

Chrysler headed down path toward liquidation, McTevia tells Michigan Business Review

Task force directive beginning of Chrysler liquidation, turnaround expert says

By Sven Gustafson | Michigan Business Review

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The Obama administration's rejection of Chrysler's viability plans appear to leave its proposed tie-up with Fiat SpA as its only hope, but one influential Detroit-area turnaround specialist believes it also spells the beginning of liquidation for the automaker.

"Ultimately you're talking about a set of circumstances that means a liquidation of Chrysler's assets," said Jim McTevia, of McTevia & Associates in Bingham Farms. "That's what everybody's been talking about but nobody's saying it."

The automotive task force noted Monday that the Auburn Hills-based automaker has made some progress under current management, but said its viability plan "is insufficient due to several structural issues that Chrysler, as a standalone entity, is highly unlikely to overcome."

It pledged to provide the Auburn Hills-based company with working capital for 30 days while it pursues its alliance with the Italian automaker.

The task force's order reads like a laundry list of problems long linked with Chrysler: a lack of scale, its over-reliance on North America for sales and shortcomings in product quality metrics. It also cited a glaring lack of products in the critical small car segment and too little investment in common vehicle architectures and flexible manufacturing capacity.

Chrysler currently devotes only 50 percent as many engineers per vehicle platform, on average, as General Motors, the task force said. It added that Chrysler's plan to address its shortcomings "is based on overly optimistic assumptions that are inconsistent with its current products and its resources."

McTevia said he has argued for six months now that Chrysler LLC was likely go out of business and their assets purchased by other companies. He said the notion that Chrysler and Fiat could finalize their alliance plans and draft a new survival plan for the government "isn't possible" within 30 days.

And unlike GM, which could conceivably survive as "an entirely different company than it is now" and

reorganize under Chapter 11 bankruptcy, Chrysler likely doesn't have that option.

"I don't think they'll find anyone to loan them the money under Chapter 11 with the possible exception of the government," McTevia said. It could also leave the door open to Fiat providing a debt instrument or financing to Chrysler to declare Chapter 11 until such time that it can begin picking off prized assets.

"If I am interested in acquiring the assets, as opposed to debt, the best way to do it is in Chapter 11. It's the best way to do it," he said.

Fiat Group CEO Sergio Marchionne on Monday seemed to bolster hopes that an alliance was forthcoming, saying it would improve Chrysler's finances and its ability to develop fuel-efficient vehicles.

"I'm sure the (Chrysler) name will survive and I'm sure there are products that will survive," McTevia said. "But quite frankly I think the company as it is won't survive."