GM COMPANY ANALYSIS - SYNOPSIS

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INTRODUCTION

Organization Today

General Motors (GM) is one of the world's largest car and truck manufacturers. As of 2012, the corporation has had approximately 202,000 employees around the globe and manufactures cars and trucks in 35 countries ("General Motors: About GM," 2013).

Today, the GM automotive brands include *Vauxhall, Daewoo, Buick, Cadillac, Chevrolet, GMC, Holden, Opel, and Wuling. GM is divided into five business segments: GM North America (GMNA), GM Europe (GME), GM International Operations (GMIO), GM South America (GMSA), and GM Financial (Taktik(z), 2008).*

In 2012, GM achieved $152.3 billion in revenue and $4.9 billion in net income. Compared to 2011, the company's revenue increased by $2 billion, and its net income dropped by 2.7 billion ("General Motors: Investors," 2013).

Brief History and Road of Expansion

GM was founded by William Crapo Durant, Frederic L. Smith, and Louis Chevrolet on September 16, 1908, in Flint, Michigan ("General Motors: Company," 2013). GM's sales numbers quickly started to soar, reaching a total of 25,000 cars and trucks in 1909. In 1910, Durant brought several other companies into GM, including Buick, Olds, Pontiac, Cadillac, Champion Ignition, AC Spark Plug Company. In 1954, GM's U.S. market share reached 54 percent and GM made its 50 millionth cars. In 1979, when sales declined and the globe was dealing with a recession, GM's worldwide employment hit 853,000 workers, but GM lost more than $750 million as car and truck sales plunged 26 percent in the subsequent year (The Associated Press, 2008).

Entering into the 1980s, GM started to thrive in terms of its revenues and employment due to the company's efforts to consolidate its products' operations, cooperate with Toyota Motor Corp. to build cars, and acquire other companies, including the Hughes Aircraft Corporation and Electronic Data Systems Corporation. Due to a declining trend in the world's economy between the 1990s and early 2000s, GM significantly cut down employment, suffered billions of losses, and closed 21 plants, including two Michigan parts plants that almost shut down all North American production. The company incurred these losses despite its efforts to purchase rights to the HUMMER brand from AM General in 1999 and the large amount of stake it had in South Korea's Daewoo Motor, which went bankrupt in 2002. In 2007, GM suffered the largest annual loss in automobile industry history, losing a total of $38.7 billion, including a $39 billion third-quarter charge for unused tax credits (The Associated Press, 2008).

As a result of oil price increases and the economic recession of 2008, GM announced its plan to close more factories and shed more jobs. Also, its HUMMER brand was put up for sale. GM could not make it through the economic disaster and filed for bankruptcy protection in June 2009 (Isidore, 2009). By receiving a bridge loan from the U.S. Treasury, GM returned to profitability in 2010 and avoided further brand shedding and massive job losses.

Company's Mission

General Motors is dedicated to providing high quality and fairly-priced products to its customers through advanced technology, innovation, and maximum leverage of its resources and capabilities. By doing so, customers obtain superior values and benefits, and the shareholders, business partners, and employees receive above-average returns on their investments.

ENVIRONMENT

General Motors Company competes in the highly competitive automobile manufacturing industry. Its major competitors include Chrysler Group LLC and Ford Motor Company ("General Motors Company Top Competitors," n.d.). Chrysler Group LLC has positioned itself as an industry leader with strong brands that are recognizable in almost every part of the world. Ford is focusing on cutting costs to increase margins more than its competitors, and its reverse engineering in the development of its products makes it an innovator in the auto industry. With the development of foreign competitors like Honda, Toyota, and Nissan, competition in the auto industry has become much more intense (Baki & Matt, 2004). The following table shows a five-force analysis of the auto industry environment (see Table 1).

Table 1: Five-Force Analysis in Auto Industry

Force	Threat and Rivalry
Industry Rivalry	Strong
Bargaining Power of Buyers	Weak
Bargaining Power of Suppliers	Strong
Threat of Entry	Weak
Threats from Substitute Products	Weak to Moderate

In 2008, with rapid price increases in oil, many industries, including the auto industry, experienced both pricing pressures and changes in consumer purchasing preferences. GM, as a large manufacturer of both trucks and SUVs, experienced a dramatic decrease in sales due to the lacking fuel efficiency of these vehicles. Additionally, consumers' increasing concerns for the environment and safer automobiles forced auto producers to manufacture automobiles that were not only more environmentally friendly but also higher in quality. GM is committed to continuous improvement by reducing the environmental impact of its vehicles and facilities in several areas, including more fuel-efficient vehicles, waste reduction, and resource preservation ("Innovation: Environment," n.d.).

The consumer markets in North America and Japan are becoming sluggish while Asian and South American markets are growing rapidly in countries such as China and Brazil. As a result, General Motors has an opportunity to expand further into these emerging markets.

CURRENT SITUATION

Product Categories

General Motors offers a comprehensive range of vehicles from electric and mini-cars to heavy-duty, full-size trucks, monocabs and convertibles. Currently, GM produces cars, SUVs, pickups and trucks, which it sells and services through the following brands: Chevrolet, Buick, GMC, Cadillac, Baojun, Holden, Isuzu, Jiefang, Opel, Vauxhall and Wuling. It has formed joint ventures in China, including SAIC-GM, SAIC-GM-Wuling, and FAW-GM ("Our Brands," 2013).

For the past year and a half, GM has been refreshing 70 percent of its U.S. lineup, including a redesigned Impala full-sized sedan and Corvette sports car. With the new product surge, GM aims to improve its operating margins and customer service, and revamp its corporate structure to align its business with the Chevrolet and Cadillac brands globally and away from regional operations ("GM Expects 'Modest' U.S. Market Share Gain," 2013).

Market Share

In 2012, GM's U.S. market share fell to 17.9 percent, the lowest since 1924 ("GM Expects 'Modest' U.S. Market Share Gain," 2013). However, Chief Executive Officer Dan Akerson forecasted that GM should see "modest" U.S. share growth in 2013 ("GM Expects 'Modest' U.S. Market Share Gain," 2013).

On March 1, 2013, GM announced that it sold 224,314 vehicles in the United States in February, up 7 per cent compared with a year ago (GM Press Release, February 2013). As Table 2 shows below, all four GM brands, including Cadillac, Buick, GMC, and Chevrolet, posted higher year-over-year sales (GM Press Release, February 2013).

Table 2: GM's US Sales Highlights in February 2013

Highlights	Feb. Total Sales	Total Change vs. Feb. 2012	Feb. Retail Sales	Retail Change vs. Feb. 2012	CYTD Sales	CYTD vs. 2012	CYTD Retail Sales	CYTD Retail Sales vs. 2012
Chevrolet	158,541	4.9%	109,188	4.1%	295,845	7.6%	201,582	10.1%
GMC	35,778	9.8%	31,257	13.5%	66,594	15.7%	59,721	21.4%
Buick	16,150	15.2%	14,951	13.2%	29,613	22.2%	27,369	20.4%
Cadillac	13,845	20.3%	12,571	12.5%	26,961	32.0%	24,912	27.4%
Total GM	224,314	7.2%	167,967	7.1%	419,013	11.1%	313,584	14.2%

Retrieved March 16 from
http://media.gm.com/content/dam/Media/gmcom/investor/2013/2013%20February%20Sales/GM-Feb-2013-Sales-3.pdf

Financial Performance

GM expected to "report a loss of $1.5 billion to $1.8 billion in Europe for 2012 after posting losses in the region since 1999 totaling $17.3 billion as of Sept. 30" ("GM Expects 'Modest' U.S. Market Share Gain," 2013). However, the company said in October 2012 that it "expects slightly better results this year and intends to end losses by 2015" ("GM Expects 'Modest' U.S. Market Share Gain," 2013). In fact, as shown in Table 3 ("GM Earnings Released," 2012), the company's revenue increased 1 percent from $150.3 billion in 2011 to $152.3 billion in 2012. Earnings before interest and tax adjustments decreased from $8.3 billion in 2011 to $7.9 billion in 2012 ("GM Earnings Released," 2012).

Table 3: GM Earnings Released, 2012

Overview (in billions except for per share amounts)

	Q4 2011	Q4 2012	Full-year 2011	Full-year 2012
Revenue	$38.0	$39.3	$150.3	$152.3
Net income attributable to common stockholders	$0.5	$0.9	$7.6	$4.9
Earnings per share (EPS) fully diluted	$0.28	$0.54	$4.58	$2.92
Impact of special items on EPS fully diluted	$(0.11)	$0.06	$0.70	$(0.32)
EBIT-adjusted	$1.1	$1.2	$8.3	$7.9
Automotive net cash flow from operating activities	$1.2	$0.5	$7.4	$9.6
Adjusted automotive free cash flow	($0.2)	$1.1	$3.0	$4.3

Retrieved March 16 2013 from
http://media.gm.com/content/dam/Media/gmcom/investor/2013/q4/GM-2012-Q4-Press-Release.pdf

CURRENT STRATEGY

Brand Restructuring

As required by the United States Department of Treasury, GM strategically reviewed its brand and dealership network and submitted its restructuring plans for 2009-2013 to the United States Congress. GM will focus on four core brands, including Chevrolet, Cadillac, Buick and GMC, while closing, selling or shrinking other brands such as Saab, Saturn and HUMMER. Compared to the other models within the GM profile, Saab and Saturn sales have struggled and lagged behind throughout the board. Additionally, the HUMMER line did not fit with GM's strategy of fuel efficiency and sustainability. GM has reported an average annual loss of $1.1 billion for the Saab, Saturn and HUMMER brands. With these actions comes a significant reduction in the number of vehicle nameplates and GM dealer closings (Table 4) within its major markets, GM North America and GM Europe (Harrison et al, 2012).

Table 4: Changes in GM Nameplates and Dealership

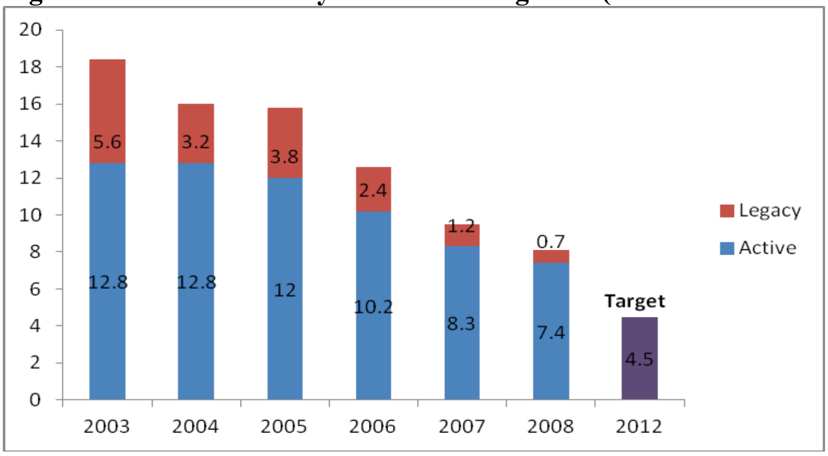
	2000	2004	2008	Plan 2013
Total Nameplates	51	63	48	40
GM Dealer Count	8,138	7,497	6,450	4,500

Note. M. Nortton, General Motors Business Strategy. Retrieved from
http://myweb.wit.edu/nortonm/coursework/GM_Business_Plan.pdf

Cost Reduction

- **Pension and Healthcare Considerations:** At the end of 2006, GM's obligation to provide healthcare for its employees was $51 billion, which translated into a $1,900 price increase for every GM vehicle sold in the United States in 2006 (Harrison et al, 2012). To reduce its costs, GM negotiated with the labour unions to revise labour agreements and restructure its obligation to cover healthcare for UAW and IUE-CWA. GM also cut costs by reducing its production and workforce.
- **Manufacturing Cost Reduction:** Since 2005, GM has been implementing a manufacturing and product strategy that allows the company to be more responsive to changes in consumer preferences and in the marketplace ("General Motors Corporation: Restructuring Plan for Long-Term Viability," 2008). GM has also adopted a manufacturing system to achieve a position of leadership in workplace safety, segment-leading quality and cost (see Figure 1).

Figure 1: GM U.S. Hourly Manufacturing Cost (in Billions US Dollar)



Note. General Motors Corporation: Restructuring Plan for Long-Term Viability, 2008. Retrieved from http://online.wsj.com/public/resources/documents/gm_restructuring_plan120208.pdf

Expansion in China

By 2013, GM had 12 joint ventures: two wholly owned foreign enterprises and more than 55,000 employees in China ("General Motors China," 2013). The most remarkable ones are Shanghai GM, a joint venture between GM and SAIC Motor, and SAIC-GM-Wuling Automobile, a joint venture in China between GM, SAIC Motor and Liuzhou Wuling Motors (General Motors Career).

GM is the top-selling foreign automaker in China and has decided to open two more factories to further expand in this country.

GM had a total of 3,800 auto dealerships in China in 2012 and will add 400 more in 2013, bringing the total to approximately 4,200 locations. The brands sold in China include Buick, Chevrolet, Cadillac, Opel, Baojun and Wuling. The expected sales of passenger cars and commercial vehicles in China will increase by 3% and total 21 million in 2013 ("GM to Add 400 Dealers in China," 2013).

Focused Electrification Strategy

GM is committed to focusing on its fuel efficiency and sustainability strategy. The company will focus its vehicle electrification efforts on three main technologies: 1) light electrification, currently manifested in the eAssist systems; 2) extended range electric vehicles, such as the Chevrolet Volt; and 3) battery electric vehicles, such as the Spark EV ("Green Car Congress," 2012).

STRATEGIC CHALLENGES

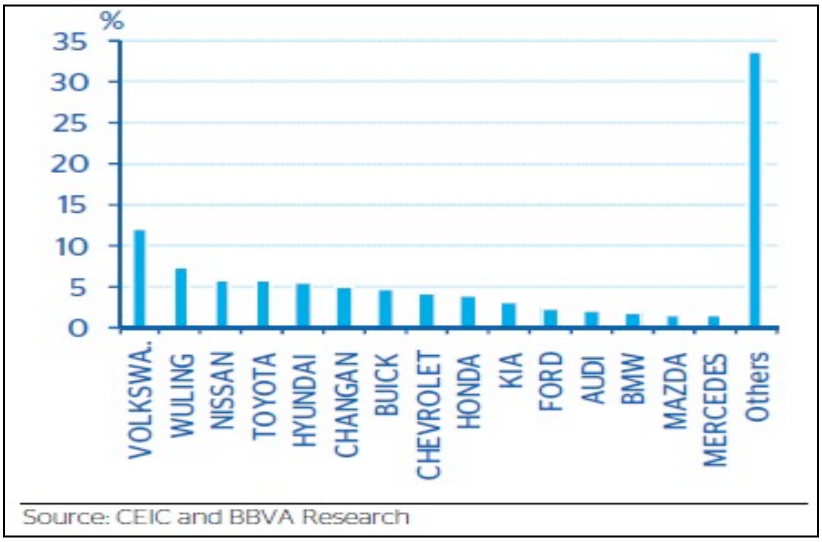
High Research and Development Cost of Producing Electric Vehicles

Electric cars are becoming increasingly popular due to their fuel saving and environmental friendly features. However, the research and development costs of electric cars are very high. In addition, GM would need to hire experts to establish a creative department that is able to develop electric cars that can compete in the market.

Intense Automobile Industry Competition in China

From Figure 2, we can see that many global automobile companies have already expanded into China's market and captured a significant market share. Moreover, Chinese local car brands have grown rapidly in recent years and generally cost much less than import cars. Therefore, on the industry level, the threat of highly competitive rivalry is intense.

Figure 2: New Registration of Passenger Cars by Brands (2011)

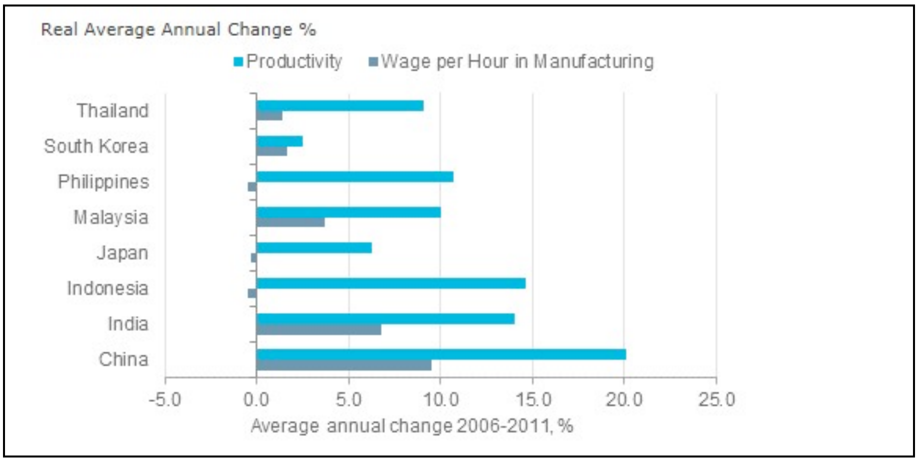


Note. Automobile Market Outlook. (2012). BBVA Research. Retrieved from http://serviciodeestudios.bbva.com/KETD/fbin/mult/120619_China_Automobile_Outlook_EN_Edi_tcm348-334127.pdf?ts=1632013

Labour Costs Rising in China

Labour costs have been rising rapidly in China, driving production costs up and posing a challenge to competitiveness in the automobile manufacturing industry. Figure 3 shows that from 2006-2011, the average wage per hour in manufacturing in China rose by 57.5% in real terms to reach RMB18.5 (US$2.9) in 2011. Thus, as rising labour costs lead to higher production costs, GM will face pressures on their profit margins. Moreover, higher labour costs will eventually be passed onto Chinese consumers, which could negatively influence GM's competitive advantage.

Figure 3: Growth of Wage per Hour in Manufacturing and Productivity in Selected Asian Pacific Countries: 2006-2011



Note. Automobile Market Outlook. (2012). BBVA Research. Retrieved from http://serviciodeestudios.bbva.com/KETD/fbin/mult/120619_China_Automobile_Outlook_EN_Edi_tcm348-334127.pdf?ts=1632013

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