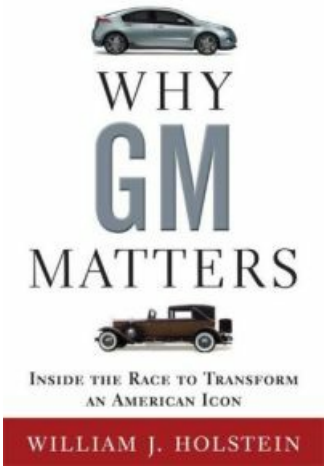

Book Why GM Matters

Inside the Race to Transform an American Icon

William Holstein
Walker & Company, 2009

Recommendation

Everything reported in this book is just right – you only need to adapt to its time frame: The book ends with the 2008 national recession. It explains how General Motors hit a financial crisis in 2005, and how former CEO Rick Wagoner and his team tried to fix things before the federal bailout. Business journalist William J. Holstein's cast of characters includes not only Wagoner and fabled former CEO Bob Lutz, but also a whole constellation of designers, engineers and marketing specialists in Asia, Europe, Australia and Detroit. Holstein tells GM's story complete with behind-the-scenes sagas about the Camaro, the Volt, OnStar and the rise of Buick in China. All this is intriguing information, and the author's insights remain valid even though the book ends with Wagoner testifying twice before Congress in 2008 before his ouster by the feds. Holstein fills you in on the situation before Wagoner's departure, the government takeover of GM and Toyota's recall crisis. If the events leading up to GM's fall and rebirth still intrigue you, *BooksInShort* believes this book delivers fresh reporting about the auto giant and its biggest drama.

Take-Aways

- General Motors is still a significant source of U.S. technological and manufacturing power.
- GM's fiscal crisis, which started in 2005 and extended into the 2008 national recession, stemmed from decades of ignoring soaring health care and labor costs.
- Rick Wagoner, who came up through the ranks at GM, worked to reshape the corporation, where he became CEO in 2000 and chairman in 2003.
- GM learned from Toyota and designed new plants using lean manufacturing.
- The Camaro, designed in Australia and built in Canada and sells it as a is sold in the U.S. as an icon.
- GM developed the OnStar emergency contact system as a way to give drivers "safety, security and peace of mind."
- The Chevy Volt runs 40 miles on battery alone, using gas to recharge the battery, which extends its range to 300 miles
- GM became a global competitor and established 1,600 dealers in China.
- The company made more than 600 changes to the Buick Regal to turn it into a Chinese car.
- The 2008 crisis hit GM hard and made it re-evaluate all facets of its business.

Summary

How General Motors Turned the Wrong Way

General Motors remains important to building America, so insiders resent the shots the media take at it. Outsiders, they say, do not realize how much other sectors of the national and global economies, from robotics to health care, depend on GM's research and purchasing volume. Critics are right about GM's mistakes and how slowly it corrects them, but the company is still at the core of the U.S.'s remaining manufacturing might.

> "The state of GM can be explained in terms of market share won and lost, units sold, debts incurred, and earnings projected."

GM's market position weakened continuously from the mid-'70s through the '90s while its labor expenses and fixed costs, particularly health care, soared. GM's leaders watched their wage, health care and pension costs rise dangerously for decades. Instead of hitting the brakes, every United Auto Workers (UAW) contract seemed to stomp on the gas, accelerating GM's headlong rush toward a crash. Still, executives stuck with the obsolete business model, which had once made GM great, long after its effectiveness waned. Research and development languished as GM let Toyota dominate the hybrid market.

Early Lessons from Toyota

GM and Toyota began collaborating in some areas by 1982, because Toyota was worried about how U.S. politics affected its rising market share, and GM wanted to learn some of Toyota's quality-control and production methods. The firms created a joint venture called New United Motor Manufacturing, Inc. (NUMMI) to discover how American workers could make use of the Toyota Production System (TPS) and to discover what GM could learn from it. GM managers were astonished that the Japanese used no shortcuts, but produced top quality using the same sort of employees who were supposedly doing shoddy work in Detroit.

> "But the story of General Motors is first and foremost a story about people."

After Germany's reunification, GM's then CEO, Lou Hughes, used Toyota's principles to "out-Toyota" Toyota itself. He built a new Opel plant in the former East Germany. The East German laborers were glad to be working and were open to new methods. Each Opel Astra required 25 to 26 worker hours, about half the labor used in other European plants. GM replicated this success worldwide, including innovating new ways to supply the assembly line at its radical, new Blue Macaw plant in Brazil. In the 1990s, GM also renovated several Michigan plants both "replicating" and "improving upon" Toyota's processes.

Rick Wagoner at the Helm

George Richard "Rick" Wagoner Jr. became GM's CEO in 2000. Born in 1953 into the family of a Virginia accountant, he earned his M.B.A. at Harvard before joining GM's treasury department in 1977. GM sent him to Brazil in 1981 and to Zurich in 1987 before he transferred to Detroit in 1992 as CFO. Wagoner held several executive positions, becoming GM's president and COO in 1998, the year he created the Automotive Strategy Board (ASB) to heal chasms among GM's geographic units and to force faster decision making. By 2001, Wagoner, now CEO, and his team believed they had turned the corner on new growth as they pushed to restore GM's world dominance.

> "The battle to transform and...save General Motors...is arguably the largest, most dramatic, and most difficult corporate turnaround effort in American economic history."

On the competitive front, GM's leaders knew they had to bring their cars up-to-date. In the summer of 2001, Wagoner asked retired GM veteran Robert "Bob" Lutz to lead global product development. An industry legend, Lutz is known for his flashy style, and a long history of innovative design and successful products, including the Dodge Viper. Lutz embraced the challenge. He felt that GM personified America and captured the imagination of the country and the world. Lutz is a visionary who inspires people with humor, brilliance and one-line sayings his colleagues call "Lutzisms." Designers soon learned to build what Lutz wanted rather than trying to get him to like their designs. But Lutz also shielded his designers from criticism when something they tried didn't work. He believed that creativity meant breaking rules and taking chances, doing great design first and computing the business arithmetic later.

> GM's "buying patterns...do not touch only Michigan and Ohio and Indiana. It has a national footprint."

In 2002, GM put its once-flashy Camaro back in the garage. A hit when GM introduced it back in 1969 to compete with Ford's Mustang, the Camaro had faded. In 2004, it came "back from the dead" when GM decided to manufacture a new version. Design teams, one under Bob Boniface and one led by Tom Peters (with head designer Sang Yup Lee) competed. After Peters won, Boniface said working on the new Camaro was the highlight of his career, but not being chosen to execute the final design was its low point. How global is GM? Lee, a Korean, worked in Australia to finish designing the Camaro, GM's quintessentially American car – now made in Canada.

> "The gasoline engine will be used to recharge the battery but will never actually power the wheels directly. That's why it's called an extended-range electric vehicle."

Wagoner became GM's chairman in 2003. Seen as an accessible executive for his industry, he focused on gathering data to make solid decisions. By 2005, GM faced serious competition. Its costs were far higher than those of Toyota and other foreign carmakers. Detroit's auto industry was already losing market share when Hurricane Katrina hit New Orleans; oil prices spiked and GM's sales slowed. To stave off crisis, GM sold its financing arm, GMAC, in 2006. In 2007, GM at last reached an agreement with the UAW about future health care costs. GM pledged cash, stock and other assets worth some $55 billion to fund future health care obligations. Then Wagoner invested in manufacturing to close GM's gap against Toyota. As GM developed lithium-ion batteries, the automatic OnStar emergency roadside assistance system and a Chinese manufacturing base, the market wondered if Wagoner could create a new GM business model.

Everything's Up-to-Date in Kansas City

In the decades since World War II, GM has built 10 million cars – Buicks, Oldsmobiles and Pontiacs – at its 3.2 million square foot Fairfax Assembly factory near Kansas City, Missouri. Plant Manager Michael L. Dulaney used lessons from GM's collaboration with Toyota at NUMMI to push lean manufacturing. Because labor and management have a history of working well together there, the transition to lean manufacturing was easier than it might have been at other GM locations. Rather than managers telling operators what to do, the bosses listened to the workers and learned how to support them in achieving top quality production. They built new working groups with skilled leaders, reduced team size, increased line speed and realized real savings. GM hired more workers to produce cars at the faster rate while maintaining quality. This new approach acknowledged that labor and management need each other.

GM's Electric Vehicle

General Motors mounted a fast-track project to create a car with an entirely new propulsion system for the 2007 Detroit Auto Show. Bob Lutz, who had been considering new ways to power cars for many years, turned to ideas from his earlier work with batteries. However, GM had already suffered a fiasco with the plug-in, battery-driven EV-1 in the 1990s, and the company's bigwigs were leery of electric vehicles. Then the success of Toyota's Prius gave batteries the type of fresh, techie cachet GM needed as it tried to reinvent itself. Charged with finding "a way to displace petroleum," Lutz did not want a science project; he wanted his team to make the most technically advanced car possible for a 2007 delivery date. The team developed the Volt, a car with a flexible design that engineers could adapt to use a fuel cell, hydrogen or E85 (85% ethanol, 15% gasoline). This flexibility allowed the advocates of various technological tactics to begin working together. The Volt's gas

engine charges its battery, extending its range to 300 miles from 40 miles on battery alone. Lutz called the car a "game changer" that could restore GM's design and technology luster. GM, as planned, unveiled the Volt at the 2007 Detroit Auto Show.

When You Wish upon OnStar

Modernization through technology is embedded in GM's culture. OnStar, a tremendous tech success, allows drivers to contact the company or summon emergency assistance from their cars automatically after a crash. Chet Huber came from GM's locomotive department to head the development of OnStar, then called Project Beacon. He united GM Auto and its subsidiaries, Electronic Data Systems and Hughes Electronics, in this effort. The team settled on "safety, security and peace of mind" as the satellite-based system's marketing model, and it decided to install the mechanism at GM's factories, not at dealerships, despite challenging plant production schedules. Wagoner determined that OnStar had to be its own business within GM. He praised Huber's profitable results, saying, "It's pretty good for an ex-locomotive salesman." OnStar has saved many lives and helped many stranded drivers.

GM in Asia

By 2008, GM had 1,600 dealers in China, with representation in every province. GM launched its Asian outreach in 1994, when the company tapped Rudy Schlais to head its development in China, where the massive market for cars and auto parts was growing quickly. Schlais learned that the Chinese wanted mid-market Cadillacs and Buicks, but not Chevrolets, since they saw Chevy as a low-end brand. The Chinese sought new cars and designs. Schlais worked with the Shanghai Automotive Industry Corporation (SAIC) to make 600 changes to the Buick Regal to turn it into a new Chinese car. GM and SAIC collaborated on product design through the Pan-Asian Technical Automotive Center, a GM subsidiary staffed with Chinese workers. "If commercial sales are included, GM is the largest seller of foreign vehicles in China."

> "After years of GM people [being] held up as examples of failure, now they're in classrooms where OnStar is being held up as an example of successful innovation."

Globalization initially squeezed GM. Open import rules let Japanese carmakers grab U.S. market share while Japan excluded GM's cars. Some states wooed Japan's auto manufacturing plants, and their workers bought the cars that gave them jobs. GM extended its global reach by buying Korea's Daewoo, which created the Chevy Aveo. Then, after decades of apparent invincibility, Toyota stumbled and created an opening for its rivals. Beginning in 2004, the Japanese firm set a goal it had to strain to accomplish: to hold 15% of the global auto market by 2015. The company struggled to manage "260,000 employees in 26 countries." Toyota's effort to crack the North American full-size truck market faltered when its trucks could not gain marketplace traction.

> "Even a union official who...doesn't agree with everything that Rick Wagoner has done...wants Americans to buy more GM cars."

Throughout the decade, GM continued to globalize. It designed the Cruze in Europe and Asia, but builds it in Ohio. It globalized procurement and parts production to meet its manufacturing demand. As Wagoner noted, "The winning company is the one that gets the best balance between decentralized and centralized, or local and global." While GM is crucial to the U.S. economy, it cannot achieve its maximum market share if it focuses too much on its home country.

GM's National Impact

In 2008, most people in the U.S. were not aware of GM's changes or of its national impact. Public perception about GM's quality and efficiency was some 10 years out of date. The popular media still bashed GM as stodgy. Its marketers realized that its cars had to recapture Americans' hearts and minds to regain market share. GM worked furiously to launch better products, upgrade its marketing, and leverage OnStar to highlight its trendsetting design, quality and value. GM believes its Malibu is superior to Toyota's Camry or Honda's Accord, but luring other brands' loyal customers to GM may require resizing dealer channels to match contemporary sales rather than to mirror figures from the '70s and '80s. However, closing dealerships is a public relations disaster and makes brands look weak. Some critics thought GM couldn't turn things around. They saw the blight in its historic Michigan hometowns (Detroit, Flint, Pontiac) as symbolic of its decline. But advocates praised Wagoner and pointed to Lutz's great products.

> "Revenue from booming global markets has helped keep GM afloat and fund future product programs, even in the midst of the long painful restructuring in North America."

GM's sales crashed during the 2008 U.S. economic crisis; neither dealers nor customers could get credit to buy cars. GM burned through its $16 billion reserve at a rate of a billion per month. As the chiefs of the Big Three Detroit auto firms tried to explain their plight to a congressional committee, investors began shorting GM; Deutsche Bank valued GM's stock at zero. GM presented a plan to the government: It would cut back to concentrate on four brands – Chevrolet, Cadillac, Buick and GMC – and sell or close the rest. Having earned $4 million in 2007, Wagoner reduced his salary to $1 per year in 2008. The UAW demonstrated that it would do whatever was necessary to help GM survive and compete. Then the government had to address the cost of doing business in America, which needed GM to get healthy – and stay healthy.

About the Author

Car buff **William J. Holstein** won awards as a United Press International foreign correspondent, an editor at *Business Week*, and an economic reporter for *U.S. News and World Report*.