General Motors, Driven to the Brink

Peter Wynn Thompson for The New York Times

The G.M. plant in Janesville, Wis., is a shadow of its former self, a victim of the plunging sales of S.U.V.'s. By BILL VLASIC and NICK BUNKLEY

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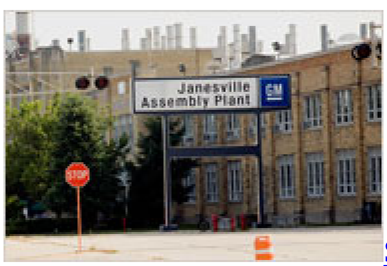
IN late May, senior executives at General Motors confronted a decision that few thought they would ever face: whether to continue developing the next generation of one of the most successful products in G.M.'s 100-year history — the full-size sport utility vehicle — or to punt the program entirely.

Multimedia



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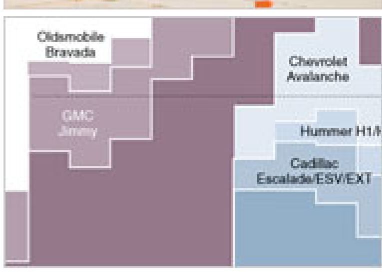

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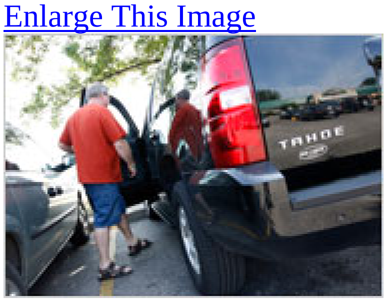

Peter Wynn Thompson for The New York Times

With the plant’s pending closure, Joseph Murwin is moving to Kansas. More Photos »

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General Motors celebrated the production of its 100 millionth vehicle in 1967 at its plant in Janesville. The company renovated the plant in 1990 to start building full-size S.U.V.’s.

Paul Sancya/Associated Press

Rick Wagoner, chairman, says G.M. and others didn’t anticipate the spike in oil prices. More Photos >

It’s rare for an automaker to pull the plug on high-profile initiatives, much less one involving a $2 billion, top-to-bottom overhaul of a high-volume vehicle that once helped it rake in cash.

This was also G.M.’s flagship platform, code-named CXX, which would underpin popular models like the Escalade, Yukon and Suburban, brawny tanks that had defined the auto giant’s image for more than 15 years.

The executives killed the CXX project without a single dissenting vote. And with that, the era of the big S.U.V. was as good as dead, done in by soaring gasoline prices and consumers fleeing to smaller, more fuel-efficient cars.

“It would have been very difficult in today’s environment to spend a couple of billion dollars to do a replacement,” said Robert A. Lutz, G.M.’s vice chairman and head of product development. “Reality had set in.”

G.M.’s reality is, indeed, a harsh one.

After losing $18.8 billion in the first half of this year and facing more red ink for months to come, G.M. is now trying to salvage its future through a possible merger with Chrysler, another deeply troubled American automaker.

Amid the financial crisis and the chaos on Wall Street, the struggles of G.M., the world’s largest automaker, have been just another startling development in a season chock full of startling news.

Yet it is an epic moment. Autos have been prized jewels in America’s industrial crown for the better part of a century, and Detroit once dominated a truly global industry. Now, possible bankruptcy looms for G.M. and perhaps Chrysler.

As of Friday, shares of G.M. were down 76 percent for the year and Ford shares were down 70 percent. While American automakers are certainly the victims of their own missteps, the broader economic downturn is now working against them as well. Even Toyota, the mighty Japanese automaker, announced on Friday its first quarterly drop in sales in seven years.

Like the nation’s banks, Detroit automakers are pushing for the federal government to use taxpayer money to rescue them from their mistakes, but it is uncertain how much Uncle Sam will aid the industry.

What is clear is that Detroit, among its other miscues in recent years, particularly overindulged its romance with S.U.V.’s, leaving it tethered to a product line that may prove to be the industry’s undoing.

For its part, G.M., once admired as “the General” of the global auto industry, has been pushed to the brink of collapse. Besides its mating dance with Chrysler, G.M. has taken other bold steps to try to reverse a slide that analysts say is causing it to burn through an estimated $1 billion in cash each month.

Within days of its decision to abandon the CXX program, G.M. announced another round of North American plant closures, including the planned shutdown of its sprawling factory in Janesville, Wis., where the big S.U.V. was born in the early 1990s. G.M. has promised to carve an additional $10 billion of its costs in a frantic effort to preserve its dwindling cash. It’s a far cry from the glory days of S.U.V.’s, when their sales fueled fat profits for G.M. and its rivals, Chrysler and Ford.

“For a long time, gas was cheap and money was easy and Americans wanted these big vehicles,” said John Casesa, a principal in the Casesa Shapiro Group, the auto consulting firm. “There was no downside — until the bottom fell out.”

GENERAL MOTORS lived off its S.U.V.'s and pickup trucks since they were introduced, and made one last, huge investment in new models that hit the market two years ago.

In fact, the company accelerated development of those vehicles to offset otherwise shrinking revenue.

But in retrospect, G.M. made one bet too many on the market for S.U.V.'s., whose sales have tumbled more than 30 percent this year and have been in decline since 2004. All of the Big Three have had to close plants, lay off thousands of workers and take substantial charges to cover the declining value of S.U.V.'s coming back to dealers from expired leases.

Although even top-tier automakers like Toyota have been stung by the falloff, G.M., the biggest producer of full-size sport utilities, has been hurt the worst. The impact hit home two weeks ago in Janesville, a city of 64,000 about 75 miles southwest of Milwaukee.

On Oct. 13, G.M. announced that its 90-year-old plant there, the company's oldest factory in the United States, would build its last S.U.V. just before the Christmas holidays.

Just a year ago, the Janesville plant was churning out 20,000 Suburbans, Yukons and Tahoes each month. As the assembly lines wind down, the plant is now producing less than 100 S.U.V.'s a day.

Only 1,200 employees remain from a work force that once numbered 5,000, and the end is drawing near.

The workers there are stunned by the plant's sudden demise. After building 3.76 million S.U.V.'s over the last 18 years, Janesville is headed for the automotive scrap heap.

"They told us it would never end, that it was a recession-proof vehicle and we'd never be able to build enough of them," said Daryl Klemp, who was hired in 1995, when sales of S.U.V.'s were booming. He has been laid off since August, and he spends his days on his farm wondering how it all went wrong.

"We thought we were the luckiest auto workers in the world," he said. "We had the product that everybody wanted, and all of a sudden, poof."

There was a day, of course, when the big S.U.V.'s represented the automaker's salvation.

G.M. was struggling at the end of the 1980s, losing market share in its core lineup of passenger cars to more nimble and inventive Japanese competitors.

Then the S.U.V. rolled in.

Whereas Chrysler appealed to baby boomers with young families who lined up to buy its boxy minivans, Ford and G.M. introduced rugged new vehicles adapted from small pickups — like the

Ford Explorer and the Chevrolet Blazer — that were catching on as sexier alternatives to humdrum station wagons.

The new "sport utility" vehicles had rough suspensions and few creature comforts, but younger consumers, mostly men, were drawn to their outdoorsy image.

Executives in G.M.'s truck division proposed that a bigger version of the vehicle be adapted off the company's full-size pickup platform.

"We weren't sure where the market was going at the time, but it wasn't a difficult challenge to do," said Clifford J. Vaughn, a senior truck executive at the time.

So, in 1990, the company stopped making compact cars and small pickups in Janesville and renovated the plant to build the new Chevrolet and GMC Suburban S.U.V.

In short order, the seven-passenger, "full size" S.U.V. became one of the hottest vehicles G.M. had ever introduced. In the first year of production, Janesville built 33,000 of them. Within two years, the plant was cranking out 200,000 annually.

Workers in Janesville were amazed at how quickly production increased. "You could work as much overtime as you wanted," said Jim Glass, the third generation of his family to work in the plant.

A second car plant, in Arlington, Tex., was converted to feed the growing demand for the big S.U.V.'s. Ford introduced its own full-size models — the Ford Expedition and Lincoln Navigator — and Detroit quickly became locked in an automotive arms race.

"We tried to outdo each other as to who was going to do the biggest, best S.U.V.," Mr. Vaughn said. "Americans just got so tuned into these vehicles, and it seemed people couldn't get enough of them."

More important, G.M. was earning an estimated $10,000 to $15,000 on every big S.U.V. it sold. In contrast, G.M. admittedly lost money on most of its passenger cars. But even as its share of the car market continued to decline, the profits from big sport utilities flooded in.

Union contracts meant that the Big Three had significantly higher labor costs than their Japanese competitors. But the big S.U.V.'s provided such ample profits that Detroit was still able to keep its plants running, its workers paid. and its growing health care and pension obligations covered.

G.M. began adding variations on the full-sized S.U.V. In 1995, the company introduced the Tahoe, a somewhat smaller version of the Suburban, which swiftly became its biggest seller.

Three years later, G.M. brought out its first luxury model, the Cadillac Escalade, and followed up by buying the Hummer brand from a small manufacturer of vehicles for the military.

By 2003, G.M.'s full-size S.U.V. production peaked at 680,000 vehicles. In Janesville, production had been averaging a quarter-million vehicles annually for a decade, and workers there were riding high. "Everything was great," Mr. Glass said. "Gas was at $2 a gallon, and we built the best vehicles that people loved forever."

Life in Janesville seemed to revolve around the plant, its single large smokestack bearing the blue G.M. logo rising high above a bend in the Rock River. "The identity of the community for decades has been that we're in the automotive business," said John Beckord, president of a community development group called Forward Janesville.

Downtown streets were filled with Tahoes, Yukons and Suburbans bought by workers with their employee discounts. "If you lived here you would have thought that every other person bought one of those things," Mr. Beckord said.

Every January, the Kiwanis Club would assemble a stripped-down Suburban, using parts donated by the plant, and park it on an ice-covered lagoon in a local park. Then, to raise money for charity, residents bought tickets and tried to guess the exact date and time that the vehicle would plunge through the melting ice during the spring thaw.

"It's a bit of a spectacle to drive by and see that sitting out there and wonder when it's going to fall through," Mr. Beckord said.

But like the ice in Traxler Park, the market for big S.U.V.'s would begin to melt.

WITH fuel-economy ratings averaging 15 miles per gallon or less, big S.U.V.'s were made possible by a steady supply of cheap gasoline.

G.M. began sensing the vulnerability of the market in the summer of 2005, when gas prices shot up in the aftermath of Hurricane Katrina. Sales of big S.U.V.'s dropped sharply, just as G.M. was in the midst of the first stages of a broad turnaround plan.

"The market kind of fell off a cliff, which was very difficult to deal with," said Mark R. LaNeve, head of G.M.'s North American sales. "It was burning down just when we were trying to do our turnaround."

But G.M.'s chairman, Rick Wagoner, and his board had already decided to move up the introduction of a redesigned line of big S.U.V.'s and pickups.

The profits from those vehicles were considered crucial to carry G.M. through the overhaul of its North American operations and to offset its eroding market share. G.M. was also planning to offer buyouts to as many as 35,000 workers, and the last thing it needed was a shortfall in revenue from its S.U.V.'s.

The automaker invested $175 million to update its Janesville plant so it could churn out refashioned S.U.V.'s. When the vehicles began rolling off the assembly line in 2006, workers were told that the theme of the new product was “Our future’s so bright that we’ve got to wear sunglasses,” Mr. Glass said.

Mr. Wagoner has often been asked whether G.M. miscalculated its need to invest billions of dollars to develop all-new S.U.V.’s.

“We, like everybody else, didn’t anticipate fuel prices to go up like they did,” he said recently.

Mr. Wagoner also pointed out that G.M.’s biggest rival, Toyota, invested heavily in new truck production in the United States just as the pickup and S.U.V. markets were crashing.

But big trucks were never the underpinning of Toyota’s success, and the Japanese juggernaut never lost sight of its goal of becoming a leader in hybrid gas-electric vehicles and small cars. G.M. is just now making an all-out effort to catch up in the small-car arena, and its hybrid sales are still far behind Toyota’s.

Besides G.M.’s top brass, labor unions also wanted to hang on to S.U.V. production. In the United Automobile Workers’ national contract talks last year, the shop chairman for Local 95 in Janesville, John Dohner, was on the bargaining team, spending several months in Detroit.

“I only went up there for one reason — to try to hold onto Janesville,” Mr. Dohner recalls.

The contract reached last fall included product guarantees for several of G.M.’s assembly plants, including a new line of S.U.V.’s for Janesville to come out in 2012. But those guarantees evaporated when sales of sport utility vehicles crashed this spring and summer.

By the time the truck market went into its free fall in April, G.M.’s product developers had already been working for months on the top-secret CXX platform for the next generation of big S.U.V.’s and pickups.

The CXX project was considered a leap forward for G.M., and would have provided a lighter, more fuel-efficient platform for the next models. Then, in May, the product board scrapped it.

At G.M.’s annual meeting in June, Mr. Wagoner said “structural changes” in the United States vehicle market would force the closing of four assembly plants, including Janesville.

The company, Mr. Wagoner said, would speed up the development of smaller cars and engines, and it reaffirmed its commitment to bring out the electric-driven Chevrolet Volt by 2010. On top of all this, Mr. Wagoner said G.M. was considering the sale of its Hummer brand.

To date, G.M. has reduced its annual S.U.V. and pickup production by 800,000 vehicles. And the cost of flooding the market with sport utility vehicles is also coming back to haunt the automaker.

In the second quarter alone, G.M. took $1.3 billion in write-offs to reflect the drop in the value of trucks and S.U.V.'s coming off lease. Overdependence on big S.U.V.'s has also hit Ford and Chrysler hard, but, as the biggest producer, G.M. had the most to lose.

"We made so much money on these vehicles for so long, I guess we just didn't see it coming," said Mr. Vaughn, who retired from G.M. in 1996.

So now G.M. finds itself in a race against time. It's pouring resources into new cars like the Chevrolet Malibu, and is competitive in the crossover market with entries like the Buick Enclave and the GMC Acadia.

Still, its dealerships are crowded with lines of unsold Tahoes and Suburbans, which increasingly look like dinosaurs in a gas-conscious marketplace.

Analysts see little point now in second-guessing G.M.'s huge commitment to the S.U.V. market when gas was cheap and Americans bought the vehicles in droves.

"In the 1990s, G.M.'s North American operations were very profitable only because of those big vehicles," Mr. Casesa, the auto analyst, said. "That was how they stayed alive."

Yet by focusing so heavily on bigger products for so many years, G.M. put off investing in cars that consumers want now. The company is also struggling to dismantle the truck-making infrastructure it had so diligently erected.

To be sure, G.M. still expects to sell big S.U.V.'s, but not at nearly the volumes it enjoyed in the past. And they will not be built in Janesville. Production will now be concentrated in Arlington.

Community and political leaders from Janesville have pleaded with G.M. management to consider putting a new, small car into the plant. Workers don't expect that to happen, though, and they see little hope of a reprieve.

"We thought they'd stick with us a little bit longer, and that they'd share the hurt between us and Arlington," said Andy Richardson, who recently took office as the new president of Local 95. "And they didn't."

Mr. Richardson said many workers hoped to transfer to other G.M. plants, although some will hold on to the slim possibility that Janesville could get another product.

"If G.M. wants to build lawn chairs in Janesville, we'll do it," he said.

The closing of the Janesville plant will add 1,200 workers to the more than 40,000 hourly employees that G.M. has cut over the last three years.

If the merger with Chrysler goes through, more reductions are expected as the two automakers combine operations. One plant that won't have to be considered is Chrysler's own large S.U.V.

plant in Newark, Del. Last week, Chrysler said that factory will already be mothballed by the end of this year.

Bill Vlasic reported from Detroit and Nick Bunkley from Janesville, Wis.