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GM RESTRUCTURING

## Some suppliers to be hurt by GM cuts

By [Ryan Beene](#)

**General Motors Corp.**'s restructuring announcement this morning could underscore what the future holds for local suppliers.

The announcement of company efforts to raise \$15 billion in liquidity by the end of 2009 by reducing its white-collar workforce, faster plant closures, dividend suspension and further truck production cuts also pegs the company's 2008-2009 U.S. light vehicle sales total at 14 million units.

Cuts to vehicle production to keep in line with a 14 million vehicle sales forecast will create problems for some auto suppliers.

"Some suppliers are not going to make it," said Van Conway, co-founder and senior managing director at Birmingham-based **Conway MacKenzie & Dunleavy**. "There's a point where you just can't cover the overhead. It's just the way it is."

Conway says suppliers heavily tied to trucks, SUVs and other vehicles getting the axe face real challenges.

"If your top line is coming down, due to no fault of your own, you've got to reduce your costs — but it's easier said than done," he said. "The question is when does the rubber band snap?"

That rubber band is likely to snap for middle-market companies that lose 20 percent of their annual revenue and are unable cut costs accordingly to survive on less sales volume, forcing them to sell the business.

Two major auto suppliers -- Plastech Engineered Products Inc. and Progressive Molded Products Ltd. - have already filed for bankruptcy protection this year, while Delphi Corp. failed to emerge from two and a half years of court protection. Dana Corp. and Dura Automotive Systems Inc. have emerged from protection this year.

But, Conway predicted, proactive companies will be able to come out on the other side.

"It really gets down to good management," Conway said. "Top management will survive the storm."

James Mallak, an auto restructuring expert with **Alvarez & Marsal** in Detroit, says auto suppliers will have to follow GM's lead.

"We haven't seen these volume levels in quite some time, so I think the entire Detroit 3 and the supplier community are going to need to restructure to these volumes," he said. "They're going to have to take very similar steps to what GM is taking, and they're going to really have to take a look at how do they take that capacity and cost out of their system and conserve cash also."

Ilhan Geckil, senior consultant and economist with East Lansing-based **Anderson Economic Group**, agrees that supplier restructurings could follow.

Mallak applauded GM for taking what he called "all the right steps" needed to strengthen company's liquidity.

"More importantly, they're taking out costs that will be permanently gone," he said.

Geckil said GM's production reductions and other efforts geared to cut costs and boost liquidity will send ripples throughout the industry, pressuring tier one suppliers to do the same, which could push tier-two and tier-three suppliers to follow.

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"This is not only GM — this will be the industry standard for a while," Geckil said. "The industry needs to change, and this is not going to happen overnight, but this whole plan is making this shift as easy as possible."

**American Axle & Manufacturing Holdings Inc.**, GM's primary axle supplier, said in a statement it plans to continue to work with GM on product development.

But the company did recognize the economic reality facing the industry.

"The structural impact of rapidly escalating energy prices, significantly constrained credit availability and a slowing global economy has adversely affected the entire domestic automotive industry," American Axle spokeswoman Renee Rogers wrote in an e-mail message to *Crain's*.

"They had to do what they had to do, and we support them," she said later in a phone call, referring to GM.

Detroit-based American Axle relied on GM for about 80 percent of its sales in 2007.

GM's bolstered restructuring effort seeks to raise \$15 billion in liquidity by the end of 2009 by cutting salaried worker costs by more than 20 percent through attrition, early retirement packages, "mutual separation programs" and other separation tools. The company also said today it planned to reduce truck and SUV production capacity and sell company assets, including its Hummer brand.

GM said it planned to reduce truck and SUV production capacity by 300,000 units by the end of 2009, double what the company announced in June. GM's next generation large pickup truck and SUV program, and company V8 engine development will also be delayed, the company said in a statement.

Executives at GM will not receive cash bonuses in 2008, nor will the company pay its annual \$1 per share dividend.

"We will continue to take the steps necessary to align our business structure with the lower vehicle sales volumes and shifts in sales mix," GM CEO Rick Wagoner said in a statement.

GM stock has fallen to 50-year lows of less than \$10 per share in recent weeks as its vehicle sales have plummeted.

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