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SALES RATE PLUMMETS TO 7-YEAR LOW. October auto sales in the U.S. dropped to an abysmally low annualized rate of only 14.8 million vehicles from 17 million last year. It was the market's worst performance since August 1998, according to Autodata Corp.

Actual unit sales sagged nearly 11% on a daily basis to about 1.15 million vehicles. Even foreign brands suffered: Their combined sales rate slipped nearly 2% in October.

As usual, Detroit's largest automakers suffered the most. Their domestic brands fell to an all-time-low market share of 52.7% as daily-rate demand for General Motors and Ford models plunged 22% and 23%, respectively.

Chrysler Group's year-on-year unit sales also declined last month. But there also was one less selling day this year, so the company's daily sales rate rose 1%.

Two foreign brands—Honda and Toyota—posted record sales in October. And Land Rover, coming back from poor year-ago results, surged 49%. But selling rates fell 14% for Nissan, 49% for Jaguar and 59% for Saab.

TRW SALES UP, EARNINGS FALL. Restructuring and commodity costs drove down third-quarter earnings at TRW Automotive Holdings Corp. to $10 million from $13 million a year earlier.

Sales for the Livonia, Mich.-based supplier of safety systems rose 6.5% in the quarter to $2.9 billion.

TRW says it expects to earn between $165 million and $180 million this year—vs. $173 million in 2004—before extraordinary items. Next year it anticipates "flat to moderate" earnings growth.

CHRYSLER BRINGS ON THE REBATES, AGAIN. Chrysler Group, already spending more than its domestic rivals on per-unit sales incentives, has thrown an extra $1,000 rebate on its existing deals to drive demand. The new offer applies to 2005 and 2006 models.

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MOODY'S DROPS GM RATING DEEPER INTO JUNK. Moody's Investors Service has dropped its credit rating for General Motors Corp. debt two notches deeper into junk territory (with a negative outlook), citing concerns about GM's slumping sales and slow restructuring progress.

All three of the major credit rating services downgraded GM to noninvestment grade between May and August. Fitch Ratings dropped its GM rating further in September, and Standard & Poor's Ratings Services did the same thing last month.

POLL: LOW PRICE IS BUYERS' FAVORITE INCENTIVE. Consumers overwhelmingly say a lower retail price is better than any other type of sales incentive, according to a poll by St. Louis-based Maritz Automotive Research.

The results appear to support recent efforts by domestic automakers to move toward value pricing as a replacement for incentives.

Maritz asked consumers to compare a lower retail price with several alternatives, one at a time. Respondents were one-third more likely to favor low price over 0% financing and about twice as likely to prefer low price to such options as rebates, employee discounts or a three-year guarantee of low-price fuel.

The poll also says a lower retail price is nearly three times as preferable as no-haggle pricing.

MANUFACTURING GROWTH SLOWS. The U.S. manufacturing sector grew more slowly in October, but it remains robust despite high energy and commodity costs, according to the Institute for Supply Management in Tempe, Ariz.

ISM's manufacturing index slipped to 59.1 last month from 59.4 in September. Economists had expected a decline to 57. Still, any number above 50 indicates growth, and the institute's index has been above that level for 29 consecutive months.

FORD CONSOLIDATES ENGINEERING GROUPS. Ford Motor Co. confirms it will combine its four North American product development teams into two to cut costs and gain efficiency, reports the Associated Press.

Engineering teams for large cars, small cars, trucks and SUVs will combine into two units: larger body-on-frame vehicles and smaller unibody vehicles. Ford tells the AP that the consolidation eventually will mean fewer engineers, although it plans to reduce staff through attrition.

This is the latest in a string of cost-cutting moves and management shakeups at Ford, which plans to announce a major restructuring in January.

L.A. AUTO SHOW WILL SHARE "INTERNATIONAL" TITLE. On Monday the Los Angeles auto show trumpeted its new accreditation as an international event in a misleading press release that sidestepped an important detail: The L.A. show will share the designation with shows in Chicago and New York on a rotating basis.

Thus L.A. will stage a conventional auto show in January and an "international" event in November 2006—its new month for all future shows. Chicago will borrow the international title for its event in February 2007 before passing it on to New York City for its show in April 2008. Then the cycle will repeat with each show reverting to non-international status until its term comes up again.

The rotating scheme comes from the Paris-based Organization of Motor Vehicle Manufacturers, which confers international status on the world's auto shows. Detroit's event, officially known as the North American International Auto Show since 1989, remains America's only full-time international auto show.

MAZDA REPORTS RECORD HALF-YEAR PROFITS. Mazda Motor Corp. says its earnings zoomed 66% to $266 million in the first half of the fiscal year that began on April 1. Revenue for the period rose 2% to $11.6 billion, bolstered by strong sales in Australia, China and Japan.

More than half the company's profits came from changes in Japanese pension rules. Still, Mazda projects full-year profit of $471 million, up 20% from last year. The company, which is one-third owned by Ford Motor Co., doesn't report quarterly results.

ASC SHOPS FOR AN ASSEMBLY PLANT. Specialty automaker ASC Inc. says it is considering sites in Kentucky, Michigan, Virginia and Mexico for a new low-volume assembly plant.

The Southgate, Mich.-based company wants to build a flexible factory capable of building three to five models in volumes as low as 5,000 a year. ASC says it is talking to four potential customer-OEMs.

The company's vision is similar to that of Magna Steyr, which currently produces 10 models for four OEMs at a rate of 227,000 units annually at its four-plant complex in Graz, Austria. Magna Steyr has been signaling all year that it wants to build a second complex—perhaps somewhere in North America—to build vehicles for up to four OEMs at a combined rate of 160,000 per year.

ASC and Magna Steyr are promoting their ability to efficiently build low-volume specialty vehicles. The two companies also say OEMs could improve efficiency by building smaller plants that run at near-capacity—and hiring them to supply extra production capacity as needed.

ASC already operates an assembly plant in Lansing, Mich., on behalf of General Motors Corp., which makes the Chevrolet SSR sport truck. The company, which is angling for economic incentives from the state, notes that Michigan would be a convenient site for a second facility because so many of its suppliers are nearby.

ZAP ZAPS DCX WITH $500 MILLION LAWSUIT. ZAP, the Santa Rosa, Calif.-based seller of alternate-power vehicles, claims it was defamed by DaimlerChrysler AG and should be paid at least $500 million in damages stemming from its failed attempt to buy Smart minicars from DCX.

ZAP makes the charges in a lawsuit filed this week in Los Angeles Superior Court against DCX and Ulrich Walker, Smart's former CEO.

The little company has been trying for more than two years to set up an operation to sell Americanized versions of the tiny Smart ForTwo cars in the U.S. It cleared federal regulatory hurdles and announced last May it had placed a $1 billion order to buy 76,500 of the two-seaters.

But DCX denied receiving any such order. And Walker was quoted by news media as declaring, "We do not want to have any kind of business relationship with ZAP either now or in the future."

ZAP indicated at the time it was lining up another source for the cars. In September it said it had arranged a $425 million credit facility for importing Smart cars and other unspecified vehicles. DCX shelved its own plans to import a Smart SUV a year ago but has since indicated it might introduce another Smart model in the U.S. eventually.

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TUESDAY'S CLOSING STOCKS

STOCK	SYMBOL	CLOSE	CHANGE
DOW		10,406.77	-33.30
NASDAQ		2,114.05	-6.25
American Axle	AXL	21.12	-0.68
ArvinMeritor	ARM	15.97	-0.06
Autoliv	ALV	43.01	+0.05
BorgWarner	BWA	57.90	-0.09
Cooper Tire	CTB	13.55	-0.11
DaimlerChrysler	DCX	49.40	-0.65
Dana	DCN	7.43	-0.08
Dassault Systemes	DASTY	51.50	-0.19
Delphi	DPHIQ.PK	0.41	0.00
Dura Automotive	DRRA	2.99	+0.01
Eaton	ETN	59.04	+0.21
Energy Conversion Devices	ENER	32.58	+1.64

STOCK	SYMBOL	CLOSE	CHANGE
Ford	F	8.22	-0.10
General Motors	GM	27.19	-0.21
Gentex	GNTX	18.76	-0.04
Goodyear	GT	15.55	-0.09
Hayes Lemmerz	HAYZ	3.97	+0.06
Honda	HMC	27.70	-0.11
Johnson Controls	JCI	67.87	-0.18
Lear	LEA	30.25	-0.21
Magna International	MGA	69.82	+0.10
Nissan Motor	NSANY	20.77	-0.18
Tenneco Automotive	TEN	16.47	-0.05
Toyota	TM	93.27	+0.46
TRW Automotive	TRW	26.78	-0.27
Visteon	VC	8.10	-0.23

viewpoint

COST CUTTING AND INNOVATION

Every company in the auto industry is preoccupied with reducing costs. But focusing only upon the price of labor and materials isn't enough today. Success also means being innovative about operations, products, customer relations and the supply chain.

Steven C. Doman, chairman, CEO and owner of Empire Electronics in Troy, Mich., has confronted all these issues in developing a strategy that has led to 300%-plus organic growth over the past three years. Empire Electronics Inc. is a world-class maker of wiring harnesses, molded components and PCB assemblies. Doman describes his formula for success.

How important is cost control to a supplier's success?

We at Empire strongly believe that when given the opportunity to work closely with a tier one customer, we can provide the most innovative solution, while keeping cost in the forefront of our minds. Our number-one challenge is getting customers to think out of the box when it comes to innovation.

If you really want to separate yourself from the pack, you have to get involved in the design process. When we have been brought into a working relationship with our customers, we have greatly exceeded the expectations and overall cost objectives that were mandated by the OEMs.

For more than 10 years we have been operating in a low-cost country, but so has everyone else. In order to truly enhance your LCC advantage, you have to be willing to incur the costs and risks associated with providing your customer an innovative and reliable product at a reduced price.

How has outsourcing set you apart from your competition?

We do not describe ourselves as a typical tier two supplier. We think of ourselves as a direct extension of our tier one and OEM customers. Our vertical integration plan has allowed us to cut 20%-40% of material costs, which makes up 50% to 70% of the total piece price.

We added more space to our production facility to bring design, molding and tooling in-house. We provide our customers with the kind of support they desperately need to fulfill their cost-reduction obligations from their OEM customers. This kind of arrangement enhances relationships between Empire and new customers because we are willing to incur more upfront costs and risk per program. A company has to be this aggressive to succeed in today's environment—and you need to invest in engineering capability to make it happen. Companies who "just build to spec" aren't going to survive in today's competitive environment.

What is your prediction about supplier-OEM relations?

It is a widely accepted premise that the auto industry has too many suppliers today, although it doesn't have enough outstanding suppliers. Being a little above average isn't good enough anymore. Customers want the best.

Being able to innovate is becoming a key factor in improving relations between OEMs and suppliers. Our customers are tough and demanding. But we pride ourselves on providing a good product with the highest value. At the end of the day, we find common ground because we're proactive, and we deliver more than merely an attractive price.

How much outsourcing does Empire do?

We've been bucking the outsourcing trend by focusing on our core competencies. We are becoming a more fully vertically integrated company. We're bringing more component production in-house when it makes overall economic sense.

Now, when we bid on new programs, we typically offer two prices when appropriate: Option A, based on the print specifications, and option B, an alternative cost-saving option that demonstrates our engineering and design capabilities. Contributing to option B's lower price is the notion that we manufacture, rather than buy, some of the specified components. We are constantly working on improving overall cost and quality for every product.

There are upfront costs involved in adopting this strategy, of course. But then these costs and associated risks are there to help us be more aggressive on the next opportunity.

To learn more about Empire Electronics, contact Steve Doman in Troy, Mich., at sdoman@empireelect.com or (248) 585-8130 or visit www.empireelectronics.com.