McTevia Discusses Delphi Challenges With Warren Tribune Chronicle

By LARRY RINGLER / Tribune Chronicle

Gone are the traffic snarls on North River Road and nearby streets created by thousands of workers leaving or arriving for work.

Also gone is the distinction of being the world's largest maker of vehicle electrical wiring harnesses. The toll includes two high-profile deaths - union lead bargainer Henry Reichard and Delphi Packard Human Resource Manager August Lukasko - who both died in their 50s in 2006 as the stress of bankruptcy mounted.

But when Troy, Mich.-based auto parts maker Delphi Corp. emerges from Chapter 11 bankruptcy, expected in coming weeks, the Warren area will be the center of what's left of the company's U.S. operations.

The new company, reorganized after a marathon bankruptcy ordeal that began Oct. 8, 2005, will consist of three factories in Trumbull County, a technical center in Champion and a Rootstown facility that supplies plastic resin for plastic injection molding. The only non-area plant will be one in Vandalia that makes heating, ventilation and air conditioning parts.

The rest of the company's operations will be outside the United States, including Delphi Packard's extensive Mexico operations, along with facilities strung from China to Europe.

Delphi's other U.S. factories, which are represented by the United Auto Workers, are being returned to General Motors Corp., the auto parts maker's parent before a 1999 spinoff into an independent company.

Even with the drastic downsizing, industry experts say the company faces many challenges when it leaves its protective Chapter 11 cocoon.

''Auto parts suppliers are struggling, and will continue to struggle, as Ford, GM and Chrysler struggle in this environment with unemployment the way it is,'' veteran bankruptcy specialist James McTevia said, referring to reduced demand for vehicles during the worst jobless rate in more than a quarter-century.

Ron Harbour, partner in charge of the North America automotive practice for Oliver Wyman, said Delphi and other auto parts suppliers face the challenge of adapting fast enough as automakers adjust their production to fluctuating customer demand.

''We know September (sales) will be down. The question is, what will the fourth quarter look like,'' he said.

Both analysts said Delphi's advantage is that it shed a lot of fixed costs by closing plants and slashing labor costs during its bankruptcy. In such an unforgiving economy, ''if a company comes out of Chapter 11 and loses money, then not a lot has been resolved. It's going to be a struggle,'' McTevia said.

For now, Delphi is benefiting from automakers' increasing production, largely due to the government's successful Cash for Clunkers incentive program that lured buyers to dealers' showrooms.

''We're starting to see (automakers) start to increase production,'' Delphi spokeswoman Rachelle Valdez said, noting vehicle stockpiles are extremely thin after Cash for Clunkers.

She added sales aren't forecast to go back to the peaks of two years ago but said suppliers of electrical parts like Delphi Packard stand to benefit from the growing drive toward more electrical content in vehicles, including all-electric vehicles that require high-tech wiring systems.

''Packard provides a lot of 'green' technologies in wiring,'' she said, noting the division's advances in wiring that's thinner and lighter but still durable, along with halogen-free insulation that's easier to recycle.

The other key driver for Delphi Packard, Valdez said, is increasing demand for electronic devices in vehicles, including iPods, cell phones, computers and other items, along with vehicle safety, navigation and other uses.

''We're in a strong position if we look at a portfolio that's driven by innovation and real-world solutions,'' she said.

Delphi Packard worker John Fisher said he's seeing an upturn in his work.

''We've seen a drastic upswing in business. A lot of places are putting in lots of overtime,'' he said.

Fisher, 48, said he's had his doubts about the company's future but now is more optimistic.

''Yeah, I do,'' he said when asked if he thinks Delphi Packard can survive.

The Warren resident, who's the father of two preteens and the grandfather of seven, said he's one of the ''120-day wonders'' - the first group of workers hired for that length of time in 2006 to keep production going as 3,130 veteran workers took early retirement or buyout offers were leaving.

He'll mark his hiring anniversary on Friday for a job that started out paying him $10 an hour compared to the $28 it paid longtime workers. He said he's now making $11.33 an hour and can hope for more gains when the union's labor contract expires in 2011.

New hires have a 401(k) instead of a pension and health care benefits that Fisher called ''OK,'' but he said he has no regrets about going to Delphi Packard, where he loads boxes of stamped metal wiring terminals onto trucks at Plant 11 in the largely empty North River Road complex.

Fisher said the job was a big step up from his previous work at a lumber company.

''I love my job,'' he said.

Delphi Packard's future got a boost in late September when Delphi decided to close a cable and plastic making factory in Clinton, Miss. The work is being shifted to Delphi Packard, allowing the division to recall laid-off workers to fill an expected 70 new jobs.

International Union of Electrical Workers-Communications Workers of America Local 717 has had about 153 workers on permanent layoff out of its nearly 700 membership. The union had close to 14,000 members at its peak in the 1970s.

Delphi will emerge from bankruptcy with a stream of red ink behind it. The company reported losing $603 million in its April-June second quarter; it made $552 million in the first quarter only because it claimed a $1.1 billion accounting gain from the termination of salaried pensions, health insurance and other retirement benefits.

Some 15,000 salaried retirees, including about 1,500 from Delphi Packard, continue to fight to prevent significant cuts in their pensions, as well as improve their health insurance coverage.

The company lost $5.6 billion from 2006 through 2008, broken only by a $3 billion gain in 2008, thanks to a $5.3 billion accounting benefit when GM assumed some hourly pension and other retirement liabilities.

Without the accounting help, Delphi would have lost $12.1 billion from 2006 through June 30, 2009, instead of $5.7 billion, as sales declined from $22.7 billion in 2006 to a run-rate of $10.6 billion for 2009.

Sales did climb to $2.8 billion in the second quarter this year from $2.5 billion in the first quarter, with more gains expected as automakers ramp up production after their worst year in decades.

The company, which will be privately held when it exits bankruptcy, will be ''well-capitalized'' upon its emergence, with very modest debt, spokesman Lindsey Williams said in an e-mail.

The company will be owned by investment funds Elliott Management, Silver Point Capital and Monarch Alternative Capital, which claimed Delphi by converting their loans of about $3.3 billion into equity ownership.

Williams said he couldn't give a timeframe for a return to profitability but noted the company ''has taken, and continues to take, the necessary actions to return to profitability in the short term.''

The new company expects address its heavy reliance on one customer - GM - by pushing its revenues from GM to less than 20 percent, he added.