

Week of September 30, 2002

## Project Watch

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## Yet Another Toyota Assembly Plant? Mid-South Sites Reportedly Early Favorites

**CAMBRIDGE, Ontario and ERLANGER, Ky. –**

As **Toyota** was announcing its 700-employee expansion in Cambridge, Ontario (see accompanying story in this issue, "[Toyota Adding 700 Ontario Workers as Part of \\$414-Million Expansion](#)"), speculation was practically running amok over the possibility of the automaker's opening yet another North American assembly plant. The new plant will be a major operation, according to the rumor mill, involving an initial capital investment of US\$750 million.

The U.S. mid-South looks to be the early favorite as the region of choice for Toyota's new plant. The automaker is reportedly scrutinizing sites in **Como, Miss.; Fackler, Ala.; Jackson, Tenn.;** and **West Memphis, Ark.** Other locations, though, may be edging into contention. Toyota officials have also visited sites in **Georgia, North Carolina, Texas** and **Virginia**, according to *Automotive News*.

### Toyota's North American Portfolio

Toyota Motor Manufacturing North America already has eight existing assembly, parts and materials plants in North America, including operations in:



- Buffalo, W. Va.; a power-train production plant;
- Cambridge, Ontario, Canada; an assembly plant;
- Delta, British Columbia, Canada; an aluminum wheel plant;
- Fremont, Calif.; a joint-venture assembly plant, New United Motor Manufacturing Inc., which is co-owned with General Motors;
- Georgetown, Ky.; two assembly plants;
- Princeton, Ind.; an assembly plant; and
- St. Louis and Troy, Mo.; an aluminum parts plant. In addition, the automaker is adding two more locations to its North American portfolio:
- Huntsville, Ala., where an engine plant will open in 2004; and
- Tijuana, Baja California, Mexico, where an assembly and truck-bed production facility will open in 2003.



Toyota already has new plants under construction in Huntsville, Ala., and Tijuana, Mexico. Toyota Motor Corp.

President Fujio Cho (left) and Alabama Gov. Don Siegelman last year celebrated the announcement of the \$220-million, 350-employee engine plant in Huntsville.

Toyota officials, however, downplay the significance of the site visits. The company routinely accepts invitations from governors and mayors to tour potential locations, according to Dan Sieger, a spokesman for Erlanger, Ky.-based Toyota Motor Manufacturing North America (TMMNA). Such site visits, he explained, enable the automaker to be prepared for a wide range of potential expansion scenarios.

### Decision-Making Process Already Under Way?

Similarly, TMMNA President Atsushi Niimi deflected discussing specific sites. Toyota, in fact, hasn't even made a final decision yet on *whether* to open another North American plant, Niimi insisted. And the range of potential locations is considerably broader than press accounts have suggested, he added.

"I think the candidates will be in a broad area from Mexico to Canada," Niimi told Toronto's *Globe and Mail* shortly after announcing the Cambridge plant expansion.

Other observers, however, feel that Toyota is

actually much further along in picking a specific site for a new assembly plant. The automaker is already negotiating with individual governors and is conducting site feasibility studies, *Automotive News* speculated.

The site with the best in-place infrastructure will likely get Toyota's nod, the Detroit-based publication predicted. And, it added, that nod could possibly come as soon as in the next few months.

### Hot Sales Suggest Rapid Decision

A quick decision would seem to make sense, considering Toyota's torrid North American sales. In addition to its record-pace Canadian sales (see accompanying story), the automaker in August sold 186,599 vehicles in the United States, a 13 percent increase from 2001 and the company's best U.S. performance in 45 years.

Toyota's new goal of grabbing 15 per cent of the world market by 2010 would also suggest the need to add significant North American capacity. The company's current North American market share is 10 percent.

Toyota, which has 32,000 North American employees, has eight existing production facilities on the continent: four assembly plants and four parts and materials operations (see accompanying chart).

And, even as it considers another new plant, Toyota is adding two more operations to its North American portfolio: a \$140-million, 460-employee engine plant in **Huntsville, Ala.**, that will open in 2004; and a \$220-million, 350-employee assembly and truck-bed production facility in **Tijuana, Baja California, Mexico**, that will open in 2003.

That flurry of North American activity coincides with a period in which Toyota's global growth seems ubiquitous. The company's current expansion projects include new plants in China, Czechoslovakia and Thailand.

The Toyota City, Japan-based automaker is coming off its best year ever, tallying \$106 billion in worldwide sales in 2001, an 11.4 percent annual increase.



"When it became apparent that local challenges would not allow us to open the NextEnergy Center in a timely fashion in York Township, Wayne State University and the city of Detroit offered an even stronger partnership opportunity," explained Doug Rothwell, president and CEO of the Michigan Economic Development Corp.

### Motor City Picked as New Location for \$50M Fuel-Cell Technology Center

**DETROIT** – Detroit has landed a US\$50-million technology center that will generate thousands of high-paying jobs. Known as **NextEnergy Center**, the 250,000-sq.-ft. (23,225-sq.-m.) facility will serve as the nucleus for Michigan's new NextEnergy Initiative, which is promoting the development of alternative energy technology.

The Detroit center, which will focus on developing fuel cells to power cars and trucks, may sound like a natural fit for the Motor City. Initially, however, NextEnergy Center was scheduled to settle on a 700-acre (283.3-hectare) site south of Ann Arbor. But the plans announced in July for that location were dropped in mid-September, following recurrent concerns over the adequacy of the infrastructure at the Washtenaw County site.

Eager to accelerate its alternative-energy program and meet market demand, the state settled on a site in Wayne State University's Woodward Technology Corridor, located one mile (1.6 kilometers) north of downtown Detroit.

Mayor Kwame Kilpatrick had been lobbying state officials since April to bring the fuel-cell center to Motown. About half a dozen other cities were also vying to land NextEnergy Center, said state officials

(who didn't name the other contending locations).

"The city of Detroit had expressed the strongest interest in NextEnergy of any location in Michigan since it was first announced in the spring," explained Doug Rothwell, president and CEO of the Michigan Economic Development Corp. (MEDC). "When it became apparent that local challenges would not allow us to open the NextEnergy Center in a timely fashion in York Township, Wayne State University and the city of Detroit offered an even stronger partnership opportunity."

### Incentives Will Enhance Site's Business Appeal

In addition to putting the center next door to a university, the Detroit site will also provide incentives enhancing NextEnergy Center's appeal to research-driven firms. Sitting just north of the Wayne State campus, the location is part of a new state Alternative Energy Renaissance Zone, and is also now one of Michigan's 11 SmartZones. Both programs provide tax incentives for companies that locate in the zones.

In addition, the SmartZone will also house incubator space and business accelerator services designed to assist technology companies in swiftly bringing ideas to market.

"By locating within Wayne State University's Research and Technology Park," said Rothwell, "the NextEnergy Center will take advantage of a world-class university, be within the geographical center of the North American auto industry and leverage the substantial funding the MEDC has invested in this SmartZone."

NextEnergy Center will create some 3,000 jobs and attract as many as 100 companies, predicted Wayne State President Irvin Reid.

"The university has had a rich tradition of bringing together academia and business," Reid said. "The decision to locate the NextEnergy Center in the university's Research and Technology Park will create a synergy, which will accelerate the commercialization of new ideas and businesses."

### Other States Also Pushing Fuel-Cell Centers

Michigan's NextEnergy Initiative is one of several state programs centered on developing technology for fuel cells, which use hydrogen and oxygen stored from the air to produce electricity. Ohio, Connecticut, New York and Texas have also announced plans to develop similar technology centers.

Michigan Gov. John Engler, who leaves office in three months, has pushed the NextEnergy strategy, which he wants to be part of his legacy. Fuel cells will eventually replace internal combustion engines, Engler said in his State of the State address in January, urging Michigan to capitalize on the opportunity.

The state is also urging the federal government to increase its support of alternative energy. "As a nation we cannot assume that the United States will automatically be crowned the leader of alternative energy technology and manufacturing," Rothwell said this summer in testimony describing the NextEnergy strategy before a U.S. House Science Subcommittee. "Companies in Europe, Asia and Canada are already major players, and many other nations are sparring to take the lead. . . . With so much at stake in terms of jobs and our economy, I believe it is vital for Congress to see alternative fuel technologies as worthy of greater attention and investment from the federal government."



"The decision to locate the NextEnergy Center in the university's Research and Technology Park will create a synergy, which will accelerate the commercialization of new ideas and businesses," said Wayne State President Irvin Reid (pictured).

### Cadbury Schweppes a Spurned Bidder

### Update: Hershey Goes Off Auction Block, 7,000 Pennsylvania Workers Stay on Job

**HERSHEY and VALLEY FORGE, Pa.** – They were whooping and dancing along Chocolate Ave. in **Hershey, Pa.**, as the rumored impending sale of **Hershey Foods Corp.** fell through - at least for now. (The possibility of a sale was reported earlier in these pages in "Juiced by U.S. Demand, Mott's Triples Size of Pennsylvania Plant," part of our [Sept. 9 Project Watch](#).)

In the end, neither of two multi-billion-dollar bids for the company was attractive enough, explained board members of the Hershey Trust Co., which controls 77 percent of Hershey Foods' voting shares.

Community and state leaders, however, saw the outcome in a very different light. Their intense resistance prompted a Hershey Trust's board meeting in Valley Forge, Pa., to back down on sale plans, opponents asserted. A Hershey Foods auction, those opponents feared, would've triggered substantial



Hershey Foods' imprint on the city extends even to city street names, such as Cocoa and Chocolate, which intersect in the photo above.



layoffs in the candy maker's massive 7,000-employee work force in the city of Hershey -where Milton Hershey opened his first chocolate factory in 1905 on dairy farmlands near the village of Derry Church.



Hershey Foods employs 7,000 workers - almost half of the company's worldwide work force - in the area around Hershey, the city in which the company was founded.

"Sale talk is over," Hershey Trust President Robert Vowler said at a news conference following the vote. The trust's board voted 10-7 to turn down two bids for Hershey Foods. The vote came after a grueling, 11-hour meeting that ended near midnight.

### **Cadbury Schweppes, Which Mounted Major Nearby Expansion, Among the Bidders**

As it turns out, Cadbury Schweppes, which recently completed a \$53-million expansion tripling the size of its Mott's plant in nearby Aspers, Pa., was one of Hershey Foods' suitors (as reported in our earlier Project Watch coverage). The London-based company teamed with Nestle to make an \$11.5-billion, all-cash offer for the Pennsylvania-based candy maker.

And, as it turns out, protecting Hershey's Pennsylvania employees *was* a major concern for the trust, which first floated the sale idea back in July. The Cadbury Schweppes-Nestle offer contained "inadequate" guarantees to protect employees in the city of Hershey from layoffs or plant closings, Vowler said. The Cadbury Schweppes-Nestle bid also wasn't high enough to warrant a sale, he added.

An even higher bid, however, came from Chicago-based Wm. Wrigley Jr. Co., which made a \$12.5-billion offer. And Wrigley's offer included firm guarantees that no Hershey manufacturing plants would be closed, as well as assurances that the candy maker's name would be added to the post-sale corporate moniker. The Wrigley offer, however, was a cash-and-stock proposal. And that, Vowler explained, would've left the trust too heavily reliant on a single firm.

"It just wouldn't have been right to have Hershey Park called Wrigley Field," Pennsylvania Attorney General Michael Fisher said after the sale fell through. Fisher, the Republican candidate for governor, became a major player in the Hershey saga earlier this month, when he issued a temporary restraining order against the company's possible sale.

"I think they (the Hershey Trust) understood how opposed the community was to this, and I think they also understood that we were prepared to fight them every step of the way," said Fisher.

### **Locals Mount 'Bust-the-Trust' Drive**

The fighting over Hershey Foods, however, is likely far from over.

Still very much in play, for example, is the major concern that spurred Hershey Trust to initially consider a sale: diversifying its holdings and protecting the \$5.4 billion in assets held by the Milton Hershey School. The school, which feeds, houses, clothes and educates orphaned children, was the sole beneficiary of all of Milton Hershey's stock in Hershey Foods. The school currently has 1,200 students, spending some \$95,000 a year on each. The Milton Hershey School Alumni Assn., however, opposed a Hershey Foods sale.

On the other hand, the board's sale bail-out hasn't done much to mute vocal anti-auction activists. Some Hershey residents, in fact, are mounting a "bust-the-trust" drive to remove all 17 members of the Hershey Trust's current Board of Directors. Community organizers are also forging ahead with their petition drive to change Pennsylvania law to require state courts to approve any possible future sale of Hershey Foods.

Legal opposition to *not* selling the company could materialize, too, in Delaware, Hershey Foods' state of incorporation. Shareholders who're not part of the trust are reportedly considering a suit against the company's directors. The basis of that legal action: rejecting a bid that would've provided a 42 percent increase in the value of Hershey Foods' shares.

Hershey Foods, meanwhile, is in the midst of its own economic transition.

Company leaders, who opposed the sale, two years ago hired new CEO Richard Lenny. A former

Kraft Foods executive considered a company outsider, Lenny last year cut some 1,100 Hershey Foods jobs by outsourcing cocoa-powder production. Lenny's tenure has also been marked by the longest strike in Hershey Foods' history. Some 3,000 workers began a six-week strike in April 2002 over requirements that they contribute more to Hershey's health-care plan.

In short, there are apparently a lot of games left in the season before the Hershey Foods sales saga is fully played out.

And what about the performance of the company's stock, one of the main reasons the Hershey Trust was so receptive to a sale?

The news of the sale's fall-through triggered Hershey Foods' stock to drop 12 percent, to \$65. Overall, in the two months since the sales idea was first floated, the company's stock has risen by roughly \$2.

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