GM to phase out Oldsmobile brand and cut 16,000 jobs in the US and Europe

Our correspondent
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General Motors announced Tuesday that it is phasing out its Oldsmobile division—the oldest car brand in America—and restructuring the car company to eliminate more than 16,000 jobs in North America and Europe next year. Following recent layoff and possible plant closing announcements by rivals Ford and DaimlerChrysler, GM's move is the latest indication of a significant downturn in the auto industry and the US economy as a whole.

The world's largest auto company will cut salaried and contract workers in North America and Europe by 10 percent, or 7,700 jobs. Those jobs will be eliminated through attrition or early retirement. GM also said it was reducing hourly jobs in its US plants by 4,000, including the permanent shutdown of the Delta engine plant in Lansing, Michigan, which employs 900 unionized workers. The company is also going through with previously announced production cuts at Saturn plants in Wilmington, Delaware and Spring Hill, Tennessee.

“We're doing this to get faster and leaner in an ever more competitive environment,” said GM President and CEO Rick Wagoner. Idled production and skilled workers in the US will receive 95 percent of their regular pay for close to a year under contracts with the United Auto Workers (UAW) and may be placed into a jobs bank where GM would offer them jobs at other plants.

It is not yet clear what the permanent impact of the phase-out will be in Lansing, Michigan, the center of Oldsmobile production, or on the several thousand Oldsmobile dealerships around the country, many of which do not have other franchises. GM executives claim that no factory closings or blue-collar layoffs are expected in the United States, because the same GM factories that produce Oldsmobiles also make similar cars for other divisions. GM has eliminated tens of thousands of jobs over the last decade—with the support of the UAW—and continues to trim its hourly workforce by 6 to 8 percent a year through retirements and attrition.

In Europe, GM will cut 5,000 jobs, including 2,000 from the closure of its Vauxhall car plant in Luton, England in 2002, and through the elimination of about 1,600 white-collar positions. The Luton plant had been previously thought to be one of the most secure in the UK. Opened in 1905, the factory is the heart of the local economy.

GM's moves will lead to a special pre-tax charge of $1.5 billion to $2.5 billion in the fourth quarter. GM also said that its fourth quarter earnings before the charge will be between $550 million and $600 million, or $1.10 to $1.20 per share—far short of current Wall Street expectations of $1.70 a share, and the $1.1 billion it earned in the fourth quarter of 1999. The company now forecasts that its full-year net income will be $5 billion, compared with analysts' forecasts of $9 billion. In addition to the slowing of the US economy, GM blames the fall-off on weakness in European markets, such as in Germany, and the poor performance of Isuzu in Japan.

GM is holding on to its largest supply of unsold cars since the recession year of 1991. At the end of November, the company had a 115-day inventory of light trucks on dealer lots and a 96-day supply of cars, according to Autodata Inc. Automakers typically aim for a supply of about 65 days. General Motors said last week it would follow plans by its competitors and cut North American production in the first quarter by 14 percent from a year earlier, as US sales of cars and light trucks slow. The company plans to produce 1.301 million cars and light trucks in the quarter, down from the 1.521 million it built in the year-earlier period.

GM had long denied persistent rumors about plans to end the 103-year-old Oldsmobile brand. But as Wall Street pressed GM to eliminate unprofitable operations, Wagoner warned that no division was sacred and each would have to prove itself over time. “We stretched to find profitable ways to further strengthen the Oldsmobile product line, including developing products with our global alliance partners, but in the current environment there was no workable solution,” he said.

Oldsmobile was started by Ransom E. Olds as the Olds Motor Vehicle Co. in Lansing, Michigan in 1897. In 1908, Olds' company was absorbed into GM. It soon assumed its place as the middle-class, middle-age car in GM's lineup—more expensive than Chevrolet and Pontiac, just a step below Buick and Cadillac.

The auto industry faces a global crisis of overcapacity and every major automaker is involved in mergers, corporate restructuring and downsizing. Last month, following a shakeup in top management, analysts predicted DaimlerChrysler would cut between 20,000 and 40,000 workers to stem losses at its North American Chrysler division. Earlier this month, Delphi Automotive Systems, GM's former parts division, announced plans it would lay off 1,700 workers in the US and another 5,000 workers in Mexico.