AMC gambles $60-million on a new compact

Introducing a new car is a huge and risky undertaking at any time for American Motors Corp., the No. 4 domestic auto maker. Yet this week, in what is shaping up as the worst auto sales year in more than a decade, AMC boldly unwrapped a new compact model, the Pacer—developed at a cost of $60-million—at a press preview in Palm Springs, Calif. Roy D. Chapin,

With a boost from the Pacer, AMC projects car sales at 350,000 this year

Jr., AMC's chairman, maintains that the Pacer is just what his company needs to help bolster its sagging performance. For the 1975 model year, starting last Oct. 1, AMC's unit sales are off 50% from last year, vs. a 29% decline for the industry.

Auto sales have been badly hurt by both the worsening economic slump and by price increases. But as AMC sees it, showrooms are empty these days at least partly because consumers are not being offered the right product. This is a situation, says Chapin, "that has to be met by a product so compelling that it moves the buyer over the threshold of the showroom." The four-passenger Pacer, which is supposed to be that stimulant, has futuristic styling—5,600 sq. in. of window glass vs. the 3,300 of most compacts. It claims a 23-mi.-per-gal. performance, more inside room than competing compacts, and has rack and pinion steering, which is common on European cars but is found only on the Mustang II among U.S.-built compacts. Chapin is gambling that consumers will find the $3,200 Pacer so irresistible that they will buy 70,000 of them this year.

Boosters. AMC desperately needs more volume. The company must move cars at an estimated 300,000-unit annual rate just to break even on its automotive operations. But AMC dealers have recently been selling at a rate of only 200,000 a year. With the expected boost from the Pacer, which will not reach dealer showrooms until Mar. 1, Chapin is projecting AMC sales of 350,000 cars for the 1975 model year. But to achieve that volume and to avoid a repeat of 1970, when industry auto sales soured and AMC lost $56-million, Chapin is also counting on:

- Federal action of some kind to limit gasoline consumption, spurring renewed interest in small cars.
- Aggressive selling by the company's dealer organization, which had been notoriously weak but is now trimmed back to the higher volume and financially stronger units.
- A sharp turnaround at AM General, AMC's truck and bus-making subsidiary, which lost $11-million in the last two years.

The Pacer, with a base price of $3,200, offers futuristic styling and European-type handling.

Setbacks. The current crisis in the auto industry presents a grueling test for Chapin, 59, who has salvaged his company in recent years with a major overhaul of marketing, manufacturing, and product lines. Despite the Big Three's increasing emphasis on small cars, the revamped company had until recently increased its share of that growing market: from 4.4% of the 3.9-million small cars sold in 1971, to 6.2% of the 4.8-million sold in 1973. During the frantic six months of the Arab oil embargo last year, when consumers were scrambling for small cars, AMC was able to increase its unit sales 15% while total domestic passenger car sales dropped 21%.

But its fortunes abruptly turned for the worse last September, when the company was hit by a three-week strike. In the fiscal year ended Sept. 30, 1974, AMC's net income dropped 38%, to $27.5-million, while sales increased 15%, to $2-billion. AMC blames the profit decline on the strike, which it says chopped $13-million off profits, dipping the company $7-million into the red in its fourth quarter.

The company has not yet released its fiscal 1975 first-quarter results, but it apparently operated at a loss. After the strike ended and full production resumed in October, the inventory of unsold cars in the hands of the company and its dealers quickly ballooned from a 47-day supply to 115 days, or 72,000 vehicles, by Dec. 1. All but "several thousand" vehicles are on dealers' lots, says an AMC executive. To work off the inventories, AMC has shut down its auto production plants this week.

Chapin terms AMC's present weakness "relative." Says he: "A year ago this time, the small-car market was beyond all bounds of comprehension. We're suffering by comparison with the fact that we were selling everything we could churn out the door." But the fact remains that AMC sales are now well below the rate that the company must have to survive.

Bets and hedges. AMC expects the Pacer to attract people to showrooms where they will then, according to Chapin's scenario, purchase cars they otherwise would not have bought. An obvious hitch in that plan is that the Pacer could easily steal sales from AMC's

Brendan Ross

Chapin hopes to sell 70,000 this year.

Gremlin and Hornet models. The company dropped its Javelin, a high-powered sport compact, and its standard-sized Ambassador lines last year to concentrate on smaller cars with broader consumer appeal. The Pacer's base price is relatively close to that of the other AMC models, as is its size, and the car undeniably resembles the Gremlin. With its 100-in. wheelbase, however, the Pacer is officially a compact, while the Gremlin's 96-in. wheelbase makes it a subcompact.

"Every time you introduce a new car you cannibalize your line," concedes R. William McNealy, Jr., AMC's group vice-president for marketing. But he insists that whatever sales of other AMC cars might be lost to the Pacer will be more than made up by "conquests"—sales to owners of other makes of cars. "People don't categorize cars the way we do in Detroit," he says. "Nobody goes into a showroom and says, 'I want a sporty subcompact.' They're interested in the car itself, and the Pacer appeals to a wide cross-section of buyers."

But AMC is not placing all its bets on the new model. "I'm confident that something is going to happen in the way of restraints on fuel," says Chapin. "Whether it's a gasoline tax, rationing, or allocation, it will again stimulate interest in the smaller, more economical car." McNealy also believes that the current relative strength in sales of standard-sized and luxury cars is temporary. Clutching at a straw in the wind, he notes, "In one week in December, the prices of used Cadillacs fell $1,000 on the West Coast."

While waiting for new government fuel conservation measures, AMC is trying another ploy to stimulate sales. Since Dec. 1 and until Mar. 1, it is offering buyers a free additional 12 months of the company's new-car buyer protection plan—a comprehensive one-year warranty that covers everything on the car. "That can be read as a $99 price cut," says Chapin. More important to the buyer than the de facto price cut, he adds, is that "it assures the buyer that he won't have to lay out any money on maintenance for two years." So far, however, consumer response to the extended warranty has been mediocre at best. "It hasn't helped," says John Pohanka, a Baltimore (Md.) AMC dealer. "The market is dead. The only thing that can move it, if anything can, is the Pacer."

Pressure on dealers. In recent years, AMC has been keeping the pressure on its dealers to increase volume, or liquidate. And as the sales of some dealers have grown, other smaller dealers in the same market area are being pushed out. Since 1970, the number of dealers has fallen from 2,300 to 1,935, but the annual sales per dealer have doubled to 210 units.

Having fewer but larger dealers lowers AMC's costs to service them. The company also believes that they will be able to sell proportionately more cars in an ailing market. "All dealers are eating beans now," says McNealy, "but the larger dealers have the resources to sell in tough times."

On the positive side, AMC expects its AM General subsidiary to produce a profit in 1975. The subsidiary is an outgrowth of the company's 1970 acquisition of Kaiser Industries' Jeep and truck operation. Its sales are primarily Army utility vehicles and small trucks for the Post Office.

In 1970 and 1971, the subsidiary generated about $200-million, or 20%, of the parent's annual sales and about $10-million a year in profit. But then the Army and Post Office drastically curtailed purchases. Nearly three years ago, the subsidiary started producing commercial buses. "Cutting our teeth in that business turned out to be a more complicated and expensive process than we thought it was going to be," says Chapin.

Now AM General has a $50-million backlog of bus orders from several cities, including San Francisco and Kansas City. "Our problems in buses are behind us," Chapin says. The subsidiary also won a $100-million contract for postal vehicles in October and several orders to supply 2½-ton and 5-ton trucks to Iran and the Philippines. The upshot is that AM General is expected to generate as much as $20-million in badly needed profits this year.

Breakeven. Chapin refuses to predict earnings, but most auto industry analysts expect the company to break even for 1975. "We're a much stronger, much different company than we were in 1970," says John C. Secrest, AMC's group vice-president of staff. "One of our problems was that our manufacturing facilities weren't equal to those of the other auto companies." Since 1971, however, AMC has spent an average $90-million per year on plant and equipment. "Now our efficiency is competitive," says Secrest. But AMC's car manufacturing is still done on a two-plant basis. Car bodies are made in Milwaukee and then trucked 30 mi. south for attachment to the chassis at a second plant in Kenosha, Wis.

The grim times have already prompted AMC to shelve its acquisition program. Last year the company acquired Wheel-Horse Products, Inc., a $30-million manufacturer of lawn and garden tractors. "It's difficult to use common stock as a means of acquisition," says Secrest, "and we're reluctant to use cash." AMC held $76-million in cash last Sept. 30, down from $109-million a year earlier, largely because of increased inventories of parts. "The inventories are too high," says Chapin. "But we were in a situation last year where we didn't know when we were going to get parts, so we bought whatever we could when we could get it, knowing that we would use it sometime." Although the company has expanded its in-house production of parts, it is still heavily dependent on suppliers.

The company has no short-term debt and unused

AMC seesaws in the small-car market

	Total U.S. unit sales	AMC	Chrysler	Ford	General Motors	Imports
		Percent				
1970	3,042,971	5.1%	17.8%	23.0%	18.1%	36.0%
1971	3,873,886	4.4	15.1	23.2	23.7	33.6
1972	4,108,005	5.4	15.3	25.0	21.4	32.9
1973	4,817,862	6.2	14.1	23.9	24.6	31.2
1974*	4,019,319	5.8	15.4	25.6	27.1	26.1

*First 11 months

Data: BW

bank credit lines of $75-million, although Secrest says AMC may soon borrow $25-million. The company has used retained earnings and long-term debt—two bond issues of $25-million each in 1972 and 1974—to finance its recent capital spending and the Pacer's development. However, its long-term debt of $79-million is still short of the peak $84-million in 1970.

To trim expenses, AMC this week indefinitely postponed the start-up of a dental plan for its 7,500 white-collar employees while also freezing their cost-of-living allowances and stopping all merit wage increases. The company has not yet laid off any white-collar workers, but Secrest says a "moderate" cutback is possible. Cash dividends on the company's stock also are in jeopardy. AMC paid out 20¢ per share last year, its first dividends since 1965. "I'm

Pohanka: 'The market is dead. The only thing that can move it is the Pacer'

not making any commitments on dividends," says Chapin. "It all depends on what happens in the next few months."

Survival. One thing is certain about AMC's future. The company will face even tougher competition from the Big Three. The first area may be in warranties. While AMC's extensive buyer protection plan, introduced in 1972, has apparently not helped the company much in the current market, it gets credit for perking up sales in recent years. A study by Boston University indicated that 68% of owners considered the warranty coverage a major factor in their decision to buy an AMC car. But this year, for example, Chrysler extended its warranty to cover everything on the car, regardless of miles driven. Chrysler, however, did not imitate AMC's provision for the loan of another car if the vehicle has to be kept overnight for repair.

More important, it seems likely that the Big Three will be offering even more small-car models, such as Ford's Monarch and Granada. A weakened Chrysler may decide, as AMC has, to concentrate all its efforts on small cars. Meantime, of course, GM and Ford are also pouring big money into programs designed to make larger cars more competitive. By trimming weight and improving engines and transmissions, they hope to improve fuel economy.

But Roy Chapin remains convinced that the revamped AMC, with its new Pacer and some government action to cut gasoline consumption, can not only survive but prosper. Putting up a brave front in these gloomy days for his company and its industry, he says flatly: "I've said that AMC will reach 500,000 units within three years. I see no reason to change that number." ■