



Insight
ROCKY ROADS

Toby Hagon

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Holden is facing its biggest challenge since the first 48-215 rolled off the production line on November 29, 1948. Toby Hagon reports.

Holden is fighting for survival. Battling record low sales, a dealer backlash and a US head office focused on large left-hand-drive markets, the brand that created the first Australian car could be killed off.

The start of 2018 has been ugly. In February, Holden posted its worst monthly sales ever. It was followed in March by a record low market share of just 4.8 per cent. Worse, Holden has slipped to 10th on the sales charts. Until 2018, the brand had never been below fourth.

As a result, chairman and managing director Mark Bernhard is under intense pressure. The slump is disappointing, he says, and the company is "working decisively to turn this around".

"This is a period of considerable transformation for us as a business and as a brand. We are reinventing one of the longest-running companies in Australia and, in many ways, we're in uncharted territory."

Market share has been dropping for 15 years, particularly since the late 2013 announcement it would cease manufacturing. When garage doors rolled down last October, it spelt the end of an industry that ran for almost a century.

At a recent crisis meeting at Holden's Port Melbourne head office to formulate a plan for the General Motors-owned brand, some dealers were fuming.

Their frustration is understandable. In the first quarter, the average Holden dealer shifted just 26 new cars a month, fewer than one a day.

The average Toyota dealer sold 85 a month and the average Mazda dealer 72. Even Mercedes-Benz - a premium brand with higher margins - shifted 57 cars per dealer.

Delve deeper and the equation is even uglier. Many of those sales were classified as demonstrator models - used for customer test drives - and sold often at big discounts. In the case of Astra, demonstrator registrations outnumbered sales to private buyers, according to figures reported to the Federal Chamber of Automotive Industries.

Sure, sales were expected to dip after the manufacturing shutdown. But none - including Holden - expected sales to drop so dramatically.

Holden's market share has slumped from 7.1 per cent before the shutdown to 5.3 per cent in 2018. The three most recent brands to cease local manufacturing in Australia - Toyota, Ford and Mitsubishi - experienced nothing like that plunge.

It's indicative of a brand that has relied on locally made large cars, the backbone of Holden for 69 years, but is now reliant on models from foreign car-makers.

"The focus has gone off the major product being the Commodore, which they could rely upon, and it's gone on to other things," says John Conomos, a part-time consultant and the former chief at Toyota Australia who played an instrumental role in making the brand number one.

"They didn't pay attention to the consequences of not having their flagship car and relying solely upon it."

Turning its back

It was once families, farmers, business executives and middle-class Australians lining up to buy Holdens. These days it's not. Holden has spent recent years trying to convince buyers it was something it wasn't, turning its attention to minorities - LGBTI and ethnic groups - "to better reflect and connect with today's Australia".

But in doing so, it turned its back on the traditional Holden buyers, the people arguably most likely to give the brand a chance in its fresh, import-only form.

Holden also focused on younger buyers, an odd move considering Holden's history - and that the average age of a new-car buyer is 51.

There was backtracking once Holden realised its strategy wasn't working. But it was too late. Boats were on their way, leaving dealerships bulging and executives scratching their heads.

Panic now appears to have set in - and sporadic extended warranties and discounting are seen as the solution. Holden is selling its small car - which when it launched last year was hailed as "stronger than ever" - for less than what rivals are getting for city cars.

"Heavy discounting on new models has an immediate and ongoing impact on residual values," says Santo Amoddio, the managing director of used car valuer Glass's Guide.

It also crunches margins and creates an uneasy feeling with shoppers.

"This is where General Motors needs to step up," said one analyst who declined to be named. "They need to come in and relieve the pressure. Take a hit on the sales targets and position the brand with a viable strategy."

A consistent strategy is crucial, says Conomos. "They don't seem to have a final, long-term plan where they're saying to themselves and the organisation, 'This is the plan, this is what we're going to do and we'll fund it and we'll stick to it'."

The blame game

Heads are rolling. Last week, Holden announced its shortlived marketing director Mark Harland (who replaced another shortlived marketing boss) left GM after 20 years. His replacement, Kristian Aquilina, a long-time Holden man, has brought hope to dealers that Conomos says is critical.

The Age has heard of calls for Bernhard to resign, something the chairman of the Holden Dealer Council, Scott Wakeling, vehemently denies.

"There's been no official discussion or note," he said. "That's definitely not happened."

Which is some relief, given the revolving door of chiefs at Holden before Bernhard took up the position in 2015.

Conomos says the executive changes are poisonous.

"They've had a succession of MDs, they've had a succession of marketing people ... they don't have the continuity ... they lurch from one policy to another."

Holden has to get its message out succinctly and in a way that will lure buyers. It hasn't and the instability at the top hasn't helped.

Abas Merzaei, a brand strategies lecturer at Macquarie University, says Holden's identity has been diluted. Discounting, he says, kills brands.

"Your brand starts to lose energy and losing energy means you're pretty much dead, which is the case for brands like Holden or Gap in Australia."

Holden has played little on its heritage or its strengths, something he says has a place "If you're trying to revitalise your brand you can go back to your heritage and history and feature that in a nice signature story, an emotional one."

Forecasts of short-term sales are not promising. Internal Roy Morgan intention-to-purchase figures have Holden intentions at 6 per cent and dropping, down from 15 per cent a decade ago.

Look to America

Holden admits it has made mistakes. But it has not been helped by Detroit.

Despite decades of promises to produce all new models with the steering wheel on the right, this hasn't happened, and many cars sent Down Under have been lacklustre.

Despite spruiking that Holden is poised to pluck cars from across the GM world, the reality is more sobering.

Sometimes vehicles aren't primed for a market that is big on safety and features. Entry-level versions of the Equinox, for example, miss out on automatic emergency braking that some rivals fit as standard.

And choosing cars from multiple brands means the range won't always have a family look, as with the coming Acadia, a rebadged GMC.

Peter Hanenberger was the boss of Holden between 1999 and 2003, when its modern market share peaked at 21.6 per cent.

He believes there is "zero interest" in Australia from GM and that it could walk away from the market.

"They basically have now decided to go on three big markets," he says, citing China, North America and South America.

The domestic focus

Of GM's 9.6 million global sales in 2017, 7.6 million were to the US and China, which is now its biggest market.

GM's early investment in China is paying off. But the rise of China has changed GM's focus.

Whereas Holden was once a highly profitable, largely independent outpost that needed little direction, these days it's a thorn that requires careful pruning.

Holden's Australian sales account for just 0.94 per cent (and falling) of GM's global output. Hardly enough to warrant the careful attention of chief executive Mary Barra, currently making some of the toughest decisions in the industry.

Since filing for chapter 11 bankruptcy in the US in 2009, GM has been fighting its own battles restructuring the company, culling brands and retreating from countries where things were too tough.

On paper, Australia looks tough. But GM says it is committed. "I am confident in our ability to turn the business around," said GM's international operations chief, Barry Engle, in a statement.

"My mandate ... is to deliver profitable growth in each market in which the company competes. My objective is to leverage the earnings from our turnaround in GM South America to make our businesses successful in this part of the world, including Australia and New Zealand."

Holden points to the \$150 million investment in dealerships of the future, the introduction of OnStar telematics in 2019 and Maven ride sharing.

European hiccup

Late in 2014, Holden proudly announced it was turning back to Europe. It committed to sourcing a third of its cars from Opel, a brand with "very similar core values" and one that was "a perfect match for Holden".

It seemed a return to form; Aussies love European cars and Holden has been successful with them previously. But the timing couldn't have been worse.

As the deal was being digested, GM's top brass were secretly negotiating to offload Opel, something confirmed early last year. Suddenly, a crucial cog within Holden's delicate post-manufacturing world had been stripped.

The company set to supply a third of Holden's future models - the most important of those was the new Commodore, a rebadged Opel Insignia - was no longer part of the family.

And the company it was part of (PSA, owner of Peugeot and Citroen) has a poor record of building cars Australians like.

The ramifications were almost immediate. Since the takeover, The Age has been told the price Holden pays for Commodores has increased. And whereas rivals from Toyota, Subaru, Mazda and Hyundai are imported under a free trade agreement, Commodores attract a 5 per cent import tariff.

The Age has learnt Holden is now quietly joining the fight with luxury brands with the view to pressuring the government to remove the import tariff, which was originally implemented to protect local manufacturers such as Holden.

Battening down

Holden has weathered tough times before. In the 1980s the brand was on the brink and effectively forced into a joint venture with rival Toyota. Holden bought Corollas and Camrys from Toyota to be rebadged as Holdens, while Toyota bought Commodores from Holden to be sold as Toyotas.

It was a disaster made in Canberra. Not that it slowed Holden. The company went back to basics - building large family cars people aspire to own - and within a decade Holden was back on top.

But this time is different. There is no Australian manufacturing, so the government has no interest in whether US-owned Holden survives. The patriotism that once buoyed Holden is long gone.

Holden denies it is going anywhere.

"We have great backing from GM, as demonstrated by the product portfolio today and into the future," says Bernhard. "Like any business transformation, we get some things right and some wrong. It's important we continue to stay nimble and be able to course correct when required."

Wakeling is optimistic, acknowledging some dealers had concerns but that through meetings with local executives and those in Detroit he is confident of a resurgence.

"We want to be selling more cars, there's no doubt, but we've got a pretty robust plan ... if we work to that we're going to make sure we get there."

But things can change quickly. Only a few months before the late 2013 announcement that it would cease manufacturing, then Holden boss Mike Devereux was still committed to building Holdens in Australia until at least 2022 on the promise of \$275 million in government assistance.

Some analysts believe any decision on the future of Holden will be swift. If GM commits, it needs to be a long term, according to Conomos.

"It'll take a decade of very clear thinking ... the parent company support of the sibling is crucial," he says.

But Conomos believes Holden can survive. "I think it'll become an important importer."

Bound for Detroit

Detroit holds the key to Holden's future. Fortunately, Holden has friends in high places, including GM design boss Mike Simcoe. While he is now shaping Chevrolets, Cadillacs and Buicks, his passion is Monaros and Commodores.

He is a staunch supporter of the brand and will fight for Holden at every turn.

GM president Dan Ammann is a New Zealander who grew up with Holdens.

And the man in charge of product development for GM is former Holden boss Mark Reuss, largely credited with delaying the manufacturing shutdown.

Reuss bought an FC Holden during his time in Australia and it now spends time in the GM Heritage Centre in Detroit.

They're important players for what is an enormous fight.

Whether Holden can pull through will depend on the financial will and patience of head office - and a viable strategy.

On recent form they are two big ifs.

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