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By Jennifer Clark

MILAN (Dow Jones)--Chrysler LLC's expected Chapter 11 bankruptcy filing Thursday may make it easier for Fiat SpA (F.MI) Chief Executive Sergio Marchionne to get started with his turnaround plans for the U.S. automaker.

"A Chrysler bankruptcy filing could be a wonderful opportunity for Fiat," said Jerry Reisman, a bankruptcy lawyer at Reisman, Peirez & Reisman, who predicts a speedy procedure. "All of Chrysler's debt will be dealt with in court, so Fiat will know exactly what it's buying. It will be a new Chrysler."

There's no question that a bankruptcy filing will slow down Chrysler's return to good health, since its creditors need to be heard in court. But since many of the creditors, as well as the auto unions, have already reached a deal with Chrysler on their debts, and a judge is under pressure from the U.S. government for a settlement, the procedure could be relatively quick, he said.

But even if a "new" Chrysler emerges quickly from bankruptcy protection, Fiat still faces huge obstacles in making the business work.

The first obstacle is time. Fiat, Chrysler, and the U.S. government are hoping that Chrysler's fortunes can be revived if it can add smaller, Fiat-designed models to its lineup of Dodge trucks, Chrysler minivans and Jeeps. But that can't happen until 2011, the companies have said.

"How will the company keep going for 18 or 24 months until the new product is brought to market?" asked Mark Fulthorpe, director of European vehicle forecast at CSM Worldwide. "They can't rely on the U.S. government."

The partnership will result in a revamped model lineup for Chrysler, but in the meantime, Chrysler will need to cut costs. Chrysler's accord with the United Auto Workers' union to suspend bonuses and cut holiday pay, and give the union's healthcare trust fund a 55% share in the "new" Chrysler, is an important step toward Chrysler's survival.

But that still doesn't solve the problems related to Chrysler's model lineup. Buyers still need to be enticed back into the showrooms.

"What will they do about the fact that no one wants the cars that Chrysler makes?" a former Chrysler executive told Dow Jones Newswires.

Secondly, there are few synergies created by an alliance of Fiat and Chrysler, noted Sanford Bernstein in a report April 20, since there is no vehicle overlap between Chrysler's trucks and minivans, and Fiat's city car, the 500. And Fiat may actually need to spend money to retool Chrysler plants to build Fiat and Alfa brand cars.

"We're dubious that there are any savings, at least not in the conventional sense," Sanford Bernstein's Max Warburton said in the report.

It's still not clear how Chrysler and Fiat think they will cut costs, since savings from synergies - apart from possible research and development spending - will be hard to achieve.

Fiat will need to further reduce the Chrysler cost base, which may mean more talks with unions. Thirdly, the future of the U.S. market is unclear.

"Is the U.S. recovery strong enough?" asks UniCredit's Gabriele Parini. "We have no answer to that, since visibility is low."

Apart from the questions about whether the level of consumer spending in the U.S. will return to where it was before the recession, Marchionne and Chrysler will need to convince urban drivers to embrace the concept of the smaller, city car. Fiat executives point to the success of Daimler AG's (DAI) Smart and BMW AG's (BMW.XE) Mini in urban markets in the U.S. But Americans in rural areas are unlikely to want to give up their roomy and rugged vehicles.

Marchionne will face management challenges, too.

"It may not seem like much, but it means you have to wait for an entire morning before you can talk to Detroit," said an employee at a Fiat competitor in Turin who deals with the U.S. daily.

But Carlos Ghosn proves it can be done: Ghosn is chief executive of France's Renault SA (13190.FR) and alliance partner Nissan Motor Co. (7201.TO) of Japan.

While Marchionne's successful turnaround of Fiat has given him management credibility, those abilities will be stretched by Chrysler's "process driven" design and management culture, two former Chrysler employees told Dow Jones Newswires.

"Fiat has the fastest time to market of almost any auto maker right now, and has been successful at innovating," said a person who used to work in Fiat's engine design department. "Chrysler and (General Motors Corp. (GM)) rely on tried and true processes that are reliable, but that don't lead to innovation."

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