- THE WALL STREET JOURNAL.
  WSJ.com

- JUNE 2, 2009

A Saga of Decline and Denial

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DETROIT -- The beginning of the end for General Motors Corp. as an independent company was marked by a denial.

Rick Wagoner, then GM's chief executive, stepped up to a podium in a Dallas hotel July 10 to address an audience of Texas business leaders, and outlined his view: The struggling car maker might have to sell its Hummer brand, but the rest of the company was safe. And as for Wall Street speculation of a bankruptcy filing, no way.

From Icon to Bankruptcy: GM Timeline

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Reports speculating about bankruptcy, he said, "don't help anything and are completely inaccurate."

But over the course of the next 10 months, nothing could stem the company's slide. Mr. Wagoner was eventually forced out. By Monday morning the bankruptcy papers had been filed and the U.S. government was poised to own a majority stake in the company.

It was quite a drop. Once, General Motors was Microsoft and Apple and Toyota all rolled into one.

GM set the standard of how a company should be run, how utilitarian products could be made cool and how they should be sold. It helped win a world war, drive American prosperity and reinvigorate business-school curricula.

"Nobody else could cover the whole range of the marketplace like GM, not Ford, not Chrysler," said Gerald Meyers, a former chief executive of American Motors Corp. and now a professor of business management at the University of Michigan.

In the end, though, GM was a victim of its own success -- its path to bankruptcy paved with the very management, marketing and labor practices that made it the world's largest and most profitable company for much of the 20th century. Strategies that had once been deemed innovative "became a millstone on the whole company," said Mr. Meyers.

Building a Giant

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Interviews with people affected by GM's bankruptcy.

Founded in 1908 by William C. "Billy" Durant, a high-school dropout who had risen to president of the Buick Motor Co., GM was initially set up as a holding company to acquire other auto makers. It soon took over Oldsmobile, Cadillac and Oakland, which would later change its name to Pontiac, and eventually Chevrolet.

Under the leadership of Alfred P. Sloan, a Massachusetts Institute of Technology-trained engineer who ran the company in the 1920s, the company pioneered a strategy for organizing its various divisions in a way that would fuel its growth for decades.

The idea was to use the brands to offer a "a car for every purse and purpose," as Mr. Sloan described it. Chevrolet made affordable cars. Pontiac and Oldsmobile were progressively more upscale. Buick was a true premium brand and Cadillac the pinnacle of luxury. Together they formed a "ladder of success," allowing customers to move up as their station in life improved, without having to leave the GM family.

Surpassing Ford

In 1932, a focused GM moved past its older rival, Ford Motor Co., to become the world's largest car maker -- a title it would hold for 77 years. By the late 1950s, GM alone had 50% of the U.S. auto market.

GM wasn't just immensely profitable. It was cool, too. The company's hot models, such as the Corvette and Camaro, had the same cachet as the iPhone curries among today's younger generations, and inspired pop songs like "GTO" and "409." As the Beach Boys crooned: "She's real fine, my 409."

For a time, GM dominated so much of the American auto market that the government questioned whether it should use antitrust laws to break up the company -- the same kinds of issues that plagued Microsoft Corp.

In the 1970s, trouble started. Japanese auto makers were gaining market share with well-made small cars, helped by two spikes in oil prices.

Blurred Identities

GM's strategy of offering a multiplicity of brands started to fray. To cut costs, GM began stocking its makes with nearly identical cars. That blurred the differences between brands and made it hard for consumers to tell a Chevy from a Pontiac or a Buick.

To confront the rising threat from foreign auto makers, GM in 1985 created an entirely new brand, Saturn, at a cost of several billion dollars. It was set up as a separate car company whose mission was to win back customers who had defected to foreign makes.

By the mid-1990s, GM had added two more brands -- Saab, a niche auto maker based in Sweden, and Hummer, maker of hulking military vehicles. With so many nameplates to manage, and rising competition from the likes of Toyota and Honda Motor Co., GM struggled to develop enough new models for all of its brands. While spending heavily on new models to pump up Oldsmobile, GM let Saturn languish, and its sales shriveled.

End of an Era

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Andrew Harrer/Bloomberg News

Workers took down a sign after a speech by GM CEO Fritz Henderson in New York Monday.

In 2000, Rick Wagoner was named CEO. He took the reins intending to reinvent the company. In one of his first moves, he decided it was futile to keep Oldsmobile. It proved costly, as GM had to compensate dealers who lost Olds franchises. Analysts estimated the tab at $2 billion.

To preserve GM's market share, Mr. Wagoner set out to revive Saturn and GM's other smaller brands. As part of that mission, he hired Robert Lutz, a former Chrysler CEO and renowned car guru, to develop a new generation of cars. Billions of dollars were allocated to the cause. The smaller brands -- Buick, Pontiac, Saturn -- would get first dibs ahead of GM's biggest and strongest brand, Chevrolet.

A string of flashy new models conceived under Mr. Lutz showed up in the weaker brands. Pontiac and Saturn each got a roadster, the Buick LaCrosse, Pontiac G6 and Saturn Aura midsize sedans arrived while Chevrolet had to wait for a new Malibu.

At the beginning of 2005, GM's business began unraveling. Years of heavy sales incentives had gutted its profit margins, and the company warned a significant loss was likely that year.

By March, there were signs that some people inside GM might be having doubts about the brand strategy. At a conference of financial analysts in New York, Mr. Lutz described Buick and Pontiac as "damaged brands" that had suffered as a result of too little investment in new models.

Fall of an American Icon

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Track changes in GM's sales and share price.

Key Players in GM's Overhaul

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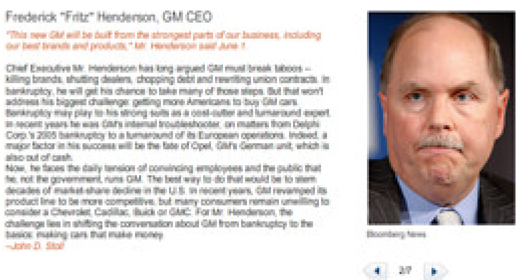

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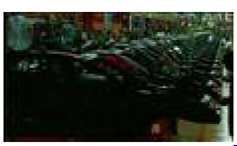

Hat in Hand, GM Arrives at Bankruptcy Court

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President Obama is expected to defend General Motors' bankruptcy plan and the massive bailout. The reorganization plan will call for a huge infusion of U.S. tax dollars, but the White House hopes the company will survive. Video courtesy of Fox News.

GM ended up reporting a loss of $8.65 billion for 2005. In 2006, Mr. Wagoner faced off in a boardroom battle with billionaire Kirk Kerkorian and his adviser, Jerome B. York, who had publicly called on GM to eliminate some brands and for a time had a seat on GM's board. Mr. Wagoner eventually prevailed, and by the end of 2006 Mr. Kerkorian sold his stake and Mr. York left the board.

GM's smaller brands, meanwhile, weren't gaining enough critical mass to generate returns. Between 2003 and 2007, Saturn, Saab and Hummer together averaged annual pretax losses of $1.1 billion a year.

In February 2008, at a gathering of auto dealers in San Francisco, Mr. Wagoner said that any specific talk about killing brands was "not a thoughtful discussion."

The GM board wasn't so sure. By the spring, with gas prices soaring to $4 a gallon, sales of GM's Hummer SUVs were in free fall. The board was also concerned about the shadow Hummer cast on GM's image among consumers, people familiar with the matter said. Toyota was increasingly seen as the auto industry's technology leader because of its Prius hybrid. Hummer made GM seem like the gas-guzzler company.

In early June Mr. Wagoner announced GM was considering a sale of the brand.

Around that time, Mr. Lutz sat down for lunch with Mr. Wagoner. Spiking gas prices and the global meltdown of mortgage-backed securities were creating visions of empty dealerships loaded with unsold inventory. Over sandwiches in the Ren Center, as GM's headquarters is known, Mr. Lutz told his boss, "Rick, I don't like the way this smells. My gut tells me the economy is set up for a real collapse."

Bankruptcy Speculation

Years of massive losses had left GM ill-prepared for a major economic shock. At the time it had about $21 billion in cash, but it was burning a billion or more each month.

On Wall Street, speculation about GM's fate intensified. Merrill Lynch issued a report in early July headlined, "GM Bankruptcy Not Impossible."

Documents

Here are documents and links related to GM's Chapter 11 filing.

- GM's Chapter 11 filing
- White House fact sheet
- GM's court docs Web site
- GM's statement on 'New GM'

The cost-cutting effort remained incomplete as the Fourth of July approached. Just before the holiday, GM's top 20 or so executives gathered at Mr. Wagoner's estate in Birmingham, Mich., for a barbecue. It was an annual event for the CEO and meant as a social gathering where no formal business was to be discussed. Even though GM's fortunes were worsening, the usual rules held, people familiar with the matter said.

About a week later, a decision against cutting brands had been made. Although Hummer was under review for a possible sale, "We don't have to eliminate any more brands," Mr. Wagoner said to a group of Texas businesspeople.

Wall Street wasn't convinced. Later that day, GM stock closed at $9.69, it's lowest point in 54 years.

About two weeks later, GM reported a $15.5 billion loss for the second quarter and a plan to slash $10 billion in expenses and borrow several billion more. Ominously the company only said it had enough cash to last until the end of the year.

Deal Talks With Chrysler

A possible deal with Chrysler LLC seemed like it might achieve the savings GM needed. In early August, Frederick "Fritz" Henderson met to discuss potential synergies.

After the collapse of Lehman Bros. in September, auto sales plunged further. GM's talks with Chrysler were in full swing. The two companies estimated they could save up to $37.8 billion over a six-year period. When news of the talks leaked out, many in the industry were confounded. GM already had too many brands, the thinking went. What would it do with Chrysler, Dodge and Jeep if it merged with Chrysler?

By November, however, the GM board was growing increasingly concerned about the auto maker's deteriorating finances, and the talks with Chrysler were halted. Just before Thanksgiving, Mr. Wagoner and the CEOs of Chrysler and Ford asked Congress for billions of dollars in loans. The GM CEO told Congress a bankruptcy filing was unthinkable. Customers wouldn't buy from a bankrupt auto maker and the company would collapse, he said.

The reaction was harsh. Lawmakers slammed the CEOs for flying corporate jets to Washington, grilled them on how exactly they'd use taxpayer money, and pushed them to cut their own salaries to $1 a year.

On the first day of December, they returned for a second appeal, this time with more detailed turnaround plans. Mr. Wagoner acknowledged GM would run out of money by the end of the year. But he also continued to assert that bankruptcy could not be an option.

On one point he had changed his view. As part of GM's turnaround plan, the company would cut some of its brands. Saab, like Hummer, would be sold, Pontiac's model line would be trimmed to one or two cars. GM would look into options for Saturn.

Turnaround Plans

Five days before Christmas the Bush Treasury Department provided bailout loans to GM and Chrysler and told them to come back in February with tougher turnaround plans. When the plans arrived on Feb. 17, the Obama Treasury Department was getting its auto task force into place.

Over the next few weeks, the task-force members ramped up on the auto industry and studied GM's turnaround strategy. The more it learned, however, the more concerned members became about GM's future profits and market share, people familiar with the matter said.

On March 27, GM officials traveled to Washington to discuss the matter. In a one-on-one meeting, Steven Rattner, the Wall Street financier who is heading the task force, told Mr. Wagoner GM's latest turnaround plan "doesn't cut it," and informed Mr. Wagoner the government wanted him to resign, a person familiar with the matter said.

Mr. Henderson, the COO, was named the new CEO, and readily acknowledged bankruptcy was probable. Over the next several weeks, task-force members pushed GM to go "faster and deeper" in its restructuring -- and to look at shedding more brands. Eventually, Mr. Henderson agreed to close down Pontiac all together, but dug in his heels to keep Buick and GMC.

On Monday GM filed papers for Chapter 11 in New York.

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Printed in The Wall Street Journal, page A1