Chevrolet Sonic Tells Story Of Detroit Comeback

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DETROIT (AP) — When the word reached the Orion Assembly Plant, it spread along the serpentine assembly line like news of a death or natural disaster: General Motors, the biggest automaker in the world, had filed for bankruptcy protection.

On that grim day in 2009, Chevrolet and Pontiac sedans kept rolling down the line. And 1,700 worried workers stayed at their stations even as GM announced it would close the plant in a desperate bid to survive.

"The unknown was the scariest part," recalled Gerald Lang, who had worked at Orion for two years installing dashboards and doors. "We really had no clue what was going to happen."

There was something else that the workers didn't know: They were witnessing the opening act of one of the greatest recovery stories in American business.

Nearly four years later, Chevrolets are still moving down the assembly line under the plant's 82-acre (33-hectare) roof. Lang and his co-workers now build the Sonic, the best-selling subcompact car in the nation. It's a vehicle no one thought could be made profitably in the U.S., by a company that few people thought would last.

But GM has not only survived, it has earned $16 billion in profits in the past three years. And the industry is on track to make this year its best year since 2007.

Detroit's improbable comeback is the work of many: President George W. Bush, who authorized the first bailout loans; President Barack Obama, who made more loans; workers who took lower wages and focused more on quality to compete with foreign rivals; and executives and designers who developed better cars amid the financial maelstrom happening around them.

To be sure, there were victims: shareholders, auto-parts makers and other suppliers who went out of business, as well as taxpayers who will never get all their money back.

But there is no denying that American carmakers have made a remarkable recovery. Nearly 790,000 people now have jobs building cars, trucks and parts, up 27 percent from the dark days of 2009. The story of the Sonic shows how the industry, along with a community in a downtrodden state, got there.

THE DOWNWARD SPIRAL

The collapse of the industry in 2008 that nearly put GM and Chrysler out of business and cost Ford billions of dollars came from a perfect storm that included the Great Recession, expensive gasoline and the financial meltdown that dried up funding for car loans. But the automakers' problems were years in the making.

They had business models that couldn't generate enough cash to cover expenses. They had too many factories making too many cars and trucks. They sold too many vehicles at discounts or even steep losses just to move them out of showrooms to make room for more. And their workers earned more in wages and benefits than Japanese competitors.

Even when autoworkers were laid off, companies couldn't get them off their books. Union-mandated "jobs banks" forced automakers to keep paying workers whose plants had been shut down. They got paid to sit in rooms and do crossword puzzles.

Years of losses caused the three U.S. automakers to rack up $200 billion in debt, about half the liabilities that are now strangling Greece. GM alone lost $82 billion in the four years before bankruptcy. All three companies had to pay escalating health care costs for workers and a staggering half-million retirees — a number about equal to the population of Portland, Oregon. At GM, medical costs for workers and retirees added $1,500 to the price of a car.

An increasingly bad situation turned worse during the 2001 recession, which was followed by rising gas prices that lasted for most of the decade. Then came the 2008 financial meltdown. As GM and Chrysler careened toward bankruptcy, President Bush stepped in, loaning $17.4 billion to GM and Chrysler just before he left office. But auto sales remained in a free fall, plummeting to a 30-year low of 10.4 million by the end of 2009.

At the Orion plant, the recession had slowed sales of the midsized Pontiac G6 and Chevrolet Malibu cars that were made there. In February 2009, the company eliminated a shift and laid off 400 workers. The outlook darkened even more when GM announced it would dump the Pontiac brand. Since the G6 made up half of Orion's production, workers feared the plant was doomed.

It didn't take long for issues inside the plant to ripple outside to the surrounding concrete industrial parks. Dozens of auto-parts companies laid off workers. At Casey's Chicken, a barbecue joint in a nearby strip mall, a healthy side business catering GM birthday and retirement parties dried up.

About that time, Orion Township's chief executive, Matt Gibb, got a call from Ed Montgomery, President Obama's auto-recovery czar, telling him the plant was on a secret list of GM factories to be closed. The factory was the township's largest employer and taxpayer. About a third of its 35,000 residents work for GM, Chrysler or parts suppliers.

As Gibb watched the local economy unravel, he was haunted by a documentary he had seen about Janesville, Wisconsin, where another GM plant had closed, leaving behind empty industrial parks and ball fields overgrown with weeds.

"I don't want to be Janesville," he told friends.

ANGUISH AND ANOTHER CHANCE

GM, meanwhile, was drowning, even with emergency loans from the government. On June 1, 2009, it became the largest American industrial company ever to file for bankruptcy protection. It had just $2 billion in cash and $172.8 billion in liabilities.

The bankruptcy wiped out GM's debts, allowed it to shed 21,000 jobs, dump 2,600 dealers and close factories, including Orion.

"It was like somebody just took the heart out of you," recalled Mike Dunn, the chief United Auto Workers union bargainer at Orion. "You didn't really know if you would have a future."

Worries spun through his head. He had to support six kids, including two in college. He was nearing retirement after 28 years at GM, and his pension was in jeopardy. But as he walked toward the plant floor, his immediate concern was what to say to workers.

"You can't let the people know you're devastated and scared for your life," he said. "I had to tell my people to stay positive and good things would happen."

As lawyers for GM and its creditors fought in court over scraps of the company, Orion's second chance emerged.

In exchange for its $50 billion bailout, the government got a 60 percent stake in the company and GM agreed to build a tiny car known as the Sonic at one of the U.S. plants it was closing. Small-car production had long been relegated to other countries where wages weren't as high. But GM couldn't take government money and build a small car overseas.

For folks in Orion like Dunn and Pat Sweeney, the local union president, the mission was clear: Get the Sonic.

First, they met with Michigan Gov. Jennifer Granholm and other state officials, who promised GM a $779 million, 20-year tax credit.

Gibb spent all spring organizing petition drives and thinking of ways to cut the plant's costs. So when an army of GM lawyers and tax experts showed up at his office, he was ready with a generous package of tax incentives. The township also promised a new $4.5 million water-storage tower and pledged to buy water at off-peak hours so GM could get lower rates.

The tax abatement cost the township and its schools about $780,000 per year, but Gibb said it was worth it to save the plant's roughly 3,600 jobs. If the plant closed, he estimated that half of the area's commercial properties would be vacant within two years. Plus, the township was competing with Janesville and Spring Hill, Tennessee, which had a newer factory than Orion.

At the end of June, GM made up its mind: The Orion factory would get the small car.

But there was a catch. The plant had to shut down for more than a year to be revamped — a closure that would further threaten businesses in a fragile economy.

Dunn watched as workers removed the plant's equipment, knowing GM could pull out of the deal at any time.

"You could see from one end to the other," he said. "There was nothing in there but cement and pillars."

NEGOTIATING A FUTURE

There was another obstacle. GM and the UAW had to figure out how to cut labor costs at the plant.

For decades, the UAW and automakers fought openly as the companies tried to reduce costs and the union demanded pay increases. The UAW would strike, or threaten to, and the companies would cave in. By 2007, GM was paying $1,400 more per vehicle for labor than nonunion Toyota.

That same year, both sides agreed to a historic compromise on labor costs. They established a two-tier wage system that would pay new employees around $14 an hour, or half the hourly wage of older workers. Worker pay and pensions were frozen. Union trusts funded by the company and workers would take over retiree health care costs. Union President Bob King said each worker gave up at least $7,000 during the four-year contract.

But GM still couldn't make money building the Sonic at Orion without an immediate influx of lower-wage workers. So the UAW and GM went beyond the national agreement and came up with an unprecedented solution. More lower-wage workers could be hired at Orion than any other plant in the country. Forty percent would be paid the lower wage, as opposed to a maximum of 25 percent at other factories.

"We all sort of wanted to do something that was very radical that would test those relationships and also test our ability to be really competitive here," said Mark Reuss, GM's North America president.

Union leaders Sweeney and Dunn accepted the deal in October 2010, figuring it was better to have lower-paying jobs than none at all. They were vilified by some workers.

"People like to complain, but I think deep down inside, they realize what we had to do and why we did it and how everybody's truly benefiting," Dunn said. "It's better than having the doors closed and wondering where your next paycheck is coming from."

After the wage deal, GM started moving equipment into Orion. But there were still no workers to support the restaurants and shops surrounding the plant.

By early 2010, some of the small businesses around Casey's Chicken had started to close. Engineers who had been laid off by nearby parts suppliers came in asking to work for owner Casey Barnard for $8 an hour.

Meanwhile, plant workers were struggling. Unemployment benefits and a subsidy from GM that provided up to 70 percent of their pay began to run out. Some took jobs at other GM plants in Ohio or Missouri, where they bunked with fellow workers in crowded apartments or trailers and commuted home on weekends.

At the UAW hall, meetings had standing-room only crowds of 500 and lasted for hours. Workers stepped up to the microphone asking for help because their homes were being foreclosed and their cars repossessed.

"That was really crushing, going through that time," Dunn said. "These people had been working and making their payments all along on time and then the economy just dropped out on them."

Workers started trickling back to the plant in November 2010. But it wasn't enough for Casey's Chicken. After 14 years, the restaurant closed in the fall of 2011. Barnard is now working at a vacuum store a few doors from his former restaurant.

"I put every dime I had into keeping the business alive, but it came to a point where I couldn't afford it. I spent the college fund and everything in the bank," he said. "I had a passion for it, loved it. But you see that wall coming at you, and you know you're going to get crushed."

THE COMEBACK BEGINS

Early in 2010, Americans began returning to car dealerships as the economy improved. Sales were nowhere near pre-recession levels, but they were enough for GM to celebrate its first quarterly profit in three years.

As a dreadful winter ended, GM delivered on its promise to invest at Orion. Crates of robot arms, carts and conveyor parts arrived, filling the vast open space that had frightened Dunn just a few months earlier.

By midyear, Lang, the assembly line worker, got an offer from GM to move 160 miles (260 kilometers) away to Lordstown, Ohio, to work on the Chevrolet Cruze. By then, it was clear Orion would reopen to build the Sonic, and there were hopes of getting another car, the compact Buick Verano.

Lang and his wife had saved some money and decided to stay in Michigan, foregoing GM pay and benefits until he was called back to work at his home plant. By summer of 2011, he was back on the job testing the assembly line.

"Pack your lunchbox and head off to work. That's a great feeling," he said.

Gradually, all the older workers who wanted to return to the plant were hired back at the same pay as when they left. New workers were added at the lower wage, adding up to 1,800 on two shifts.

The first Sonic, a white hatchback, rolled out of the Orion factory in August 2011.

SONIC BOOM

Even when their company was in bankruptcy, GM engineers and designers across the world never stopped working on the Sonic, a new mini car that would take on the Honda Fit and Toyota Yaris. The Sonic was part of a wave of small cars from Detroit that came with more than just good gas mileage and a lower price: They had aggressive styling, better handling and more amenities like leather seats and navigation systems.

At GM's expansive technical center, 30 miles (50 kilometers) south of Orion, engineers worked to make the Sonic accelerate faster and ride quieter than the Aveo, its cheap South Korea-built predecessor. The Sonic emerged with hatchback and four-door versions. It came in eight colors, including bright orange, and it got up to 40 mpg (5.9 liters per 100 kilometers) on the highway.

The car hit showrooms with a sticker price of just under $14,000 — $1,300 less than the Fit. A year later, the tiny Chevy was the best-selling subcompact in the country. Last year, GM sold more than 81,000 Sonics. Hyundai's Accent finished second at 61,000.

GM is confident the Sonic will soon turn a profit, largely because workers at Orion keep finding ways to cut costs. Earlier this year, a team in the body shop suggested a small fix in the plant's machinery. It ensures that the car's frame fits together correctly every time and reduces the amount of steel going to the scrap heap, saving money.

"We recognize that we've got to work together as partners, because we're going to succeed or fail together," Orion Plant Manager Steve Brock said.

Even the wage differences don't seem to be a big source of friction. Tammy Ballard, who makes the lower wage that is now $16.66 per hour, said workers don't ask each other about pay. She left an auto-parts company for greater job security at GM.

"I knew what I was coming into, and I'm satisfied with that," she said.

On her purple T-shirt is Orion's slogan: "We build it like we own it."

Two months after the plant reopened, Obama and South Korean President Lee Myung-bak visited to celebrate a new free trade agreement. It was a little over 27 years since President Ronald Reagan had spoken at the plant's dedication. Obama trumpeted his familiar campaign theme about saving thousands of jobs.

It was an emotional moment for Dunn, who shook the president's hand.

"I was taught in my household that you take care of the people that take care of you," he said. "That man took care of me."

By the time Obama visited, GM had reported its sixth straight quarterly profit and repaid some of its government loans in cash and with a public stock offering. The government still owns 19 percent of the company and is still roughly $22 billion in the hole on its $49.5 billion bailout of GM.

To the smaller companies near the Orion plant, GM's survival was huge relief.

Applied Manufacturing Technologies, which programs Orion's robots, made it through the downturn by diversifying into the food processing, glass and solar energy businesses. GM is still its largest customer.

"The turnaround is shocking, how fast and strong it is," said Applied Manufacturing founder Mike Jacobs.

CAN IT LAST?

Detroit has seen many booms and busts in a century of auto making. There were 41 car companies in the city in 1913. Almost all failed or were consolidated into the Big Three. Chrysler nearly went bankrupt in 1980 before being rescued by the government. Sales ebb and flow with the economy, gas prices and even the weather.

But industry experts say things have changed. The reforms Detroit undertook make it less prone to financial disaster. Car companies have closed plants, laid off workers and sold or closed entire brands. GM now has 12 U.S. assembly plants and 101,000 employees in North America. A decade ago, it had 22 plants and 202,000 employees.

"You literally can't do as many bad things because of the smaller workforce and the smaller portfolio of plants," said David Cole, chairman emeritus of the Center for Automotive Research in Ann Arbor, Michigan. "The vulnerability to stupid things is not as great as it used to be."

Detroit is finally doing many things right. GM, Ford and Chrysler are all building vehicles like the Sonic that can be sold globally, saving billions that used to be spent developing cars for individual markets. Because they are no longer overproducing cars and trucks, they can command higher prices.

And they're no longer blindly chasing market share as they did in the early 2000s, when GM executives wore buttons that said "29" because their goal was to grab 29 percent of U.S. sales. It didn't work. GM currently is making money with about 18 percent of the market. U.S. auto sales rose 13 percent last year to 14.5 million, the best in five years.

"Market share is nice, but profits are essential," Cole said. "That's going to live with us for a long, long time."

Reuss, GM's North American president, said the company is less bureaucratic. Employees can make decisions without taking everything to the top.

"We have a lot of smart people here. If they're so afraid and paralyzed that every decision comes to me or someone else, it's not very productive," he said.

The government also is getting out of GM's business, which should help sales. Late last year, GM bought back 200 million of the government's shares. That leaves taxpayers holding 300 million shares, which the Treasury plans to sell by early 2014.

Detroit could still stumble. GM's inventory is high and its U.S. sales aren't keeping pace with growth in the overall market. The industry is so competitive that cars can quickly get stale if companies don't invest in them. Growth could be hindered by the lack of available engineering talent or a lack of parts suppliers, many of whom closed during the recession.

But for now, new Chevrolets keep coming off the assembly line at Orion.

As she turned back to her station, Ballard took stock of the progress: "I think we're rolling along like is expected of us."