

Don't Cry for Me General Motors

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<https://articlebiz.com/article/1052208140-dont-cry-for-me-general-motors>

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Published: December 27, 2023

Word Count 971

Once the largest automobile manufacturer in the world, General Motors (GM) is now a dwarf in the industry and tomorrow it may be gone.

On a chart of today's largest automotive manufacturers, it can hardly be found.

GM, a company that said it loses money on every electric vehicle it sells, spent in the neighborhood of One Hundred Million Dollars on the much in demand, all electric Cadillac Celestiq that has a sticker price of around \$340,000. Can you imagine the number of buyers who will be getting in line for that?

Not to worry, however, according to GM's CFO Paul Jacobson, General Motors expects its Electric Vehicles (EVs) to bring in more money than they cost to build by late 2024 and even have mid-single-digit EV margins in 2025. The latter number, according to Jacobson, includes the benefit of federal tax credits (that may or may not be around in 2025.)

Then again, all of those predictions are assuming that General Motors, as we know it, will be around in 2025.

Tesla notwithstanding, if one were to describe the traditional automobile industry in terms of the human anatomy, the manufactures would represent the skeleton (framework), the lenders the blood (money) and the dealers the heart that pumps the blood to the vital organs (the businesses and consumers).

"Traditional" manufactures cannot retail cars to the public – only dealers can. Manufacturers have been and are “wholesalers.” They wholesale their vehicles to dealers and it is the dealers who retail them to the public.

It is the whiz-kids in Detroit that think that "they" sell the cars and that the dealers only deliver them. As a result of their super-inflated egos, from time to time factories try buying up dealerships and running them themselves. GM tried it. Ford tried it. And, each time they lost their collective tails.

The last time the a factory tried to replace the dealers was back in 2002, when Ford Investment Enterprise Company had to sell dozens of dealerships it purchased (with the intent to control the world) back to their dealers at a fraction of what it paid to buy them. At the time, Paul Lam, Ford Division Southwest Region Market Representation Manager commented: "It was the wrong strategy, and we are getting out of the retail business." (F&I Showroom Newsletter, April 5, 2002.)

Dealers are not only the heartbeat* of the factories, but they are the pulse of the factories. It is the dealers who interact daily with the public and are best suited to know the customers' needs, wants and desires. So when your dealers tell you that EVs won't work, what do you do? Well, if you are General Motors, you buy them out. (*I thought it interesting that "The heartbeat of America" was once the motto of Chevrolet.)

In General Motors' case, roughly twenty percent (20%) of its Cadillac dealers and forty-nine percent (49%) of their Buick dealers said they would rather give up their livelihoods than spend the money GM required them to spend to remodel their stores to conform to GM's requirements to sell EVs.

While some manufacturers might have taken the dealers' comments as a sign to work with their them to solve a mutual problem. GM took it as a sign of defiance and an opportunity to spend millions more on a failed project.

You have to hand it to a guy like Jim Farley, at Ford. That guy "walked the walk" Or, in his case, he took a long trip with an EV to mimic the public's experiences, spoke to his dealers, recognized the problems and immediately saw the problems, modified his business plan and worked with his dealers to try and solve the problems. He did not put them out of business because they disagreed with Ford policy.

General Motors has still has not figured that out. When Ross Perot was on the board, he offended his "Detroit" colleagues by spending weekends at dealerships talking to dealers, driving different GM brands and models, and trying to present the dealers' side of the problems.

“Disillusioned by GM’s slow pace of innovation and decision making, Perot famously quipped ‘at EDS when we see a snake we kill it. At GM they appoint a committee to study snakes.’” Doron Levin, Forbes editor, July 9, 2019.

"Eventually, Perot exited GM – but not before publicly . . . excoriating the automaker’s business practices. The blowup foreshadowed GM’s deteriorating performance and accumulating debt, which culminated in the company’s 2009 bankruptcy. Perot had been prophetic: GM turned out to be a lumbering dinosaur that finally couldn’t get out of its own way." Ibid. (For you Harvard grads, "" means it was not my original thought.)

That is a good analogy. Dealerships and their factories are like dinosaurs. You put a bullet in their brains and they walk another five miles before they know they are dead. I believe one reason is because of the large cash flows. A dealership could be operating out of trust, or living hand to mouth for years before drops over dead.

Could we be witnessing history repeating itself?

Should we be starting a pool as to who will end up with GM’s carcass? Will it be the Chinese, Musk or Amazon?

One final thought. What happens next year when GM, Ford and Stellantis end-up with millions of carryover vehicles that nobody wants?

In the past, carry-overs were models the public wanted, but that the factories overbuilt, such as Ram 1500s, Ford F-150s and Silverados. The factories would lower the prices, put a few spiffs* on them, and by February or March, the dealers would work out of them. (*“Spiffs” are cash bonuses to dealers and/or the customers.)

2024 will be the first time the factories will end-up with thousands of carryovers that nobody wants and that contain 3,000-pound lithium batteries.

What will they do?

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