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**General Motors**

**HIGHLIGHT:**  
The world's largest carmaker is at sea and floundering

**BODY:**

The world's largest carmaker is at sea and floundering

FOR years **General Motors** (GM) was the undisputed titan of the world's car industry, effortlessly dominating everything. Now, to suppliers, employees and pensioners it must seem less like a titan and more like the Titanic, holed below the water-line, sinking slowly by the bow to the sound of loud shocks and bangs as bulkheads give way, one after the other. The chief executive on the bridge, Rick Wagoner, can rush around and bark orders, but to little effect.

On Monday November 21st, Mr Wagoner unveiled details of his plan to put GM back on an even keel. The car giant is to shed 30,000 employees from its key North American operations before 2008; and it will shut down nine manufacturing plants and three service and parts operations in an effort to cut production capacity by another 1m vehicles, having already cut roughly that amount since 2002. Most of the job cuts will have to come through voluntary departures and early retirement to mollify the car giant's unions, rather than through more radical surgery. But at least GM stands to make some cost savings as it attempts to keep its finances from sinking beyond salvageability.

At its peak in the early 1960s, GM controlled over half the American car market and set the standards by which most of the world's manufacturing industry was measured. But it has been more than a generation since the firm's dominance went unchallenged and, despite billions of dollars invested in new factories and vehicles, it has suffered a relentless decline in market share (see chart below). Earnings have plunged, especially in its core North American market. The good ship GM scraped even more icebergs lately, the most recent being an announcement that it would have to restate earnings for 2001, due to improperly booked credits from suppliers.

Although this news is relatively minor (affecting a four-year-old financial report by only \$400m) it had the sound of another groaning bulkhead and made people nervous. After the announcement, GM's share price plunged, and late last week it hit an 18-year low, though it has since recovered a bit. And for the first time since the carmaker's last big brush with disaster-in 1992, when the company came within 40 minutes of bankruptcy-GM's bonds are back in the junkyard. Analysts and observers are muttering again about possible bankruptcy. So loud is the speculation, in fact, that Mr Wagoner wrote to the company's 325,000 employees last week to deny that GM had any intention of filing for Chapter 11 protection from its creditors.

Exactly how and why things have gone so wrong is a matter of debate. Certainly, the situation was dire 13 years ago when a newly energised GM board flexed its muscle. They turned to Jack Smith, who in turn signed on Mr Wagoner, then barely 40, as one of his top lieutenants. The new management closed plants, cut the workforce, sold lacklustre component operations and seemingly restored

much of the company's former lustre. By the boom years of the mid-1990s, GM was again rolling up record profits.

Yet, despite a few exceptional years, sales continued to decline. Critics, such as Dan Gorrell of Strategic Visions, a Californian consulting firm, say GM concentrated more on finance and marketing than designing and making cars. Indeed, after the company's annual meeting, Mr Wagoner conceded: "If we had a chance to rerun the last five years, we probably would have done a little more thinking about making sure that each product was distinctive and had a chance to be successful."

GM paid a lot of attention to the development of its newest, full-sized sport-utility vehicles (SUVs), which will arrive in the showrooms early in 2006. But even the company's bullish "car tsar", the vice-chairman, Bob Lutz, admits that the potential market for these vehicles has declined dramatically with higher oil prices.

Misreading the SUV market might be bad enough, but GM also played down the need for a new generation of more fuel-efficient "crossover" vehicles. These are like SUVs, but lighter. The company scored a hit with its first models, such as the Chevrolet Equinox, but by the time the rest arrive Japanese competitors are likely to have taken control of the segment. GM refused to believe there would be enough demand to justify investment in petrol-electric hybrids. Yet again, it is now racing to catch up in a part of the market where the Japanese overwhelmingly dominate.

But products are only part of the problem at GM. Mr Wagoner was able to put a positive spin on GM's bleak, third-quarter earnings report (losses are \$3.8 billion so far this year) by announcing that the United Auto Workers Union (UAW) would grant unprecedented concessions, shaving \$1 billion a year from the car-maker's mounting health-care bill. He has turned his attention to attacking so-called legacy costs. The huge cutbacks of the 1990s saddled GM with nearly three retirees for every active worker. The latest round of job cuts will only exacerbate this problem.

Then there is the worsening situation at Delphi. Made up of former GM parts operations, the supplier is struggling to stay alive under Chapter 11. Its chief executive, Steve Miller, has given warning that he may ask the bankruptcy court to overturn the firm's current labour contract. If that happens, Delphi's well-paid American workers could suddenly find themselves taking home a meagre \$9 an hour. UAW leaders are threatening to strike if Mr Miller goes ahead. A walkout could disrupt the entire motor industry, but as Delphi's biggest customer by far, GM would suffer the most.

Not everything has gone wrong on Mr Wagoner's watch, of course. He has been successful in expanding abroad. The company's European operations are slowly recovering and Brazil has bounced back. GM's acquisition of South Korea's Daewoo is looking like a bargain and is doing exceptionally well. Then there is China, where Mr Smith defied conventional wisdom at the time by being one of the first to open an assembly plant. Mr Wagoner has since ramped up Chinese operations, lining up a string of highly profitable joint-ventures and assembly operations. Ironically, it is the Buick badge that has connected best with Chinese motorists, and soon the brand may sell more cars in Asia than at home, where its staid image leaves many Americans cold.

Buick epitomises GM's challenge as it seeks to improve its global operations while reducing its dependence on America. One of Mr Wagoner's first steps as chief executive was to pull the plug on the ailing Oldsmobile division. He has repeatedly insisted that he has no intention of scuttling any more of GM's eight surviving car brands. But with its market share only around 25%, it is becoming increasingly difficult to justify the economics of feeding so many car divisions with truly new and exciting products.

#### The mystery passenger

As if Mr Wagoner did not have enough to worry about, there is Kirk Kerkorian. The reclusive Las Vegas billionaire now owns 9.9% of GM, a stake which has so

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far lost him a great deal of money, at least on paper. The octogenarian investor is "a difficult taskmaster", cautions Gerry Meyers, a former chief executive of American Motors and now a professor at the University of Michigan. If things do not turn around, he expects Mr Kerkorian "will make himself very visible". Mr Kerkorian made that clear when he once mounted an ultimately unsuccessful takeover bid for Chrysler. He is reportedly angling for a seat on the GM board for one of his own lieutenants, Jerry York, a former Chrysler executive.

Mr Wagoner has other schemes to revive GM apart from the factory cutbacks. He is also planning to sell off a large stake in the company's profitable finance subsidiary, **General Motors** Acceptance Corp. Trying to predict his remaining options has become something of a parlour game in Detroit circles. Some are betting that GM will end up with no choice but to file for Chapter 11, now a popular move among American companies saddled with burdensome debts and high labour costs. Others give warning that such a move would simply alienate potential buyers of GM cars, making the situation graver still. Consumers will worry about warranties and the resale value of cars. What is clear is that GM's options are steadily diminishing and its still sizeable financial resources are being drained away at a frightening rate. At the current pace, it may not have the momentum to reach a safe port.

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