GM prepares its getaway

ED WHITACRE, a former head of AT&T who took over the reins at General Motors last December and who yesterday announced his own imminent departure, deserves a small round of applause for what he has achieved. Just over a year ago, GM was taking its first faltering steps on the road to recovery, as it emerged from its government-orchestrated "quick-rinse" bankruptcy. But despite shedding debt, dropping several brands, shrinking its bloated dealer network, cutting jobs and securing concessions from those workers who remained, there were still plenty of sceptics.

Could a company that had lost $88 billion in the four years to 2009, had only been kept afloat with $60 billion from American and Canadian taxpayers and which had become known as "Government Motors" really shuffle off its culture of failure so easily? However, after reporting net earnings of $1.3 billion for the three months to the end of June yesterday—the carmaker's second profitable quarter in a row and its best since 2004—the evidence that "New GM", as it likes to call itself, is a different business is mounting. So much so that later today or early next week, the company is expected to file an S-1 registration document with the Securities and Exchange Commission, paving the way for an initial public offering before the end of the year.

Mr Whitacre sensibly decided that given his 68 years, questions about succession would be a drag on the IPO's potential success. To that end, he has picked a fellow GM board member, Dan Akerson, to take over from him as chief executive next month and as chairman by December. Mr Akerson, 61, is another former telecoms executive who has worked in recent years for Carlyle, a big New York-based private-equity group. That Mr Akerson has no prior knowledge of the car industry is not necessarily a disadvantage: Alan Mulally, who came to Ford from Boeing in 2006, is given credit for turning round GM's cross-town rival. But Mr Mulally had wide experience of running a highly complex manufacturing organisation, something Mr Akerson lacks.

Obstacles on the road ahead

And although the purgative effects of bankruptcy and the shake-up that Mr Whitacre administered to GM's ponderously bureaucratic culture—he replaced or shifted 12 of the firm's top 13 executives—has left it a much leaner, faster-moving organisation, there is still much work to be done. There are some signs of a product-led revival at GM, but the competition is unrelenting. According to the latest North American consumer surveys, GM models' quality still lags the best, while that Government Motors tag contributes to GM's need to discount more heavily than the industry average. Having decided to hang on to Opel/Vauxhall and restructure it without government loan guarantees, it is still racking up big losses in Europe ($160m in the last quarter). Even in China, the jewel in GM's crown in recent years, there are concerns.

Although sales are still growing, market share is down and pricing is softening as the hectic pace of growth slackens and new capacity comes on stream.

The IPO, which will probably be the first of several, is expected to raise around $16 billion. For GM, it will be a signal to car buyers that the stigma of government ownership should soon be lifted and for the White House it will be claimed as vindication of its highly controversial decision to ride to Detroit's rescue last year. But despite the support of banks that were also bailed out by the government, it will not be a walk in the park. In particular, the shabby treatment of GM's bondholders has left a bitter residue. More fundamental will be whether investors can be persuaded that GM's recovery is real and lasting. The signs are encouraging, but with the economy teetering on the brink of a second dip and with GM having a lot still to prove, a degree of wariness may be the order of the day.

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