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## Hot products can fuel GM's turnaround

*ROBERT SNELL*  
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A year after pleading for taxpayer money to stay afloat, General Motors Co. is showing signs of a turnaround made possible by \$50 billion in federal loans.

Demand for GM cars and trucks rose in October for GM's first monthly sales gain in almost two years. The automaker has slashed costs by nearly \$29 billion, narrowed its losses and plans to start repaying federal loans next month -- earlier than anyone expected.

Such milestones demonstrate progress for GM, which emerged from Chapter 11 bankruptcy in July. But analysts say significant challenges threaten a fully realized turnaround.

Most importantly, GM must reverse sales and market share losses. Key to that will be changing buyer perceptions so they can look beyond the bankruptcy and consider GM models. GM also must deliver on its product promises, which include rolling out a Chevrolet Volt electric car next year that lives up to the hope and the hype that surrounds it.

In coming weeks, GM must solidify its top management team. Key decisions are increasingly being steered by GM's board of directors, headed by Chairman Ed Whitacre. Hand-picked for GM by the Obama administration, Whitacre is pushing GM CEO Fritz Henderson to make faster decisions.

Whitacre has actively overseen GM's emergence from bankruptcy. Recent incidents where he seemed to contradict Henderson publicly have raised questions about Henderson's job security, which could depend on GM's performance.

Henderson's team is under pressure to reverse a long slide in U.S. market share, which was 19.7 percent last month, down from 22.1 percent a year earlier, even as GM boosted revenues in the third quarter and posted a better-than-expected \$1.15 billion loss.

"They seem to be heading in the right direction," said Brad Coulter, director of O'Keefe & Associates, a Bloomfield Hills financial consultant and turnaround adviser. "The intention is to continue issuing numbers that reassure consumers the company has stabilized."

There also have been signs that GM's remaining core brands -- Chevrolet, Cadillac, Buick and GMC -- can replace sales lost with the elimination of the Saab, Hummer, Saturn and Pontiac brands, Henderson said.

"Consumer consideration of our brands has begun to show some improvement," Henderson said last week. "We've been encouraged by the results."

GM's core brands accounted for about 95 percent of GM's sales last month, up from 85 percent a year earlier.

In a sign of GM's focus on customers, quality and gaining market share, Whitacre recently suggested executives personally contact customers who returned GM vehicles sold under a 60-day money back guarantee.

The automaker recently appointed Julie Heisel to retain customers who bought from brands and dealerships that are being phased out or closed as part of GM's restructuring.

Heisel joins a new head of U.S. sales, Susan Docherty. GM still hasn't shaken the stigma of its 40-day stay in bankruptcy, but early indications show its new vehicles -- Chevrolet Camaro, Traverse and Buick Regal -- are drawing customers and critical raves.

GM needs hot products. While sales increased 4 percent in October, the automaker is bracing for a drop in global industry volume this quarter -- from 67.8 million to 65.4 million vehicles -- and executives forecast U.S. sales could fall from 11.7 million to 10.7 million. Next year, however, executives expect a modest recovery in the U.S.

GM's global market share is climbing despite the bankruptcy, rising 0.3 percentage points to 11.9 percent in the 80 days following bankruptcy compared to the first half of 2009. U.S. market share in the period stayed flat at 19.5 percent, but GM gained share in the U.S. in October for a third straight month and early indications suggest November could continue the trend.

"This is being accomplished without 'cash for clunkers' or the federal stimulus," said Mike DiGiovanni, director of global market analysis at GM.

GM also is making a concerted effort to improve the resale values of its vehicles, a key reason consumers shy away from buying GM models. Fleet sales are down about 45 percent, which means fewer rental vehicles go to auction.

The vehicles GM is selling to fleets now come better equipped to fetch higher resale values.

"We are not declaring victory by any stretch, but we are reporting progress," Docherty said. Meanwhile, GM is trying to cement its senior leadership team and is searching for a new chief financial officer to replace Ray Young, a key step toward winning the confidence of politicians and the White House.

Steven Rattner, President Barack Obama's former top auto adviser, recently said GM had "perhaps the weakest finance operation any of us had ever seen in a major company." GM has narrowed the CFO search to a few candidates and is considering Charles Noski, a former vice chairman of AT&T.

[rsnell@detnews.com](mailto:rsnell@detnews.com) (313) 222-2028

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