

General Motors Corporation: Communicating a New Vision for Survival (B)

Shift in Strategy

After the initial failure to receive the needed government funding, General Motors was back in Washington on December 5, 2008, to present a more detailed case for a loan. This time the company was asking for an additional \$6 billion, bringing the total request to \$18 billion. The company's condition had deteriorated rapidly with a 37% drop in U.S. car sales in November.¹ CEO Rick Wagoner, showing a much greater level of sensitivity to public perception by leaving the private jet on the runway, drove to the nation's capital in a Chevrolet Volt Hybrid prototype. To get the bridge loan, General Motors' leadership attempted to show a dedication to the product and a grasp of public sentiment that was lacking in the initial trip to Washington. Now that the company had arrived in the capital using a publicly acceptable mode of transportation, the chief executive could focus on delivering a message of urgency to the congressional leaders.

The New Plan

The new plan outlined in specific detail the steps GM would take to cut costs and increase brand performance standards. In the new plan, the company proclaimed that it would seek to cut the Hummer, Saab, and Pontiac brands and sell its Saturn operations, tightening the brand operations to just Chevrolet, Buick, Cadillac, and GMC.² The company also announced plans to scale back the workforce by 65,000 over the next year. The savings from these and other similar operational restructuring plans would refocus the company on profitable brands and cut operations expenses.

The company also laid out plans for negotiations with the unions that would result in savings of \$3.1 billion a year on U.S. hourly workers by 2012.³ The negotiations with the unions would be a key point in the restructuring strategy because of the pressure from the first meeting to push the union for more concessions. The head of the UAW, Ron Gettelfinger, was also at the meeting this time to support his automaker colleagues and to build on the message of urgency. "I believe we could lose General Motors by the end of this month," was the assertion of Mr. Gettelfinger.⁴

The third aspect of the plan presented to the House of Representatives was the restructuring of the company's \$43 billion dollar debt pile. In his address, Mr. Wagoner discussed the plan to convert a large portion of the debt to equity.⁵ This part of the plan would require the cooperation of the GM bondholders who stood to lose large sums of money if the company were to file for Chapter 11 bankruptcy. In order to cut back on debt costs and increase bottom line income, the company argued that a debt restructuring was necessary.

Receipt of Funds

General Motors was awarded an initial amount of \$13.4 billion to make it through the short-term after negotiations with law makers in December. In this round, President Bush stepped in to ensure that the company received the bridge loan necessary to continue operations through the remainder of the year and into the next quarter. With the new funding, the company was able to pay expenses for the next several months, but needed to take drastic steps to cut costs in order to remain viable. The company immediately began laying-off workers and started talks with unions and debt holders about restructuring plans. The company called for the elimination of 47,000 workers around the world and the closure of five plants.⁶

Additional Problems

The automotive sales situation in the United States continued to deteriorate after the company had received the bridge loan funding. Car sales in the U.S. dropped by approximately 54%, and General Motors reported a \$9.6 billion loss in the fourth quarter of 2008. In addition to the continuing sales drop, the company also faced opposition from bondholders, who the company needed to accept the refinancing of \$27 billion of unsecured debt. The company was hopeful that the debt holders would accept a debt for equity swap, but the bondholders were not satisfied with the steps being taken by GM to cut structural costs.⁷ Negotiations with the UAW were continuing and the company was able to receive several concessions. The union agreed to several changes in work rules and cuts in substitute pay to laid-off workers. The company was losing sales and renegotiating the cost structure simultaneously. Without more concessions the company would not be able to maintain a liquid position.

Request for More Funding

On February 17, General Motors Corporation submitted a request for an additional \$16.6 billion from the U.S. government.⁸ The communications strategy was much more aggressive in this instance. The weekend before the update, the company alluded that they would be requesting more funding from the government. After submitting the official statement of conditions to the government, the company held a press conference in the Detroit headquarters with Wagoner delivering the message and reasons for the company's declining cash position. The next morning Wagoner appeared on CNBC's *Squawk Box* to discuss the General Motors position and outlook. In the presentation and interview, he stated that the company would be able to survive if U.S. auto sales recovered to approximately 12 million cars compared with the 9.6 million sold in January.⁹ Rick Wagoner also discussed the cost of a GM bankruptcy, which the company estimated to be around \$100 billion, and that the bankruptcy option was a last resort. Wagoner continued to stress the idea that GM was taking corrective measures and would be able to move to profitability with the recovery of the broader market.

General Motors has continued to have a declining position, but through the many steps of restructuring and communications was able to convince the U.S. government that it is vital to the economy and that it will be able to turn the company around. The company is not yet clear of the declining market conditions, but through quick adaptation of new strategies the company has been able to avoid bankruptcy so far. The company continues to use communications to convince the

public that it has the right products, the correct restructuring plan, and the backing of the U.S. government. The difficult process now is to bring consumers back to the dealerships to buy GM vehicles.

¹ Hitt, Greg, and Matthew Dolan. "Detroit Bailout Hits a Bumpy Road." The Wall Street Journal 5 Dec. 2008. 24 Feb. 2009 <<http://online.wsj.com/article/SB122840102318379327.html>>.

² "Back Again." Economist 6-12 Dec. 2008.

³ "GM Media Briefing – GM Business Plan Submitted to the U.S. Congress." Fair Disclosure Wire 2 Dec. 2008. 2 Feb. 2009.

⁴ Hitt, Greg, and Matthew Dolan. "Detroit Bailout Hits a Bumpy Road."

⁵ "Back Again." Economist.

⁶ Terlep, Sharon, and Neil King. "Bondholders Say GM's Plan Fails to Tackle Issues." The Wall Street Journal 19 Feb. 2009. 28 Feb. 2009 <<http://online.wsj.com/article/SB123500467245718075.html>>.

⁷ Terlep, Sharon, and Neil King. "Bondholders Say GM's Plan Fails to Tackle Issues."

⁸ Terlep, Sharon, John D. Stoll, and Neil King. "GM's Dismal Year: \$30.9 Billion Loss." The Wall Street Journal 27 Feb. 2009. 28 Feb. 2009 <<http://online.wsj.com/article/SB123564998854781393.html>>.

⁹ Stoll, John D., Sharon Terlep, and Alex Kellogg, "GM Seeks \$16.6 Billion More in U.S. Aid." The Wall Street Journal 18 Feb. 2009. 28 Feb. 2009 <<http://online.wsj.com/article/SB123494239775208361.html>>.