



Those who cannot remember the past are condemned to repeat it. Santayana

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WINTER WARNING



General Motors – Motown’s 800-Pound Gorilla Is No Longer in the Room

After being in business for 101 years, General Motors is currently undergoing an historic transformation and downsizing, while in bankruptcy protection. Financial support for the company, emanating from the American, Canadian and Ontario taxpayer; as well as the United Auto Workers Union (UAW) appears to be embedded in the belief that General Motors is a vital generator of national wealth and will emerge from bankruptcy as a transformed, competitive automaker on a global basis. Indeed, interviewed last week by CNBC at the National Summit in Detroit, Thomas Stevens, General Motors Vice-Chairman of Global Product Development stated *that “new technology will allow us to improve fuel efficiency across all products and we have to make great cars regardless of size. Each of our product lines had better be a hit.”*

In 1908, William Durant founded General Motors by acquiring several auto companies all located in Michigan – Oldsmobile in Lansing, Cadillac in Detroit and Pontiac in Pontiac. By 1920, Durant had purchased about 40 companies including Chevrolet, Fisher Body and several auto parts suppliers. However, after a recession in that same year pushed the company to brink of collapse, Durant was forced to abandon his auto empire. In 1923, according to the book *Why GM Matters* by William J. Holstein, the company was purchased by Alfred P. Sloan, Jr. who created a business plan *“with greater controls, particularly financial controls. It was Sloan who figured out a price ladder for GM cars ... so that a buyer in a given price bracket would have only one GM option. He also introduced the concept of annual style changes ...with a schedule that buyers could predict – and anticipate. Between 1923 and 1928, GM opened 19 assembly plants in 15 countries in Europe, South America, Asia, Australia, New Zealand and South Africa.”*

General Motors experienced its heyday in the post war period, peaking in 1962 when its market share was 50% of the global automotive industry. It was a time when one could determine the make and year of dozens of cars just by familiarization. A 1949 Plymouth (the first car this reporter learned to drive had a gearshift behind the steering wheel), a 1966 Oldsmobile Dynamic 88, a 1950 Chevrolet, a 1955 Buick and a 1959 Cadillac could all be easily recognized by their distinctly individual features. It was always an exciting time in the fall of every year when the new car models were unveiled for the following year. Automotive engineers were ever eager to introduce new designs, such as sleek fins for a classy look, or, aerodynamic body shapes that reduced wind resistance. It was a highly competitive industry through which product marketing developed into an art form with commercial jingles such as *“See the USA in your Chevrolet”* resounding from radios and television sets.

Likewise, new features such as directional signals, seat belts, snow tires, radial tires, chains, bucket seats, automatic transmissions, automatic windows and door locks, sunroofs, power steering, air conditioning, recessed door handles, remote door locks and trunk locks and side view mirrors to



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complement the staple rear view mirror, were all introduced through the 1950's and the 1960's. The early directional signals were rather small and faint, so drivers continued to use arm signals to indicate a turn, until a better product was introduced. Certainly, today a driver signaling a turn would likely risk losing his left arm to an oncoming driver running a yellow light. Similarly, the introduction of seat belts presented a real challenge to drivers. Old habits die hard because many drivers felt restricted and uncomfortable, so they had to literally, train themselves over time to make the adjustment for their own safety's sake. Also, automatic transmissions, which had a huge impact on new car buyers initially, were thought by many to be only for sissies; real drivers would never forsake the stick shift. Today, the term 'gearing down' means nothing to most drivers, even if accompanied by the bold, gurgling sound of an Abarth muffler.

It was in the 1970's when GM's long-trusted business plan began to be challenged by foreign automakers. While Japanese manufacturers, such as, Toyota, Nissan and Honda had a minor presence for many years in the American auto industry, they began to assert their competitiveness in earnest within this time frame and GM did next to nothing in response. Moreover, GM began to create other, financial problems for itself when it agreed to give retired workers full pension and health care benefits for life. While ever struggling to keep pace with Japanese standards of quality and efficiency, GM seemed to always be looking in the rear-view mirror when it came to negotiations with unions in many areas, including downsizing, i.e. too little, too late. Indeed, it developed into such a behemoth that by 2008, it had 463 subsidiaries, employed almost a quarter of a million people (90,000 of whom were in America) and provided pension and health care benefits for almost half a million retirees. Annually, GM expended \$50 billion (U.S.) for auto parts and services from an American network of 11,500 suppliers. In the end, by trying to maintain the size of the U.S. auto industry, America's politicians actually stifled GM's hope of continued success, because of its growing uncompetitive status.

Having filed for bankruptcy protection on June 1st. GM's ownership is currently undergoing a massive overhaul. The U.S. Government, having already loaned the company \$50 billion (U.S.) will become the majority owner with 60.8% of GM's common stock; while the Canadian and Ontario Governments, which have provided \$9.5 billion (U.S.), will receive an 11.7% ownership stake. The United Auto Workers' Trust Fund will become a 17.5% owner and the bondholders will have a 10% interest (pun intended). The new General Motors will emerge from bankruptcy later this year having closed 14-16 factories and 2,400 dealerships; and laid off 21,000 hourly-paid workers and 8,000 office staff. The initial target for the new GM in the North American market is to break even with annual sales of 10 million vehicles, commencing in 2010, but given GM's sullied reputation which must be rebuilt and the deepening global economic malaise, such sales targets will prove to be a daunting task at best. Within the next half dozen years, China will surpass America with respect to annual car sales. Since GM has a leading position in the Chinese market with its joint-venture partner SAIC, the company could generate some profit in the decades ahead, because in 50 years' time, the Chinese will have as many cars as exist in the entire world today. However, there is probably a greater likelihood that GM's Chinese operations will eventually, be acquired by SAIC.

One big unknown for the future of General Motors is the question of company managers. Despite the departure of former CEO Rick Wagoner, there are still many GM executives who remain with company. Edward E. Whitacre Jr. former Chairman and CEO of AT&T will become Chairman of the new General



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Motors when the company emerges from bankruptcy in the second half of this year. “I am honoured to be able to serve GM at this critical juncture and take part in its reinvention,” Mr. Whitacre declares. In addition, Steve Rattner, de facto head of the Obama administration’s Auto Industry Task Force and former Deputy CEO of the New York branch of Lazard Freres will have a senior executive post. Rounding out the triumvirate will be Brian Dietz, former President of ADB Industries, which manufactures custom complex mechanical components, including chassis, enclosures and heat exchangers that require design and engineering, precision CNC machining, sheet metal fabrication, mechanical assembly, aluminum dip brazing, welding, adhesive bonding, finishing, inspection and testing.

Accordingly, we note that none of the new GM management team brings any automotive industry experience to the board table, whatsoever. While some industry analysts would say that this may be the refreshing change that GM needs at the top; we question from whence will come the passion, the vision and the leadership necessary to take the new GM into the competitive future of fuel efficient vehicles.

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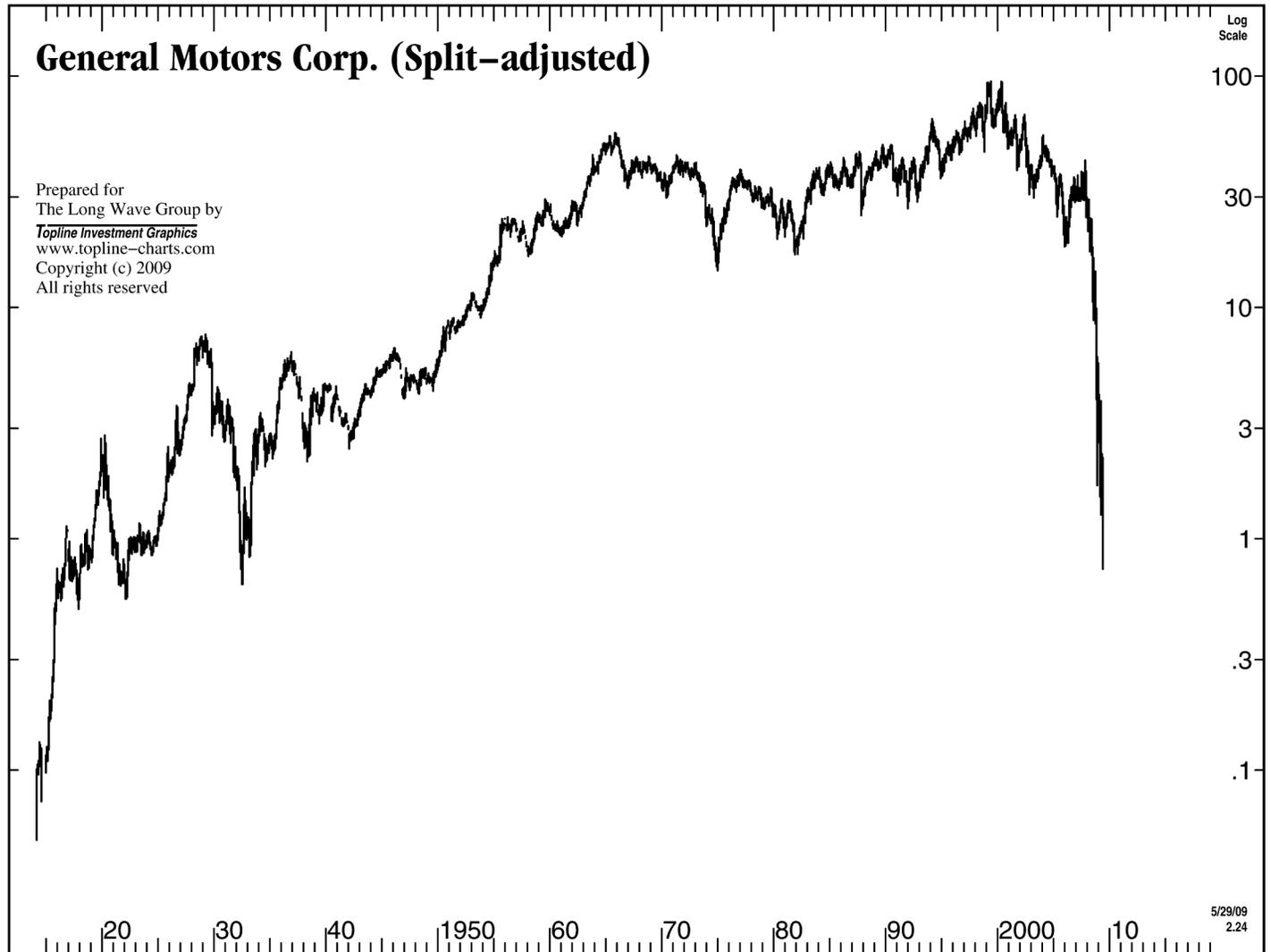
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GM From Beginning To End



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