

## **Prospering Beyond the GM Bankruptcy**

*Mi Biz* / July 6, 2009 / Julie Cridler

Now that the big question of whether or not GM is going to “file” has been answered, the road to recovery begins. The path, without a doubt, will be bumpy especially for the supply base. There have been many predictions of looming bankruptcies at supplier companies, and we have already seen some of that beginning to happen. For suppliers that are able to hang on through this difficult period, the light at the end of the tunnel may be bright. And, the tumultuous nature of the industry may open the door for new suppliers and present the opportunity for existing suppliers to introduce new technology.

### A Quick Summary

The official plan is that GM should emerge from Chapter 11 as a new company within 60-90 days of the original filing. When all is said and done, the U.S. government will own 60.8% of the company's stock, with the Canadian government, the UAW's trust, and bondholders owning 11.7%, 17.5%, and 10%, respectively. To be sure, the company will look much different than it does today. For example, the new GM will be minus 14 plants, nearly 2,400 dealers and close to 30,000 employees (including hourly and white-collar) and will consist of only four brands (Buick, Cadillac, Chevrolet, and GMC). The structure of the new company is being engineered so that it can operate at breakeven when sales in the domestic market are at a level of 10 million units.

Under section 363 of the bankruptcy code, GM will be able to sell the strongest parts of its business to a new entity to launch a more nimble and solid company. Once that happens, the new company will be free of the Chapter 11 process completely. The bankruptcy proceedings will then only continue for the operations that were not part of the new entity, as the creditor's claims are handled and operations eventually wind down.

GM filed a motion to include all of its production parts suppliers and logistics suppliers on the critical vendor list, which ensures that they will be paid for parts shipped to the company. This will certainly be helpful to some suppliers, but some will still undoubtedly buckle under the pressure of the enormous production cuts that have taken place so far this year.

### Outlook for the Future

There is one camp that believes that the new GM will only be a shadow of its former self and unable to return to the glory and status the company once enjoyed. In some ways, this depends on how quickly the U.S. government gets out of the picture. Spokespeople from the government insist that auto task force will not be involved day-to-day running of the business and will not seek to

influence the company's strategic decisions. The head of the Obama administration auto task force indicated that there will be an exit strategy and expressed hope that GM could emerge as a public company again sometime next year.

If the government does not stay true to that plan, it will likely impair the fresh start that a newer, more nimble GM might have. The government way of doing things is inherently bureaucratic, and that is exactly what GM needs to avoid. With the excess fat trimmed away, the new GM needs to be able to act quickly and implement market-based decisions to ensure that it is competitive with the likes of Toyota and Honda.

If the government does step aside like they say they will, the second school of thought regarding GM's future is more likely: they could be a highly innovative and fiercely competitive player. It is in this scenario that suppliers will find the brightly lit future of opportunities. The environment that the new GM will be stepping into is challenging at best. The recently heightened CAFE requirements, along with a still difficult economy and a host of solid competitors necessitate that the company find new ways to do things. This is where innovation from suppliers can come into play.

Against the backdrop of the auto industry crisis, a new breed of suppliers has been quietly working on innovations. According to an article in the May 22, 2009 edition of *Wired* magazine, venture capitalists invested close to \$300 million in new car-related companies during 2008, compared to only \$8 million during 2003. Some of these future suppliers are focusing on solving problems with existing technology, while others are creating entirely new ways of approaching automotive technology.

If the new GM is to leave its competition in the dust someday, these are the types of ideas that will help them do it. It will be interesting to see how the company evolves, as this could be a real opportunity for them to start fresh with a clean sheet of paper.