

# McTevia analyzes plights of GM and Chrysler for WJR's Paul W. Smith

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Paul W. Smith: Turnaround specialist Jim McTevia has seen it all. He didn't go through the Depression, but his folks did. He was there with Lee Iacocca doing his juggling act.

And here we are today, Jim. With the latest out with the President, does this make you more or less hopeful than you were a few weeks ago?

Jim McTevia: I think it doesn't take a rocket scientist to see that whatever is going to happen in Washington is going to happen very slowly. The current administration is using up all of its poker chips in two major recovery efforts that just floated through the legislature. I really do view the situation with GM and Chrysler with much more pessimism than I did even 60 days ago.

I guess what I am saying is that people are missing the real target. It's the consumers. It has always been the consumers. GM is looking for \$16.6 billion and Chrysler is looking for \$5 billion and they need that money to support losses. These are intelligent companies run by intelligent people. I don't care what anybody says about the management of GM and Chrysler. They are making projections and the projections they are making just aren't materializing.

GM projected 10.5 million and Chrysler 10.1 million. No one is buying new cars. The original projections were 11.4 million for '09. How can anyone operate a business when they can't even project what the sales level is going to be? They can't forecast sales.

Used cars are up - 511,000 used cars were sold in the last three months. That raises the question, what if those people bought new cars? So they're still losing money because consumers aren't buying. The point is that there are more used cars being sold than new. Consumers are tapped out.

Their last resort (GM and Chrysler), I think, is probably a Chapter 11 where they can shut down the brands, deal with the union contracts, freeze and restructure their debt. I don't see the government stepping up in time and trying to save GM and Chrysler. I see the government maybe supporting some debtor in possession financing in a Chapter 11. I see the government maybe backing up the warranties.

One of the points that management is raising in a Chapter 11 bankruptcy is no one will buy the cars because there are no warranties. Well, they're not buying cars now. So if the government is willing to fund the Chapter 11 plan and back up the warranties...but the problem is that 70% of voters are against

further loans to GM or Chrysler.

PWS: We don't like to think about that, but the fact is Jim, is that when you watch CNN and Fox and you get people writing in, it goes back to what I pointed out a long time ago – the push back against us was incredible and back then we tended to not think about it. But now we are very aware of it because the Washington bozos reflected what they thought they could get away with, and that was what kept their constituencies happy across the country and that was putting down the auto industry. As of yesterday, people are saying they don't want another penny for the auto industry. 'Let them die!' I mean that's what they were saying!

JM: I think the mood, the general feeling of the voter, is the housing sector has broad voter support. The financial sector had to be fixed regardless what you think about Wall Street and the banks. But I think we have a voting public that is very concerned. They think that the administration is going to be able to solve all these problems tomorrow at 9 a.m.

We look for the enemy, and it is us. I mean we were all part of what caused this problem. We all lived light years into the future, well beyond what our financial capabilities should have allowed us to do. You look back into history, and it repeats itself.

Read some of Charles Dickens and look at the economy in England that was worse than the economy we have now when people were starving. We've got to go through some tough times. And here are GM and Chrysler trying to figure out how to make projections for a business plan in circumstances that have never existed in this country since the Great Depression.

You tell me how people who are guiding a company can go to Washington and say I need this money and when I get it I am going to be ok. The fact of the matter is that nobody knows when GM and Chrysler are going to be ok. With all due respect to all of the economists – David Littmann was a very dear friend of mine and a former economist of Comerica – he predicted this along with me years ago that the house of cards is going to have to topple. There are going to have to be some very tough times.

Now let's talk about Detroit and Michigan. My opinion is Detroit and Michigan are going to have to regroup, retool, and reeducate and do something more than manufacture automobiles as the bulk of their economic good. There is going to have to be a reeducation of the people of Michigan.

PWS: I thank you Jim for your help. Over the years, you've been very helpful.

That's Jim McTevia, turnaround specialist and managing member of McTevia & Associates in Bingham Farms.