KING CAR GUY

ROBERT LUTZ, a veteran of each of Detroit's Big Three automakers, tells Brunswick's **KEVIN HELLIKER** about his boardroom experience during the General Motors bankruptcy, where he argued, as he always has, for the pursuit of great cars.

NEEDING A BAILOUT DURING THE FINANCIAL CRISIS OF 2008, General Motors wouldn't have been worth saving if not for its automobiles. Sure, there were a million or more jobs at stake. But those jobs would have been lost anyway, gradually, if GM were still producing the uninspired and unreliable vehicles that over several decades had cost it half its market share, rendering the company unprofitable and too broke to withstand a recession-induced plunge in sales.

The federal government would not have wagered nearly $50 billion on GM's return to profitability if the vehicles rolling off its assembly lines in 2009 had been lemons. In fact, they were the most stylish, luxurious, high-performing and reliable portfolio GM had ever produced – including several models reviewers deemed best-in-class. That transformation to a large degree was the work of Robert Lutz. A GM executive in the '60s who then did stints at BMW (Executive Vice President), Ford (Executive Vice President and board member) and Chrysler (Vice Chairman, President and board member), Lutz had returned to GM in 2001 as Vice Chairman for global product development, charged with elevating the quality, performance and curb appeal of its vehicles.

It's no surprise that he succeeded. Among automotive fanatics, he's known for caring less about Wall

PHOTOGRAPH: BRYCE DUFFY/CORBIS VIA GETTY IMAGES

Street than how a car looks and performs on Main Street. As the title of his 2011 book put it, *Car Guys vs. Bean Counters*.

If serving in the C-suites and boardrooms of each of Detroit's Big Three sounds provincial, consider that Mr. Lutz was born in Zurich, grew up there and in New York (his father was a Vice Chairman of Credit Suisse). He speaks German, French and English, among other languages. A former US Marine Corps fighter pilot, he also gained undergraduate and graduate degrees in business from the University of California at Berkeley.

He goes by Bob, but always wears a business suit, and at age 86 still looks athletic in it. His collection of gasoline-powered classics includes cars, motorcycles and military jets. Some have called him the auto industry's Cary Grant. The models that bear his fingerprints include the Chevrolet Volt and Camaro, the Ford Explorer and the BMW 3 series.

As Vice Chairman of GM during the financial meltdown, Mr. Lutz had a front-row seat to one of the most shocking corporate crises in American history. In immediate need of cash, GM received what amounted to a nearly $50 billion investment from the US government, which became its majority shareholder. In one of the bleakest moments of the financial collapse, the government's auto task force guided GM, once the symbol of American industrial dominance, into Chapter 11 bankruptcy, where in a matter of weeks the company shed capacity – plants, workers, dealers, brands – that would have taken years to unload outside of court. The outcome speaks for itself: The new GM became almost instantly profitable, launching a hugely successful IPO barely a year after it exited bankruptcy court.

In those board meetings at GM headquarters in Detroit, the government's auto team did more than hand over cash and deliver bad news to creditors, union chiefs and vendors. They also took charge of management. Armed with research on the company and industry, the government task force ordered GM to close or sell seven of its nine brands. This was a threat to several promising models Mr. Lutz had in the works.

In an interview with the Brunswick Review, Mr. Lutz tells how and why he fought back against that demand, describing battles he won and lost. He also offers his views on the future of electric cars. Mr. Lutz, who now runs Lutz Communications out of Ann Arbor, Michigan, just outside Detroit, is the author of three business books. In one, the 1998 *Guts: 8 Laws of Business*, he became an early advocate of a now-popular idea: "Disruptive people are an asset."

Inside General Motors, how big of a surprise was the financial downturn?

We knew there would be some sort of economic downturn at some point. We planned for it. In past economic downturns, the car business fell by 15 percent or 20 percent. That we could have weathered.

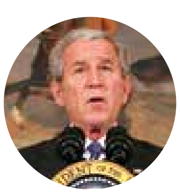
But when the bottom dropped out, we didn't have a 15 or 20 percent reduction in volume; we had a 50 percent drop. It was a one-two punch: a combination of fuel prices going to about $4 a gallon seemingly overnight and the economic meltdown due to the subprime mortgage crisis.

When people stop buying full-size sport utilities and full-size pickup trucks – your most profitable vehicles – because of fuel consumption, when overall you're selling only 50 percent of what you sold before, when the total market goes from 17 million units a year to 8 million, you can't reduce expense fast enough. Not if you're in a high-fixed-cost business like automobiles.

People second-guessed us, said management should've known or should've planned, et cetera. But I'm sorry – you can't plan for a catastrophe like that. For years, we'd been in the process of trying to do all of the things that were later done during Chapter 11. We were trying to reduce capacity.

THE FALL AND COMEBACK OF GM

TIMELINE SOURCE: USA TODAY

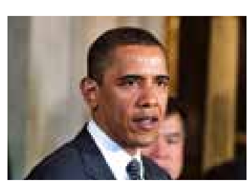


DEC. 19, '08

The Bush Administration announces plans to bail out Detroit's auto industry, notably General Motors.

GM receives $13.4 billion in short-term financing through the Troubled Asset Relief program.

DEC. 31, '08



APR. 22, '09

The Obama Administration provides a $2 billion working capital loan to GM.

Another $4 billion is added to the loan.

MAY 20, '09

4 BILLION

JUNE 1, '09

GM files for bankruptcy reorganization and cuts costs, shedding Saturn, Hummer, Saab and other well-known brands.

PHOTOGRAPHS: JIM LO SCALZO/ BLOOMBERG VIA GETTY IMAGES; KEN CEDENO/BLOOMBERG VIA GETTY IMAGES

We had done a deal in 2007 with the United Auto Workers that would get a massive healthcare obligation off our backs. But there was a three-year delay before the actual implementation. So in ’07, ’08 and ’09, we had no benefit from that agreement. And that’s exactly when the downturn struck.

Suddenly, all the pundits who had been praising our wisdom for shifting production to sport utility and full-sized trucks – because that’s where the money was – were saying, “The prudent thing to do would have been to invest in small cars.”

We also had Mitt Romney saying he was opposed to the government bailout of General Motors, saying, “They should have gotten private financing for it.” When we saw that we were running out of money, that we were basically going to be insolvent, naturally we went to all our normal banks and said, “Hey, we need a few billion to tide us over.” And guess what? Every bank said, “You know what, we’re in exactly the same situation you are. We have no money.”

What was your response when the government’s auto task force ordered the sale or closing of all but Chevrolet and Cadillac?

I wasn’t formally a member of the board. I had no voting rights. As Vice Chairman I was an observer. But I wasn’t silent.

When they told us to go down to two brands, we said, “That would be a mistake. You can’t drop Buick because Buick is GM’s number-one brand in China. The whole China market was rising and the upper-middle-class Chinese have a high regard for the Buick brand because it’s an American brand. And if the brand gets cut in the United States, it’s going to lose legitimacy in the Chinese market.” And the auto task force guys said OK. Today, by the way, Buick is profitable not only in China but in the United States again too.

Then we said, “We’d like to keep GMC, too.” And they said, “No, you can’t keep GMC. GMC is a ridiculous brand. It’s nothing but Chevrolet trucks that are a very little bit different. It’s nothing but marketing.”

> “EVERY BANK WE CONTACTED SAID, ‘YOU KNOW WHAT, WE’RE IN EXACTLY THE SAME SITUATION YOU ARE. WE HAVE NO MONEY.’”

At that point a board member who was the recently retired chairman of a large consumer products company jumped up and said, “Only marketing? What do you mean only marketing?” Ultimately we convinced them that GMC had a large and loyal customer base, and it is still doing great.

But we lost Hummer. If it had been properly fed, I think it could’ve been a great brand. Saab, it was right to sell that. Every year Saab lost on average half a billion dollars. Saturn basically competed for the same customers that Chevrolet did. But Saturn as a brand had outlived its usefulness and was consuming more resources than were coming out the other end. Saturn, Saab and Hummer, I was very comfortable with abandoning those.

Pontiac, though, I had a problem with. Because Pontiac was on the verge of coming back and being a legitimate, recognized, well-liked car brand that was going to be technologically different from other GM cars of the same size. But the feds said, “Do you want the money or don’t you?” When the other guy holds all the cards, you do what he says.

That’s surprising coming from someone known for pushing back in the C-suite and the boardroom. After all, you all but invented the idea that disruption should be rewarded.

Most of us are trained to work in teams – don’t make waves, don’t disagree with people, try to find consensus, et cetera. That doesn’t work. If everybody just sits around being nice to each other, absolutely nothing gets accomplished. If what you’re doing is no longer competitive, somebody has to say, “We should change this.”

What I heard my whole career was, “That’s a very good thought, Bob. But at your level, we expect you to just follow orders.” I would say, “I realize that, Sir. And I’ll do whatever you tell me, but I felt it was im-

30.1 BILLION

JUNE 3, ’09

The Obama Administration provides a $30.1 billion debtor-in-possession loan as part of the bankruptcy filing.

JUNE 8, ’09

GM is kicked off the list of 30 companies comprising the Dow Jones Industrial Average.

JULY 10, ’09

GM’s emergence from bankruptcy is followed by the debut of its hybrid, the Chevy Volt.

APRIL 20, ’10

GM makes its final loan repayment. Government holds a 61 percent stake in common and preferred stock.

61 PERCENT

NOV. 18, ’10

GM goes public. US Treasury reaps $13.5 billion in conjunction with the new company’s IPO, reducing its stake to 33 percent.

PHOTOGRAPHS: BILL PUGLIANO/GETTY IMAGES; GABRIEL BOUYS/AFP/GETTY IMAGES; CHIP EAST/BLOOMBERG VIA GETTY IMAGES portant to point out that we are doing this wrong." That attitude gets you in trouble.

One boss or the other would say, "Bob, we've heard you, we respect your opinion, we're not ready to change." I would say, "Thank you very much for listening, Sir." Then I'd back off. You have to know when to stop.

What was the difference between the GM you left in 1971 and the GM you rejoined in 2001?
In the 1960s, GM had the best cars, the best styling, the best engines, the best everything. You know, the big Chevrolet Impalas, Oldsmobile Cutlass, various Pontiacs, the big Buick Riviera. Back then, General Motors had to be careful not to get over 60 percent market share in the United States because they were starting to draw the attention of the antitrust people. GM back then was a very product-focused company.

But over time, especially in the '80s and '90s, GM became increasingly focused on cost reduction. It forgot that you cannot save your way into prosperity.

I was hired because Rick Wagoner [GM CEO from 2000 to 2009] asked me, "What do you think is wrong with GM?" After my 30-year absence, there was nobody left at GM who had served in a senior capacity for the company in the 1960s. I gave Rick an earful. A few weeks later he hired me as vice chairman and my whole job was to get GM off of this robotic, bureaucratic, formulaic approach to product and get them back to enthusiastically designing and building the best product. Basically, to get General Motors back into the car business.

In the years that followed, any number of launches or redesigns – Chevy Volt, Buick Enclave, the Camaro, GMC pickups – won acclaim. Even the Malibu, which had become a ho-hum rental-car sedan, emerged from a redesign as the North American Car of the Year. How'd you do that?
It was a process of reversing the prior policy of how little do we have to put in the car in order to have a viable entry in the marketplace. That philosophy was minimal, minimal, minimal.

I pushed the approach of let's give people something fantastic that will wow them. Drivers look at it and say, "Holy smoke, I get all this for $22,000?" Of course, all the finance people were wringing their hands, saying, "Oh, Bob, what you're doing is terrible. You're putting more money in the cars."

I said, "What happens when our cars reach the market? We have to put $4,000 rebates on them to sell them. What does that do to the margins?" I said, "Let me put 500 bucks of visible, tangible customer value into each car and bring them up to a competitive level or, if possible, a bit beyond competitive. And then we will reduce the average incentive from $4,000 to $2,000. I'm saving you $2,000 per car, and it's taking me $500 to get that $2,000."

> "MY WHOLE JOB WAS ... TO GET GENERAL MOTORS BACK IN THE CAR BUSINESS."

Did the financial crisis slow that transformation?
A lot of things that we wanted to do had to be deferred, in some cases up to two years. But it turned out that our competitors had the same problem. Everybody cut back their product plans.

In a 2017 Automotive News column [see excerpt] you predicted humans would be all but absent behind the wheel in 20 years. At the same time, you have made waves for slamming the short-term potential of electric cars, Tesla in particular.
Long term the potential for electric cars is good because the cost of batteries will come down, the cost of all the electrical systems will come down.

But until then, electric vehicles are so-called compliance cars, made to comply with zero emissions regulations as postulated by California and 13 or 14 other states. Every maker is doing electric cars because they have to. But Mercedes, BMW, Audi, General Motors, et cetera, can afford to sell electric cars at a loss, because of the profits they make on their big gasoline-powered vehicles. Tesla has no gasoline cars on which to recoup that money. ◆

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BOB LUTZ ON THE VANISHING OF HUMAN DRIVERS

IT SADDENS ME TO SAY it, but we are approaching the end of the automotive era. The end state will be the fully autonomous module with no capability for the driver to exercise command. You will call for it, it will arrive at your location, you'll get in, input your destination and go to the freeway. On the freeway, it will merge seamlessly into a stream of other modules traveling at 120, 150 mph. Then, as you approach your exit, your module will enter deceleration lanes, exit and go to your final destination. You will enter your credit card number or your thumbprint or whatever it will be then.

PHOTOGRAPH: ALEXANDER RYUMIN\TASS VIA GETTY IMAGES

The tipping point will come when 20 to 30 percent of vehicles are fully autonomous. Countries will look at the accident statistics and figure out that human drivers are causing 99.9 percent of the accidents. In 15 to 20 years – at the latest – human-driven vehicles will be legislated off the highways.

– Automotive News, November 5, 2017.