

General Motors Death Watch

Numbers One through Seventy-Five

By Robert Farago

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General Motors Death Watch 1: GM Must Die

By Robert Farago, April 3, 2005

When The Donald calls aspiring apprentices into the boardroom to determine which one to fire, I'm always hoping for a miracle. I want him to can ALL of them. My feelings about GM are identical. When GM Vice Chairman Bob Lutz hinted that he'd axe Buick or Pontiac if the divisions didn't "gain traction," he ignited a debate over which of the General's lackluster brands deserved death. The answer is, of course, all of them.

General Motors was born as a conglomeration of independent car companies. In the beginning, all of GM's acquisitions maintained their own distinct mechanical, design and marketing identity. Despite the imposition of centralized control in many strategic areas (e.g., choice of suppliers), each sub-brand remained true to its niche. Exactly when, how and why the structure fell apart, or became one big amorphous mass of poorly made product, is not as important as the fact that it has.

GM's eleven brands—Buick, Cadillac, Chevrolet, Holden, HUMMER, GMC, Opel, Pontiac, SAAB, Saturn and Vauxhall—are virtually interchangeable. You could rebadge a Vauxhall Lightning and call it a Saturn Sky; or a Holden Monaro and call it a Pontiac GTO; or a GMC truck and call it a SAAB 9-7X. Those are just the real-world examples. How about the new Cadillac STS as a Buick or the HUMMER H3 as a GMC? And that's without mentioning the elephant on the assembly line: platform sharing.

GM's brands bring new meaning to the words "product overlap." Pontiac GTO or Chevrolet Corvette? Chevrolet Cobalt or Saturn Ion? SAAB 9-5 or Cadillac CTS? The divisions might have better luck competing with non-GM brands if they weren't so busy competing against each other. As a result, whenever one of the eleven non-identical twins tries to make a case for itself, it unintentionally demeans a fraternal partner. GMC's claim to be "professional grade" makes Chevrolet seem amateur. HUMMER's "like nothing else" makes Buick seem common. And so on.

The marketing departments may beg to differ but their campaigns don't. Pontiac still touts itself as GM's performance division—at the same time that Cadillac emphasizes its products' supersonic speed. SAAB's "State of Independence" exhorts buyers to go their own way—while Saturn continues to chase iconoclastic buyers. And here's a compare-and-contrast from Hell: Chevrolet's marketing strategy for its full-size pickups vs. GMC's.

The situation reminds me of Coca-Cola's plight in the 70s. When the competition started offering strange and marvelous soft drink variations, Coke responded by introducing a wave of new flavors: Coke, Diet Coke, Cherry Coke, Diet Cherry Coke, Caffeine Free Diet Coke, etc. The bottom line? Add all the sales of all the new Coca-Cola sub-brands together and the company LOST total market share. Am I the only one who sees a parallel with GM, which is responding to their diminishing slice of the US car market by introducing a flood of new products?

Vice Chairman Lutz could axe a couple of brands, figure out what the remaining ones are supposed to be, erect some Chinese walls and . . . like Hell he could. Thanks to decades of bureaucratic bungling, craven UAW appeasement and intra-departmental

intrigue, GM has neither the will nor the skill to kill the omnivorous cancer devouring it. There's only one thing for it: sell off all of the brands.

GMAC Finance is the only solidly profitable part of the entire multi-billion dollar corporation; everything else is either limping along, a dead loss or a loss leader. Dump the car and truck making side of the equation and GM becomes instantly profitable. What's more, under independent ownership, each division would be leaner, meaner and quicker on its feet. Think about the breakup of AT&T, and the highly competitive, hugely profitable baby Bells it spawned!

Even if a liberated division's new ownership WASN'T entirely independent, even if some other multi-national car-making goliath bought up, say, HUMMER, and ran it into the ground, well, so what? As a GM stockholder, I'd say "better them than us."

The idea of being wrenched from the corporate tit is not bound to please GM's employees and suppliers. Most sensible financial analysts would view GM's dissolution as an improbable corporate Krakatoa: a violent, tectonic shift signaling the end of big business as we know it.

Of course, these are the same sensible people who don't buy GM products anymore. They buy Mercedes, Toyotas, BMWs and other vehicles made by companies who don't try to juggle eleven balls at the same time. If these experts want to feel GM's seismic rumblings, all they have to do is look at their own driveway. Even the Donald would savor the irony.

General Motors Death Watch 2: Dan Neil Takes a Bullet

By Robert Farago, April 10, 2005

Unbelievable. GM's lost the plot, they're losing the game and now they want to take their ball and go home. After automotive critic Dan Neil ripped apart the new Pontiac G6 GT and called for an executive putsch, The General pulled its \$10M ad spend out of the *Los Angeles Times*. While you can't begrudge GM's right to place—or not place—its money where it chooses, the decision to pull the plug on the Times displays an unappealing combination of arrogance and petulance. To wit: GM spokesfolk defended their action by saying that the review (and other GM-related coverage) contained “factual errors and misrepresentations”—without providing any specifics. So there. Nuh.

GM's version of *The Wizard of Oz*' “pay no attention to that man behind the curtain” routine is good for a few laughs. It's always fun to watch the rich and powerful act like victims. Nevertheless, it's a worrying situation. The General's muscle-flexing will certainly have a dampening effect on the already obsequious US automotive press. The ripples will be felt from the biggest buff books to the smallest local supplements. Even the blogosphere and ad-free sites like this one will sense the heat (if nothing else, we depend on manufacturers for access to test models). With the threat of retribution lingering in the air like sulfurous gas, the truth is bound to suffer even greater indignities.

The press' silence on this story is deafening. Ironically, this lack of coordinated response actually works against the automotive media; leading the public to the not-so-wrong conclusion that lapdoggerly towards the big advertisers is the norm. I've said it before: the press' greatest asset, perhaps its only asset, is its credibility. If the car media doesn't stand up for Neil, if they don't defend the principles which they claim govern their profession, they risk losing their readers' respect, and thus, affections.

At the same time, GM's vindictiveness will hurt GM's bottom line. The move against the *LA Times* catapulted Neil's column out of pistonhead backwaters into the national consciousness. By doing so, it focused yet more attention on the generally piss-poor performance of GM products vis-à-vis their competitors, as well as the likelihood that the General may axe two entire divisions. Buyers who've long suspected that domestic automakers try to hide their products' mediocrity behind a wall of hype and ad spend—consumers who don't want to buy a car from a brand that might disappear—now have even more reason to shop Toyota.

GM's assumption that the general public would side with big business in a fight against a lone (not to say rogue) journalist also raises serious doubts about the company's understanding of PR. The proper response to Neil's criticisms was obvious: demand that the *Times* publish a detailed refutation of the charges leveled against the company and the G6 GT. At the very least, when GM pulled their ads, their objections should have been made clear. But, no. As far as the public is concerned, GM's action was designed to punish the Times for doing what newspapers are supposed to do: report the truth. Newsflash to GM brass: people LIKE newspapers. And they don't like bullies.

Of course, GM couldn't really offer a point-by-point reply to Neil's review because the G6 sucks. Oh, wait, Neil didn't say that. With uncharacteristic reserve, the Pulitzer Prize-winning critic called the G6 "uncompetitive." If GM doesn't agree with this assessment, if they can't read their own sales figures and come to the same conclusion, they are in deep, deep denial. At the risk of sounding as obvious as an alcoholic's friend during an intervention, lashing out at the *LA Times* doesn't change anything. The G6 is still mediocre. GM is still in deep shit. The General's assertion that it's being unjustly persecuted doesn't make it so.

Both domestic carmakers and car hacks need to wise-up. Until and unless the automotive press puts their readers' interests first, advertisers will have them over a barrel. Until and unless GM faces the truth about its products, they will keep making boneheaded, self-defeating and futile attempts to protect their increasingly illusory reputation. Meanwhile, send dan.neil@latimes.com an e-mail. Let him know that his short-term prospects are a lot better than GM's.

General Motors Death Watch 3: Safety First?

By Robert Farago, April 15, 2005

OnStar's radio ads are powerful stuff. The 30-second documentaries—featuring real life rescue coordination by OnStar staff—jerk more tears than *Terms of Endearment* and *The Divine Secrets of the Ya-Ya Sisterhood* combined. The fact that you can summon the same emergency crew by punching 911 into your cell is neither here nor there. After hearing an OnStar rep soothing a toddler crying, "Momma's passed out," you'd gladly get a second mortgage to pay for their emergency coverage.

Considering the ads' impact on OnStar's takeup rate, the General's plan to translate the radio spots into a series of 30-minute TV infomercials makes perfect sense. Provided the producers keep it real (in the best "based on a true story" TV tradition), the marketing campaign will be a sure-fire hit. You can almost hear new customers choking back the tears as they relay their credit card number to their toll-free friends.

But the OnStar effect doesn't end there. The service's commercial success has infected the rest of The General's marketing staff. The safety bug has gone viral.

A recent TV ad for the Saturn Vue highlights the pathology. In this flawlessly executed vignette, a young woman admits that she bought a Saturn SUV because impending motherhood shifted her priorities towards safety (and away from imports). While exploiting maternal paranoia is a no-brainer for admen aiming at the family car market, the commercial is a major change in Saturn's branding. If the TV ad is anything to go by, "The People's Car Company" is now, simply, "Deathbusters."

But wait! There's more! (NOW how much would you pay?) In a recently unleashed national TV campaign called "Only GM," fresh-faced children tell viewers how their lives were saved by GM safety features (including OnStar). The odd thing about the ad—other than a strong sense that the pint-sized "survivors" were carefully rehearsed—is that it touts GM's entire model line-up. It's not just Saturn that keeps you from experiencing the last word in personal depreciation. It's GMC, Pontiac, HUMMER, Saturn, Buick, Chevrolet, Cadillac and SAAB.

Well how about that: GM as Volvo, times eight. Cynics might point out that the majority of GM's safety features are either federally mandated or late to market (e.g., their SUV anti-rollover technology). But there's no doubt that GM's multi-divisional we-got-your-back shtick represents a significant shift in The General's marketing focus. (Just having a focus is pretty big news for GM.) What's more, there's no reason to believe a division-wide safety campaign wouldn't work. It's OnStar's "Field of Nightmares" writ large: if you protect them, they will buy.

The ads—the first multi-marque General Motors campaign since tail fins went out of fashion—may also reflect a sea change in GM's overall corporate strategy. (Just having a corporate strategy . . .) Maybe the big guns have finally listened to all those critics who've condemned the automaker for badge-engineering its divisions' identities into oblivion. Rather than mounting a hugely expensive effort to re-delineate its brands through new product and marketing, perhaps The General

has simply thrown in the towel. Are we about to see GM fold all of its divisions into one?

Yes, it sounds dopey. But why would GM suddenly announce that it's going to affix the corporate logo on ALL of its brands' products? Will a Corvette owner gain street cred when onlookers clock that his favorite phallic symbol was built by the world's largest car company? Will a HUMMER piss off more tree-huggers by virtue of its dual branding? Nope. So what's the point? If you discount the move as a morale booster for financially challenged stockholders, GM's big badge boom is a tacit acknowledgement that the whole multi-brand thing is a dead flowchart walking.

Think about it: Ford is the other big multi-divisional carmaker, and look how THEY'RE doing: Lincoln's a joke, Mercury's the punch line, Jaguar's a drain, the rest of the boutiques are irrelevant and the mainline brand is slouching towards Bethlehem. BMW and Mercedes have only one subdivision apiece (MINI and Chrysler) and they sell millions of cars in every imaginable market segment. In short, all those analysts calling for GM's dissection could be punditing in the wrong direction. The answer to GM's perilous financials could be consolidation.

Let's face it: these days, only die-hard pistonheads care about brand history. We live in a world where a Chevy can be a re-badged Korean or Australian import, where a Sky or Solstice will fly out the door regardless of the badge on its butt, where a Chevy Silverado and a GMC Sierra are all pretty much of a muchness. So why not drop all pretence of brand differentiation, reduce costs across the board and sell all 40-plus products under the GM banner? As OnStar proves, sensible and safe aren't always the same thing.

General Motors Death Watch 4: Thanks, I Needed That!

By Robert Farago, April 28, 2005

When Toyota Chairman Hiroshi Okuda proposed raising the price of his company's products to help floundering US automakers, industry insiders didn't know whether to laugh or cry. The idea that inflating Toyota sticker prices would lead US consumers back into GM or Ford showrooms is so ludicrous that Okuda's comment struck many as a malicious joke. Either that or the head of the world's second largest carmaker hasn't driven a Ford, lately. To get a consumer to choose a Ford or GM product over a similarly priced Toyota, the Japanese would have to tack on a couple of grand. At least.

Although Okuda quickly recanted, the brouhaha focused yet more unwanted attention on Ford and GM's lackluster products. It's one thing for your bond status to head for the junk pile; it's another for potential customers to hear that the Japanese feel sorry for you. Of course, from a marketing point of view, Okuda's offer was a masterstroke—potential car buyers now have good reason to believe that Toyotas are underpriced. From an industry point of view, Okuda placed not one but two elephants in the room.

The first pachyderm is a media fantasy: import tariffs. Yes, there was once a time when Detroit covered its ass by taxing Japan's. Those days are gone. The Big Three are now importing an enormous amount of parts and products from abroad (e.g., Korean cars re-badged as Chevy's and Chrysler's plans to sell Chinese-made cars). An import tax would hurt the domestics as much as the Japanese. And now that Toyota, Honda and Nissan ARE domestics, an anti-import tax would be, well, silly.

The second elephant, another media invention, is that Okuda's comments indicate that he's worried about the potentially crippling impact of a GM or Ford collapse on the US economy. The reasoning is as simple as it is stupid: if GM or Ford go under, their extinction would damage the US economy so severely that fewer American consumers would be able to buy Toyotas. In other words, Okuda will do anything (including increasing his company's profit margins) to save the wounded domestics, to ensure his company's long-term success.

This logic assumes that corporate chieftains like Okuda have a deeper insight into "how things really are" than your local shopkeeper. Maybe, but I doubt it, especially when you consider the wisdom of Okuda's executive counterparts at Mitsubishi. In any case, it's laughable to paint Okuda as an altruist. Show me a shopkeeper who doesn't want his competition to F-off and die.

The Revelations theory also assumes that when General Motors sneezes, America catches a cold. Again, those days are gone. The US economy is far more broadly-based than it was when GM supposedly called the tune. If GM or Ford bought the farm, there'd be a lot of hand-wringing and the stock market would plummet, but the vast majority of the US population would go right on buying food, videos, houses and . . . cars. In fact, the chances are excellent that a stricken domestic carmaker would quickly re-organize itself and survive, significantly leaner and meaner (did I hear someone say crippling health care costs?) than before.

Of course, no one would want to see tens of thousands of workers join the welfare rolls (especially regional politicians). But let's face facts: propping up a terminally ill multi-national corporation just to protect jobs is the worst type of socialism. And the last time I looked, the US economy is a capitalist system. If GM or Ford dies because they take in less money than they spend, it will—eventually—strengthen the US economy. In fact, protecting GM or Ford would play straight into Okuda's hands; insulating the domestics from market forces would allow them to continue to producing unpopular cars, trucks and SUV's.

Hmmm. Maybe THAT was Okuda's cunning plan: to help GM and Ford stay afloat so that Toyota could continue to compete against a couple of paper tigers. Oh well. Never mind. The most important thing about Okuda's offer is that it's completely unimportant. It's a distraction from the main game: building vehicles that kick Toyota's butt. If Okuda's taunts energize complacent executives at Ford and GM into doing just that, then they're a blessing in disguise. If not, the US execs deserve Okuda's abuse and worse.

Personally, I think Bob Lutz and Bill Ford missed a golden opportunity. They should have responded to Okuda's statement by announcing that their dealers would offer an extra 10% on all Toyota trade-ins. But if they thought that way and had the products to back it up, they wouldn't be in this mess in the first place.

General Motors Death Watch 5: The Perfect Storm

By Robert Farago, May 5, 2005

Oh, dear. It seems that the long predicted "perfect storm" is massing above the stricken supertanker that is General Motors. Storm cloud one: the Wall Street Journal reports that SUV sales have tanked in Texas.

Never mind today's sales figures, which reveal that GM's light truck sales dropped 17 percent last month, to 209,917 vehicles. Or today's S&P downgrade, which reduces GM's bonds to "junk" status (raising their borrowing costs). If Texans are abandoning their Conestogas, GM's number one [non-finance] profit engine is running out of gas—without a service station in sight. Unlike Chrysler and Ford, GM doesn't have a plan B: a supply of more fuel-efficient sedans, SUVs and crossovers ready for sale. I'm not talking about hit products like the Mustang or 300C. I mean reasonably frugal vehicles appropriate to these \$2.70-a-gallon times, like the Ford Freestyle.

Storm cloud two: these vehicles are not on the immediate horizon. That's why GM Chairman Rick Wagoner is heading to Tokyo. He's exploring the possibility of GM getting (as in buying) Toyota's help (as in patented technology) on safety and environmental issues (as in engines that don't burn gas like GM's health care obligations burn money). If Wagoner is traveling to the Toyota camp just a week after they humiliated The General with an offer to raise their prices in sympathy, GM's upcoming product plans must be very bad indeed.

[NB: on 5/9, GM officially denied that Wagoner's trip to Tokyo will include meetings with Toyota.]

Storm cloud three: Mr. Kirk Kerkorian: an investor so rapacious they had to name him twice. Mr. K. just bought 22 million GM shares, upping his total stake to 9%. Kerkorian is what the business community calls a "tree shaker"; which is a bit like calling an M1 tank a "peacemaker." He likes to buy his way into the boardrooms of large companies and force them to sell off non-core assets, cut costs and restructure the whole damn shooting match. Sounds like a plan to me. It also sounds like the end of GMAC Finance, Buick and Saturn at the least.

As far as I'm concerned, that's no bad thing. As far as the unions are concerned, it is. In fact, the UAW recently decided that the huge crisis facing the world's largest automaker requires them to do nothing whatsoever. There will be no union flexibility regarding GM's chronic excess capacity and the company's disastrous labor costs save keeping the plants open come what may and increasing members' compensation when their contract comes up for renewal in 2007. The idea of dismembering GM to save it is about as high up on their list of priorities as lowering union dues.

The brewing tempest here is union intransigence vs. Kirkorian intransigence. While Wagoner, Lutz and the rest of the GM rat pack are happy to hold the fort, appease the unions, scramble for market share and pray for cheap gas; Kirkorian is just as likely to tell the UAW to go to Hell. (Lest we forget, the guy is an 87-year-old

billionaire.) As is the way of such things, if the UAW is going to Hell, they'll take GM with them. How does a UAW workers' strike sound right about now?

How about bankruptcy? Bankruptcy, the room-dwelling elephant that scares the shit out of everyone except real capitalists, would afford GM protection from its creditors: the unions. Obviously, no GM exec with a desire to retire with the respect to which his wife has become accustomed wants to be known as the guy who drove The General into the world's largest Chapter 11. They'd get down on their knees in front of Congress Lee Iacocca-style before accepting that scenario. Kirkorian, by contrast, would not be afraid to go nuclear. He might even enjoy it.

Oh, I forgot to mention that Mr. K also likes companies to turn their huge cash stockpiles into stock dividends. You know, to create a little walking around money for long-suffering stockholders like . . . him. A cash-strapped GM wouldn't have the wherewithal to fund new product development and their own stupidity (e.g., the \$2+ billion Fiatsco and ongoing recalls). Denied the opportunity to live off the fat of its finance arm and automotive heyday, hemorrhaging cash at the rate of a billion or so per quarter, GM would, eventually, go out of business.

Could it happen? Sure. Would I want it to happen? Now that's a different question; which a lot of people have been asking me lately. In fact, I've recently been accused of wanting to be the instrument of GM's destruction. Well, nuts to that. Automakers should sell products that consumer want to buy: stylish, safe, reliable, affordable, efficient and pleasurable to drive. Is that too much to ask? If GM in its current form isn't up to the job and goes under, it's a shame. But rest assured: America will weather the storm.

General Motors Death Watch 6: Petard Hoisting

By Jon Arnett, May 10, 2005

Mr. Witzenburg's recent TTAC editorial criticized Mr. Farago for his anti-GM bias and asked us to give the domestic automaker a fair shake. While I respect Mr. Witzenburg's loyalty and patriotism, he seems to have overlooked the fact that his former employer makes some truly awful automobiles. As the cornerstone of his defence, the automotive journalist asked readers to name one—just one—poorly-made car from the General Motors line-up. Alright then, what about the Chevrolet Cavalier?

My best friend, sister and mother all had the displeasure of owning a Cavalier ('94, '00, '04). During their stewardship, pieces fell off, the electronics failed (e.g., headlights, windows, and stereo) and there were several major mechanical failures (e.g., transmission starter, alternator and master brake cylinder). Witzenburg may dismiss these complaints as relating to an "old" design, but their saga is not peculiar to the Cavalier. Perhaps owners of other GM products would like to e-mail their tales of woe to Mr. Witzenburg. Anyway, a car company is only as good/bad as their weakest model.

I also reject Witzenburg's argument that build quality is everything; he claims you can't criticize a GM product simply because you don't like it. Sorry? Why not? Despite Mr. Witzenburg's affections for JD Power, "objective" quality surveys are not the ultimate measure of an automaker's products. It's whether or not people like their vehicles enough to buy them. Is Witzenburg saying that people are "wrong" because they don't like a GM car's looks, handling, performance or cost of ownership? GM may still sell a Hell of a lot of cars, but their declining market share says it's GM—not its customers—that's been getting it badly wrong, for a long, long time. To suggest otherwise is blaming the victim.

There's another way to gauge the public's general regard for GM's products: depreciation. If GM was making great cars, they'd all hold their value like a Honda Accord. They don't. For example, within one year, the aforementioned Cavaliers shed nearly 45% of their original value. In fact, the pro-GM writer should click-on-over to kbb.com and have a look at the used car values right across the GM range. There's no better place to get a feel for how little the public thinks about GM's engineering and design.

But let's get back to new product. Continuing our quest for lousy cars, how about Saturn? They may last a long time, but is that a good thing? Most of these cars use plastic far cheaper than Mattel dinky-cars. They have underpowered engines, terrible interiors, weak suspensions, junk brakes and dismally uninspired interiors. And they're ugly. The media reports that GM will rectify all of these problems with a new batch of high-quality product. Now where have I heard THAT before?

While many cars in GM's line-up aren't lousy in and of themselves, they're clearly not "up" to the competition. The top-spec SAAB 9-5 is a nice car, but so is a fully-loaded Nissan Altima, for \$10K less. Or, for the same price as the SAAB, how about a BMW 525? The Bimmer's retained value would even pay for a few extra toys. Buick's latest

and greatest, the Lacrosse, or a Nissan Maxima? Guess which is cheaper, better styled in and out, has more power, better gearing, and still gets better fuel economy. Bottom line, in every situation, there's at least two or three compelling reasons to buy from GM's competition.

Witzenburg and his supporters like to point to the one supposed bright spot in GM's constellation: Cadillac. Although the CTS is a great car that builds on the Escalade's success/excess, Cadillac is hardly out of the woods. The XLR and STS are both perilously close to being flops: over-priced and under-deluxed. Again, check the sales charts; Caddy has yet to prove that they have what it takes to take-on Lexus, BMW, Mercedes, etc. and win. And again, cliff-face depreciation tells the tale of a division with more pretensions than product.

It's time for GM and its supporters to wake up. The only people giving them high numbers on surveys are those that don't know anything about cars, or what a decent car actually feels like to drive. When they do try a GM competitor's product, they usually don't come back. You can shout that GM makes great cars until you're blue in the face, but there's no getting around the fact that people aren't buying them—any of them—like they used to. There are a lot of good reasons for that, and it isn't media propaganda. Until (and unless) GM builds great cars, like it or not, it's going to get exactly what it deserves.

General Motors Death Watch 7: CPR

By Robert Farago, May 12, 2005

Whenever a domestic automaker goes to the wall, it's always someone else's fault: the foreign exchange rate, health care costs, pension obligations, product cycles, changing tastes, the media, government regulations, union contracts, etc. Executives start shuttling off to Washington to talk about "leveling the playing field." By now, we're wise to these buzz words—they're an attempt to hide the fact that a US automaker "suddenly" lacks the competitive skills to take on their foreign rivals. This time it's GM. Well it's time for GM to stand up and take some responsibility for their actions.

This is not GM's first chance to come clean. Remember the Arab Oil Embargo of the 70s? Gas stations lines went around the block and gas prices rose to unheard of levels (\$1 a gallon!). When consumers reacted by flocking to smaller, higher mileage foreign-made cars, GM claimed that the Japanese were "flooding the market" with cheap imports—as if it was some vast conspiracy to put Americans out of work. The plain fact was that the Japanese and German product was better than ours: better engineered, better built and more economical. Not that they'd say so, but GM's corporate laziness simply caught up with them.

Egged-on by management, American autoworkers destroyed foreign vehicles at rallies, wouldn't let foreign cars park in manufacturing lots and generally hid behind the banner of patriotism. When the immediate crisis eased, The Big Three "woke up" and realized that their products' quality was sorely lacking. They made great strides, but rigid unions and timid management resisted change to the point of near extinction. They produced some truly pathetic product (e.g., Chrysler's K-cars and GM's Cimarron).

Fast forward to today. Once again, gas prices are soaring. Once again, consumers are buying high quality, high mileage vehicles from someone other than General Motors. Once again, GM has the wrong vehicles in its lineup. Once again, highly-paid executives are saying protect us, give us time and we'll turn it around. And once again, we're supposed to feel sorry for/support them simply because they're an American company, with American workers.

Well can someone please explain to me how in thirty years GM went from depending on sales of cars that got lousy gas mileage to depending on sales of trucks and SUV's that get lousy gas mileage? Why did they basically walk away from the small car market? Oh that's right: it's the Government's fault. By excluding SUVs from CAFE standards, GM and Ford were "allowed" to sell consumers huge, gas-guzzling vehicles, to rely on them for the lion's share of their profits. Never mind that the domestics used their influence to maintain this "light truck" legal exclusion in the first place.

During the highly profitable SUV times, the domestics claimed there was "no money in small cars." Rather than plowing their profits in new, better-built domestically-made cars, GM spent billions buying up a failing boutique brand (SAAB) and

"investing" in Fiat. Meanwhile, the Japanese and Korean automakers continued to mop-up the small and medium-sized car market, and developed headline grabbing hybrids. Does it strike anyone as funny that GM imports and re-badges Korean cars for their lineup? Not me.

Whose fault is all this? Who at GM has taken responsibility for all these blunders and blown billions? Who has stood up in front of the media, stockholders and consumers and said, "We were wrong. We got ourselves into this mess, and we're going to get ourselves out"? Where's the rescue plan? Where's the vision of what comes next? Simply pointing at its current models and saying, hey, we're doing a great job but the media hates us, is dangerous nonsense.

GM needs to stop looking for excuses or an easy out. If they're waiting for a white knight (Kerkorian? Toyota?) to rescue them, or hoping for some government intervention that will "level the playing field," the game will be over before they know it. America is no longer willing to support corporate ineptitude in the name of some "America first" campaign.

GM should stop its hand-wringing and publicly declare some ambitious new goals for future products' mileage, safety, pollution and market share. They need to tell the financial community what they're going to do to cut costs, and then do it come what may. Simply announcing these targets for new product and committing to belt-tightening would transform GM from a victim to a fighter. From there, it's not that complicated. All GM has to do is produce world-class affordable products with fabulous designs, robust engineering and great mileage. I know GM has it in them. And if America loves anything more than a fighter, it's a fighter with the guts to make a comeback.

General Motors Death Watch 8: Banzai!

By Robert Farago, May 16, 2005

Last week, we learned that embattled GM Supremo Rick Wagoner was flying to Tokyo to discuss the possibility of "sharing" Toyota's hybrid technology. GM officially denied the story. Today, we learn that Wagoner did indeed meet with Toyota President Fujio Cho (on a Sunday no less) to discuss "fuel cell development." In the news biz, this is what you call going from bad to worse.

Hydrogen fuel cell vehicles are decades away from actualization. Despite billions of dollars in development funding, engineers have yet to devise a hydrogen fuel cell efficient/practical enough for anything other than a large commercial bus. While not insurmountable, the challenge requires entirely new technologies and materials, which must then be subjected to the same rigor that applies to gas-powered propulsion: performance testing, manufacture, packaging, mechanical reliability, recyclability and more. And then there are safety concerns, especially at pump time.

Yes, there is that. If GM unveiled a workable hydrogen fuel cell vehicle this afternoon, there'd be less than five hydrogen refilling stations in the country able to fuel it, and none of them are open to the public. In thirty or forty years, sure, the technology and infrastructure for hydrogen-powered cars, truck and SUV's might be in place. By then, we may even have hundreds of thousands of small alternative power plants cranking out hydrogen for the masses, vastly reducing our dependence on foreign oil.

By then, GM may be out of business. Wagoner's company is in the fight for its life RIGHT NOW. It needs to cut costs RIGHT NOW. It needs to manufacture popular products RIGHT NOW. Anything GM's Wagoneers can do to stop the rot RIGHT NOW—closing factories, shuttering divisions, re-negotiating contracts, selling lame models at fire sale prices, shortening product cycles, re-badging Opel, Holden or competitor's products, divesting GMAC, going into Chapter 11, anything—is better than pie-in-the-sky environmentalism.

Why in the world would Wagoner and Co. take time away from the current crisis to play footsie with GM's number one competitor, chasing an unproven technology that can not possibly improve The General's bottom line for at least a decade, if ever? I can't quite bring myself to believe that Wagoner's travels are nothing more than tree-hugging propaganda designed to get investors to forget about the commercial cancer threatening to destroy the entire company. But what other explanation is there?

Perhaps the hydrogen story is a cover for the real story, which was the first story: GM IS buying hybrid technology from the Japanese. If true, why not admit it? At this point, the market would welcome any effort on GM's part to get back in the game even if it meant re-badging Toyota hybrids as GM products and, well, selling them. (Of course, the UAW might have a thing or two to say about that.) Would the buying public care if their Chevy was a Toyota? They don't care that it's Korean. Would customers complain if their Tahoe had a Toyota drivetrain? Probably not.

Perhaps Toyota is negotiating to buy GM. Or part of GM. Or maybe GM is going to buy part of Toyota, and then pay a few billion dollars not to buy the rest of it. Or maybe the trip is like that peace meeting before the Japanese bombed Pearl Harbor; an attempt to lull GM into a stupor—as if it isn't already in one. Despite Toyota's offer to increase their prices to help GM's bottom line, despite all this technological sharing stuff, Mr. Wagoner would do well to remember that the sushi knives are always out for GM.

If I sound confused, well, I am. I see no evidence that GM has a master plan to reverse the fact that it spends too much money making cars, trucks and SUV's that less and less people want to buy. I see no evidence that Mr. Wagoner's international movements are part of this [yet unexplained] strategy. I've asked GM to respond here, without editing, without success. Of course, the pages of the *New York Times*, *Detroit News* or *Wall Street Journal* would be just as good.

Meanwhile, I would advise Wagoner to make another sort of trip, to the vast airfields outside of Detroit. There he will find acre upon acre filled with brand new GM product. Strolling through these vast lots, Wagoner would get a humbling perspective on GM's industrial might (and accounting procedures). Who could help but admire the organizational genius needed to create a sea of entirely serviceable merchandise? He might also understand that his company's survival, and the survival of all who work for GM, depends on finding happy owners for each and every vehicle. Either that or crush them all and start again.

General Motors Death Watch 9: A Man, a Plan

By Robert Farago, May 19, 2005

Ladies and gentlemen, we have a plan! Post-Fiat payoff, post-financial quarter from Hell, post-Kerkorian, post-junk bond status, pre-stockholder meeting, the *Detroit News* has finally unearthed GM's strategy to extract itself from the multi-billion dollar hole that threatens to swallow the entire corporation. Step one: stop digging.

According to Mark LaNeve, GM North America's Vice President of Vehicle Sales, Service and Marketing, The General is going to trim overlapping models across all eight domestic brands. We will no longer see re-badged versions of identical vehicles being sold under different GM banners (e.g., the Pontiac, Buick, Saturn and Chevrolet minivans). As part of this overlapicide, only Chevrolet and Cadillac will sell a full model range. Everyone else will sell niche-specific vehicles, and nothing else. This leads us to . . .

Step two: define the niches. SAAB will now be restricted to "exclusive, European-styled" sedans, crossovers and SUVs. HUMMER will sell "market exclusive, premium" SUVs and trucks. Buick, Pontiac and GMC will join hands in the showroom to sell trucks, SUV's and "premium and near-luxury" vehicles. Saturn will "move upscale" to slot between Chevrolet and Buick, selling "models styled and engineered to European standards."

And there you have it: GM's plan to cut costs, generate sales and build better brands. While all interested parties will be relieved to see someone at GM step up to the plate and aim his bat at the left field stands, LaNeve's grand vision of a tightly knit portfolio of complementary automotive brands is a conundrum wrapped inside an enigma.

For example, LaNeve sees Chevy and Cadillac as "book ends" to the rest of GM's brands. While there's a logical progression from Chevrolet to Buick to Cadillac, where do GMC, HUMMER, Pontiac, SAAB and Saturn rank within this new world order? Is a SAAB sedan now more or less prestigious than a Cadillac sedan? Is a Pontiac GTO above, below or beside a Chevrolet Corvette? As HUMMER goes down market, at what point do its products collide with upmarket GMCs? Where does Saturn fit?

The words used by LaNeve in his *DetN* rundown are doubly troubling. What's the difference between "premium," "near luxury" and "exclusive"? By my reckoning, a HUMMER H3 is an exclusive, premium, near-luxury truck. As is the way of such things, even if you strip away the genetic doppelgangers, keeping eight brands with similar types of vehicles from filling overlapping niches is just about impossible. I don't foresee a day when GM execs tell SAAB to make its top-spec SUV less luxurious so as not to "step on" Cadillac's SRX. Or look at a Buick concept car and says, "Sorry, it's too Euro-styled. That's Saturn's thing."

Even if LaNeve's plan is cunning enough to resolve these issues, it still faces some enormous road blocks. For one thing, it would require all of GM's fiefdoms to rationalize AND harmonize their efforts. That's no small feat for the world's biggest automaker, a company famous for its deeply entrenched bureaucracy. If Mr. Lutz

and Mr. Wagoner aren't ready to cut, cauterize and reconstitute the management charged with implementing this brand re-co-ordination plan, it ain't gonna work.

LaNeve's plan also fails to address the UAW's stranglehold on The General. It's highly doubtful that the union would "let" GM close the necessary factories without a fight. And what about GM's crippling labor costs? Until that little item is resolved, the difference between the company's expenses and its income will continue to be unacceptably narrow, no matter how many of what type of vehicle each brand does or does not offer for sale. And although LaNeve claims to have schmoozed the plan with 2500+ GM dealers (why didn't someone tell us about this sooner?), it's not clear how well the strategy would work at ground level. Can Saturn dealers go upscale? Can SAAB, Buick or Saturn dealers survive without rebadged GM trucks?

In short, I'm not convinced. I'm good with the idea of Chevrolet at the bottom and Caddy at the top. It harkens back to the aspirational strategy that made GM into such a successful colossus, but the rest of the brands' positioning strikes me as a vaguely-defined irreconcilable farrago of vehicle types, identities and price points. LaNeve is to be complimented for attempting to bring order to the chaos that is GM's portfolio, but, well, he hasn't.

The more logical answer would be to have Chevy and Caddy sell a full line of cars, station wagons, minivans and crossovers; restrict Pontiac to sports cars, deep-six Buick and Saturn, sell off SAAB, combine GMC and HUMMER and leave ALL SUVs and trucks to this new, re-jigged division. With this set-up, there would be less product sloshing around and zero brand overlap. As LaNeve of all people should know, when it comes to sales and marketing, confusion is to be avoided at all costs. Clarity is all.

General Motors Death Watch 10: Great Landing, Wrong Airport

By Robert Farago, May 22, 2005

Vice President Spiro Agnew used to call the press “nattering nabobs of negativism.” The barb was part of Agnew’s campaign against the press during the Nixon administration. Today, GM and its apologists are also accusing journalists of negative bias. While their language isn’t as colorful as the disgraced Veep’s, the idea is the same: GM is the victim of a malicious media. Sure, the company has a few “issues,” but the media’s perception of GM’s products (and therefore the public’s) lags behind reality. GM isn’t bad—it’s just misunderstood.

This anti-media bunkering was recently emboldened by customer surveys from Strategic Vision Inc. and JD Power. In Strategic Vision’s “Total Quality Award,” GM scored more victories than any other manufacturer. Six GM products took the top slot in their genre: the Pontiac G6, Buick Rainier, GMC Sierra, Cadillac Escalade, Chevrolet Corvette and HUMMER H2 (tied with the Range Rover). Given the G6’s lukewarm reviews, the scorn heaped upon the gas-guzzling HUMMER and the cold shoulder afforded the Rainier, Sierra and Escalade, the survey provided plenty of ammunition for GM supporters who consider the press “hopeless, hysterical hypochondriacs of history.” Well, it ain’t necessarily so.

Strategic Vision’s Total Quality Award study is based on founder Dr. Darrell Edwards’ “Tree of Value Centered Knowledge,” a “comprehensive theory of human behavior . . . that describes, explains, and predicts choices that any individual or group of individuals might make.” Strategic Vision uses this trademarked theoretical construct to measure a customer’s feelings of “balance, self-esteem, freedom and security” as they relate to a product. Strategic claims to have quizzed over 40,000 new car owners about, well, I’m still not really sure.

Even if you accept Strategic’s enigmatic methodology, there are serious questions about the company’s independence. Strategic lists GM, Daimler Chrysler, BMW, Kia, Nissan, Ford and Volvo as clients. Is it a coincidence that these companies topped 18 of the 20 categories? I’m not qualified to comment on the Buick Rainier’s ability to foster self-esteem, but the fact that this obscure vehicle scooped best mid-size SUV—on any level—is deeply suspicious.

JD Power’s 2005 Initial Quality Study (IQS) appears to be more scientific than Strategic Vision’s touchy-feely assessment. JD quizzed 62,000 customers after the first 100 days of new vehicle ownership, measuring 135 attributes in nine categories (e.g., ride and handling). The survey established a vehicle’s “problems per 100 vehicles” (pp100). JD awarded five GM products top slots in their segments: the Chevrolet Malibu, Buick Century, Buick LeSabre, GM Sierra and Chevrolet Suburban. Once again, the results are good news for GM (accepted without question by the “pusillanimous pussyfoots” of the press). Once again, the results do not speak for themselves.

For one thing, JD’s methodology is not subject to independent review. They also sell their services to the same companies they investigate. Equally important, the IQS gauges the discrepancy between a customer’s expectations and their experience. By

that standard, JD's survey tells you more about a car's owner than the product's build quality. The results may well reveal nothing more profound than the fact that a working class Malibu Maxx owner is less demanding than a white collar Porsche owner.

The results may also be irrelevant. Since 1978, the auto's industry pp100 average has dropped from 176 to 118. As anyone who ever bought a car in the 70s will tell you, ALL vehicles are better than they were, most are damn fine and very few require lemon-aid. I wouldn't want to be at the bottom of JD Powers' IQS chart, but neither would I assume that a top ranking equals brand loyalty.

Of course, neither of these psychological surveys is a reliable indicator of a vehicle's popularity in the only arena where it really counts: the commercial marketplace. There is only one objective measure for that: the sales charts. By this accounting, the vast majority of GM's cars, trucks and SUV's are failing to cut the proverbial mustard. Fixing that trend is the best—indeed, the ONLY way—to silence the “impudent corps of effete snobs” known as GM's critics.

General Motors Death Watch 11: Max Bob's Blog

By Robert Farago, May 30, 2005

Bob blogs. Mr. Lutz' entries on fastlane.gmblogs.com are irregular enough to merit cybernetic Metamucil, and the GM Vice Chairman's comments are about as "off the cuff" as the State of the Union address. Even so, the blog provides fascinating insight into The Main Man's mindset. Sure, you have to slow the spin and read between the lines. That just makes it more fun. Bob's last entry, May 12th's "The Game Plan . . . an Edited Version," is a perfect example.

Even before we start, he's waffling. The "edited version" in the title implies that the full blueprint for GM's turnaround is too long or complicated for the General's public. It's a stunningly efficient projection of corporate condescension. In case you missed the point, Maximum Bob immediately reassures visitors that he reads their comments. The hand-holding exercise is necessary because Max Bob never answers a specific post, yet understands that his impersonal commentary violates the spirit of the exercise. To wit: "I know that some bloggers [answer questions] more quickly than others . . . we're all doing what we can."

Now THERE'S a commitment to customer satisfaction. You might even call it GM's attitude in microcosm: "I know some companies build better cars and make more money than GM . . . we're all doing what we can." Maximum Bob's reliance on the royal "we" is predictable enough, but it still demonstrates that he's ready to hide behind his title when responsibility time rolls around.

Bob's blog then says, "The second and more important issue I've seen asked repeatedly is, 'What is GM's strategy for fixing its issues?'" leading to ". . . there's no magic bullet for our issues, at least none that we've uncovered." Michael Jackson has "issues." Dr. Phil has "issues." Auto execs up shit creek without a 300C-shaped paddle should be talking about "problems" or "challenges." And is there or isn't there a magic bullet? Fence-straddling is not an attractive attribute for the head of an automaker losing market share like the Titanic lost buoyancy.

After raising and praising the "watcha gonna do?" question, Maximum Bob runs away. First he claims that he's already outlined "what we intend to do," then he says "what we won't tell you is exactly how we intend to do those things." Huh? I'd like to believe that Max Bob is concealing a secret plan to upend the United Auto Workers or unleash new product, but I doubt it. As he doesn't justify his silence, it's all too easy to assume that Max Bob simply doesn't want anyone taking shots at his strategy (should one exist). It reminds me of Nixon's secret plan to get us out of Vietnam, and we all know how THAT turned out.

It gets worse. Max Bob slams the door on any discussion of GM's underlying *issues*: "We will not turn this into a debate about health care costs or public policy or anything related." So that's that then. GM has a "game plan" for extracting itself from its financial woes, but the Vice Chair can't tell you what it is and won't talk about what it needs to do. But what really galls is the previous sentence, which says "This is intended to be a blog about cars and trucks, by the way, and some of the peripheral issues surrounding the buying and selling of same." By the way? Call me

an unpatriotic GM-basher, but the expression used in this setting sounds an awful lot like "fuck you." That's not helpful.

After a brief bout of self-congratulation, Max Bob reveals his master plan: build higher quality cars, price and sell them more effectively and cut "waste" across the board. Bizarrely, MB publicly admits that his plan isn't dressed to impress: "Sound pretty general? You bet it does." In fact, Bob might as well have promised to implement my father's business plan: "Take in more money than you spend"—only his record so far indicates an inability to follow this simple recipe.

MB then compares his "game plan" to the Super Bowl-winning New England Patriots', insisting that the Pat's coach wouldn't have "turned over the script for his first 15 offensive plays from scrimmage . . . not even on his blog." I'm sorry; when did GM's corporate strategy become a matter of national security? And if loose lips sink automakers, what was Max Bob's lieutenant Rick Wagoner doing playing footsie with Toyota in Japan? Offensive plays indeed.

And then Max Bob throws the Hail Mary: "Believe me; GM has a crystal clear strategy in place to turn around our fortunes, particularly in the U.S." When an exec pulling down a ten-digit salary resorts to "believe me", you know he's in trouble. Especially if that high flying exec does nothing to establish his credibility with the people who count, in the one forum where earning trust is as easy as telling the truth, the whole truth, and nothing but the truth.

General Motors Death Watch 12: The Summer Solstice

By Robert Farago, June 3, 2005

GM and its supporters have a mantra: product. By continually chanting "product, product, product," they hope the company's critics will believe that a string of hot cars, trucks, SUVs and minivans will pull the world's largest automaker back from the brink. While the argument ignores GM's sky high costs and decades of soured consumer relations, it sounds plausible enough. Chrysler's doing it. Why not GM?

For one thing, GM doesn't know how to sell a hot product when they have one. Take the Pontiac Solstice. No, wait; you can't. Despite promising the car for summer '05, production problems have delayed dealer delivery until October. Ish. While GM wants props for selling no Pontiac before its time, you've got to laugh (or cry) at their incompetence. The company finally comes up with a blockbuster, generates massive awareness through a hit TV show, opens a special website for an "early order program" (EOP), and then . . . nothing.

Make that worse than nothing. GM won't commit to a new delivery date and leaves the "lucky" 1000 EOP winners twisting in the wind. GM also fails to contact customers who registered on the Pontiac website for Solstice updates. [Many of these customers already feel hard done by—the web winners cut the line.] And then there's talk of Pontiac dealers adding a "market adjustment" to the Solstice's retail price. Potential buyers wanting to know what's what can't get a straight answer from their dealer. GM remains mute.

When aspiring Solstice owners finally hear word of "their" car, the message doesn't come via e-mail, or registered letter or a courtesy phone call. GM addresses the "issue" through our old friend fastlane.gmblogs.com. Suffice it to say, GM Line Executive—Small Cars, Lori Queen, says nothing whatsoever about potential dealer surcharges and makes no firm commitment to a delivery date. And then she tells surfers that she's toodling around town in a pre-production Solstice and it's great! As the British like to snarl, it's alright for SOME.

But not most, including GM. You don't have to be a New England Pontiac dealer to know that launching a convertible roadster in October is not a great idea. What's more, Mazda is about to unleash (on time) their latest generation MX-5. Unless the Solstice is damn near perfect, the highly evolved Japanese roadster is bound to kick the American newcomer's ass. But even if the Solstice is rated the better of the two cars, the ideal sales window will be closed for winter, and the chance of a pre-emptive strike against the class leader will be gone.

C'mon, supporters say, cut GM some slack; everyone makes mistakes. Yes, but this is the exact same mistake Pontiac made with the G6. That Great Wheeled Hope also experienced a horrendous gap between marketing hype, consumer backlash (a \$7K tax bill for Oprah's G6 winners) and eventual delivery. A company living in junk bond Hell—an automaker that's losing \$2,331 on every vehicle it sells—simply can't afford to build-up consumer expectations and then drive them into a tree.

The second reason GM's product mantra won't forestall foreclosure is that The General is simply too slow off the mark. As good as it may be, the Solstice is taking aim at a segment that Mazda has been exploiting for 15 years. When the Solstice finally arrives, it will hit the marketplace almost four years after the concept car was first introduced.

Again, we're talking about a pattern of behavior. Maximum Bob's latest blog entry assures readers that he understands enthusiasts' current fondness for rear-wheel-drive passenger cars (i.e., the Chrysler 300C). In fact, Bob says, his minions MAY start another rear-wheel-drive program to replace the one they just spiked. The company is also "studying" the trend towards "nostalgia vehicles." In other words, by the time GM translates its current rear-wheel-drive "studies" into action, and delivers its new nostalgic designs (?), the market will have solidified, or moved on.

Bottom line: "me too" products won't cut it. Toyota spends some \$15 billion a year on research and development for three brands, and leads the way in hybrid technology. GM spends \$7 billion a year for eight brands and still sells pushrod engines. Obviously, creativity and innovation isn't simply a matter of money. But if GM believes that product is all, they should be putting their all into product. The car business isn't brain surgery. As Thomas Ho's post on the Fastlane blog puts it, GM should . . .

"Make a solid product, market it, sell it and back it up with great customer service. Instead, they market [a product] before it is ready for prime time, receive orders and then delay it. Is it just me, or are people in GM smoking something?"

General Motors Death Watch 13: Steady as She Goes

By Robert Farago, June 8, 2005

"We aren't going out of business in the next six months." After yesterday's stockholder meeting, GM Chairman Rick Wagoner faced reporters and jokingly predicted that his company will last until November—just in time for the long-delayed launch of the new Pontiac Solstice. The irony would be delicious if there weren't so many diners at the table. GM's continuing slide threatens the financial future of hundreds of thousands of shareholders, workers, suppliers, dealers, even the Seven Million Dollar man himself. And yet Wagoner's "big idea" to revive The General's declining health is a sham.

While Wagoner unveiled a five-point plan for GM, the headlines focused on plant closures and screamed "GM to slash 25,000 jobs!" The Chairman's commitment to downsizing was a guaranteed spin winner. You know the drill: American manufacturing jobs are disappearing. It's a crisis! Something must be done! Equally important from Wagoner's POV, there's a market-pleasing corollary: times are tough, but GM is taking tough action. News of the move sent GM's share price (which has lost over 50% of its value in recent times) up fifty cents.

The truth is less dramatic than Wagoner would have us believe. As Daniel Howes of the *Detroit News* pointed out, GM is currently shedding between five and six thousands workers per year through "normal" attrition. GM will lose 25,000 jobs by '08 simply by continuing its present course. Lest we forget, it still has to pay out full health care benefits. And deep-sixing entire chunks of GM's workforce hasn't stopped the rot thus far. Since 1990, The General has closed six assembly plants, trimmed 117,065 hourly workers and decommissioned 14,296 bureaucrats. So much for magic bullet number one. Next round: new product.

Wagoner pledged to speed-up new vehicle development and invest another billion dollars in the process. A billion bucks is lot compared to most people's savings, but the extra money only brings GM's R&D budget up to \$8 billion a year—compared to Toyota's \$15 billion. While no one could criticize GM for trying to create vehicles people actually want to buy, there's disturbing news from the engineering front lines. GM recently scuppered its rear-wheel-drive program and the replacement for the Northstar V8 is rumored to be at least four years away.

It takes The General over two years to get a new machine off the drawing board and into production. At best. "Speeding up" the introduction of new product sounds good on paper, but any greater rush to market could mean more Solstician holdups and/or quality issues. The General's immediate future depends on what Wagoner and his team hath wrought in the last five years. If GM's PT Cruiser wannabe bombs, if their new full-sized SUV's and trucks tank, well, there's not much GM can do about it in the short term.

Other than offer incentives. Which Rick plans to cut. Bullet three: eliminate discounts by "streamlining" GM's dealer structure, improving sales in metropolitan areas, loading vehicles with more standard features and advertising vehicles closer to their "actual" retail price. Is it me, or does this sound like firing blanks? It's not the kind of

strategy I'd depend upon to shift 1.2 million unsold vehicles (and counting). Surely, the only way to eliminate discounts is to build the right product for the right cost, and then sell it at a price that generates enough profit to stay in business. Most of the other guys seem to get it.

Of course, most of the other guys don't carry health care costs that equal \$1500 per vehicle. Bullet four: renegotiate the UAW's contract. Hmm. So why hasn't Wagoner formerly requested re-opening their contract? Anyway, how are those "intense discussions" going? "We have not reached an agreement at this time, and, to be honest, I'm not one hundred percent certain that we will," Wagoner said at the shareholder meeting. "If we can't do that we'll have to consider our other options."

Such as importing more parts from China. This is the final round in Rick's gun. Although it didn't get nearly as much media attention as the nominal job cuts, the Chairman's announcement that he'll reduce costs by replacing UAW-made parts with Chinese parts is big news. Given that GM is now manufacturing cars in Slave Laborland, the clear implication is that GM could move more production overseas. It's not a bad idea, financially, but it ain't gonna help if and when GM tries to play the patriotic card.

And there you have it: too little, too late. For whatever reason, Wagoner couldn't bite the bullet. He couldn't lop off dying brands. He couldn't go nuclear on the UAW's costs and practices. He couldn't reinvent GM. The ship is sinking, but as far as Wagoner is concerned, it's steady as she goes.

General Motors Death Watch 14: GM vs. the UAW

By Robert Farago, June 11, 2005

Let's be clear about this: the United Auto Workers is not going to let General Motors cut ANY union benefits without a long and vicious fight. GM Vice President Rick Wagoner knows it. UAW Vice President Richard Shoemaker knows it. GM workers know it. Wall Street knows it. And if you don't know it, listen up: last Friday, The General formally asked the UAW to re-open its contract. The UAW told them to fuck off.

Of course, we don't know if Shoemaker's crew used that expression. Both GM's request and the UAW's rejection took place behind closed doors. Still, you can get a feel for the UAW's perspective from their official response to Wagoner's promise to trim health care payments. Shoemaker ended his three paragraph reply with a simple statement: "We will do all that is possible to protect the interests of our members and their families." In other words, fuck off. And don't fuck with us.

As far as the union is concerned, GM should leave UAW-negotiated benefits alone. The company needs to concentrate on offering "the right product mix of vehicles with world-class design and quality." Health care costs adding \$1500 to each and every one of those "world class" vehicles? That's YOUR problem. You guys are supposed to be the brains of this outfit. Design a 300C or something. Meanwhile, if you think we're going to let a GM exec pulling down \$7 million a year take away our members' right to health care and a decent living, you're nuts.

It's a powerful argument, but I don't imagine that Shoemaker's yearly salary puts an XLR or three out of reach. (The UAW pockets over \$360 million per year in members' dues.) And anyway, all that old-fashioned "us vs. them" class warfare rhetoric isn't exactly what you'd call helpful. Not when GM is shedding market share, burning through its cash reserves, gambling on big trucks (as if) and sloping towards bankruptcy—which would free the corporation from ALL of its union obligations.

You'd think that UAW would take a hit just to help The General stay in business. You'd think wrong. The UAW has some 109,000 active GM members and at least twice as many retired GM employees. The organization also represents some 500,000 members working for other automakers and suppliers, and a huge number of non-GM retirees. Figure a constituency of over 1 million.

If the union agreed to roll back their GM contract prior to its expiration, all Hell would break loose. Members would revolt (strike) and all the other struggling car companies, both large and small, would use the precedent to try to wiggle out of their union straitjackets. Expecting the union to act in its GM workers' long-term interests is like expecting GM to have a coherent marketing strategy.

The situation leaves GM with three scenarios. One: the company continues to downsize through [now] normal attrition, pays its UAW workers not to work and limps along until their labor agreement expires in '07. Two: GM doesn't make it. The General files for bankruptcy. The union contracts are void and management escapes to safe houses in Spain, France and Fiji. The union goes on strike. Someone buys up

the remnants, the union settles and we start again. Three: aliens land in Michigan and inject GM top brass with testosterone. They (the execs) instruct their army of lawyers to find a God damned loophole and bail out of their contractual obligations. The UAW goes on strike. The union wins the strike and we go back to scenario two. Or the union loses the strike, GM's labor costs decline and we go back to scenario two (the extended re-mix version).

You see, all this talk about health care benefits is a bit like the man looking for his car keys under a street lamp because the light's better. There's a lot more about the UAW's contract that's hamstringing The General: seniority clauses, plant closure restrictions, rigid working practices, rigid job classification systems, etc. There are literally hundreds of union rules and dozens of grievance procedures constraining the corporation's creativity. Multiply that times eight divisions, factor in decades of executive incompetence and territoriality, and you can understand why GM products are losing out to vehicles made by leaner, more flexible companies.

To meet its competitive challenges, both GM and the union would have to change the rules of engagement. Clearly, neither side wants to face that kind of chaos. The main players are too set in their ways. There's too much at stake. The situation reminds me of those TV fights where the hero and the baddie, locked in mortal combat, fall into a river. Except there is no good guy and both of them are going to drown.

General Motors Death Watch 15: Branded!

By Robert Farago, June 13, 2005

OK, so you want to save all eight remaining GM brands. Good for you! It sure would make a lot of people happy. So let's do it, starting with each GM division's unique selling proposition (USP). Each brand has to produce vehicles that do one thing better than anyone else in the world. No clones. No model overlap. Each vehicle must reflect, embody and personify its unique brand identity. If you look at a car, truck, SUV, minivan or crossover and know it's a GM product, we've failed.

SAAB is a bit problematic. Smorgasbords up if you know what it means to be Swedish. In fact, SAAB got into the car business through the aerospace industry. Well, even if they didn't, there's a connection there, somewhere. From now on, all SAABs are designed like jet fighters. We're talking electronics (heads-up display, night vision, headsets, military-style gauges, satnav); aerodynamics (world's lowest Cd, active surfaces); aircraft construction (aluminum, carbon fiber, memory plastics); and ergonomics (cockpit seating, four point belts, maximum visibility). If you build it, it will fly.

Given Saturn's original image—the happy, shiny plastic panel people—let's make them the home of the hybrids. As an all-green division, Saturn would deflect critics of GM's gas-guzzlers. (Call it "our test bed for new technologies" and keep forgetting to pass them 'round.) Saturn can build anything they want other than SUVs and trucks—as long as it's 100% recyclable, gets 40+mpg, wears lots of identifying badges and looks wacky.

Pontiac is easy. The "We Build Excitement" Division will build . . . wait for it . . . sports cars. Fun, fast and sexy sports cars. (Remember: no brand overlap. No hopped-up Chevies or Caddies.) The Solstice is a terrific start (if only in theory), but we need a whole line of Pontiac sports cars, from cheap and cheerful runabouts to pricey and dangerous death devices. Let's stay with two-door rear-wheel-drivers for a while, until the public "gets it." After that, if Porsche can build a four-door Panamera, why not Pontiac?

The official Buick website doesn't bother to offer a brand identity. No worries; we all know that Buicks are God's waiting room on wheels. So let's go the whole hog and REALLY appeal to the elderly. Buicks will have wide-opening doors, huge, easy-to-read gauges; enormous buttons, collision avoidance systems, automatic-parking, prescription bottle holders, oxygen masks for the rear seat passengers, etc. The styling isn't all that important (the eyesight fades after a while), so let's appeal to their sense of nostalgia and simply rebuild famous Buick designs with new technology.

HUMMER is fine. Just make sure that every one of their vehicles looks like a box that someone hit with an ugly stick and can kick-ass off road. By the same token, GMC is also in pretty good shape brand-wise. Only one BIG change: no one else in the GM family is allowed to build a truck or SUV. If consumers want a working man's macho flatbed or a Lexified luxury ute, they go to GMC. And that's it.

Chevrolet is also a reasonable proposition provided we stick to VFM. Mind you, Value For Money is a market niche susceptible to attacks from both below (Hyundai) and above (budget Bimmers). Thankfully, Chevy still knows how to build vehicles people can afford. Again, we strip-out the SUVs and trucks, but give Chevy all the crossovers. The Vette goes to Pontiac. Purists will howl louder than a Z51, but desperate times call for coherent brands.

That leaves Cadillac. It's a no-brainer really: the world's best luxury cars, bar none. (Again, again: no SUVs or trucks.) From now on, Cadillacs will be designed for their brand from the ground-up, paying strict attention to every detail, from platform choice to build quality to engine note to key fob. They'll be sold from dealerships that look and feel like a trendy Manhattan hotel. And Caddies will be horrendously expensive. If thirty-somethings desperately want a Cadillac, but can't possibly afford one, we're there.

And there you have it: eight re-invigorated warriors with enough high concept, tightly-focused branding to compete in today's niche-driven marketplace. If, however, you want to chop the deadwood, SAAB would require the longest lead time, Saturn has the most expensive development costs and Buick has the worst demographics. But there's no middle ground: it's cut, adapt or die. When will it happen? In your dreams.

General Motors Death Watch 16: Bob's Culture Club

By Robert Farago, June 15, 2005

Bob's blog is back. Once again, GM's Main Man has gone online to tell it like it is. Once again, TTAC's ready to read between the lines, looking for the lead cloud surrounding the silver lining. Interesting enough, Mr. Lutz' June 10th entry, "Only the Best," begins with a major mea culpa. GM's Vice President for New Product Development gives us a full and frank explanation of how The General earned its recent (as in 40-year-old) reputation for lackluster design and dubious build quality. Well, more frank than full, but it's still worth a careful read

"A few years ago," Bob writes, "planners would sift through reams of data, segment the market, analyze and deconstruct the data until they discovered a niche in which we needed a new product . . . the designers were given a formula to work with. Not a blank canvas, more like a paint-by-numbers scenario." So NOW we know why the Pontiac Aztek is so ugly: the design team lacked numeracy. Quite how the bean counters arrived at the formula that is the Corvette-powered SSR convertible pickup is anybody's guess. But wait! There's more! Things have changed! There's an answer!

"Our winning products will not be determined by careful analysis; they will captivate and enthrall through imaginative design and flawless execution." So it's out with all that boring old careful analysis stuff and in with free flights of the fancy! Bob's poster child for this endeavor—its tail lights providing bloggers with their only photographic relief from Max Bob's prose—is the upcoming Chevrolet HHR. While the HHR is little more than a PT Cruiser clone that's arriving several years late to Chrysler's retro-styled minivan party, Bob's blog clearly believes the vehicle represents the purity of GM's new "Right Brain Rules" philosophy.

What's more, Max Bob's blog celebrates the HHR's build quality, claiming it's constructed to, gulp, Lexus standards. "I ask you to compare that \$15,995 Chevy HHR—in terms of sheet metal fits, hem flanges, the way all of the panels fit to each other—to a Lexus GS400, and tell me if there is any significant difference." As soon as Bob tells the average car buyer what a hem flange is, I'm sure they'll let him know. Meanwhile, Mr. Lutz might be interested to hear that Lexus doesn't make a GS400; it's now the GS430. Still, comparing GM's new products to its competitor's old products makes an excellent point, if not the one Maximum Bob intended.

There's no mistaking Bob's subsequent admission that GM interiors have been a little "utilitarian" (presumably in the same sense that a hair shirt is a bit "uncomfortable"). I only wish he'd resisted the urge to defend GM's indefensible cabins by saying they're "easy to keep clean." And Max Bob's choice for aspirational quality is a bit bizarre for a guy whose company proclaims its products' domestic provenance: "You'll experience well-crafted interiors, great materials, knobs and switches that feel like they're on an expensive Japanese camera." Reports just back from the HHR front say it ain't necessarily so. And students of unintended irony note: America used to make cameras.

Speaking of latent anti-Americanism, Bob's blog feels free cast aspersions on his fellow countrymen. After promising to "really target being the best" (as opposed to simply being the best), Bob says the effort has "required some recalibration of the internal culture, especially in the United States." Huh? Is Maximum Bob saying that GM's American workers are less willing to accept a competitive challenge than their foreign counterparts? If so, I agree—given the way GM goes about running its business in The Land of the Free.

Here's the deal: while Maximum Bob's blog correctly identifies GM's corporate culture as the source of its current woes, he fails to understand, admit and address the fact that GM's "issues" run a lot deeper than an over-reliance on statistical data or widespread indifference to competitive pressure. Maxi Bob's willful ignorance of the full scope and scale of GM's cancerous culture is completely understandable: GM execs live, work and play in their own little world. But Bob's inability to fully grasp the nettle is ultimately a sad reflection of his managerial myopia and a dire warning about the company's future.

So take a good look around Bob, before it's too late. Notice that GM's culture lacks any hint of accountability: bad executives fail upwards, incompetent workers hide behind union skirts. Clock the internal fragmentation and divisiveness: eight divisions fight for resources without the slightest regard for the corporate good. Observe the stifled creativity: decisions made by committees that can't make decisions, hampered by union rules that make innovation impossible.

When you're through with this no-holds-barred cultural cross-check, ask yourself this: what would it take to really shake up the place? Mass firings? Union confrontation (i.e., strike)? Brand re-organization? Relocation? Bankruptcy? Whatever it is, do it. Then, and only then, will GM have a shot at being the best.

General Motors Death Watch 17: Forgive and Forget?

By Robert Farago, June 18, 2005

Rex Raider recently ranted about The General's sales doldrums on GMinsideneews.com. The senior camp follower recognizes that hundreds of thousands of [former] GM customers wouldn't buy a GM car if it came complete with an employee discount, cash back, zero percent finance and free health care (no co-pays and dental). Raider posed a simple question: what would it take to win these buyers back?

The obvious answer is great product. But it isn't the right one. Even if GM built cars, trucks and SUVs that looked like sex, never broke and cost twenty dollars, most Americans wouldn't put them on their shopping list. That's because the average person (not you) is almost entirely risk averse. When they purchase a product—whether it's a baked potato to a Pontiac G6—they're not looking for a Bigger, Better Deal. They're not looking for a fantastic new taste sensation or the world's best car. They simply don't want to experience LESS pleasure than they did before. They don't want to lose.

[BTW: this dynamic explains GM's favorable survey scores and loyal customer base. If a GM owner is accustomed to lower quality plastics or poor reliability, they're delighted by incremental improvements, even if the changes don't bring the car up to competitive standards. And despite any unpleasant experiences, they won't risk moving brand.]

And lose they have. Even without considering the vagaries of image and style, GM customers have been stranded by the road, bilked at the service department and empty-pocketed at trade-in time. In fact, GM horror stories stretch all the way back to 1967, the year The General substituted plastic for chrome and generally lost the plot. Even more alarming, despite Mr. Raider's protestations, some of these tragic tales are as recent as last week. In any case, whenever someone buys a GM product and discovers that it's worse than their previous car, they've lost pleasure (a.k.a. experienced pain). The association is burned deep into their psyche. They will not risk losing again.

To get disaffected customers back into the GM fold, one of two things has to occur. The potential customer's current, non-GM car (or service department) has to traumatize them, or someone has to eliminate the risk of GM ownership. Obviously, there's not a lot of chance that non-GM brands are going to inflict duff vehicles or bad service on their customers. Which leaves GM one option: to create a risk-free ownership experience.

Audi did it when unintended acceleration puts the brakes on their entire operation. Mitsubishi did it when no one knew their name. So did Hyundai. Hello? GM? Where's your guaranteed buy-back deal, 10-year, 100,000 mile warranty or risk-free trial period? While GMAC does right well by selling extended warranties, it's robbing Peter (dealer sales) to pay Paul (finance company profits). A direct and uncomplicated commitment to a superior ownership experience would be costly, but it would work miracles for GM's long-term future. At the same time, GM must drive home the point

that customers will not—CAN not—lose with a GM product. Lee Iaccoca understood the power of a public, personal guarantee. Rick Wagoner and Bob Lutz do not.

To fully restore sales, GM must also sell to younger drivers who are naturally less risk averse and/or have never lost on a GM machine (if only because they never owned one). Creating gotta-have products that look nothing like Dad's Buick is the way forward. The Solstice is a perfect example. As good as they are, the Cobalt and Malibu are not. In this arena, GM needs game changers, not reasonable alternatives. Again, the company must draw a line in the sand and tell people that they're never, ever going back to where they were in terms of image, design, quality, performance and service.

Unfortunately, GM has a nasty habit of dropping the ball. There's an increasing number of interesting GM products that fail at the final hurdle because of tepid design (G6), shoddy build (Impala), poor materials (HHR), over-pricing (SSR) and delivery problems (Solstice, 9-7X). GM needs to sort out its fundamentals first. If they jump in too soon with shoddy product or service, a consumer risk elimination strategy will make things worse. For example, if the Solstice runs into quality issues, if Pontiac dealers gouge or otherwise mistreat new GM customers, these buyers will also have that "never again" moment. GM will lose another generation of potential buyers.

In short, until and unless GM builds great cars AND makes GM ownership a relatively risk-free proposition, hundreds of thousands of fine examples of Rex Raider's favorite brand will continue to languish in dealer lots and airfields.

General Motors Death Watch 18: Discount This

By Robert Farago, June 22, 2005

When my Mom returned from a major shopping expedition, she'd justify her voluminous purchases by telling Dad how much money she'd saved. "If you save enough money we'll go broke," he'd remark. The reverse is also true. To wit: General Motors was losing \$2331 per vehicle BEFORE they launched "Employee Discounts for Everyone." As it's safe to assume that the promotion's new, lower prices mean new, slimmer margins, The General's latest sales gimmick is actually hastening the financial demise of the world's largest automaker.

I know; it's gotten to the point where you start to feel sorry for these guys. I mean, what would YOU do if you had 1.2 million new cars sitting on dealer lots and abandoned airfields waiting for Mr. and Mrs. Godot to walk through the showroom door? (Remember: new vehicles continue to emerge from The General's sausage-making machine 24/7.) The temptation to just give the damn things away must have been intense. Instead, GM had to pay for the privilege. It's true: when a manufacturer loses money on every sale, they're literally paying customers to buy their product. According to recent projections by Edmunds.com, GM's latest incentive program will cost them nearly half-a-billion dollars. And that's only ONE of the ways this employee discount thing stinks.

Traditionally, companies don't discount their inventory until new and improved products are ready to take their place. Traditionally, the auto industry was no different, offering year-end and clearance sales at the appropriate moment. But times have changed. New and refreshed models pour into the goldfish bowl throughout the year. By discounting all of its products at the same time without the slightest regard to the multi-various timing of their replacements, GM has painted itself into a corner. How can you possibly justify a return to "normal" prices for the same old vehicle?

You can't. *Automotive News* reported yesterday that GM has cut prices on 85-90% of its 2006 Buick, Chevrolet, Pontiac and Saturn models. The Bean Counters still have their finger in the air regarding SAAB, GMC and HUMMER, but it's only a matter of time. Cadillac is supposed to get a "marginal" price hike, but don't you believe it. Bottom line: GM has cleared its inventory and hoisted its market share back up to 30% by permanently shrinking its profit margins. This after Rabid Rick Wagoner stood in front of GM shareholders and made incentive elimination a central plank in his recovery plan. Again.

The program's affect on GM's branding is equally disastrous. All eight GM brands are now discount car companies (a laughable concept for a corporation with such an enormous cost structure). While budget sales are almost a good idea for Chevrolet and Saturn, the emphasis on price damages the rest of the portfolio. Cadillac, for example, has spent the last twenty years trying to prove it's equal to or better than high-end German and Japanese imports. Once again, Caddy is the poor man's BMW. Equally worrying, bargain hunters are about as brand loyal as shopzilla surfers. And once they've bought a GM product, who's left? People who'll now perceive all GM products as, well, cheap.

And what of loyal GM customers who didn't cash in on GM's fire sale pricing? The Employee Discount for Everyone program certainly isn't doing them any favors; it's instantly erased value from their current set of GM wheels. When trade-in time rolls around, they'll not be pleased to discover that all these penny-pinching newbies got a better deal at both the front and back end of the sales process. In effect, GM stiffed them. Of course, they're probably getting stiffed already anyway what with finance charges and the extra cost of everything extra.

In case you didn't realize it, GMAC is the real beneficiary of this particular sales gimmick. You could even say that GM's current strategy is to make their cars a loss leader for their finance arm. It is, after all, the only solidly profitable part of the entire GM empire. But I reckon that would be giving GM's management team too much credit. I'm convinced these guys are genuinely clueless. Check out Marketing Mark LaNeve's rearguard action on the discount program's effect on GM branding, outlined in an e-mail to the *Detroit News*:

"This program gives us a great platform to get out our quality and fuel economy story and showcase our products. The TV ad does not mention a price or a rebate. We simply say, 'It's a great price, you pay what we pay.'"

In fact, some of the TV ads DO mention a price at the end: a typical monthly ownership plan for one of the cars. What planet are these people on? Don't they realize that the Employee Discount for Everyone program is a short-term solution to their bloated inventory that creates long-term problems for the entire corporation? Do they even care?

General Motors Death Watch 19: The Phony War

By Robert Farago, June 25, 2005

Winston Churchill called it the phony war: the period between the Nazi conquest of Poland and their assault on Belgium, The Netherlands and Luxembourg. During these eight months, millions of English subjects believed they were safe from the storm clouds of World War Two. By the same token, tens of thousands of GM employees believe that The General's future is assured, regardless of recent financial "unpleasantness." Military historians don't tend to use the phrase, but both groups can be characterized by the expression "living in denial."

For those with the courage to look, ominous signs are everywhere. Last month, Rick Wagoner stood in front of his shareholders and promised to end the incentive programs crippling GM's profitability and knee-capping its branding. Instead, The General's general launched the largest incentive campaign since "Keep America Rolling." In addition to the usual problems, "Employee Discounts for Everyone" may be pulling GM buyers forward rather than winning conquest sales. If so, the ranks of potential GM customers will be perilously thin come winter. Meanwhile, Rabid Rick is fully committed, extending the employee discount program beyond the July first deadline. Log this one under "friendly fire, ongoing."

At the same time, Rabid Rick's public pledge to cut the United Auto Workers' health care benefits got lost in the fog of war. First GM's top brass set a July deadline for union concessions. Then the UAW's Supreme Commanders broke radio silence, warning their employers they would not tolerate having their feet held to the fire. GM back-pedaled furiously, denying the deadline's existence. Ford suddenly weighed-in, proclaiming that any UAW concessions to GM must also apply to Ford—completely eliminating any chance of a union roll-back. So GM and their union "partners" are still eyeing at each other over the parapets instead uniting to save their common homeland. Log this one under "with allies like this"

And then there is the weaponry. GM is counting on new products to [eventually] save the day. Unfortunately, the messages coming from GM's R&D department are, at best, garbled. For example, GM desperately needs a new rear-wheel-drive platform to compete against the increasing and ongoing success of competitors' RWD products, like the Ford Mustang and Chrysler 300. Or not. In April, GM killed its Zeta rear-wheel-drive platform. Last week, The General changed its mind, hinting that they might [eventually] cobble together a modified "Zeta lite" platform to underpin new RWD products. That's "might." What's more, if GM gave its engineers the green light today, we wouldn't see the fruits of their labors until 2010.

Once again, GM will arrive at the field of battle years after the competition has established territorial dominance (e.g., the HHR vs. the PT Cruiser). But even if The General wins the battle, it's losing the war. A new study by Merrill Lynch concludes that GM is failing to update its products frequently enough to win the hearts and wallets of tomorrow's new car buyers. "Car Wars 2006-2009: The Product Pipeline and its Investment Implications" reports that The General will replace just 16% of its vehicles in the next four years, as compared to 30% and 21% for Korean and Japanese automakers. GM will be outgunned AND outmaneuvered.

Of course, The General dismissed the report. Spokesman Tom Wilkinson said that Merrill Lynch's findings were based on "data we try to keep secret" [note to counter-intelligence: must try harder]. And anyway, GM's got some 80 models out there; replacing them is more difficult for GM than its less prolific foreign competitors. Well, EXACTLY. While it's certainly refreshing to hear a tacit admission from GM that its operations are too bloated for today's niche-driven marketplace, it's not exactly news. Insiders who believe that the next round of new GM vehicles (currently being hurried into production) will be enough to fend off its enemies' expert skirmishing should look away now.

When Britain signed the Munich agreement in 1938, appeasing German aggression, Churchill, then an MP, didn't mince his words. "We have suffered a total and unmitigated defeat." It was Churchill's ability to confront danger and disaster head-on that identified him as England's future savior. That said, England entered the war with a global Empire and emerged a pale shadow of its former self, stone broke. And then, gradually, it rebuilt. Is it too much of a stretch to imagine that GM will eventually suffer a similar fate?

General Motors Death Watch 20: Hybrid Hell

By Robert Farago, June 29, 2005

Opening up a recent issue of *AutoWeek*, I was astonished by a picture of a new SUV. The vehicle's design was clean, modern and butch, without the slightest hint of off-roader clichés or overarching futurism. The newbie's sheet metal instantly trumped the latest crop of SUV's: the hideously-nosed Subaru Tribeca, the narcoleptic SAAB 9-7X and the ungainly Audi Q7. I was even more astonished to see the GMC logo on the stunner's snout. When I saw the words "Hybrid Fever" in the title, I was ready for a big plate of humble pie.

The GMC Graphyte is, I soon learned, a concept car, though not in the Chrysler sense of the phrase. It's not an SUV that will eventually appear at your local dealership in roughly the same form. It's more like "here's something we spent a lot of money on to distract you from the fact that our next generation of trucks is just like the current generation of trucks with slightly better everything, but nothing particularly interesting, and certainly no killer app like a really good hybrid engine." In other words, if you think GM has a secret weapon waiting in the wings to counter Toyota's inexorable march towards replacing The General as the world's largest automaker, dream on.

In fact, *AutoWeek* let slip that the Graphyte is a sham. The demo SUV was powered by the same old GM iron—despite the plastic cover proclaiming it a hybrid. "We later learned that actual prototypes are out in the real world doing engineering tests . . ." So no one at GM told *AutoWeek* that the demo SUV had a gas-guzzling V8 until AFTER they drove it? You couldn't ask for a better illustration of the dishonest desperation infesting The General's ranks.

By the same token, *AutoWeek* brings no glory to itself for saving that crucial factoid for paragraph ten, and accepting GM's contention that the engine in question even exists. The truth's late entry into the game can be attributed to the length of the author's pro-GM intro. After accusing hybrid supporters of Stalinist tendencies, the writer reveals that "insiders at GM . . . admit to not appreciating the emotional appeal of the segment" and "GM expects to become a major player in the model years 2007 and 2008." Translation: GM didn't make hybrids because they didn't realize its customers are such PC morons, but now they do."

Heads-up, guys! Since when is a car NOT an emotional purchase? Are we to believe GM's product planners are in tune with the emotional appeal of a gas-guzzling Cadillac Escalade, but couldn't get their heads 'round the idea that consumers are willing to pay a premium to do their bit for America's energy independence and the environment—even if their assistance is only marginal? And again, where's the hard evidence that GM's "next generation" (read: late, but superior) hybrid technology is ready for MY '07 or '08? If the powerplant ain't in the Graphyte right now, what are the chances it'll be market-ready in just two years?

To its credit, *AutoWeek* understands the reasoning behind GM's continuing reluctance to fully commit to hybrid technology. The magazine repeats the anti-hybrid argument I've heard coming from The General's command post for some time:

hybrids are merely halo cars, media-friendly anomalies that burnish a carmaker's green rep but have little appeal to the majority of American car buyers. They cite an oft-quoted JD Power survey predicting that hybrid-powered vehicles will carve-out a 3% market share by 2012. So it's just not worth it.

Older readers may remember similar arguments when Japanese imports first arrived on US shores. "Nobody wants those small, cheap cars except a few pot-smoking liberals and poor people." Well, it didn't turn out that way—especially after the Arab oil embargo changed the rules of the game. This time, GM has failed to recognize that 9/11 has triggered another sea-change. More and more US consumers want hybrids, and they want them NOW.

Check this: GM just released a study revealing that 39% of Americans believe that improving gas mileage and reducing vehicle emissions should be our top energy priority. Does that sound like a hybrid market to you? GM's response: the poll shows the need to tell the public about our work developing fuel-efficient vehicles and our research into vehicles powered by hydrogen fuel cells. Wrong answer. Graphyte mock-up or no, GM needs to realize that the time for talking is through.

General Motors Death Watch 21: Is Daihatso?

By Robert Farago, July 13, 2005

So, GM car Czar Bob Lutz breaks cover again. This time, Maximum Bob strolled into the offices of *AutoWeek* to face a grilling from the magazine's [unnamed] editor. Well, maybe not a grilling; more like a few minutes in a reasonably warm room with his coat off and feet up. In fact, the rambling and less-than-grammatical nature of Max Bob's replies to *AutoWeek*'s underhand lobs indicates some kind of no-edit deal with the mag. Presumably, what we're getting is unvarnished Lutz. It's pretty scary stuff.

After a bit of warm-up softball, we get down to the main event: branding. In two of the longest, most "puddle of consciousness" paragraphs ever posted on the web, Bob provides a guided tour of the magical mystery maze known as GM's branding strategy. [NB: Immediately after this editorial appeared, *AutoWeek* removed its interview with Mr. Lutz from its website.] "I don't want to start a debate," the editor begins, leading with his chin, "but how many divisions are adequate to cover the market?"

Max Bob immediately attacks GM's critics for double standards. Why accuse The General of excessive divisionality when Toyota has plenty of brands: Scion, Toyota, Lexus, Daihatsu and "I don't know what else"? Hmmm. Although Toyota bought Daihatsu in '99, the company's US operations died in February '92. In its quarantined capacity, Daihatsu isn't exactly a threat to GM's subs. And if Max Bob really doesn't know "what else" GM's arch rival has in its arsenal, well, that's not good—especially as there IS nothing else (excluding Hino commercial trucks and busses).

Adding insult to apathy, Bob goes on to list the VAG group's brands: "Volkswagen, Audi, Goldan, Bentley, Lamborghini, and I probably forgot one or two along the way." You can forgive Max Bob for forgetting Bugatti (as they've forgotten to deliver the Veyron), but you'd hope GM's Vice Chairman for Global Product Development would remember SEAT and Škoda. And who the Hell is Goldan? Maybe Maximum Bob said "Gol dang Bentley," and *AutoWeek*'s transcription service heard a more palatable (if imaginary) homonym.

When Max Bob finally turns his attention to his employer's lineup, he declares that Chevrolet is "the essential," Cadillac is "very clearly needed" and HUMMER is "expandable." And then Bob's off, chasing cheese in the labyrinth, banging into dead ends at every turn. To wit: "When I say Pontiac should be more BMW, it should be into the niche of somewhat outrageous, aggressive performance. Will a Pontiac obtain a level of perfection of a 3-series? No. That's Pontiac's story."

I think I missed a few chapters. Perhaps Max Bob is trying to say that Pontiacs should be more like BMWs, but only somewhat, because Pontiac doesn't have a hope in Hell of matching BMW quality and engineering at its presumed price point. I'm not sure. In any case, Max Bob's remarks aren't exactly what I'd call a rallying cry.

On the Saturn front, Max Bob posits a philosophical question: "Why do we have to pick between great cars and lousy dealers and great dealers and uninspired cars?"

What would happen if we put the two together?" Excellent question, but why it applies to Saturn any more than any other of The General's seven other domestic brands is an even better one. Perhaps MB simply forgot about them. After revealing that Yukon-Denali buyers have more money than Escalade owners, Bob says, "So those are basically the brands now, what do we do with them?" Hello? What happened to SAAB?

We later learn that "SAAB has a good future, but the part of the future that had to be changed was operating SAAB as an independent car company. It just made absolutely no sense, so you've probably seen the announcement that we're establishing a SAAB control center. It is sort of like the keepers of the SAAB flame."

It's sort of like, you know, frightening: hearing Max Bob admit that GM brands can not act as independent car companies. For one thing, this SAAB story makes a mockery of Marketing Mark LaNeve's pledge to eliminate product overlap (i.e., badge engineering) across the GM Empire. For another, genuine independence gives an automotive brand its character (hence GM's lack of same). When Lutz goes on to say that SAAB has "never really been totally able to develop their own cars," he's either being disingenuous or pissing on SAAB's heritage from a great height. Either way, it doesn't bode well for the Swedes.

In fact, MB's *AutoWeek* appearance gives us no reason to revise our opinion of GM's prospects. Not that his words mean much; it's the next round of Lutzerific vehicles that will tell the tale. If they don't cut the mustard, if they can't be sold at a reasonable profit, The General will continue its inexorable slide into bankruptcy. At that point, Max Bob will regret his words, especially this classic example of hubristic doublespeak: "I don't think we have a lot of over-capacity. What we have is under-demand."

General Motors Death Watch 22: If the Mask Fits . . .

By Robert Farago, July 21, 2005

GM's second quarter financial results prove what we've been saying all along: sales do not necessarily equal profits. Thanks to its "Employee Discount for All" program, The General's turnover climbed by a staggering 47%. The automaker's US market share rose to 30%. And yet GM lost another \$1.2 billion, which is nearasdammit the same amount they lost last quarter. Add up cash reserves, marketable securities and available assets (from an employees' healthcare trust, no less) and The General has about \$20.2 billion in the bank. Simple math says that GM's US division will be completely bankrupt in a little over four years.

Of course, that assumes a steady burn rate. It's entirely possible that the automaker's fire sale has sucked-up most of the cash from GM's customer base, leaving a diminished market for new products. These new whips will have to kick some major league ass (i.e., Toyota et al.) to stave off an even more precipitous earnings slide. And again, that's income. GM's expenditure is still wildly out of control; despite Rabid Rick Wagoner's public pledge to hold the union's feet to the fire on health care benefits, he, um, hasn't. There's no word about containing equally onerous (though less publicized) production, labor, management, administrative, inventory, distribution and marketing costs.

At some point, the situation will reach a tipping point, where everyone from suppliers to politicians will realize that the Titanic isn't going to make it. The words coming from the Chief Financial Officer's poop deck are hardly what you'd call reassuring: "We have not put targets and we've not put dates on a North American recovery plan, but believe us, we have those targets internally." So that's alright then. If the lifeboat known as GMAC finance is sold, you can expect the resulting panic to greatly accelerate the main company's demise.

But even if GM's profitable divisions are retained until the very last, it's highly unlikely that GM shareholders will simply stand by and watch the world's largest automaker slip into Chapter 11. When the ship's lights start flickering, Wagoner, Lutz, LaNeve and the rest of the current crew will be cast adrift. Divisions will be shuttered, plants terminated, product lines scuttled, unions confronted, and assets sold. In fact, the rescue plan will be pretty much what it should have been five years ago. While you can't blame a Neanderthal for not winning a MacArthur genius award, watching this once proud company creaking and groaning towards a watery grave is as depressing as it is predictable.

The GM story has all the inevitability of a Greek tragedy. While the ending is never in doubt, the tale's twists and turns are endlessly fascinating. Consider Pontiac. While other GM brands managed to (at least) clear out lots of unsold inventory, and some even gained traction (HUMMER sales up by over 200%), the Chief's sales were down 14.1%. Meanwhile, Pontiac's secret weapon is stuck in the lab. When the division recently announced that the Solstice would appear in showrooms this August, beleaguered front liners shouted huzzah! Yes, but actual, honest-to-God customer deliveries are still delayed until fall. Oh well.

Pontiac's misfires are yet more proof of the axiom that character is plot. The reason that Pontiac is a dead brand waiting is that it's just one facet of a corporation suffering from multiple personality disorder. In other words, there is no way on God's green earth that GM can make eight—count 'em: eight—car making divisions fire on all cylinders all at the same time. Even if one or two members of GM's portfolio suddenly become wildly successful (a fair proposition given the law of averages) the others will take the resources generated and piss them away. There will always be a crisis somewhere in The General's ranks. It's a no-win situation.

Need proof? Look overseas. GM's European operations posted a \$37 million profit. It's not great but a profit beats a loss every time. So why is GM Europe floating while its US parent flounders? European labor costs are worse than America's, and governmental taxation and regulation is on the far side of burdensome. But GM Europe doesn't sell eight different brands. Vauxhall [UK] is a single strong brand with a coherent message and worthy products. Ditto Opel on the Continent. These companies have focus.

Of course, that's changing. Chevrolet/Daewoo is planning a major European expansion, Cadillac wants to play on the world stage, SAAB fancies its chances and The trick to avoiding tragedy is to be the master of your own character. Clearly, GM is hamstrung by its hubris, and, ultimately, defeated by self-denial.

General Motors Death Watch 23: The Price of Everything

By Robert Farago, July 31, 2005

And so General Motors turns to "value pricing" to maintain the momentum created by its now defunct Employee Discount For Everyone (EDFE) program. OK, so what the Hell is value pricing? "Value" is a subjective term. Stick it front of the word "pricing" and the phrase simply indicates that someone somewhere thinks that a particular price is fair. Whether or not customers agree with The General's assessment will be revealed in a month or so. Meanwhile, let's try to find the truth behind this slippery concept

This is what we know for sure: the official sticker price for GM's '06 models will be lower than the official sticker price for its '05 models. Whether or not the new sticker price will be significantly less than the EDFE price, or the pre-EDFE discounted price, is not yet clear. (To refresh your memory: the EDFE price represented a large discount from the official sticker price but a relatively small discount from the actual, discounted price available before the EDFE program began. In a few rare cases, the EDFE price was actually higher than the discounted price.) More importantly, The General swears it will no longer slash prices to chase turnover and market share. The fire sales are finished.

It's a gutsy move. GM is betting the farm that it can create an enormous shift in consumer expectations. The General wants potential purchasers to ditch the idea that GM is the Wal-Mart of automakers, where everything is always on sale and price is, let's face it, the main reason you came into the store in the first place. From now on, they want customers to see GM as an automaker who sells real value: excellent cars at an excellent price.

It won't work. First of all, GM does not make excellent cars. While virtually all of its 80 models [now] qualify as worthy, hardly any of them excel in relation to their rivals. If GM tries to sell a Chevrolet Aveo based on anything other than its low price, they're heading for trouble. Unfortunately, the same limitation also applies to everything from the Chevrolet Impala to the Cadillac CTS. Aside from the Pontiac Solstice, Chevrolet Corvette and HUMMER H3, GM's products lack the spizzarkle, the killer app, the USP they need to stand apart from their competitors and say, "Don't worry too much about price 'cause we're the best." When customers see your products as roughly equivalent to the competition, price-based comparison shopping is both inevitable and unavoidable.

Second, GM is ignoring the supply side of the equation. The General is locked into union contracts which make it virtually impossible to stop making cars; they have to pay the workers full freight regardless of plant closures. There's no escaping the implications: as soon as supply exceeds demand, the market value of those cars drops. Lest we forget, GM launched the EDFE program to clear enormous inventories of unsold cars. If GM swears off discounts and cars pile up they'll have to . . . what? Let them rust into the ground on abandoned airfields? Crush them? Anyone who bets against some sort of clearance sale isn't playing with a full deck.

Lastly, The General is lying. According to spokesman Jeff Kuhlman, GM will continue to run regional incentive programs, which might include rebates, dealer cash or cut-rate financing. Huh? Since when is a regional incentive not an incentive? That's a distinction without a difference. What's more, GM is happy to point out that the "s" in MSRP stands for "suggested." If a GM dealer wants to sell a vehicle for less than the "value-priced" sticker, well, that's just the way it is.

GM's new value-pricing strategy does not, in fact, signal an end to The General's cut-price mentality. It's a cynical concept designed to hide the fact that GM's limbo dance will continue apace. If GM REALLY wanted out of the bargain basement, they'd bully their dealers into introducing no-haggle pricing; that's the element of the EDFE program that made it work.

In any case, there's no getting around the fact that any product is worth exactly what someone will pay for it. No more, no less. As long as the cost of its products exceeds their market value, The General faces the prospect of being "value priced" out of business.

General Motors Death Watch 24: The Value of Nothing

By Robert Farago, August 3, 2005

I should have seen it coming. How could GM flog its remaining '05 cars, trucks and SUVs at anything other than the Employee Discount for Everyone (EDFE) price? As we've said here before, you can't very well raise the price on an old product when its replacement is heading down the pike. Besides, Ford and Chrysler are continuing their Grab Your Checkbook and Work for Us programs through the summer. So the extension of GM's EDFE program until September 6th makes perfect sense. My bad for believing GM's public promises.

Speaking of which, The General is revving-up its "Total Value Promise" program. That's right, GM's post-fire sale "Value Pricing" program has evolved. Originally, The General was simply going to lower '06 sticker prices to reflect the products' actual purchase price after [what would have been] incentives. Now, the automaker is saying they've "lowered prices, added features or redesigned over 50 GM models" so "you get more without paying more on the cars and trucks you really want."

The Australian children's entertainment ensemble will be well pleased; never in the course of corporate history has a company created so much wiggle room. All that's missing is the conjunction "and/or"—and you just know it's there in spirit. More specifically, a new GM product might have a lower sticker, or new features for the same sticker, or new features for a lower sticker, or a redesign with new features for the same sticker, or a redesign without new features for a lower sticker, or . . . the mind boggles. And that's before regional discounts or cash back allowances.

I'm also more than a little impressed by the phrase "on the cars and trucks you really want." What about the cars and trucks people DON'T want? I thought the whole point of incentives—I mean "a value promise" was to off-load the losers. Correct me if I'm wrong, but isn't the new Chevrolet Corvette one of those cars customers "really want?" And wasn't it excluded from the EDFE program? No wait, the Vette's been redesigned, so GM draws a "Get Out of a Lower Sticker Price Free" card. But hang on, the Vette was redesigned for '05. Does that mean the new Value Promise is retroactive?

Confused? So what else is new? GM singularly fails to grasp the fact that the public's imagination was captured by the EDFE program's simplicity. The "you pay what we pay" message eliminated most of the confusion and stress of wading through the incentives morass. EDFE wasn't a return to Saturn's old no-haggle pricing but it was damn close. (One suspects many EDFE customers treated it as such, much to dealers' delight.) The EDFE elevated The General in its customers' estimation, allaying their suspicion that all those complicated incentives were designed to fool them into thinking they were getting a bargain when they weren't.

Which was true. The only way you can judge a car's value is by comparison. It's no coincidence that GM products' official sticker price has been higher than their direct competitors'. That way GM can take money off the "suggested" retail price to bring the GM product down its competitors' levels AND make it seem like customers are getting a "deal." For example, in 2005, the Pontiac Vibe stickered for \$1,000 more

than the Toyota Matrix leaving a nice pad for discounts. Will the Value Promise program end this faux inflation? It's doubtful.

Before Value Pricing morphed into "We Give You Our Word That This Price Represents Excellent Value," pundits were saying that the move towards realistic stickering was motivated by the Internet. GM's official prices supposedly put them at a disadvantage during electronic price comparisons. Not true. The General's websites include a program that calculates post-incentive pricing. More importantly, savvy web shoppers have been heading for sites like KBB.com to scope the dealer invoice for quite some time. Which they will continue to do, Value Promise or not.

The point is this: GM didn't so much miss the honesty boat as get on it and then hop off mid-river. If The General had created a program in the spirit of EDFE, they would have capitalized on the public's goodwill. The Value Promise pisses on pricing clarity and further sullies GM's rep. No doubt the program will succeed in some cases, and fail in many others. Creating a class-leading product that makes its competitors look over-priced is the only strategy that works in every case. Hey, Rick, what are the chances of THAT happening?

General Motors Death Watch 25: GMAC RIP

By Robert Farago, August 4, 2005

It may not have escaped GM watchers' notice that The General has just announced that it's selling 60% of the General Motors Acceptance Corporation's (GMAC) commercial mortgage division. This after agreeing to sell \$55 billion worth of GMAC car loans to Bank of America. The bottom line is clear: The General is hawking the family silver. The only solidly profitable part of the entire corporation is being sold off piecemeal to increase GM's liquidity. It's the long-predicted beginning of the end.

Before we explore GM's rationale for the sale, it's critical to note the commercial division's new owners: Kohlberg, Kravis, Roberts & Co. (KKR). This hugely profitable investment firm practically invented the leveraged buyout. KKR's M.O.: raise money through junk bonds (ironically enough), buy a large company, sell off underperforming assets, restructure the core business, cut costs, and, eventually, re-sell the new, leaner company at a huge profit. KKR has sliced and diced Texaco, Gillette, Playtex, Beatrice, Safeway, Borden, Samsonite and Toys "R" Us.

More importantly, in 1988, KKR engineered the largest leveraged buyout of all time. They bought RJR Nabisco for \$25 billion. Are you thinking what I'm thinking? KKR's purchase of GMAC Commercial could be the curtain-raiser for buying GM. Obviously, TTAC is not the only organization which understands that GM's eight divisions would be more profitable if they were independent entities. By the same token, aggressive brand consolidation would also offer greater earnings potential than GM's current corporate cluster fuck. KKR is exceeding good at implementing both strategies.

Of course, the largest obstacle to aggressive restructuring of The General's fiefdom is, without question, the United Auto Workers. No matter who owns GM, the UAW isn't going to play ball until its contract expires in 2007. Even then, they'll fight any pay or healthcare reduction, restructuring of working practices or elimination of job protections. There's only one way to shuck the union straight jacket: Chapter 11.

Under Chapter 11, GM could seek "protection" against all its union obligations. The company's management could restructure the corporation to the court's content. Given that GM is hemorrhaging \$4 billion per year, the unlikely popularity of GM's latest truck-heavy model line-up, the imminent demise of the sales-sucking Employee Discount for All Program, and the looming prospect of GM assuming \$9 billion of Delphi's pension and retiree health care obligations, the bleeding may worsen. It's a race between management's attempts to stave off bankruptcy and a rushing tide of red ink.

By selling GMAC, GM is literally buying time. No doubt the current management has a new, improved rescue plan that requires an additional five years or so for full implementation. No doubt Rabid Rick Wagoner really does mean to confront the union over health care benefits . . . eventually. But the torpedo boats are circling. Lest we forget, Kirk "Tree Shaker" Kerkorian owns a big slice of the action. While we've heard nothing from Mr. K's Tracinda Corporation, it's entirely clear whose management style jibes with his, and you won't find them at GM's Renaissance Center. At least not yet.

There's only one way GM's current management can hang onto their jobs/save the company/avoid a leveraged buyout: trigger a UAW strike and tough it out until they can hammer out a new deal. All Rick would have to do is cut the UAW's health care benefits unilaterally. Of course, surviving a company-wide strike would require a HUGE war chest—which GM is currently acquiring by divesting itself of GMAC.

Could GMAC's forthcoming dissection be part of Rabid Rick's secret end game? That theory pre-supposes that Mr. G. Rick Wagoner Jr. is willing to subvert—indeed annihilate—the corporate culture which hired him straight out of Harvard Business School, and put tens of millions of dollars in his pocket. So, no, Rabid Rick and his minions aren't cunning or brave enough to use the nuclear option. They really do think they can produce a turnaround within the current structure, which is a more and more ridiculous idea with each passing day.

The real question here is the same one posited by Wall Street's Mr. Gekko. Is greed good? Is America better served by the elimination of the jobs-for-life, one-big-family ethos that is, was and can no longer be General Motors? Is it better for America's largest automaker to serve shareholders' and consumers' interests than the workers'? Hell yes. Post Chapter 11, GM will rise Phoenix-like from the ashes as a leaner, meaner, keener company. And if it doesn't, it will make room for those companies that are. Such is the way of evolution, which will not—CAN not—be denied.

General Motors Death Watch 26: Question Time

By Robert Farago, August 30, 2005

As I write, a group of Wall Street analysts are bunkering in GM's corporate HQ for an update on The General's recovery plans. The morning session will feature a PowerPoint pummeling entitled "The Solstice Will Come out Tomorrow." The post-prandial spin session will address the big issue: how GM plans to stem the torrent of red ink spewing from every corporate vein, artery and orifice. As TTAC was denied admission to the confab, we thought we'd Blackberry a few questions to our secret admirers:

1. When is GM going to cut UAW benefits?

Early this summer, Rabid Rick Wagoner stood in front of GM shareholders and solemnly swore to cut the automaker's "legacy costs" (the communist-era health care and retirement benefits enjoyed by current and former United Auto Workers). The UAW responded by hiring an accounting firm to justify their intransigence, nickel-and-dimed dozens of hapless GM negotiators to the brink of insanity by "exploring cost cutting moves within the existing contract," issued a press release expressing concern about the effects of high gas prices on GM truck sales and bought a Ford Escape Hybrid for their president.

For its part, GM has done . . . nothing. In fact, the company recently confirmed the status quo with a new contract at its Vibe-making California plant. All Rabid Rick's dark hints about unilateral action (emboldened by independent assertions that GM would win the inevitable court battle) have turned out to be nothing more than feeble posturing. Clearly, Wagoner does not want to trigger a company-crippling UAW strike. Clearly, he must.

2. When is GM going to cut its executives' salary?

While it's not a crime to draw a multi-million dollar salary when your company's swirling around the toilet bowl, the annual compensation paid to GM's top brass (Wagoner, Devine, Briggs, Cowger, Burns, Lutz, LaNeve, et al.) gives the UAW the moral high ground. When push comes to shove, when the barricades are manned, the execs' high life will not play well in Peoria. GM's top brass should shred the class warfare card NOW, before the UAW can play it.

3. When is GM going to downsize?

With eight divisions deploying over seventy models, The General is still relying on the sheer weight of numbers to overcome its enemies' tightly-focused, niche-driven insurgencies (e.g., Toyota's Prius and Scion). While the sales chart proves that GM is winning battles, the company's continually decreasing market share and non-existent profits show that it's losing the war.

It's well past time for GM to cut the deadwood. Buick, Saturn, Pontiac, SAAB—one or all must go no matter what the cost in dealer lawsuits and/or UAW retaliation. Failing that, each GM division should be wrenched from the corporate tit; freed from

administrative tyranny, corruption and waste. Each division's troops must learn to operate quickly, efficiently and, most importantly of all, independently. Platform sharing, yes. Inter-divisional pencil pushing, no.

4. When is GM going to commit to no-haggle pricing?

The "Employee Discount for Everyone" program proved beyond a shadow of a doubt that customers prefer pricing clarity to marketing spizzarkle. And yet The General is committed to returning to a bewildering combination of incentives, equipment packages and finance deals, now called "value pricing." While the promise pleases GM's profit-squeezed dealers, it will piss away the one thing that money can't buy: customers' good will.

5. When will GM make a car with a decent interior?

There's no question that many GM products now offer class-competitive build quality. There's even evidence that the company is beginning to understand what makes a visually compelling vehicle. But The General's complete inability to create a car, truck or SUV with an aesthetically attractive interior made from high-quality materials—from the Aveo all the way to the Cadillac STS—is symptomatic of its structural problems.

GM's ergonomic engineers are no worse than Audi's. They're just hamstrung by a monolithic bureaucracy that rewards penny pinching over design excellence. A car's interior is inextricably linked to perceived quality; get that right, and people will believe the company's "best built" mantra. Car Czar Maximum Bob Lutz knows the drill, and was supposed to sort this shit out. He hasn't.

6. When will GM clean up its act?

GM is stuck in a vicious circle. Its leaders' refusal to publicly acknowledge or confront its problems creates delusional behavior, alienates customers and employees, and increases its problems. In other words, GM is lost in a forest of fundamental dishonesty.

For example, the Pontiac Solstice's launch is delayed. No one will tell the media why the delay occurred or commit to a new delivery date. Maximum Bob recently announced that Solstice production has finally started and handed over the keys to a couple of hundred buyers. Only customer deliveries haven't started, really. Dealers don't even have demonstrators. When will that happen? When will GM tell the whole truth about this, and their other challenges? About the same time Mr. Wagoner's mob finally finds its nerve—or unfurls their golden parachutes.

General Motors Death Watch 27: The Big Dipper

By Robert Farago, September 3, 2005

You get a terrific view from the top of a roller coaster but there's only one way to go. GM execs would have known the feeling at the beginning of August if they were paying attention. They weren't. Despite all the experts' warnings, The General's top brass were too busy high-fiving each other over the "success" of their Employee Discount for Everyone (EDFE) program, talking-up their plans to gently wean customers from discounts and incentives. Well hands in the air boys, the August sales figures are in.

Ward's AutoInfoBank reports that GM's sales are down 16.5%. [All figures cited are in comparison to August '04] Lest you think the results were a simple case of a sinking tide stranding all boats, Autodata reveals that the US automotive market as a whole rose 3.8%. While Daimler Chrysler and Ford eked-out small gains (1.2 and 1.4% respectively), check out their Japanese competition: Toyota (+9.5%), Nissan (+10.6%) and Honda (+18.6%).

What happened? Truck and full-size SUV sales tanked. Although the media has been busy upbraiding consumers for daring to buy the General's discounted gas-hogs (ignoring their eco-moral responsibilities), the press gang failed to realize that the EDFE blowout was the last charge of the light truck brigade. Look at August's top fifteen sellers and clock the change. Only two pickups and two SUVs have made the list. More to the point, GM's entries on Ward's automotive hit parade were off a whopping 35.4% (Chevrolet Silverado) and 17.5% (Chevrolet Trailblazer).

August's big winners were relatively small cars like the Ford Focus, Honda Civic, Toyota Camry and Nissan Altima—still. Only more so. Sales increases for these vehicles were well into double digits. Although GM has three Chevrolet automobiles in play, two of these models lost sales and one remained static. The Pontiac Grand Prix was the only bright spot in the General picture, up a staggering 78.4%. One problem: the new G6 (developed at a cost of hundreds of millions of dollars) was supposed to be the bright star in the Pontiac firmament

Obviously, post-Katrina gas prices will accelerate the trend away from low mileage leviathans towards more fuel-efficient vehicles—at the exact moment when GM expects its refreshed trucks and SUVs to carry the can. Of course, any company with seventy models will have a number of products appropriate to a conservation-minded climate. On average, GM's fleet is a fairly frugal bunch. But neither statement obviates the fact that GM has ignored clear and consistent signals that truck-based vehicles were a dead genre guzzling. The General's divisions are still lousy with pickups and SUV's, with no automotive cavalry waiting in the wings. Oops.

Not that you'll hear that expression from inside GM. They're too busy backpedaling from earlier assertions that rising gas prices would not damage their SUV-based plans to finally pull the company out of its tailspin. For months, GM has been insisting that its middle-class customers are insulated from high fuel prices. (No surprise there: The General delayed some mid-sized car programs to speed the launch of their full-sized SUV and pickup programs.) Now that the gas prices are

disappearing into the stratosphere, GM's spinfolk are admitting that the cost of gasoline may have a "psychological impact." Spinelessly enough, they're implying that GM's current and impending woes will stem from of potential customers' misguided timidity, rather than The General's abject failure to adapt to market trends.

In any case, the debate over gas hogitude probably suits the suits. It draws attention away from the elephant in the room: sales brought forward by the EDFE. Every industry analyst worth his pocket protector has been saying that GM's summer sales bonanza was the result of customers buying sooner rather than later. Well, it's later. In fact, it's a lot later than GM thinks. The General's rivals are rapidly and inexorably siphoning-off GM's market share. Yet Rabid Rick Wagoner's mob have yet to downsize their operation or 're-negotiate' GM's onerous labor costs to match its dealers' diminishing ability to sell GM vehicles at a price that can generate a profit for the corporation.

GM's reaction to the latest crisis was predictable enough: they extended the EDFE program through September. More significantly, the program now includes many '06 models—a tacit admission that GM has abandoned its ambitious plan to leave their Wal-Mart image behind. At a press conference yesterday, The General's chief industry analyst entered England's understatement hall of fame. After calmly predicting that oil would eventually stabilize at an SUV-friendly \$50 a barrel, Paul Bellew admitted that "September will be a challenge."

While GM clings to euphemisms for comfort, corporate carnivore Kirk Kerkorian made an equally predictable play: he bought more of GM's cheapened stock, raising his stake from 7.2 to 9.5 percent. Mr. K's spokesman said the octogenarian billionaire has "confidence in the company, the American auto industry and the US economy as a whole." And, no doubt, the wisdom of firing the boneheads who brought the world's largest automaker to its knees, selling off GM's assets and completely restructuring the business. Hang on folks; it's going to be a wild ride.

General Motors Death Watch 28: Distant Waters

By Robert Farago, September 12, 2005

Last June, Rabid Rick Wagoner unveiled his five-point plan to rescue The General. He promised to downsize GM's production capacity—then let normal attrition take its course. He promised thrilling new products—then accelerated production of gas-guzzling SUVs. He promised he'd cut union benefits—then didn't. He promised to end incentives—then launched the Employee Discount for All program. And lastly, Rabid Rick promised to build cars using cheaper parts made in China. This he's doing. Unfortunately, it's the one promise he shouldn't have made.

A quick reminder: China is a dictatorship. There is no freedom of speech, movement or association. There is no independent judiciary. "Workers' rights" exist entirely at the ruling party's pleasure. It is, in truth, a police state. On the positive side (at least from GM's point-of-view), the country has a large supply of men, women and children who are willing to toil on an assembly line for \$1.50 an hour without legal protections, health care or a pension.

Let's put aside the moral issue of investing in a communist country—something consumers, the mainstream media and GM's stockholders seem happy to do. On the face of it, Rabid Rick's decision to improve the company's bottom line with low-cost Chinese labor is a no-brainer. If Chinese parts are up-to-snuff, who cares where they're made? Given a bit of time, GM could replace entire UAW-made vehicles with Chinese-made vehicles and—poof!—the US health care and pension crisis is gone. As long as American consumers don't kick up a fuss, as long as GM doesn't have to hit up the US government (triggering embarrassing questions from union-supported politicians), they're golden.

Perhaps. Perhaps not. Imagine that President Hu Jintao and his mates suddenly decide that all China-based automakers should be owned and operated by The People's Republic, to create vehicles exclusively for the domestic market. Who's going to stop them? I'm sure GM's high-priced international analysts have officially discounted the possibility, but I wonder if they could name one communist/socialist country that HASN'T nationalized a key industry—including England (British Leyland) and France (Renault). In countries where the armed forces have a say in, um, everything, business conditions can change very, very quickly.

And what of supply lines? The challenges involved with producing key parts for the US automotive industry in an agrarian society that's 6637 miles and 12 time zones away from Detroit seems fairly major to me. Wayward ships, miscommunication, disease, political unrest, general disorganization . . . I reckon there's plenty of scope for a complete break in the supply chain. Did I mention military action or natural disaster? If the Taiwan situation heats-up, if the region suffers a killer tsunami or typhoon, I don't think Chinese cars or car parts will get first priority.

There are also daunting cultural issues. The world's best manufacturing facilities depend on feedback from the factory floor to eliminate waste, improve quality and create innovation. What are the chances that a class-bound, politically-repressed Chinese worker is going to be a "team player," as explained to him by a Western

plant manager? The Chinese automotive worker's pay may be microscopic in comparison to a UAW member, but it's a fortune by local standards. Surely this imbalance places an enormous pressure on Chinese workers to keep their mouths shut in all situations.

Basically, GM is investing billions of dollars in an amoral, unstable, creatively infertile economic environment. What's more, they want their suppliers to do the same. On September 20th, GM Purchasing poo-bah Bo Andersson will meet with the company's 250 top suppliers and "recommend" that they cut costs by opening more factories in low-wage countries—especially The People's Republic of China. Bo's suggestion will be backed by an "aggressive restructuring" of GM's supply base. In other words, get on with it or goodbye.

Sometime before October 17th, parts supplier Delphi will file for Chapter 11, saddling The General with approximately \$9 billion in legacy costs, and proving that managerial incompetence, union intransigence and corporate insolvency are a logical progression. But the correct response to this conundrum is NOT outsourcing to China. Non-UAW American companies have the technology, expertise, flexibility and will to produce parts right here in the USA that can meet or beat the price set by foreign-based operations—without a language barrier or the risks of dealing with a fantastically long supply chain and a totalitarian regime. And that's without any kind of discussion of quality, creativity, national self-interest or, God forbid, morality.

GM's desperation is leading it to reckless adventurism far from home. One way or another, the automaker will pay the price. As an ancient Chinese proverb says, distant water won't help to put out a fire close at hand. Or, more appropriately, once you climb on a tiger's back, it's hard to get off.

General Motors Death Watch 29: Everything You Know is Wrong

By Robert Farago, September 15, 2005

The GM Death Watch series has repeatedly asserted that The General has too many brands selling too many models, with insufficient focus on any level, with excessive overlap on every level. The very first DW entry, "GM Must Die," recommended that the world's largest automaker should be broken-up; its constituent parts deep-sixed and/or spun off into independent corporate entities. I figured the stance placed me well to the right of my fellow GM-bashers. And then I read Al Ries' *AdvertisingAge* column, "The Sad and Unnecessary Decline of Saturn" and instantly realized I wasn't being radical enough.

Ries wrote that there are only two ways for a company to increase sales: expand the brand (with new products) or expand market share (capture more of the existing market with the existing product). The Atlanta-based marketing consultant asserts that market share is best. Once a brand captures more than 50% of its market, it's virtually unassailable. Ries cites McDonald's, Heinz (ketchup), Microsoft, Tabasco, Rolex, Kleenex, Starbucks, WD-40 and Jell-O as examples of consumer brands whose market sector dominance insulates them from competitive pressure and obviates the need for brand expansion. [NB: variations within a brand's remit, such as Kleenex with Aloe, are not considered brand extensions.]

Ries' premise flies in the face of the commonly-held theory that an automaker's survival in today's "niche-driven marketplace" depends on a constant and steady stream of new models and variants. If true, Ries' argument makes a complete mockery of this week's auto show hysteria in Frankfurt. Indeed, all those struggling manufacturers promising a raft of new models to rescue their sinking fortunes (Mitsubishi, VW, GM, etc.) are actually announcing their intention to drill new holes in their hull. As proof of his postulation, Ries takes a spin 'round Saturn.

At its peak in 1994, GM's "People First" division sold 286,003 vehicles. The figure represented the industry's best vehicle-per-dealer average: 960 cars. That year, Saturn S-series' sales accounted for 16% of the small compact category, second only to the Ford Escort. And then GM took its eye off the ball. Not only did they fail to update the Saturn S-Series—while the Honda Civic went through three evolutions—they also introduced an entirely new replacement and then an SUV. The upshot? In '04, Saturn's three models totted-up 212,017 sales. That's 26% less volume than a decade previous, with sales per dealer down over 50% (483 units).

As Ries points out, conventional wisdom runs 180 degrees counter to his analysis. The industry believes Saturn's troubles stem from a lack of a broad product range, not because of it. Ries cites the long list of insiders who sounded the clarion call to create a larger Saturn portfolio: Automotive News Editor, Charles Child; Saturn boss, Cynthia Trudell; her replacement, Annette Clayton; and, of course, GM Car Czar, Maximum Bob Lutz. All of them believed Saturn was languishing because it didn't have enough vehicles to capitalize on the brand's original success.

And now Saturn is finally getting the expanded model range it wants, including a sexy little roadster called the Saturn Sky. Which is basically the same car as the

Pontiac Solstice. Which dilutes the strength of BOTH brands. In fact, the more you think about it, the easier it is to see the merit in Ries' supposition. We've always said it makes no sense for GM brands to compete with each other (ipso facto); re-badging the same vehicle for different marques is the worst kind of marketing insanity. But it also makes no sense for a brand to compete with itself.

An automotive brand selling a sedan, SUV and sports car asks consumers to connect widely disparate dots. The best ad campaign in the world must overcome the fundamental "Jack of all trades, master of none" inertia. And even if an automaker somehow fashions an over-arching message (e.g., The Ultimate Driving Machine), multi-branded companies are still stuck in the marketing mire. After all, if Saturn, Chevrolet, Cadillac and Buick all offer a similar range of vehicle types, the consumer will think—quite rightly—that the brands are more similar than they are different. Why bother with any of them?

Assuming Ries' has it right, how far should carmakers take his idea that expanding market share is better than widening the brand's product line? If you apply the basic principle without fear or favor, Porsche should only be building sports cars (the Panamera sedan probably qualifies, but the Cayenne SUV certainly doesn't). Saturn should only be selling economy cars—if not just one car—and . . . that's it.

In a recent e-mail, Ries said that he'd heard that there were only eight types of vehicles: pickup, SUV, sedan, sports car, etc. He suggested that GM's eight brands should all make one type of vehicle apiece. Now THAT'S what I call radical.

<http://www.adage.com/news.cms?newsIdF020>

General Motors Death Watch 30: More Mush from the Wimps

By Robert Farago September 21, 2005

Imagine Maximum Bob Lutz and Marketing Mark LeNeve heading for the unveiling of GM's new "full-size" SUVs. At the precise moment when another hurricane is eyeing-up Gulf oil refineries, the dynamic duo is charged with selling the idea that The General's latest fuel-sucking land yachts will stop the automaker's financial fibrillation. Never mind all the other diseases eating away at GM: viral benefit payments, broken brands, model metastasis, bubonic incentive programs, hybrid anemia, etc. This SUV thing is where GM gets its first glimpse of the corporate crash cart. So, how did the boys take it?

Denial is a useful psychological condition. It allows humans to maintain hope in the face of ridiculous odds. By that token, Lutz and LaNeve's inability to confront the full horror of GM's situation is both understandable and indefensible. After all, they're the guys behind the wheel of a multi-billion dollar company launching a fleet of the wrong vehicles at the wrong time. And yet they're pathologically incapable of accepting this fact or, more importantly, its implications. I'm serious. This is not the usual corporate spin. These guys are delusional.

As TTAC's invitation to the SUV launch was lost in the mail, we make our diagnosis based on past history and reports in the automotive press—whose own inability to grasp the nettle is equally worrying (the *Detroit News* headline "Can new lineup of big SUV's revive GM?" should have preceded the world's shortest article.) According to *AutoWeek*, Mr. Lutz admitted that "It is realistic to assume that this segment won't grow." How about roll over and die? Not in Bob's world. "I think we may maintain our volume at other people's expense, even if the segment shrinks a little bit."

May? If? A bit? These are not exactly bold words for a guy who flies military jets for fun. As we learned in a *Fortune* magazine profile of Rabid Rick Wagoner, Maximum Bob's optimistic sales predictions are the source of a great deal of humor within the GM Empire. When Maxi Bob is downbeat, it's time for the cemetery workers to get out the shovels. More to the point, Bob's use of the word "realistic" and "to assume" in the same sentence reveals that he's seen the enemy, recognized his own face and retreated to the executive washroom for a little pep talk with the mirror.

You'd think that Marketing Mark LeNeve would have a firmer grasp of reality, and you'd be right—in a roundabout sort of way. The *Detroit News* has LaNeve looking at GM's new full-size SUV's and conceding, "This launch is critical to us." Note: LeNeve is not known for his arched eyebrow. Anyway, to quote the Sinatras, then he goes and blows it all by saying that I love you. After conceding that the jumbo-sized SUV market "may" contract, LeNeve asserts, "This is a very large, very important and very profitable market." If only he'd used the word "was"

It gets worse. When confronted with their new SUV's gas-hoggedness, the GM poo-bahs pointed to their invisible friends: crossovers and alternative fuels. The *Detroit News* said Lutz was quick to point out that yesterday's big-SUV roll-out was only part of GM's "full-frontal product assault on the marketplace." The Car Czar revealed that

GM will unleash eight new crossovers in the next four years. (Eight? How about one good one?) For his part, LeNeve reminded journos that GM's 5.3-liter V8 can run on ethanol, and announced plans to promote ethanol use in those states "with a lot of ethanol fueling stations." Both of them.

OK, look, I'm not a big fan of shooting fish in a barrel. But again, the automotive press just isn't holding GM's feet to the fire re: their monumentally stupid decision to spend billions rushing their '07 SUVs to market. To their credit, the *Detroit News* has sprinkled their stories with pithy quotes from industry naysayers (Burnham Securities' analyst David Healy: "To me, GM is kind of whistling past the graveyard.") But the press seems generally comfortable repeating the same old GM BS we've been hearing for decades: success is just a new model (or thirty) away.

Well it isn't. Everyone involved—executives, union members, shareholders, journalists and consumers—should admit and acknowledge that big ass SUVs are a dead genre guzzling. Unless GM can come up with a credible Plan B in a hurry, they are completely screwed. Meanwhile, I'd like to know why we're only seeing pictures and descriptions of the new Tahoe. The preview included the new GMC Yukon, GMC Yukon Denali and Cadillac Escalade. I find it astounding that the automotive press would acquiesce to yet another product-related embargo at this critical moment of corporate crisis. It's a totally unacceptable abrogation of their editorial responsibility.

And where was Rick Wagoner?

General Motors Death Watch 31: Ipso Facto

By Robert Farago, September 24, 2005

In his first podcast, Maximum Bob Lutz insists that the full-size SUV market will survive the changing economic climate, albeit in a diminished form. What, no Cat 5 devastation? Nope. GM's Car Czar reckons around 750,000 Americans "genuinely need" a jumbo SUV (down from last year's estimate of over a million). Yes, well, a man who flies an L39 fighter jet for fun may not be the best judge of how gas prices affect the average SUV buyer. In fact, I reckon MB's market estimate is too optimistic by half.

Lutz' cigar-scarred voice claims that the full-sized SUV's core clientele need their gargantuan gas-guzzler because they "tow a boat" and "carry lots of kids." Where's the data for that assertion? In truth, it's highly unlikely that even 50% of full-size SUV drivers ever tow a boat. What's more, there are plenty of capable sprog carriers out there—most now available in all-wheel-drive—that don't suck gas with the jumbo SUV's unrelenting extravagance. So unless these owners of full-sized SUVs tote more than three kids AND a boat, they're free to downsize.

Or not. Now that buyers of large SUVs are almost as rare as Oprah magazine cover girls, and now that all the low-fertility, non-boating SUV owners who can afford to jettison their land yachts have done so (or will do so at trade-in time), the value of pre-owned XXXL SUVs has collapsed. A large percentage of full-size SUV owners owe significantly more money on their behemoth than its market value, leaving them unable to escape their loan/vehicle. That's bad news for GM's new Tahoe, Escalade, Yukon, Yukon Denali and the eight (yes eight) other GMT900s headed for dealers' parking lots in '06.

Even those who can afford to pay the freight for these sleeker, more cossetting SUVs won't. The General's previous party line—that people who can buy a \$40K to \$70K SUV aren't overly concerned about \$3-a-gallon gas—is moot. Despite Lutz' belief in his customers' maritime/progeny-based buying motivations, the popular movement into large SUVs was fashion-led. The popular movement OUT of them will be equally stylish, with one important distinction. The current fog of anti-SUV negativity is so poisonous it will only take a few months to destroy an automotive trend that was decades in the making.

For GM stockholders, employees and suppliers, it's a tragedy of the worst kind: preventable. While you can't blame The General for making full-sized hay while the sun shined, the automaker should have seen this coming. Unless you believe that GM's market analysts were paid to play Tetris, unless it's OK to enrich a CEO by \$7M+ a year when he can't tell which way the wind's blowing in a howling gale, GM had time to get it right. GM could have—no, should have—dedicated every resource in their Empire to designing, manufacturing and selling the world's most fuel efficient SUVs. A 20–30% improvement in fuel economy would have forestalled much of today's "truck flight."

Of course, arrogance is the engine of tragedy. When Rabid Rick Wagoner met with Toyota's Chairman, Fujio Cho, in May, he should have bowed with appropriate

reverence (to put it politely), bought the Japanese automaker's hybrid technology and ordered it installed in all GM SUVs even if it meant a two-year production delay. Instead, Wagoner-san flew back to Detroit, pulled the trigger on GM's great SUV giveaway and ordered the production of GM's "refreshed" SUV's brought forward (vehicles that get one mpg more than the old ones).

Wagoner's hubris stems from his profound faith in the power of perseverance. (It was the key to his rise within GM.) Rabid Rick clearly believes GM will answer the clarion call for improved mileage with new, world-beating technology . . . eventually. As in too late. Lutz, on the other hand, is a Marine. His hubris comes from his conviction that a warrior's heart conquers all. Listen to his podcast. Check out Maximum Bob's strange combination of bravado, bluster and battle fatigue. We HAVE what it takes. We CAN bunker down and hold out until the hybrid cavalry arrives. We WILL be OK. Except when Bob says "we" he means "I." [Business Law number seven from Maxi Bob's book on Chrysler: Teamwork isn't always right.]

I digress. Bottom-line: I'd be surprised to see large SUV sales top 400,000 a year. And yet Lutz' podcast tells us GM's winning: their new-shape SUVs will maintain a 60% share of the disappearing market. Meanwhile, over at the other tables, the croupier is busy shoveling The General's chips in Japan's direction. If it wasn't so funny, it would be sad. Actually, it is sad. Once upon a time, America's largest companies were known for their ability to bring technologically advanced products to market quickly, cheaply and efficiently. If the world's largest automaker can't re-engineer its vehicles fast enough to avoid a completely predictable market meltdown, then maybe it shouldn't BE the world's largest automaker. Ipso facto.

http://fastlane.gmblogs.com/archives/2005/09/first_podcast_w_2.html

General Motors Death Watch 32: How to Get A Head in Business

By Robert Farago, September 29, 2005

Today's 11th hour deal between GM and the Canadian Auto Workers (CAW) is yet another example of The General's singular inability to take the bold action needed to avoid bankruptcy. Instead of reasserting its ancient right to fire workers it doesn't need, GM once again agreed to subsidize idled employees. The General will point to the 1000 jobs sliced from its Canadian operations, but the cuts will be achieved through attrition. CAW President Buzz Hargrove knows what's what, and he isn't afraid to spell it out: "People will either have work or wages."

The idea that an auto worker deserves full salary for not working is insane. But it's not half as crazy as subsidizing the concept with shareholders' money. In case you thought, well, at least GM exchanged impregnable job security for some benefit reductions, forgeddaboutit. The General's 16,400 Canadian blue collar workers also received a 3.5% pay increase over the life of their contract AND increased pension contributions. Industry experts estimate that the pension top-up will cost GM an EXTRA \$179,000,000 during the three-year period.

As a warm-up for the '07 negotiations with the United Auto Workers (UAW), GM's Canadian caving expedition is roughly equivalent to a prize fighter preparing for a title bout by working on his tan. The General's crack negotiators couldn't even get CAW assembly line workers to reduce their break time by two minutes. Of course, GM's abject failure to stem the spurting artery of red ink known as "legacy costs" is neither new nor surprising. Rabid Rick Wagoner and his minions have continually staked their fortunes on changing the bandages covering the company's wounds, rather than radical surgery. And by surgery, I mean a strike.

There's no question that a tough stance by GM against its Canadian workers would have triggered a walkout. It's equally true that a strike would have severely dented GM's US operations. In 2004, The General's Canadian factories built 824,619 transmissions, 682,000 engines, 603,660 cars, 320,055 trucks, 24.6 million parts and shipped 117,022 tons of steel. Even if the UAW didn't walk out in sympathy with their neighbors to the north, the disruption to GM's food chain—and its effect on beleaguered suppliers like teetering Delphi—would have been catastrophic.

But survivable. GM's Gulfstream-friendly execs wimped-out because A) they're chicken and B) they don't think they need to draw a line in the sand, ever. Simple logic will convince the UAW to surrender members' entitlements. Shrewdly enough, the UAW has catered to this delusion by commissioning an "outside review" of GM's financial health. GM's leaders believe the UAW will read the report, see the writing on the wall and take one for the team. The General's generals figured a Canadian showdown would have put the UAW in the wrong mood for the conciliations to come.

Hello? Am I the only one actually listening to Big Ron Gettelfinger? When asked about the possibility of surrendering union benefits to ensure GM's continued existence, the UAW Prez said: "There comes a point in time where you think, 'We either move forward or we all go down together' You can't just take, take, take, take, take and that's the mood that's out there right now." I'm no labor relations

expert, but Big Ron doesn't sound like the kind of guy who will extend the hand of friendship across a bargaining table in the name of mutual self-interest. I mean, if Big Ron thinks he's being abused NOW, what hope is there in '07?

None. GM should have forced the CAW to strike. Considering the inescapable fact that GM will eventually face a UAW strike (and/or Chapter 11), it would've been better for The General to have its labor showdown start in Canada. From a PR point-of-view, Americans would be a lot less likely to support a strike on behalf of Canadian workers than one mounted on behalf of UAW employees. This is also a time when GM's inventories are low, and the company's prospects dim. Better to have it out now, heading for the winter doldrums, than later, when sales will be there for Toyota's taking.

A crippling strike would've also offered GM an excellent opportunity to kill half its brands—and blame someone else. But hey, who am I kidding? You only have to look at the timing of the Solstice, HHR or any one of the company's "new" gas-guzzling SUVs to know that the word "proactive" simply isn't in The General's vocabulary. They're used to playing defense. That's what they'll do until the opposition rips off their head and uses it for a football.

General Motors Death Watch 33: GM RIP

By Robert Farago, October 5, 2005

In a news article entitled "UAW, GM near deal on health care," *Detroit News* reporter Daniel Howes claims that the United Auto Workers and General Motors are about to sign agreement that will trim \$1 billion off The General's health care payments. The doyen of Detroit sums-up the current state of play in his usual comprehensive and no-nonsense style, but a thorough read of his report reveals that his premise is based entirely on rumor. And the rumor is based on hope. And the hope is false.

It's easy to understand why even seasoned journalists would give voice to such illogical optimism. While we've been charting and predicting GM's demise for some time, the actual implications of that cataclysm are so enormous they defy rational exposition. When a GM lawyer enters federal court holding the General's bankruptcy petition, the entire US automotive industry will change forever. Initially, everyone will suffer. It's no surprise that industry insiders hope against hope that the main players will see sense soon enough to dodge the bullet that will kill the status quo.

What observers fail to understand is that GM and the UAW signed a suicide pact a long time ago. Back in the day, when GM's profit-gorged, short-sighted management traded job security for freedom from strikes, they backed the union into a corner. That's right: the union. Once union members were made fire proof, the union could never, ever agree to their dismissal. Pay raises, working conditions, pension contributions, even health care—they're all negotiable. But any UAW boss that says to one of his members "The company doesn't need you anymore. That's it, you're done; you're outta here" wouldn't last five minutes.

Make no mistake: guaranteed employment is killing GM. While everyone is talking about health care payments, the key fact is this: a large percentage of The General's workforce is completely unnecessary. And yet GM is forced by its UAW contract to keep paying these workers, either by continuing to spew out cars no one wants or by putting them in a "job bank" where they receive full salary and benefits for doing nothing whatsoever. While most people understand the insanity of the job bank, few realize that one of the reasons GM makes far too many products is that the union deal means it would cost them almost as much NOT to make them.

All the UAW can say is, well, it's your fault for not designing, marketing and selling vehicles that people want to buy, which would create enough demand to keep our people employed and help you make enough money to pay our salaries. It's not a bad argument, really, but it was formulated at a time when GM owned the US auto market lock, stock and barrel. And even if it's true it's not important. The chances of GM's design team pulling a dozen or so rabbits out of its hat are now smaller than a Chevrolet Aveo.

Despite all the media hype and hope, the current situation is a Gordian knot. GM can't live with their UAW contract, they can't get out of it without a strike, and they can no longer afford a strike. Meanwhile, the General is bleeding out. Their market share has evaporated, their new products aren't cutting it, Delphi is about to saddle the company with a \$7.5 billion pension bill (and a catastrophic interruption in the

flow of parts), their credit rating will soon be sub-junk (nuclear waste?), their losses are completely unsustainable, and so on. Today's fire sale of their stake in Fuji Industries to arch enemy Toyota is just more proof that their time is up.

In fact, GM is already dead. They're already locked in the corporate version of John Kennedy's plane crash: a death spiral headed straight to a violent, inescapable conclusion. Accepting this premise, we can understand GM's recent behavior in terms of Dr. Elisabeth Kubler-Ross' "Five Stages of Grief." We've heard the denial (our products are great!); we've felt the anger (the media hates us!) and now . . . bargaining. As you read this, GM and UAW reps are at the bargaining table, trying to find a way to deal with their mutual loss. They may establish what Ross called a "temporary truce," but they will eventually have to move on.

When Delphi goes belly-up, I reckon the whole lot of them will make the transition to the final stage: depression. When GM itself follows suit, the depression will become chronic. The media will bemoan the loss of American pride and jobs, the UAW will get all sullen and melancholy, and GM's current management will sulk off into the distance, riding their golden parachutes without comment. All that will be left will be acceptance. Kirk Kerkorian and his pals will take charge of this final stage of the healing process, telling the world that it's over. Deal with it. And after that? Who knows? Hope springs eternal.

General Motors Death Watch 34: The Oracle of Delphi

By Robert Farago, October 10, 2005

So Delphi is bankrupt. The automotive parts manufacturer will now use the courts to reduce their labor costs, so they can make a profit and stay in business. We're talking about trimming workers' wages from \$60 per hour to \$10, eliminating \$400 million dollars in annual payments to idled employees, slicing pensions, closing a couple of dozen factories, that sort of thing. Considering the union's complete intransigence on these issues, Delphi's move into Chapter 11 is entirely sensible. From GM's point of view, Delphi has let slip the dogs of war—dogs that will rip The General to pieces.

Yesterday, we learned the true cost of GM's Delphi-related pension obligations: eleven billion dollars. The figure makes The General's \$2 billion FIAT payoff seem like a tip. It makes the \$2.4 billion GM has burned through this year seem like an ink stain on the corporate ledger. It makes the \$800 million pissed away in the Fuji deal seem like change lost down the back of the sofa. Of course, pensions are paid out over time, and The General's lawyers are busy preparing to argue that GM doesn't owe Delphi a dime. But they do, and the hit will hurt.

Never mind. When push comes to shove, GM has enough family silver to cover its Delphi-related pension problems. Insiders estimate that the General has about \$40 billion in cash and \$50 billion in credit left. No, the real problem with Delphi's deconstruction is this: the parts maker's bankruptcy will eventually force GM to shut down its assembly lines.

In mid-December, after two months of fruitless negotiation, a federal judge will terminate the UAW's contract with Delphi. The union will strike. They have to. They cannot allow a judge to eviscerate every wage increase, working condition and benefit they fought for since 1935. For one thing, the rank and file won't tolerate anything but a symbolic roll-back in their standard of living. For another, any cut inflicted upon Delphi's 25,000 union members would form the basis of the UAW's new contracts with GM, Ford, Chrysler, etc. That's . . . inconceivable.

Bottom line: unions are in the business of protecting and enlarging workers' rights, not overseeing their elimination. The UAW's continued existence demands that they draw a line in the sand—which Delphi's management has already crossed, and will cross again, as and when. Although Delphi lost the opening round of the predictable (and pointless) post-Chapter 11 blame game by giving its top brass a pay raise moments before the company filed, there's no escaping the fact that you can't structure an auto parts business in today's highly competitive market using the UAW's current level of compensation.

The inevitable UAW strike will starve GM of parts and force them to shutter US factories. Lest we forget, Delphi was GM until '99. Every single vehicle The General makes still needs every single part Delphi makes for it. There is no way GM can build its products without all of its Delphi-produced components. The UAW knows this and they've got nothing to lose. What's more, they believe a strike will force Delphi, GM

and all the rest to get in line, or, as Ron Gettelfinger recently remarked, "we all go down together."

For its part, GM is engaged in some major league damage limitation/distancing/denial. The General's official response to Delphi's Chapter 11 points out that they've been paying a \$2 billion annual "premium" for Delphi parts. Their supplier's bankruptcy will save them money! Never mind that the savings are entirely theoretical; YOU try and plug a new supplier into GM's Byzantine production matrix. And anyway, a part's price is secondary to its existence: if you can't get one, it's literally priceless.

The UAW's Delphi strike will cost GM billions. Per month. By now, there's nothing GM can do to forestall this eventuality. Rabid Rick Wagoner was right not to pay Delphi blood money to keep the [union] peace. It would have shown weakness to GM's mortal enemy, drained yet more billions from the company's coffers and postponed the inevitable. In fact, all GM can do now is prepare for the coming disruption and devise a strategy that would allow it to "pull a Delphi" and walk away from its union contracts. Something like . . . bankruptcy.

General Motors Death Watch 35: Rick Wagoner, RIP

By Robert Farago, October 16, 2005

God knows where Rabid Rick Wagoner got his reputation for being clever. Obviously, you don't get to be the CEO of the world's largest automaker by being stupid. The GM empire is so vast that simply remembering who does what would vex Jeopardy maven Ken Jennings. But smart is not the same as clever; clever men make the right decisions at the right time. By that standard, Wagoner can't cut the mental mustard. He's consistently failed to grasp the proverbial nettle—from slicing UAW benefits and pensions (come what may) to axing the forest of deadwood cluttering GM's product portfolio. He's long on assurances, short on results and devoid of courage. And as of Monday, he's toast.

When GM's third quarter financial numbers are released, when stockholders learn that GM has failed to staunch the billion dollar arterial spray, that the Employee Discount For Everyone program was a textbook case of robbing Peter to pay Paul, that sales have declined more than 50%, that there is [still] no substantive deal with the UAW over health care costs or pensions, Wagoner will admit only that times are tough. Aside from some mention of gas prices, Rabid Rick's piercing glimpse into the obvious will not be accompanied by excuses. Instead, he will rely on his usual stock in trade: promises.

We're streamlining engineering and production, saving the company some \$1 billion per year! We're importing cheap cars from foreign lands, without paying UAW labor costs! We're importing cheap parts from communist countries, without paying UAW labor costs! The UAW is playing ball! Hybrids are coming! Crossovers are coming! Once again, Rabid Rick will be singing The Chairman of the Board's classic hit "Give Me Just a Little More Time" when he SHOULD be quoting Simon and Garfunkel's summation of Benjamin Braddock's tryst with Mrs. Robinson: any way you look at this you lose

Rabid Rick's Eternal Sunshine of the Spotless Executive speech wasn't true when he took control of GM, and it's not true now. But it was effective. Rabid Rick understood that GM's stockholders viewed the auto industry as show business. Supposedly, The Big Three carmakers are never more than a 300C away from salvation. With a seemingly inexhaustible supply of "new" cars just around the bend, Rabid Rick has repeatedly sold the Powers That Be that old "light at the end of the tunnel" bill of goods. Even as GM's health care costs top \$5.6 billion a year, you can STILL hear the mantra coming from RenCen: product, product, product. Combine the hype with the average investor's five-minute attention span—G6! Solstice! New Tahoe! SAAB crossover!—and you can understand how Rabid Rick's public pledges have allowed him to maintain power despite his monumental timidity against the enemies within.

Thanks to a combination of Delphi's bankruptcy, the UAW's foot dragging and the cataclysmic loss of sales, market share and cash; Rabid Rick's promises will now, finally, ring false. Even the most dim-witted investor will understand that GM's business is deeply, fundamentally flawed. Union contracts and bureaucratic bungling render them incapable of building the vehicles that consumers want, in quantities that reflect demand, at a price that guarantees an adequate profit. Anything Rick

says about rescuing GM that doesn't include unilateral cuts to the UAW's compensation, a dramatic downsizing of GM's production capacity and the immediate termination of lackluster brands will be [rightly] perceived as too little too late.

Of course, nothing Rabid Rick could say would soothe the savage beast known as Kirk Kerkorian; an investor who's as determined to reap profit from the break-up of GM as Rabid Rick is to maintain the automaker's integrity. There's no doubt whatsoever that Kirk and his pals rely on an ancient Italian principle when analyzing the reasons for a company's financial failures: the fish stinks from the head down. It's an especially apt principle in this instance; assuming as it does that the fish is dead. And just in case you think our reports of GM's demise have been greatly exaggerated, there is a growing school of thought which says that GM should declare bankruptcy NOW, before the UAW's inevitable strike drains The General of its remaining resources.

Imagine if Rabid Rick Wagoner made THAT move on Monday. Declaring bankruptcy would be a preemptive strike against the UAW that would give GM time to re-imagine itself. To create an entirely new business model of ad hoc suppliers, manufacturers, marketers and service technicians that can respond to market trends with confidence, clarity, flexibility and speed. That sort of company would be more like a series of interlocking partnerships than a vast fiefdom run a benevolent dictator. Which is, ultimately, what not-so-clever Mr. Wagoner is fighting so hard to protect. Which is, ultimately, why he can no more win this battle than he can save his career.

General Motors Death Watch 36: Wattsamatta U

By Robert Farago, October 18, 2005

To paraphrase Bullwinkle J Moose: "Hey, Rocky, watch Ricky pull a rabbit out of his hat!" On the very day when Rabid Rick Wagoner revealed that GM had lost \$1.6 billion during the third financial quarter, The General's CEO announced that he'd cut a deal with the United Auto Workers (UAW). The long-awaited, deeply-desired agreement allegedly reduces the automaker's health care costs. Its announcement had an invigorating effect on the press ("Can UAW deal spur turnaround?") and GM's stock price (up \$2.11). What's more, it's quelled the chorus of anti-Rick rumblings. How he gets away with this shit is beyond me.

First of all, the accord's exact details are secret. As of this writing, no one outside of the GM-UAW executive loop knows how this "historic agreement" will lop a claimed \$3 billion a year from the automaker's health care costs. The most likely instrument is an increase to UAW member's health care co-pays, premiums and deductibles. Which is why Rabid Rick and union boss Big Ron Gettelfinger are keeping shtum; the UAW rank and file must OK the cuts. Say what you will about Big Ron's leadership, but there's a good chance his membership will tell him to take his increased health care costs and put them where the sun doesn't shine.

So what we have here is a tentative deal; as in a long way from done and dusted. Oh, did I mention that the \$3 billion in savings are before-tax dollars? Give Uncle Sam his due and GM's economy shrinks to \$1 billion per year. Hmmm. Let's put that in perspective. This year, GM shelled out \$5.6 billion for its workers' health care. So the theoretical savings represent, at best, a 25% reduction. With inflation in the sector running at 15%, you're actually looking at a savings of . . . 10%. Wow. No wonder GM camp followers believe salvation is at hand.

While we're at it, keep in mind that the General lost \$1.6 billion this quarter after increasing sales by five per cent. (Yes, increasing.) That brings GM's total annual losses in the North American market, so far, to about \$4.1 billion, with current sales dead in the water. If we're conservative and deduct another couple of billion from GM's cash reserves for a piss-poor fourth quarter, we're looking at a \$6.1 billion loss for the year. So, if the UAW deal had been in place this year, GM would have lost "just" \$5 billion. Oh, that's alright then.

Also, lest we forget, GM has this annoying habit of losing a billion here, ten billion there. Forbes writer Jerry Flint reckons GM has already pissed away some \$21 billion on its foreign "alliances"—without figuring the cost of what else GM might have done with the cash. Shuttering Saturn, SAAB or Buick (an idea whose time came five years ago) would cost GM billions more. Who knows what other billion-dollar bombshells lurk in GM's future? While I don't make enough money to call a billion dollars chump change, forgive me for not considering a billion bucks the difference between life and death for The General.

But wait: it gets worse. Much worse. As you'd expect, the UAW's tentative deal was not a one-sided affair. Again, GM's concessions are shrouded in secrecy, but ye olde sources close to The General report that Rabid Rick agreed to assume Delphi

workers' pension costs. Previously, GM had claimed that their liabilities to its former workers might be . . . nothing. Apparently, Rabid Rick will now ADD money to their pension fund, from the previously estimated high ball figure of \$9 billion to a staggering \$12 billion. What will THAT cost The General on an annual basis?

Alarmist? I don't think so. Anyone who didn't hear that Rabid Rick also announced plans to sell off a "majority interest" in GMAC is deaf. GM's finance arm is it: the cash cow. Sure, the estimated \$10 billion in cash from the sale would see GM through the tough times ahead—right until it doesn't. Think of it this way: if GM is losing \$1 billion plus per quarter NOW, with its factories churning-out HHR's and the like, how much will they hemorrhage during the inevitable Delphi strike, when those factories fall silent?

One person who won't remain silent for long is Mr. Las Vegas, Mr. 10%, GM investor Kirk Kerkorian. You may have noticed that we haven't heard a peep out Mr. Kerkorian's Tracinda Corporation since The Rick and Ron Show pulled the wool over the industry's eyes. Anyone who thinks that's because Rabid Rick's last minute UAW deal—sorry, tentative deal—has rescued his reputation underestimates both Mr. Kerkorian's business chops and the true extent of GM's union-related woes. It's only a matter of time before Rick's forced to say "Maybe I should get another hat."

General Motors Death Watch 37: Get Shorty

By Robert Farago, October 24, 2005

Details of The General's highly-touted secret accord with the United Auto Workers (UAW) have finally filtered out. Even a cursory glance at the fine print—which promises to get finer in the days to come—reveals that the "landmark" deal is not the company-saving "historic giveback" that the mainstream media, UAW and company officials would have us believe. In truth, it's not even too little too late. It's nothing at all.

The UAW's new agreement with GM stipulates that 118,000 active union members forgo a \$1 per hour pay increase scheduled for '06. That works out to about \$2000 per worker, per year. So, by not paying its workers an extra buck an hour, GM saves \$236 million. Only "saves" isn't the right word. It's more like "redirects." The \$236 million that won't appear on GM workers' paystips will now go straight to . . . healthcare. In other words, GM "saves" the money by spending it on healthcare rather than wages, and its workers go right on enjoying the free and full benefits they've enjoyed since tires were ply.

Even if we operate on the assumption that this money counts as an economy because The General won't have to dig into its pockets for ANOTHER \$236 million, it's still not the stuff of which corporate turnarounds are made. The amount represents just over 4% of The General's current annual health care bill. As costs in the health care sector are rising by well over 4% per year, it's actually a loss. Anyway, where's the rest of that supposed billion-dollar UAW giveback?

GM has 500,000 retired employees receiving free health care for both themselves and, where applicable, their family. The new GM-UAW agreement asks them to start carrying some of the financial burden through increased co-pays, slightly larger deductibles and exclusions for "lifestyle drugs" like Viagra (I kid you not). This extra expense works out to be roughly \$370 per year for an individual retiree to \$752 for a family. (Workers who receive less than \$8,000 per year from their GM pension still get a free ride.) And there's your remaining \$750 million in health care savings. Or not.

If you were laboring under the impression that the UAW would give up benefits for the good of General Motors—in the sense that even a blood-sucking parasite knows to drop off the host before it dies—think again. As part of this arrangement, GM will create a special fund for retirees to help them pay for their additional health care costs. The amount going in is . . . wait for it . . . a billion dollars. And that's just the first year. In the second year of this scheme, GM will pay in . . . another billion dollars. And guess who gets the interest on the \$2 billion?

Add it all up and GM saves nothing on healthcare for the next two years. Nada. If you consider the fact that GM also agreed to assume \$12 billion worth of pension liabilities tied to UAW workers left high and dry by Delphi's bankruptcy—PLUS a \$1 billion sweetener—they've actually lost money on the deal. Or, if you prefer, GM and the UAW have successfully negotiated an increase in The General's labor costs.

Not to put too fine a point on it, who cares? Whenever GM's critics lambaste the company for its gi-normous "legacy costs," management always points their finger at health care; that's what's weighing us down! Well, it ain't necessarily so. Just ask Call-me-Steve Miller. Delphi's President is asking his UAW members to take a 70% pay cut. That's not what I'd call pissing around. Pissing around is arguing for months about 1/6th of your health care bill, and then paying it anyway. GM and the UAW have done nothing more than paper over the tectonic cracks that threaten to swallow both of them, whole.

Meanwhile, the family silver sale continues. Majority interest in The General's GMAC Golden Goose is still on the block, with both corporate raiders KKR and über-shark Kirk Kerkorian browsing the catalogue. Hot on the heels of the Fuji Heavy Industries sell-off, GM has announced that they're selling a majority interest in their Australian truck business to Isuzu. South Africa is next. Perhaps GM is building a war chest for the upcoming UAW strike of parts maker Delphi, which will shut down GM's production lines. In any case, Rabid Rick Wagoner recently went on record to say bankruptcy isn't an option. He's right: it's a certainty. Now's the time to short GM stock.

General Motors Death Watch 38: General by Name

By Robert Farago, October 31, 2005

While GM models continue to debut and disappear like Manolo Blahniks, the Chevrolet Corvette stays the course, slowly evolving towards excellence. To mark the retirement of Chief Engineer Dave Hill, Car Czar Bob Lutz posted a short honorific on GM's Fastlane blog: "Dave was often disruptive, stubborn, unwilling to take direction, unwilling to take advice, unwilling to accept constraints or limits—in other words, the perfect man for the job." In other other words, Hill was a successful guardian of the Corvette flame DESPITE GM, not because of it.

Lutz' unintentional condemnation of his employer's corporate culture won't surprise anyone who's had dealings with The General. I've received dozens of e-mails from GM workers and suppliers. They describe an organization so complex it makes the legal system in Kafka's *The Trial* seem like basic addition. One story convinced me that the phrase "institutional paralysis" was coined by a seat bracket designer. Another persuaded me that "matrix management" and "total chaos" are synonymous. And another reminded me of *A Confederacy of Dunces*, and left me wondering why more GM managers haven't followed author John Kennedy Toole's example.

In all the discussion about GM's perilous financials, it's often forgotten that the company itself is a disaster. Think of it this way: no one at GM wakes up in the morning and says, right, let's go make some vehicles that are two product cycles behind the competition at a price that will bankrupt The General within the next year. [Mr. Hill would have probably sacrificed his left testicle to equip the 'Vette with Audi-esque soft touch plastics.] But something happens between morning muesli and Miller time that kills GM workers' creativity and stifles the company's competitiveness. That something is bureaucracy.

It's not about size. It's about focus. Toyota is living, breathing, money-making proof that a multinational automaker can produce millions of vehicles without tripping all over itself. To do so, to create an organizational structure lean enough to consistently produce genre-dominating cars, a carmaker must maintain laser-like focus. It must first decide EXACTLY what it wants to do, and then it must do it better than anyone else. As a corollary, the manufacturer must accept that it can't—shouldn't—do everything. It's about choosing your battles wisely, fighting them tenaciously and then protecting your territory with steadfast ferocity.

Domestically, GM has eight brands: HUMMER, Buick, Pontiac, Cadillac, Saturn, Chevrolet, SAAB and GMC. Which one of them has focus? Which one of them sells a coherent lineup, where every single model does [the same] one thing better than anyone else? Are all Chevies economy cars? Do all Buicks lead their competition in interior quietness? Are all Pontiacs sexy? What do all SAABs, Saturns or GMC trucks do that no other vehicle in their class can match? Sure, all of GM's domestic brands sell cars that don't fall apart, get reasonable mileage, are reasonably comfortable and don't cost a fortune compared to the competition. But what's their unique selling point? Why bother buying one?

It's General Motors by name, general motors by nature. Once you go down that road, it's no wonder that the Chinese walls separating the brands disappear, and dozens of models across the eight brands emerge on their respective forecourts courtesy of the bloodless process known as badge engineering. Since all the cars within each of GM's eight brands must do everything pretty well, but none are asked to excel in any one area (save HUMMER, but give it time), it makes perfect sense to save money by sharing management, designers, workers, models, parts, marketing, etc. Is it any wonder that GM's company culture rewards measured uniformity rather than breakthrough creativity?

Of course, inside any large organization, there will always be employees striving to realize their personal vision of product excellence—despite the internal forces ranging against them. Dave Hill was one of GM's "mavericks"; I'm sure he could tell plenty of stories of missed opportunities, needless compromise and administrative lethargy. In any case, Hill's success is an anomaly: the exception that proves the rule. Just think of all the nameless managers who were prevented from creating something great because they had to satisfy GM's overarching desire to do something good

We've said it before. We'll say it again: GM must die. You can't fix this company. Even if GM's unions agreed to join their Chinese colleagues and work for \$1.50 per hour, even if several of GM's 14 (count 'em 14) crossovers are a runaway success, the company is deeply, fundamentally, culturally flawed. Shuttering Buick, Saturn and SAAB would help, but nothing can save a car company that's a jack of all trades and master of none.

General Motors Death Watch 39: Cassandra Crossing

By Robert Farago, November 7, 2005

For over thirty years, Maryann Keller's kept tabs on The General. The auto industry analyst has watched GM lose billions in overseas investments, surrender great chunks of market share to its rivals and sacrifice shareholder value in an endless pursuit of The Next Big Thing. According to Keller, GM's inability to face-up to its structural weaknesses is nothing new. Nor are the excuses coming from RenCen. "It's one big idea after another," Keller said. "This time it's crossovers. Well, they've used that "there's a new product in the pipeline" routine for years. GM's problems are NOT temporary." OK, but are they terminal?

Like most observers, Keller's brain balks at bankruptcy. For one thing, The General is sitting on an estimated \$30 billion cash pile, which will grow by another \$12 billion or so when GM jettisons controlling interest in its GMAC mortgage and financing business. For another, Keller says bankruptcy would have a cataclysmic effect on GM's business. "Customers would disappear," Keller says. "They'd think, who's going to pay for my warranty claims? What will my car be worth? And what bank would write a loan for a car sold by a bankrupt company? Would fleet customers do business with them? I don't think so. The long-term damage to GM would be incalculable."

That said, there's no doubt in Keller's mind that GM's current situation is extremely bad, and getting worse. "In October, GM pulled down a 22% market share. If you remove fleet sales from those numbers, they actually had a 13 to 14 percent share. That's less than Toyota. November and December aren't going to do anything for them, and if Delphi goes out on strike, there's no telling how long current inventories will last. Even as it stands now—14% of the market, eight brands, 70 plus models—it's simply not sustainable."

Keller is convinced that this doomsday scenario's increasing likelihood will motivate GM's management to address the company's flawed fundamentals. Call it the cornered car company concept. Keller points to Nissan and Chrysler's comebacks as examples of automakers brought back from the brink because . . . they didn't have a choice. Keller predicts—and clearly longs for—a signal from inside GM that reality bites. She hungers for a bold and comprehensive recovery plan that acknowledges the full extent of GM's problems and pledges the company's full resources to solve them. She calls it the moon shot solution: "What I'm hearing is platitudes. What I'd like to hear is a plan. A plan that says we're going to the moon. We're going to spend as much money as it takes to rebuild the brands—even if we don't make a profit on a single car for ten years. We're going to use that money to build substantially better cars than the competition, and significantly under price them . . . This is not rocket science. GM needs to give customers more than they expect at a price they can't ignore."

Keller doesn't see the unionized elephant in the room as an insurmountable obstacle to this as yet unexpressed turnaround plan. In fact, Keller says GM's recovery is doomed without "shared sacrifice" from management, the United Auto Workers (UAW), suppliers, bankers and dealers. In that sense, Keller feels the UAW is getting

a raw deal in the court of public opinion. "It's currently in vogue to blame GM's ills on runaway health care costs, but if things are that bad, why is GM "giving away" money in the form of stockholder dividends The only way GM's going to solve its union problems is if they solve all the other problems at the same time. There's no way out of this mess except for GM to fix it."

While I agree with Keller's analysis, I don't share her optimism in the power of self-preservation. Keller says, "People buy one car at a time." By the same token, people contemplate their employer's future one person at a time. Nothing I've read, heard or seen convinces me that any of the participants pulling the levers of power in this twisted saga have enough at stake to make them, as Keller puts it, "do things that are not in their character." Even on the fateful day they clamber aboard their golden lifeboat and watch the mother ship sink beneath the waves, they will insist that they did the right thing. To paraphrase Richard Nixon, they will accept none of the responsibility and none of the blame.

Capitalist enterprises have a way of bouncing back from adversity. Even so, it takes more than a comprehensive plan. It takes leadership. Until and unless GM dumps Wagoner, Lutz, et al. from their lineup, and finds a team with genuine backbone, the company will have neither the will nor the skill to sidestep the looming disaster. As Keller says, "Despite its success, Toyota operates with a sense of urgency. I still don't see that from GM. I wonder if I ever will."

General Motors Death Watch 40: My Mother Was a Saint

By Robert Farago, November 12, 2005

If it wasn't so funny, it would be sad. GM loses billions in ill-advised overseas "investments," produces an over-abundance of vehicles that are two model cycles behind the competition, can't build a single hybrid, completely cocks-up production of its Solsticial one hit wonder, cedes US market dominance to Toyota, plays "Let's Pretend to Make a Deal" with its union, announces its intention to sell-off majority interest in the only profitable part of the company, refuses to outline its turnaround plan, and the stock market yawns. The federal Securities and Exchange Commission (SEC) discovers GM's accountants have lost four hundred million dollars behind the couch and the stock tanks. What's that all about?

Before the SEC probe, like many other industry watchers, I was laboring under the impression that GM's stunning incompetence and epic lethargy reflected management myopia. In other words, The General's G5 corporate culture had insulated Rabid Rick Wagoner and his well-paid minions from what you and I would call reality. They honestly believe their own hype. Now, I'm not too sure. Although the \$400 million was "misreported" rather than "lost," there are ominous rumblings that GM's mea culpa is the tip of the proverbial iceberg. Lest we forget, the SEC's main focus was/is GM's multi-billion dollar pension and benefit schemes (vis-à-vis bankrupt auto parts supplier Delphi). Yesterday, the federal Pension Guaranty Corporation reported that Delphi's pensions are underfunded by \$10.8 *billion*.

If GM's been cooking the books, people will soon wonder if Rabid Rick's secretly hired Dorian Grey's portrait painter. After all, GM maintains an entire ledger of accountants to ensure that The General's financial statements are on the up-and-up. The audit committee in charge of these pusillanimous pencil pushers reports directly to Rabid Rick. So, if the SEC finds that GM's increasingly obvious use of "aggressive accounting" tipped into pension and benefit-related GBH, the chances that the shell game was a devious plot concocted by a rogue element with The General's ranks are minimal. The discovery will reflect Rabid Rick's willingness to encourage—or at the very least tolerate—corporate duplicity.

This would put us back in charted waters: in Enron territory, watching arrogant execs manipulating the public trust for personal greed and glory. And that sucks. Because it would mean that GM is deeply, fundamentally corrupt. That all the garbage we've been interpreting as corporate "spin"—our cars are terrific, our new SUVs are high-mileage heroes, we're sorting the brands, badge engineering is dead, discounts are dead, crossovers are coming, hybrids are coming, fuel cells are coming, et cetera—is actually a deliberate cover-up of executive malfeasance. It's a slippery slope from PR to lies to cutting corners to criminal conduct. The SEC probe could reveal that Rick's riding a Flexible Flyer.

Sadly, it makes perfect sense. Perhaps Rabid Rick can't turn GM around because he's lost in Nixonian paranoia, struggling to maintain his administration's hold on executive privilege at all costs. Wagoner is, after all, a straight-from-biz-school boffin without any work experience outside of GM. Rabid Rick's moral and ethical compass was handed to him by GM's heavy hitters. His managerial mindset was forged by the

plots and plans of The General's inept dictators. Personal power could well be his primary goal rather than the greater good of the company, its customers, employees, suppliers and stockholders. If you want evidence of this perspective, drive a GM product and ask yourself a simple question: why isn't it better?

I know: it's a deeply cynical portrait. But GM is a deeply cynical company. After launching and vigorously defending its post-fire sale "value pricing" strategy, after going to all the trouble to retrain its front line salesman to switch from deal-making to product pushing (at a cost of millions), The General has just announced a year-end "Red Tag" sale to once again clear its bloated inventories. At the same time, they're taking credit for building-up their inventories [supposedly] in preparation for the inevitable Delphi strike and resulting production shutdown. Is this first-class crisis management, gross incompetence or a reflection of something darker, something rotten in the heart of RenCen? I'm beginning to lean towards the third option, and so is Wall Street.

Financial analysts like Bank of America's Ron Tadross haven't suddenly "woken-up" to The General's fundamental flaws and looming troubles. They've simply begun to see that The General's generals don't have a viable plan for winning the battles—never mind the war. And, like Kirk Kerkorian, they can smell imminent exsanguinations from a mile away. Each day, the likelihood grows that Captain Kirk or another similarly voracious corporate raider will swoop down and buy Rabid Rick's alma mater, sell off the entire GMAC finance unit, pocket the profits and flog the unprofitable auto making side of the business for chicken feed. Either that or just close the factory gates and walk away.

General Motors Death Watch 41: Fiddling Around

By Robert Farago, November 18, 2005

"I'd just like to set the record straight here and now," Rabid Rick Wagoner wrote in an e-mail circulated yesterday on GM's intranet. "There is absolutely no plan, strategy or intention for GM to file for bankruptcy." Obviously, the growing suspicion that GM is heading for a cataclysmic financial failure prompted Wagoner tell the world that The Man in Charge isn't playing kissy-kissy with a bankruptcy judge behind the bike shed. At the precise moment when Wagoner should have been rallying his troops with a bold survival strategy, he chose to declare the fact that he's not [currently] negotiating surrender. Wrong answer.

If you still believe that Rabid Rick and his cronies can save GM, I suggest you surrender that opinion now and join the industry analysts wise to Wagoner's wicked ways. Every time there's trouble at the mill—an occurrence whose increasing frequency is only matched by its escalating intensity—Rick announces, "Something Is Being Done." The scandalous manipulation surrounding last quarter's financial statement, when Rick revealed the bogus United Auto Workers (UAW) health care "giveback" on the same day GM lost \$1.6 billion, is a perfect example of Wagoner's M.O. It's gotten to the point where any executive assertion of corrective action signals yet another financial disaster.

So when the *Detroit News* duly reports that "Ailing GM speeds up fix-it plan," it's a sure sign that The General is closer than ever to flat lining. As part of this nominal plan, whose bullet-pointed description is only marginally better than "lower costs, increase sales", Wagoner vows to cut 25,000 hourly employees by 2008. Only GM's contract with the UAW prohibits plant closures until September 2007. And that means Wagoner actually intends to "idle" the excess workers, or try to lure them into early retirement. Either way, the employees will be almost as big a drain on GM's resources as if they were building cars no one wants.

Meanwhile, back in Wagoner's e-mail, The General's general went to great pains to show he understands the gravity of the situation he's put the company in, and the need to sort it all out, you know, soon. Rabid Rick acknowledged that GM's North American meltdown created losses which are "unsustainable, for sure, and require a comprehensive strategy . . . that must be implemented promptly and effectively." In case you haven't guessed it by now, Rabid Rick is saving this meta plan for next quarter's financial statement, when the latest red ink report reveals the full extent of GM's arterial spray.

Hey, if Rabid Rick Wagoner's got a cure-all to keep GM from the corporate crash cart, how come the North America's Vice President of Vehicle Sales, Service and Marketing doesn't know about it? *DetN* reporter Brett Clanton recently got some face time with Monster Mark LaNeve and asked LaNeve to outline Wagoner's plan to revitalize GM's sales and marketing. Here's what he got: "What he means by that is doing a much better job of delivering eight distinct brands to the marketplace that all have unique target customer groups. He's talking about focusing the brands. He's talking about my plan, which is to go to market with value orientation rather than incentive

orientation. Do better in the key markets such as the coasts where we've lost a lot of ground in recent years. And then, have a world-class dealer base."

While we're glad to see LaNeve wrest ownership for GM's recently abandoned "Total Value Promise" from his boss, Monster Mark's remarks indicate that Wagoner has yet to hit refresh on his turnaround browser. Even if you accept LaNeve's spinvaguery, there's no evidence whatsoever that Wagoner's crew are doing anything to conquer the coasts or implement brand differentiation. In fact, the recent revelation that GM is preparing fourteen crossover vehicles for its eight brands indicates the exact opposite. And if GM's front end is in such disarray, what hope is there for sorting things out in the back?

None. All GM's management maneuvering brings to mind the connection between an ancient Roman conflagration and Emperor Nero's musical abilities. Big Ron Gettelfinger's belligerent remarks regarding the UAW's negotiations with parts maker Delphi reaffirms our contention that Delphi will be crippled by a strike in December, which will cripple GM roughly five minutes after that. Did I say cripple? Perhaps I should have used the word "kill."

Buried inside the DTN story on Wagoner's bankruptcy denial is a startling revelation; a factoid that obviates any move GM's brass could make to save the company's ass. "A Delphi-related shutdown at GM would force the automaker to tap into the \$19 billion in cash it has on hand. The investment firm UBS Securities estimates that GM would run through its cash hoard in 10 weeks." In other words, our GM Death Watch is heading for its inevitable conclusion. For sure.

General Motors Death Watch 42: Slouching Towards Bethlehem

By Robert Farago, November 22, 2005

I used to think that spin meant arranging facts to conceal their meaning. After watching Rabid Rick Wagoner's responses to the pre-shocks signaling GM's impending implosion, I now see spin as the art of distraction combined with the sin of omission. Back in October, on the day Rabid Rick revealed a \$1.6 billion quarterly shortfall, Wagoner also announced a \$1 billion health care "giveback" by his unionized employees. Only later did we learn that GM is paying the union \$2 billion to cushion the impact. Yesterday, Wagoner announced he was slicing 30,000 jobs and closing nine production plants by '08. So Rick, how much will THAT cost GM?

Wagoner publicly conceded that The General will take a "sizable charge against earnings" to cover the plant closures—and then point blank refused to provide any details. It's entirely unlikely that Wagoner made the downsizing decision without knowing its exact impact on GM's bottom line. His reluctance can only mean one thing: red ink and lots of it. Merrill Lynch analyst John Casesa estimates that shuttering the nine plants will cost The General between \$1 billion and \$2 billion. Mr. Casesa was unavailable for comment; it's not exactly clear what expenses his figures encompass. Of this we can be certain: the closures will cost a bundle and do sweet FA to relieve GM's sky-high labor costs, either now or in the future.

As we mentioned the last time Wagoner proclaimed job cuts, The General is hoping that the majority of the unneeded workers will either retire or be coerced into retirement (i.e., be paid off or be paid off). The rest will collect unemployment benefits at the taxpayers' expense. That said, GM is contractually obliged to make up the difference between the "idled" workers' government checks and 90% of their GM base pay AND continue to pay their health care benefits. When their jobless benefits expire, GM will place the workers into its infamous "Jobs Bank." They will then receive a full paycheck for doing nothing, until they retire to collect their pensions and use their GM-financed health care benefits.

With that kind of downside, it's no wonder GM has continued to build cars and sell them at a loss rather than bite the [exploding] bullet. It's also clear to anyone who even glances at the details of Rabid Rick's mini-restructuring plan that the plant closures are too little, too late. Unlike the health care give-back scam, industry analysts and the mainstream automotive media are all over this one. Between the *Detroit News*, *Detroit Free Press*, *San Francisco Chronicle*, JP Morgan, Merrill Lynch, Sanford & Bernstein, Deutsche Bank, and Goldman Sachs, it's pig pile on Ricky. And rightly so. The closures are a tacit admission of GM's failures both in the domestic marketplace and on the factory floor. They do nothing to rectify the fundamental problems bedeviling The General's potential profitability.

Wagoner's spin on this development is the old "tough medicine" routine. In case you missed the implied corollary (I'm the Doc courageous enough to administer the diabolical dose) Rabid Rick dismissed those who would dismiss him: "I wasn't brought up to run and hide when things get tough." Yes, well, the ramifications of his retreat from the field of battle are many; and none holds forth the prospect of a corporate turnaround. As the official UAW response to the closures pointed out, GM

under Wagoner has proven itself incapable of designing cars, trucks and SUVs people want to buy. Predictably enough, Wagoner says the killer products—once new SUVs, now crossovers—are just around the corner. Again. Still.

In any case, when all is said and done, a great deal will have been said about The General's plant closures and job cuts, and nothing will be done to steer GM away from the troubles ahead. With a Delphi-shaped iceberg about to strike GM's hull, you could even argue that GM's production plants should be cranking up to provide inventory, not winding down to bolster Wagoner's flagging rep on Wall Street. Meanwhile, GM's Board of Bystanders—I mean Directors—should be publicly flogged for allowing Wagoner to dance with wolves when he should be busy re-creating GM as a leaner, meaner and more creative organization; making fewer models for fewer brands at a greater profit. It is hard to understand what Board members do to deserve their paychecks, or how they can possibly justify paying dividends at this time of crisis.

Rest assured there will be a moral to this story: you can spin anything, but lies and half-truths only provide a brief respite from reality. The only way Rick Wagoner can help GM is to be the instrument of its destruction. Whether he knows it or not, the rough beast that will replace the world's largest automaker is already on its way.

General Motors Death Watch 43: One More Such Victory

By Robert Farago, November 29, 2005

Yesterday, GM announced it will release former subsidiary Delphi from an agreement trimming big bucks from The General's parts bill. This despite the fact that GM CEO Rabid Rick Wagoner has consistently used the discount to casually suggest that Delphi's bankruptcy was good for General Motors. Never mind. Delphi responded to GM's generosity by extending its contract deadline with the United Auto Workers (UAW) to January 20th. The quid pro quo means GM avoids a cataclysmic loss of parts—until that date. It's all part of Rabid Rick's master plan for dodging Delphi's strike-related bankruptcy bullet . . .

Rabid Rick's tendered the "get out of free competition free" card to provide Delphi with the funds it needs to subsidize the unthinkable: the difference between what Delphi wants to pay its UAW workers (\$10 an hour) and what they currently earn (\$27 an hour). What's more, TTAC's Deep Throat reckons GM will also reach into its back pocket to mop-up other UAW claims against Delphi's cash. The General will pay Delphi's superfluous union workers not to work, underwrite the union's benefit guarantees and assume Delphi's \$10.8 billion pension liability. In short, Rabid Rick's recently stated desire for all sides to figure out "what we really need to do here" actually means delivering huge sacks of GM blood money to the UAW.

Should this scenario play out, Wagoner will claim victory for avoiding a company-killing strike, Delphi President Miller will claim victory for delivering Delphi from bankruptcy (at GM's expense) and union boss Big Ron Gettelfinger will claim victory for maintaining his members' compensation. Meanwhile, Wagoner's craven capitulation will cost The General a mountain of money. Back-of-the-envelope estimates place the figure at around a half billion dollars per quarter, all in. That would put the price tag for Delphi's union peace at \$2 billion, PLUS the lost discount (which could be worth up to a billion dollars), PLUS the \$10.8 billion pension top-up, PLUS whatever other clever little caveats the union demands and receives.

Excuse me for saying so, but this is turning-out to be a Hell of a year for the UAW. The "historic health care giveback" that saved Rabid Rick's butt in the fall (and made the union look magnanimous in the process) will dump an extra \$2 billion into their bank account and leave health care benefits intact. The plant closures that painted union workers as blameless victims of management incompetence will not injure a single union member financially (thanks to retirement buyouts and the infamous jobs bank). And now Delphi's "Last Stand" promises to make the union bosses look like heroes, as The Man behind the Man caves like a professional spelunker.

Rabid Rick's timidity on the union front is stunning. While it's often said GM can't blame the UAW for its troubles—GM agreed to the union demands that helped create those troubles—the argument avoids the real issue: drawing a line in the sand. No matter what GM granted the union in the past, consenting to it in the present sacrifices the company's future. While you can (and should) blame Rabid Rick's mob for its bone-headed product/brand/discount/investment binges, GM's cost structure remains unsustainable. And though nothing much has been said about the union's

inflexibility on the factory floor, that cancer also remains unchecked. Rabid Rick has not even paid lip service to solving these issues.

Call-me-Steve Miller is no better. The tough-talking Delphi Prez said right from the start that GM should bail his company's ass out of bankruptcy. In other words, he's happy to sacrifice his anti-union rhetoric on the point of Rabid Rick's check-writing pen. In fact, there's only one resolute player in this entire epic: Big Ron Gettelfinger. The union boss has maintained his hold on both his members and GM's coffers, while winning the PR war without uttering more than a word or two at the appropriate moment. And that's why this thing is bound to blow-up.

While Wagoner and Miller play footsie, Big Ron knows it's Last Man Standing. He doesn't need an expensive independent audit to realize that GM is doomed. Nor does he particularly care. Big Ron's job, the UAW's job, is to extract as much milk as possible from the GM tit for as long as possible. When GM collapses, even if it's his union's intransigence that precipitates the event, even if it means the complete dissolution of the UAW's contract with GM, Gettelfinger will look back with satisfaction and say "I always did my best for my members."

How do you negotiate labor/legacy reductions with a man with that mentality? You don't. You can't. The truth is, GM doesn't really want to. Rabid Rick is willing to pay off Delphi's UAW now to buy enough time to sell enough SUVs, crossovers, something, anything that will revive the company's fortunes and allow it to once again avoid a UAW confrontation. Yeah right. If Rabid Rick manages to forestall a Delphi strike, GM only lives to die another day. History will describe Wagoner's escapology as a Pyrrhic victory; one that protected his own future at the expense of his employer's.

General Motors Death Watch 44: As Wichita Falls

By Robert Farago, December 8, 2005

Forget GM's toe tag sale, which failed to extinguish the automaker's low sales idiot light and sealed their reputation as the K-Mart of cars. Ignore GM's eternal promise of new and better products. Disregard Rabid Rick's pathetic bleating to the *Wall Street Journal* that lawsuits, fate and the federal government are responsible for GM's \$4.8 billion black hole. The General's immediate future depends entirely on whether or not the United Auto Workers (UAW) calls a strike against bankrupt GM parts supplier, Delphi.

This January, the UAW's leadership may tell Delphi Prez, "Call Me Steve" Miller to shred his salary and benefit-reducing proposal and flush it down the toilet of his Gulfstream Challenger. Miller will then ask a federal bankruptcy judge to terminate the UAW's contract. The UAW will retaliate with a strike that will starve GM of parts. GM's assembly lines will close. Should the UAW strike last more than a couple of months, The General will burn through its multi-billion dollar cash reserves. The world's largest automaker will be forced to file the world's largest Chapter 11.

Conventional wisdom says it ain't gonna happen. Most GM watchers think the UAW will do whatever it takes to keep Delphi/GM afloat. Supporters of this "acting in their own best interest" theory posit that UAW President Big Ron Gettelfinger is smart enough to understand that the nuclear option would terminate his employer's future, and thus, the union's. Yaysayers dismiss yesterday's comment by UAW Veep Richard Shoemaker that a strike appears "more likely than not" as posturing. Why would the UAW initiate a chain of events that would lead to its destruction?

Simple: they don't see it that way. The UAW knows that the fallout from a Delphi disruption would increase arithmetically; with each passing day, it gets harder and harder (and more and more expensive) for GM to restart its assembly lines. In that sense, the prospect of The General lurching towards strike-related bankruptcy is a good thing; GM's glimpse into the abyss ensures that The General, and thus Delphi, surrenders to the union's demands. In other words, the union works on the principle that they can pay us now (GM subsidizes Delphi's UAW contract), or they can pay us later (GM subsidizes Delphi's UAW contract), but either way, they're gonna pay.

In fact, the UAW is spoiling for a fight. Big Ron's stated goal in all this is to forestall the 'dismantling of America's middle class.' But his real agenda is, and always will be, the preservation of union power. A successful strike would reassert the UAW's hold over its membership, Delphi, GM and any other automaker or supplier stupid enough to ask UAW workers to surrender one dollar of their salary or a single solitary benefit. While Rabid Rick has proven himself pathologically incapable of drawing a line in the sand (on any issue, ever), Big Ron and his boys are in the sand scribbling business. Anyone who thinks that the union's going to let their adversaries step over the line without retribution faces a rude awakening.

In any case, the UAW doesn't really care what anyone thinks about the virtue of their arguments. They believe (with no small amount of justification) that epic mismanagement caused Delphi and GM's perilous finances. Union members consider

the idea that they should take a major hit to compensate for these blunders, helping corporate fat cats and their shareholding paymasters to prosper from their mistakes, beyond preposterous. It's insulting, veering towards evil. The UAW rank and file can just about imagine participating in a plan that would spread the pain equally—trimming corporate salaries, eliminating bonuses, cutting dividends, et cetera—but not quite. Just fork over the dough, you overpaid bastards; and let's get on with it.

What UAW members CAN conceive (and the analysts can't) is a scenario in which Delphi and GM disappear. The threat of losing everything (e.g., salary, benefits, pension, the works) is not the foolproof anti-strike palliative that white collar pundits believe it to be. In fact, the possibility of a cataclysmic GM failure holds a certain Alamo-esque romantic allure—especially for people who see themselves as working class heroes. Or, as one autoworker told the Detroit news: "If we're going down, we're all going down together."

Think it can't happen? Then you don't live in Worcester, Pittsburgh, Fall River, or a dozen other rust belt cities and towns where unions drove up the cost and complexity of doing business and watched it leave. Obviously, it's not unionism per se that caused these economic catastrophes. It was a combination of management arrogance, greed and stupidity; and union arrogance, greed and stupidity. There's only one way to untie this Gordian knot: the UAW must assume greater responsibility for Delphi—and GM's—destiny. They should have a seat on their boards and a large slice of equity. Profit sharing didn't save American Motors, but it just might save GM. Any way, it's worth a shot.

General Motors Death Watch 45: In His Hands

By Robert Farago, December 14, 2005

According to Rabid Rick Wagoner, terminating his employment would only slow down GM's recovery: "When you bring in a lot of new people, you bring in a lot of change and people just sort of sit there and try to figure out what to do." As opposed to what? Keeping the same old people and making no changes so that people can sort of sit there and watch the world's largest automaker go bankrupt? Rick's comment appeared in *AutoWeek* immediately after Standard & Poor's rating service downgraded GM's credit rating to "B," some five steps below investment grade, with a negative outlook. Clearly, Wagoner is to leadership what penguins are to civil engineering.

Like any clueless corporate alpha, Rabid Rick wants us to believe that everything's under control. Indeed, he's instructed PR flack Gina Proia to tell the world that GM has "an aggressive and well thought-out strategy to turn around our North American business." Apparently, this comprehensive plan comes complete with quantifiable goals, implementation dates and, well, everything Rick's mob needs to save GM from a Valentine's Day massacre. Only *AutoWeek* reports that Rabid Rick "prefers to keep it private." In fact, GM's would-be savior "declined to predict whether GM's North American automotive operations could break even next year." [NB: "could", not "would."]

"Other people may or may not have timeframes, but it's not what I'm worried about," Wagoner told *AutoWeek*. "I'm focused on the fact that we need to fix the business, and that's really what is driving me." Why do I keep seeing images of Rabid Rick in a pinafore, wandering through a vast wonderland of unsold GM product? In what alternative universe is it OK for the head of the world's largest automaker to stare financial oblivion in the face and say "trust me, don't rush me"? Lewis Carroll himself would be proud of Wagoner's strange rhetoric, which blithely suggests that timetables are antithetical to corporate repair.

Anyway, it's not as if GM's rivals are about to steal Rabid Rick's master plan, so that they can counter The General's new product launches and/or drive their company into the ground. UNLESS . . . Rabid Rick's briefcase actually contains the codes for the nuclear option. Sure! Rick's mob may have a secret plan to leave Delphi twisting in the wind and let the United Auto Workers (UAW) strike. GM would then fall into bankruptcy accidentally on purpose, so it could jettison its UAW contract, close factories, cut brand deadwood, realign the product portfolio and . . . yeah, right.

Back here in the real world, Rabid Rick is fighting for his company's survival by strolling down the path of least resistance. Rather than make a stand against the UAW, Rabid Rick's ready to pay the blood money needed to forestall a Delphi strike, even though "we certainly didn't budget for stuff like that." Rather than kill off Buick, SAAB and Saturn, Rick's content to let their salesmen hit the forecourt like members of Robert Scott's ill-fated Antarctica expedition (i.e., "I may be some time."). Rather than slash GM's model range across the board and concentrate on building the world's best cars, Rick's happy to manufacture dozens of mediocre examples of the

sorts of vehicles people may want to buy by the time GM finally gets around to building them.

Rabid Rick's timidity makes me wonder if he's even trying. When asked about the SUV slump in *Automotive News*, Wagoner claimed the company was powerless to respond. "We just couldn't react," he admitted. "It really highlighted that the underpinnings of our business are too fragile . . . if we lose mix or volume, we cannot get costs down as fast as (sales) volume comes down." Does Rabid Rick really think that GM's ability to turn tail and run is the key to its success? Wouldn't building hybrid SUVs, killer crossovers or awesome sedans have been the better option?

As the Italians say, the fish stinks from the head down. If GM couldn't detect and react to a change in market conditions quickly enough to avoid losing its proverbial shirt, that's because its CEO couldn't perform with sufficient insight, speed or decisiveness. If the UAW is tying Wagoner's hands, preventing him from doing what needs to be done, it's his job to sever those bonds, once and for all. It's one thing to admit you made a mistake, it's another to have the courage and wisdom to make sure it never happens again. Isn't that why Wagoner gets paid so much money?

News reports recently revealed that The General's CEO has negotiated a deal with GM's Board of Bystanders that makes his multi-million dollar pension fund bankruptcy-proof. Not only is that a boneheaded move relative to GM's negotiations with the UAW (which include pension liabilities and contributions), but it betrays Rabid Rick's stunning lack of confidence in his own talents. It's an opinion that's increasingly easy to share.

General Motors Death Watch 46: The \$2 Billion Question

By Robert Farago, December 21, 2005

For those of you who've just joined us from Wall Street, welcome. We've been waiting for you for a while—long enough to wonder if GM's stock price got lost in hyperspace. I guess you guys needed some kind of sign to find your bearings. Something like Toyota's announcement that they're gonna Avis The General in '06, ending GM's seventy-year run as the world's largest automaker. Or Rabid Rick Wagoner's post-horse-departure-barn-door-closing homily: "I'm not conceding anything to anybody." No matter. Now that you're here, let me tell you a story.

I was scanning Wardsauto.com the other day when I came across a "good news" piece: "Crucial GM Full-size Truck Program Launches Early." Well, OK, it MIGHT be a good news piece, you know, if The General's SUV cavalry racks up the sales GM needs to die another day. Obviously, it's a bit of a long shot, what with SUVs being a dead genre guzzling. But hey, it is what it was. Anyway, mid-way through Ms. Priddle's puff piece, a thought occurred to me: is it really a good idea to rush the GMT900 vehicles (e.g., Tahoe, Yukon, Escalade, Suburban, Silverado, Sierra, etc.) to market? What if they're not ready?

It's not inconceivable. The Pontiac Solstice was due to hit the forecourts in June, promised for November, still isn't widely available and already appears on bulletin boards with a laundry list of complaints. Let's face it: GM has a bit of a history manufacturing, dare I say it, crap. Oh, wait, *Ward's* says the "new" trucks will use 60% of the old trucks' components. And according to Gary White, GM's Full-size Truck Vehicle Line Executive, the GMT900's are "entering the world with higher quality than the ones they replace." Now THERE'S a reassuring thought.

But let's get to the point. Check the article's last paragraph:

"No one's going to ride a 1-trick pony today," White says, noting GM could have spent an extra \$2 billion for marginal additional improvement to the GMT900 lineup, but recognized the money is better spent elsewhere for a balanced product portfolio. Now ask yourself a question: what the Hell does THAT mean?

The first part of White's quote seems straightforward enough. White's saying his handiwork's got to be safe, reliable, comfortable, attractive and frugalesque. (By implication, yesterday's "one-trick" SUVs were, um, affordable.) But what's that second bit about the extra \$2 billion GM DIDN'T spend on "marginal additional improvement?" Is White seriously suggesting that a couple of bil only buys you a bit of soft touch plastic here, a nicer steering wheel there? I'm no bean counter, but I would have thought that 2,000 million dollars can do a great deal to improve a vehicle.

I e-mailed Ms. Priddle to see if White had specified these missing marginalities. (GM stopped returning my calls sometime back in April.) No joy there. It then occurred to me that no matter what White's mob left out of the GMT900s, his remarks typify GM's product mentality. The company's lineup is stuffed with ¾ vehicles: cars,

trucks, SUVs and minivans that are just about as good as the competition but not quite. For example, the Pontiac G6 seems a suitable alternative to a Nissan Altima. But if you look closely (as customers do), the G6 isn't up to snuff on almost every level: interior quality, engine refinement, reliability, etc. Even the class-killing Chevrolet Corvette features some of the nastiest plastics known to mankind. In general, The General signs-off its vehicles when they're still a few furlongs from the finish line.

An Audi engineer once told me that the final millimeter of a materials gap eats up a third of the item's production budget. Even though an Audi buyer might not see or feel the resulting precision, the automaker makes the effort and pays the freight. That's just the way they do things. It's already clear from the GMT900s 60% parts carry-over (much of which is due to the SOS timetable) and pre-production shots of the vehicles themselves that White's got it exactly backwards. The huge amount of money GM spent on these vehicles delivered nothing BUT marginal improvements.

White's comments highlighted the trade-off that created the \$2 billion compromise: "marginal improvement" vs. "a balanced product portfolio." In other words, rather than get one vehicle—I mean, a host of similar vehicles—absolutely perfect, GM prefers to build [yet] another product. It's a shotgun approach in a rifle shot world. By manufacturing a complete range of not quite products across eight brands, GM condemns itself to perpetual mediocrity, and guarantees its also-ran status relative to the tightly focused folks at Toyota. The General's generals fail to realize that people don't buy GM's balanced product portfolio. They buy a single GM product. Or, increasingly, not.

General Motors Death Watch 47: Happy Days

By Robert Farago, December 26, 2005

When historians analyze GM's collapse, searching for the precise moment when The General jumped the shark, it will be like trying to pinpoint the onset of Alzheimer's. The world's largest automaker has been screwing things up so spectacularly for so long that even a \$2 billion payoff to FIAT for signing the wrong bit of paper seems like a bump on the road to oblivion. What's more, GM's management is still busy making monumental mistakes. The Board of Bystanders' decision not to admit Kirk Kerkorian's proxy into their midst is only the latest and greatest example.

Unfortunately, I don't have any inside info on the failed negotiations between GM's largest private investor and The Powers That Be. I only know that last Tuesday, after GM's Board rebuffed Captain Kirk's nominee, Jerry York, the billionaire investor sold 12 million GM shares. The move cut his stake from 9.9 to 7.8 percent and sent GM's stock into freefall (down to an 18-year low). Some financial experts see it as a tax dodge. Others look at Kirk's on-again, off-again romance with MGM and predict his return. TTAC's Deep Throat figures this is it: Kirk's outta here. In any event, Kirk has sent both GM's board and the markets a clear message about GM's future, or lack thereof . . .

When Kirkorian began his buying binge, GM Car Czar Maximum Bob Lutz displayed his usual penchant for mindless optimism: "He smells a turnaround." Meanwhile, the octogenarian investor was, sensibly enough, plotting to wrest control from Lutz and the other corporate officers who'd mishandled GM's mighty engines, limiting the ship's maneuverability, condemning it to a Toyota encounter of the iceberg kind. Equally obvious, a seat on the Board was the only way Captain Kirk could oust Rabid Rick Wagoner from the bridge, and maybe, just maybe, save the ship from a watery grave. (For those of you keeping metaphorical score, the Titanic had an antiquated rudder.)

And why not? You don't have to watch all 357 Dallas episodes to know that a company's future depends on the character of the people running it—or that some people will do anything to maintain control. Wagoner's "I'm going to bring Bobby down if I have to destroy Ewing oil to do it" response to Kirkorian's play was predictable enough, but the Board of Bystander's negative reaction was surprisingly [Cliff] Barnesian. Clearly, they excluded Mr. York to protect Wagoner's mob—which is a bit like backing a flyweight boxer and his fawning entourage over a highly decorated lieutenant commanding a heavily armed, battle-scarred SWAT team.

Now how did THAT happen? You'd be forgiven for thinking that the simple fact that GM's stock price has dropped \$20 (and counting) since last January would have motivated The General's Board of Bystanders to activate Rabid Rick's bankruptcy-proof retirement package, STAT. Again, we may never get a clear picture of Rabid Rick's anti-York maneuvering (never mind view the incriminating negatives). But at least we can get a little insight into the Board's myopia, thanks to Slate.com's Daniel Gross.

Gross recently reported that GM's Board has two gold-standard retired CEOs: Sara Lee's John Bryan and Northrop Grumman's Kent Kresa. And then . . . Philip Laskawy ran scandal-plagued accountants Ernst & Young. George M. C. Fisher, former chairman and CEO of Eastman Kodak, failed to reverse his company's declining market share. Former Compaq CEO Eckhard Pfeiffer did so well during his tenure that company founder Ben Rosen bought a full-page New York Times ad to diss him. And former ABB head Percy Barnevik was recently forced to return 60% of his \$88 million pension.

GM's board also includes five active execs: Armando Codina (Republican fixer, Board of Directors-aholic, Florida real-estate maven), Erskine Bowles (ex Clinton Chief of Staff, twice failed senatorial candidate, President of the University of North Carolina), Ellen Kullman (safety-minded DuPont Veep), Karen Katen (Pfizer Drug Lord) and Stan O'Neal (Merrill Lynch's cost-cutting "Mr. Ruthless"). Other than Rabid Rick Wagoner, Stan the Man is the only CEO in the bunch who's run a publicly held company. He's also the only GM Board member to have revived a publicly held company. And, one surmises, he's the only board member with an ounce of common sense.

After all, this is the motley crew who believe it's a good idea to keep Rabid Rick Wagoner in the Gulfstream G5 style to which he's become accustomed. More to the point, these are the same group of misadventuring misfits who can't recognize a good man when they see one. Well, OK, maybe York's not a "good man" in a Grosse Pointe golf club kind of way. But he's a devastatingly effective corporate leader: a West Point grad that kicked IBM and Chrysler's ass into shape by paring waste, reorganizing resources and asking questions no one else dared ask. Turning down York's guidance to thwart Kirkorian's ambitions and protect Wagoner's ass was a—if not "the"—seminal moment in GM's long, sad saga. One the company will not live to regret.

General Motors Death Watch 48: The Price is Wrong

By Robert Farago, January 6, 2006

Regrets? GM's Vice President of North American Vehicle Sales has had a few. Then again, too few to mention. When quizzed about the wisdom of last summer's Fire Sale for Everyone, Monster Mark LaNeve said "Hindsight being 20/20, I probably wouldn't have done it." Probably? The campaign annihilated The General's fall and winter business and sealed GM's rep as America's largest discount car company, which LaNeve now vows to fix by ignoring the connection between guilt and change and reanimating the company's short-lived "Total Value Promise" program.

Which is what, exactly? Although LaNeve's past rhetoric qualifies him for a job as the fifth Wiggle, and the specifics of the latest version of the Total Value Promise (TVP) await a Detroit unveiling, Monster Mark's been dropping hints. At the LA car confab, the slightly confessional marketing maven revealed the basics: lower sticker prices and a clear focus on comparative excellence. "We'll say, 'Best product, here's why,'" LaNeve said. "Best price on an MSRP basis." What's more, "With every new product we bring to market, we'd like to price it very aggressively."

Not to coin a phrase, but the spin-out starts here. First of all, GM doesn't make the best products. While The General's camp followers will cry foul and cite various measurements placing GM vehicles head and fenders above the competition, the Chevrolet Corvette is the company's only undisputed class leader—and the \$65K sports car division isn't exactly what you'd call crowded. Sure, GM's refreshed SUVs may turn out to be the business, but the majority of GM's products are also-rans. After all, if GM vehicles WERE the best of the best, the world's largest automaker wouldn't have to discount the damn things.

As for GM's plan to reduce advertised prices, well, we've been here before. In the brief period between Fire and Toe Tag sales, GM launched (pre-launched?) the TVP. Then, as now, Monster Mark declared that GM's window stickers would be "closer" to the actual bottom line. The fact that this less-than-iron-clad "promise" was quickly and completely deep-sixed for yet another nationwide incentive campaign removed any chance consumers would believe GM's latest pledge. And why should they? You don't have to be a Keynesian economist to know that The General's inability to limit its supply guarantees a glut, which assures an eventual price cut. Lesson learned? Wait and prices will fall.

In fact, the whole concept of MSRP (Manufacturer's Suggested Retail Price) has been thoroughly discredited. Thanks to a seemingly endless succession of nationally-advertised discount campaigns, consumers now operate on the basis that a vehicle's MSRP is only an inflated starting point, or, if you prefer, meaningless. No one pays sticker. No one. How do consumers compare vehicle prices when they're subject to an ever-changing farrago of incentives and finance offers? The savvy ones go to independent websites like www.kbb.com, press a few buttons and sort it out. Given the confusion, volatility and newfound transparency of car prices, GM might as well lose the sticker and simply direct consumers to an appropriate website.

Obviously, legally, they can't do that. Equally obvious, strict TVP adherence is highly unlikely, veering towards impossible. Think of it this way: if one of GM's competitors reduces their prices with an incentive campaign, a TVP-faithful GM could only respond by lowering their advertised sticker price. That's not a strategy bound to please recent owners or dealers, whose livelihood depends on trying to maintain as much of the inflated MSRP as possible. It also flies in the face of common sense: what's built must be sold. If discounts are what American consumers need to get the iron off the lot, discounts is what they're gonna get.

The biggest problem with TVP is that GM is, as always, hedging its bets. Note LaNeve's use of MSRP as a measure of relative price. GM is not promising to have the best price relative to the competition in absolute terms. By the same token, LaNeve said he would "like" to price new vehicles aggressively, not that he "will." In truth, there's only one alternative to the current rebate-driven set-up: the no-dicker sticker. If GM really wants to eliminate incentives, they have to say, "This is the price for this vehicle." Period.

You could certainly posit that much of the Fire Sale for Everyone's success was due to the [perceived] lack of price negotiation. You could also credibly maintain that non-negotiable prices assured the Saturn brand's initial survival. But you'd have a hard time arguing that GM's management has the stones to weather the inevitable fall-out from a no-haggle pricing policy, as dealers scream bloody murder and duff vehicles pile-up in their thousands. Bottom line: expect GM's TVP to fade into obscurity for the second time, replaced by yet another round of rebates. And, once again, Monster Mark LaNeve will be left without regrets.

General Motors Death Watch 49: Paranoia Rules

By Robert Farago, January 10, 2006

If you're visiting the Detroit auto show, do me a favor. Go to the GM stand, find the new Chevrolet Tahoe Dual-Mode Hybrid SUV and ask the moto-bouncer to pop the hood. See if the thing's got a hybrid engine. (Ignore the engine cover; a few months ago, GM put a fake plastic cover over a pushrod powerplant to convince *AutoWeek* they were driving a hybrid prototype.) If The Man refuses to accommodate your request, try to decide if he's hiding something. Either way, let me know, because I'm beginning to think that Buickman is on to something . . .

If you don't know Buickman (a.k.a. Jim Dollinger), it's not for lack of trying. Since 1994, the Michigan car salesman has dedicated his life to promoting his "Return to Greatness" recovery plan. He's brought his campaign to salesmen, customers, stockholders, board members, union members, dealers, the press, the web (www.generalwatch.com), anyone and everyone who'll give him the time of day. Now that GM faces the final curtain, Buickman has pretty much given up on his quixotic quest and transformed himself into a whistle blower, or, if you prefer, a professional thorn in the side of GM's masters. Less charitably, Buickman is now a full-blown GM conspiracy theorist.

He believes a cabal of international financiers is driving GM into bankruptcy so they can buy it up for "cents on the dollar." If I tell you that Buickman identifies the main culprits as the Rothschilds, a favorite villain for folks suspecting the secret implementation of a non-democratic "New World Order," your mind may turn away from the details of his allegations. Mine would too if it weren't for that damned engine cover. Even though I don't buy into that whole "World Bank as KAOS" shtick, I keep wondering what kind of company would create a hybrid head fake. Whose idea was it? Who knew about it? More to the point, if GM's willing to lie about the availability of hybrid engines, what else are they up to?

On the face of it, Buickman's allegations of corporate suicide don't square with counterfeit hybridism; if Rabid Rick Wagoner wants to jam GM's yoke forward, why pretend The General's got the magic engine elixir? Of course, whenever you enter Conspiracy World, every objection has an equal and opposite explanation. In this case, Buickman maintains that Wagoner wants the world to think he's trying to save GM, even though he isn't. Plausible deniability. And then Buickman brain dumps a mountain of innuendo, from Wagoner's bankruptcy-proof pension to the company's \$4 billion FIATsco.

And that's where it starts to get weird, because Buickman ain't just whistling "Dixie." Why would GM's Board of Bystanders let Wagoner create a bankruptcy-proof pension if, as he claims, "we don't have a plan for bankruptcy"? Why did Merrill Lynch immediately buy GM's abandoned FIAT stock, given that Merrill's CEO also serves on GM's Board? Furtive Jewish bargain hunting bankers or no, Buickman's right: there are a lot of dubious goings-on over at RenCen involving the disposal of GM's assets.

And then there's the union health care "giveback." When we first heard of the deal, we were surprised to learn it established a \$3 billion health care fund for the United

Auto Workers (UAW). Aside from the obvious duplicity involved (when is a giveback not a giveback?) and the devious timing (Wagoner made the announcement on the day GM revealed its third quarter losses), why did GM fork over a lump sum to the UAW? Why not just pay out for increased health care coverage from The General's corporate coffers? Buickman points out that the UAW receives a 20% "administration fee." If true (neither GM nor the UAW will confirm the report), that's a \$600 million "tip." That's . . . scary.

And then B-man says that the UAW and GM have agreed to stage a union strike later this year to destroy the company, so that the nefarious forces responsible can live happily ever after. As he can't provide any evidence for his GM-killing, nest-feathering conspiracies, sorting fact from fantasy is nearasdammit impossible. Applying Occam's razor (the simplest explanation is most likely to be correct) doesn't help when you're forced to explain GM's endless F-ups by choosing between gross incompetence and Enron-style shenanigans.

The best I can do is reference Martha Mitchell. Mrs. Mitchell's husband, John, was the US Attorney General under Richard Nixon. Mrs. M. would call Washington reporters in the middle of the night with bizarre tales of illegal activities: a secret enemies list, South American assassinations, break-ins, wiretaps, the FBI Director wearing a dress and more. By the time these reporters realized Mitchell wasn't a crazy drunk, her husband was in jail for conspiracy, obstruction of justice and perjury. In other words, while it's easy to dismiss Buickman's rants as the sour fruit of a man scorned by GM's Boy's Club, being bitter doesn't make a man a fool. Or, come to think of it, wrong.

UPDATE: The Chevy Tahoe hybrid has been removed from the floor of the Detroit Auto Show for *60 Minutes* spinnery. We await confirmation of its powerplant

General Motors Death Watch 50: 399 Days and Counting

By Robert Farago January 11, 2006

On Tuesday, the elephant in GM's boardroom removed its cloaking device. In the heart of GM's corporate HQ, in the middle of the Detroit auto show, Jerome P. York told GM's management to fall on their swords. More specifically, the man behind The Man Who Would Be King told The General's generals to prune their salaries, big style. Sure, Kirk Kerkorian's proxy also recommended killing brands, halving dividends, eliminating production capacity and a bunch of other turnaround type stuff. But his call for deep cuts in executive compensation was the exec's most chilling suggestion—at least to the people pulling the strings at the world's largest automaker. RenCen shuddered in horror.

Characteristically, the West Point grad was happy to put some hard numbers to his personal attack. According to York, GM's Board of Bystanders should work for "significantly less" than \$200K per year. The company's top five officers should take a "significant" hit to their \$7 million per year salary. Management further down the "pyramid" should suck up double digit reductions, until "you got to the lowest levels in the plants and offices, where the percentage would hopefully be only a single digit number." In short, Mr. York seems Hell bent on turning on the lights and sending GM's lifelong party-goers home to their parents.

And why not? Obviously, Kirk "Mr. Las Vegas" Kerkorian doesn't have the juice to whack GM CEO Rabid Rick Wagoner and his Board of Bystanders and replace them with made men like York. Captain Kirk knows if he leaves it too long, it'll be too late: they'll be nothing left to plunder. So Kirk decided to kick 'em where it hurts. You know, wake 'em up a little. And just in case GM's fat cats were too stupid to feel the pain, York pointed to the time bomb ticking in the corner: ". . . the current cash burn rate of \$24 million per day would keep GM going for another thousand days or . . . roughly three years." Whew! "But of course that's if conditions remain the same as they were in the first nine months of 2005." Stop it, Jer, you're killing me!

York's speech gave three reasons why GM's thousand day march to bankruptcy might take a bit longer (The General's new SUVs, the Chevy Malibu "renewal" and the Saturn Aura), and a more complete and plausible list of reasons why the gig could be up by next Friday (a weakening US economy, the cost of Delphi's union peace and downsizing production, the loss of GMAC income and market share). As far as veiled threats go, this one arrived buck naked on a white charger, and I don't mean the sexy new Dodge. In fact, it was so compelling it probably scared GM's top dogs for a full ten minutes.

Despite York's ability to spell-out GM's clear and present danger, his speech lacked sufficient animus to light a sustained fire under GM's corporate butt. It was couched as "tough love," suffused with compliments and reassurances. "We're not waiting to feast on GM's dismembered body," York as-good-as declared. "We're here because we want to see GM restored to its former glory—well, OK, profitability." Call it the Home Depot approach: You can do it. We can help. To which GM's Car Czar Maximum Bob Lutz immediately and publicly replied: I can do it and you can piss off. And leave your hands off my salary, bub.

If only York hadn't pulled his punches. As TTAC's Deep Throat points out, York's estimation of GM's cash stockpile included money that isn't there: gains from the sale of GMAC, SAAB, HUMMER, and anything else that isn't nailed down. Also, GM would be forced to declare bankruptcy well before it runs out of cash. Analysts say The General needs at least \$10 billion on hand just to run the business (York uses \$5 billion as an acceptable minimum). My Go-To Guy says GM currently can get its mitts on about \$5 billion (above the \$10 billion bankruptcy threshold), plus an equal amount from its VEBA fund (Volunteer Employees' Benefits Association, whose use is restricted). So, at \$24 million a day, GM's nest egg will be gone in 400 days.

That's *if* things stay on an even course. York's doomsday scenario was bleak, but it didn't include the fact that a new pension funding rule could wipe out GM's entire hoard. Or the cataclysmic effect of recent price cuts and incentive reductions on GM loyalists, who are already so far backwards on their loans they can't afford a new car. Or what happens if fleet buyers—25% of GM's business—smell bankruptcy? Or what's going on with the SEC probe? Or, let's face it, any number of nasty things currently hidden and vaguely hinted at in York's "aside" calling for greater transparency. When you think about it, York's audience may not know the half of it—literally. Clearly, they should.

General Motors Death Watch 51: Dancing with the Devil

By Robert Farago January 17, 2006

'We didn't plan it this way. But Delphi has become a metaphor for nearly every economic and social issue gripping America.' Jesus, I hope not. Before I explain my concerns, let's review. The speaker is Robert "Call Me Steve" Miller, president of bankrupt auto parts supplier Delphi. Miller made his remarks to a bunch of industry wonks at *Automotive News'* grandiosely-named World Congress. Now, strip out the hyperbole (Delphi's plight isn't a metaphor for the impact of rap music on African Americans) and Miller's saying "as goeth Delphi, so goeth American manufacturing." Like I said, scary stuff.

Back in the fall of '05 (no pun intended), Miller was the tough-talking turnaround expert who'd taken the reins at GM's former subsidiary. Miller was all about cutting the United Auto Workers (UAW) down to size: wages, pension, health care, vacations, job classifications . . . the lot. Words were not minced. If the UAW didn't agree to a 60% cut to its hourly workers' wages, Miller vowed to have their Delphi contract thrown out by a federal bankruptcy judge. Analysts hailed Miller's "we can't afford this shit anymore" stance as the automobile industry's long-awaited, much-needed wakeup call. Supposedly, Miller's realism was both a preview and template for GM's survival.

It's hard to believe that the man who dared take the UAW to task for unionizing his company's lawn care would cave to organized labor so quickly and completely. But then the stakes couldn't have been any higher. If Miller made good on his threat to deep-six Delphi's UAW contract—an accord that the parts maker's bankruptcy had conclusively revealed as untenable—the UAW would have nuked Delphi's production lines. Starved of parts, General Motors would have rolled over and died. In fact, the entire US auto industry would have been thrown into chaos, as edge-living subcontractors followed the mother ship straight into the impact crater.

How the UAW turned "Call Me Steve" Miller into The Joker is anybody's guess, but you don't have to "fall" into a vat of toxic waste to know that a trillion dollar status quo does not go quietly into that long good night. Ultimately, The Joker's mission to deflate Delphi's union's bloated costs was waylaid by GM CEO Rick Wagoner, a man whose UAW dealings are distinctly cephalopodan. Faced with Delphi's doomsday scenario, unwilling to use a UAW strike at Delphi to put his house in order, Rabid Rick bellied-up to the bar. The ensuing multi-billion dollar damage to GM's tab will be both epic and ongoing; but nobody does epic and ongoing like GM.

GM's forthcoming bailout will defuse the possibility of a UAW confrontation at Delphi. No surprise, then, that man once considered the Dr. Death of old school American unionism is now talking about "soft landings." In other words, Delphi's GM-funded UAW agreement will maintain its union members in the style to which they've become accustomed while pledging/pretending to make future "adjustments" to the company's labor costs . . . eventually. In other other words, once again, US automakers are putting off until tomorrow what can't be put off forever: a fundamental restructuring of administration, production and sales.

Thankfully, Delphi's plight is NOT symbolic of American industry's ability to compete with foreign rivals. For one thing, you'd be hard-pressed to find another multinational conglomerate that can simply transfer its profit-killing labor costs to its largest customer (the word "blackmail" should probably be in there somewhere). For another, most US manufacturers have already solved the problem of sky-high labor costs and restrictive union practices. They've gone bust, forced their unions to face reality or transferred manufacturing operations to non-union locations (either here or abroad). What, exactly, are Delphi and GM waiting for?

The Joker, of all people, should know the drill; this is the man who personally dragged Bethlehem Steel and United Airlines kicking and screaming into the 21st century. Delphi's situation is simply more of the same: a huge, outdated company displaying a pathological inability to change. Detroit laughed at small Japanese cars in the 60s, sniggered at German luxury cars in the 70s, ridiculed hybrids in the 90s, and so on. By the time they "got it," they'd lost it. What's different about GM and Delphi's approach to their manufacturing costs, now that Delphi is an "independent" company? Nothing.

Readers of this series will not be surprised by Rabid Rick's readiness to pay the UAW the blood money needed to keep The General on life support. But few insiders had figured The Joker for a fool. Obviously, personally, he isn't. Come what may, Robert S. Miller will emerge from this slow motion debacle with considerable wealth. The same cannot be said of Delphi or GM.

General Motors Death Watch 52: Kill! Kill!

By Robert Farago January 19, 2006

If I hear that “you can’t cut your way to prosperity” line one more time, I swear I’m going to post a forty-eight page article about surgical cancer treatment. Listen up. General Motors sells a vast range of crap automobiles for less than they cost to make. The General has only one hope for survival: cut itself into pieces, jettison ALL the cancerous bits (e.g., products, brands, management, committees, supervisors, labor contracts, buildings, factories, suppliers, dealers, Gulfstream jets, the lot) and get on with the business of making the world’s best vehicles at . . . wait for it . . . a profit.

It’s increasingly obvious that this necessary (not to say inevitable) “restructuring” will have to wait until GM goes under. The General’s generals made that clear when they reacted to Turnaround King Jerry York’s suggestion that GM should deep-six or sell their SAAB and HUMMER brands. GM execs dismissed the idea with the PR equivalent of a derisive snort. Marketing Maven Monster Mark LaNeve, a man whose comments about GM’s pricing strategy sound a lot like a snake-handler speaking in tongues, assured the press that “all GM’s brands will eventually be profitable.” Bet your bottom dollar? Done. GM has mortgaged its future on baseless brand optimism.

You wouldn’t expect anything less from Rabid Rick Wagoner’s “Iceberg? What iceberg? Oh, THAT iceberg” administration. But what’s up with ascot-clad industry doyen Jerry Flint? Forbes magazine’s Main Man reacted to York’s call for brand assassination with thinly-veiled scorn and happy-clappy cheerleading. In an anti-cull diatribe published by The Car Connection, Flint was contemptuous of Wall Street analysts in general and Kirk Kerkorian’s proxy in particular. He excoriated them all with characteristic bluntness: “Well, they are just wrong.”

Flint says GM will save SAAB by federalizing German Opels, slapping on a SAAB sticker and sending them stateside. He predicts that THIS plan will deliver the goods (as opposed to the previous brainstorm involving rebadged Subaru and touched-up Trailblazers). Yes, well, as the writer himself pointed-out back in ’93, “For \$1.5 billion, GM got a money-losing operation that needs a 30 percent sales increase to break even and maybe a 50 percent increase to be seriously profitable. For that money, it could have built a new line for Cadillac to make it a global contender in the luxury field. Instead, it has SAAB.” SAAB still hasn’t made a dime for GM, ending ’05 down \$300 million on increased sales.

Flint also sneers at York’s proposed HUMMERicide. He lauds the new H3’s sales and trumpets the fact that it’s built on the Chevy Colorado platform, sharing its asthmatic five-cylinder engine. Why kill a brand that’s on its uppers—you know, other than the fact that it’s not profitable? On one hand, you’ve gotta love a GM brand—ANY GM brand—with such a tightly-focused product portfolio. On the other hand, even casual observers might suggest that the whole HUMMER shtick is a great landing in the wrong decade. Cliff diving sales figures for HUMMER’s ludicrous H1 and laughable H2 are only one indication that the brand may not have the brightest of futures. Gas prices are the other.

Flint's HUMMERaphilia reflects his faith in GM's overarching strategy of platform sharing (a.k.a. badge engineering). The rest of his article defends Buick, Pontiac and Chevrolet against the executioner's blade on the basis that they sell a Hell of a lot of stuff, and that much of that stuff comes from the same assembly line. "If you eliminated the Pontiac Torrent, for example, there would be less volume for the factory that makes the Equinox and the Torrent. Kill Buick and you starve the factory making the Cadillac DTS and the Lucerne. The trick is to make distinctive models off the same platforms."

For a lesson on how it should be done, Flint points to the factory cranking-out the [sisters under the skin] Chrysler 300, Dodge Charger and Dodge Magnum. On the face of it, DCX's cost savings reaffirm Flint's case for cranking-out as much shit as humanly possible. But the strategy holds a hidden danger: homogeneity. The Dodge Charger may be relatively cheap to build, but the NASCAR Dad's sedan is hardly a "distinctive" departure from the Chrysler 300—or, for that matter, a solid sales success. Lincoln Mercury's disastrous dependence on tarted-up Fords is teaching The Blue Oval Boys that platform sharing and genre-killing brand-specific products are mutually exclusive.

Corner-cutting kills cars. And brands. And companies. Longtime pundits like Flint, who look at the ever-changing roster of products slated for GM's various divisions and conclude, "The way up is to grow, not to kill" are just wrong. GM is clinically obese and chronically slow. Platform sharing just makes The General fatter and lazier. Yes, killing brands—and models—would be enormously expensive. But General Motors is diseased. One way or another, sooner or later, the surgeon's knife will swing down and do what must be done.

General Motors Death Watch 53: On a Plate

By Robert Farago January 26, 2006

I once showed-up for a job interview in the adult film industry. (It was an honest mistake.) Before I bailed, I complimented Mr. Triple X on the spectacular view over the Hudson River. He closed the blinds. "I'm agoraphobic." When I asked the pornographer why someone afraid of open spaces would choose an office overlooking a large part New Jersey, he said "It's not enough to have a million dollars. People have to KNOW you have a million dollars." The obverse is also true. Losing \$8.6 billion is bad, but it's worse if people KNOW you lost \$8.6 billion. Just ask GM.

While GM's prospects have been on the wrong side of dire for the last three financial quarters, both analysts and the general public generally believed The General would limp back to port to make the necessary repairs. After yesterday's announcement, nobody's kicking ice around the deck anymore waiting for the engines to restart. GM's financial report evoked the unmistakable sound of exploding boilers. Everyone on board now knows that the world's largest automaker is destined for a watery grave. GM CEO Rabid Rick Wagoner's pathetic bleatings about an [eventual] \$6 billion reduction in GM's materials and labor costs sound about as convincing as "this ship is unsinkable."

Truth be told, GM's financials are far worse than yesterday's official report revealed. For example, GM took \$3.6 billion in charges against earnings to cover Delphi's pension liabilities. Yes, well, GM currently reckons the final tab for the parts workers' pensions will be somewhere between the stated \$3.6 billion and . . . \$12 billion. GM also took a \$2 billion charge against earnings for its much-publicized production cutbacks. Although most of this figure is earmarked for employee costs, those costs continue: the idled workers go straight into the UAW "jobs bank" (where they're paid full whack not to build cars). By the same token, the charge doesn't include the cost of buying-out a large percentage of these idled UAW workers' contracts. Plant write-down accounts for the remaining charge, but the amount stated won't cover the cost of writing down ALL the plants GM intends to close; or will be forced to close.

And none of this includes the damage from Rabid Rick's forthcoming billion dollar (plus) payoff to the UAW to maintain Delphi's union peace. Remember: the cash outflow from these events is out there . . . waiting. If GM had to pay these charges today, the company's bank account would be perilously close to its minimum operating cash level (\$10B). In short, Rabid Rick's erstwhile turnaround strategy relies heavily on underwater bilge pumps. If GM continues to lose market share, if it doesn't create some financial buoyancy, Rabid Rick's crew will have bought no more than a six month reprieve before GM begins its descent into Davey Jones' locker.

File all of the preceding information under "Iceberg, Tip Of." Meanwhile, Wagoner's music-facing ceremony also failed to include any mention of the lifeboat: GMAC. Due to the looming prospect of bankruptcy, only magic bean salesmen appear to be interested in GM's loan arranging cash cow. (If GM goes belly-up, creditors would pig pile on GMAC.) And Rabid Rick didn't make any mention of GM's dividend payments, which show a bizarre, Rasputin-like ability to avoid necessary execution. Oh, and

what of the ongoing SEC probe into GM's accounting practices? You can bet there are a lot of crossed fingers on THAT score

As bad as GM's financial situation is, and as bad as it's going to get, the bottom line is more about psychology than numbers. The entire world now knows The General is in deep shit. (When the President of the United States says he ain't gonna bail out GM's ass, a lot more consumers suddenly know GM's ass needs bailing.) An ever-increasing number of current and potential GM buyers are suddenly realizing that they could be left with worthless trade-ins, questionable warranty protection, limited parts availability and problematic service. At some tipping point, they'll simply stop buying GM products. The General's hull will fracture, and the ship will slip between the waves in triple-quick time. Ironically enough, fleet sales will be the first to go.

There's only one thing that could bridge the death accelerating perception gap between GM's potential/inevitable slide into bankruptcy and the [slim] chance that everything will [someday] be all right: GM CEO Rabid Rick Wagoner. THIS is the time for Rabid Rick to publicly announce a bold, clear, inclusive and unequivocal course to a financial safe haven. But, no. Rabid Rick's refusal to say (guess? predict? estimate?) when GM will be profitable again is a PR obscenity. Hey, Rick, newsflash. If you say you don't know when, you're also saying you don't know how, and if you're saying you don't know how, it's time to jump in your golden lifeboat and go. It's not good enough to BE the captain; you have to ACT like one.

General Motors Death Watch 54: GM Dealers Must Die

By Robert Farago February 8, 2006

If there's one group of people within the GM universe who elicits less sympathy than the current management team, it's the legions of loud-talking, loudly-dressed GM dealers. Despite the media's fixation on the corporate mothership, the survival of the world's largest automaker depends just as much on its dealer network's success as any new initiative coming from GM's RenCen HQ. All the flailing and failing in Detroit shows you that all is not well on the sharp end. In fact, GM's dealer network mirrors the automaker's ancient, costly production process: a fundamentally flawed institution in need of radical restructuring. Ah, but who will bell the cat?

Actually, euthanasia would be a better option. It's a little known fact The General's dealer network is roughly the same size as it was forty years ago. Back in the day—when GM owned the US car market lock, stock and double-barreled carbs—The General's network provided a significant advantage to both franchisees and the corporation. (Potential customers were never more than a twenty-minute ride away from their local GM dealer.) Now that GM buyers are increasingly thin on the ground, dealers must squander precious resources warding off "poaching." (Disgruntled customers are never more than a twenty minute ride away from a rival GM dealer.) Internecine warfare for conquest sales is even more damaging, forcing each store to engage in cut-throat pricing and blanket advertising. And that's without considering competition from rival brands, some of which may be closer than they appear . . .

GM's single-line dealers have traditionally relied on solid sales within the lower end of the luxury market. Sales at this price point tend to flow outwards, towards other models sharing the same badge. (Dad buys a nice big sedan; Mom gets an SUV; and Junior settles into something a bit smaller and sportier.) As competition has grown fiercer and niches multiplied, GM has launched a wide variety of rebadged vehicles to help dealers keep customers within a given brand's fold. The "everything for everyone" strategy has unintended consequences. It's all well and good for The General if a customer buys a Chevrolet Equinox instead of a Buick Rendezvous, but it's a catastrophe for a Buick-only dealer. At the same time, GM's epic, multi-branded line extensions have made the automaker slow, lazy and inefficient. Instead of hitting target markets dead-on with killer products, it's strictly spray and pray.

In short, the size of its dealer network forces GM to make too many (crap) products, which leads to (crap products and) too many incentives. There's only one way to untie this Gordian knot: cut it into pieces and throw away the excess bits. In other words, hundreds of GM dealerships must bite the dust. Terminating a third to a half of GM's existing single-line dealers would be a win-win situation for GM and any dealers that remain. There'd be less internal competition, less feeble product, less confusion in the marketplace, less incentives and less bureaucracy. Oh, and more profit.

Eliminating whole product lines would be the best way to make the necessary change. Of course, killing brands is hardly an "easy" option. Contract law—originally written to stop GM from pushing dealers out of profitable territories—guarantees that the cost of the cuts would be stupendously expensive. Killing more than two

thousand Olds dealers cost GM billions. Axing Buick would be at least as expensive; Pontiac even more so. And if both of those brands are killed, GMC may as well go as well. Unfortunately, now that the situation calls for desperate measures, GM probably doesn't have the cash to make it happen.

If and when The General files for bankruptcy, dealerside would be relatively easy. Federal bankruptcy court would offer The General the legal protection it needs to do the deed. Unfortunately, surveys have shown that Americans aren't all that excited about the idea of buying a car built by a bankrupt automaker; a nation of boarded-up GM dealers could make the perception problem insurmountable. No, the only way to trim the dealer fat is to do it now, take the hit and move on. And why—aside from cash considerations—not?

The dealers. No GM dealer wants to be the first store eliminated, or, if GM starts throwing around real money, the last. Give these battle-hardened entrepreneurs credit: they know a thing or two about business. If GM does [somehow] make a comeback, the value of their dealerships will be significantly greater than the sellout price. They're hardly likely to "take one for the team." Remember: self-interest built this powerful dealer network. Only self-interest can dismantle it. But time is running out. Unless GM can "bell" this cat before it devours the remaining mice, both the manufacturer and its dealer network face imminent extinction.

General Motors Death Watch 55: My Kingdom for a Horse

By Robert Farago February 9, 2006

As our GM Death Watch series gains traction, I've taken to scanning the skies for black helicopters, stashing Glocks around the house and avoiding the fine city of Detroit. But I would have loved to been at RenCen to see the look on Bob Lutz' face when his boss sliced the Car Czar's salary by 30%. If you recall, Turnaround Tycoon Jerry York originally suggested executive pay cuts as a way to send a clear message to workers throughout the world's largest automaker: WE'RE IN DEEP SHIT. At the time, Maximum Bob responded to the suggestion with characteristic bravado: "I gave at the office." I guess he's learned that bankruptcy is the gift that keeps on giving.

To be fair, Mr. Lutz had something of a point. Although his employment contract isn't a matter of public record, much of Bob's compensation package is tied to the company's performance, both directly (through incentives) and intimately (through stock options). As GM bleeds out, shedding value like a dot com bomb, Bob's lost theoretical millions. OK, it's more than partially his fault. But as an employee stockholder, Lutz has GOT to be worried. Yesterday, Deutsche Bank took a hard look at the state of GM's finances and issued a Lutzian pronouncement: "sell."

The recommendation came despite the fact that a newly independent Jerome P. York finally joined GM's Board of Bystanders. (An SEC 13D/A filing for Tracinda Corp. states that Jerry won't share confidential info with his capo, GM stockholder Kirk Kerkorian. Yeah, right.) What's more, The Bored of Defectives ordered GM CEO Rabid Rick Wagoner to bring Mr. York the head of Alfredo Garcia. And so he did, making across-the-board cuts in accordance with York's rescue plan: trimming white collar pay, pensions and health care; reducing GM's annual dividend by 50%; and, get this, signing-off on a significant reduction in The Board of Bystanders \$200K annual "retainer." Message received?

Not where it counts. Let's be clear about this: the cuts will not stanch GM's massive wounds. The General lost over eight billion dollars last year. The largest measure in this package (the dividend reduction) will save GM \$566 million. Add up all the rest of the bits and pieces, double it and it still doesn't cover GM's losses; nor its recent "charges against earnings;" nor the cost of keeping idled GM workers in the "money for nothing and your checks for free" Jobs Bank. And then remember that GM is about to fork over multiple billions in blood money to keep bankrupt parts supplier Delphi's unionized workers working.

Again, Wall Street was suitably unimpressed with GM's black February. More importantly, so was United Auto Workers (UAW) President, Big Ron Gettelfinger. Lest we forget, convincing the UAW to take one for the team was the whole point of the exercise, as Rabid Rick quickly pointed out: "I think it's clear, now more than ever, that we very much have a shared fate." Indeed they do. Unless GM can lower its union labor costs, alter union practices and sell some product by, say, last May, it's all over bar the filing. And . . . According to the *Detroit Free Press*, "The union chief dismissed any suggestion that [the cuts] set the stage for GM to push the UAW for more concessions." So, that's that then.

Reporter Daniel Howes over at the *Detroit News* says Big Ron's stonewalling is nothing more than a bit of pre-election, pre-negotiation posturing. In yesterday's editorial, Mr. Howes said the union boss called for "shared sacrifice" and claimed that "Union folks are smart enough to know that tough times demand tough calls, including concessions they never expected to give." I guess Mr. Howes would also see UAW Vice President Richard Shoemaker's same day statement that Delphi's insistence on pay concessions "will surely lead to a long strike, and that is true whether it involves other corporations or does not involve other corporations" as more posturing.

If Rick Wagoner is a religious man, I bet he's praying that Daniel Howes is right: the union will see sense and do what needs to be done to save the corporate host upon which they feast. Judging from his bankruptcy-proof pension, Rabid Rick's not a betting man. Which is just as well, because unions don't posture. They threaten. If you don't capitulate to their demands, they make good on their threats, come what may. GM has paid billions to the unions. There's no way the union officials that would lead the rank and file into a strike are going to miss a meal because of an anti-Delphi or anti-GM union action, short or long term. They have nothing to lose. As far as they're concerned, you can pay us now, or you can pay us later. Only the thing is, white collar cuts or no, GM can't afford either option.

General Motors Death Watch 56: The Spin Starts Here

By Robert Farago February 13, 2006

Last Thursday, GM's Vice President of Global Communications sat with the suits and outlined his plan to rescue The General's image from public crucifixion. The man in charge, Steve "Twisted Sister" Harris, had been lured out of semi-retirement from a PR firm specializing in "reputation challenging situations." Ironically, The McGinn Group's website lists GMAC and The US Department of Justice as customers (although the federal seal is too blurry to be sure exactly which federal agency spent our tax dollars burnishing its image). More to the point, the opening animation silently intones, "Experience. Accountability. Judgment". Talk about foreshadowing.

Yup, GM's Judgment Day is on its way. Meanwhile, Twisted Sister wants American consumers to know what a great job General Motors has done, is doing and will do, bet your bottom dollar, tomorrow. We're talking high mileage vehicles, clean-running ethanol engines, JD empowerment, we-must-be-doing-something-right sales figures, that kind of thing. Like most people paid to spin straw into gold, Sister doesn't trust the media with this message. He prefers working with cappuccino-fuelled creatives to fashion fabulously expensive TV, print, radio, direct mail and web-based campaigns rather than sitting down with cynical journalists prone to going "off message" and arguing about silly things like facts.

Although GM recently trimmed \$200 million from its '06 ad budget, it will still spend \$1.2 billion flogging its products. There's bound to be enough loose change down the back of the corporate sofa to subsidize Operation Love Me Tender. Besides, with all this press about plant closures, layoffs, billion dollar losses, a Presidential f-off and the "b-word," Sister's sledgehammer PR campaign seems a reasonable idea. Unless something's done to alter GM's tragic trajectory, consumers are heading straight for the "you can't touch this" tipping point, where buying any GM product will seem like throwing money into a black hole. Why not sell potential customers a little automotive anti-gravity?

Simply put, the harder GM pushes the fact that they're doing well—or will do well, you know, eventually—the more people will believe they're headed for oblivion. GM's spinmeisters fail to understand the depth of consumer ill-will towards The General. For decades, millions of people spent their hard-earned cash on poorly made, unreliable and (come trade in) expensive GM vehicles. Their complaints were met with arrogance, deceit and indifference. These disgruntled customers told their friends, neighbors and co-workers about their misery and vowed "never again." In fact, the GM resentment bank is so full that any claim that "we're different; we've changed" will sound like a junkie's pleas for his twelfth chance.

Twisted Sister beware: it's American car buyers who are cynical about GM, not journalists. (As far as I can tell, the automotive press is desperate to see a GM turnaround.) So how do you convince deeply skeptical consumers that the new, new GM is worthy of their patronage? You sure as Hell don't launch a glossy ad campaign exhorting them to share your pride in a reborn American institution, to buy into GM's new spirit of honesty, resilience and determination. No, you start somewhere else:

the only place where you have the slightest hope in Hell of changing public perceptions about General Motors. You start with the product.

The best promotional device in the world was, is and always will be a great product. Any PR or ad campaign touting GM's imminent recovery that isn't specifically and credibly tied to product excellence is doomed to failure. That's because the average customer doesn't care about the company that makes their car any more than they care about the company that makes the electricity powering their home. They care about their car. If The General's products fail to live up to the automaker's promises of reliability, quality or style; if there's the tiniest gap between expectation and reality, all the money spent "selling" that promise will be wasted. And that's provided you can devise a way to get customers to drop their barge poles.

Sure, GM makes some great vehicles: the current Chevrolet Corvette, Cadillac CTS-V and um, whatever. But the vast majority of The General's vast product range simply isn't good enough to give Sister's band of brothers the Rust-Oleum they need to save GM's tarnished image from corroding into dust. (You try and build a "This ain't the same old GM" around a Pontiac G6 or SAAB 9-7X.) Of course, even if GM made Carreras, Camrys and F150s, it still wouldn't stop the company's slide into bankruptcy. Until The General sorts out its sky-high labor costs, trims its dealer network and ditches its moribund brands, they're a dead automaker spinning. On the other hand, if The General DID make great products—and ONLY great products—at least they'd have something to talk about in the meantime.

General Motors Death Watch 57: What the Dickens?

By Robert Farago February 16, 2006

This is a tale of two Tahoes. The first is a wildly successful SUV that's flying off the lots at full price: a Hail Mary pass that will put General Motors back in the end zone, saving them from the unthinkable humiliation of bankruptcy, with only moments to spare. The second is a gas-guzzling truck that's being swept out to sea by the vast receding tide of SUV buyers: a four-wheeled indictment of GM's inability to build what America wants to drive at a price that makes the company enough money to stay in business. For the time being, which vehicle you see depends entirely on which one you want to see.

Over at the *Detroit News*, Brett Clanton paints a portrait of the new Tahoe as the corporate lifesaver The General needs it to be. His article on the Tahoe's initial fortunes is sprinkled with the kind of upbeat non-contextual factoids that German newspapers relied on at the end of WWII: "Tahoe sales were up more than 50 percent in January. The 2007 model is fetching a higher average selling price than its predecessor . . . Only on sale since Jan. 10, GM has booked just more than 4,000 sales and is still in the process of shipping Tahoes to dealers." To be fair, Clanton mentions Wall Street's unenthusiastic response and sensibly states that "a true verdict on the vehicle is probably still months away." But the article's overall tenor is reflected by the headline "Hot Tahoe fuels GM Optimism."

If Tahoes are "hot," Antarctica is "tropical." Four thousand Tahoes per month equals 48k per year—compared to the 152,000 examples Chevy sold in '05. Meanwhile, down on the showroom floor, I was offered a \$2K discount on a brand new LT without asking for it. No wonder: in his February 6th newsletter, automotive journalist Ed Wallace reports that GM is offering a \$1750 fleet rebate on new Tahoes and Yukons. (So much for GM's "Value Pricing Program": the highly-touted plan to keep vehicle sticker prices, and incentives, low.) What's more, GM isn't putting an actual number to '07 Tahoe sales or breaking out sales by model year. In other words, that "50% increase" represents sales of both the new and the old Tahoe. Add in the fact that dealers are selling the '05 Tahoe with an \$8K rebate, while the '06 models are leaving dealer lots with \$5K off sticker, and the rosy picture takes on a more deathly pallor.

In fact, Wallace's assault on GM optimists extends well beyond carefully shrouded Tahoe sales. The talk radio host points out that The General's dealers sold slightly fewer than 300,000 vehicles (discounting fleet sales) in January. Yet the company currently plans to build 1.26 million vehicles this quarter. That's 25% more vehicles than it will sell at the current pace. You don't have to be an economist to know that there's only one way prices can go when supply exceeds demand. Talk about duality: GM can't afford to discount its products; it can't afford not to discount its products. Unless sales pick up quickly and dramatically, GM CEO Rabid Rick Wagoner's recent production cuts won't be enough. The General's death spiral will continue.

Depending on what happens tomorrow, we might be spared the agony of watching GM lingering on life support. We'll know whether or not Delphi has hammered out a deal with the United Auto Workers (UAW) that allows the parts maker to continue

making parts for the Tahoe, Yukon and the rest of The General's lineup. The smart money says the UAW will accept some cuts to their members' compensation, while GM foots the multi-billion dollar bill for a continuation of the status quo. The smarter money says the UAW will agree to nothing more than window dressing, while GM foots the multi-billion dollar bill for a continuation of the status quo. If not, the UAW will strike and no one will have to worry about Tahoe sales for quite some time, if ever.

If you hear "deadline extension," think strike. Anyway, either way, this is a fight GM can't win. In fact, we're back to twins, and they're BOTH evil. The world's largest automaker can't survive a strike (UBS analyst Rob Hinchcliffe reckons a moribund GM would burn through its \$19 billion cash hoard in about 10 weeks) and it can't afford to subsidize Delphi's UAW workforce (GM is ALREADY on the hook to Delphi workers for \$12 billion). All of which means the new Tahoe's sales are . . . unimportant. Even if the Tahoe and its platform siblings fly off the forecourt at full retail for months—reversing a deeply entrenched industry trend—it couldn't keep GM's sinking ship above water. So the General's pride and joy, its last, best hope for financial salvation, is destined to become what anti-SUV campaigners saw all along: an irresponsible irrelevance.

General Motors Death Watch 58: Supply Side Economics

By Robert Farago February 23, 2006

A couple of days ago, I was talking to an auto industry analyst about the world's largest automaker. We were discussing the cracks in GM's hull, trying to figure out which of The General's compartments were already breached, which are filling with water and which remain viable. A wistful tone in the analyst's voice indicated head-shaking dismay. "I'm no longer hearing anything positive about GM," he revealed. "The conversations range from how bad it is, to how bad it's going to get." I didn't want to sound like a paranoid fantasist to a new source, so I tried not to out-pessimist the doomsayers. But it wasn't easy.

GM's supply situation is dangerously dire. If former subsidiary and mission critical parts supplier Delphi doesn't reach an agreement with its unionized workers by March 30th—the third and "final" deadline—a judge will void the company's labor contracts. Pundits poo-poo the possibility; they reckon the UAW will make concessions and GM will fork over the necessary union blood money to keep Delphi chugging along. But . . . over at Tower Automotive, the smaller but equally bankrupt GM supplier tried to cut \$1.50 to \$3 from their union members' \$13 to \$15 hourly wages. The United Auto Workers (UAW), United Steel Workers and International Union of Electrical Workers (IUEW) said no. On Monday, a judge will void Tower's union contracts. The inevitable strike will deprive GM's Hail Mary GMT-900 SUVs of vital suspension components (amongst other things).

This ominous development reflects the indisputable fact that the UAW and its brother unions are not prepared to surrender a single dime in their salaries, pensions or health care benefits. Not one. Not ever. (I doubt UAW Boss Big Ron Gettelfinger has ever said the word "concession" in public.) What's more, the unions are literally spoiling for a fight. To wit: members of IUEW will vote today to authorize its leaders to strike Delphi as and when. That's 33,000 Delphi workers ready, willing and able to walk at a moment's notice. It's not posturing; it's preparation.

The unions own GM. If organized labor strikes even one key supplier, they'll be giving The General a 90-day death sentence. While some analysts believe that's no bad thing—the situation forces the unions to accept responsibility for the fate of the company paying its wages, leading them to take the hit needed to keep those wages coming—nothing could be further from the truth. The UAW and its fellow unions are like a cancer: they will feast on their host until it dies. End of story. Why would they walk out on Delphi and send GM into Chapter 11? Because they can. Look at the Rust Belt. How avoidable was that? By the same token, General Motors gives in to union demands when it can't afford to because that's what they do.

GM didn't rush in, bail out Tower and protect its new SUVs because the supplier is only the tip of an iceberg that's gouging a hole in the General's hull. GM's constant efforts to low-ball its suppliers, its poor credit (downgraded by Moody's on Tuesday to B1, five rungs below investment grade) and the looming prospect of bankruptcy are all inflicting fatal wounds to its supply chain. Suppliers are caught in the squeeze between rising commodity costs, declining production (due to lost market share) and contracts that reduce pricing over time. TTAC's Deep Throat reports that an inferior

part for the GMT-900 recently forced GM to return to a "quality supplier." The supplier refused to invest its own money to create the part and demanded a contract stipulating that the automaker would pay a true market rate for the finished component.

This is not an isolated case. GM used to provide suppliers an advanced payment program arranged by GE Credit. Late last year, GE bailed on the entire business, in favor of GMAC (yes, the same GM-owned finance company currently on the block). If that wasn't a bad sign of GM's financial situation in and of itself, GMAC then tightened the restrictions. The payment program is no longer available to the broad spectrum of GM suppliers. Bottom line: GM's current procurement process fails to assure parts manufacturers adequate financial compensation, doesn't provide protection against program termination due to budgetary constraints or model "realignment," and can't possibly guarantee payment if GM files for Chapter 11.

It's not too much of a stretch to imagine that at some point, one way or another, GM's entire supply chain will collapse. How's that for dark? You want light? How about this: I've received dozens of e-mails from frustrated workers, designers and administrators inside GM. No question: there's an enormous amount of creativity and passion locked-up inside General Motors. Once The General shakes off its union, deep-sixes its insufferable bureaucracy, dumps unnecessary brands and gets down to the business of building a limited number of great cars, it will build a limited number of great cars. When it comes to GM, the parts are greater than the whole.

General Motors Death Watch 59: X Marks the Spot

By Robert Farago February 28, 2006

Yesterday, the *Detroit News* caught-up with Maximum Bob Lutz at the Geneva Auto Show. GM's Car Czar was busy unveiling SAAB's Aero-X, a Corvette-based concept car from a brand that's lost GM several billion dollars over 17 years. It probably seemed as good a time as any to ask Maxi Bob about GM Board of Directors' member Jerry York's call to axe the Swedish brand. "I've spoken at length with Jerry York," Lutz said, "and he's off this get-rid-of-SAAB thing." Thing? Calling the Turnaround King's strategic recommendation a "thing" is so condescending it qualifies Lutz for a British knighthood. More importantly, Maximum Bob's summary dismissal tells you all you need to know about SAAB's future, and it ain't good.

Lutz' alternative to York's SAABicide is badge engineering. Or, more specifically, MORE badge engineering. Yes, now that The General has sold off its share in Subaru, the plan to transform Japanese Subies into Swedish SAABs has been ditched in favor of turning German Opels into Swedish SAABs (with an Ohio SUV thrown in for good measure). In other words, GM is fully committed to integrating the SAAB brand into the bureaucratic clusterfuck known as GM's "global vehicle development system." SAAB's ignition key slot will remain in between the front seats, but the decisions about its major components will now be taken somewhere a long way away from Sweden. And the choices will be made by a series of committees with far greater responsibilities than "just" SAAB.

Never mind that GM Marketing Maven Mark LeNeve recently swore on a stack of Solstii that GM would no longer slap a badge on a standardized GM product and call it a Pontiac Torrent (oops). Don't confuse Maximum Bob with the company line; the man's talking about returning SAAB to profitability by lowering the division's cost per unit. "Soon." Anyway, as the SAAB faithful will tell you, it's too late to worry about the brand's identity; the Opel Vectra-based SAABs drive remarkably like . . . Opel Vectras. If you still cling to the belief that this platform sharing arrangement serves the greater glory of SAAB, or, alternatively, justifies its destruction, Maximum Bob's happy to dispel either proposition. "SAAB is no longer an independent company that you could sell off as a unit."

Now there's a bit of auto industry theater for you: Bob Lutz proudly admitting that GM has killed its Swedish goose before it could lay a single golden egg. Yes, proudly. As far as Maximum Bob is concerned, the de-SAABing of SAAB is not only desirable, it's overdue. "We left it independent way too long. Three years ago, SAAB had its own capital budget. They ran the business as if it didn't belong to General Motors. Now, it's totally blended into the worldwide architecture plan." SAAB has its own budget? Who the Hell do these Swedish guys think they are? A car company? We've got a business to run here, Sven.

If you want to know why GM makes such a broad range of substandard products, why they can't or won't build a truly magnificent SAAB, there's your answer: centralized power and control. The ends of the The General's vast Empire constantly fight against the center—and lose. Can you imagine the difficulty SAAB has—I mean would have had—sourcing a seat bracket? Can you imagine the difficulties they

would face if they tried to make a NEW seat bracket? Theoretically, the GM corporate mothership helps each brand achieve its goals. In practice, The General's overarching bureaucracy sucks the life force out of everything it touches, until all its vehicles are as bland and lifeless as a Pontiac G6.

The opposite of corporate synergy is . . . GM. The "global architecture" that makes Lutz' heart beat that little bit faster was designed by the company, for the company. Putting as many models as possible on the same platform using the same bits will reduce each brand's unit costs, but it won't enhance each brand's character or the consumer's pleasure. In fact, SAAB never stood a chance against the legions of GM pencil pushers, bean counters and union reps: people who couldn't care less if a SAAB looks, feels and drives like an Opel as long as its sales, marketing and production don't violate GM's corporate practices.

All of which makes the Aero-X concept a fitting memorial for SAAB: a striking vehicle whose beauty and imagination will never see the light of day. Oh sure, Lutz dutifully mouthed the usual crap about incorporating the X's "design cues" into SAAB's lineup, but it's hard (not to say nauseating) to imagine GM adding the X's aeronautic themes to SAAB's rebadged Trailblazer. The Aero X is physical proof that "Crisis? What crisis?" GM is happy to celebrate its corporate diversity—even as it grinds its divisions, and itself, into the dust.

[UPDATE: After receiving an e-mail from Jerry York, Maximum Bob Lutz has publicly retracted his contention that the GM Board member favors the continuation of the SAAB brand.]

General Motors Death Watch 60: Bankruptcy is Good for the Soul

By Robert Farago March 3, 2006

It's official: bankruptcy is good for GM. In their recent ass-covering exercise for the Securities and Exchange Commission (SEC), The Ford Motor Company listed "adverse effects from the bankruptcy or insolvency of a major competitor" as a significant risk to its financial future. Translation: if GM goes bankrupt, The General will slough off its excessive labor costs and become . . . wait for it . . . competitive. So competitive, in fact, that Ford reckons GM's products would gain an important price advantage. Well how about that?

Obviously, there's more to it than that. Ford's SEC filing also alerts investors that GM's Chapter 11 could destroy The Blue Oval's supply chain. Both automakers share a large number of mission critical parts suppliers. If GM's submersion sucks vital parts makers into bankruptcy—which it most assuredly would—Ford will lose access to the bits and pieces it needs to build Fords. In fact, it's hard to see how Ford could survive a GM bankruptcy. Or why it would want to. The automotive community is slowly (and quietly) beginning to conclude that bankruptcy is both the only thing and the BEST thing that can happen to GM, and, by extension, Ford.

To review: GM can't build competitive vehicles at a profit. It's got too many models, brands and dealers; and too much bureaucracy, waste and inefficiency. Its labor costs are too high, its capital investment is too low and its supply chain is about to snap. And GM can't change a thing. The United Auto Workers' contract prevents any wage or benefits cuts, and precludes any alteration to their Byzantine working practices. Legal obligations also stop GM from trimming its distended dealer network or euthanizing fatally wounded brands. To survive, GM needs to lower its costs and revamp its business. And it can't do that without Chapter 11.

Oh, OK, it could, if everyone pulled together: investors, management, unions, dealers, suppliers and customers. But they won't. It's not in their nature. And even if it was, GM CEO Rabid Rick Wagoner is singularly incapable of tackling this monumental leadership challenge. And even if Rabid Rick could unify all the negatively charged particles in the GM universe, it's too late. The General doesn't have enough cash to weather the turbulence between business-as-usual and the end result of a difficult and dangerous overhaul. Nobody's going to give them the extra money—at least until The General declares bankruptcy. As Ford publicly acknowledged, only bankruptcy can give GM the wiggle room it needs to implement necessary changes to the way it goes about its business.

So be it. As I said at the beginning of this odious odyssey, GM will emerge from this multi-decade debacle a smaller, leaner and better automaker or, preferably, automakers. And that's why Ford's worried. Of course, they're not the only ones. The prospect of revolutionary change is making everyone involved a little, well, crazy. We're already seeing some strange behavior emerge from GM World: a public pledge to end national incentives followed by the announcement of a "March madness" sale, exciting new cars playing one-two-three green light, red light, green light; a Board Member and Car Czar squabbling over a moribund Swedish car brand, etc. It's the End of Days, Detroit style.

As GM's fate reaches its terrifying conclusion, workers will get all the attention. The moment the axe falls, whether by a slow strike or a lightning default, the spotlight will shift to "the little guy." Needless to say, the media will depict them as victims. They'll highlight the most desperate cases and blame their fate on management incompetence, outsourcing, the Japanese, the Chinese, foreign trade policy, currency manipulation, oil prices, George W. Bush, the anti-GM press, anyone and anything other than the workers themselves. Never mind that a huge number of these workers performed two hours work for eight hours pay. Never mind that thousands were willing to receive full pay and benefits for doing nothing whatsoever. It will always be someone else's fault.

Understand this: GM's workers are no better or worse than any of the other players in this sad saga. All of them work for a company where personal responsibility doesn't exist. Where everyone thinks they deserve to be well-paid, no matter what they or the company does or doesn't do. Yes, there are plenty of good people within GM. And here's the kicker: most of them can't wait for the company to file. They want to see an end to the waste, laziness, greed, corruption, inequality and stupidity they see around them. When GM becomes the world's largest bankrupt, these good men and women will be satisfied, knowing that there is justice in the world. And they'll be hopeful; that something good will replace something bad.

General Motors Death Watch 61: Have a Heart

By Andrew Dederer, March 7, 2006

As GM fast approaches the day when it surrenders its world's largest automaker title to Toyota, it's important to remember that we're still talking about a corporate colossus. If you include fleet sales, The General makes one in every four vehicles sold in the United States. Obviously, GM's problem isn't volume. It's profitability. GM's US operations are still designed to cater to a third of the US car market. That's Hell of a lot of fat to trim—especially with a union that hears “efficiency” and thinks “downsizing.” Meanwhile, The General has an even bigger problem: it doesn't have a heart.

An automotive brand's “heart” is the car that the average customer associates with a given brand. It's the vehicle whose character most clearly personifies the brand's values. Toyota has the Camry. Honda has Accord. Nissan has the Altima. Ford had the Taurus (and demolished it to push the Explorer). GM has nothing. More importantly, Chevy has nothing. Remember “the heartbeat of America?” It's on the crash-cart waiting for a transplant.

Ironically, Chevrolet sells The General's halo car: the Corvette. The Vette is a world-class sports car whose style, power and handling has met with universal approval. It's a sexy, well-engineered vehicle that should instill pride into the heart of every American enthusiast. And yet the Vette is not Chevrolet's heart. How could it be? At \$50K plus, it's far too expensive for the average car buyer's pocketbook. Even if it were affordable, a two-seater does not speak to the average car buyer's real world aspirations. If it does, the Corvette says one thing: toy. Just like the Pontiac Solstice, the Vette is little more than showroom eye candy.

Meanwhile, at the other end of the financial spectrum, the \$10K Aveo is an equally unlikely candidate for becoming Chevy's “people's champion.” Even without considering its flaws, the Korean car's point of origin rules it out. The new Impala is a sensible, well-built car, but it's the automotive equivalent of a straight-to-video movie: a rental car wannabe from the word go. The Malibu is decently equipped, reasonably frisky, sensibly priced and no rental slut (unlike its predecessor). But it's another slab-sided scoop of low-calorie vanilla with a Motel Six interior: one of the few cars that can make an Accord or Camry look sexy. As for Chevy's trucks, that ship has sailed.

Chevrolet seems to think that selling something that doesn't suck is enough to fill this gap. It's not. Chevy needs one bullet-proof, brand-defining car. The company needs to build one superb machine that buyers can examine inside and out and instantly “get it.” An inherently desirable car that tells the world what it means to be a Chevy. The heart car should have a modern engine (a baby Northstar), the best possible cabin materials, plenty of standard equipment (in recognizable trim levels), superb build quality and just enough style that you know who built it.

Profit margins have nothing to do with it. The only way Chevrolet can claw their way back to credibility is to take the financial hit and build something so outstanding in both form and function that it redefines GM's home brand for years to come. Profit

can come later—and it will. Good niche vehicles grow off of good roots. (Weak trunks grow into Azteks.) While the heart car's volume grows, it will provide a decent base for more profitable spin-offs. A good heart car could spawn a sport coupe, and some of those vaunted "crossovers," including the original crossover: the minivan.

In fact, Chevy's flagship model could be a minivan. There are over a million of these family haulers sold in the US every year. (Chrysler, Honda and Toyota own 75% of the market, with the Japanese skimming the cream, and Chrysler doing the volume.) GM's current minivans are warmed-over nose-jobs grafted onto overly-narrow European platforms—more proof that GM doesn't have a clue. A feelgood proletarian minivan with genuine American style and plenty of class could be a profitable volume seller, and an appropriate model to show the world what a "real" Chevy is all about—well, these days.

Why go on the attack now? Because the best defense is a good offense. When GM abandons a market, the competition consolidates and goes for it. Backing only the profitable lines built GM's bottom line (barely), but it kills brands. Even now, Toyota and Nissan are taking aim at the full-size pickup truck market. They've been at this for years; they haven't got it all together yet. But they're going to keep whacking the door with an axe until it opens. (We've seen this movie before.) In both pickups and mass market motors, GM hasn't pushed back. It can't. Not because it lacks guts or talent or money. It simply doesn't have the heart.

General Motors Death Watch 62: Grounded

By Robert Farago, March 11, 2006

Ward's Automotive recently profiled Pete Gerosa, GM's former Vice President for Field Sales, Service and Parts. Although Gerosa's heading for retirement, he's still on the road, selling the company line to GM's dealer network. Reporter Steve Finlay painted the 42-year industry veteran as a living link between GM's past and professed future: selling the vehicle, not the deal. While Finlay pressed Gerosa on GM's so-called value pricing, the scribe failed to confront the exec about GM's recent sales incentives or The General's March Madness campaign. In any case, Finlay's feature contained a telling tale.

At a dealer conference, David Latshaw, finance director at Shaver Pontiac in Thousand Oaks, CA, asked Gerosa why GM can't build enough Solstii to meet demand. "Our dealership had 600 initial orders and only got thirteen cars," Latshaw said. "What is the right number?" Gerosa answered. "Too many, and you discount. Too few, and there are waits. But thirteen is too low." Ya think? Latshaw: "We put a sold Solstice in the showroom just to display it, and people were saying, 'I want to buy that car!' They got mad when we told them they couldn't. They were freaking out. We had to hide the car in back." Before we file that one under defeat, from the jaws of victory snatched, note Gerosa's inability to accept responsibility for the company's screw-up or promise any kind of resolution to an ongoing problem.

Mr. Gerosa may be a tenacious and dedicated foot soldier. His efforts may have earned The General tens of millions of dollars. But his career arc and attitude reflect and reveal a company without the slightest hint of personal accountability; where middle management fails upwards or, at worst, sideways; where assembly workers' jobs are secure whether or not there's a market for the products they produce; where a CEO and his team can oversee the inexorable diminution of their company's market share, losing \$8 billion in a single financial year, and continue to get paid millions of dollars to hold the tiller; and where GM's Vice President of Global Product Development can threaten American jobs without repercussions.

Check it: At the Geneva Auto Show, Maximum Bob Lutz addressed the pressing issue of US labor costs and dropped this pearl upon the press: "Hourly workers in the US no longer are faced with a choice between high-paying jobs and low-paying jobs. They must choose between jobs or no jobs at all . . . In a few years time, it's clear that the Chinese automobile industry will be capable of exporting products. There's no doubt that someday we will be (using) GM China as a source of products. I'm very optimistic." Even if it's true, it's not exactly what you'd call helpful given GM's do-or-die labor negotiations at bankrupt parts supplier Delphi.

But who's going to stop the septuagenarian Car Czar from shooting off his mouth? Rick Wagoner? Like Gerosa, GM's CEO is a lifer. Rabid Rick's learned that there's no comment or action or inaction that doesn't disappear off the face of the earth if you just give it enough time. Drop \$4 billion on FIAT? Pontiac G6 a sales dud? Hybrids and muscle cars ten years too late? GMAC sale a bit . . . delayed? SEC probe unearthing some nasty accounting problems? Forgeddaboutit. Literally. It's a logical

corollary of unaccountability: all failure is temporary, survivable, and, ultimately, irrelevant.

GM watchers who are shocked by the lack of urgency over at RenCen don't understand that GM's corporate culture is the ultimate defense against reality. Nothing can go that wrong because even if it does, well, life goes on. Rabid Rick cashes in GM's chips at Suzuki, uses the money to pay off Delphi's workers and everyone goes back to business (or lack thereof). That fire burning-up GM's cash reserves? Oh, we'll put it out eventually. It's the same mentality that the UAW displays in its negotiations: tough it out, give them nothing and everything will be OK. That's the way we've always done things around here, bankruptcy or no bankruptcy. Even if the union leadership knows better, they know their members don't.

It's Pan Am redux. The international airline once enjoyed a clear playing field: no significant competition and enough money to give the unions whatever they wanted. When deregulation arrived, the company considered itself too big to die—even as it lost market share, sold off assets, wiped billions off shareholder equity, suffered union strife and floundered in an endless sea of red ink. An article by Jon Marcus and Gretchen Voss quotes a financial advisor to the company: "Half of Pan Am's problems were caused by circumstances. The other half was caused by the culture, which seemed to make perfectly rational men think they were invulnerable once they walked through Pan Am's doors." 'Nuff said?

General Motors Death Watch 63: GM RIP

By Robert Farago, March 31, 2006

At 9:30 a.m. today, a group of lawyers representing bankrupt auto parts supplier Delphi will appear in front of Federal Bankruptcy Judge, Robert Drain. The lawyers will file legal motions for Sections 1113 and 1114. It's a legal request to void Delphi's current collective bargaining agreements with the United Auto Workers (UAW). The moment the judge says the word "granted," he will terminate the wage structure, post-retirement health care and life insurance plans for the company's 33,000 US hourly workers. The UAW will respond with a strike against Delphi. Starved of its former subsidiary's parts, GM's assembly lines will fall silent. The General will begin its final slide into Chapter 11.

There will be a gap between Delphi's filing, the judge's final ruling (May 9th) and industrial action. During this highly fraught interregnum, Delphi President Steve "Quotation Marks" Miller may make a fourth wage and benefits offer to the UAW. The proposal would fall somewhere between the workers' current compensation (\$27 per hour) and Miller's last last stand (\$16.50 per hour). As we've said before, the UAW will accept nothing less than the status quo, and that's somewhere where Miller won't go—at least not without GM footing the bill. Common sense says if GM CEO Rick Wagoner was going to ride to Delphi's rescue, he would have done so already. Chances are he can't.

Analysts estimate that the General's got about \$20 billion lying around. Take away the \$10 billion GM needs to run its business, add in its line of credit, discount its line of credit (the company just got locked-out of \$5.6 billion worth of previously available funds), add in recent and upcoming sales of overseas assets (including Isuzu), discount the cost of recently announced worker buyouts and plant closures, add back the cost of worker buyouts (it's unlikely that many workers outside the infamous jobs bank will take-up GM's offer), discount ongoing losses from its automotive operations, ponder the possibility of more "accounting adjustments," throw your hands in the air regarding the possibility of GM selling majority interest in its GMAC finance unit (The General's only remaining lifeline), and you'd be forgiven for wanting to check Rabid Rick's wallet.

GM's inability/reluctance to pay off Delphi's UAW work force may be the clearest indication of The General's true financial situation. In fact, despite a stock price still hovering around \$20 a share, the world's largest automaker could very well be worthless. I write that with some trepidation. I'm aware that any large institution in extreme financial crisis is susceptible to the fatal effects of negative perception. So much so, it's entirely possible that GM's fate will be sealed somewhere well away from federal bankruptcy court, by someone who simply loses faith in The General's future. For example . . .

Although The General has pledged to reduce sales to rental car fleets, the automaker still sells as much as 15% of its US production to these volume/discount buyers (roughly 600,000 vehicles). All of the purchases are financed by large banks, who lend money to the fleets based on the strength of GM's buyback guarantee. All of these banks have industry analysts who now admit (if not actually forecast) the

possibility of a GM bankruptcy. Should the banks suddenly decide that GM's buyback guarantees are meaningless, financing for GM products would dry up quicker than the Mojave Desert after a light drizzle. Without rental sales, well, as TTAC's Deep Throat eloquently puts it, GM would soon be Tango Uniform.

Alternatively, GM's suppliers could be its ultimate downfall—a poignant reversal given how harshly The General has treated its parts-providing “partners.” While GM's biggest suppliers aren't anywhere near as short-sighted as the UAW (i.e., they know better than to kill the golden goose, no matter how pitted and pathetic it may seem), a smaller, mission critical, non-GM dependent supplier could look at the lay of the land, get up its gumption, and refuse to give GM credit on terms. GM would have to put cash up front for its parts. Once news of the deal got out, all of GM's suppliers would seek similar protection. GM couldn't survive this “run on the bank” scenario.

And so it goes. As anyone who's been following this story knows, we're at the point where if it's not one damn thing, it's another. Critics who call for Wagoner's head are missing the point. GM has expended all its capital: political, creative, financial, moral and, now, psychological. When I started this GM Death Watch, TTAC was one of the few places where the words “GM” and “bankruptcy” appeared in the same sentence. Those days are gone, and it's not our fault. Time and time again, GM had their chance to do the right thing. To stand up, admit their failures and change their business. Now, it's too late.

General Motors Death Watch 64: Too Rich to Die

By Andrew Dederer, April 5, 2006

When things are going well, when the US economy's humming along and the right models await eager buyers on dealer lots, being the world's largest auto maker in the world's largest automobile market is a license to print money. When the stars are aligned, GM's economies of scale, eight brand range and vast dealer network make it an almost obscenely profitable enterprise. Lest we forget, The General earned tens of billions of dollars in the SUV-mad 80s and 90s. If you're wondering why GM's fortunes have reversed so quickly, dramatically and irrevocably, there's your answer: they're victims of their own success.

GM execs have two ways to stand out: make more sales (by striking out in new directions) or make more money (by doing more of the same). Since it's hard for GM NOT to make money in good times, GM managers invariably opt for the safer option. Sure, every now and then, someone sets a lofty new goal: selling Cadillacs in Europe, building fuel cell cars, reinvigorating a struggling brand, etc. And then the next group of suits comes along and ignores them. After all, THEY didn't come up with the idea. And big ideas take time. How could a highly-paid exec use a long-term project to score career-boosting credit? No wonder every new generation of vehicles has a new set of names; no one wants to share credit with an old project.

Bottom line: GM execs know that hitching their star to a long-term project like hybrid engines is a quick ticket to a dark basement. No, it's far better to glom on to less adventurous, less expensive ideas that show immediate profit: a rebadged minivan for Buick, a rebadged roadster for Saturn, employee discounts for everyone, a range of newish SUVs, etc. Even if an exec succeeded on a more audacious venture—should he still be alive when it came to fruition—which looks better on their resume: 10,000 conquest sales or an extra three hundred million dollar profit?

GM's inherent timidity has led to a slow erosion of the company's presence in the marketplace. Even when profits were flowing, The General's general lethargy and allergy to innovation kept its products at least a full model cycle behind Toyota, Chrysler, Hyundai, etc. GM held up its bottom line but it lost precious market share. Round after round of downsizing has cost the company dearly, perhaps fatally. For every active employee, The General pays pension benefits and health care for 2.5 retirees. That's a Hell of a lot of deadweight. And it's about to get worse: GM recently announced its intention to buy out tens of thousands of active UAW members.

Besieged union members like to point out that GM made this bed. They're right. Back when GM had a mountain of money, The General's generals traded a significant proportion of their immense wealth for labor peace and then backed into a corner. The General's switch to just-in-time inventory and production elevated labor peace from reassuring to essential. Slim inventories are a great thing for a cost-conscious company (and a stick that GM's competition used to beat them with), but the process handed enormous power to GM's unions. [Note: before giving your partner a loaded gun, make sure you both mean the same thing by the word "partner."]

And now GM is cash-strapped. Oh, wait, it isn't. If the sale of their GMAC finance unit goes through, it'll dump \$12 billion into the corporate coffers. And, if history serves, GM will use the cash to pay off the unions, keep making the same short-sighted decisions that brought it to the brink and hope the market turns in their favor. Using the cash to hive-off two or three companies would be better for both the corporation and its assets. Cadillac is eminently saleable. Chevy is a respectable budget car company with a good truck arm. Someone's bound to buy HUMMER. A foreign brand might buy Saturn just for the dealer network. Alternatively, GM could spin off SAAB and HUMMER, kill Pontiac and Buick, and grow Chevrolet and Cadillac.

In whatever guise, a smaller GM would be a wiser GM. Constricted resources would increase accountability and force the company to sort itself out for both the short and long term. Once again, the problem is . . . too much money. For one thing, the \$12 billion from the GMAC sale will make it virtually impossible to wrest concessions from the UAW. For another, the current downturn might shake-up GM's Board of Bystanders, but the stock price is still too high for a hostile takeover. Sooner or later, bankruptcy looms. Can the world's largest automaker survive bankruptcy intact? Will the pieces still be viable after Chapter 11? Watch this space . . .

General Motors Death Watch 65: When Billy Met Ricky

By Robert Farago, April 10, 2006

I wonder what Billy Durant would have made of Rick Wagoner. GM's founder was a man of great honesty, intelligence and drive. He was also a high school drop out who started the company with a \$1000 loan—and ended-up penniless. Twice. Perhaps that's why historians tend to credit General Motors' epic growth to the man appointed president in 1923 about whom an observer wrote, "The manufacture of correct assessments, not physical products, is what most gratified Alfred Sloan." Billy was the "car guy." Alfred was the "bean counter." The history of GM is the history of the struggle between these two opposing forces: passion and, um, accounting. Rick Wagoner is, of course, a Harvard MBA.

I suppose Durant would have liked Wagoner well enough, at least at first. Durant's legendary charm was based on a simple but effective strategy: "Assume that the man you are talking to knows more than you. Do not talk too much. Give the customer time to think. In other words, let the customer sell himself." Rabid Rick is pretty good at selling himself these days. With a new PR guy pushing the buttons, Wagoner's making the rounds, defending his chairmanship on CBS' *60 Minutes* and *Face the Nation*, and in the pages of the *Wall Street Journal* and other carefully-selected publications. So if Rick and Billy were schmoozing about GM, Wagoner would have done the talking.

What would Billy have thought if Rick repeated his recent kvetch to *Newsweek*? "It's not so easy to do stuff, particularly if you can't do it yourself, if you've got to do it in cooperation or in conflict with unions, if you do it with Delphi, if you need partners to consider a partial sale of GMAC. What has been done in the last six months borders on unprecedented accomplishments and advances. This stuff didn't happen because somebody decided on Jan. 15, why don't we do stuff? This stuff happens because we're working on it, we're ready to do it, we're talking to people, and then when we have it ready, we announce it."

Durant would have been alarmed at Wagoner's use of the word "stuff." Billy may have been the yin to Alfred's yang, but he was every inch the detail man. He knew every nut and bolt of every vehicle, every nuance of the production process. Durant would not have been pleased with a GM CEO who spoke with such thinly-veiled buck-passing imprecision. As a risk-taking deal maker extraordinaire, Durant would've also wondered why Wagoner hadn't already united GM's "partners," or taken the bold action necessary to avoid GM's current morass. Equally important, as a man who lost his company to conservative-minded "insiders" (twice), Durant would've also had problems with Wagoner's "company men know best" hubris. To wit:

"These are sophisticated problems with historical tails that run back 80, 90 years. The chance of someone coming in and not understanding our business, making the right calls and doing them in cooperation with key constituencies like dealers and unions, is absolutely microscopic. That would be the biggest risk I've ever heard of." Risk? What does a man who's never worked a day outside Generous Motors (its former CFO no less) know about risk—except how to avoid it at all costs? Even so,

Durant would have kept his trap shut. And then, at some point, Billy would want to go for a ride.

Durant believed that great products make great companies, and vice versa. GM began when Durant was so impressed by a horse drawn buggy's innovative suspension that he bought its manufacturer: the Coldwater Cart Company. One wonders which vehicle Wagoner would choose for Billy's test drive. A Corvette would certainly swell Durant's heart with pride. Anything else and . . . there would be questions. Why doesn't this Tahoe have a hybrid engine? What makes a Pontiac G6 better than a Toyota Corolla or Honda Civic? Why isn't the Cadillac STS as good as/as expensive as a Mercedes S-Class?

Durant would have listened to Wagoner's responses thoughtfully and concluded that GM's CEO had an answer for every objection, every fault, every danger; and the answer was always the same: we're working on it. Things are getting better. We'll sort out the jobs bank, the quality gap, the Delphi situation, the GMAC finance deal, our car sales, this car, all of it, everything, later, soon, sooner or later. In that sense, Durant might have seen something of himself in Wagoner. Like his father before him, Billy squandered his fortunes on stock market speculation. Gamblers understand denial. They know that some men will always believe—no matter what—that their salvation, their resurrection, is only a deal away.

So, if William C. Durant were Chairman of GM today, would he fire Rick Wagoner? Truth is, Billy never would have appointed Wagoner CEO in the first place.

[For more insight, please read *Billy, Alfred, and General Motors* by William Pelfrey.]

General Motors Death Watch 66: No, No Nadir

By Robert Farago, April 14, 2006

At yesterday's New York International Automobile Show, Bob Lutz provided the hook for GM's PR counterattack. Of course, the Car Czar's rallying cry wasn't planned. As usual, the former Marine aviator simply greeted the press, opened his mouth and bellowed, "Oorah!" "GM has the worst behind it." Whatever else you can say about Maximum Bob Lutz, the man is an idiot. While GM's first quarter results will be a lot less bad than last year's annus horribilis, Lutz' statement flies in the face of the growing, looming, unresolved, irresolvable conflict over at bankrupt parts supplier Delphi; the fact that GM's gas-guzzling SUV's are heading straight into a \$3 a gallon shit storm; and a shoal of dangers so extensive that GM CEO Rick Wagoner has taken to calling it "stuff." But wait; there's more!

"Soon all will be revealed," said Lutz. "I can't mention figures, because I'd get in big trouble." So, Mr. "Don't Tell Mommy" wants the nattering nabobs of negativity vulturing GM to believe that his company's management team (whom MB has just placed in harm's way) has a secret plan to pump out GM's umpteen flooded compartments and restore the company to preeminence. Well, profit. Never mind that GM watchers have been waiting for an aggressive restructuring plan since 1973, or that every time Rabid Rick Wagoner steps up to the dais these days and says "Ta Da!" he's closing, cutting and/or buying out something or someone. If we're looking for company-saving revelations, what could possibly top the still only potential sale of 51% of GMAC for \$14.1 billion? The mind boggles.

Or maybe I misunderstood. Perhaps Maximum Bob's saying that GM's financials are about to get better. That would be odd. In March, GM's market share tumbled from 26.5 to 23.3%. Car and truck sales fell 15%. As for new product, The General has shot its wad, placing its bets on the gas-guzzling GMT900s. Although Bob and his Booster Brigade are cheered by the supposed surge in sales of these brand new-ish Tahoes, Yukons, etc., it's best to remember that GM books fleets sale on "allocated preference" (i.e., when they're scheduled for production) and/or as soon as an SUV ships to the dealer. Also, Rabid Rick's publicly admitted stockpiling parts in preparation for a Delphi strike; perhaps Bob's optimism is based on "phantom" figures . . .

In fact, GM might be teetering on the brink of financial collapse. No one outside the company knows how low GM's US cash hoard has gone between balance sheet dates. And while Maximum Bob was busy entertaining the press corps, GM's purchasing guy publicly stated that The General is stretching its account payables to 55 days, essentially financing itself on the back of its vendors. That's not good. Nor is the recent revelation that the GMAC sale will NOT improve GM's credit rating and WILL slaughter GM's cash cow, starving The General of ANY dividends for five years. As one correspondent put it, "This deal does nothing to facilitate a restructuring of North American operations, but rather lets them keep the lights on until the UAW calls the end game."

I reckon the light at the end of Bob's tunnel is the headlight of an oncoming General Motors FP59 diesel-electric locomotive. But hey, that's just me. And Bob thinks I'm

full of shit. "Most of the analysts living in New York don't even own cars, and have never even visited one of our dealerships," Maximum Bob proclaimed. "At some point, I start to question whether they're holding short positions on the stock." (FYI: This writer owns a car but not GM stock. And thanks to GM blacklisting, I've visited several GM dealerships for test drives.) As *Detroit News* reporter Brett Clanton pointed out, Lutz' analytical anti-Christ's are the same effete intellectual snobs who heard GM predict that the company would be solidly profitable in '05—the year it lost \$10.6 billion.

But Bob's not done playing the dozens with us financial and media mavens, announcing that "The imminent bankruptcy at GM is a myth created by Wall Street and our beloved media." It's nice to be loved, however sarcastically, but this website has been begging to differ on the Chapter 11 front for over a year now. Bob's said nothing to change our perspective and plenty to reinforce it. Sure, Maximum Bob's blend of feistiness and anti-intellectual, anti-media paranoia played well with his dealers and GM's decimated, dispirited troops. Maximum Bob's force of will even gave GM's beleaguered (not-to-say overvalued) stock a temporary boost. Be that as it may, Lutz is, at best, guilty of premature recapitulation. At worst, he's completely divorced from reality. Bob says, "the last skeptic in America will [soon] be convinced that we are well on the way to recovery. GM has its best days ahead of it." We say, well, good luck with that.

General Motors Death Watch 67: GM ED MIA?

By Robert Farago, April 17, 2006

I once complained to my accountant about sky-high UK petrol taxes. An oil-producing nation with the highest gas prices in the world? What's that all about? He laughed. "Bitching about the petrol tax is like complaining about a mosquito bite when your carotid artery's been severed." This Sunday, the *Detroit News* ran a story about GM's \$17 million Viagra bill. Reporter Brett Clanton justified the titillating take on GM's health care provisions by claiming "company executives" use the factoid to illustrate runaway costs. Be that as it may, Clanton's story is nothing but an inane distraction from GM's death by a thousand cuts both literal and figurative. Or is it?

The *Detroit News* seems to have missed the fact that GM workers go to their doctor, get scrips for Viagra, then re-sell the erectile dysfunction medication on the street. Insiders tell us that a large part of GM's \$17 million Viagra bill ended up in UAW workers' pockets. In fact, the Viagra story could very well be the tip of a huge drug re-selling scandal (Vicodin, Oxycontin, etc.). And again, that's without considering the REAL story: all the tens of millions of dollars spent on unnecessary tests and procedures (blithely commissioned by doctors and patients who have no incentive to minimize GM's health care bill).

Of course, GM CEO Rabid Rick Wagoner is tackling this whole health care cost situation head-on, right? Back in October, GM and the United Auto Workers (UAW) negotiated a "historic health care giveback." According to the agreement, some 475,000 retired union workers will now make co-pays, capped at \$752 per family per year. The health care deal also stipulates that all 118,000 active UAW members must defer 17 cents an hour in cost-of-living increases, and 83 cents an hour in general wage hikes (which were scheduled to take effect next September).

Bottom line? GM could save roughly \$360 million a year from the co-paying retirees and \$245 million from the hourly workers (40-hour week = \$2,080 per clock-puncher per year). Put the numbers together and GM trims a total of \$605 million—roughly 11%—off their \$5.6 billion annual health care bill. Unfortunately, in the last three years, US health care costs have risen by around 10% per year. So the GM-UAW health care deal only saves the company 1% of the additional money they WOULD have paid, not the money they're currently paying.

Or does it? The agreement caps the co-pays of individual UAW retirees' (workers without participating families) at \$370 a year. And any UAW retiree with a pension of \$8000 or less continues to pay nothing. Although the UAW won't break out the number of individual retirees, union officials claim that 74,000 "low income" members qualify for no-cost health insurance under the new plan. If you remove these workers from the above equations, you reduce GM's savings by around \$55 million, lowering their total reduction to around \$550 million. That's less than 10% of GM's total tab. So it's a wash, or, if you prefer, GM's health care deal with the UAW lets them tread water—until inflation catches up.

Of course, there's more (or less) to this agreement than meets the eye. When the health care deal went down, The General agreed to create a \$3 billion fund (\$1

billion over three years) to cover the co-pays of workers who couldn't afford them. Do the math: GM plunks down \$3 billion to save itself \$550 million a year. I make that and five-and-a-half years' savings paid in advance. Obviously, there's a bit of tax law and actuarial stats in all this, but the fact remains that the UAW's "givebacks" were GM's "pay forward." And though GM's new plan initiates at least some kind of accountability, the UAW's gold-plated health care coverage continues apace.

And while we're at it, who gets the interest on this \$3 billion fund? Five percent interest on \$1 billion is \$50 million, times three is \$150 million. Neither GM nor the union will answer this question, but if the cash goes into the UAW's coffers, what effect will that have on the UAW's motivation to play ball with GM come contract negotiation time in '07? Should they get that far. As everyone now knows, a Delphi strike could scupper the mothership. Of course, the union would need a pretty large strike fund to bring Delphi/GM to its knees. Money that GM's health care deal could be putting into union coffers.

Meanwhile and anyway, neither UAW members nor this writer considers Viagra a "lifestyle" drug. Pfizer's erectile dysfunction medication is critical to its users' mental well-being and the cohesion of their family unit. Making Viagra jokes about GM's ED patients (should they exist) is cruel. Besides, if GM's PR department has suddenly decided it's open season on sexual chemistry, what of Rick Wagoner's testosterone levels? Surely Generous Motors should pay for the drugs Wagoner needs to increase his testicular fortitude and sort out his company.

General Motors Death Watch 68: Predestination

By Robert Farago, April 20, 2006

The ancient Greeks knew the truth: character is fate. If Oedipus hadn't been such an asshole he wouldn't have killed his father, married his mother and kept psychiatrists busy for centuries. By the same token, if Rick Wagoner wasn't a corporate narcissist, he would've completed the Herculean tasks left by his predecessors. GM's CEO would have cleansed The General's stable of excremental vehicles, severed its eight-headed brand portfolio, subdued the UAW's cretinous bulls and sent Cerberus packing. Instead, we get to watch Rabid Rick's company sink into the mire, bribing a financial journalist and engineering a sports car whose roof flies off at 60 mph. To wit: Robert B. Reich is a journalist and commentator who once worked for President Clinton in the Labor Department. He currently enjoys a regular slot on NPR's nationally-syndicated "Marketplace" program. On Wednesday, Reich announced that he'd been approached by a "public relations firm working for General Motors." Reich said the flack asked him to praise GM's buyback deal for its workers. He then offered to pay Reich "remuneration" for a positive story "out of respect" for his reputation. Reich declined the unspecified offer.

The man attempting to bribe the twenty-second United States Secretary of Labor was Richard Strauss of Strauss Media Associates of Washington, D.C. According to the company's website, Strauss Media uses its "integrity, perseverance, and skill" to help clients "realize the power and influence of radio." The PR company's client roster includes Nike, Eastman Kodak, Coca-Cola and General Mills. Although Strauss Media Associates doesn't list GM as a benefactor, a description of recent projects includes work on the Saturn brand's Second Annual National Donor Day.

Marketplace's host, Kai Ryssdal, confirms the connection. In a phone interview with TTAC, Ryssdal said Richard Strauss personally set up a recent radio interview with GM CEO Rick Wagoner. When I asked if the show's producers investigated Reich's claim that he'd been bribed, Ryssdal said they had. According to Ryssdal, Strauss backpedaled furiously, calling the offer a "misunderstanding." Ryssdal also said the program had spoken directly to GM's new PR Supremo, Steve Harris. Harris said he never authorized payments to "sympathetic journalists." When Reich's damning piece aired, GM and their Washington PR firm remained silent.

So, The General's own PR firm didn't have enough confidence in the value of GM's employee buyout plan to let a journalist draw his own conclusions. Clearly, the General's generals feel embattled and desperate. And why wouldn't they? What has their imperious leader said or done that would lead them to believe that GM is a company that deals with its problems head-on?

Meanwhile, on the same day, Sprite2005 posted two pictures of his semi-decapitated C6 on a Corvette forum, with an accompanying explanation: "I still can't believe this happened. Had just shifted out of first @ around 6900-7000k, hit 2nd and hear a loud crack, pull over and my roof is missing . . ." Sprite2005 is not alone. On the 23rd of February, GM sent out tech bulletin #05112A, which states the following: "On certain 2005-2006 Chevrolet Corvette vehicles, the painted roof panel may separate from its frame in some areas if it is exposed to stresses along with high

temperature and humidity. The occupants of the vehicle may notice one or more of these symptoms: a snapping noise when driving over bumps, wind noise, poor roof panel fit, roof panel movement/bounce when a door or hatch is closed, or a water leak in the headliner." Dealers should "apply adhesive foam to ensure proper adhesion, or in a small number of vehicles, replace the roof panel."

Although the defect doesn't appear to affect the Corvette's structural integrity, an airborne roof panel raises some pretty major road safety issues. Equally important, the situation does nothing to bolster GM's supposed reputation for improving build quality—or the company's willingness to accept responsibility for customer concerns. Notice that the notice says the roof may become separated "in some areas," blames "stress, high temperature and humidity" and recommends replacing the roof panel "in a small number of vehicles." If that attitude isn't familiar to disgruntled GM owners, perhaps this [unedited] response is:

"I can't believe how many of you people are actually defending this and saying its not that big of a problem," writes forum member Sweetvet. "The mans roof flew off his brand new \$75K car- thats a pretty big friggin deal to me- I would be livid, and would ensure this car was bought back by GM, and would never buy another GM product again. God, I'll be glad when my corvette is sold so I can get back into something with build quality- something (anything) German"

GM's first quarter losses less than last year? So what? As long as Rabid Rick Wagoner is tempting the fates, GM's is sealed. Ipso facto.

General Motors Death Watch 69: Running Out of Gas

By Robert Farago, April 27, 2006

You've got to wonder about the mood at RenCen these days. Watching the price of gas crest \$3 a gallon must make GM CEO Rabid Rick Wagoner feel like the Captain of the Poseidon as he trains his binoculars on the dark horizon and spies a mountain of water heading his way. It's not just the horror of knowing what's coming that makes the moment so terrifying; it's the crew's utter powerlessness to alter events. Only the Poseidon just happened to be in the wrong place at the wrong time. Wagoner and his mates have spent their entire time on the bridge steering GM into harm's way. And there's not a damn thing Rabid Rick can do about the gathering tsunami. To review . . .

For more than a decade, the Tahoe, Suburban, Yukon, Yukon Denali and Escalade have been the cash cows keeping The General in cream. As readers of this series know, when the winds of change gathered force, Rabid Rick called out, "Steady as she goes!" Instead of developing new hybrids to capitalize on the growing anti-SUV gestalt, instead of spending money on refining and marketing the fuel efficient vehicles already in GM's vast fleet, Rick bet the company on a quick refresh of GM's gas-guzzlers. Last September, Maximum Bob Lutz launched the resulting GMT900-based Chevrolet Tahoe—between the two hurricanes that decimated America's gasoline production facilities. GM's "new" vehicles were born under a bad sign: \$3 a gallon gas.

As always, Maximum Bob put a brave face on events, claiming that The General only sought to maintain its dominance over a shrinking market. Early indications were positive. The American consumers' notoriously short memory and sunny disposition helped them shrug-off rising gas prices as a temporary aberration, an Act of God. TTAC has since unearthed GM's carefully-guarded GMT900 sales numbers, broken down by model year. In the first financial quarter, GM sold 19,739 new Tahoes, 5028 Yukons and 4228 Escalades. As you'd expect, these figures are dwarfed by sales of heavily discounted '05s/'06s: 45,104 Tahoes, 14,398 Yukons and 8145 Escalades. Bottom line? GM pushed some 96,000 full-size SUVs out the door in Q1, adding about \$800 million to its balance sheet.

Without that profit, GM's would have lost over a billion dollars in the first financial quarter. But the second major spike in gas prices casts a long shadow over the GMT900's and GM's viability. The recent pump price escalation proves that soaring prices are tied to larger, less random forces than errant hurricanes. American drivers are beginning to cotton-on to the fact that the days of cheap gas are gone. If the price of gas crests \$4 a gallon and stays there for the summer—as many analysts predict—the gig is up. Sales of GMT900s will tank, inventories will swell, discounts will follow and GM's descent into Chapter 11 will gather pace.

President Bush has directed the Environmental Protection Agency to temporarily suspend rules requiring different blends of gasoline in various cities (regulations designed to reduce air pollution). If state governments follow suit, losing the legal requirement for ethanol blending, gasoline supplies could be ramped-up and trans-shipped to help meet demand. Gas prices will fall and GM's SUV sales will be saved!

That's a big "if." There are plenty of variables that could immediately and completely offset any legislative measures designed to free-up supply: conflict in Iran, Venezuelan nationalization, the summer driving season, a terrorist attack on supplies, distribution and/or refineries, etc.

In short, this might not be the best time to be building lumbering gas hogs. Or is it? The *Arlington Morning News* reports that GM's Texas factories have added overtime shifts to crank out as many GMTs as possible: about 900 per day. Rabid Rick Wagoner has publicly admitted stockpiling parts in anticipation of a strike at parts maker Delphi. GM's just-in-time manufacturing facilities are not warehouses; given the volatility of key components, the best way to store Delphi parts would be . . . a complete vehicle. Is GM stashing GMT900s in the Texas sun? TTAC is investigating.

Meanwhile, the General's ability to provide its assembly lines with mission critical parts is under threat. The *Financial Times* reports that tier one supplier Yorozu America recently threatened to stop making suspension components if the automaker didn't fork over \$3.7 million in disputed payments. More worryingly, Yorozu also demanded an irrevocable letter of credit for at least three times its average monthly turnover with GM, roughly \$75 million. Deep Throat reports that another, much larger US-based supplier is also demanding up-front payment from GM. As reported here, if this trend takes root, GM faces a "run on the bank" scenario that would capsize the corporate mothership—whether they like it or not.

Clearly, GM faces dangers from all directions. Pity the poor passengers trapped inside the upside down world of GM.

General Motors Death Watch 70: Locked and Loaded

By Robert Farago, May 6, 2006

Before you can buy a firearm in Rhode Island, you have to finish a gun safety course. My instruction consisted of a pot-bellied ex-State Trooper telling war stories about ballistic incidents and accidents. It was a strangely effective education. Not only did I learn that you shouldn't shoot a crack addict with a .22 (It just makes 'em mad), but I also had Rule Number One drummed into my brain: if you draw your gun, use it. Which is why I'm sure that The United Auto Workers (UAW) is about to bring GM down.

On Thursday, UAW Vice President, Richard Shoemaker, told all locals (unions) covering bankrupt GM parts supplier Delphi to conduct strike authorization ballots by May 14th. The chances of the vote going against the union's request are about the same as Zimbabwe's electorate voting out Robert Mugabe. In other words, 24,000 union workers are about to chamber a round in their Delphi destroyers. The first bullet was loaded by 8,500 members of The International Union of Electrical and Communications Workers, who authorized a Delphi strike back in February. The next four rounds will come from the United Steelworkers, the International Brotherhood of Electrical Workers, the International Association of Machinists and Aerospace Workers and the International Union of Operating Engineers.

Organized labor will de-holster this week when federal bankruptcy judge Robert Drain (yes, really) accepts Delphi's motion to void its union contracts. As sure as Officer Krupke drew his weapon and plugged a hole in the aforementioned crack head, the unions will strike. All the media punditry claiming that the prospect of mutually assured destruction would stay the union's hand will disappear. All those analysts who claimed that union management would do anything to avoid putting Armageddon on their resume will watch as union workers cheer these self-same officials on the picket lines. It won't be pretty, and it will be fatal, for someone

The media has focused much of its recent energy on GM's worker buyout offer as if this expense-trimming plan could somehow denude and neuter union intransigence towards Delphi's proposed salary and benefit reductions. GM's much-heralded early retirement package offered thirteen thousand Delphi workers a lump sum to get the Hell out of Dodge. The UAW reports that just 3,620 Delphi workers have bailed. Although the payoff deadline has been extended to June 30th, it's perfectly clear this plan will have about as much effect on a strike vote as toothpick on a walnut. Not that any of the principals care. While all this has been going on, the UAW, GM and Delphi have all been preparing for war.

What happened to all that talk about GM assuming responsibility for the difference between what Delphi wants to pay its workers and what it currently pays its workers? Gone. Instead, GM's on-again, off-again "subsidy" on Delphi parts—delaying the supplier's contractual agreement to lower its parts prices in the first quarter of '06—is off again. At the same time, the General is stockpiling Delphi parts (including complete vehicles), reducing Delphi content and offering Delphi contracts to other suppliers (e.g., spark plugs now come from Denso, Honeywell and NGK). There is no question whatsoever that GM is racing to reduce its reliance on Delphi

before the unions walk and its tier one, mission-critical parts supplier's business hits triage.

Meanwhile, Delphi is readying itself to give the middle finger to both the UAW and GM. While GM accounts for roughly 60% of its total turnover, Delphi's US operations are the least profitable part of its business. If Delphi jettisons GM's less-than-enormously-rewarding parts contracts, its US labor costs and all those damn lawyers' fees (\$61 million since filing), the supplier still has enough cash flow and foreign capacity—both actual and potential—to survive. Delphi's losses for March were half that of the previous month (\$56 million vs. \$136 million); it could be an indication that Delphi has already begun outsourcing its operations.

It's a domino deal. When the federal judge issues his ruling, the UAW and its fellow unions must strike. Surrendering salary or benefits would be tantamount to accepting the death of unionism. The unions may lose Delphi and GM, but they'll remain intact at Ford and DCX. When the UAW strike begins, Delphi must move its operations overseas. They can't survive with their current US cost structure. And when Delphi stops selling The General parts, GM must die.

The world's largest automaker won't be able to adapt under fire. GM's too Delphi dependent, their bureaucracy too slow and inefficient, their image too tarnished and their finances too precarious to cope. As my firearms instructor said when asked for the best course of action in an impossible scenario, "Gun or no gun, when you're done, you're done."

General Motors Death Watch 71: The Butterfly Effect

By Robert Farago, May 10, 2006

Now that General Motors is poised on the brink of disaster, the smallest setback could send the The General sliding into bankruptcy. What will be the straw that breaks The General's back? Most of the world has focused their attention on New York federal bankruptcy court. They're waiting to see if Judge Robert Drain voids bankrupt parts supplier Delphi's union contracts, and what effect that will have on GM. After all, there's so much to think about . . .

Will the United Auto Workers (UAW) react to the judge's ruling with an immediate strike at Delphi, starving GM of vital parts and driving The General into Chapter 11? Or is UAW boss Big Ron Gettelfinger secretly scheming to use the judge's decision to scare his members into accepting an otherwise unpalatable 15th hour compromise? Does Big Ron still have enough juice to make it so, given that he's up for reelection in June? Will a more radical union leader emerge and convince members of the rank and file to stage wildcat strikes? Will the larger number of Delphi retirees overrule their hotheaded "active" brothers and sisters to save their health care and pension payments?

Will GM CEO Rabid Rick Wagoner buy back Delphi's US operations at the 14th hour to assure a supply of mission critical parts until GM's foreign outsourcing is complete; and then jettison the whole shebang before the UAW contract negotiations in '07? Does GM even have the cash to pull it off? Will the judge's ruling plunge The General's credit rating below the minimum needed for the sale of their GMAC mortgage unit to Cerberus, killing the deal and removing the cash needed to buy out Delphi? Or is Rabid Rick simply hoarding Delphi parts and outsourcing as fast as possible in the hope that he can withstand a late summer strike at Delphi? Have Rick and Ron secretly agreed to a worst case scenario short strike? Could Ron deliver?

Yes, well, the Delphi situation is only one of the storms gathering above GM's head. Lest we forget, the company's suppliers are none-too-happy with their terms of business; GM could not afford a "run on the bank" scenario. And if the banks smell trouble and refuse to guarantee fleet sales . . . Meanwhile, management bet all its chips on the gas-guzzling GMT900 SUVs. Although early sales have been strong, the canary in the coal mine (pickup truck sales) is looking decidedly punk. April sales of the four-wheeled flat-bedded cash cows fell 5.9% compared to last year. Not to put too fine a point on it, every day that gasoline prices stay at or hovers around \$3 a gallon is another bad day for GM—and we haven't yet hit the so-called "summer driving season." If gas prices head northwards from here, if America starts downsizing its fleet in a big hurry, the company's market share will go into free fall. Again. Still.

And then, today, I received an e-mail titled "Quick Question." The correspondent asked "Can you offer your opinion on how GM troubles/possible strike would affect a new Chevy owner? I am strongly considering buying a Suburban next month, but don't know if this would be a good idea." It would be easy to blame me for this communication, dismissing it as the inevitable result of TTAC's ongoing "attack" on GM. I wouldn't recommend it. This is the first time I've been asked that question. It

represents the “third front” in GM’s fight for survival: consumer confidence. If the Delphi situation is allowed to fester, it could be the tipping point that spills GM into oblivion—even without a strike.

Analysts constantly underestimate the importance of all the bad will GM and its dealers have amassed over the years. I’ve got hundreds of THOSE e-mails—from a stricken motorist who was assured by an OnStar representative that there wasn’t a Chevy dealer in Dearborn, Michigan, to a lifelong Cadillac owner whose dealer experience was so awful he promises never to buy another GM product as long as he lives. In fact, “should I buy a vehicle from a wounded company” is more like “why the Hell should I buy a vehicle from a wounded company?” I reckon the media buzz about GM’s bankruptcy is already taking its toll on a company that can not afford to lose a single sale. The smallest bit of bad news could be the sound of butterfly wings beating, drumming up the chaos that spells GM’s doom.

While The General’s flackmeisters will scream bloody murder about self-fulfilling prophecies, current events are the fulfillment of a prophecy made over thirty-five years ago when GM and its fellow domestics responded to higher quality foreign imports with arrogance, derision and scorn. They had their chance to change by their own free will. Now change will be thrust upon them. The death watch continues.

General Motors Death Watch 72: Circumspice

By Bryan Myrkle, May 12, 2006

Growing up near Flint, everyone's dad worked for GM. Not all of our fathers brought home a GM paycheck, but we all lived on GM money. If your dad was a plumber, a shopkeeper or a mortgage broker, GM's wages paid the bills. If your dad was a dentist, GM's health plan paid his patients' bills. That's just how it was. GM was one of your parents, the UAW was the other. We had no idea we were destined to become orphans.

My dad taught shop at Flint Central High School. Since everyone's dad worked for GM, everyone took shop. It was the ideal time and place for teaching drafting, auto repair, woodworking, metallurgy, welding and other productive skills. People believed in those fields. People respected those talents. In the beginning, his classroom was a shrine to hard work and craftsmanship. His students knew they were opening the door to a comfortable life. By the time Dad retired in 1991 the promise had become an empty shell. The excitement and the discipline had simply drained away.

The GM era officially ended for my family in 1980. That was the year Dad brought home a new Volkswagen diesel even though all his previous cars had been Detroit steel. Buying a Rabbit was the kind of radical move that could get you branded a traitor in Flint. Even so, it was a car town. People were intrigued by the German import. Their interest was a sign of things to come. You still find more American autos on the road in Michigan than you do in most other states but their supremacy has faded even here.

Over the years, going into downtown Flint became vaguely sinister, like entering a foreign country. Despite what you might think, it's easy to ignore news reports proclaiming your hometown one of the most dangerous places in America. Eventually, though, the decay becomes so obvious that you can't deny it. And then you start noticing people's reaction when you tell them you grew up around Flint. They wince or grimace, and tell you they haven't been there in years. They're not surprised that you don't live there anymore.

Flint's emigrants took something with them: hope. Can you imagine what it's like for a guy to come off the assembly line after 15 years at \$20 an hour and generous health care benefits, only to be told that his skills are useless and that he'll have to retrain for a \$12 job? That the \$12 job might not even be there? That he might have to leave behind the life he's always known and look for a job, any job, any place he can find it? Multiply that by thousands. It's as if someone repossessed our future, packed it up in the middle of the night, and left. As Bruce Springsteen wrote, "these jobs are going, boys, and they ain't comin' back."

And now GM may go bankrupt. Whether or not GM dodges that bullet, the damage is done. Forget about off-shoring. More jobs are lost to technology and automation than to cheap Chinese and Indian labor. The new plants build twice as many cars with half as many workers, and no protectionist scheme can change that. Even assembly line vets are beginning to accept that the unions can't keep the ship afloat

with all hands on deck, and there's no way our collective strength can turn back the clock. It's every man, every family, for themselves.

With the number of victims growing daily, some still refuse to acknowledge the possibility that it's over. To allow that heresy to creep into their collective conscience is just too painful. GM was the rock our lives were built upon. It's too big to crumble, too hard to crack, too important to fail. It's impossible, isn't it? In fact, Flint has a front row seat to the shredding of America's socio-economic fabric. We're watching the working class culture that's lasted more than 100 years get violently upended, with little idea what—or who—can replace it. If we didn't have the leadership to salvage what we already had, where will we find the leadership to start again from scratch?

I remember Phil Donahue coming to Flint in 1990 to discuss the lay-offs and associated hardships documented by Michael Moore's *Roger and Me*. Folks recognized that Flint was in a tough spot. They reacted to the film and the resulting attention with a mixture of anger, embarrassment and wounded pride. That was a long time ago now. Things are worse today than they were then. The anger's been replaced by resignation. GM, Ford, Electrolux, Steelcase—Michigan is supposed to be about making things. If GM does go down, you may as well rename the whole state, because it won't be Michigan anymore.

General Motors Death Watch 73: Running on Empty

By Ray Wert, May 14, 2006

As any good debt counselor will tell you, paying down your debt isn't enough. You need enough cash on hand to deal with ongoing expenses and extra funds for any major bills. Otherwise, you end-up scrambling to borrow more money and digging yourself into a deeper hole—until you can't. The same rules apply to General Motors. They need to pay their workers, dealers and suppliers on a regular basis, and they need extra money for large, one-time expenses (e.g., worker buyouts). Although GM claims to have enough money to stay the course, the truth is they are only one "exceptional expense" away from Chapter 11.

According to GM's recent quarterly statement, The General has \$17.4 billion in cash, \$1.4 billion in marketable securities and useable assets of \$2.8 billion in their VEBA (Voluntary Employee Beneficiary Association) trust. That works out to \$21.6 billion, an increase of around \$1.2 billion from the prior quarter. The financial markets were heartened by the resulting black ink—even though the increase was more a reflection of accounting practices than a healthy increase in income. Despite this optimism, GM's situation is just as precarious as it was throughout '05; the Delphi dilemma remains dangerously unresolved.

The General's bean counters estimate that Delphi's Chapter 11 filing leaves GM with a contingent liability (a.k.a. a bill) of between \$5.5 and \$12 billion. That's a pretty big range. It's also a curiously precise amount; why \$5.5 billion? Why not \$6 billion? The number reflects the amount of money GM has set aside to deal with their Delphi exposure. Why didn't GM set aside more money? According to the company's quarterly statement, "It is unlikely that a Chapter 11 process will result in both a termination of Delphi's pension plan and complete elimination of its OPEB (post-retirement health care and life insurance) plans."

There are two other possible reasons. First, GM doesn't want to provide an opening for Delphi and the bankruptcy court to raid GM's corporate larder. Second, they ain't got the dough. So, if GM has to shell out at an additional \$6.5 billion to cover its Delphi liabilities, where will they get the money? According to GM, "If any [payments] are required under the benefit guarantees, GM would expect to make such payments from ongoing operating cash flow and financings . . ." In other words, GM asks us to believe it could finance any and all additional Delphi-related expenses above \$200 million per year out of its operating cash flow.

Discounting GM's health-care cost shift, GM earned \$200+ million this last quarter. Do the math: profit gone. If the worst case scenario occurs, if there's a mass retirement or layoff of pensioned Delphi workers, GM would be on the hook for far more than their estimate of \$224 million per year (the amount Delphi paid-out in fiscal year 2004). The \$224 million figure doesn't take into account the expenses GM would incur from the release of an additional 30,000 laid-off Delphi employees—each with benefits and pension liabilities. That would cost The General an estimated \$2.1 billion per year.

Still, that leaves GM \$21 billion and change to work with, right? Subtract \$8 billion in operating expenses for the revolving fund (so they can continue to build cars), deduct \$5.5 to \$10 billion for the Delphi thing, remove \$2 to \$3 billion for debt payments (which look to be spiraling upwards after the Fed Reserve Board announced the up-tick in rates this week), take away \$3 billion for the early retirements package, leave off the \$3 to \$4 billion in overseas funds (which GM can't bring over without tax repercussions) and you've got just enough money to pay for . . . well, nothing.

GM may soon find itself with zero cash reserves. In fact, there are some on this site who point to the recent sale of assets and change in GM's accounts payable policy (to 55 days) and suggest that the world's largest automaker is already running on fumes. In any case, there are plenty of ways GM could find itself with a big bill it simply can't afford: a sudden pull-out by the banks guaranteeing rental car sales, a Delphi strike, suppliers demanding cash up front, a continuing drop in SUV sales due to rising gas prices and more.

A careful reading of GM's quarterly report reveals that GM isn't sure that it can get any more money under its existing line of credit (which is currently being re-written as a secured line). If GM needs more cash . . . there might not be any. Meanwhile, GM can't afford to pay-off and shed excess dealers. It can't afford to invest heavily in new, domestically produced vehicles. It can't market its vehicles properly. If GM's income doesn't rise, it grows steadily, inevitably weaker. At some point, perhaps soon, one unforeseen bill may make Chapter 11 General Motors' best, if not only, option.

General Motors Death Watch 74: The Refresh that Pauses

By Andrew Dederer, May 18, 2006

Last year, GM unveiled a funky retro-styled vanlet called the HHR (Heritage High Roof). Although the HHR has generated some much-needed action on Chevrolet dealers' lots, the vehicle's character and genesis is an ominous sign that all is not well within GM's product development process. For one thing, the HHR is a bin-engineered clone of its competitor, the PT Cruiser, designed by the same man who penned the Chrysler. For another, there was a five-year gap between the PT and the Me-Too. In other words, when it comes to creating products for the US market, General Motors is dim, cheap and slow.

To be fair, GM's current vehicles are generally 80 to 90% as good as the class-leading benchmarks. TTAC readers might not choose a Pontiac Torrent over a Honda CR-V, but there's nothing wrong with the Pontiac that automatically disqualifies it from consideration. Right now that is. A few years down the road, things start to get ugly. When it's time to update a product—not just adding new options and colors but making significant mechanical and cosmetic improvements—GM has been known to let a new vehicle slip seven years or longer between refreshes. In contrast, The General's foreign competition is fully committed to a five or six-year product cycle. As a result, GM's products are falling further and further behind, until they become obsolete. For example . . .

GM introduced its first J-car, the Chevrolet Cavalier, in March, 1981. Eight years later, the Cavalier and its platform-sharing partners (Firenza, Skyhawk, Sunbird, etc.) received curvier styling and some mild mechanical tweaks. Meanwhile, the competition moved in. The third AND fourth generation Honda Civic beat the J-cars first redesign by a year. Six years after that, GM finally unleashed a J-car update. The following year, the sixth generation Civic arrived. Even with a year's head start, GM had managed to put out just two redesigns against Honda's five. Fleet sales and other discounts soon damaged the J-cars so badly GM abandoned the entire model-range. The new Cobalt enjoyed just one year's grace before another new Civic blew it into the weeds.

The story of GM's minivans is even more depressing. GM entered the market in the late 80s with an innovative design (pre-Saturn plastic panels) and fancy Italian styling. Unfortunately, the four-cylinder engines made their vehicles slow, the design made them weird (dust buster) and the architecture was too narrow. Five years after introduction, GM finally ditched the plastic panels and funky noses and fitted a better engine. Seven years passed before GM's next "update": a literal nose job without any significant engineering improvements. Buick and Saturn were added to the fold, offering GM customers four variations on a narrow minivan with ten-year-old mechanicals.

Before GM's first minivan update, Chrysler "jelly-beaned" their people mover and added another door. Once again, Chrysler's product began to dominate the sector. Between the later two GM updates, Honda introduced, and then updated, their superb Odyssey. Honda scooped the cream of the segment from Chrysler, Chrysler was forced down market and GM was relegated to the fringes. More instructively,

Toyota arrived on the scene in 1990, flopped spectacularly, tried again after eight years with an all-new vehicle (the Sienna), tried again after five years of minor success (with another total redesign) and then, finally, gained traction in this highly-profitable segment.

Toyota's tenacity highlights another problem with GM's product updates. Unless a vehicle is very successful or very unsuccessful, The General tends to hold off on expensive redesigns. With GM's [overly] extensive distribution chain, an "adequate" vehicle can sell for years. Unfortunately, these aging vehicles aren't very profitable. Equally important, the non-competitive products are highly unlikely to tempt their competitors' customers, denying GM the conquest sales they need to gain—or maintain—vital market share.

GM's updates also tend to be far less comprehensive than their competitors'. They'll change the shell and maybe the engine (usually for another old pushrod). Remember: an 80% refresh of an 80% car creates a car that's only 64% as good as its more advanced alternative. By contrast, Toyota and Honda are ready, willing and able to change anything up to and including an entire vehicle platform—and still manage to beat GM's update by one or two model cycles. The end result of GM's lethargy is a car in need of a complete re-build (and usually a new name).

Designing and improving cars is hugely expensive. Given The General's current cash crunch, there must be enormous pressure for product developers to cut corners wherever possible. As it is, the endless procession of eighty percent vehicles and too-late refreshes is sending GM's market share into terminal decline. Remember that the Chevrolet Cobalt and the Saturn Relay were designed when GM was flush. Imagine what will happen if they have to skimp.

General Motors Death Watch 75: Desperate Times

By Robert Farago, May 20, 2006

Rabid Rick Wagoner lacks self-esteem. Why else would GM's CEO submit himself to triple presidential humiliation? First, Bush tells GM to take a hike before Rick even shows up with his begging bowl. Then, despite the slight, the head of the world's largest automaker sets up a meet with the Commander-in-Chief (presumably to engage in a vigorous debate about the definition of a "relevant" vehicle). Then Bush cancels the meeting. George heads for the border; Rick detours to Congress to promote corn juice—and reschedules the presidential pow-wow for June. To do what? How long does it take RR to take a hint?

The funny (peculiar) thing is that every time I run out of ways to make the case that GM's [lack of] leadership assures its oblivion, the company throws me a bone. On Wednesday, GM shit-canned—sorry, accepted the resignations of—Controller Paul Schmidt and Chief Accounting Officer Peter Bible. Given GM's recent decision to restate its earnings for the last FIVE YEARS and given the on-going Securities and Exchange Commission (SEC) investigation into GM's payments to its suppliers, its purchases of precious metals (of all things) and a New York grand jury alone knows what else, you'd think the double golden parachute exhibition was enough craven media manipulation for one day. But, no, GM went and hired Jay Alix.

Jay Alix of AlixPartners is what Reuters called a "distressed company financial advisor." No, he's not an anxious number cruncher; Alix' firm helps companies into, through, and, sometimes, out of bankruptcy. We're not talking about your local car dealership, Oriental rug dealer or electronics chain store. AlixPartners has applied its consultancy skills to some of America's largest corporate meltdowns: Kmart, auto-parts maker Dana, the trading firm Refco and . . . Enron. If that last name doesn't trigger some alarm bells, AlixPartners was also hired by WorldCom, whose \$11 billion accounting scandal earned CEO Bernard Ebbers a 25-year jail sentence and his company the title "world's largest bankruptcy."

GM Chief flackmeister Gerry Dubrowski was quick to slam anyone presumptuous enough to make a common sense connection between AlixPartners' extensive Chapter 11 experience and GM's future plans: "We're hiring them for their expertise in the accounting transition . . . We're not hiring them for help in the turnaround effort for our North American operations." If GM was looking for a company to help sort out their "aggressive accounting" problem, why didn't they opt for a large and reputable firm like KPMG? The literal-minded amongst you may also note that filing for bankruptcy isn't exactly the same as helping a turnaround effort.

Meanwhile, as GM reaches into its threadbare pockets to pay for a Chapter 11 expert not to use his bankruptcy expertise, The General has launched a guerilla war to stop people like us telling people like you that people like Wagoner are running the company into the ground. As revealed by *The Detroit News*, GM's so-called "Arlington Project" will deploy some fifty GM flacklings to sixteen US cities. It's part of what the paper called "attempts to secure favorable news coverage." Even discounting the recent bribery attempt by a GM PR firm on former US Labor Secretary Robert Reich

(to ensure positive coverage of GM's worker buyout plan), this program smells of cowardice, desperation and dirty tricks.

For one thing, "Arlington" refers to The McGinn Group's home base. For those of you without a scorecard, The McGinn Group is GM PR Chief Steve Harris' old company. Presumably, financial self-interest had nothing to do with his choice of partners for this under-the-radar PR campaign. Presumably, Harris simply wanted to work with people he could trust—to keep their mouths shut. Anyhow, there's another shadow over the project: Harris chose the sixteen cities because they're "dominated by local media rather than national outlets that have hammered GM in recent months for its sales and financial losses." In other words, they're soft targets.

So, this is the tenor of the times inside Wagoner's GM: do whatever it takes to maintain the status quo. If it means being subservient to the President, so be it. If it means cooking the books behind closed doors, let's retire the people who did the dirty work (with a nice payout and full pensions) and hire a bankruptcy expert (not to mention a former SEC chief) to help us plead out with the feds. If it means doing an end run around the national press, let's send our agents to corrupt local media mavens. Instead of confronting GM's issues head-on, Wagoner's mob is taking the path of least resistance.

When GM's bankruptcy plays out, we may eventually know the truth about the final days of Rick Wagoner's regime. Right now, there's only one man who knows the full behind-the-scenes story, perhaps more comprehensively than Rick Wagoner himself. And Jay Alix is not talking.