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Detroit's Mr. Fix-It Takes On Saturn

By [BILL VLASIC](#) and NICK BUNKLEY

DETROIT

THEY call him The Captain at the racetrack, where his team has won the Indianapolis 500 a record 15 times. But at heart, Roger Penske has always been a consummate repairman, one who excelled at rebuilding used cars as a teenager and later deftly overhauled troubled businesses as an automotive entrepreneur.

Over the last 30 years, he's also succeeded where corporate giants have failed. He turned around truck leasing for Hertz, revived [General Motors'](#) diesel-engine operations, and gave new life to [Daimler's](#) micro-car franchise, Smart. And when his struggling hometown, Detroit, had to make sure that [Super Bowl XL](#) went off without a hitch in 2006, the city turned to Mr. Penske to run it.

Now, at age 72, the silver-haired former race car driver is about to take on the ultimate problem child of the auto industry — G.M.'s Saturn division.

Since its creation in 1985 as what G.M. anointed "a different kind of car company," Saturn has been one of Detroit's biggest disappointments. Instead of a shining example of G.M.'s foresight, it ended up epitomizing the slow, downward spiral of what was once the world's dominant automaker.

Its early promise faded amid weak sales, years of bland cars and a marketing message that was lost in G.M.'s overstocked inventory of brands. G.M. threw money at Saturn, but never made a profit even during its best times. Analysts estimate that Saturn has lost as much as \$20 billion over the last 24 years.

"It may well be the biggest fiasco in automotive history since [Ford](#) brought out the Edsel," said Jerome York, a former G.M. director and an aide to [Kirk Kerkorian](#), the investor who has made and lost hefty sums investing in G.M., [Chrysler](#) and Ford. "Saturn has been a huge money loser for G.M. for a long, long time."

In Mr. Penske's view, however, Saturn is a potential jewel to be plucked from the scrap heap of G.M.'s bankruptcy.

By early next month, his company, the [Penske Automotive Group](#), is expected to complete its acquisition of Saturn from G.M. After that, it plans to try to reinvent the brand as an independent chain of dealerships. That experiment hinges on attracting a foreign car manufacturer that will supply Saturn with vehicles after G.M. stops producing its current line of Saturns in 2011.

The foray sets the stage for a classic business drama involving a self-made perfectionist who seldom tastes

defeat and a tarnished brand that struggled to meet expectations under the heavy hand of a slow-moving and entrenched corporate behemoth. All of which has analysts, competitors and auto buffs placing bets on whether or not Mr. Penske met his match in Saturn.

His efforts to restore Saturn's credibility and improve its sales mirror, in a much smaller way, G.M.'s own uphill battle to come back — as a 60-percent-owned government entity backed by \$50 billion in federal loans.

“My guess is that Penske has a shot at it,” says David E. Cole, chairman of the Center for Automotive Research in Ann Arbor, Mich. “But I’m not sure I could say that about anyone else except Roger.”

MR. Penske, citing the pending deal with G.M., declined to comment on his plans for Saturn. People inside G.M. who have knowledge of the transaction — but who requested anonymity because the negotiations are confidential — say that the acquisition should close early next month and that G.M.'s new board of directors wants to move forward with the Saturn divestiture. Penske Automotive has already sent Saturn dealers two-year agreements to review and sign.

A G.M. spokesman, Thomas J. Pyden, says the automaker is eager for the deal to close. “We certainly remain hopeful that the sale will proceed,” he says. “In terms of Penske, we don’t think you could find a better buyer for the brand.”

Indeed, G.M. has few other options for Saturn. The company has been forced to jettison huge chunks of its global organization to meet government conditions to become a smaller, more nimble competitor so it can ensure its longevity and earn enough money to repay the federal loans that have kept it afloat.

Members of G.M.'s sprawling corporate family like [Saab](#), Hummer and [Opel](#) are slated to be sold to foreign buyers, and the venerable Pontiac division will shut down completely. Saturn too looked to become extinct until Mr. Penske surprised the auto industry by making his bid in early June, just two weeks after his race team took home the championship at the Indy 500.

Mr. Penske controls 40 percent of Penske Automotive's stock, giving him a stake worth about \$600 million. The company lost \$403 million last year, on revenue of \$11.6 billion, during a seismic downturn that slammed all sectors of the auto industry.

In earlier years, Penske Automotive was reliably profitable as it became one of the largest car dealers in the world, with 150 franchises in the United States and an additional 160 in international markets. Mr. Penske's holdings also include several [Toyota](#) dealerships in California.

When G.M. put Saturn up for sale this past spring, there were few suitors. The idea, at the time, was that a foreign automaker without a presence here would snap up Saturn as a turn-key distribution channel. But with the American market in its worst sales slump in 25 years, there were no takers, especially for an already troubled enterprise. Saturn is on track to sell fewer than 100,000 cars this year, down from 286,000 in 1994.

The core of the Saturn lineup consists of three vehicles — the midsize Aura sedan and two S.U.V.-like crossovers, the Outlook and the Vue. None have captured the fancy of skittish car buyers. Through the first

eight months of this year, overall sales for the division have dropped 58 percent.

It appeared that G.M. might be forced to shut down the division entirely. But Mr. Penske is intrigued by the potential of Saturn's 350 dealerships, regardless of whether G.M. could supply them with cars indefinitely.

He envisioned Saturn as a larger version of the business model he first set up last year for Smart, the little, egg-shaped commuter car that Daimler, the German automaker, manufactures. With Smart, Mr. Penske assumed control of all aspects of sales, marketing and service, and contracted with Daimler only for production of the cars.

Saturn will theoretically work the same way, with G.M. supplying vehicles for a brief interlude while Mr. Penske acts as the middle man between the factory and the independently owned Saturn stores.

"This is a distribution business, not a manufacturing business," Mr. Penske told auto analysts in a conference call in late July. "So, it's similar to what we have at Smart."

Analysts believe Mr. Penske can make money primarily by selling parts to service the more than three million Saturn cars already on the road. "The economics for dealers are more on the service side of the business," says Scott Tuhy, an analyst with [Moody's](#). "It's not so much selling new cars as servicing the base of the vehicles that's already out there."

Mr. Penske also hopes to capitalize on the essential ingredients that once set Saturn apart from G.M.'s other divisions.

The promise of Saturn, from its inception, was how it conducted business rather than the specific models it sold. Its dealers covered large geographic areas with minimal overlap. Customers received personal attention usually found only in luxury showrooms. A no-haggle, one-price policy took the strain out of negotiating deals, and new buyers were treated like royalty. As a matter of policy, employees would drop what they were doing and cheer in the showroom when a customer received the keys to a new Saturn.

That friendly vibe was Saturn's hallmark. New buyers received photos of them picking up their cars ("Welcome to the family!" read the captions), and attended workshops on how to do everything from program the stereo to change a tire. In 1994 and 1999, thousands of owners traveled to the Saturn plant in Spring Hill, Tenn., for a "homecoming" party that celebrated the bond with their cars.

Saturn's owner-loyalty rate exceeded other G.M. divisions'. "I never thought of getting another type of car than a Saturn," says Richard Ludwig of Des Plaines, Ill., whose family has owned a dozen Saturn models since 1993. His wife, Gloria, says the relationship with their dealer was so positive they never shopped elsewhere.

"We just kept going back to Saturn," she says. "We had a terrific saleslady. If you went in thinking you're not going to walk out with a car, within a few hours you walk out with a car."

When G.M. announced it might sell Saturn to a foreign manufacturer, dealers worried that the brand would lose its unique connection with its devotees.

"I didn't want that to happen," says Mary McHugh, an executive with a dealership group that once had four

Saturn stores in the Chicago area. Two of the showrooms closed this year, but Ms. McHugh says the sale to Mr. Penske offers hope for the remaining outlets.

“There’s trepidation on the one hand, but there’s excitement on the other,” she says. “It’s sort of a renaissance, going back to our original ideas. That’s the part that got watered down with G.M.”

HOWEVER much it inspired brand loyalty with Saturn, G.M. still managed to seriously lose its way when it came to developing and constantly refreshing cars that carried the Saturn logo.

Originally, Saturn’s mission was to specialize in small, affordable, high-quality autos assembled in a single, dedicated factory. Much was made of the flexible labor agreement signed with the [United Automobile Workers](#) that set Saturn’s Spring Hill plant apart from other G.M. factories.

But jockeying for financial and creative resources within the G.M. mothership put Saturn in competition with the parent company’s other divisions, particularly Chevrolet. The first Saturn cars, called the S-series, were produced for more than a decade before being replaced. Subsequent models, notably the Ion subcompact, fell far short of the refinement and reliability of competing cars from Asian manufacturers.

“Saturn never had what I call an irresistible product,” says John Wolkonowicz, an analyst with the research firm IHS Global Insight. “And when G.M. tried to expand the brand into minivans and sport utility vehicles, it was too little and too late.”

Still, G.M. executives were loath to part with Saturn when the company’s finances collapsed late last year. The brand reached a younger demographic than its other divisions, and was moderately successful in luring buyers who traditionally bought Toyotas, Hondas and other foreign nameplates.

“Saturn’s focus has never been to take sales from General Motors,” says Todd Ingersoll, who owns two Saturn dealerships in Connecticut. “Our customers, the majority of them, would not have purchased another domestic automobile had Saturn not been around.”

The proposed deal with Mr. Penske won’t change Saturn’s lineup for now. G.M. has agreed to supply Saturn with the Aura, the Vue and the Outlook for two years while Mr. Penske courts other manufacturers to stock his new flock of dealerships. Yet so far, Mr. Penske hasn’t found that partner.

“We’re going to have G.M. to start with in this business, and then we’re going to move on to another manufacturer in the future,” he said in his call with analysts.

Speculation in the industry has centered on the French carmaker Renault, which has ties to both Nissan in Japan and Samsung in South Korea, and several Chinese auto companies as possible partners for Mr. Penske in the venture. But would Saturn loyalists consider a Chinese-made car a Saturn?

“That’s a tall order,” Mr. Wolkonowicz says. “If it was as good as a [Honda Civic](#), they might.”

Until a new manufacturer steps up, Saturn will have to survive on a diet of G.M. models that are neither new nor noteworthy.

Even so, with Mr. Penske in the mix there will unquestionably be other significant and interesting changes

afoot. His racing team is known for its meticulous planning, its spit-and-polish appearance and, above all, its discipline. He has applied the same principles in other parts of his automotive empire, and gotten sterling results.

“Roger does his homework and always has,” says Mr. Cole, who has known Mr. Penske since he was a champion driver in the 1960s. “He runs his businesses like he prepares for a race. It’s in his DNA to sweat all the details.”

In 1988, Mr. Penske formed a joint venture with G.M., called Detroit Diesel, to run the automaker’s diesel engine operations. He smoothed what were tense relations with its unionized work force by settling outstanding grievances, updating the cafeteria, building a fitness center at the main plant in Detroit, and inviting employees to racing events at his Michigan International Speedway.

After years of labor squabbles with G.M., workers warmed to Mr. Penske’s team-first approach. Productivity improved, and Detroit Diesel became profitable within two years. The company eventually went public and later was sold to Daimler.

The positive outcome of the diesel-engine venture laid a foundation with G.M. executives that Mr. Penske has said helped cement the Saturn deal.

“Our relationship with G.M. has never been better,” he told analysts in July. “Twenty years ago, we had the opportunity to do the Detroit Diesel deal with them, which went well. And I think that some of the benefit is getting us to do this transaction.”

Still, the future of Saturn won’t necessarily be determined by how well Mr. Penske improves productivity in its dealerships, or whether he can entice a low-cost foreign manufacturer to sell its cars as Saturns.

The domestic market for new cars isn’t expected to recover any time soon, and most analysts predict it will be years before the industry can achieve 16 million annual vehicle sales, which it averaged before the market crashed last year.

Where Saturn fits into that landscape is anyone’s guess. Other, newer brands like Hyundai are capturing buyers who once gravitated to Saturn, and G.M. itself is pushing hard to lure Saturn owners into its Chevrolet showrooms. The novelty of the Saturn sales experience may have worn thin, and there’s little to distinguish the products from models in other G.M. dealerships.

The Spring Hill plant now makes Chevrolets, while the current Saturn lineup is built in Kansas, Michigan and Mexico.

Mr. York, the former G.M. director, says he pushed the automaker to unload Saturn three years ago but the company resisted selling off any brands for fear of losing more market share.

Now Saturn has even less value in an increasingly crowded marketplace, Mr. York notes.

“It’s like you go to the grocery store and you have 40 brands of toothpaste,” he says. “Well, the world doesn’t need 40 brands of toothpaste. I think Saturn falls into the same category. The world doesn’t need it.”

MR. PENSKE may beg to differ. He's expected to pay a minimal purchase price for the Saturn brand, according to people inside G.M., and he has a two-year window to find another auto company to work with before the G.M. spigot gets turned off.

The biggest risk, should Mr. Penske fail, will probably be to his reputation rather than his bank account. Saturn dealers, most of which have been with the division since its inception, see Mr. Penske as nothing less than their savior. Unlike the proposed buyers for Hummer and Saab, Mr. Penske is a known quantity and a successful megadealer on his own.

Above all, Mr. Penske wants Saturn when it appears that no one else does.

"Of all the possibilities that could have happened for Saturn, and what is happening to other brands, I think we're the luckiest of them all," says Mr. Ingersoll, the Saturn dealer. "We're rewriting the story of automotive retailing."

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