

A paper submitted to Professor Leon Cort
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Benefits and Effects of General Motors Outsourcing

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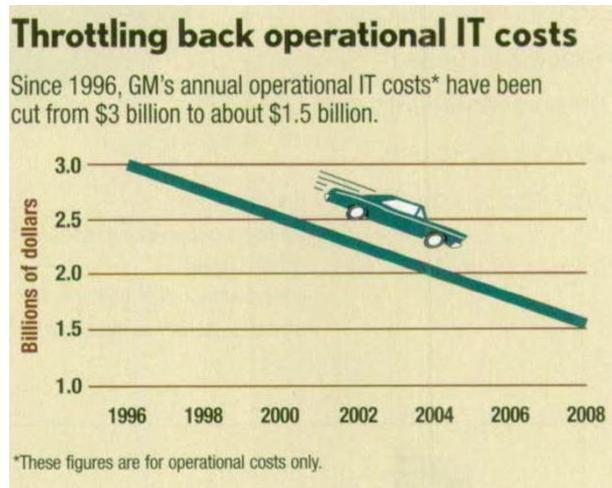
For companies such as GM outsourcing has become almost instinctive. It has been over twenty years since they've started this type of third party servicing or subcontracting and overall has impacted them for the better. Companies decide to start outsourcing for a multitude of different reasons. Mainly the cost factor is the driving force behind the decision of whether or not to take that leap. Offshore outsourcing and nearshore outsourcing have become an outlet for many struggling companies in need like GM. Although some areas are affected more than others from the decision to outsource, it can be beneficial to both sides. The fact that outsourcing is a two-way street and an economic cycle is something that some American's have been blind to. "Another reality lost in the outsourcing debate is the amount of work the rest of the world outsources to the United States. We are far and away the world's top "provider" of outsourcing in the form of information technology, financial, communications, and other business services" (Buss).

General Motors has had trouble competing in the United States market over the past few years. Despite these big problems in the United States, they have been showing that they can still compete worldwide. "General Motors has been showing increasing success in China, Brazil and other international markets" (Isidore). General Motors has many possible incentives and reasons for outsourcing its production overseas. Included in these incentives and reasons are capacity, quality, technology, delivery time, to lower cost of labor and parts etc.

One of the possible reasons for General Motors to outsource is for them to gain a competitive advantage globally and most importantly in the United States, they need to lower their production costs and fixed costs. The United States used to be the company's top selling market but recently it has been one of their worst. The U.S. company "sold more vehicles in Asia in the first quarter than it did in the United States. Only about a quarter of GM's vehicle sales worldwide were made in the U.S. during the first quarter of 2009" (Isidore). According to Michael Robinet, Vice President of Global Vehicle Forecasts at CSM Worldwide "Given a clean sheet of paper, GM can execute as well as any other global manufacturer, many times better" (Isidore). General Motors is not just outsourcing to different countries because of lower costs on production, even though that is their main reason for outsourcing, the newer factories and flexible labor contracts will help the company minimize its fixed cost and save money. Also new factories can offer a better quality product and create new jobs. Also by creating new jobs in different countries General Motors can attract new customers with their new employees. Having greater flexible labor contracts means getting cheaper labor from these non-union manufactures, which contributes to General Motors reducing the amount of money they spend.

By outsourcing, General Motors can restructure their costs. When you outsource you are presented with a chance to change some of your fixed costs to variable costs. By reconstructing these costs General Motors has a chance to save a lot of money. Also by outsourcing overseas General Motors will get a brand new start. The company will have a fresh new image to its overseas consumers that haven't had a chance to witness all of the cars that have failed in the United States.

Another possible reason for General Motors' outsourcing is that the company needed to develop their core business, and one of the best ways to do this was by outsourcing. When General Motors outsourced its IT support overseas it was for the best, they went from having 18 primary IT suppliers to having only six. Outsourcing their IT made the company more efficient, and also lowered their costs. GM is in the car and truck manufacturing profession not in the IT profession so it made no sense for them to spend a lot of time trying to supervise all these different IT suppliers. Also another possible reason for General Motors to outsource is the United States Government offers a tax break for companies that move its production and creates new jobs overseas.



In June 2006 General Motors began the first phase of a \$15 Billion dollar deal to create a single global IT organization for the company. In the first two months they performed 160,000 transition tasks, trained 8,100 people on 29 standardized work processes, redeployed 2,800 personnel, remapped 1.2 million assets to new contracts, and aligned 15,000 additional supplier personnel to support requirements. GM started outsourcing over twenty-five years ago with their main goal being to offer the best efficiencies possible through IT. GM, which produces about 8,000,000 vehicles a year worldwide, has been moving toward a global operational model where any car for any market can be designed and built anywhere in the world. There's a problem with this however, with production in so many countries it would be hard for all of them to communicate. "It was like all of these companies were speaking different languages," chief information officer and group vice president Ralph Szygenda said (McDougall). So he developed a system where all vendors have to conform to GM standards such as project management and system verification and validation.

In 2011 GM will start importing more cars from China, Mexico, South Korea, and Japan, but they will cancel their expansion plans for Russia, India and Mexico (Oak). They plan to make the production of cars more versatile. One way of doing this would be to make some of the designs of cars more similar. They would have to come up with "vehicle families" that share common components and a basic design, and this would make it possible for up to a dozen vehicles to share the same assembly line. GM wants to be a global carmaker instead of an American giant with large foreign subsidiaries. They are not buying out overseas companies; they will be working with them. This strategy will integrate the technology and product development of its different alliances by spreading the engineering and development work over a wider range of products. A car

can be designed, drafted, and shared simultaneously on two different screens 6,000 miles away by plugging into the global GM digital design system. This network of alliances will control 23% of world car sales while their biggest competitor, Ford, controls well below a fifth (Global Gamble).

With the outsourcing of GM’s jobs comes the closing of plants in the United States. Their framework agreement on outsourcing states that if employees transfer to other GM facilities they will be treated as if they worked there for a minimum on five years. This will be done on a voluntary basis only and if the supplier contract expires, then they are guaranteed a job with GM for a minimum of five years (General Motors Workers Blog).

GM's plan to import more vehicles from low-wage countries unfairly targets U.S. workers and plants for cuts. Their plans to trim 21,000 hourly workers and close thirteen of its forty-seven U.S. plants by the end of 2010 as part of a tougher recovery plan sought by President Obama's auto task force. It will close three more U.S. plants by 2014. The ripple effect at suppliers, dealers, and other businesses will cost tens of thousands of additional jobs, devastating numerous communities across the United States and quite possibly push the national unemployment rate up a full percentage (Shepardson). “The

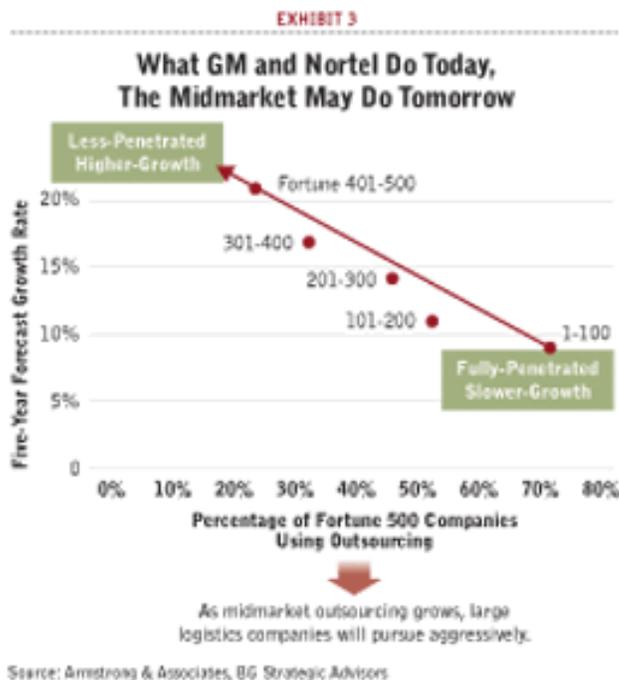
company has said it wants to eliminate four-fifths of its 33,100 person hourly work force by 2010 and cut wages from about \$27 an hour to as little as \$12.50 and hourly employees do not get job benefits” (Gupta & Krolicki).



General Motors had a chance to take a commanding lead in the mid 1990s. It developed the 1st electric car, the EV1 in 1996. Instead of taking advantage of this opportunity to change the automotive world, GM scrapped this car and destroyed all of the models. It decided the future was in trucks, SUVs, and Hummers. It continued to roll over to the unions every time a contract came up for renegotiation. This ultimately led to an average hourly labor cost of \$73.26 for GM by 2006, a 65% premium to what the Japanese pay their autoworkers.

“Coupled with the loss of 6,500 jobs in 2005 mostly through retirement, GM said it expected to reach its target of cutting 30,000 jobs by January 2007, two years ahead of schedule. GM said it expected to capture about \$5 billion in savings in 2006. Wagoner said he also expected a sharp reduction in the number of GM employees in the so-called

jobs bank, a much-criticized program negotiated with the UAW that continues to pay laid-off workers nearly full salary and benefits” (Gupta & Krolicki).



As Exhibit 3 shows, what the largest companies of the Fortune 100 do, the rest of the market tends to follow over time. Just as automotive giants like GM and Ford led the way toward outsourcing in the early 1990s, so too may the adoption of LLPs provide a model for midsized companies in the coming decade.

General Motors has become a major contributing factor to charities and families in the locations across the United States that its business calls home. Since the company’s decision to stop production in plants all over the country and outsource to various countries, local charities and families have begun to suffer. GM’s outsourcing has also affected local businesses and suppliers by decreasing the disposable income within its factory communities. Although General Motors needs to take action to keep their company running smoothly and generating revenue in these tough times, is outsourcing the way to go if it has a negative effect on everything it leaves behind?

In an article that ran in “TIME Magazine” in August of 2009, author Joseph Szczesny discusses the economic impact of General Motors shutting the doors on its Pontiac line. As GM starts selling off lines and shutting others down, it is beginning to affect other car manufacturers as well. For example, the Toyota plant in Fremont, California was a major producer of Pontiac parts as a joint venture. As Pontiac shut down, so did the Toyota plant. The Fremont Toyota plant happened to be the last auto plant on the West Coast, and put close to five thousand people out of work. In addition, GM has not taken on any of the closing costs for the factory, including environmental cleanup and severance packages, causing Toyota to get hit with a \$111 million deficit in the second quarter of the fiscal year 2009 (Ohnsman and Kitamura). Although outsourcing may be the only answer to GM’s economic problems, they are leaving the United States with a bad taste in its mouth.

A professor and economist, Steven Deller, ran a study in 2008 to predict the impact of closing the GM plant in Jonesville, Wisconsin after GM decided to close the plant by 2010 at the latest. Deller used statistics from the 2007 employment records of Rock County in conjunction with a software program called Implan. As with any predictions there is potential for a small margin of error in the results, however, the impending reality of the results was shocking. Deller found that as a result of laying off the 2,196 employees Rock County could ultimately suffer a loss of 9,000 jobs through a ripple effect. In addition, the county would see a loss of the \$188 million of the workers' income that would no longer circulate through the local businesses. Soon after this theoretical study was published an article ran in an online newspaper, the GazetteXtra. The article, written by Shelly Birkelo, discussed the impacts the community has already begun to feel.¹ Although GM's philanthropy was once a good thing, it is now leaving many industries in the dust. Without the GM plant, the residents of Rock County in Wisconsin would surely not survive (Leute).

To further understand the effects of outsourcing look to an article in "The Detroit News" from May 9, 2009. Author, David Shepardson, first talks about *how* GM plans to outsource. Not only are they closing plants in the US, but also Europe, Australia, and Canada. They will then slowly shift production to China, Mexico, South Korea, and Japan starting with South Korea in 2010 and China in 2011. As this process begins in South Korea, GM will close thirteen more US plants, potentially affecting thirteen communities in ways similar to Jonesville, Wisconsin. Overall, these plants will lay off close to 21,000 employees.¹ Throughout this process GM will be switching its focus to their most successful lines; in the meantime they will "phase out" Pontiac and Saturn and have already sold off Hummer and Saab. Although GM has received \$15.4 billion in Federal money, they stand by their word that none of the money will go towards overseas projects and will be entirely put towards efforts in the US.

As GM shuts its doors across the United States, the entities that will absorb most of the consequences will be the many families, charities, and businesses it has supported throughout the years. General Motors made it a company priority to become involved with every community they call home. An example of this takes place in Pontiac, Michigan where GM has put three factories on standby, shutting down production until further notice. In addition to the employees out of work, GM is no longer able to support the Pontiac community the way they have in the past four decades. The factories were considerably involved with the local Make-A-Wish foundation, as well as creating hundreds of gift baskets every Christmas for the less fortunate families in Pontiac. With all three plants closing there will be no organization big enough to fill the void that GM is creating (Arellano).

General Motors was also extremely supportive of the arts and culture, specifically those of Detroit, Michigan, the home base of the auto industry. Due to the financial hit the company has taken it can no longer afford to support these causes. GM has been forced to end their support to many cultural groups including Detroit Symphony Orchestra, Music Hall, Michigan Opera Theatre, and the Detroit Institute of Art. As

confirmed by GM's VP of corporate responsibility, Rod Gillum, the loss to these establishments will be at least \$1 million. Although he could not divulge any further information at the time this article was published (Jan 2009), he extended a warning to companies previously supported by GM to make alternative plans for their financial futures that do not contain GM's support (Markowitz).

It is understandable that companies need to make changes in order to do what is best for their shareholders; in the case of General Motors that means outsourcing the majority of their manufacturing overseas. They are faced with the problem of employing the American public or keeping their word to their shareholders. General Motors is an International company, and these economic pressures make it hard for them to be loyal to every country they have landed in. General Motors has made the choice to do everything possible to keep their enterprise afloat. Is it right for the US to hold them accountable for trying to salvage what little they have left?

ⁱ See attached list of affected entities in Jonesville, WI.

GM's journey so far can best be described as a bumpy one. Their fight along the way has left many jobless, soon to be more. It was never a personal attack on any who worked at a General Motors facility; it was simply something that had to be done to keep their heads out of the water. Their ongoing journey will hopefully produce a *new* General Motors; it may no longer be giant U.S. figure but hopes to repay the trust and money that so many have invested in them (Isidore).