October 22, 2009

A big slice of humble pie

I was wrong. I said it. I admit it. Wrong! Wrong, wrong, wrong. Totally wrong. No two ways about it. Wrong.
GM filed for bankruptcy June 1, and nearly every editor, reporter, and blogger seemed to want to jump on the bandwagon and jump all over GM's executives for decades of mismanagement. I didn't think that was fair, and I said so in a **blog on June 4**. Boy, was I wrong!

Everyone knows that U.S. automakers ain't what they used to be. At one time GM had nearly 50 percent of the U.S. market. Its sheer size made it an unwieldy beast. Over the years many automakers rolled out an increasing number of models (expensive!) and found themselves beset with encroaching union demands, increasing foreign competition, growing legacy costs, and so on.

Did the folks in GM's executive suite address these issues, or simply blame them?

In an article titled "**The auto bailout: How we did it**," Steven Rattner provides his perspective on the troubles that befell the automotive industry and, in the cases of GM and Chrysler, their executives' reactions. Of all the people involved in the automotive bailout plan, Rattner had perhaps the best view of all: That of a person with no automotive industry experience. A graduate of Brown University who has worked as a journalist (an economics correspondent for the New York Times), financier, and private equity investor, he was appointed by President Obama to the Treasury Department to be the head of the Presidential Task Force on the Auto Industry.

Certainly GM executives enjoy generous salaries and substantial perks. I won't ruin the suspense by quoting too much from the article, but by his description, many execs didn't put forth much effort; quite a few just went along for the ride. Oh, and guess what? Rick Wagoner, GM's CEO at the time, blamed the financial crisis, oil prices, the dollar-yen exchange rate, and the UAW for any and all problems. And I had such high hopes for him. He really let me down.

According to Rattner, even during the bankruptcy, GM's executives couldn't be bothered to put much thought into running the company. "Under the previous administration's loan agreements, Treasury was to approve every GM transaction of more than $100 million that was outside of the normal course. From my first day at Treasury, PowerPoint decks would arrive from GM (we quickly concluded that no decision seemed to be made at GM without one) requesting approvals. We were appalled by the absence of sound analysis provided to justify these expenditures."

I prowled around the Internet recently, looking for news on the current state of the U.S. automakers. You need a machete to cut through the thicket of not-so-important stories these days—balloon boy this, Rosie O'Donnell that—but I did find a handful of tidbits.

First, the capacity utilization in the automotive industry, which is often in the high 70s to low 80s, fell to less than 37.5 in June. It was 51.2 in September. The industry is still in terrible shape, but it's not as bad as it once was.

Apparently it's too early to talk much about revenues or profitability, but I did find some other news regarding the two that slipped into, and emerged from, bankruptcy earlier this year:

•October 19: **Chrysler restarts PT Cruiser production**

"Chrysler Group LLC on Monday resumed production of its PT Cruiser for the first time since early August …"

•October 20: **General Motors bringing jobs, money to Marion** Referring to a plant in Marion, Ind., "General Motors announced that it is investing $364 million in the plant expansion."

•October 21: **GM commits $202 million for Chevy Volt engine plant** "General Motors Co. will spend $202 million to renovate its Flint Engine South factory to build 1.4-liter four-cylinder engines for the highly anticipated Chevrolet Volt—and for a small car that likely will be even more crucial to Chevy's future success, the Cruze."

Are these moves based on sound business planning or business as usual? Time will tell.

Posted At : 11:08 AM. | Posted By : Eric Lundin