Japan Passenger Car Production (stable at high rates), India & China Light Vehicle Production (continues to grow), Global Economic & Market Outlooks (one more nice year for automotive growth), Eaton N. A. Primary Markets Outlook (class 8 truck market could see a 40% drop in 2007), and the U.S. Macroeconomic Outlook. Jim does not predict the possibility of a recession until 2010-2011.

Jim's presentations are not only informative but very entertaining. For those who missed the presentation, I'm sorry. Jim is like E. F. Hutton. When he speaks, people listen. If you ever get the opportunity to hear Jim speak, it will be well worth your time.

**A Diesel Engine Perspective, NAFTA Production Through 2010**  
**Tom Rhein, President, Rhein Associates, Inc.**  
**By: Theresa Sanford, Kenworth Truck Company**

Tom Rhein is President of the independent consulting and publications firm Rhein Associates, Inc. and he spoke on diesel production and usage trends.

Mr. Rhein's presentation focused on the continued movement of engine production from North America to international markets. He noted that 42% of world diesel engine production is currently in the Far East, which is the largest user of diesel engines in agricultural applications. A primary factor Tom cited for continued shifting is OEM consolidation and engine manufacturer integration.

Mr. Rhein also shared his diesel engine production forecasts with us. Expectation for total world diesel engine production is to increase through 2008, with NAFTA production not as consistent. NAFTA light duty production will increase overall thru 2010, but with downturns in 2007 and 2010. His medium duty diesel engine production forecast predicts steadily declining numbers as additional import engines are introduced into this market. The heavy duty market is anticipated to be strongly negatively impacted by pre-buys with new engine implementations in 2007 and 2010. From a survey of 43 heavy duty fleets, Mr. Rhein found that the average pre-buy was 8.4 months (or longer with bad experiences) and fleets are extending at least until next year due to costs and fuel economy issues with new engines.

In conclusion, it was noted that for independent diesel engine manufacturers to be able to compete in this environment, it will be necessary for their survival to enter into joint ventures with foreign companies.

## **Bernard Swiecki – Center for Automotive Research** **By: Kathy Oleski, Applied Process Inc.**

Mr. Bernard Swiecki is currently a Project Manager at the Center for Automotive Research (CAR). He has focused his research in a wide variety of automotive fields including the impact of Information Technology on the industry, and facility retention and attraction by automotive communities.

Bernard started his presentation by dispelling some of the negative discussion that is currently happening in the industry. He recognizes that what has been happening at GM has been translated to the industry as a whole and that is not an accurate translation. Also, that North America is a stagnant market but there is great growth by region specifically in the Asia Pacific region. He made a seemingly bold statement that contrary to popular belief, the automotive industry is on the rise. He based his statement on the notion that opportunities exist due to International Automakers increasing their production in North America.

Bernard went on to state that while we are at a deceptively level sales volume, there is a lot going on under that volume when looking at the market segmentation area and manufacturer arena. He presented in graphical form what we all know: the Big 3 has lost share to the internationals. But we should recognize that now the internationals are producing more and more of their vehicles here as opposed to importation.

International domestics are making trucks and mini vans here in the states. The total light truck market is off 1.2% and all of that is from the Big 3. As gas prices rise, we would expect to see the same scenario that occurred last year for a short time after hurricane Katrina when passenger vehicles sales exceeded truck sales. While that is appropriate, in his opinion, the problem is that light trucks are a more profitable segment. This has added to the profitability issues that are already being seen by the US auto industry. There are, however, some international automakers that are doing very well with profitability so it is not a universal problem. It is dependent on the auto makers you work for and with.

He further discussed the profitability issues by presenting the “Supplier Table of Pain” which illustrates that suppliers are being expected to provide their products while absorbing ever increasing commodity, materials and energy prices. There is no surprise that they are experiencing such a high rate of bankruptcy.

To dispel the myth of the auto industry jobs moving south, he explained that it is not truly a move to the South but back to the core. There has been a gradual concentration of auto industry to the Midwest and the states south of the Midwest. Changes announced by Ford and GM in North American vehicle production capacity from 2004 – 2008 equal Chrysler’s entire North American Capacity. But Chrysler itself is forecasting an increase in capacity during that time that will offset part of GM & Ford’s reductions. Note, however, Chrysler is increasing capacity by using new technology, not opening new facilities.

To further explain the growth in the south’s share of employment in the Transportation Manufacturing Equipment sector, he presented pie charts that show graphic representations by region in 1990 and in 2005. He noted that overall employment by the industry is going down. By region, you can see that the real growth in employment in the south has come from regions other than the Midwest.

Lastly, Bernard presented data on Northern International Assembly facilities in 2005. Interestingly, capacity in Northern facilities exceeds that of the south when including facilities located in Ontario. He also pointed out that the data for “southern” facilities includes a Kentucky facility that is geographically located north of a facility in Indiana that is included in the Northern facilities data. His clear message is that we should not feel “production is moving south”.

All in all, Bernard’s presentation was focused on pointing out the bright spots in the Auto Industry to counter the emotional negativity that abounds; a positive message for the AMRC.

**[Please see AMRC website, members only section for complete copies of presentations.](#)**

**China and the North American Automotive Industry  
Panel Presentation to AMRC Spring Conference – 5/2/2006  
By Ken Maust, Bushings Inc.**

**MIKE MCKENZIE – PRICE WATERHOUSE**

Mike McKenzie presented an overview of the Chinese automotive market.

Currently more than 125 domestic manufacturers (50% make fewer than 10,000 vehicles) – consolidation process will be slower than expected – some internationals will be squeezed out by the JV partners – eventually we will see the rise of Chinese companies as international competitors.

Market growth stagnant in 2004 and early 2005. Strong finish for 2005 has carried over into 2006 (more than 3.5 million unit sales expected)

**4 Growth Drivers**

Emerging consumers – China middle class earns roughly \$7,400 - \$14,800 per year – is only 4% of the population – but is currently the same size as the entire population of France – potentially may triple in size to 170 million people by 2010

Government policy – guides development of industry – energy security is a priority – fuel price increase pushes shift to smaller vehicles / new consumption tax (20% on large vehicles) – (3% on smaller vehicles)

Foreign investment – Fixed investment was up 27.7% in Q1 with investment in both domestic and export oriented manufacturing and infrastructure.

Export Strategies – China currently a net importer of autos, but expected to be a net exporter by end of 2006 – export momentum is accelerating.

**RUDY SCHLAIS – CHAIRMAN INFORMATION TECHNOLOGY UNITED**

Mr. Schlais retired from General Motors as President and CEO of GM Asia Pacific. Mr. Schlais discussed his experiences and shared the knowledge he gained implementing GM's China strategy with Shanghai GM.

1992 Vehicle Market – 1 Million

2002 Vehicle Market – 3.4 Millions

2005 Vehicle Market - + 6 Millions

Currently 3<sup>rd</sup> largest vehicle market (passing Germany in 2003)

Room for additional growth - currently 15 vehicles for 1000 people vs. 1 for every 2 people in U.S.

Implementing Business Strategy in China

Commitment to long term relationship which is “win-win”

Active technology exchange and updating

Government in China will be a partner (helps navigate bureaucracy)

**Risks:**

Intellectual Property (estimated \$25 BN in lost sales per year) – affecting suppliers of service parts – estimated that 60% of all counterfeit parts are from China – also copying vehicles – China brand expected to be exported to the U.S. by 2008 - now developing their own intellectual property and controls

Regulatory – changing regulatory environment – government issues new regulations with less than 6 months notice.

When implementing business strategy in China – do your research up front – there are many smaller markets – different incomes for Rural areas vs. Urban areas, where incomes are up by 300%

Educated consumers, more than 90 million internet users, with high expectations for quality and low cost for imports

Strong brand is required – with locally controlled distribution.

## Commercial Vehicle Panel

### By: Astrid Mandyck, BAE Systems

#### Panel Members

- *Richard Mikes, member of the Logistics Council of the U.S. Chamber of Commerce and active on the Center for Transportation Research and Education at Iowa State University*
- *Bob Costello, Chief Economist and VP American Trucking Association*
- *Phil Gott, Director, Consulting & Technical Research, Global Insight Automotive Group*

#### History of Trucking - Richard Mikes

The trucking industry started in the early thirties and its business model was built on regulations. Many customers were afraid that the rail was going out of business in those days which helped trucking to get started. The number of companies was limited by Interstate Commerce Commissions who also regulated the rates. A company was given a geographic area license with definite limits on what products that could be hauled. The only products that were not regulated were raw agriculture products. Not until 1980 did regulations become less stringent, anyone could now enter and any road was authorized. However, this almost tore the trucking industry apart since there were many older truckers who were opposed to abandoning the old regulations. Number of companies skyrocketed. A dominant union workforce with wages ranging in the \$30 - \$40,000 was faced with a new workforce making \$20- \$25,000, which drove costs down. High wage teamster jobs disappeared. Union carriers were no longer competitive. The 80s led to more price /service options but also to a sharp decrease in profits for truckers. The 2000's are the age of technology and the best of times. On-board communication systems and tracking devices have led to a reduction in overall cost by decreasing the out of route miles, detention times and also by increasing the driver to dispatcher ratio as well as safety improvements. Asset management and operations management have also led to cost reductions in the business. The driver shortage/turnover issue could be solved through technology — "your office in the cab" The trucking of the future will probably take place over the internet.

#### Economic and Motor Carrier Industry Update – Bob Costello

The economy is doing well, but will probably slow down somewhat later in the year, 2006 GDP predicted at the 3.0%-3.5 % level. Production is showing a very high value of components, this is not reflected in the truck weight index due to the components low weight. Personal consumption remains robust in spite of high interest rates and high gas prices. Bob pointed out that the steep fall in ATA's truck tonnage index for Feb/March 2006 was due to a major retailer's inventory correction that caused a major ripple effect. As to truck revenue, Bob emphasized that this is the best of times and that truckers should make money regardless of driver shortage and high fuel costs. Fuel charges are set once a week (Monday) and remain in effect the entire week regardless of fluctuation in fuel price that particular week. The Rail intermodal is the fastest growing segment at 77.9% followed by air and truck, however trucking is and will remain the number one in market share (68%-69%) through 2016. Capacity only grew 1.7% last year, most purchases were replacements. It will be difficult to keep up with demand levels but the reason for not adding trucks is the lack of drivers. Wages is the number one reason for driver turnover/shortage. He pointed out that the driver shortage really is a double edged sword, it hurts but keeps capacity high. Average driver turnover rate for large TL carriers is 130%; some carriers have a 200% rate. Highway congestion is also a major factor and is expected to get much worse by 2020. Trucking's annual cost for diesel was \$87.7 B in 2005. The cost for ultra-low sulfur diesel for 2006 is predicted at \$94.3 B.

#### The Future of Heavy-Duty Powertrains (a study) - Phil Gott

The scope of the study included heavy-duty powertrain systems in Western Europe, the U.S. and Japan for the 2007-2020 timeframe. The technology areas studied were: power units, hybrids, exhaust gas treatment, transmissions and alternative fuels. The study also projected market share. Mr. Gott described how the market share projections were developed in six steps and what tools were used to develop the forecasts for each segment and region. Three regulatory scenarios with varying constraints on particulate matter and NOx were developed. All energy scenarios indicated a good supply of petroleum and implied that alternative fuels will not be main stream through 2020. The powertrain was defined as a system of two key sub-systems: the power unit (the IC engine) and the drive train, including transmission and possible hybridization. The drivetrain technologies were tailored for the different vehicle classes to optimize performance over the typical duty cycle (long haul, urban transit bus, box truck, delivery van, refuse truck, cement truck and dump truck). The Market share of powertrain technologies was determined by the market share of each vocation and then by the most economical technology based on a financial model.

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## Commercial Vehicle Panel (Continued)

The key findings of the study showed only a few serious solutions to the challenges of the next two decades. All engine types (Conventional CIDI, advanced CIDI, MM HCCI, HCCI and SI) will continue to compete in the future, however the transition to full-mode HCCI is inevitable. In terms of minimizing fuel consumption, transmission efficiency will be paramount. The likely winner in all segments is DCT. Hybrids will play an important role where fuel and brake costs are high. Hybrids can take 15 to 25+% of the European, US and Japanese market, but there will be significant differences in the technology of choice for each vocation from region to region. The simulation favored hydraulic, but Mr. Gott pointed out that actual field experience could be different.

### Commercial Motor Vehicle Consulting Christopher Brady By: Michelle Everhart, Horton, Inc.

#### Fragmented Fleet Marketing Environment Affects Commercial Vehicle Market

Mr. Brady brought to light all the variables that fleets operate under that make marketing to them difficult without the right information. Some of these variables include:

- Operating environments and vocations
- Vehicle ownership/purchasing behavior
- Maintenance practices
- Fleet size/characteristics
- The size of the commercial truck population

Knowing how these variables affect your customer is key to marketing to them. Examples include:

- If a person buys a truck new, they're much more likely to go to the dealer for maintenance/ prevention or repair than someone who bought a used truck.
- Knowing the vocation of a truck will give insight into the buying cycle. For instance, the trade cycle is higher for For-Hire owners and the higher the utilization of a truck, the more likely they'll buy a new truck. But if they're the first owner, they'll have shorter truck trade-cycles than the 2<sup>nd</sup> or 3<sup>rd</sup> owners.
- A 2<sup>nd</sup> or 3<sup>rd</sup> owner is more likely to do repairs but they're less likely to do it at a dealership.

Mr. Brady concluded his presentation with the following statements:

- The fleet marketing environment is fragmented
  - Vocations
    - There are a wide range in parts volumes and demand for sources for parts and services. The service requirements demanded by fleets of parts and service vendors differ by vocation.
- Aftermarket parts and service vendors
  - Effective planning and control requires continuous relevant and accurate information
    - Aggregate information has limited value in measuring success of marketing strategies and limited value in developing marketing strategies and tactics. You're likely to draw incorrect conclusions, which result in poor business decisions. The end result is dampened business profits.

He wrapped up his presentation by discussing how Polk Aftermarket Databases are developed with Commercial Motor Vehicle Consulting. They measure market segments and accurately and continuously measure marketing strategies. They use appropriate information to develop tactics and marketing strategies. They will analyze a fragmented fleet marketing environment.

**Aftermarket Opportunity Generated by 9.6 Million Trucks in Weight Classes 2c–5**  
**Presented by: Dave Fulghum, MacKay & Company**  
**By: Cyndi Boehm, Gates Corp.**

Dave shared the objectives for a new study of the parts market for class 2c – 5 vehicles.

The objectives are:

- Parts demand in dollars and units for 87 replacement parts for each of the 4 classes and by end user vocation.
- Market share by distribution channel – where vehicles are serviced
- Where parts are purchased
- Operator use of extended warranties, contract maintenance agreements, and purchase rationale for where parts are purchased

After showing a series of line drawings showing configurations for class 2c – 5 vehicles, Dave discussed the population of class 2c – 5 vehicles. In 2005 there were 7.7 million class 2c vehicles, 1.1 million class 3 vehicles, 567 thousand class 4 vehicles, and 262 thousand class 5 vehicles. In percentage terms, the largest vocations were Individual (45%), Private/Services (19%) and Lease/Rental (13%).

Average annual mileages on class 2c – 5 range from around 24,000 to just over 31,000 miles per year – significantly less than class 8 trucks.

Dave then reviewed some survey data – respondents by vocation, respondents by fleet size, types of vehicles operated (such as straight truck, school bus, pickup, van), and the share by vehicle nameplate.

Examples of demand for specific parts by vocation and class were then given. The demand is estimated using MacKay's DataMac Demand Model and is able to estimate both units and dollars. The market size estimated for aftermarket demand in class 2c – 5 vehicles was \$20.2 billion (at retail) in 2005. The demand by product group is shown below:

Air Conditioning	3%
Electrical	7%
Undercarriage	20%
Power Transmission	27%
Power Generation	43%

The type of replacement part was given by the value of parts replaced.

Factory Reman	18%
Local Rebuilt	5%
Outside Repair	5%
Operator Repair	1%
Used	1%
New	70%

Demand is expected to grow in all product group categories through 2010, averaging 24% per year. Class 3 and class 5 are expected to grow the most in parts demand from 2005 to 2010, in the mid 60% range. Class 2c parts demand will grow about 18% and class 4 will grow about 8% through 2010.

Please see the AMRC web site for a copy of Mr. Fulghum's presentation.

## Growing the Company by Succeeding in Innovation

Mark Johnson

By: Rick Dziobak, Accuride Corp.

Mark Johnson, President and Founder of Innosight lectured about growing a company by focusing on one or two aspects of innovation; *Sustaining* and *Disruptive*. Johnson began by stating that to increase shareholder wealth, an organization must grow its business through new opportunities like emerging markets, new products/markets or distribution.

*Sustaining* and *Disruptive* are the two distinct types of Innovation that Johnson focused on during his presentation.

**Sustaining Innovation** focuses on making a product or service better, more advanced or moving the product or service up-market. A few adjectives Johnson used to describe Sustaining Innovations were "Next-Generation Performance", "Great Leap Forward" or "Better". One successful example of sustaining innovation is "Whole Foods Markets" of the Grocery Food Chain Industry. Whole Foods successfully positioned their chain as an up-market grocery chain that is unique when compared to ordinary national chain grocery stores. As a result, Whole Foods commands higher profit margins by offering organic foods and other exclusive products.

Another example of sustaining innovations that Johnson spoke about is the luxury vehicle market. Luxury vehicles at the high end of the vehicle market represent opportunities to meet a customer need by offering next generation performance or a better vehicle. The Cadillac Escalade and Lexus LX 470 were two vehicles that were used as examples by Johnson. Another example touched upon by Johnson as sustaining innovations were minicomputers.

**Disruptive Innovation** is the second type of innovation Johnson discussed. "Different", "Good Enough Performance", "Great Leap Downwards" and "Simple" were adjectives Johnson used to describe disruptive innovation. Also, products classified in this category often compete solely on price.

Toyota's entry into the low end segment of the vehicle market during the late 1970's was discussed by Johnson as a disruptive innovation. Toyota created vehicles that were low cost, fuel efficient and compact. Toyota created a niche that was profitable because Toyota was one of a few manufacturers that offered small fuel efficient compact cars. Another instance of disruptive innovation is the disruption to steel in the auto industry by plastics. Vehicle components that could be easily designed in plastic to provide weight savings disrupted steel, while at a lower cost.

Johnson noted that disruptive innovation is generally less profitable and therefore less attractive to companies. However, the key is to be the first-player in the market by carving out the product or service in the low end segment of the market. Johnson stated that disruptive innovation is rapid today. It is generally easier and less expensive to go "down-market" to meet a customer need than to go "up-market."

### ***Product Architecture - Interdependent vs. Modular***

Johnson lectured that product architecture becomes "Modular" as organizations shift to speed and customization. Organizations that compete with convenience, speed, responsiveness and customization, need modular product architecture to support their strategy. Johnson described Modular product architecture as allowing interfaces to be clean and predictable.

Modularity has changed the structure of the computer industry significantly. In the 1960-1980 time period, computer manufacturers had interdependent product architecture. IBM, Control Data and Digital Equipment had their own field service, sales & distribution, applications and software, operating system, assembly, product design and components. Today, there are modular suppliers that specialize in each category. Johnson believes that one day, Tier 1 auto suppliers will benefit from modular architecture.

Johnson concluded his presentation by stating that organizations should remain focused on their core business but also expand into other markets. He stressed that innovation and process are different than ones core business. Johnson recommended that a new division or business unit be created to assist in the development of innovation strategies.

## **Materials... "What in the World is Happening to Them!"**

**Jody Shaw, US Steel**

**By Deanna Lorincz, American Iron & Steel Institute**

Reducing mass and maintaining affordability is the battleground for materials competition in automotive applications. The recent introduction of a new material, the Advanced High Strength Steels (AHSS), has changed the materials competition landscape. In recent projects conducted by the Ultra-Light Steel Body Consortium (ULSAB) and the Auto/Steel Partnership (A/SP), AHSS has enabled mass savings between 25% and 32% at no additional cost. In comparison aluminum body structures show mass savings between 18% and 40% at a significant cost premium and have been limited to luxury vehicles.

According to Jody Shaw, United States Steel representative for American Iron and Steel Institute (AISI), in his presentation to AMRC on May 2, 2006, "if you apply the optimized use of AHSS technology to vehicle structures, mass compounding will enable steel to achieve the 50% mass reduction target of the FreedomCAR program. Add to this, enhanced safety, 100% no-fuss recyclability and affordability, you have a materials system that no others can match."

On the issue of cost and pricing, Shaw noted that from 1980 to 2003 steel prices remained flat as a result of excess global capacity. In comparison, materials such as concrete, aluminum, and copper saw 60% increases, following inflationary trends. This unsustainable situation resulted in 35 North American (NA) steel company bankruptcies. Today the industry is rebuilding and improving its competitiveness with consolidation and cost restructuring. In addition, China's economic growth is improving the global steel supply and demand, bringing the price of steel into balance with other materials.

Shaw also noted, "Our investments in modern steel making has reduced labor requirements to a third of what it was two decades ago. At the same time the costs of energy, steel making raw materials and transportation have risen significantly. Consequently, the low labor rates of foreign producers no longer provide the advantages that they once did, placing the North American steel industry in a favorable position when competing in fair global trade."

Shaw also addressed the issue of green house gas (GHG) emissions. "Since 1990 the NA steel industry has reduced the energy intensity of steel by 20%. Reducing GHG emissions far beyond the Kyoto Protocol requirements, places the NA steel industry in an environmental position achieved by few other industries".

He also states "When it comes to the GHG footprint of the automobile, we must take a life cycle approach that considers the production, driving and end-of-life phases. In the production phase, aluminum is a CO2 intensive material and results in an order of magnitude more GHG emissions than steel. Although the potential weight advantage of aluminum can result in minor fuel economy improvements, it is unlikely to offset the huge CO2 deficit of the production phase. The decision becomes decidedly in steel's favor as the CO2 emissions in the driving phase are reduced as a result of improved powertrain efficiencies such as hybrid systems, and low CO2 intensive fuels like ethanol. These emerging technologies place a greater significance on the production phase emissions and will drive the material choices to low CO2 intensive materials, such as steel.

Shaw concludes, "In short, the North American steel industry is well positioned to compete on a global basis and has innovative new products that meet the automotive industry needs for affordable, low CO2 intensive weight reduction. Steel has set the benchmark for materials competitions for the last century and continues to set a new benchmark for the next century"

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## **NEW MEMBER COMPANIES**

### **Membership Committee Report**

#### **Ken Maust, Membership Committee Chair**

New companies presented by Membership Committee Chair Ken Maust and joining our organization at the 2006 Spring Conference included:

#### **GUARDIAN AUTOMOTIVE PRODUCTS**

- **ANNUAL SALES:** > \$1 BILLION
- **PARENT COMPANY:** GUARDIAN INDUSTRIES CORP.
- **PRODUCTS:** GLASS/EXTERNAL TRIP COMPONENTS/ INCLUDING PAINTED AND CHROME PLATED INJECTION MOLDED PARTS
- **SERVES:** OEM & AFTERMARKET, AUTOMOTIVE, HEAVY DUTY & OFF-HIGHWAY
- **MANUFACTURING FACILITIES:** OHIO / INDIANA / MICHIGAN / GEORGIA
- **PROPOSED REPRESENTATIVES:**
  - KEVIN WHEELER – ACCOUNT MANAGER
  - JIM SEZWICK – BUSINESS UNIT DIRECTOR
  - JOE ABBRUZZI – VICE PRESIDENT BUSINESS DEVELOPMENT
- **COMMITTEES:** COMMERCIAL VEHICLE / HD AFTERMARKET

#### **ROMEO RIM**

- **ANNUAL SALES:** 11 – 50 MILLION
- **PRODUCTS:** AIR DEFLECTORS, ENGINE COVERS, INTERIOR TRIM PANELS, BUMPERS, FENDERS, HOODS, BODY PANELS, DASHBOARD, PACKAGE TRAYS, PALLETS, ACCESSORIES
- **SERVES:** AUTOMOTIVE - HEAVY DUTY - OFF HIGHWAY / OE & AFTERMARKET
- **MANUFACTURING FACILITIES:** ROMEO, MI / GAFFNEY, SC / DEWITT, IA
- **PROPOSED REPRESENTATIVES:**
  - JOHN GEISLER - SENIOR MARKETING SPECIALIST
  - KEITH MORRIS – DIRECTOR CUSTOMER DEVELOPMENT
  - CULLEN ENGLE – VICE PRESIDENT, CUSTOMER DEVELOPMENT
- **COMMITTEES:** HEAVY DUTY TRUCK / OFF-HIGHWAY VEHICLE

#### **COLUMBUS COMPONENTS GROUP**

- **ANNUAL SALES PARENT:** \$101-200 MILLION
- **PRODUCTS:** EXHAUST /AIR BAG RESTRAINT / ENGINE COMPONENTS
- **SERVES:** AUTOMOTIVE/CV/OFF-HIGHWAY OE
- **MANUFACTURING FACILITIES:** COLUMBUS, INDIANA
- **PROPOSED REPRESENTATIVE:**
  - GREG VENHAUS – ACCOUNT MANAGER
  - KEVIN LIPFORD – ACCOUNT MANAGER
- **COMMITTEES:** COMMERCIAL VEHICLE / LIGHT VEHICLE OE

#### **VOLKSWAGEN OF AMERICA**

- **ANNUAL SALES:** > \$1 BILLION
- **PARENT COMPANY:** VOLKSWAGEN AG
- **PRODUCTS:** AUTOMOTIVE
- **SERVES:** OE
- **MANUFACTURING FACILITIES:** MEXICO / GERMANY / WESTERN EUROPE
- **PROPOSED REPRESENTATIVE:**
  - MARK STEVENS – COMPETITIVE STRATEGIST
- **COMMITTEES:** LVOE / INTERNATIONAL / MARKET RESEARCH

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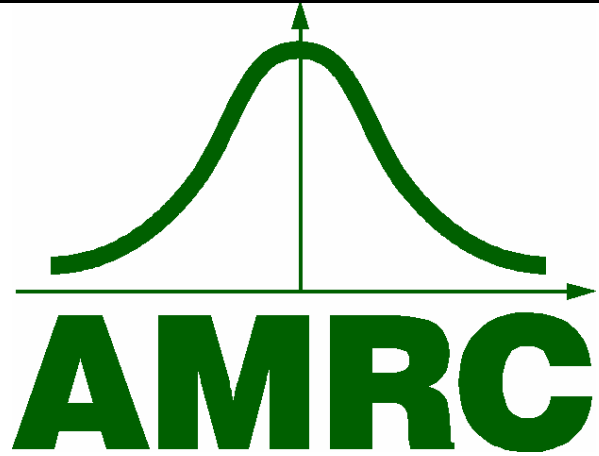
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**AMRC Fall Conference  
October 1-4, 2006  
Hotel Santa Fe  
Santa Fe, New Mexico**

**Conference Reminders**

- When the first mailing comes out, sign up for your room immediately as rooms go fast. You can always cancel later if you change your mind.
- Voting Members—Remember to send your proxy statement if you're unable to attend.