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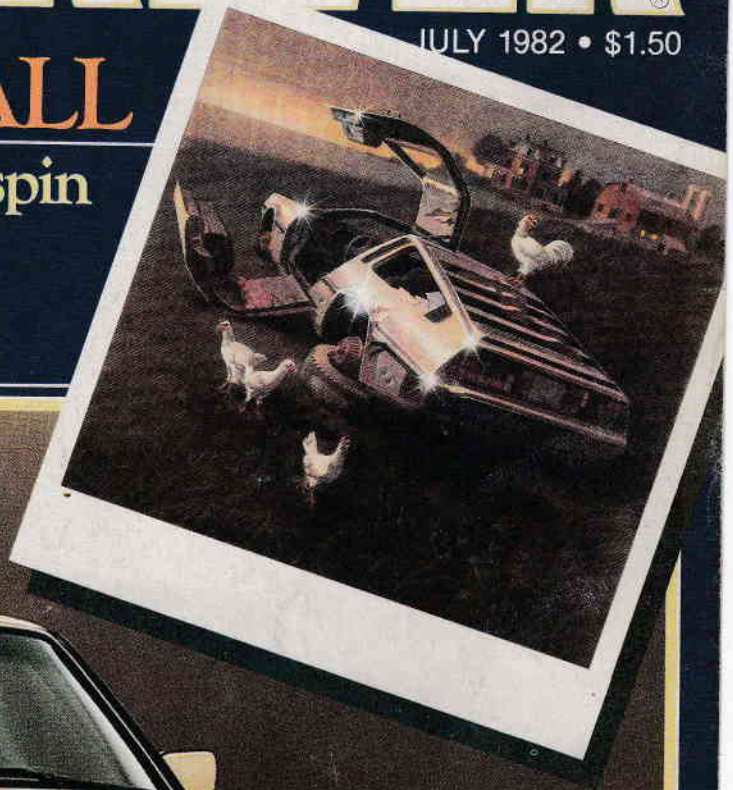
De Lorean's gull-wing in a tailspin



BOSS'S WAGEN

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The Decline and Fall of the De Lorean Dream

Who says stainless steel won't tarnish?

BY JOHN HILTON

ILLUSTRATION: LEO SOUDMORE

• John Zachary De Lorean quarreled with a lot of things at General Motors, but its size was not one of them. A year after parting ways with GM, De Lorean let it be known that he still believed in doing business on a grand scale. "It's time to challenge the political hacks who perpetuate their careers by selling the notion that bigness as such is badness," he told a group of managers in Fort Worth, Texas. "That's nonsense. On the contrary, bigness is essential and in many respects desirable in the corporate enterprise today."

The speech, in April 1974, passed virtually unnoticed. So did De Lorean's announcement that he was returning to the automobile industry. When he left GM in 1973 it was national news—"De Lorean's dropout leaves GM thin on top," headlined *Newsweek*—but it was not an easy act to follow. You can get a lot of attention by announcing that you are giving up a $650,000-a-year job as a GM executive, particularly if you are tall, stylish, and possessed of all-time sales records from Pontiac and Chevrolet. You can, however, do it only once.

Some insiders believe he was fired, but most of the media bought the official version of the event. By GM's account, De Lorean left to pursue his "longtime interest in educational, youth-oriented, and other civic activities." That touch of social consciousness boosted the drama of the departure, but it was not enough to make anyone pay much attention to the good citizens at the National Alliance of Businessmen, where De Lorean spent the next year. Even De Lorean apparently had some trouble concentrating on the NAB. Before his term was out he had founded a management-consulting firm, begun work on his autobiography, and talked with Citroën about buying 30,000 Wankel engines a year.

As he indicated in Texas at the close of his NAB term, John De Lorean had returned to designing cars. (He had started his climb through the ranks at GM as Pontiac's director of advanced engineering.) He told *Automotive News* that he had already started work on a mini commuter vehicle and a two-seat sports car. Ultimately, he confided, his goal was to manufacture "the American equivalent of the Mercedes-Benz." True to his own prescription, he thought big, and spoke of building half a million cars and trucks a year.

It was a brash projection, so brash it suggested that De Lorean had not yet absorbed the full implications of leaving General Motors. There, as he liked to recall later, financing a $200 million foundry in Tonawanda, New York, was accomplished at the drop of a memo. Former executives, as the rest of the world well knew, find such projects considerably more difficult. That is especially true when their projects involve automobiles.

The structure of the car business is such that the biggest companies are also those with the lowest costs. Placed at a price disadvantage, small makers lead a precarious existence in the corners of the market. In the postwar history of the American industry, the loss of Hudson, Packard, and Studebaker speaks volumes. Compared with the failures of those long-established nameplates, the undoing of new entrants like Kaiser-Frazer, Tucker, and Bricklin is no more than a sad footnote.

In the face of that history, John De Lorean's achievement is awesome. Between 1974 and 1981 he conceived, financed, and launched a genuine, independent, mass-production auto company. The vision of just what that would be, however, changed gradually over the years. The mini commuter car vanished quickly, De Lorean conceding that the capitalization would have been prohibitive. In time the proposed trucks became buses, and then those, too, vanished. But the two-seater survived and prospered, although it had climbed into the price range of Mercedes-Benz by the time it finally rolled onto the streets of America.

In the summer of 1981, seven years out from Fort Worth, the car was at last a reality. In the interval De Lorean and his associates completed their design, built a plant, and brought their gull-winged, stainless-steel sports car to the American market. And, as De Lorean had prescribed, they did it big, with six-figure salaries and stylish Park Avenue offices for the staff, caviar and Concorde flights for the press, and at the base of it all a new factory that could turn out 20,000 cars a year.

There was a lot of money involved, of course. Ed Lapham, financial editor of *Automotive News*, is one of the few outsiders to have unwoven the tangle of corporate entities and financial arrangements that nourished De Lorean's dream. "Throughout its brief history," he summarized early in 1982, "the De Lorean sports-car enterprise has been one of the most visible, innovative, and successful capital-raising ventures of the modern automotive era." An accompanying table testified that through August of last year—when the first cars were just beginning to trickle in to his 344 dealers—De Lorean's project had raised a formidable $217 million.

The charismatic De Lorean enjoyed equally phenomenal success in recruiting staff. Within six months of the Fort Worth speech he raided GM to hire engineer Bill Collins, an old colleague from the muscle-car days at Pontiac. Collins was no small fry: at the time he left he was head of the project center for the company's 1977 full-sized cars. He was the first of a long line of high-powered recruits to sign up with De Lorean's dream, the most illustrious of whom was former Chrysler president Eugene Cafiero. They seem to have been attracted both by De Lorean's personal charisma and by the project itself. One late recruit, former *C/D* executive editor Mike Knepper, asked several of his colleagues why they had taken the risk of leaving established firms to join De Lorean. "The response I got from everybody when I asked that question was it was exciting, it was a challenge, it was an opportunity to make a personal impression on a car."

The basic shape of the car, at first called the DMC-12, came together quickly. The design concept Collins was given in late 1974 called for a gull-winged two-seater, with the body to be made using a plastic molding process called ERM (elastic reservoir molding), on which De Lorean owned new patents. Working from a rented office in the Detroit suburbs, Collins established a set of body dimensions, which he turned over to the stylists of Ital Design early in 1975. By mid-year Giugiaro returned them, packaged inside his now-famous silver wedge. Collins by then was at work on the question of how to make it move. De Lorean had originally favored a Citroën-built Wankel, but when that did not materialize Collins considered several powerplants, including Ford's European V-6 and a Citroën four. The first prototype, completed in October 1976, used the Citroën engine mounted transversely amidships. The second, ten months later, set the pattern for production with a Peugeot-Renault-Volvo V-6 hung out behind the rear axle.

Collins complained to Karl Ludvigsen that a major difficulty with the prototypes was keeping them out of the hands of his colleague C.R. "Dick" Brown. Brown, who previously had assembled Mazda's American distributorship, wanted them to show to prospective dealers. In an ingenious move Brown was simultaneously building a dealer network and raising capital, with each dealer required to invest $25,000 in De Lorean Motor Company stock. The photogenic prototypes also received considerable press attention. One appeared on the cover of *Car and Driver* in July 1977.

That year, John De Lorean was still speaking in terms of launching production before the end of 1978. It was yet another brash projection, particularly since at that point he had neither the funds nor a site for a factory. De Lorean had, however, already made a crucial discovery. He found that whenever he mentioned an estimated employment figure of 2000, governments every-

where came rushing with offers of tax remissions, loans, and outright grants, if only he would build his factory in their jurisdiction.

After considering sites from Fort Worth to Wales, and canceling an elaborate deal with Puerto Rico at the last minute, De Lorean settled on Dunmurry, Northern Ireland. The British government, anxious to buy a little peace in Northern Ireland, and with North Sea oil income burning a hole in its pocket, won the De Lorean factory with a bid of $100 million in equity investments, grants, and subsidies, later topped by $70 million in direct and guaranteed loans. But the deal was not completed until August 1978. When factory construction began in October, De Lorean's target introduction date was moved back to January 1980.

In the event, the startup was delayed a full year beyond even that revised date. Production began early in 1981, with the first shipment of cars to the U.S. finally taking place in April, seven full years after De Lorean's announcement that he was returning to the automobile business. "Every phase of successful enterprise has now been completed," De Lorean told the *New York Times* at that point. "What remains now is the all-important test in the marketplace."

The car, now called simply the De Lorean, arrived in the U.S. to unheard-of publicity. "I think the only real analogy," says De Lorean marketing head Bruce McWilliams, "was the introduction of the Model A Ford." Estimates of advance sales at one point ran as high as 30,000 cars. The first cars to reach the dealers, after a final prep at De Lorean's "quality-assurance centers," sold at sizable premiums over their $25,000 list price. De Lorean and his creation appeared in ads for Cutty Sark and Goodyear. American Express offered gold-plated De Loreans to its cardholders for a cool $85,000 (the company says two were actually sold).

By September every dealer had begun to receive cars, and by November the factory's output had climbed to an annual rate of 20,000. As late as January 1982, news items reported that sales were good. The media were once again accepting De Lorean's version of events; in fact, sales had peaked in October at 720 units, less than half the rate of production.

In early 1982, as unsold cars piled up in inventory, the company ran out of money: it was all in stainless-steel, gull-winged cars. By late February the Dunmurry factory had passed into receivership, and out of De Lorean's control.

No one, at least publicly, has pinpointed precisely where the dream went wrong. But an ironic hint can be found in *On a Clear Day You Can See General Motors*, De Lorean's critique of his former employer. (De Lorean himself backed out of this project soon after the manuscript was completed in 1975, but his co-author, J. Patrick Wright, spent $50,000 to have the book privately published in 1979.) A major theme of the book is what De Lorean sees as GM's failure to introduce significant product innovations during his tenure there. The ironic touch comes at the end, where a note from De Lorean lists a

Mr. De Lorean, Meet Mr. Durant

• It's about a mile from John Z. De Lorean's Manhattan office suite to the original General Motors Building over on West 57th, where Billy Durant's office suite used to be. Look up the east wall and you'll see a confection of colored tile and brick, dull and stained like an old man's teeth after the weathering of 70 years, but you can still make out the winged-wheel symbol and the words "G E N E R A L M O T O R S" that flank it. Here was where Billy Durant wheeled and dealed, with his soft-spoken manner and his stock ticker and his "stand of bananas," a desk-top gaggle of constantly ringing phones.

Billy Durant *was* General Motors. He invented General Motors. He was John Z. De Lorean writ about a thousand times larger and gaudier, a visionary every bit as protean and controversial and elusive who dreamed not of building automobiles but automobile empires and industrial galaxies. He realized his dream not once but twice. He might have made it three times had not hubris, and bad timing, brought him down.

William Crapo Durant was no engineer but a hotshot buggy salesman in Flint, Michigan, already 44 and well-to-do, when he turned his talents to selling a locally built flivver named Buick. This was 1904. By 1908, Buick boasted the world's largest car plant and an annual output of 8500 cars. It was to be merely the cornerstone for the giant holding company Durant now conjured almost overnight. He bought car companies like socks; by 1909, his new General Motors Corporation had gobbled up Oldsmobile and Cadillac and twenty-odd other car and accessory makers (with Ford lured into the bag, only to suddenly bolt out again), and amalgamated the lot under one high command—his. By the end of that year, GM reported a $29 million profit but Durant's freewheeling style was making the bankers' clammy palms sweat. By 1911, the creator of their bonanza had been edged out.

Durant's riposte was to invent Chevrolet and make it an industry wunderkind. By 1915, with DuPont support, he had

GENERAL MOTORS PHOTO

maneuvered himself back into command at GM. Balmy days: a personal fortune reckoned at $120 million, a former Rothschild mansion, Raymere, on the Jersey shore, the celebrity unique to multimillionaires in pre-Roosevelt America. But it wasn't enough for Durant. By 1921 his feverish stock-market operations were gyrating out of control and threatening to wreck GM itself. Company stock had plummeted from $400 to $12 a share when he was forced to resign.

The briefest of pauses to raise more millions, then Durant Motors—GM all over again—featuring the Durant, the Star, the Flint Six, and the Locomobile. It should have worked, but it didn't. Durant had failed to notice that no real niche existed by now for another General Motors. Durant Motors struggled, waned, and after the Crash of '29 was finished.

Finished too was its namesake. Durant's passion for trading in securities made him the classic victim of that October Black Friday on Wall Street. Professionally broken, he was now personally wiped out. Within a few brief years, the entrepreneurial genius that had founded General Motors was harnessed to the challenge of launching a bowling alley in Flint. Supported in part by grudging sums from Alfred P. Sloan and other former minions, Durant died, virtually impoverished, at age 86 in 1947. He lies in Woodlawn Cemetery in the Bronx, a few short miles from the new General Motors Building in Manhattan. —*Bruce McCall*

string of costly failures with an assortment of innovative products.

De Lorean's own big innovation was the ERM plastic-molding process, which he expected would provide great strength, light weight, and low manufacturing cost. As sometimes happens with innovations, even after years of development ERM was apparently never suitable for mass production. At the end of 1978, soon after breaking ground for the factory, De Lorean contracted with Colin Chapman's Lotus Cars for production engineering. The result was a major redesign of the car, in which Lotus replaced De Lorean's ERM with its own proven plastic-molding system. That, together with the addition of a steel frame, contributed to a 600-pound weight gain between prototype and production. The weight took its toll on both fuel economy and performance: De Lorean had promised acceleration to match a Porsche 911, and wound up in the ballpark with the 924.

Porsche 924 performance is no unforgivable sin, particularly since the De Lorean had been projected to sell for less. But the complexity of the car—gull-wing doors, for one, are a manufacturing nightmare—led to spiraling costs. From a 1978 estimate of $15,000, it had climbed to a sticker price of $25,000 at introduction. Even dreams are subject to demand curves. In April of this year, Dick Brown noted that "our market research told us all along that demand was directly proportionate to the price."

Of course, disbelievers in the De Lorean dream have made the same point for years. Patrick Bedard, in a *Car and Driver* feature on the De Lorean prototype five years ago, noted that the European image marques—Ferrari, Maserati, Lamborghini, and Aston Martin—"never made 20,000 of anything." Likewise, Porsche has yet to build as many 911s in any one year. Overproduction appears to have been the biggest stumbling block in the De Lorean enterprise. The dream of a mass-produced exoticar doesn't fit the harsh realities of the marketplace. Furthermore, while history has yet to deny De Lorean's assertion that the Lamborghinis, Maseratis, BMWs, and Mercedes-Benzes of the world are "recession-proof," the current slump in the U.S. economy has clearly wreaked havoc in De Lorean's sales centers.

When the Dunmurry factory went into receivership in February, the American parent company and distribution subsidiary were not directly affected. De Lorean tried to raise the necessary cash—at first estimated as high as $90 million—to regain control of the plant. (In the manner of a used-car buyer sneering at his intended purchase, he began to make uncomplimentary remarks about Northern Ireland, including allusions to a number of previously unreported snipings and firebombings directed at the factory.) In the U.S., too, a cash shortage soon became critical, and in March the American payroll was slashed by two-thirds. Something close to a bunker mentality seems to have developed, with armed De Lorean agents confronting creditors who sought to take possession of cars. Soon after, a series of lawsuits began that effectively locked up the distributorship's inventory of 2000 cars.

De Lorean himself seems squarely to blame for his dilemma. Those closely involved agree that it is possible for the company to sell well under 10,000 cars a year and still make money. Yet instead of cutting production to those levels last fall, when the solvency crisis might still have been averted, De Lorean overrode his sales and financial staffs and increased production. His somewhat sheepish explanation was quoted in *Fortune:* "I guess we got carried away."

When the factory went into receivership, John De Lorean's fling with the big time ended. His fantasy of pumping out 20,000 stainless-steel bullets annually to as many clamoring customers is no more. The awakening has been a rude one, but it does not necessarily signal the end for either De Lorean or his car. The De Lorean inventory and dealer network are both potentially valuable assets, and if the factory can be pulled through receivership, De Lorean claims, its break-even point will be a modest 4000 units a year.

And even if he is no longer thinking quite so big, John De Lorean himself has not lost the gift for deal-making that kept his hazardous enterprise aloft these past eight years. By mid-April he had arranged new financing that unlocked his U.S. inventory. (Perhaps because some dealers were advertising them for as little as $19,500, 600 cars were promptly shipped.) In the same week De Lorean announced a plan to reacquire the factory. It was a costly deal from his perspective, since it involved sacrificing his majority interest in his company by selling a large amount of stock to a new, unnamed investor. But the tentative plan was sufficient to delay the liquidation of the factory for at least a month. If the De Lorean magic can be made to work just one more time, he may yet avoid the collision that threatens finally to smash his dream. ●