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GM makes historic cuts in struggle to survive

By THE ASSOCIATED PRESS

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DETROIT (AP) -- General Motors Corp., struggling to survive, will slash jobs, cut production, sell assets and suspend its dividend for the first time in 86 years as it tries to ride out an unprecedented collapse of its core U.S. market.

Tuesday's actions, which the company said will save $15 billion through 2009, carry a more urgent tone than past roadmaps to recovery. This time, GM is facing one of the most serious threats in its nearly 100-year history, with one analyst speculating that the world's largest automaker by sales could wind up seeking bankruptcy protection.

GM said if it's latest, unoptimistic predictions hold true, it will have enough cash to sustain itself to 2010. But with no guarantee that the economic slump and U.S. sales downturn have hit bottom, the latest addition to a long string of restructuring efforts may not be enough to keep GM from going the way of Studebaker.

"We are in an unprecedented challenging environment here in the U.S.," President and Chief Operating Officer Fritz Henderson conceded in an interview. But words like "crisis" and "panic," Henderson said, aren't useful.

"What's useful is decisive action," he said.

While the emphasis is on cuts, GM is preserving funding to develop new small cars and car-based crossover vehicles that people are craving as they abandon pickups and sport utility vehicles. There's also money for vehicles of the future like the Chevrolet Volt rechargeable electric car.

"In short, our plan is not a plan to survive. It is a plan to win," GM Chairman and CEO Rick Wagoner said in a broadcast to employees.

The company said it would cut white-collar costs in the U.S. and Canada by more than 20 percent, shed thousands more factory jobs by cutting truck production, borrow $2 billion to $3 billion and take other measures such as selling assets to generate cash.

The cuts ran deeper than usual, with GM suspending its $1 per share annual dividend for the first time since 1922, and even cutting once-sacred health care for more than 90,000 salaried retirees when they reach 65 years of age. Even GM's long-standing auto racing sponsorship is in question, although executives would say only that modifications would be made.

"I can't really tell you where the bottom is," Henderson said. "The objective was to try to develop a plan that was robust even if the market was to get worse."

Of the $15 billion in savings, $10 billion will come from internal cost-cutting. The other $5 billion will come from the sale of assets, possibly including the Hummer brand, and from borrowing against others, most likely GM's overseas operations.

The company plans to close four truck and sport utility vehicle factories more quickly than previously announced, although it wouldn't say which of the plants in Janesville, Wis.; Moraine, Ohio; Oshawa, Ontario; or Toluca, Mexico, would be shuttered early.

Factories that make engines, transmissions and other parts for trucks also will take hits, but GM wouldn't identify the plants or say if further closures are planned. Henderson said thousands more blue-collar jobs would be lost, but he wouldn't give an exact number.

Investors put some faith in GM's plan. The company's shares initially fell to a new 54-year low of $8.81 but rebounded to close at $9.84, up 46 cents, or 4.9 percent, from Monday's close.

Still, some industry analysts were skeptical.

Standard and Poor's Ratings Services on Tuesday kept GM's debt on credit watch negative. Analyst Robert Schulz wrote in a note to investors that Tuesday's steps are necessary to maintain liquidity "given the magnitude of the company's expected cash use caused by currently dismal market conditions in the U.S. automotive market."

GM sales were down 16 percent for the first half of the year as $4 per gallon gasoline and economic worries either kept buyers out of showrooms or sent them running to small cars that get great gas mileage. The shift in buying habits hit truck-heavy GM, Ford Motor Co. and Chrysler LLC particularly hard, and even Toyota Motor Corp. saw a sales drop in June.

GM executives said that given tight credit markets, the company needed to generate most of the savings on its own rather than through massive borrowing.

"The market is inhospitable, which is why we tried to structure our approach so we have $10 billion we can do ourselves," Henderson said.

Craig Fitzgerald, a partner with the Plante & Moran PLLP, said most of the savings are within GM's control.

"They don't depend on outside factors," he said. "That's a healthy mental model and a healthy business model to have."

GM said it is prepared for total U.S. sales as low as 14 million light vehicles for the next two years, far below its projection of 14.7 million for this year. The plan also assumes GM keeps a 21 percent market share, and that oil prices stay in the $130 to $150 per barrel range.

But Fitzgerald said GM's worst-case scenario may not be bad enough. At worst, he predicted the U.S. market could drop to an annual sales rate of 13 million this year with no recovery next year.

"I see that as a reasonable planning scenario, but I don't know that I see it as a worst-case scenario," Fitzgerald said.

Tuesday's cuts come atop earlier downsizings. GM had 113,000 U.S. hourly employees in 2006; it now has about 57,000. Its U.S. salaried work force has dropped from 44,000 in 2000 to about 32,000 last year.

GM won't say how many white-collar cuts will be made, but Henderson said much of the cost reduction would come from cutting retiree health care benefits. Those over 65 would get a $300 monthly pension increase to make up for the cut.

Many white-collar jobs will be cut through normal attrition and retirements, and through early retirement and buyout offers, Henderson said. The company could resort to involuntary layoffs but does not want to, he said.

GM has $24 billion in cash and access to $7 billion in credit, but has been burning through about $1 billion per month. JPMorgan analyst Himanshu Patel recently predicted that GM would go through $18 billion in cash this year and next.

Analysts had speculated GM would need to raise more cash to get it to 2010, when it will start seeing the savings from its landmark 2007 contract with the UAW that cut hourly workers' wages and transferred billions in hourly retiree health care obligations to a union-led trust.

As part of its financing plan, GM will defer $1.7 billion in payments to that trust that had been scheduled for this year and next.

Although some have speculated that GM would declare bankruptcy, Wagoner said last week that isn't a consideration.

On the Net:

General Motors Corp.: http://www.gm.com