

## The End of 'Government Motors' Clears Way – Akerson

When GM CEO Dan Akerson announced his retirement Dec. 10, it didn't mean he didn't still have some things to say.

In a speech to the National Press Club in Washington, D.C., on Dec. 16, Akerson said that it was an auspicious time to talk to the press.

After all, Akerson said, between the government selling the last of its shares of GM stock and the appointment of Mary Barra to the position of CEO, GM had been in the news a lot.

"On that day, for the first time in decades, all eyes at General Motors pointed toward the future," Akerson said.

"The end of the 'Government Motors' era has cleared the runway for the team to soar. And soar we will, because we are building a GM that America can be proud of."

Getting GM to where it is today wasn't easy, Akerson said. He said he recognized that the job wasn't going to be easy the day he became CEO.

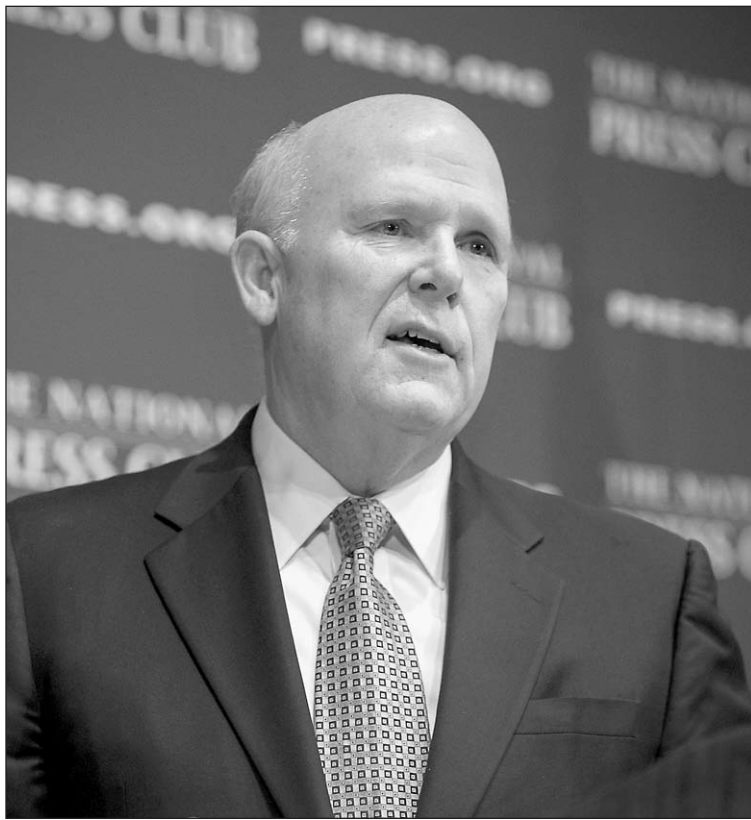
"The 'new' GM was, in a word, fragile," Akerson said. "We had emerged from a bankruptcy that lasted only 39 days. That was good, because it didn't leave a damaging cloud over our brands. But a 39-day 'quick rinse' bankruptcy only gave us time to repair the balance sheet. Truly transforming our business would take much more.

"We had to remedy decades of poor decisions. And indecisions. And 'no decisions' that started to pile up in the 1970s and '80s like so much rotting firewood."

The three basic problems, as Akerson saw them, were out-of-control costs, wasteful complexity and diminished product quality. And this was all funded by ruinous debt.

"You could pick just about any point in time and find something to shake your head over," Akerson said. "For example, in 1978, GM paid almost as much in benefits as it earned in net income. Yet, the very next year, it agreed to the largest pension increase in UAW history.

"Eventually, GM's pension plans – the largest private sector funds in the world – became chronically and dangerously underfunded despite tens of billions of dollars in cash and stock infusions. That actually weakened the company because it treated the symptoms, not the disease, robbing precious dollars from product development.



Dan Akerson at National Press Club Dec. 16.

"More recently, U.S. hourly labor costs increased 4 percent annually from 2003 to 2007, even though the company had total operating losses of \$17.6 billion from 2005 to 2007.

"In other words, while management was burning the furniture to keep warm, we were also automatically increasing our fixed costs."

As to complexity, Akerson noted that only a few years ago, GM had 30 different vehicle architectures supporting sales of about 9 million vehicles. To sell these units, the company used 70 different ad agencies around the world for Chevy alone.

"In another move, GM leaders outsourced nearly all of the company's information technology," Akerson said.

"We effectively dismissed data capture and proprietary analytics as a core competency just as the Internet was about to transform all modern business models.

"We also ended up with 23 leased or partially owned data centers, which is costly and risky. Now, we are taking that down to two, fully owned by GM."

The end result of all of this complexity was a company that topped the Fortune 500 list when it was first published in 1955, and

ship played 'team ball' and systematically addressed the company's shortcomings.

"So, I made a promise to myself and to the Board to deliver three things during my tenure.

"The first was the restoration of GM's good name.

"The second was the transformation of the company and our operations.

"And my third goal was to put quality and the customer back at the center of every decision we make.

"As a result, we are looking at every aspect of our business – from every angle – to make every system, every operation, best-in-class."

These efforts included spending \$3 billion on dealerships, reducing the time it takes to resolve customer problems from 28 days to a week and investing more than \$500 million to develop IT capabilities that would make Silicon Valley proud.

GM has also improved its ability to actually commercialize all the patents the company filed, said Akerson – things like developing systems to weld aluminum as part of its efforts to lightweight vehicles.

"We have also revamped our financial systems from top to bottom," Akerson said. "Now we are getting to the point where we can track the profitability of each car down to the serial number, no matter where it's sold in the world.

"Also on the product front, we will reduce the number of vehicle architectures by half over the next decade. We also defeated some \$40 billion in pension liabilities, doubled our revolving credit line, and dramatically simplified our balance sheet.

"Even more importantly, we have worked hard to earn the trust of our employees, both hourly and salaried, and get everyone aligned around straightforward profit and quality targets."

The result of all the changes at the new GM, Akerson said, is 15 straight profitable quarters, with earnings of nearly \$30 billion before interest and taxes.

"Someone asked me recently if the 'Government Motors' tag still hurts us," Akerson said. "To be honest, we don't hear it that much anymore. In fact, it reminds me of a comment Ronald Reagan once made.

"He said he knew his economic plan was working 'when they stopped calling it Reaganomics.' Well, General Motors is working again.

"We have put together a leadership team with experience, optimism and a strong competitive streak. We are making vehicles that are the pride of the industry.

"When I became CEO, I wanted to help build a sound foundation for the next generation of leaders to build on. We've done that. I cannot wait to see how far they take it. It will be great."

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