McTevia Provides Insights On GM's Closings

GM's $7B in cuts spare Oakland
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General Motors' announcement of massive cuts and plant closings are a "necessary fi rst step," say analysts. Some project much more cost slashing will be needed to right the faltering auto giant.

Economic shock waves in Michigan will not be as severe as some had thought, with only four state facilities closing. Most closings will be out of state.

"It was less concentrated in Michigan than I feared," said Dana Johnson, senior vice president and chief economist at Comerica Bank - Detroit. He also said that although the Craft Centre and Metal Center in Lansing are closing, a new plant will open next year to build popular crossover vehicles.

"So, the adjustments go on," Johnson said. "We're going to lose some blue collar jobs and lose some white collar jobs, but for Michigan, the thing to believe is that the sooner they align their manufacturing with their market share the better for Michigan."

GM's U.S. market share fell to 26.2 percent in the first 10 months of this year compared with 33 percent a decade ago. GM lost nearly $4 billion in the first nine months of this year.

The plant closings are part of a plan to shave $7 billion off GM's $42 billion annual bill for operations by the end of next year. That includes a $3 billion cut in health care costs, $1.5 billion in manufacturing cuts and $1 billion in savings on materials.

Johnson pointed to the enormous pressure Ford Motor Co., GM and parts makers are facing from fi nancial markets to "really accelerate their adjustments and attack their (cost) structure and capacity. This really represents an accelerated adjustment, more than people were expecting. And they really are acting like they are in the midst of a crisis and that's what they should be doing."

The next step is to concentrate efforts on health care and pension costs, said Patrick Anderson, founder of Lansing-based Anderson Economic Group, a business consulting fi rm. Bankrupt Delphi, which is asking for up to 60 percent wage cuts, may well set the pattern other manufacturers will follow, he said.

"This is clearly one of the other shoes that had to drop," Anderson said. "GM must restructure its organization in order to become competitive given the smaller market share they occupy. That means cutbacks of this scale are not only a cost-cutting measure, but they're necessary for their survival."

Anderson said GM is actually well positioned with its product line and new emphasis on crossovers, those truck-like vehicles on car frames that offer both utility and better fuel economy than their truck and SUV counterparts.

Of the closures and staff reductions, Jim McTevia, principal of McTevia & Associates, a financial and management consulting firm in Bingham Farms, said these are likely permanent. They will reflect a smaller GM in coming years based on shrinking market share, he said.

"You'd think the management and board know what to do, so this is a logical first step," McTevia said. "In the final analysis, we'll see what the market does and how their shareholders feel. It may not be enough, but it's a start. It certainly is much farther ahead of where it was six months ago."

In terms of employment, the cuts won't be a huge hit for Michigan, said Johnson, but there are long-term implications for the state.

"There are adverse implications for income; no profit, no (employee) bonuses," no burst of spending, Johnson said. "And they are, I'm sure, in the next round of negotiations looking for more concessions, and the hit to incomes will outpace the hit to jobs."

Most of the cuts, according to early reports, will be through attrition or buyouts, but McTevia said GM should just shut down facilities. He acknowledged that contracts probably forbid that type of closure and that mass closings might also trigger companywide strikes.

"I think moves like this have a negative reaction because there's pain and suffering, but really these are the kinds of things they need to do. Whether there are more, who knows?" said Van Conway, president of Conway, McKenzie & Dunleavy, a turnaround firm in Birmingham.

"But you have to reduce your costs ... And the more hesitant they are the less chances of survival. You have to stabilize your market share, stabilize costs, and preserve cash. Chrysler fi gured out what kind of cars to (build) and if you can figure that out, the consumer will buy it."

McTevia said he doesn't see GM heading into bankruptcy anytime soon.

This move helps push talk of bankruptcy onto the back burner - for now at least, he said.