

Saturn was Supposed To Save GM

Instead, GM crushed Saturn. Here's how.

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It's hard to remember a time when the top man at GM was the most celebrated industrialist in America, maybe even the world. But that was the case on Jan. 8, 1985, when Roger B. Smith convened a press conference in Detroit to make what he billed a "historic announcement."

Smith was a man given to grand gestures. The pink-cheeked, squeaky-voiced executive, once branded the "cherubic chairman" by BusinessWeek, who had taken the helm in 1981, had already ordered a sweeping reorganization of GM's unwieldy structure. He'd also made bold investments in robotics, space satellites and data processing—buying whole companies, like Ross Perot's Electronic Data Systems, and Hughes Aircraft Co., instead of merely contracting for their services.

But on this wintry day in Detroit, Smith would make his biggest gamble yet: unveiling the Saturn, GM's first new brand in 70 years. More than just a car, it would be a stand-alone subsidiary—using innovative technology by workers and managers engaged in unprecedented joint decision making. "Saturn is the key to GM's long-term competitiveness, survival and success," Smith said. Its mission: "to develop and produce an American-made small car that will be fully competitive with the best of the imports ... [and] affirm that American ingenuity, American technology and American productivity can once again be the model and the inspiration for the rest of the world."

Smith was making Saturn not just a car but a crusade, and the country rushed to join. GM was inundated with thousands of unsolicited job applications. Seven governors went on "The Phil Donahue Show" to plead publicly for the Saturn plant to be located

in their state. More than a dozen others trekked to Detroit to state their case in person. Smith eventually decided to put the plant in the bucolic Tennessee hamlet of Spring Hill—some 45 miles south of Nashville, and nearly 500 miles from the ossified traditions of Detroit that the chairman wanted to shake to their very core.

Twenty-four years later, Smith has passed away, and his dream is in shambles. GM is fighting for its life; its CEO, Rick Wagoner, was ousted by the federal government as part of a bailout effort that may yet involve bankruptcy and billions more in taxpayer dollars. The Obama administration is contemplating splitting GM in two, dividing the "good" from the "bad"—a plan that, if adopted, would essentially treat Saturn as a toxic asset to be sold off like so much subprime mortgage debt. GM has 60 days to submit a new plan to the White House, but its first one called for Saturn to be phased out by 2011, unless a "Hail Mary" play by its dealers to buy the brand succeeds, or a better alternative can be found. (A GM spokesman said: "We're selling the cars we have and waiting to see what the franchise-operations team can come up with.") The plant in Spring Hill, once a place where giddy owners traveled from all over to meet the folks who made their beloved cars, no longer produces Saturns, cranking out Chevys instead on the days when it is on line at all.

Saturn was hardly a panacea. But its fall to earth, more than \$5 billion in GM money later, is about far more than the flameout of one brand. In the eyes of some automotive analysts, Saturn represents a major missed opportunity for Detroit to place a sustained bet on fuel-efficient cars that would compete with the Japanese—and to recalibrate the bitter business-labor relationship in ways that could have had far-reaching implications for the entire industry. Saturn was never able to surpass the Japanese in technology, as Smith had hoped. But the competitive knives Saturn faced within GM did far more damage than any threat from overseas: execs who felt the auto giant already had too many brands and factories; dealers resentful of Saturn's

product-development dollars; and a labor union whose leadership came to regard the brand's workplace innovations as collaborations with the enemy. It did not help matters that from the mid-1990s until just recently, Americans turned away from small cars in favor of trucks and SUVs.

Smith wanted to remake GM in Saturn's mold, but the opposite happened. "This is a real tragedy," says Prof. Saul Rubinstein of the School of Management and Labor Relations at Rutgers University, who coauthored a book on Saturn. The lesson for GM and its American rivals now struggling to stay in business, he says, is that when they launch daring innovations, they need the will and a way to ensure that those ideas don't get drowned by the corporate mainstream.

GM in the early 1980s still ruled the global auto industry. But the company had been jolted by the recession of that era, and lost money for the first time in 60 years. The import market nearly doubled—from 13 percent to more than 24 percent—between 1970 and 1985. And the fledgling Japanese auto plants in America were building top-quality products with just half the workforce that GM factories needed.

To counter the Japanese invasion, GM launched a project named after the rocket that carried Americans to the moon during the space race with the Soviets. Smith was determined to blow up the corporate model and start over—employing novel techniques from the assembly line to the showroom. The United Auto Workers feared Smith's vision would translate into more robots and fewer workers. But Smith found an unlikely partner in Donald Ephlin, the portly and disheveled head of the UAW's GM department. Ephlin had traveled to Japan with Ford executives in the early 1980s to see the competition's management methods firsthand.

In July 1985 GM reached agreement with Ephlin on a "Memorandum of Understanding" just 28 pages long. Saturn would not be bound by the union's cumbersome standard contract—featuring nearly 200 job classifications at some GM factories, with rules prohibiting members of one group to perform work reserved for another. The new brand would have just a handful of classifications. The memorandum stated: "We believe that all people want to be involved in decisions that affect them, care about their jobs and each other ... and want to share in the success of their efforts."

It was a remarkable, even revolutionary document, taking Saturn beyond the Japanese in establishing joint decision making. Workers would receive only 80 percent of the UAW master-contract wage, with the other 20 percent tied to quality and productivity. Instead of a traditional fixed-benefit pension, Saturn workers would get a profit-sharing plan akin to a 401(k). In return, GM pledged to devote at least 5 percent of each employee's annual working hours to skills training, and not to lay off more than 20 percent of the workforce under virtually any circumstances.

While the factory was being built, labor and management joined in team-building exercises at a nearby obstacle course. Employees and bosses alike scaled a 40-foot wall while roped together and took a "trust fall," flinging themselves backward off an elevated platform and into the arms of their colleagues.

Ann Fox remembers those years fondly. In her mid-20s then, she previously had worked at a GM components factory in Alabama, shoving a bootlike contraption onto a steering mechanism. "It was endless pain," she recalls. Saturn, in contrast, was "like heaven—a nice, clean, new plant," where her physical work was made easier by robots and other machinery. Workers had a voice in everything, even hiring decisions. "You felt more loyal because you were really part of it all," says Fox.

All the corporate cheerleading stirred resentments. Among the other brands—Chevy, Pontiac, Oldsmobile and Buick—Saturn was viewed as the insufferable teacher's pet whom the other kids couldn't wait to beat up when the teacher wasn't looking. One GM engineer who had jumped at the chance to join Saturn recalls running into resistance when he tried to recruit others within the company. "People would shoot back: 'You Saturn guys are supposed to be the experts'," he recalls. " 'Why do *you* need *our* people?' "

The tensions extended to the executive suite. By 1987, with Saturn still in gestation, the company was falling behind arch-rival Ford in earnings, quality and every other measure. Executive vice president Elmer Johnson told the GM board that the company should fix its existing operations, and asked the board to pull the plug on Saturn. Smith, who had publicly staked GM's future on Saturn's success, wasn't about to lose this battle. Within months, Johnson, once regarded as Smith's most likely successor, resigned.

In the summer of 1989 Ephlin retired from the UAW, and a year later Smith also stepped down. But a few weeks before his departure, Smith drove the first Saturn car off the assembly line. Such events usually are public ceremonies. But GM's financial performance was lagging, and Smith had taken a shellacking from documentary filmmaker Michael Moore, who lampooned the executive in his hit satire "Roger & Me." So Saturn's publicists held the drive-off ceremony in private to avoid tainting their spanking-new brand with the bumbling image of their boss.

The first Saturn cars went on sale in the fall of 1990 to great fanfare. David Cole, head of the Center for Automotive Research, declared that Saturn "scares the liver" out of the Japanese. Another automotive expert, consultant James Harbour, predicted that "General Motors is about to kick butt from one end of this country to another." Body-part analogies were flying like welding sparks.

The Japanese were, in fact, a little worried. "We felt they had the opportunity to heal a lot of [GM's] wounds," recalls Gary Convis, a former senior U.S. manufacturing executive for Toyota, "and to be a very successful company." But when Honda engineers bought a Saturn and disassembled it, their fears abated. The dashboard had overlapping plastic panels that made it look cheap, and a harsh-sounding engine that stemmed from inferior motor mounts. The plastic-polymer doors, billed as a unique feature that wouldn't get dinged in parking lots, fit poorly. Again and again the surprised engineers exclaimed *shinjirainai*, a term that means "unbelievable."

The technology may have been wanting, but the public-relations campaign was firing on all cylinders. The advertising showed Saturn workers, their dogs, their kids and the long white fence surrounding the factory. "I never felt this way about any job, any car, or anything I ever built," a factory technician declared in one ad. Saturn's tag line was: "A Different Kind of Company. A Different Kind of Car."

Dealers ate it up. Tom Zimbrick opened his Saturn store in Madison, Wis., on April 16, 1991. Disaster almost struck the first week, when all but one of the first 16 cars he sold had bad engine antifreeze that had been delivered by a Saturn supplier. Saturn replaced not only the coolant, but the entire car. "Customers said, 'Wow, they gave us a brand-new car'," Zimbrick recalls. "It created customer enthusiasm."

Every time a customer drove away in a brand-new Saturn, the dealership's employees would gather around the driveway to wave and applaud. Saturn's image got a further boost on June 7, 1993, when Vice President Al Gore visited the Spring Hill factory and declared that he wanted to "Saturnize" the federal government.

In June 1994 more than 40,000 Saturn owners and their families trekked to Spring Hill for the first Saturn Homecoming. It was the sort of "cult car" gathering usually attended by owners of 385-horsepower Corvettes, not by people who had purchased 85-horsepower econocars. The Saturn owners were feted with factory tours, country-music concerts and barbecues with the people who actually designed and built their cars. After selling fewer than 75,000 cars in 1991, its first full year, Saturn sold more than 286,000 in 1995, and topped the respected J.D. Power Customer Satisfaction Survey. But behind the scenes, the leaders of the UAW and General Motors were having increasing doubts about Saturn, for very different reasons.

Roger Smith's spending sprees had saddled GM with high costs and too much manufacturing capacity. In 1991 the company lost a then-record \$4.45 billion. Smith's successor resigned under pressure after just two years at the helm. The board's new pick, Jack Smith (no relation to Roger), decided that GM had more pressing priorities than Saturn. So while Honda and Toyota were investing money to develop new versions of the Civic and Corolla, Saturn's cars went nearly a decade without being updated. The price of gas was dropping, along with the demand for small cars. But when Saturn executives sought funds to develop their own sport-utility vehicle, the response from GM headquarters was that customers should buy Chevy SUVs instead.

Meanwhile, the limitations of workplace democracy were becoming evident. Suppliers were chosen by a "point system" that awarded extra points to unionized companies, which sometimes got contracts despite higher costs or inferior quality. On occasion, labor's lead man at Saturn found himself dealing with team members who didn't want to return to the assembly line to, you know, build cars. "It was well intentioned, but it was like having two people share one pair of pants," says Convis, the former Toyota exec. "If one wants to go right and the other left, you can't move." Consensual decision making was valued at Japanese plants, too, but management retained the right to run the place.

At the same time GM's enthusiasm for Saturn was waning, a new power was emerging at UAW headquarters in Detroit. Stephen P. Yokich, who succeeded Ephlin, was his polar opposite. He was a trim fitness buff who was prone to violent outbursts of temper. Yokich had first made his mark at the union by leading a lengthy 1979 strike against International Harvester, from which the company never fully recovered.

Yokich was suspicious of Saturn's novel labor practices, and proposed a significant change in the contract—reverting to more traditional shift arrangements. After several skirmishes, he prevailed; within months he was elected president of the UAW.

Yokich was instrumental in GM's August 1996 decision to build a new midsize Saturn model at an existing GM factory in Delaware. It was a sea change for Saturn, imperiling the carefully crafted image of the harmonious facility at Spring Hill. But GM was able to avoid closing an existing plant, and Yokich was able to rein in the heresies at Saturn. When the new L series went on sale in mid-1999, it was the first new Saturn product in nearly a decade.

By this point, Saturn sales had been sliding for four straight years. Sales would begin a modest rebound in 2001 when GM belatedly began giving Saturn a series of new vehicles, including an SUV "crossover," gas-electric hybrids and even a flashy roadster. But all were based on similar models sold by other GM divisions. So much for "a different kind of car."

And so much for a different kind of company. In December 2003 Saturn workers voted to return to the GM-UAW master contract. Two months later, the onetime Saturn plant was renamed GM Spring Hill Manufacturing. Today, Saturns (which range in cost from \$16,500 to \$35,000) are built in Delaware, Kansas, Michigan, Mexico and Brussels. The last Saturn rolled off the assembly line in Spring Hill in 2007.

Mike Bennett, who ran the UAW local in Spring Hill during Saturn's formative stages until he lost his job to a Yokich ally a decade ago, remains a true believer in Saturn's original principles, which he says both GM and the union abandoned. "Had the Saturn strategy been adopted throughout the U.S. auto industry, we'd be in a far different situation today," he says. The survival plan GM recently submitted to the government doesn't specify Saturn's recent financial results (in fact, GM won't say whether Saturn was ever profitable). But it does say that Saturn, Saab and Hummer together lost more than \$1 billion annually in recent years, and that the company plans to dispose of all three brands. There was little angst or emotion in reaching the decision to shed Saturn, says one GM insider, who declined to be identified discussing sensitive matters.

Saturn's own executives, though, are "very excited about the future possibilities," says its president, Jill Lajdziak. As if to drive home that message, Saturn recently ran a raft of new TV ads featuring dealers waxing rhapsodic—an ironic message, given the parent company's plans to scuttle it. (A GM spokesman explained the oddly timed ad buy: "We are still in business. We have vehicles to sell ... and the brand is still in position to generate revenue for GM.") The 400 dealers nationwide are trying to reinvent Saturn as the "Costco of cars," as one put it. Instead of being a manufacturer that contracts with dealers to sell cars, Saturn would be the mirror opposite: a company owned largely by dealers, who would contract with various automakers to build its cars. A lot of pieces will have to come together to make this happen, acknowledges Stephen Girsky, a partner in a New York private-equity firm who is spearheading the planning to restructure Saturn.

It's a long shot. Saturn has had its flaws, not the least of which was early quality problems with the cars themselves. But it managed, for a time at least, to break out of the labor-management gridlock strangling GM to this day. And it inspired an unusually passionate brand loyalty—a willingness to challenge orthodoxy in the spirit of Roger Smith's speech a quarter century ago. Tom Zimbrick, the dealer from Wisconsin, has that spirit still. "We can make our own rules," he says. "We have a chance to make history again."

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With Julie Halpert In Detroit

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