

ONCE UPON A CAR

**The Fall and Resurrection of
America's Big Three Automakers—
GM, Ford, and Chrysler**

COAUTHOR OF *TAKEN FOR A RIDE*

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Once Upon a Car

The Fall and Resurrection of America's Big
Three Automakers—GM, Ford, and Chrysler

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wm

WILLIAM MORROW

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Dedication

For my parents, Robert and Nancy Vlastic

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Chapter One

Larry Buhl had been planning this rendezvous for months, and today was finally the day. It was the second week in January, and the 2005 North American International Auto Show was in full swing in downtown Detroit. The Cobo Center convention floor, bigger than a dozen football fields, was a mass of people roaming like herds among the exhibits of the world's biggest automaker. The elaborate displays of the hometown giants, General Motors and Ford, owned one side of the hall. The German luxury brands Mercedes-Benz and BMW anchored the other end.

And somewhere in the middle was the man Buhl was looking for.

He walked along the carpeted paths between the million-dollar show stands, each one reflecting the company behind it—sleek and futuristic at Honda and Nissan, lots of chrome and bright colors at Dodge and Chrysler, stark backdrops and pretty women in slinky dresses at Ferrari and Lamborghini. Cars of every size and shape were bathed in bright spotlights, polished and posed for the hordes of journalists and camera crews and auto executives that swarmed around the hall.

Buhl felt right at home. He lived in Connecticut but had grown up just down the road in Grosse Pointe, Michigan. He had been going to the show for years. It was like an extension of the holidays in Detroit—Christmas, New Year's, auto show. It was also the perfect place to blend into a crowd and meet someone unnoticed. Buhl crossed the convention floor, took a turn behind the man-made mountain with a Jeep hanging off it, made a left at the Toyota exhibit, and spied the smallest, plainest stand in the entire place—three quirky little cars surrounded by college-age sales reps in polo shirts and khakis. And there, working by the red Scion sign, was Jim Farley.

Since last summer, Buhl had been trying to set up a meeting between Farley, a rising executive at Toyota and head of its new Scion division, and one of Buhl's oldest friends, William Clay Ford Jr., the chairman and chief executive officer of the Ford Motor Company. The idea came to Buhl during a conversation with Farley's father on a golf course in northern Michigan, where the Farley and Buhl families had owned vacation homes for years. "Something struck me when I saw Jim's dad," Buhl recalled. "I thought Ford could really use a guy like Jim."

Larry Buhl had known Bill Ford since they were kids. They went to private schools together, played the same sports, socialized throughout college, and stayed close into their mid-forties. One went on to become a successful entrepreneur buying and selling specialty metals on the East Coast. The other became the leader of the second-biggest car company in the world.

Buhl cherished their bond, but lately he had been worried about his friend. He saw what the pressure of running the Ford Motor Company, his family's business for more than a hundred years, was doing to Bill. Executives came and went at Ford headquarters, but none of them was able to help Bill stave off the flood of Toyotas, Hondas, and other foreign cars that were relentlessly beating Ford in the market. Buhl saw Bill's spirits sag when they talked about it. "It's too much for you," he kept telling him. "How can you shoulder all of this responsibility yourself?"

What Ford needed was fresh blood. Buhl would never be so presumptuous as to suggest to Bill that he hire Jim Farley. But if he could get the two of them together, who knew what might happen? When

he brought it up, Bill said sure, he was open to it. It was a little trickier to convince Farley. Buhl's brother Robbie, a professional race car driver and fellow car fanatic, had been tight with Farley for years. Still, when Buhl called Farley, he was cool to the idea of sitting down with anyone at one of Toyota's biggest competitors.

"I'm not interested in going anyplace," Farley said. "I'm really happy at Toyota."

"Come on," Buhl said. "I'm just talking about introducing you to a friend of mine."

"I don't feel comfortable about this," Farley said. "Things are going so well for us, and for me."

"You have to meet him," Buhl said.

"Why?"

"Because," Buhl said, "it's good for you."

Now as he walked toward the Scion stand, Buhl still didn't know if Farley would ever consider leaving Toyota. What he did know was that Jim Farley could sell cars as well as anyone on the planet.

And he was proving it every day. In just two years, Farley had grown Toyota's new Scion brand, created specifically for younger buyers, from zero sales in the United States to 100,000 vehicles a year. His bosses in Japan and in Los Angeles had entrusted him to somehow make bland and reliable Toyota hip, and he embraced the challenge. Farley took Scion cars to rock concerts, street festivals, and college campuses—anywhere that Generation Y hung out. He was constantly on the road, setting up Scion showrooms inside existing Toyota dealerships, and making them cool, pressure-free boutiques for these interesting little Japanese cars with funky designs and small engines.

Farley inhabited the job completely—hanging out with twentysomething trendsetters on the coasts learning why they chose their favorite products, from computers to clothes to cars. "You need to love your customer, feel their joy, understand their pain," he said. "You have to get so close to them you can smell their breath."

But as sensitive and idealistic as he sounded, Farley had an edge to him. Other automakers were the enemy vying for the same turf, and Farley would never give an inch. When he heard that Bob Lutz, the vice chairman of General Motors, had called the shoebox-shaped Scion xB "weird-looking," those were fighting words. "I could care less about Detroit," Farley said. "Give me a break. Detroit got its ass kicked trying to market to kids."

At the Scion stand, Farley was in his element—chatting up reporters, showing off the cars, greeting visitors. With a mop of brown hair flopped over his forehead and wearing a suit that looked just a size too big, Farley seemed younger than his forty-two years. He also was having way more fun than the buttoned-down, deadly serious executives holding court at the other displays. The media flocked to him, and he rarely disappointed. He was provocative, blunt, and unafraid to criticize an older generation's view of today's young consumer. "These kids are not Camaro buyers from the seventies being reincarnated," he said. "These people are sharp. They have higher expectations." He said it all with a mischievous smile that called to mind his late cousin, the comedian Chris Farley of *Saturday Night Live* fame. He even sounded like Chris, especially when he laughed.

When he saw Buhl walking up, Farley greeted him warmly, like the old family friend he was. They walked across the convention floor together and into the busy hallway dominated by a big bronze statue of the boxer Joe Louis, the embodiment of Motor City muscle. The second they entered the parking garage, Farley started shivering, the bitter chill of January in Detroit a reality check for a guy who lived and worked in Southern California. They hustled to Buhl's car and headed out onto Michigan Avenue, six lanes of blacktop bisecting some of the city's bleakest neighborhoods, and into the adjoining community of Dearborn, the home of the Ford Motor Company.

Farley was quiet as they passed the falafel joints, strip clubs, and discount stores that lined the wide

avenue. In the distance he could see the belching smokestacks of Ford's famous Rouge assembly complex, stretching more than a mile long and wide, with dozens of factories, some dating back to the 1920s. The heavy gray cloud cover seemed to sit on top of the buildings, and everything looked frozen solid. *I'm from Santa Monica, I work in Torrance, I go to Toyota City in Japan*, Farley said to himself. *That's my auto industry. This is just so . . . old.*

Why would he want to meet anybody at Ford? Farley lived and breathed Toyota. He had loved the company from the day he joined it fifteen years earlier, when Toyota was an underdog fighting for respect in the American market. Farley had basically devoted his life to winning customers away from what he saw as declining, inferior carmakers such as Ford. To Farley, the car business was a highly refined arena of combat, and he had no doubt he was on the winning side. "We're the good guys, the ones wearing the white hats," he said. Farley believed that Toyota made the safest and most sensible, affordable, and fuel-efficient cars in the world. Ford was a dinosaur that lived on an unsustainable diet of gas-guzzling pickup trucks and monster SUVs. There was no question which company was growing and which one was fading. In a few days the final numbers for 2004 would make it official. Toyota had just passed Ford in global sales and was fast closing in on the number one spot, held for more than seventy years by the biggest of Detroit's Big Three, General Motors.

When he agreed to this meeting, Farley had made Buhl promise that it would be in secret, far from the auto show and certainly not at Ford's corporate headquarters. It wasn't exactly treasonous for an up-and-coming Toyota exec to get to know the major players in Detroit better, and there was no one bigger in Detroit than Bill Ford. But Farley was a little worried that someone would recognize him and that word might get back to his colleagues at Toyota.

He relaxed when they arrived at the spot for this clandestine get-together—the sprawling \$35 million headquarters and training camp that Bill Ford's father, William Clay Ford Sr., had built for his beloved Detroit Lions football team in the suburban city of Allen Park. The Lions were never doing much in January. Their season had ended weeks earlier, as usual, with a losing record and another year in which they were shut out of the playoffs. The place was pretty quiet with all the players gone. At least, Farley thought, no one would see him here. They walked in the main entrance and checked in at the desk in front of a wall-size mural of great Lions players of the past. As they approached the executive offices, Buhl started getting a little nervous. This was, after all, his idea. Should he just make introductions and offer to wait outside? He suddenly realized he didn't know Farley as well as he knew Bill.

Just then, Bill Ford bounded out of his office to greet them. Farley was immediately struck by how young he was—just five years older than him—and how animated and friendly. Bill was of average height and trim like a runner, his custom-tailored blue suit accenting strikingly blue eyes. He had a way of talking fast, like he couldn't wait to share an idea or a story. The three of them sat down and, a flash, Bill was talking about Ford—its history, its people, and how much it meant to him. "The passion I have for this company is making people's lives better," he said. "It's up to us, up to me, to look to the future."

Farley just listened as Bill went on about his family—which had absolute power over Ford through its special voting stock—and its unwavering commitment to the car business.

"We've definitely taken our lumps, but it's never been about the financial investment," Bill said. "We're in it for the long term."

Buhl kept eyeing Farley, who seemed transfixed. He could sense Farley's mind racing, waiting for the right opportunity to jump into the conversation. When Bill finally asked him about his new Scion job, Farley was a bit defensive at first.

“You know, I’ve been with Toyota for fifteen years,” he said. “I’ve been in marketing and sales in Europe. I was the first product planner for Lexus. I laid out the whole product plan for Lexus with the engineering team in Japan.”

Now Bill was the attentive one, nodding and asking follow-up questions and probing for more information. After a few minutes, Farley felt completely at ease. He had met a lot of auto executives in his career, but Bill was not like any of them. “It wasn’t like he was happy-go-lucky, but he had a *joie de vivre* about him,” Farley said later. “He loved certain things.”

When the two of them started comparing their favorite classic cars, in particular the Ford Mustang, Buhl couldn’t help but smile. *I’ve never seen such an instant rapport*, he thought. *It’s just two guys talking about their passion for automobiles and the business.*

The discussion turned to marketing, Farley’s specialty, and Bill made a joke about Ford’s latest generic advertising campaign, “Built for the Road Ahead.” Farley had to laugh. He and his Toyota buddies thought it was one of the lamest ad slogans they’d ever heard.

Then, out of the blue, Bill popped the question. “What would you do if you were running it?” he asked Farley.

Okay, Farley thought, *here’s the sales pitch*. “Well, I’m not interested in going to Ford,” he said. Bill acted as if he hadn’t heard him.

“You know, I need help,” he said softly. “We’re looking for someone who can help.”

Farley was taken aback. He wasn’t sure he’d heard him right. Bill Ford was asking for his help? There was vulnerability in his voice, a raw honesty that Farley hadn’t anticipated. He wondered when the pressure was, the hard sell, the lucrative financial carrot he’d expected to be dangled to lure him to Ford. But it never came.

The hour passed quickly, and Buhl barely said a word. When they all got up and shook hands at the end, Bill held his grip with Farley a little long, then pulled a card from his pocket.

“I think there’s a place for you here,” he said to Farley. “Here’s my number. Let’s stay in touch. I want you to call me. I want you to know that I’m here whenever you need me.”

Buhl did most of the talking on the drive back downtown, hardly able to contain his enthusiasm over how well it all had gone. But Farley didn’t hear much of it. The words “whenever you need me” were stuck in his head.

Whenever I need him? Who, Farley wondered, needs who here?

Chapter Two

Rick Wagoner never gave a speech without checking and rechecking every word he said as the chairman and chief executive officer of the General Motors Corporation. He not only pored over speeches but scrutinized any press release, document, letter, or internal communication that his aides drafted in his name. Wagoner was particularly attentive to quotes attributed to him. “I don’t want to ever say anything publicly that I might have to retract,” he told his staff. He had another hard-and-fast rule, a mantra drilled into him by Jack Smith, his mentor and predecessor as the top man at the biggest car company the world had ever seen. “We don’t want to ever overpromise,” he said, “and underdeliver.”

As Farley was heading back to the auto show after meeting Bill Ford, Wagoner was preparing to leave it. The “GM Experience” at the show was—no surprise—the grandest corporate display in the hall. More than a hundred cars, trucks, and sport-utility vehicles were decked out on the floor, and each of GM’s eight North American brands, from mighty Chevrolet down to the tiny Saab division, had its own special area. In one corner was a large stage with a giant movie screen behind it for the gala press events to introduce new models. Above the stage was a full second floor that doubled as a showroom for new technology and a coffee bar or cocktail lounge, depending on the hour.

Wagoner was working in a temporary office hidden behind a thick black curtain near the stage set. Most of GM’s senior executives had rooms there to do interviews, hold private meetings, and generally conduct business. General Motors hardly stopped running during the weeklong media previews. It just relocated its command center to the row of drafty cubicles that backed up against the convention center’s loading docks.

The press conferences were over, but there was one last show-related duty to attend to. In midafternoon on January 13, 2005, Wagoner, along with all the other senior GM executives, marched out of the building onto Jefferson Avenue. Waiting for them at the curb was a line of very large sport-utility vehicles—Chevrolet Suburbans, GMC Yukons, and Cadillac Escalades—with their V-8 engines idling. GM sold nearly nine million vehicles each year. But these giant SUVs were the pride of the fleet—eighteen-foot-long, seven-thousand-pound, seven-passenger land yachts with every option known to man. Wagoner got in the first one, a black Escalade ESV with a GM driver behind the wheel. As always, he rode shotgun, up front in the deep leather passenger seat.

As the caravan pulled out, Wagoner reviewed the speech he was about to give. In twenty minutes he would walk into a hotel ballroom and address the Auto Analysts of New York, the watchdogs of the auto industry for the major investment banks on Wall Street. Their research reports were critical factors in daily decisions by investors to buy, sell, or hold a stock. Wagoner knew his remarks this afternoon would generate instant headlines and directly affect the value of the 564 million shares of stock that constituted ownership of General Motors.

If there was ever a time to watch his words carefully, this was it. GM had already endured a rough week in the stock market. Its share price had fallen for four straight days. The Street had not been this worried about the company’s financial condition since the early 1990s, when GM came close to

bankruptcy, fired its chief executive, and embarked on a seemingly endless series of restructurings. The automaker sold an average of twenty-four thousand cars each day in two hundred countries. But was operating on razor-thin margins of profitability. Investors had a bad case of the jitters about GM. It was up to Wagoner to calm them down.

Six foot four, broad-shouldered, and wearing his usual pinstriped suit, white shirt, and solid tie, George Richard Wagoner Jr. cut an impressive figure. He had a long, serious face: high forehead, big chin, and jowly neck that looked out of place on a fit former college basketball player who would turn fifty-two years old in a month.

Wagoner stood ramrod straight and spoke in flat, even tones, with a slight southern accent from his Virginia upbringing. In public settings, he was unfailingly congenial, polite, and friendly. Most of the auto analysts had known Rick Wagoner for years. He had spent his entire working life at GM, and five years earlier had become the youngest chief executive in the company's storied history. In May 2003 the GM board of directors elected him its chairman, giving Wagoner wide authority over every facet of corporate strategy and direction. He had the perfect GM résumé—star analyst in the New York treasurer's office, head of finance in Europe, managing director in Brazil, chief financial officer, president of North American operations. By the time he reached the top, it seemed as if Wagoner had been chosen every step of the way to one day lead the world's most powerful automobile company.

Yet to many of the analysts, Wagoner was still an enigma. He was energetic, extremely smart, and clearly devoted to making GM a success. Yet the performance of GM was plodding, confusing, and generally underwhelming. Wagoner loved catchphrases—"run lean," "think global." But nobody would ever describe GM as lean or globally integrated compared to its chief rival, Toyota. Wagoner often likened GM to a premier professional athlete. "The big and the fast beat the small and fast," he said. GM was big all right—324,000 employees, assembly plants in thirty-two countries, and more models and brands than any other automaker. But whenever GM took on a new initiative, such as entering an emerging vehicle segment or downsizing its immense bureaucracy, it moved at a glacial pace.

The three dozen analysts at the Ritz-Carlton had spent most of the day hearing presentations from Ford and several of the big auto suppliers. GM was last on the list. When Wagoner stepped to the podium, he opened with a line that many in attendance swore they had heard before. "The theme of my talk today is going to be playing our own game," he said, "and playing it to win."

Nobody groaned at the analogy. They were all used to Wagoner's sports clichés. But they weren't so forgiving when Wagoner began comparing the current state of GM to when it hit bottom in 1992. "What I'm going to convince you of is that, in fact, the situation today is dramatically different and in fact dramatically better," he said.

The analysts didn't need convincing. All Wall Street wanted to know was how much money GM expected to make in the next twelve months.

GM was previously on record as predicting it could earn \$10 per share in 2005, or about \$5.6 billion in profits. Its 2004 numbers were well short of that. And as Wagoner went on and on about the great strides the company had made, a few analysts began to lose patience. *They deserve credit for how far they've come*, thought John Casesa of Merrill Lynch, who had been studying GM for years. *But we're trying to figure out how to value them now.*

Wagoner wasn't straying from his script. His mission was to defend GM and assure investors that it was—and always would be—a winner. "Our progress over the last decade has moved us from a company that was uncompetitive to a company that is very competitive," he said. And with that, he turned the microphone over to John Devine, GM's chief financial officer. This was the moment Wall

Street was waiting for. It was getting close to 4:00 P.M., when the market closed. The meeting was being broadcast live over the Internet, so traders and investors could react immediately. With the clock ticking down, Devine broke the news. “For 2005, for earnings we’re looking at a target of \$4 to \$5 earnings per share,” he said.

Within seconds, GM’s stock price started dropping. By the closing bell, it was down 3 percent for the day to a new fifty-two-week low of \$37.32. The losing streak in the market was now five days and counting. By the time Devine finished talking, GM’s stock was worth \$21 billion in total—about \$65 million less than it had been ten minutes earlier.

The meeting ran on, with multiple executives giving detailed presentations on Europe, China, employee health care costs, and new car projects. But in the question-and-answer session at the end, the focus kept circling back to the 2005 forecast. One analyst, Rod Lache of Deutsche Bank, was particularly curious about any possible shortfall in GM’s all-important U.S. vehicle sales. “Are you guys anticipating any kind of volume decline?” he asked. Wagoner took the question but didn’t answer it. “We don’t want to go into that yet,” he said. “We will give you a report on a regular basis . . . so you know what’s going on.”

Afterward, Wagoner couldn’t hide his frustration. After taking such care to describe GM’s comeback since the dark days, all Wall Street was interested in was short-term results. “I don’t believe those guys,” he snapped to an aide. “Don’t they know how hard it is to get 75 percent of this business right?” But as quickly as he angered, he just as quickly calmed down. Getting mad or losing his cool was not Wagoner’s style. He was a problem solver, a steady hand, and, above all, a true believer in the strength and purpose of General Motors. Besides, he understood the financial numbers better than anyone. And as bad as the reaction was now, Wagoner knew there was more trouble ahead.

A week later, GM announced that its corporate profits had plunged 37 percent in the final quarter of 2004. Losses were mounting in Europe, and its market share in the United States had fallen to a new low of 26 percent. Then, in mid-February, the company stunned investors when it agreed to pay \$2 billion to the Italian automaker Fiat to dissolve an ill-fated joint venture overseas.

With each dose of bad news, GM’s stock price sank lower. When it hit \$36 a share, the telephone rang in Jerry York’s condominium in a quiet suburb about forty miles north of Detroit. York had been wondering when Kirk Kerkorian would call.

“Jerry, have you been seeing what’s happening with GM stock?” Kerkorian asked.

“Yeah, Kirk, it’s getting hammered,” York said. “I almost called you yesterday to talk about it.”

The phone went silent for a moment. Kerkorian was eighty-seven years old, and his net worth was about \$10 billion. He was never much of a talker. After about a minute’s pause, he continued.

“How long would it take you to do a deep dive on this thing?” he said. “You know, see what you think of it?”

“Should take me a couple of weeks,” York said. “I’ll get right on it.”

Kerkorian hung up and settled back in his office around the corner from Rodeo Drive in Beverly Hills, California.

York turned on his computer, typed in the Internet address for the General Motors corporate website, and started reading.

General Motors was running out of parking lots. Every day, unsold cars, trucks, and SUVs were piling up across the country, and there was no room left outside its assembly plants. So the company stockpiled them wherever it could find space—airports, empty shopping malls, state fairgrounds. By

the end of February 2005, GM had an astonishing back inventory of 1.3 million automobiles in North America, more than double what would ever be considered normal.

The surplus didn't happen overnight. For five years, the American auto industry had been producing cars at a feverish pace. Enticed by cheap loans and fat rebates, consumers were buying seventeen million new vehicles annually. And the competition to fill their garages had never been hotter. The big Japanese companies—Toyota, Honda, and Nissan—were steadily increasing imports and expanding production in their U.S. plants. In an all-out bid to defend their market shares, the Detroit automakers churned out more and more vehicles.

But GM's sales weren't growing; they were dropping, 12 percent in February alone. And the bloated inventory was absolutely killing its cash flow. General Motors spent huge sums to buy parts for its cars and to pay the workers who made them. But it received no revenues until car dealers—its real customers—purchased the products. The obvious solution was to slow down production and bring it more in line with demand. But GM's labor contract with the United Auto Workers penalized the company if it cut a shift at a plant or temporarily sent workers home. It still had to pay idled employees nearly their full wages, even when there wasn't enough work for them to do. Moreover, GM was paying tons of money in health care benefits to hundreds of thousands of blue-collar retirees and surviving spouses of deceased autoworkers.

Decisions had to be made, and fast. In early February, the company's board of directors convened on the thirty-ninth floor of Tower 300 of the GM Renaissance Center, the company's world headquarters in downtown Detroit. All eyes in the room turned to Wagoner. He was facing the first true crisis in his five years as chief executive. He opened the meeting by outlining a critical task that would take months to complete: convincing the UAW to accept cuts in health care. All of the GM directors wholeheartedly backed that. Whatever it took, they considered reducing health care costs a crucial short- and long-term goal.

Then Wagoner laid out his action plan. First he would overhaul sales and marketing, and immediately start a new campaign to reduce inventories. Then GM would speed up the timetable for its most important new product, the T-900, which was a completely new version of GM's high-profit pickup trucks and big SUVs. Finally, Wagoner would assume daily responsibility for running the struggling North American operations.

Vice chairman Bob Lutz and group vice president Gary Cowger would be relieved of their duties as chairman and president of the unit. Neither of them had proven adept at managing the factories, suppliers, and layer upon layer of sales, marketing, and communication staffs. Moreover, they clashed on a personal level. Other GM execs were still talking about how the two had bickered over which one would take center stage at the latest auto show press events.

Lutz claimed that he didn't care and that Wagoner was welcome to take on the mundane details of supervising the legions of workers in North America. Privately he simmered, and he began sarcastically referring to Wagoner as "our commander in chief." Yet as a former Marine Corps fighter pilot, Lutz would never buck orders from above. And he totally agreed with the decision to accelerate the T-900. Pickups and SUVs made more money for GM than virtually all of its other models combined.

Early the next morning, Lutz cruised into work in his personal McDonnell Douglas MD-500 helicopter, traveling at 150 miles per hour from the airport near his house outside Ann Arbor, Michigan, to GM's immense technical center in the city of Warren, north of Detroit. His first meeting of the day was with the two dozen senior engineers and planners on the T-900 team. Lutz rarely called emergency sessions like this. Something big was up.

“Can we pull these trucks ahead by several months?” Lutz asked the group. “Tell me the reasons why it can’t be done. Then tell me what it would take to make those reasons go away.”

Gary White, the head of the T-900 team, swallowed hard. Accelerating a program as complex as this was rarely done. Everybody had to go faster, from the designers to the engineers, suppliers, and plants. On top of that, an intricate schedule of safety and durability tests had to be torn up and rewritten. But White knew Lutz wasn’t looking to hear about the problems. “We can do it,” White said. “It’s like conducting the orchestra. Everybody just has to play the song a little faster.”

But White was concerned about the other vehicle programs in line ahead of the T-900 in GM’s research and testing labs. Lutz said he would personally make sure the trucks had top priority. “It’s kind of like when you go to Disneyland in a wheelchair,” he said with a grin. “You always get to go to the head of the line.”

Even with a new timetable, the big trucks still wouldn’t hit the market for another year, and GM was hemorrhaging cash right now. On March 16, a press release headlined “GM Revises Earnings Outlook” went out over the newswire. “Clearly we have significant challenges in North America,” said Wagoner’s statement. But the bombshell was the forecast. Not only wouldn’t GM earn anything close to the \$4 to \$5 a share in profits in 2005 that it had promised just two months earlier, but the company now expected to lose as much as \$1 billion in the first quarter of the year.

“That was,” said John Casesa, the veteran Merrill Lynch analyst, “the ‘oh shit’ moment.”

GM’s stock went into instant free fall. By the end of the day, it had dropped 14 percent to \$29.01—its lowest level in eleven years. It was the automaker’s largest single-day share loss since the stock market collapse of 1987. The pummeling by investors was so brutal it dragged the entire Dow Jones Industrial Average down 112 points.

Every analyst who had advised clients in January that GM was going to be okay felt betrayed. Casesa, who had worked at GM as a product planner in the 1980s, couldn’t type fast enough to revise his analysis of the company. “We expect the company’s accelerated market share decline will continue to severely impact earnings and cash flow,” he wrote.

But that was the sanitized version of what Wall Street thought about Wagoner & Co. “These guys always think they are doing such a great job,” Casesa said. “But institutionally they don’t keep their promises, they don’t follow through, they’re not consistent, and they’re not accountable.” The market had been burned, and it was unforgiving. When Wagoner got on a conference call with the analysts, the questions came fast and furious. What about North America? How many factories did GM plan to close? How would the company reverse its slumping sales?

“North America is our eight-hundred-pound gorilla,” Wagoner said calmly. “Today’s announcement really shows how important it is that we get this business right.”

But he refused to say how, or when, it would be fixed. That only ratcheted up the heat. What about Wagoner’s job? Did the GM board still support him?

“The board is fully informed on all our strategies, and on that basis supportive,” he said.

What exactly did that mean?

John Devine, the CFO, tried to make it clearer. “The board . . . it’s got full confidence in Rick and the team.”

No one knew it at the time, but the March 16 earnings outlook would be the last time GM would ever publicly make forecasts about its financial performance. That hardly mattered to Jerry York. He had heard enough. Since speaking to Kerkorian, York had spent hundreds of hours researching GM. He had devoured every government filing, earnings report, sales release, product review, and newspaper

article, and had spoken to analysts, investors, reporters, car dealers, union leaders, and former GM executives. Then he dissected GM's balance sheet like a scientist seeking a cure for an exotic disease. York was one of the most respected financial minds in corporate America. Chrysler's legendary chairman, Lee Iacocca, had picked him to be his CFO, and Steve Jobs at Apple considered York his most valuable board member.

Kerkorian and York had changed history in Detroit once before. Together they had parlayed the big stake Kerkorian held in Chrysler in the 1990s into a \$2 billion profit when the company merged with the German automotive giant Daimler-Benz in 1998. Now Kerkorian wanted York's considered opinion about buying a sizable stake in General Motors.

On April 1, York faxed Kerkorian a twelve-page analysis of GM. He prepared the document in a big, bold typeface to make it easy to read. In York's view, GM was out of shape, undisciplined, and far too full of itself. He believed there was a collection of valuable assets buried under a mountain of debt and excess brands, divisions, executives, and employees. He wasn't at all surprised that GM was losing a billion dollars a quarter. What did surprise him was that its board, its shareholders, and especially Rick Wagoner had allowed it to veer so far off track. York figured that GM had enough cash and salable parts—as much as \$30 billion—to finance the most drastic restructuring in the history of the auto industry. And if it did so, the company would be a gold mine.

After reading York's bullet points, Kerkorian called him. And as usual, he got right to the point. “So, Jerry, you think we should buy?”

York didn't hesitate. “There's enough money to do the restructuring necessary to fix the company,” he said. “So the \$64,000 question is, do the board and the management have the fire in the belly to do it?”

Kerkorian didn't say a word. York hadn't really answered his question.

“Kirk,” York said, “it's a no-brainer.”

Chapter Three

It was 3:00 A.M., and try as he might, Bill Ford couldn't sleep. He lay awake staring at the ceiling, his mind churning thoughts he couldn't turn off. During the day, he exuded confidence and charm and lost himself in the details of running the Ford Motor Company. But at night, lying in bed, it was all questions. "What am I thinking?" he said when asked about it. "I'm thinking I need some help."

Sometimes he would flash back to the summer of 1979, just after his graduation from Princeton University. He had come home to his family's lakefront estate in Grosse Pointe Shores, a typical college grad trying to figure out his future. One evening, over a game of pool, he had a heart-to-heart talk with his father, William Clay Ford Sr.

"What do you think you'd like to do now?" his dad asked.

"I think I'd like to come and work for the company," Bill said.

His father's response was something Bill would never forget. "You know, you will have to be better than everyone else," he said, "because of who you are."

But Bill did do better than anyone expected. He never had to work a day in his life, but he harbored a sense of destiny, an idealistic spirit, and a profound appreciation of the incredible opportunity afforded him as the great-grandson of the Ford Motor Company's visionary founder, Henry Ford. Bill was determined to both fit in and excel at Ford, whether it was playing on the company hockey team or working through the night in labor talks with the UAW.

Under the watchful eye of his father and family loyalists on Ford's board of directors, Bill worked in product development and finance, did a stint in Europe, and earned his stripes in the unglamorous parts department and heavy-truck division. He joined Ford's board in 1988 at the age of thirty-one and, in 1999, with his family's backing, was elected its chairman. Two years later he grabbed the brass ring and fired Ford's chief executive, Jacques Nasser, and took the job himself.

It was his moment of triumph, and the realization of a lifelong dream. The extended Ford family—his parents, aunts and uncles, sisters, cousins, in-laws—believed in him, and the company's 320,000 employees embraced his leadership. On his first day as chief executive, hundreds of Ford workers stood and cheered as he walked onstage at the auditorium at company headquarters, some with tears streaming down their cheeks in gratitude that Bill Ford would return their company to its rightful place in the global hierarchy of automakers.

To the outside world, Bill Ford was the epitome of Motown Cool; the headline on a *Fortune* magazine cover had him looking totally hip in wraparound sunglasses. But the glossy image bore little resemblance to the harried executive clocking long hours at the Glass House, Ford's sleek rectangle of a headquarters in Dearborn. No matter how hard Bill tried to motivate and organize the vast Ford bureaucracy, it couldn't keep up with the rising tide of Japanese cars that were stealing its customers in droves. While the foreign automakers poured their resources into perfecting a select number of high-quality models, Ford squandered billions building different cars for different customers in different regions of the world.

Ford had been stuck in a dangerous, downward spiral that began long before Bill took command. It

had been steadily losing ground to foreign competition for a decade. While the American auto market got bigger and bigger, Ford's share of the pie kept shrinking. Its international business wasn't much better. Ford had just introduced an amazing forty new models around the world, but it was barely making money on any of them. About 80¢ on every dollar it earned was generated by its finance company, Ford Credit, which was pushing cut-rate leases and low-interest loans to move inventory. If the economic bubble burst and consumers pulled back even slightly, Ford's finances could implode overnight. Ford's only purely profitable products were its venerable F-series pickup truck and a stable of aging sport-utilities such as the Explorer and Expedition—and even those needed thousands of dollars in rebates to attract buyers.

On April 8, three weeks after GM rattled investors with its dire profit warning, Ford issued its own disappointing forecast for 2005. It had been predicting earnings similar to the previous year's \$3.5 billion. But sinking sales of its bellwether pickups and SUVs had torpedoed those estimates, and the company now said it would be lucky to earn two-thirds of that. "We are not immune to the broad economic challenges we all face in our industry," Bill Ford said in the press release. The explanation was sort of embarrassing because it came on the heels of news that his compensation package had totaled \$22 million in 2004. He was the highest-paid auto executive in the business, and that revelation only added to his stress.

It was never Bill's style to rant and rave and cajole people to change. But in senior management meetings, his exasperation spilled over and the worries came cascading out. "We aren't going to get healthy until we use our economies of scale," he said. "We are way behind here. We desperately need to globalize this thing." He was particularly troubled by the passive acceptance of the notion that Ford needn't aspire to the same exacting standards as Toyota. He went so far as to formally ban the phrase "cheap and cheerful," which some jaded Ford execs used to describe their own cars. Instead, he insisted that everyone—from executives on down—adopt "back to basics" as the official Ford motto.

Ford had lost its way. It was like two totally different companies bolted together—the rich roster of European luxury brands headlined by Jaguar, Volvo, and Land Rover, and its poor cousin, the blue-collar Ford division. None of the upscale brands made any money, yet for years they were run out of an elegant eighteenth-century mansion in London's exclusive Mayfair district. Meanwhile, Ford cranked out utilitarian SUVs and bland sedans in middle-class Dearborn.

As Ford lost more market share in the United States, the pain filtered down to the assembly lines. Plants in New Jersey, Michigan, and Ohio closed their doors. The Ford family had controlled the company for a century, and Bill had long felt connected to the men and women who punched a time clock every day. Yet when he visited the factories, design studios, and engineering labs, the pride and purpose were missing. "These people are the backbone of the company," he said. "They're terrific at what they do, but they aren't being valued."

His deeper concerns were personal ones. Did he have the intellect, the drive, and, above all, the experience to lead Ford out of the rut it had fallen into? He sensed doubt among his employees, and fear. "People are demoralized by our lack of focus," he said. To his closest confidants, he confessed that Ford might need a steadier hand than his. "I'm not the best person to operate this place," he told Joe Laymon, Ford's chief personnel officer. "I want to get somebody who can do it right."

Laymon was a hardened veteran in the field of human resources, having worked twenty years at Xerox and Kodak before joining Ford in 2000. He spent more time with Bill than just about anyone in the company, and he saw how the stress was suffocating his boss. But Laymon was astonished that Bill would consider giving up on being the CEO. Bill's humbling admission that he wasn't cut out for the job was a rarity in any business. "I think it's a courageous decision," Laymon told him. "But we can't

let anyone in the company know. It would be devastating if people knew you were feeling this way.”

Nothing got under Bill’s skin more than the infighting among his senior executives. Since taking over in 2001, Bill Ford had been repeatedly building and rebuilding his team in hopes of finding the right formula. But none of it worked. He compared the shifting alliances and relentless backstabbing to the *Survivor* television series.

The fighting got so bad Bill stopped chairing certain meetings, preferring to leave that duty to Nick Scheele, the affable, white-haired Brit who was Ford’s president. Scheele, however, couldn’t keep the peace between David Thursfield, the tough-talking head of international operations, and Jim Padilla, an old-line manufacturing veteran in charge of North and South America. Thursfield openly mocked Scheele (“The only thing he’s good for is ordering the wine”) and feuded incessantly with Padilla. During strategy sessions, Padilla refused to even look at Thursfield when he was talking. Younger executives didn’t know what to make of it. “It’s like shirts versus skins around here,” said Mark Fields, who was emerging as a force in Ford’s overseas divisions.

Bill bit the bullet and forced Thursfield to quit in 2004. When Scheele retired in January, Padilla became president, the number two position in the entire company. But Padilla was at best a stopgap, someone who would follow orders and keep the factories humming. He wasn’t a leader. And that’s what Bill Ford needed most: a leader and a partner who could help him make Ford great again.

Bill tried going outside the company. He aggressively courted Carlos Ghosn (rhymes with “cone”) an industry superstar who ran the international alliance of Nissan and the French carmaker Renault. With Laymon as his emissary, Bill made three separate offers to Ghosn to become Ford’s chief executive officer. But Ghosn turned them all down, saying he would take the job as CEO only if he could be chairman of the board as well—the position Bill vowed to keep under any circumstances. Laymon described the rejection as “very, very disappointing.”

When Bill approached Dieter Zetsche, the German executive who ran the Chrysler division of DaimlerChrysler, he also got nowhere. Zetsche had zero interest in jumping to Ford, and he was baffled by Bill’s sales pitch. “He kept telling me how shitty his management team was,” Zetsche told a Chrysler exec after his meeting with Bill Ford. “I am thinking, why would I want to take the job with this shitty management team?”

Then there was Jim Farley. Getting him to come to Ford was a long shot, and he wasn’t chief executive material yet. He was too young and unproven. But he had the qualities that Bill Ford felt his company needed: a brash, take-no-prisoners attitude, an eagerness to take risks, and an intuitive feel for what consumers want and value in an automobile. He was one of Toyota’s best and brightest Americans, and a key player in its drive to pass Ford and ultimately GM. And of all the worries that kept Bill awake at night, Toyota was one of the biggest.

Jim Farley felt the burn in his leg muscles as he pedaled hard down Ocean Avenue toward Venice Beach. Almost every day he biked the twenty-five miles from his home in Santa Monica to Toyota’s North American headquarters in Torrance. There was no better way to start his morning than riding to work with the cool breeze off the Pacific at his back.

He had just gotten a new assignment, and it was a juicy one: vice president of U.S. marketing for the entire Toyota brand. Now he had authority over the company’s strategy for selling Toyota’s bread-and-butter Camrys and Corollas, as well as its breakthrough gas-electric hybrid car, the Prius. But what really made his mouth water was the upcoming introduction of the new Tundra pickup, which would take on the Ford F-series and GM’s Chevrolet Silverado in the hard-fought truck segment. The

year before, Ford had sold a record 939,000 F-series trucks, making it far and away the bestselling vehicle of any kind in the United States. If Toyota could crack that wall of dominance, the foundation beneath Ford would crumble. Now the company was spending billions on a new factory in Texas to produce a brawnier, more powerful version of the Tundra in hopes of driving a stake into Detroit's heart.

Farley had formed a special team to plan out every detail of the Tundra launch. They worked closely with the company's biggest dealers and met directly with the top brass at Toyota in Japan. But in mid-April of 2005, he had a short week and lots to do because of a business trip to Detroit, where he would speak at the annual conference of the Society of Automotive Engineers. The conference was the largest yearly gathering of car guys in the whole industry. Farley was really looking forward to it.

He had no plans to call Bill Ford when he was in Detroit. What was the point? Farley wasn't leaving Toyota—not now, maybe not ever. But he couldn't get the meeting with Bill out of his head. He felt for him, for the obvious burden he bore for his family and Ford. It got Farley to thinking about his own connections to Ford. He was the son of an international banking executive and had been born and raised in South America, before attending high school in Rhode Island and then college at Georgetown and UCLA. But his mother's family all lived in Michigan and had deep ties to the automobile industry.

Farley idolized his grandfather Emmett Tracy, who had gone to work on the assembly line at Ford in 1914 and later become a successful car dealer for the company. And it was his grandfather, more than anyone, who'd kindled his love of cars. Farley had been fourteen years old and working a summer job in California when he bought his first one—a jet-black 1966 Ford Mustang. At the end of the summer, he drove it cross-country to Michigan, alone, in two days, packing the car with Coke and sandwiches so he wouldn't have to stop and risk its being discovered he wasn't old enough to have a driver's license.

When Farley finished grad school, he took a job restoring classic cars in L.A., then got serious and went to work for IBM. Two years later, he received an offer from Toyota to be a product planner in its fledgling Lexus luxury car division. As excited as he was, Farley wouldn't have gone if his grandfather had a problem with his joining a Japanese car company. "Ironically, my grandfather thought it was a great idea," Farley would recall. "But then he said, 'Someday you've got to come back to Ford.'"

His grandfather had died years before. But every time he came to Detroit, Farley made a ritual of visiting his grave in Grosse Pointe. After his speech to the engineers' conference, he decided to take a detour before heading to the cemetery. It was a gorgeous spring afternoon, temperature in the mid-50s, the sky blue and crystal clear. He began driving up Woodward Avenue, the spinal column of the city that stretched from the riverfront all the way out into the leafy northern suburbs. In between was beaten-down Detroit—financially destitute, bereft of pedestrians and street life, with a museum or hospital or condo complex on one side of Woodward and acres of empty lots and abandoned structures on the other. Nothing prepared Farley for how sad and quiet and dirty it all looked. The beautiful weather only accentuated the dull palette of cement grays and dust browns, like years of ancient grit that couldn't be scrubbed out.

He took a right on Piquette Avenue and entered a no-man's-land of boarded-up buildings, barbed-wire fences, and rusted train trestles covered with graffiti. On one corner was the Abundant Faith Cathedral, a windowless, one-story bunker of a church, on another a long-deserted branch of the city recreation department. Overhead loomed the yellowed, petrified conveyor belt of an old creamery. Six blocks off the busiest street in downtown Detroit, and there wasn't a soul around. And there was

Farley's first stop, a redbrick building with a freshly painted black-and-gold sign and a historical marker identifying it as the first factory built by the Ford Motor Company, 101 years before.

He wasn't quite sure why, but Farley had to see it to experience where the mighty auto industry really started, where Henry Ford began perfecting the art of mass production that would change life in America forever. Ford had partially restored the factory a few years earlier and sometimes held corporate events on the same aged wooden floors where workers once made the first Model Ts. Otherwise, it was closed up tight, there for posterity's sake on this eerie, uninhabited street that looked like an apocalypse-movie set.

"I was focused on the promise that came with that building," Farley said. "How many lives got picked out of nothing and were changed because of giving people better transportation?"

Farley didn't feel so philosophical after driving another couple of miles up Woodward, to the Highland Park Ford Plant. It was called the Crystal Palace when it opened because of the thousands of glass windows that let natural light into the massive factory, which was the birthplace of the modern automobile assembly line. Thirteen thousand workers, including his grandfather, made more than a quarter million Model Ts a year inside its walls. By 1921, the plant produced three out of every five cars in the United States. But most of the windows were smashed now, or blackened with grime. It was just a huge, vacant ghost of a building, several city blocks long, and littered with rubble and trash and decades of neglect. The surrounding neighborhood was a lot busier than the desolation down on Piquette and quite a bit scarier. Farley became uncomfortably aware that he was the only guy around in a suit and tie parking a new Toyota. When he got out of his car, the sheer size of the dilapidated plant took his breath away. "What a fucking mess," he said to himself.

He tried hard to imagine the open windows, the fresh air, and the feeling they had given the workers. He envisioned his grandfather seeking a better life by building cars. "I saw China and India and all the other places where the industry was vibrant and starting out," he said. But mostly he stood there and reflected on how the fabled Big Three of Detroit were losing their muscle, their innovative spirit, and their all-American stamp of excellence. Farley knew that every sale Ford lost benefitted him and Toyota. But until he laid eyes on the ruins of the Highland Park plant, he hadn't viscerally connected the domestic auto industry's decline with the gut-wrenching blight of Detroit and all the other auto towns in the industrial Midwest that had fallen by the wayside. "I was thinking, was it even possible for Detroit to come back?" he said later. "I never thought anyone lost when I was at Toyota. I never knew there were lives at the end of the market share numbers. I'm thinking, can anyone fix all this?"

Chapter Four

Kirk Kerkorian couldn't wait any longer. For two weeks he had been secretly buying up General Motors stock, but word was somehow leaking out. At a party in Las Vegas, an acquaintance casually asked him, "How's GM?" That was the last straw.

He called Jerry York immediately. "Let's move on this now," he said.

On May 4, Kerkorian's private investment firm, the Tracinda Corporation, filed documents with the Securities and Exchange Commission disclosing that it had bought twenty-two million shares of GM—or 3.9 percent of the company—for \$579 million. And Kerkorian wasn't finished. He wanted much more. The filing said Kerkorian planned to offer \$868 million to acquire an additional twenty-eight million shares from other GM stockholders for \$31 a share. Once it was completed, he would own nearly 9 percent of the company, and that would give him a very big voice in its future. Kerkorian was famous for these megadeals, and other investors believed that if he saw value in lumbering old General Motors, they were going to grab his coattails. In a matter of hours, GM's stock soared 18 percent.

Kerkorian had a reputation as one of the savviest and most aggressive financiers in corporate America. He bought and sold airlines, casinos, and movie studios. His attempted takeover of Chrysler in 1995 led to its \$36 billion merger with Daimler-Benz three years later. Even into his eighties, Kerkorian wasn't slowing down. Since 2000, his MGM Mirage gaming empire had bought out its two biggest competitors and owned half the hotel rooms on the Las Vegas Strip.

Right after the tender offer became public, Kerkorian's attorney, Terry Christensen, told reporters that this was only a "passive investment" in GM. "We have no plans for an acquisition and no plans to urge for strategic changes," he said.

But despite Kerkorian's assurances that he would not be aggressive, alarm bells went off inside GM. Bob Lutz and Tom Kowaleski, GM's vice president of communications, had been at Chrysler when Kerkorian went after it in the mid-nineties. He was hardly "passive," in their opinion. "This guy plays rough," said Lutz. "And you know Jerry York is lurking in the weeds somewhere."

Rick Wagoner, however, was encouraged by the rise in the stock price and seemed unconcerned about Kerkorian, an attitude that Lutz interpreted as naive. "Rick just doesn't get it," he told another GM executive. But Wagoner wasn't afraid of Kerkorian. He couldn't see GM as a takeover target. Sure, its stock was low enough to attract a hostile bidder. A buyout at current prices would cost only \$18 billion or so—hardly a monumental sum for a company with \$192 billion in annual revenues and more physical assets than any other industrial entity in the world. But its liabilities—corporate debt, pension obligations, and escalating health care costs—were so daunting they would scare off any buyer. GM wasn't too expensive to be bought; it was too intimidating. Besides, Wagoner believed that no outsider could comprehend GM's complexity or would willingly take on the burden of its leadership position in the domestic auto industry.

In Wagoner's view, General Motors led the American auto industry—and Ford, Chrysler, and Detroit's thousands of independent suppliers followed. As the biggest of the Big Three, GM fought the

battles that ultimately benefitted its hometown rivals. Wagoner bristled at critics who sniped that GM, for example, always caved in to the United Auto Workers union on wage increases, work rules, health care, and pensions. He was quick to point out that in every decade dating back to the 1940s, GM had endured expensive strikes by the UAW over issues such as outsourcing work to nonunion suppliers or cutting excess jobs. “Let’s be honest,” Wagoner said. “We led, and the rest of the industry kind of drafted in our wake. We did it all, and they rode our backs.”

Wagoner was fine with letting Kerkorian buy up stock if he wanted. In all likelihood, he saw the potential to make a fortune on GM when it turned the corner. For the time being, Wagoner had bigger, more immediate challenges, none more crucial than the long-awaited showdown with the UAW on health care. Publicly, he had already stated that GM could no longer keep paying the mushrooming medical bills of its 1.1 million active workers, retirees, and their dependents and continue to compete with foreign companies. In a carefully worded speech in February to the Economic Club of Chicago, he called for national health care reform to deal with the problem. “Failing to address the health care crisis would be the worst kind of procrastination,” he said.

GM spent an average of \$15 million a day on health care; its annual costs were nearing \$6 billion. That averaged out to \$1,500 for every car it sold in the United States. Even if the quality of its cars matched Toyota’s—and it didn’t—there was no way GM could spot its adversary that kind of cost advantage and compete.

Wagoner brought his labor negotiators together and said it was time to confront the elephant in the room. “These costs are not sustainable,” he said. “Our job is to communicate with the union and convince them this has to change.” The stakes were enormous. If GM was successful, it would save billions and start leveling the playing field with Toyota, Honda, and all the other foreign automakers. But if the talks failed, Detroit was destined to fall into a deeper and deeper hole.

The initial discussions with the union in the spring of 2005 focused on an incredibly sensitive area—medical benefits for retirees and their dependents. So far the talks had yielded nothing. After several closed-door meetings, the UAW’s president, Ron Gettelfinger, showed little willingness to alter any health care provisions in the union’s ironclad contract before it expired in 2007. “We have a negotiated agreement in place,” he said after one big meeting with GM officials. “Both parties should adhere to the agreement.”

This was not a promising start. Gettelfinger was a skilled and experienced negotiator, but he was barely engaging in a dialogue. Sometimes he sat in stony silence as GM officials made their case for how the health care burden was crushing profitability and ultimately jeopardizing union jobs. When Gettelfinger did respond, it was in terse bursts of thinly veiled anger. Autoworkers, he reminded the GM labor execs, sweated for decades on the assembly line with the expectation that their prescription drugs, surgeries, and dental care would be taken care of once they retired. Why, he asked, should they sacrifice that to bail out management at GM now that the company was in financial trouble? No way, Gettelfinger said. Health care for retirees was a nearly sacred trust that he would not betray.

A deal would take time. Wagoner knew it, and so did his executives and his board of directors. But he felt considerable pressure to make it happen soon. GM was at a precipice, and Kerkorian’s involvement didn’t help. Moreover, the GM lawyers were already preparing a legal strategy to force cuts on the union if the UAW dug in its heels. GM believed its strategy would hold up in court. But nobody really wanted to test the theory and provoke a nationwide strike. If GM was shut down, then what?

Mark LaNeve walked out of Wagoner’s office and wondered what exactly had just happened.

Six months earlier, LaNeve had been promoted from head of the Cadillac division to vice president of marketing and advertising. It was a big career move for the forty-six-year-old son of a steelworker from Pennsylvania. But, with no advance notice, Wagoner had just informed LaNeve that he was now the new chief of vehicle sales, service, and marketing for all of GM North America.

“You’re the best guy we’ve got,” Wagoner said. LaNeve was shocked and almost speechless—an unusual feeling for a guy who had been selling cars for twenty years.

“Uh, thank you very much” was the best he could muster. “I’ll do the best I can.”

The top sales job traditionally had been held by a veteran corporate operative with a broad résumé. But GM’s inventory crisis was burning up cash at a frightening rate. Someone needed to move those vehicles off the lots—fast. LaNeve had long dreamed of the great things he would do if he ever got this job, but now was not the time for grand strategies. He quickly took stock of what he was facing. “We basically had three strong truck brands—Chevy trucks, GMC trucks, and Hummer,” he said. “Chevy, GMC, and Hummer brands were sick to weak to irrelevant. Chevy cars had a horrible reputation. Buick was a catastrophe. Saturn had completely lost its reputation in the market. Cadillac was improving but way behind Mercedes, BMW, and Lexus. And Pontiac was largely irrelevant.”

What to do? LaNeve did not have the luxury of tailoring specific sales promotions for different brands. That might take months. He needed a one-size-fits-all sale, something so dramatic it would compel consumers to get off their couches and check out GM showrooms. He huddled with the senior marketing people on the staff. One of them, Steve Hill, had an idea. “What if we made employee pricing our cleanup program?” said Hill.

Employee discounts for everyone? It would cost thousands of dollars in incentives per vehicle. But it was worth a try. LaNeve pitched the idea to Wagoner, who told him to refine the plan and come up with a slogan. One of GM’s ad agencies hit the mark with a folksy tagline that invited the average consumer to share in the special discounts reserved for the corporate family: “You pay what we pay. Not a cent more.”

Next, LaNeve had to get the plan in front of the Automotive Strategy Board, GM’s ultrapowerful internal conclave of senior executives from around the world. Usually it took two to three months for a decision of this magnitude to wind its way through an intricate bureaucracy of committees and memos and presentations to get in front of the ASB. Often an executive in LaNeve’s position would need to make his case several times in multiple forums before he got on the fifty-page monthly agenda of the big board. But because Wagoner supported it, the employee pricing plan sailed through the process.

Bob Lutz, for one, couldn’t stomach it. The seventy-three-year-old Lutz was almost universally recognized as the premier car guy in Detroit. He had been GM’s top product executive for just four years, but his storied automotive career dated back to the 1960s and included successful runs at BMW, Ford, and Chrysler. Lutz was all about engines and styling, cars that handled beautifully and looked great. Wagoner had rescued him from oblivion in 2002, when he was running a battery manufacturing company after being forced into retirement at Chrysler. Since coming aboard, Lutz had pushed and prodded GM’s engineers and designers to improve quality and build better-looking models that consumers would pay decent prices for. Now it was like GM was telling the world it had to pay people to buy its lousy cars.

Lutz nearly begged Wagoner to redirect the dollars spent on sales promotions to upgrade the parts and materials of the vehicles themselves. “What we’ve got to do is put another thousand dollars’ worth of goodness into the car to give it more value,” Lutz said. “You can command better prices than we won’t have to incentivize that much.”

“I understand what you mean,” Wagoner said. “The problem is, how are we going to live through that time when the vehicles are better but we’re not commanding better prices?”

Lutz pressed his point. Adding more incentives to sell unpopular cars only reinforced the perception that GM’s stuff wasn’t worth top dollar.

“We’ve got to figure a way to back off of this,” he said. “We’re pouring cars out of the factory with zero margin and we’re not even covering our fixed costs.”

Wagoner didn’t want to hear it. “We cannot back off,” he said. “We’ve got to keep the factories running.”

Lutz was getting agitated. Didn’t Wagoner understand what was happening here?

“If we keep this incentive war going, we’re going to give our whole margin away!” he said. “Once your margin is zero, you can multiply it all you want but it’s still zero.”

Wagoner looked at him hard. He trusted Lutz completely on how to build a faster, safer, better car. That wasn’t Wagoner’s area of expertise and never would be. But when it came to making the difficult calls on the bottom line, he had the final word. He bore the ultimate responsibility for GM’s survival. He set the course for the company. Once he made his mind up, there was no changing it.

“Don’t get all finance-y on me—that’s my specialty, not yours,” Wagoner told Lutz. “All I can tell you is I’m not going to preside over this company reducing its volume. We’re trapped in this system. The only thing we can do is to move full steam ahead.”

On June 1, 2005, the GM Employee Discount for Everyone program went into action. Dealers across the country reported to GM headquarters that showroom traffic increased almost immediately. For the first week, Mark LaNeve arrived at his office before dawn to check out the previous day’s sales reports. He could hardly believe the numbers. “We’re just blowing the doors off the industry,” he said. “My God, we are just blowing them off.”

GM ended up selling 550,000 vehicles in the United States during that June—a 40 percent increase from 2004 and the single best month of sales in nearly nineteen years. Inventories decreased drastically. The parking lots began to empty out. The results were spectacular, but the blowout sale didn’t come cheap. Between the advertising and the cash subsidies, it cost close to a billion dollars.

For years, GM had been holding its annual shareholders meeting in the ballroom of the Hotel DuPont in Wilmington, Delaware. Usually, the room was plenty big, but on June 7, so many stockholders showed up for the 2005 meeting that another conference room was booked for the overflow crowd to watch on closed-circuit TV.

Everyone expected major moves to be announced, and Wagoner didn’t disappoint them. He opened by acknowledging that GM North America, which had lost \$1.3 billion in the first quarter, was in deep trouble. “Our absolute top priority is to get our largest business unit back to profitability as soon as possible,” he said. GM had too many people building too many cars that consumers didn’t want to buy. There was no alternative except to scale back. And for the first time, he set a target.

Wagoner pledged that GM would slash twenty-five thousand manufacturing jobs and close an unspecified number of factories by 2008. He also put the United Auto Workers on notice that it had better cooperate on reducing health care costs, saying that the costs presented “a huge risk to our collective future.” GM, he said, would consider harsh actions if negotiations failed. “We have not reached an agreement at this time and, to be honest, I’m not 100 percent certain that we will,” he said. “If we can’t do that, we’ll have to consider our other options.”

Many of the shareholders stood and cheered when they heard the tough talk. But a few vented their anger at how badly GM had stumbled. “This company is sick,” said Jim Dollinger, a Buick salesman

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