

GENERAL MOTORS: ACTING STRATEGICALLY?¹

Danielle Cadieux prepared this case under the supervision of Professor David Conklin solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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INTRODUCTION

By 2005, General Motors (GM) faced the results of many years of questionable strategies. Standing at a crossroads, GM had to evaluate its strategies of the past and choose new strategies for the future. A small profit in its automotive operations in 2004 had been more than offset by its losses related to Fiat. Analysts predicted a loss in GM's automotive operations as high as \$4 billion in 2005. The only bright spots were its financial subsidiary, General Motors Acceptance Corporation (GMAC) and its China operations. GM's market share in North America had fallen from 60 per cent in 1975 to slightly more than 25 per cent by 2005. With eight brands and 83 models, GM's marketing strategy seemed confused and confusing. Ron Tadross, of Banc of America, claimed that GM was wasting its money on brands like Buick: "It's like giving CPR to someone who's been dead for a week."² Following its 2005 first quarter automotive loss of \$1.1 billion, Standard and Poor's downgraded GM's bonds to the level of junk bonds, thereby eliminating these from the portfolios of many mutual funds and pension funds. This action raised GM's borrowing costs, including borrowing costs at GMAC.

¹*This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of General Motors or any of its employees.*

²*Keith Naughton, "Revving up GM," Newsweek, July 11, 2005, p.44.*

Over the years, GM had accumulated huge unfunded obligations for healthcare benefits of its retirees, and by 2005, these were estimated at \$77 billion. Current healthcare costs were \$5.6 billion annually. Furthermore, the reduction of returns on its pension fund had compelled GM to increase its pension contributions substantially.

Nevertheless, there were optimists who believed that GM could act strategically in ways that would dramatically increase shareholder value. GM did have a cash reserve of about \$20 billion with which to cover current losses and implement new strategies. Recent surveys by J.D. Power and Associates indicated that GM quality had increased substantially in recent years. GM had already outsourced most of its components to lower cost suppliers, retaining manufacturing of only engines and transmissions. Vehicle manufacturing in China was yielding strong profits. GM's financial activities under General Motors Acceptance Corporation (GMAC) remained extremely profitable, enabling the corporation as a whole to show a net income, of \$2,805 million, in 2004. Some analysts felt that GM should spin off GMAC as a separate corporation, estimating that GMAC alone would be worth \$60 a share, while GM currently traded for \$30 to \$35 per share. In this way, shareholders would have shares in a strong viable financial entity even if GM's automotive operations continued to stumble. Chief Executive Officer (CEO) Richard Wagoner stated that he was confident that GM could maintain its dividend, which gave shareholders a substantial 5.9 per cent annual yield (2005). Meanwhile, billionaire Kirk Kerkorian announced that he would increase his stake in General Motors to 8.8 per cent, indicating his confidence in the future of GM.

TEN FACTORS CHANGING THE INDUSTRY STRUCTURE

Exhibit 1 presents U.S. market shares for major automakers in the years 1990 and 2004. Over this 15-year period, GM's market share fell from 35.5 per cent to 27.3 per cent, and Ford's market share fell from 23.9 per cent to 18.3 per cent. Meanwhile, Toyota, Honda and Nissan climbed from a combined market share of 18.3 per cent to 26.2 per cent. The combined share of all foreign automakers reached 31 per cent.

The industry structure meant that each of the North American Big Three quickly copied each other's decisions in regard to changes in models and prices. This pattern continually threatened sustained profitability. A central reality facing General Motors, Ford and DaimlerChrysler was the more intense competition caused by the substantial increase in market share of foreign corporations. Initially, increases in imports posed the new competitive threat. By the 1990s, however, foreign firms had built a large number of manufacturing plants in both the United States and Canada. By 2005, these "transplants" had achieved the same cross-border tariff concessions under the North American Free Trade Agreement (NAFTA) that the Big Three had traditionally enjoyed. Exhibit 2 presents a list of

plant locations and vehicles of foreign automakers in the United States and Canada. During the 1980s and 1990s, each of the major automotive corporations had also created a global network of production and distribution, resulting in intensified competition in each region of the world.

Faced with the success of their foreign competitors, each of GM, Ford and DaimlerChrysler had experienced decreases in market share and faced significant financial difficulties. Desrosiers Automotive Consultants Inc. pointed to a series of 10 factors that explained the decline of the Big Three.³ At least some of these factors were the result of inappropriate strategies. Furthermore, the Big Three had been rescued by the fortunate creation of vans and sport utility vehicles (SUVs) on which the margins were larger than those of automobiles. Consequently, the Big Three had not had to make the really tough strategic decisions in the past.

1. “It is not what the Big Three have done wrong, it is what everyone else has done right.”

Over the past several decades, foreign competition, Japanese automakers in particular, introduced successful models with widespread customer appeal. Quality and fuel efficiency were particularly important attributes. Beginning with lower priced models, these foreign competitors now offered luxury vehicles and trucks as well, extending their competition throughout the entire product range. Meanwhile, foreign competitors had built numerous plants within North America, using non-union labor. Having an employee group with a much younger age profile than the North American automakers, these transplants faced much lower costs for health care and pensions. While GM retained its position as the number-one vehicle producer in the world, other company groups had also established global networks of production and sales, including Toyota, VW and Renault-Nissan.

2. “It’s all labor’s fault.”

Over the years, the unions at the Big Three had negotiated a multitude of work rules to protect workers and establish seniority rights. However, these work rules impeded the introduction of new technologies and other organizational changes. While previous management might be blamed for these concessions, current management was now in a trap.

³*“Factors in Big Three Market Share Erosion,” Desrosiers Automotive Reports, November 15, 2003, p.2.*

3. “Product, product, product.”

Throughout the 1980s and 1990s, the competition, Toyota and Honda in particular, established a solid reputation for better product quality and more appealing models. The Big Three had been slow to respond.

4. “The fleet-boomerang effect.”

To explain the lower resale values of cars manufactured by the Big Three, as compared to the import competitors, some analysts pointed to large sales by the Big Three to the fleet operations of rental companies, governments and corporations. The lower resale values were a negative issue for consumers considering the purchase of a new car.

5. “The used-vehicle time-lag effect.”

Most first-time buyers purchase used vehicles. Older Big Three vehicles carried the poor quality problems of earlier years, and so first-time buyers had a bad impression, which influenced their later vehicle purchases.

6. “The bandwagon effect.”

The Big Three market share had fallen, and consumers interpreted this trend as reflecting poor value compared with foreign vehicles. Furthermore, the special price discounts of the Big Three were seen by some consumers as an indication of poorer quality.

7. “The lagged incentives effect.”

The repeated use of incentive programs to sell new vehicles served to depress used-vehicle prices as well as new-vehicle prices. This trend became apparent to consumers who would prefer to purchase a vehicle that maintained its resale value. In addition, repeated price and interest rate concessions led some vehicle owners to delay new purchases until another incentive program was announced.

8. “The ‘push’ industry effect.”

The response of the Big Three in recent years included the closing of plants and the reduction of vehicle production numbers, which automatically resulted in a decrease in their market share.

9. “The beat-up, your-closest-friends effect.”

The Big Three had continuously negotiated price reductions from their suppliers and price increases from their dealers. However, this process reduced profit margins of their suppliers and their dealers and hurt the value chain as a whole.

10. “It takes time.”

The Big Three were large complex companies. Significant time was required to change the corporate culture and production technologies. Consequently, they always seemed to be behind their competitors.

CORPORATE RESTRUCTURING AT GENERAL MOTORS

GM had not been standing still in the face of these challenges. In GM’s 2004 annual report, Wagoner discussed a series of major restructuring activities that he claimed now placed GM in a much stronger competitive position.

As we move forward, it’s useful to pause and look back down the road we’ve traveled. When my predecessor, Jack Smith, took over in 1992, he instilled a business philosophy that still guides us today and is embodied in our cultural priorities: product excellence and customer focus, act as one company, embrace stretch targets, and move with a sense of urgency. After more than a decade of driving our business with this philosophy, GM today operates far differently.

For example, in 1992, we had 27 different purchasing organizations just in North America. Today we have one global organization using a common, globally based sourcing process. Given GM’s size and global footprint, this move continues to represent a competitive advantage.

Another area where GM has undergone radical change more recently is in product development, engineering and planning. We have gone from a highly decentralized structure, with 11 different engineering centers in the United States alone, to a single U.S. engineering organization, and this year to one globally integrated product development organization. The institution of common business processes and computer systems, and the ability to fully utilize our global design and engineering talents, will mean more new cars and trucks, shorter lifecycles, lower costs and higher quality. We see many opportunities here going forward.

We also see plenty of opportunity ahead in continued productivity improvement. According to the Harbour Report for North America, GM has had the highest annual productivity improvement among all automakers over the past six years. This is the direct result of applying a common manufacturing system around the world, and leveraging our global manufacturing engineering organization, which will provide us with more flexibility and savings down the road.⁴

However, these restructuring activities had not yet resulted in new designs that could really appeal to the consumer. Somehow, GM had to get more customers into its showrooms.

GM North America (GMNA)

GM was divided into four regions for purposes of administration and reporting. GM's consolidated automotive financial results are presented in Exhibit 3. GMNA was by far the largest market for GM with annual sales of about 5.5 million vehicles. Exhibit 4 presents data in regard to net income, net margin and vehicle sales for GMNA for the years 2002 to 2004. This division provided a relatively small net income in each of the three years, reaching \$1,583 million in 2004. However, profit margins were very thin, being only 1.4 per cent in 2004. In 2005, this thin margin suddenly disappeared. GM's financial statements explained the low net income figures as the result of low volume and an unfavorable product mix. Several one-time events also had significant impacts on net income, including tax benefits of various kinds, changes in reserves for product liability and plant closures.

GM Europe (GME)

As Exhibit 5 indicates, this region had yielded consistent losses for GM, reaching nearly \$1 billion in 2004. GM's annual report explained the 2004 losses as primarily due to continued negative price pressures and unfavorable exchange rates with respect to the weakening of the U.S. dollar. In October 2004, GM announced a major restructuring initiative to reduce its European workforce by up to 12,000 in 2005 and 2006. These restructuring costs would remain a financial burden in future financial statements.

⁴GM Annual Report 2004, p.4.

GM Latin America/Africa/Mid-East (GMLAAM)

Exhibit 6 presents consolidated data for GM's operations in the many countries in these regions. Most of these countries had volatile economies, and their volatility was reflected in GM's net income figures over the 2002 to 2004 period. GM's future success would no doubt depend upon the rate of economic development in these various countries.

GM Asia Pacific (GMAP)

This region represented a bright spot for GM. Its China operations were particularly impressive. In addition, GM experienced improved results in its equity investments in Japan, as well as improved earnings at GM operations in Thailand and India. Exhibit 7 indicates a substantial increase in net income between 2002 and 2004.

Other Operations

Exhibit 8 indicates the exceptional importance of other operations in regard to GM's profit, ranging from a net loss of \$2,134 million in 2002 to a profit of \$442 million in 2003 to a loss of \$1,510 million in 2004. In 2004, GM faced after-tax legacy costs of \$402 million related to employee benefit costs of businesses that it had previously divested, for which GM retained responsibility. In 2002, GM wrote down the value of its investment in Fiat Auto Holdings (FAH) from \$2.4 billion to \$220 million. In 2004, GM wrote off the remaining balance of this investment. However, this was not the end of the story. In February 2005, GM agreed to pay Fiat approximately \$2 billion to terminate their agreement and to settle various disputes related to it. The 2004 results were adjusted to recognize this charge, which explained the substantial loss in other operations in 2004.

GMAC

GM's financial subsidiary, GMAC experienced ongoing financial success, and was a major reason for GM's overall profitability. Traditionally, GMAC had been created as an auto finance company in order to facilitate the sales of GM vehicles. In recent years, GMAC had expanded into diversified businesses and had become a global financial services company, offering mortgages and insurance activities as well as automotive finance. As indicated in Exhibit 9, in 2004 GM's financing and insurance operations yielded net income of \$2,894 million, making a major contribution to GM's consolidated income of \$2,805 million.

GM'S SATURN STRATEGY

Roger Smith, GM's chairman and CEO from 1981 to 1990, set out to make over the world's largest automaker. Smith recognized that GM had become bureaucratic, insular, and dysfunctional, and dedicated his nine-year tenure as CEO to shaking it up. Early on, he tried to figure out why GM's small cars couldn't compete with Toyota's and Honda's. He decided that to be successful, GM needed to slough off all its old ways of doing business and start fresh.⁵

In order to start fresh, Smith decided that GM should create a new manufacturing paradigm, the Saturn, with new employees in a new location, Spring Hill, Tennessee. In order to compete against the flood of inexpensive small cars being imported from Japan, this new Saturn plant would focus on a low-priced small car. Saturn would be a company within a company, having all corporate functions, such as design and marketing, within the Saturn division. In an attempt to make the Saturn vehicle distinctive, the novel concept of a plastic, dent-free body was created. Traditionally, customers had negotiated discounts from list prices, and this transaction often created feelings of antagonism between dealerships and customers. The Saturn marketing approach was to be very different. There would be fixed list prices, without any negotiation of discounts. The concept was that customers would appreciate honesty in their relationship with the dealer. By building in a completely new region, the Saturn would avoid the traditional bureaucracy and labor conflicts that had plagued GM. It was hoped that this more positive corporate culture might serve as a stimulus for the creation of more positive labor-management relations in GM's other divisions.

Customers appreciated the Saturn, and surveys indicated customer satisfaction as high as that with Lexus or Infinity. Saturn owners remained extremely loyal to their dealers. Unfortunately, Saturn's financial results did not reflect the hopes and expectations with which it had been founded. In its initial enthusiasm, GM had believed it could export the Saturn, even to Japan. GM created right-hand drive vehicles, set up dealerships and advertised in Japan, but the hoped-for sales never materialized, and this export effort was abandoned in 2000.

GM's Saturn strategy meant that all features of the automotive design had to be different from those for GM's other brands. For each component and for each aspect of the vehicles as a whole, the Saturn strategy meant a duplication of employees responsible for research and design (R&D), design and engineering. It has been estimated that GM may have lost as much as \$15 billion in its Saturn strategy. By 2005, GM decided to transform Saturn into simply another GM brand, produced in various GM factories across the United States. Engineering and marketing were shifted to GM's centralized operations, and the Saturn

⁵Alex Taylor III, "GM's Saturn Problem," *Fortune*, December 13, 2004, p.119.

vehicles were to share various components with other GM brands. The Saturn dream had died.

GM'S STRATEGY OF ALLIANCES

GM had followed a strategy of creating alliances with local manufacturers in many of the countries where it hoped to expand its business. GM had acquired an equity position in the Swedish manufacturer Saab, which it increased to 100 per cent in 2000. In 2001, GM created a joint venture with the Russian auto manufacturer AvtoVAZ to build an SUV for the Russian market. In 2004, GM entered an alliance with Suzuki of Japan, under which GM would manufacture its GM-designed V6 engine for use in Suzuki trucks and cars. Most dramatic had been GM's alliances with Fiat, SAIC and Daewoo.

GM's Fiat Strategy

Fiat was one of Europe's largest industrial groups, operating in 61 countries and employing more than 220,000 people. The automotive and machinery sector accounted for 72 per cent of Fiat's revenues. In 2000, General Motors and Fiat established a strategic alliance. Fiat had been the weakest of the European car manufacturers, and it sought an international partner to strengthen its competitiveness. Fiat also hoped that the alliance would enable it to increase its sales of luxury models, Alfa Romeo and Lancia, in the United States. Meanwhile, GM had faced sales difficulties in Europe, and hoped that this new alliance would strengthen its competitive position. GM and Fiat planned to reduce costs by sharing engines and platforms. They also anticipated synergies in the reduction of purchasing costs and in financial services. They hoped to strengthen their competitiveness through the exchange of technologies. GM acquired 20 per cent of Fiat Auto in exchange for GM shares that constituted approximately 5.1 per cent of GM's capital. The exchange was valued at \$2.4 billion. GM received the right to purchase the remaining 80 per cent of Fiat if Fiat decided to sell. Legally, this right came to be seen by some as an obligation.

Unfortunately, the strategic alliance was a disaster. The Fiat operations experienced declining sales as their competitors took larger market shares. In Italy, it was not easy for a corporation to impose mass layoffs and factory closings. As sales declined, profits fell dramatically, and Fiat's factories operated at only two-thirds of capacity. The alliance structure had left GM and Fiat as independent companies, and they continued to be competitors. The collaboration that had been hoped for was very slow in materializing, and the cost synergies never appeared. Worse for GM, Fiat shareholders argued that GM was technically obliged to purchase the remaining 80 per cent of Fiat. Legal controversy was resolved only by GM paying an out-of-court settlement of \$2 billion.

GM's China Strategy

Beginning in 1992, GM created many joint ventures in China, principally as a 50 per cent partner with government-owned Shanghai Automotive Corporation (SAIC). While GM had achieved outstanding results to date, nevertheless a plethora of competitors was fighting for market share. China had more than 200 car makers, most of which were relatively small Chinese firms. These domestic firms, solely owned by the government, had a 40 per cent market share.

A series of issues threatened GM in China, and several of these issues raised doubts about GM's strategy. China's entry into the World Trade Organization (WTO) had led many to hope that the government's interventionist policies would come to an end. However, in 2004, the government of China promulgated a series of rules in regard to the motor vehicle sector, making it clear that intervention would be ongoing. Of particular concern was the continuing requirement that foreign ownership of assembly factories would be limited to 50 per cent, requiring a government-owned enterprise as an equal partner. Meanwhile, intellectual property was not being protected in the way that automakers had come to expect in other countries, causing concerns about Chinese competitors copying the models and designs of foreign corporations. Huge investments by competing firms would result in substantial increases in production volumes, threatening a reduction in prices, and consequently, in gross margins and profits.

Of central concern was the risk that the domestic partner might create an alternative production facility and compete against the joint venture; or the government of China might arbitrarily dissolve the joint venture and encourage SAIC to purchase GM's interest in the joint venture. Nationalization of GM's interest seemed an extreme possibility, but a possibility that could not be completely ruled out. If any of these developments were to occur, GM might now be creating its own worst enemy — and not just in China, but perhaps globally. Nothing would prevent SAIC from exporting to GM's markets throughout the world.

Should it stand by while its partner SAIC and others created a vibrant export base, becoming GM competitors throughout the world? Or should GM take the initiative and use its low-cost China facilities to export to North America and Europe, perhaps expediting the closure of plants there?

GM's Daewoo Strategy

In 1999, it appeared that Daewoo was collapsing under its debt of more than \$16 billion. In October 2002, GM created an alliance to purchase Daewoo assets. A new corporate entity was given the name GM Daewoo auto and technology company (GMDAT). As of December 31, 2002, GM had invested \$251 million in

GM common stock for its purchase of 42.1 per cent of GM Daewoo, and Daewoo's creditors owned 33 per cent. Suzuki and SAIC had a 14.9 per cent and 10 per cent equity interest, respectively, in GM Daewoo. With this strategy, GM gained immediate access to the large and growing automotive market in Korea. Furthermore, GMDAT would be able to provide low-cost vehicles for GM dealers throughout the world. GMDAT's biggest market has been Europe, and in 2005, all of these Korean-made cars deleted the Daewoo nameplate and replaced it with the Chevy logo.

In earlier years, Daewoo had achieved a 33 per cent market share in Korea, but in 2004, GMDAT was able only to reach a 9.5 per cent market share. Furthermore, as the Korean yuan grew in value, GMDAT exports would be hurt. Labor conflicts had resulted in pay increases of 13.5 per cent in 2003 and 11 per cent in 2004, reflecting the strong union position in Korea. Meanwhile, Suzuki received cars assembled by GMDAT as part of its alliance arrangement. However, Suzuki found that these vehicles had serious quality problems, leading to concerns about their alliance. Analysts claimed that the company is still losing money, but that the earnings picture is improving.

GM'S "NON-MARKET" STRATEGIES

Governments throughout the world were continually implementing public policies that impacted automakers' strategies. GM's strategies for health care and pensions — and even for investment location decisions — were impacted by the degree of government financial assistance, and by government regulations in regard to funding requirements. While the average cost of health care per vehicle exceeded \$1,500 annually in the United States, many governments, including Canada's, provided free health care to residents, reducing the cost of production and influencing plant location decisions.

For several decades, governments had viewed the automotive industry as an important creator of jobs, both directly in assembly operations and also indirectly in purchases from suppliers of parts and services. Consequently, governments offered substantial financial assistance to automakers that would promise new plants or R&D facilities. This situation led to continual lobbying by each automaker for government financial assistance. Exhibit 10 indicates the size of government subsidies from U.S. states to attract new plants, from 1993 to 2002. Many analysts pointed to this process as one reason for the global overcapacity. This process also entered into decisions concerning plant closures. In 2005, for example, General Motors announced its \$2.5 billion "Beacon Project" that it claimed would create 500 new jobs in Ontario, Canada. GM promised to upgrade its assembly operations and also to establish new research and training centres. As part of this strategy, the Ontario government promised to contribute \$235 million, and the Canadian federal government promised \$200 million. Ontario's

contribution would come from a new automotive fund recently established by the Ontario government to counter the subsidies offered by Mexico and U.S. state governments. However, with GM's announcement of plant closures and dismissals, the Ontario and Canadian governments became involved in balancing possible job losses in GM's restructuring against possible reductions in their promised subsidies. This process of government financial assistance would impact where GM would eliminate jobs and where GM would introduce new technologies and equipment.

Governments throughout the world were also concerned about their environmental policies to reduce pollution and carbon dioxide emissions, to replace gasoline with alternative fuels and to increase mileage.

GM's Healthcare and Pension Strategies

As of 2005, GM had 181,000 employees in North America. However, as a result of retirements, GM had about 679,000 families who relied on it for pensions and reimbursement of healthcare costs. GM's annual total cost for health care in 2005 reached \$5.6 billion, which was the equivalent of \$1,500 per vehicle. This amount per vehicle was three times the level of Japanese automakers who had much younger workforces and fewer retirees. United Auto Workers (UAW) members paid only seven per cent of their healthcare costs, while GM's white-collar workers paid 27 per cent. By 2005, GM was attempting to roll back these enormous healthcare obligations.

Meanwhile, the decrease in global interest rates and the flattening of stock market returns meant that the amount of money set aside to fund pensions was no longer adequate. In 2002, GM had a pension shortfall of \$19 billion, an amount as large as its market capitalization at the time. In response to this shortfall, GM increased its debt by \$16.5 billion from the bond market, and contributed this capital to its pension fund. It was unclear how much GM would have to contribute in future years in order to maintain adequate funding for its pension programs.

In view of the enormous and steadily increasing financial obligations for its healthcare and pension programs, some analysts felt that GM should plan to follow the example of many U.S. steel and airline corporations who entered Chapter 11 bankruptcy in order to shed such liabilities. In such cases, the government's federal insurance agency would be obliged to accept responsibility for at least some of these obligations, but the federal agencies' funds were already running low. Furthermore, shareholders would lose all or most of their equity.

In 2005, GM threatened to unilaterally cut benefits for retired UAW workers, but the UAW contended that such action would violate their contract. In a display of good faith, the UAW hired investment banker Lazard Ltd. to analyse GM's

financial obligations, together with the New York law firm of Cleary, Gottlieb, Steen, and Hamilton. The union's position was that in earlier negotiations, union members had chosen to accept lower wage increases in return for higher non-wage health and pension promises. From this perspective, GM had a legal and ethical obligation to continue these benefits. GM had created its own dilemma.

GM's Environmental Strategy

Many governments were actively pursuing the objective of increasing the gasoline mileage in order to reduce gasoline consumption and emissions. Of special importance, the U.S. government had implemented corporate average fuel economy (CAFE) standards that were at a level of 21 miles per gallon in 2005. Under these mileage regulations, each manufacturer had to reach the fleet-wide mileage target. Honda and Toyota had been successful in selling small cars and their light-weight trucks, and so were able to achieve the fleet-wide CAFE target relatively easily. For GM, however, the predominance of large vehicles in the fleet made the attainment of the CAFE target far more difficult. Consequently, GM was forced to sell its smaller trucks at lower profit margins in order to raise its fleet-wide mileage average to the government's requirement.

Automotive makers were pursuing several alternative engine modifications as a way of substantially increasing gasoline mileage. Some planned to rely on batteries that would power electric motors, which might drive all four wheels or just the front wheels. In other strategies, batteries or some other electrical source would act as auxiliary power in a hybrid drive system. At this point in time, hybrid systems essentially had to contain two separate but related power trains. As early as 1996, GM had created an all-electric vehicle, the EV1, which relied on lead acid batteries. This vehicle had a range of only 55 to 130 miles, after which the battery pack required a five- to eight-hour charge. GM received government financial incentives, but invested more than \$1 billion of its own funds. However, GM's EV1 had fewer than 1,000 customers in its first four years.

Meanwhile, GM was working on the development of a six-cylinder diesel engine for some SUVs. Toyota had created a battery and gasoline hybrid engine for its new Prius and for an SUV. The Prius was selling very well even at a premium price. BMW was working on the creation of a new kind of engine that could use either gasoline or hydrogen. Burning hydrogen would eliminate tailpipe emissions, but hydrogen was highly flammable, relatively expensive and available at only a few filling stations.

Like several other automakers, General Motors continued to count on fuel cells to produce electricity, with only water as a byproduct, and most automakers had developed test vehicles. In 2005, GM announced its intention of developing by 2010, a hydrogen fuel-cell vehicle that could compete on cost with traditional

vehicles. It remained to be seen what GM's competitive position would be in regard to these new technologies.

As a multinational corporation, GM faced the dilemma that some of the nations in which it operated had signed the Kyoto Protocol, committing to a reduction in carbon dioxide emissions, while the United States and some other countries had not made such a commitment. Faced with international differences in legal obligations, General Motors created a voluntary goal of reducing carbon dioxide emissions from its facilities worldwide by an average of eight per cent from its 2000 levels. By 2005, GM was nearly three-quarters of the way towards this global emissions-reduction goal. As part of this process, GM created an interactive internal website to help the company monitor its energy use and CO₂ emission reduction around the world, collecting data from 155 facilities. GM's achievement was based on technological advances, the use of alternative fuels and the implementation of more efficient manufacturing operations.

ACTING STRATEGICALLY IN 2005/06

In the summer of 2005, GM dramatically offered employee discounts to the general public, with the hope that these substantial price cuts (of as much as 40 per cent off list-price) would attract customer interest and reduce inventories. GM's CEO, Richard Wagoner, also announced that he would cut the number of employees by 25,000. In June 2005, Wagoner announced a new four-step strategy:

- Increasing spending on new cars and trucks;
- Clarifying the roles of each of GM's eight brands;
- Intensifying efforts to reduce costs and improve quality; and
- Continuing to search for ways to reduce skyrocketing health care expenses.⁶

How GM could achieve these four objectives was not clear, particularly since they covered a diverse complexity of issues, and strategies to achieve one objective might conflict with strategies to achieve the others. Although contracts with the U.S. UAW were valid until 2007, Wagoner stated his intention to negotiate lower healthcare costs immediately in GM's U.S. operations. Union leaders were not sympathetic. Because of significant differences in publicly funded healthcare systems between Canada and the United States, this concern for escalating healthcare costs was not as important an issue in Canada — adding further complexity to GM's labor negotiations. Canadian contracts were up in 2005, and Canadian Auto Workers (CAW) President, Buzz Hargrove, presented a tough bargaining position.

⁶"Canada Will Suffer as GM Cuts 25,000 Jobs: CAW," [http://www.ctv.ca/servlet/ArticleNews/print/CTVNews/1118151461147_33?hub=Top Story](http://www.ctv.ca/servlet/ArticleNews/print/CTVNews/1118151461147_33?hub=Top%20Story), accessed July 12, 2005.

Faced with the particularly poor performance of GM's North American division in 2005, Wagoner decided that he would personally assume daily responsibility for this division. In a statement to the media, Wagoner justified this peculiar decision in the following words: "Given the challenges we face in North America, it makes sense for me to assume control of GM North America's day-to-day operations and shorten the lines of communication and decision-making."⁷ Meanwhile, Wagoner shifted the responsibilities of GM's former North American chairman, Bob Lutz, and GMNA President Gary Cowger to global product development and global manufacturing and labor respectively. This change was explained as an attempt to strengthen GM's global focus. Wagoner also announced a new strategy in regard to vehicle models, pricing and marketing. "If we had a chance to re-run the last five years . . . we probably would have done a little more thinking about making sure that each product was distinctive and had a chance to succeed."⁸

Of its eight brands, only Chevrolet and Cadillac would continue to offer a full line of vehicles. With each of the other six brands, certain models would be eliminated, thereby reducing duplication. GM expected that this strategy would position each model uniquely in a way that could be better understood by potential customers. It was anticipated that GM might completely eliminate either or both of the Buick and Pontiac brands. Many dealerships would offer more than a single brand in order to provide a range of options. Related to this reduction and consolidation of models was the adoption of "value pricing." GM stated that it would eliminate its frequent incentive programs and replace them with sticker prices that would be much closer to the actual final price that a customer would pay. GM expressed the view that this would make it easier for potential customers to compare the price of each GM model with the price of a corresponding model of some other automaker:

GM is repositioning prices on some vehicles for 30 of its 76 models. Including some of its best-selling vehicles. The base price of the Saturn Ion2 sedan, for example, was reduced \$2,455, positioning it almost \$1,335 below a base 2005 Honda Civic DX.

For 2006, the base Chevrolet Malibu is \$1,835 below the 2005 version, placing it about \$2,600 below the 2005 Toyota Camry.

Standard equipment has been added to many 2006 GM models. For example, Buick has added as standard a Quiet Tuning package, a year of OnStar service, Rear Park Assist and Theft Deterrent system on Rendezvous, along with the 4 year/50,000 mile warranty,

⁷"GM's CEO Takes Control of Auto Giant's North America Division," <http://msnbc.msn.com/id/7380869>, accessed August 15, 2005.

⁸David Olive, "Can GM gear back-up?" *Toronto Star*, July 5, 2005, p.C2.

without raising the base price. This represents a \$1,500 value to the consumer.⁹

Related to these changes in strategy, GM launched a new advertising program with the theme “Only GM.” This advertising campaign focused not on specific brands, but on the umbrella organization itself, placing the GM logo at the forefront in advertisements for the entire corporate entity. One theme of significance was that GM planned to introduce two new safety features in all of its vehicles by 2010: OnStar in-vehicle communications service and electronic stability control. Another “Only GM” advertisement emphasized that the company had 20 vehicle models that could achieve 30 miles per gallon or more. Whether this new approach of advertising the corporate parent rather than specific brands would be successful remained an open question.

GM had a history of bold strategies in a wide variety of issues. However, by 2005, many of these strategic decisions seemed to have been inappropriate. Some that were undertaken for short-term gain had disastrous long-term consequences. Exhibit 11 indicates GM’s very poor performance compared with other global automakers. Many strategies had seemed disconnected, lacking an overall vision or purpose. Perhaps the 2005/06 strategies could also be criticized from this perspective. Whether the 2005/06 strategies could achieve sustainable profitability — or whether they would also bring undesirable consequences — was a subject of importance to employees, shareholders and governments throughout the world.

⁹“GM Promises Consumers Outstanding Value in their Purchase,” *www.theautochannel.com*, accessed August 16, 2005.

Exhibit 1

**U.S. MARKET SHARE OF MAJOR AUTOMAKERS
(percentage)**

	1990	2004
GM	35.5	27.3
Ford	23.9	18.3
Chrysler	12.2	13.0
Toyota	7.6	12.2
Honda	6.2	8.2
Nissan	4.5	5.8

Source: Christine Tierney, "Big 3 Market Share Dips to All-time Low," *The Detroit News Auto Insider*, January 5, 2005, p.6.

Exhibit 2

FOREIGN AUTOMAKERS WITH MANUFACTURING PLANTS IN THE UNITED STATES

Plant Location	Vehicles Made There
BMW	
Spartanburg, SC	X5 and Z4
Honda	
East Liberty, OH	Civic and Element
Lincoln, AL	Odyssey and Pilot
Marysville, OH	Acura TL and Accord
Hyundai	
Montgomery, AL	Sonata and Santa Fe
Mitsubishi	
Normal, IL	Eclipse, Endeavor and Galant
Warren, MI	Raider
Nissan	
Canton, MS	Infiniti, QX56, Altima, Armada, Quest and Titan
Smyrna, TN	Altima, Frontier, Maxima, Pathfinder and Xterra
Subaru	
Lafayette, IN	Baja, B9 Tribeca, Legacy and Outback
Toyota	
Fremont, CA	Corolla and Tacoma
Georgetown, KY	Avalon, Camry and Camry Solara
Princeton, IN	Sequoia, Tundra and Sienna

Source: Sharon Silke Carter, "U.S. Carmakers See Midwest Dominance Fade," *USA Today*, www.usatoday.com/money/autos/2005-08-02-midwest-cars-vs-atlanta, accessed August 2, 2005.

Exhibit 2 (continued)

FOREIGN AUTOMAKERS WITH MANUFACTURING PLANTS IN CANADA

Plant Location	Vehicles Made There
CAMI Automotive Inc. Ingersoll, ON	Equinox; a GM-Suzuki joint venture
Honda Canada Manufacturing Inc. Alliston, ON	Acura EL, Civic Acura MDX, Pilot
Toyota Motor Manufacturing Canada Inc. Cambridge, ON	Corolla and Matrix Lexus RX330

Source: <http://strategis.ic.gc.ca/epic/internet/inauto-auto.nsf/en/am00767e.html>, accessed August 24, 2005.

Exhibit 3

GM AUTOMOTIVE AND OTHER OPERATIONS FINANCIAL REVIEW
(for years ended December 31)
(in \$ millions)

	2004	2003	2002
Auto & Other			
Total net sales and revenues	161,545	155,831	150,250
Income (loss) from continuing operations	(89)	35	93
(Loss) from discontinued operations	-	(219)	(239)
Gain on sale of discontinued operations	-	1,179	-
Net income (loss)	(89)	995	(146)
GMA net income (loss) by region			
GMNA	1,583	811	2,992
GME	(976)	(504)	(1,011)
GMLAAM	85	(331)	(181)
GMAP	729	577	188
Net income (loss)	1,421	553	1,988
Net margin	0.90%	0.40%	1.30%
GM global automotive market share	14.50%	14.60%	15.00%
Other			
(Loss) from continuing operations	(1,510)	(518)	(1,895)
(Loss) from discontinued operations	-	(219)	(239)
Gain on sale of discontinued operations	-	1,179	-
Net income (loss)	(1,510)	442	

Source: GM Annual Report 2004.

Exhibit 4

GM NORTH AMERICA
(for years ended December 31)

<i>(\$ millions)</i>	2004	2003	2002
GMNA			
Net income	1,583	811	2,992
Net margin	1.4%	0.7%	2.6%
<i>(in 000s of units)</i>			
Wholesale volumes			
Cars	2,271	2,340	2,547
Trucks	3,193	3,267	3,174
Total GMNA	5,464	5,607	5,721
Vehicle Unit Sales (000s units)			
Industry - North America	20,275	19,841	20,135
GM as a percentage of industry	26.7%	27.4%	27.9%
Industry - United States	17,302	16,970	17,143
GM as a percentage of industry	27.2%	28.0%	28.3%
GM cars	24.9%	25.7%	25.4%
GM trucks	29.0%	30.0%	31.0%

Source: GM Annual Report 2004.

Exhibit 5

GM EUROPE
(for years ended December 31)

<i>(\$ millions)</i>	2004	2003	2002
GME			
Net (loss)	(976)	(504)	(1,011)
Net margin	-3.2%	-1.8%	-4.2%
<i>(in 000s units)</i>			
Wholesale volumes			
Cars	1,620	1,563	1,545
Trucks	97	94	100
Total GME	1,717	1,657	1,645
Vehicle Unit Sales (000s units)			
Industry	20,606	19,537	19,340
GM as a percentage of industry	9.5%	9.3%	8.6%
GM market share - Germany	10.5%	10.4%	10.2%
GM market share - United Kingdom	13.9%	13.7%	12.7%

Source: GM Annual Report 2004.

Exhibit 6

GM LATIN AMERICAN/AFRICA/MID-EAST
(for years ended December 31)

<i>(\$ millions)</i>	2004	2003	2002
GMLAAM			
Net income (loss)	85	(331)	(181)
Net margin	1.0%	-6.1%	-3.5%
<i>(in 000s units)</i>			
Wholesale volumes			
Cars	586	438	443
Trucks	183	123	197
Total GMLAAM	769	561	640
Vehicle Unit Sales (000s units)			
Industry	4,240	3,585	3,637
GM as a percentage of industry	17.4%	16.3%	17.0%
GM market share - Brazil	23.1%	23.3%	23.0%
GM market share - Brazil	23.1%	23.3%	23.0%

Source: GM Annual Report 2004.

Exhibit 7

GM ASIA PACIFIC
(for years ended December 31)

<i>(\$ in millions)</i>	2004	2003	2002
GMAP			
Net income	729	577	188
Net margin	10.4%	10.8%	4.2%
<i>(in 000s units)</i>			
Wholesale volumes			
Cars	203	203	185
Trucks	88	70	220
Total GMAP	291	273	405
Vehicle Unit Sales (in 000s units)			
Industry	17,070	15,925	14,503
GM as a percentage of industry	5.2%	4.9%	3.4%
GM market share - Australia	19.4%	20.4%	22.6%
GM market share - China	9.3%	8.6%	4.2%

Source: GM Annual Report 2004.

Exhibit 8

GM — OTHER OPERATIONS
(for years ended December 31)

	2004	2003	2002
<i>(\$ millions)</i>			
Other			
Total net sales and revenues	410	1,318	895
(Loss) from continuing operations	(1,510)	(518)	(1,895)
(Loss) from discontinued operations	-	(219)	(239)
Gain from sale of discontinued operations	-	1,179	-
Net (loss) income	(1,510)	442	(2,134)

Source: GM Annual Report 2004.

Exhibit 9

GM — CONSOLIDATED RESULTS
(for years ended December 31)

<i>(\$ millions)</i>	2004	2003	2002
Consolidated			
Total net sales and revenues	193,517	185,837	177,867
Income from continuing operations	2,805	2,862	1,975
Net income	2,805	3,822	1,736
Net margin from continuing operations	1.40%	1.50%	1.10%
Automotive and Other Operations			
Total net sales and revenues	161,545	155,831	150,250
Income (loss) from continuing operations	(89)	35	93
Net income (loss)	(89)	995	(146)
Financing and Insurance Operations			
Total revenues	31,972	30,006	27,617
Net income	2,894	2,827	

Source: GM Annual Report 2004.

Exhibit 10

**GOVERNMENT ASSISTANCE³ BY ASSEMBLY PLANT
1990 to 2003
(in US\$ millions)**

Year	Manufacturer and Location	Plant Investment	Assistance	% of Investment
2002	Hyundai, Alabama	1,000	253	25.3
2001	Toyota, Alabama	220	29	13.2
2000	Nissan, Mississippi	930	295	31.7
1999	Honda, Alabama	440	158	35.9
1995	Toyota, Indiana	700	72	10.3
1993	BMW, South Carolina	645	130	20.2
1993	Mercedes-Benz, Alabama	380	253	66.6

Source: Chris Hurren, "Government Assistance and the Auto Industry," March 2003.

Exhibit 11

GLOBAL AUTOMAKERS: KEY FINANCIAL DATA

	2004 Sales (\$ billions)	Market Cap (\$ billions)	Return on Equity*	Operating Profit Margin*	Stock Change Since 11/17/98 (US\$)
GM	193.5	20.5	-4.4%	-0.2%	-38.6%
Daimler	176.6	51.5	7.4%	4.1%	-46.6%
Toyota	172.6	139.1	13.2%	8.1%	42.9%
Ford	171.6	19.8	18.2%	3.8%	-79.8%
Nissan	79.8	47.8	21.3%	9.6%	228.9%
BMW	55.1	31.2	12.9%	9.1%	77.5%

* April-June Quarter 2005

Source: "Dark Days Daimler," *BusinessWeek*, August 15, 2005, p.36.