

AN AFTERTHOUGHT ON GM

AUGUST 14, 2006



DR. RAJEEV DHAWAN
DIRECTOR

ECONOMIC FORECASTING CENTER
GEORGIA STATE UNIVERSITY

As Kirk Kerkorian tired of the pace of CEO Rick Wagoner's turnaround plan, he decided last month to employ his own version of the "shock and awe" strategy. The idea of a three way alliance between Renault, Nissan and GM, with Carlos Ghosn thrown in as juicy bait, was supposed to shake up the lethargic ways of GM's upper management, not to mention the rank and file worker, and awe disenchanting shareholders. Did it work? Not quite, but it doesn't look like it was a total failure either. The idea was audacious, and this type of thinking has been sorely lacking at GM. It doesn't matter a bit that you make cars that are technically superior to an average import if you can't sell them. Blaming the customer for GM's malaise is wrong. If perception is reality, then GM has done a shoddy job of marketing the last few decades. On top of it, if their cars are too expensive to manufacture because of flawed supply chain management, retiree and health care cost as well as unionized labor, then it's time to think outside the box. Car dealers will attest that they can sell anything as long as the price is right, i.e. low enough to overcome any real or perceived faults (this may fail if you apply it to Renault's past quality and image!).

A popular management survival strategy is to offer shareholder wealth to customers by giving price discounts to increase sales. The airline industry has followed this strategy since 9/11 and automakers are using it too, but the latter have better balance sheets to bank upon.

However, the burn rate is so high that sooner or later equity will run out, especially if oil prices continue to remain high. I can see an alliance forming if Renault and Nissan allow GM to tap into their healthy balance sheets. But what do these two get in return? A foothold for Renault in the world's largest auto market and access to GM's product line for Nissan.

But both these arguments are not fully Kosher. The marketing efforts to sell Renault in the U.S. will be huge, making it cost ineffective (not to mention distasteful for existing dealers). For Nissan, it is alleged that the company has run out of products in its own pipeline. For Carlos to continue his legacy, he will need to borrow from GM's development line. This can only make sense if Nissan can produce these new cars in its own factories with non-unionized labor that is young and attitude-free. Because Nissan lacks idle capacity, it will have to build brand new facilities with proper supplier networks to exploit just-in-time inventory efficiency gains. This sounds like a decade worth of planning and execution to me. I don't think Kerkorian has that kind of time frame for his investments. Thus, this appears to me to be a chicken-and-egg type problem. What's going on is a high stakes poker game between Kirk and GM's board with Rick certain to be collateral damage unless he turns out to be the new avatar of "Neutron" Jack Welch of the early 80's. The clock is ticking.