GM SQUANDERS WHAT TAX PAYERS GAVE IT

Let me say at the outset that the GM bailout was far, far better handled than the bankster bailouts. And as a Michigan resident whose family still has ties to the auto business, I am tremendously grateful for that bailout.

That said, this is why I have not declared mission accomplished, in spite of the successful IPO last year.

You see, no one will be able to weigh the success or failure of the GM bailout for another year or so—until such time as the cars developed entirely under the leadership team picked by a bunch of people who knew nothing about the auto industry start rolling off the lines. As I noted last year, the success of the IPO was significantly premised on a number of business decisions made by Rick Wagoner and others fired during the bailout. Wagoner deserves the credit for his emphasis on China (and places like Brazil), which is the biggest source of GM's profit these days and was widely touted as the reason it made a good stock buy. And Bob Lutz deserves the credit for GM's improved product line.

So we won't know whether the bailout succeeded until we see whether the guys now in charge can make decisions that are as smart as those made by the guys fired in the bailout.

Yet, as MSNBC lays out, thus far, it looks like the finance guys Steven Rattner brought in to run a car company have, predictably, made some really stupid decisions.

> [GM CEO Daniel] Akerson recently told the Wall Street Journal that a GM car was just like the can of Diet Coke he was drinking during the interview.
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> "It's a consumer product," he said. "GM

> has to start acting like a consumer-driven, not engineering-driven, company. We sell a consumer product — our can just costs $30,000."
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> Industry insiders with a memory of the 1990s immediately blasted this view as a return to [GM]'s failed [early 1990s] strategy to commoditize a product for which a strong emotional connection is important to drive sales and to cultivate brand loyalty.
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> "The only difference between GM then and GM now is that this is a company that has only recently emerged from the abyss of bankruptcy, one that can ill-afford a single misstep brought upon by misguided leadership, even though it has the most competitive lineup (of vehicles) it has had in decades," [auto writer Peter] Delorenzo said.

It's one thing to try to sell sugar water with nothing more than emotional attachment. But so long as there are well-engineered vehicles like Hondas on the road, you can't dismiss the importance of engineering in designing cars.

In addition, Akerson (like Ed Whitacre before him) is trying to cut the time to market for GM's cars.

> Now Akerson says speed and cost are the aspects on which he will concentrate, telling the Journal that "during World War II, GM produced tanks and equipment within four years. Why should it take four years to put a car out?"

There have, historically, been two models for cutting the time to market for cars. There's the model Chrysler used in the late 1990s, which led to the introduction of things like the PT Cruiser that were cute but which weren't really good cars; that's one of the things that led to a serious decline in Chrysler's quality. Then there’s Toyota’s quality driven approach, which has served as the standard for Ford and GM in recent years as they have accelerated their own development time frame.

But as Toyota’s recent troubles show, not even Toyota can make cars in as short a time frame as they do and ensure their quality. What makes Akerson think GM can do what Toyota can’t?

I’d say the chance GM sees real quality issues in the next several years because of Akerson’s coke-addled approach to running a car company are significant.

What MSNBC doesn’t cover—but what Zero Hedge has been tracking closely—is that GM has been dumping cars on its dealers with little apparent concern for how quickly the dealers can sell them (remember that GM makes its money when the cars enter the dealers, not when consumers drive away with one). They posted the graphic above earlier this month, but explained what was going on back in November.

> It is obvious that beginning in July, GM has started an aggressive channel stuffing program whereby it offload tens of thousands of cars (over 110,000 since July) on dealer lots, hoping these will get sold somehow, at some price, all the while dealers enjoy taxpayer subsidized floorplan leases which allows them to hold nearly infinite inventory. If and when the liquidation event takes place who cares? After all the company is now public and has managed to massage it artificial sales numbers sufficiently to fool investors that there is actual end demand for its cars.

In other words, GM has been artificially keeping its sales numbers up; that’s what investors look at. But wholesale sales are way, way ahead of consumer demand.

Which is why GM started engaging in the other problem MSNBC lays out: stupid incentive programs that chip away at the already-cheapened consumer perception of the value of GM's cars.

> GM has added hefty incentives to its cars since the start of the year, offering big rebates to current owners of GM cars, no-penalty early trade-ins for currently leased GM cars and bigger rebates for users of the GM credit card. The result has been a U.S. market share of more than 21 percent, higher than the company has had in years.

Now that GM has discontinued these incentives, sales have apparently slumped, so expect Zero Hedge to show dealer inventory numbers spiking next month.

The dealer stuff may be the stupid Akerson decision that most irks me. Under cover of government-managed bankruptcy, GM put a lot of auto dealers out of business (they did so more reasonably than Chrysler, but still). GM badly needed to do this, because it had so many dealers in close proximity they necessarily had to compete on price (and couldn't make enough to really invest back in their business).

Closing dealers was one of the things GM needed to do to eliminate a structural cause of its cheap image.

But now they're squandering all that those closures should have given them. They're loading dealers up with too much inventory again, which already forces them to sell on price rather than product. And then to help the dealers unload that inventory, GM is basically committing retail suicide with incentives.

So basically, Bob Lutz gave GM the products it needed to be able to compete. And now Akerson is shitting all over those products, making sure they won't command the price in the marketplace they would be able to demand.

Ultimately, this is really going to hit GM's profitability, so we will hear in upcoming years (again) how much more profit the Japanese and Koreans get off their cars then GM.

Far too many people have sacrificed to give GM a second shot at life: the taxpayers, the dealers, and the workers. But now some guy whom a bunch of banksters thought would be just the ticket is squandering that shot.