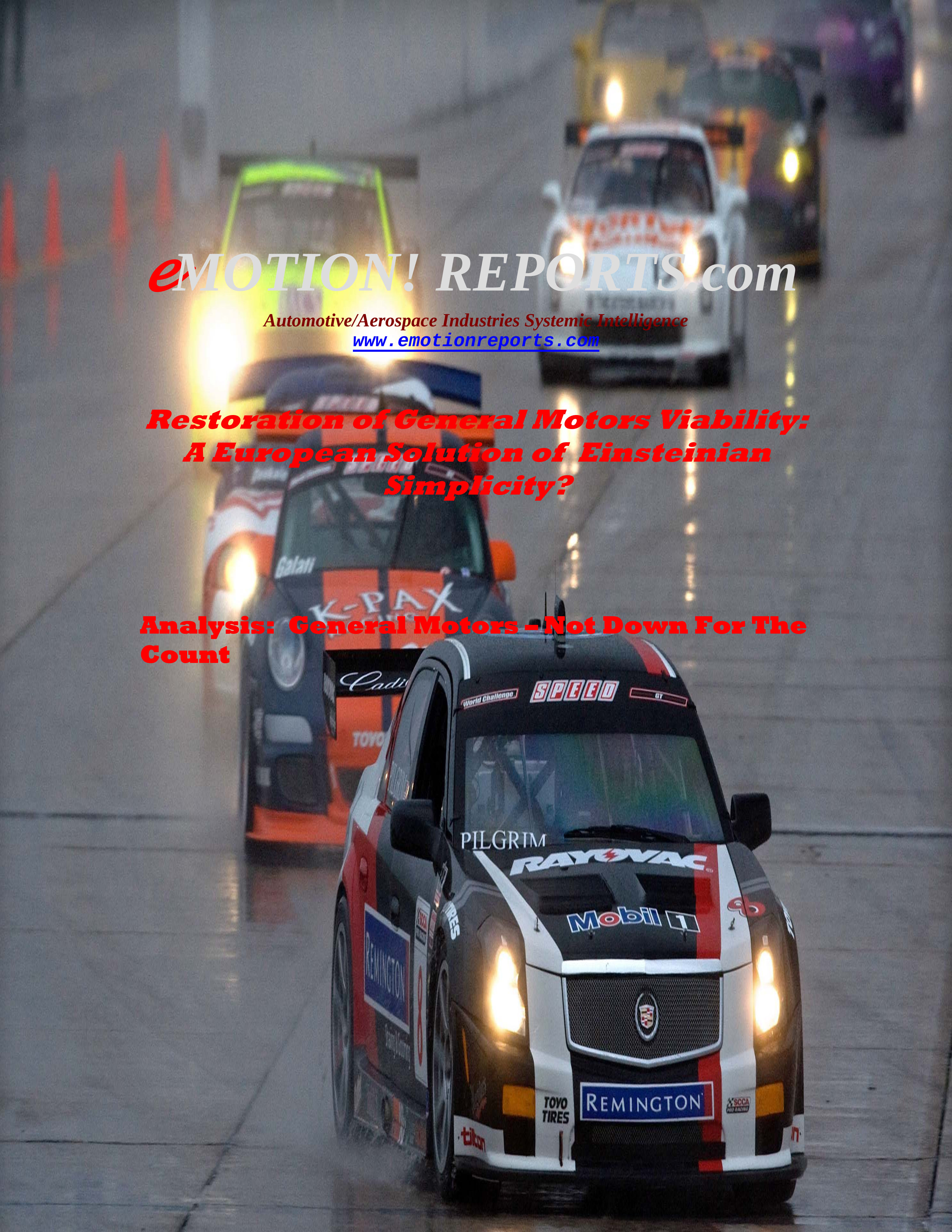

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Restoration of General Motors Viability: A European Solution of Einsteinian Simplicity?

Analysis: General Motors – Not Down For The Count

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Restoration of General Motors Viability: A European Solution of Einsteinian Simplicity?

By *e*MOTION! Staff

Reference Media Advisory of 2 July 2008 (http://www.emotionreports.com/home.html)

Prologue… ***It's almost as if Wall Street has decreed the demise of General Motors, long the world's largest corporation. As GM reported an 18 percent sales decline for June, 2008 (actually better than many analysts had predicted) the rush to sell shares of its stock increased, sending the stock price to a dismal $9.98 a share the day after its six-months sales reports were released. But GM has an international secret that, despite the doom and gloom predictions of its critics, should guarantee its resurgence in months, not years. It's ready. It's available. And if GM chooses to use it, it promises to bring the beleaguered auto maker back to the forefront of American industry and to win back consumers who have been suffering with glazed eyed disbelief at the escalating cost of vehicle fuel. The only problem we see as we examine how things went wrong and how they can become right rather quickly, is that Wall Street, which has surreptitiously been pushing to dismantle an American icon, probably won't want to hear it.***

General Motors - Not down for the count

A few Christmases ago, a Wall Street analyst sat at a dinner party in the exclusive East end of Long Island, New York and in the midst of a conversation about the American auto industry, stated with conviction that Ford Motor Company couldn't survive more than a few months. It undoubtedly was destined for bankruptcy and a sell-off of its assets.

The pronouncement wasn't that unusual. Wall Street gurus regularly have lashed out at the ankles of America's most important industry, as if taking a swipe would somehow increase their esteem for accuracy in crystal ball predictions. What was most troubling about the comment was the smug sense of pleasure that surfaced with its telling, as if the teller was attempting to ensure the outcome through repetition.

Despite its nagging problems, Ford has managed to continue to hang in there, somewhat bloodied and battered, but with the tenacity of an athlete determined not to lose a race. But fast forward a few years and there's another auto company also on the analysts' chopping block, another native of the long-time American auto capital of Detroit, Michigan, and a companion in survival training along with Ford.

Getty Images


Image: GM

That Sinking Feeling

The idea that General Motors Corp., long the world's largest publicly-held corporation, would find its per share stock price in the single digit column after a half-century of growth (and without the stock split Ford saddled itself with several years ago), might have seemed inconceivable earlier.

But in the aftermath of a decade fraught with terrorism and the threat of more attacks at home, of charges of contrived election results, and a war that has continued to live long after the claim it had ended with "success," it's a logical next step in self-assassination that is finally bearing the fruit of its own actions. Sources close to GM lament privately the inability of public perception to catch up with corrections of the old boy company attitudes and realize that GM has been moving forward for a long time now. At the moment, it's the victim of extremely bad timing and a failure to provide the lucrative profitability that Wall Street is addicted to.

Surging gasoline prices of recent weeks and the shock to American consumers' wallets point out a dichotomy in an industry that has been culling out selected participants through the relentless attacks of critics who have enjoyed the ride while picking at the fleas on their backs. With the companies and supportive industries that have shared in the debacle of searching for profit, and their analytical adversaries seeking validation, what now seems all too evident must have been cloaked in blinders of their own making.


Image: Royal Academy of Art

Just like the Emperor's New Clothes

Taking a long, detached look, the picture seems clear. When you move jobs to someplace like China for a cheap source of labor, then that country's industry -- infused with American technology, financing and industrial dies for manufacturing -- will grow. While the cheap hourly labor is making your products, they also are developing a surging economy and an insatiable appetite for more. Among the consumer goods needed to fuel such a growth is fuel itself. And with China undergoing a vigorous boom, that thirst for the petroleum needed to keep it at top speed is now in competition with such heavy fuel users as the United States. The industry that claimed it couldn't survive without moving offshore helped empty the oil barrel that now is pushing American consumers away from vehicles they no longer can afford to feed. The question should be: "Why is anyone surprised?"

A second question could be, "What can General Motors do?"

"The ripple effect of fear serves to cause stock prices to plummet even more. And, like chum in a shark tank, brings in predatory special interests who were poised for the opportunity to scoop up truckloads of devalued shares at a fraction of their true worth."

On the surface, the picture looks bleak. It's loaded with Hummers and other large vehicles that suck down fuel with a voracious appetite now clogging dealership lots as its current stock of small, fuel efficient cars is in short supply. GM, which has been closing factories and divesting itself of workers in a pursuit of improved profitability, now can't make enough of those small, fuel efficient vehicles to refill the pipeline quickly.

The reflection of that lack of small product had doused investors with a cold shower effect when the company tallied its first six months of U.S. sales at the beginning of July (although not as severe in its decline as analysts had expected). In fact, GM had a smaller year-to-year sales decline than arch-rival Toyota reported for the month of June. But when GM officials explained the constraints, few seemed to be listening.

"These comments are, in my view, irresponsible. If GM files for bankruptcy, it will bring down Ford and Chrysler. This will result in a domino effort on suppliers, with as many as 70 - 80% of suppliers filing bankruptcy. This will have catastrophic implications on the US and world economy. Surely, a depression more harmful than the Great Depression would be the result." – Dennis Virag, Automotive Consulting Group

Some industry sources give names when taking pot shots at Wall Street in its unrelenting effort to undermine the U.S. auto industry. Among those, Goldman-Sachs, Fitch and Merrill Lynch. Their actions are "deliberate and designed to set the stage for yet another takeover attempt by parties onshore and offshore," said one industry insider. Also, it hasn't helped that GM was so enamored by the prospect of doing business in China that it made itself the center entrée on a banquet platter for the savviest bidder.

Another analyst, Dennis Virag of Ann Arbor, Michigan, based Automotive Consulting Group not only concurred with the above comments relative to Wall Street market manipulation efforts, but voiced with specificity the potential outcome of statements by Merrill-Lynch: "These comments are, in my view, irresponsible. If GM files for bankruptcy, it will bring down Ford and Chrysler. This will result in a domino effort on suppliers, with as many as 70 - 80% of suppliers filing bankruptcy. This will have catastrophic implications on the US and world economy. Surely, a depression more harmful than the Great Depression would be the result."

In tossing out claims that a auto company is on the verge of bankruptcy as happened to GM in the past few days, has to be a particularly nasty way -- some say malicious -- of achieving an end result. With the current economic doldrums, just the word "bankruptcy" can be counted on to create a selling frenzy and devaluation of a company's stock like few other factors.

The ripple effect of fear serves to cause stock prices to plummet even more and, like chum in a shark tank, brings in predatory special interests who were poised for the opportunity to scoop up truckloads of devalued shares at a fraction of their true worth

Image: GM

A History Lesson

Image: GM Archives

Maybe the market hadn't noticed that the GM's top brass has been responding to the fickle lusts of American buyers who for years wouldn't touch something small and economical. That seemed to be a short-sighted attitude by consumers after the earlier shot across the bow in 1974 when an Arab oil embargo left blocks-long lines of Americans trying to fill up their gas tanks. For years, the company seemed to have no choice but to keep on responding to Americans' seemingly insatiable appetite for power, size and performance. Like other American companies, it also was squeezed by the lack of the kind of governmental kid glove treatment afforded to many offshore competitors by their own officials. It needed to assuage shareholders' unrelenting quest for profits, and the big V-8, zero-to-60 in a scant few seconds, and dominance on the road was what brought it in.

And financially, GM couldn't simply run a hybrid up the flagpole, with the ease of a Toyota or a Honda, to see if anyone would buy it. That was simply too risky. Too costly. Too many restrictions. Too dangerous in the eyes of investors who might have had top company executives drawn and quartered for squandering such astronomically costly technology when fuel was plentiful and relatively cheap.

The fact that offshore competitors could bring out their hybrids because their governments eased the terrible financial burden of development and the need for subsidies, must have smarted every time someone wrote a story about how dumb American auto executives are.

To the Rescue

But GM's global reach holds a promise that hasn't been getting the attention it deserves among news sources, among analysts and definitely among the shareholders who have seen the company as a sinking ship in recent days.

With a longtime presence in Europe, the Mideast, Australia, and points beyond, GM has served those markets for decades with the kinds of good looking, small, fuel efficient vehicles that previously never would have earned a second glance in the U.S. The Agila, sold under the brands of Vauxhall (RHD) and Opel (LHD) has a range of small engines in its fold, including a 1.3-liter CDTi Twin Cam Ecotec diesel, that have provided fuel efficient transportation for Europeans for years. A left hand drive version could be spirited into the U.S. market quickly, satisfying the need for a small, fuel efficient vehicle at a reasonable price that would meet U.S. government standards. The question here: How quickly could GM bring the tooling that it owns to the U.S. to start production? It certainly has the factories available and a supply of well-seasoned workers.

It's doubtful unions would object to the return of some production to the U.S., even if the vehicles were re-badged as new American models despite their European ancestry. With UAW membership on a long, slow slide for many years and a growing increase in job losses, it undoubtedly would welcome having "American made" on more vehicles sold here.

Activity Behind the Scenes?

Sources close to the company say that GM already is taking the challenge and considering such a move that also could bring many other offshore models here for American buyers.

The usual problem of product development is a non-issue here, according to insiders. GM already has developed those vehicles and had them on sale in other countries for years. With U.S. and European safety standards closer than ever, meeting U.S. mandated safety and emissions requirements shouldn't be a problem.   It's one that could be fixed without extensive delay or excessive cost. And, GM already owns the tooling that could be brought to the U.S. to set up production.

"Some inside sources, speaking anonymously, claim that GM could have such vehicles in the U.S. in as little as 120 days, an impossible time frame when developing a new vehicle."

Image: General Motors Corporation

Such small, high mileage vehicles would be more than a plus for Americans eager to trade down. They could provide a spark of interest in GM that already has a large fleet of vehicles more fuel-efficient than the company is credited with having. U.S. models such as the Buick Enclave, Chevy Corvette, Chevrolet Malibu and the entire Saturn lineup of vehicles drink lightly at the fuel pump with their better than 30-MPG ratings. GM, which along with Ford, has solid alternative fuel technology vehicles on sale in South America, has added that technology to many of its U.S. models well before it will become federally mandated on American vehicles. And even the Chevy HHR is an unsung hero in the race to protect the environment. It has one of the better carbon footprints with good mileage of any production vehicle now on the market.

Some inside sources, speaking anonymously, claim that GM could have such vehicles in the U.S. in as little as 120 days, an impossible time frame when developing a new vehicle. GM already has a technological advantage and has led the industry for many years in its vision. Moving European models to the U.S. could reinstate some of its dominance and provide good looking products Americans would be anxious to buy.

Image: GM

Ironically, the foreign solution for GM just might achieve what Wall Street has failed to do by kicking, prodding and vilifying all these years. It could improve GM's profitability quickly with a stable foundation not crushing under the threat of a takeover and selloff. It could give GM the breathing room to help it bring more technologically superior vehicles to market like the upcoming Chevy Volt plug-in hybrid that's already tantalizing some futurists. And it might just make some smug analyst think twice about forecasting the death of an American industrial giant for the sake of resume building.

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MEDIA ADVISORY

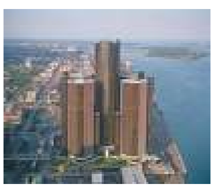
DATE: July 2, 2008 5:44pm EDT

Re: Synopsis -- Restoration of GM Viability: A European Solution of Einsteinian Simplicity?

Colleagues: The above synopsis, to be followed shortly by a more expansive analysis, will go live shortly.

Be well.

Myron



Sources close to GM and GM Europe (http://www.gm.com/europe/) are advising the company is either close to, or examining closely, bringing in several high-mileage European models such as a LHD version of the all new Vauxhall Agila with a range of engines inclusive of diesel (1.3L CDTi Twin Cam Ecotec), to bolster its U.S. dealer line-up technologically and reputationally.

According to a source speaking on condition of anonymity, GM's primary problem is not that it doesn't have high mileage vehicles -- it has a range of product exceeding 30 mpg -- or styling (look no further than Buick Enclave, Corvette, Chevy Malibu and the entire Saturn line-up) it is perception.

"In my view," the source says, "this perception is fueled by Wall Street analysts and too many industry pundits who should know better, stating that GM needs to build vehicles Americans will buy, and that the U.S. auto industry is playing catch-up technologically. These statements are beyond inaccurate.

"The fact is, the world's auto industry, Toyota, Honda, Nissan, Renault, VW, Citroen, among others, owes a heavy debt of gratitude, even their very existence, to the design, engineering, manufacturing and financial visionaries behind the traditional Big Three; GM, Ford and Chrysler, and of course, Karl Benz.

"In terms of bringing in European products to these shores within the next 120 days, I perceive no unsolvable issues or difficulties, neither from an emissions, safety, Union, availability or tooling ownership; the latter applying if production here is deemed necessary based on a strong market response. Moreover, it addresses a range of concerns related to GM's continued viability in areas of product, profitability and leadership.

"If Wall Street responds negatively to this apparently wise move by GM (Toyota and Honda routinely utilize this strategy of bringing in additional product, Scion and Yaris being examples, as changing market conditions reflected in consumer trends demand) **then** I and other colleagues within industry and government will know that the continued downgrading of the company's value (the drop from last October, and a decline of 47% from the start of this year to a recent record low of $11.43 **(updated: closed 7/2/08 at 9.98; the lowest since 1954**) being inexplicable and inexcusable) and overall negative market sustainability assessments by financial market integral firms like Goldman-Sachs and Fisk, is deliberate and designed to set the stage for yet another takeover attempt by parties onshore and offshore."

Publisher's note: ER is preparing right now an expanded assessment of GM's developing architecture for what we perceive as an excellent -- and quite timely -- strategy that will not only allow GM to remain in the game, but to control it.

Myron D. Stokes

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