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Will a leaner GM succeed?

di Martin Zimmerman

General Motors Corp. hopes to emerge from bankruptcy as a leaner, greener company armed with a lineup of vehicles that can compete with a growing roster of global rivals.

The big question is whether that formula adds up to a return to profitability -- or simply delays the company's eventual collapse into insolvency.

On Monday in New York, where GM filed for Chapter 11 bankruptcy protection, Chief Executive Fritz Henderson outlined an operating plan that he said would restructure the century-old automaker with "pure, unadulterated speed."

The new General Motors will be dramatically diminished compared to the industrial giant that once embodied American capitalism.

By shedding dealerships and vehicle brands, eliminating employees and plants, selling overseas units and learning to live with a fraction of its former market share, GM will lack the heft to vie for the crown of the world's largest auto company.

It may not even remain the biggest automaker headquartered in the U.S., where it once accounted for more than half of all cars sold. Rival Ford Motor Co., which hasn't accepted government bailout money, may slide into that spot while GM struggles to regain its financial footing.

"GM will be trimmed down in almost every respect," said Michael Robinet, a vice president of consulting firm CSM Worldwide. "And they're not using scissors. They're using a hatchet."

The goal, Henderson said, is to enable the automaker to break even on an operating basis when total U.S. vehicle sales hit 10 million a year, well below the 15 million to 17 million recorded during much of the past decade. U.S. sales are on pace to total about 9.5 million this year.

GM will sell or shut down four of the brands it sells in the U.S. -- Pontiac, Hummer, Saturn and Saab. Pruning these marques, which accounted for 17% of the 2.9 million cars and light trucks GM sold in the U.S. last year, would leave the automaker with Chevrolet, Cadillac, Buick and GMC to stock its North American showrooms.

The move will allow GM to marshal its product design, quality control and marketing efforts behind a smaller number of new vehicles each year, improving the chances of striking a chord with consumers. "By focusing on four core brands . . . we have the best chance of making every one of those new launches pay," Henderson said.

Among the new vehicles the automaker hopes will get the new GM off to a strong start are the redesigned Buick LaCrosse sedan; the SRX crossover and CTS sport wagon from Cadillac; the GMC Terrain and Chevy Equinox crossovers; the Chevy Cruze, GM's new global subcompact; and the reintroduction of the classic Chevy Camaro muscle car.

Analysts are already debating whether the GM tree needs to lose a few additional branches. GMC's big pickup trucks and sport utility vehicles are seen by many as slightly fancier versions of similar vehicles sold under the Chevy badge. Offering vehicles such as the Sierra pickup and the Yukon SUV as higher-priced, option-laden Chevys might make more sense, some analysts suggest, although others disagree.

"They could've gotten away with keeping just Chevy and Cadillac -- a mainstream brand and a premium brand," said John Wolkonowicz, an analyst with consulting firm IHS Global Insight. "But GMC is GM's second-biggest-selling brand in the U.S., and Buick is one of the most popular brands in China."

GM says it expects its U.S. market share to stabilize around 18%, down from 22% last year and more than 50% in the early 1960s. But some analysts think it ultimately could sink to 16% to 17%.

Like all automakers that want to sell cars in the U.S., GM will have to tilt its lineup smaller and more efficient to meet new fuel-economy standards. Consumers have shunned compact gas-sippers when pump prices fall, but Henderson said he was confident that the current lull in gas prices was only temporary.

"We're planning our business assuming that . . . we will see higher oil prices than we have today," Henderson said. "Fuel economy will remain a key driver on the purchase decisions for consumers."

The much-touted Chevy Volt, an extended-range gas-electric hybrid, may not be the game-changer GM hopes. Expected to list for $40,000 when it hits the market next year, the Volt may be too pricey for many buyers looking to save on gas costs -- a conclusion reached by President Obama's auto task force.

But Wolkonowicz expects the cost of the Volt's powertrain technology to come down sharply as it is adapted to other GM vehicles. Moreover, he expects the company to use less-expensive technologies, such as direct-injection turbocharged engines, to achieve fuel savings of 20% to 25%.

On Friday, GM said it would build a subcompact car at a plant in the U.S., a move that may have been in response to criticism of its plans to import subcompacts from China beginning in 2011.

About two-thirds of the cars that GM sells in the U.S. are built here. Under the restructuring plan, that proportion will increase for the first time in three decades, Obama said.

Even so, the restructured GM will have a smaller payroll and fewer factories in the United States. The number of U.S. plants will be cut to 33 by 2012, from 47 last year.

The company is also in talks with Toyota Motor Corp. about the future of their Bay Area joint venture, which produces the Toyota Matrix and the Pontiac Vibe, and is GM's last manufacturing facility in California. Henderson said GM wouldn't be receiving any vehicles from the plant in Fremont once the Pontiac brand is jettisoned and said no decision had been made on whether the U.S. company will have an interest in the plant going forward.

GM's blue-collar workforce in the U.S. will shrink to 38,000 by 2011. That would be down from about 61,000 in 2008 and a peak of 400,000 in 1985. Its salaried workforce will shrink from 35,100 last year to 27,200 this year.

GM's dealer ranks, meanwhile, are already being slashed, with a goal of downsizing its roster of more than 6,000 dealerships to about 3,600.

GM's foreign operations, which accounted for almost half of its $149 billion in sales last year, aren't included in the bankruptcy. A consortium led by Canadian auto parts maker Magna International Inc. agreed Friday to buy GM's European Adam Opel division in a deal that reportedly would allow GM to retain a 35% stake. That would be big enough to give GM continued access to Opel's diesel technology and its mid-sized car platforms, which underpin such offerings as the forthcoming redesigned Buick Regal and Chevy Impala, Wolkonowicz said.

Henderson stressed Monday that GM intends to continue to seek growth overseas, especially in China.

But will GM be able to chart its own course? The bankruptcy restructuring will leave the government owning 60% of the company, and whittling away that ownership stake will be "a question of years, not months," Henderson said.

While the Obama administration says it doesn't intend to micromanage GM, some analysts have carped that the government could meddle in product decisions to push policy goals on fuel economy and emissions standards, or even favor GM when deciding what cars to buy for government fleets.

"It's a very strange predicament," said Robert Reich, former U.S. Labor secretary. "Is the goal to preserve and protect automobile jobs or is it to create a new, lean and mean, slimmed-down and debt-free GM?"

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