Testimony delivered to

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by

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Good morning and thank you, Chairman Stupak and Ranking Member Walden.

I'm Fritz Henderson, President and CEO of General Motors. Thank you for the opportunity to discuss an important part of GM's viability plan, our dealer network restructuring. Simply put, a strong dealer body is vital to GM's success. Indeed, for many customers, our dealers are the "face of GM" – so this effort is critically important to the successful reinvention of General Motors.

Our dealer restructuring is also an effort that is quite painful – for us, for our customers, and especially for our dealers. Many of our dealers operate businesses that have been in their families for generations. Our actions affect them personally as well as financially. They also affect the communities and states where our dealers live and work.

That is why we are conducting our GM dealer restructuring very objectively and carefully and in consultation with several of our dealers. We decided not to terminate any dealers, and instead developed a unique wind-down process that we believe is considerably more equitable for our dealers. I will share details about our process later in my testimony.

GM's current dealer network was largely established in the late 1940s and '50s, before the U.S. Interstate Highway system was built. America at that time was a much more rural country, and GM, Ford and Chrysler dominated the U.S. car market. But times have changed.

Today, I'm here to discuss:

- why GM needs to have fewer, more profitable dealers selling at higher volumes;
- the costs associated with having under-performing dealers; and
- the objective process we are using to make the changes we need to make.

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For decades, GM and our dealers have enjoyed periods of prosperity, just as we have weathered the inevitable troughs that are part of the cyclical auto business. Over the last 20 years, we have seen particularly dramatic changes and pressures that have come from international trade, volatile energy markets and increased competition in the U.S. market. Today, more people live in the suburbs of major metropolitan areas, versus rural areas or small towns.

Foreign manufacturers who entered the U.S. market in earnest beginning in the '70s had the advantage of establishing dealer networks in response to these trends and in line with modern demographics.

But the most recent global financial crisis – which has yet to stabilize – has made it clear that we no longer have the luxury of restructuring our business through the evolutionary approach we have used in recent years. It was an approach that was changing GM while minimizing the disruption that such change brings to everyone involved.

Although it's been tough to hear at times, the direction we received from Congress, the current and previous Administrations, the Automotive Task Force, and countless industry analysts and pundits, was clear and to the point: to remain viable, GM needed to enact a dramatic restructuring, with speed, across all parts of our business. We were asked to deliver a plan to make that happen by June 1.

President Obama acknowledged what we all understood from the start – such a plan would require shared sacrifice from GM and all of our stakeholders. What has become clear as we have executed our plan is that GM, our employees, and our dealers do matter to America. We are collectively woven throughout the economic fabric of our country.

And this has been the most difficult part of executing our plan: the human story of the people who are affected by the painful but necessary actions we are taking to ensure our viability. Members of Congress, the Automotive Task Force and other Administration officials have seen this for themselves during their visits to our facilities and plant communities in recent months.

Reinventing GM – real change – does require shared sacrifice. Thousands of hourly and salaried employees are losing their jobs, and those who remain have had their pay and benefits cut. Plant closures impact families and the communities where they live.

These are tough times for everyone in the GM family. And, as a part of the GM family, our dealers are also being asked to bear some of the sacrifice in order to build a stronger, more viable GM.

The reality of our situation is this: all parts of GM, including the dealer network, must become smaller and more efficient to reinvent GM as a company that is not only viable, but capable of surviving cyclical downturns. GM's viability plan calls for fewer, stronger brands, as well as fewer, stronger dealers.

For years, we have heard that GM must adapt to today's global competition and market conditions or it will not survive. We agree.

In the case of our dealer network, because of our long operating history and existing dealer locations, many dealerships now operate in outdated facilities that are no longer located where they can best serve our customers.

Much of the growth in GM's dealership network occurred in the 1950s and '60s, when we held a dominant share of the U.S. auto market. Since that time, strong new competitors have entered the U.S. market and GM's market share has shrunk, leaving us with too many dealerships. For example, GM today has roughly 6,000 dealerships in the U.S., compared to 1,240 for Toyota and 3,358 for Ford.

In addition to the intense pressure from competitors, GM dealers also compete against each other. Over the years, many GM dealers could not earn enough profit to renovate their facilities and retain top-tier sales and service staffs.

Thin profit margins and state franchise laws also prevented many dealers from relocating as U.S. demographics shifted from urban to suburban settings. The dealers that remain compete with each other for a shrinking share of GM sales. Current market conditions only make this situation worse.

Dealer attrition in 2009 through a bankruptcy or other financial distress is averaging 80 GM dealers per month. This rate would imply attrition of 1,280 dealerships through October 2010, or approximately the same number of dealers that have been offered wind-down agreements.

Our current plan calls for GM to have between 3,800 and 3,500 U.S. dealers by the end of 2010, depending on attrition levels, with a retail market share of 17.3 percent in a retail sales market of 10.15 million units per year. This means the number of units sold per dealer would nearly double.

This overall number of dealers is based on the previously announced potential sale of the Saturn, Hummer and Saab brands, or their phase-out if they can't be sold; dealer attrition over the next 18 months, which – in these difficult times – is running at record levels; and the wind-down over time of the approximately 1,200 dealers we notified on May 15th, plus an additional 200 dealers who also received wind-down agreements last week. And I hasten to point out that, even with these cutbacks, GM will still have the biggest, most extensive dealer network in the country – more than any of our competitors, including Toyota, Honda, Nissan, Ford or Chrysler.

On March 30, 2009, the U.S. Department of the Treasury noted the challenges posed by GM's current dealer network:

"GM has been successfully pruning unprofitable or underperforming dealers for several years. However, its current pace will leave it with too many such dealers for a long period of time while requiring significant closure costs that its competitors will not incur. These underperforming dealers create a drag on the overall brand equity of GM and hurt the prospects of the many stronger dealers who could help GM drive incremental sales."

Everyone agrees – even the dealers themselves – that a restructuring of GM's dealer network must take place.

Obviously, General Motors is presently in bankruptcy and this is a time when resources are extraordinarily limited. Our company takes very seriously our responsibility to the taxpayers. A focused dealer network <u>will</u> reduce costs for GM in a very meaningful way at a time when every dollar is precious. These cost savings come in two categories.

First of all, a right-sized dealer network centered around strong dealers will allow us to drastically reduce, and in some case eliminate, many direct dealer support programs –

programs such as the incentives paid to the dealer, factory wholesale floorplan support, and the one percent market support for each vehicle. The reductions in direct dealer support will result in annual savings of over $2 billion annually – or about $928,000 per closed dealer.

Second, the dealer network reductions will also save an estimated $415 million per year in structural cost savings – items like local advertising assistance, service and training, and information technology systems. These savings amount to about $180,000-per-closed dealer. In total, the dealer restructuring should result in approximate savings of over $2.5 billion per year, or over $1.1 million per closed dealer on an annual basis.

But cost savings are not the only reason restructuring the dealer network is so important. GM's success over the long haul – which U.S. taxpayers are invested in – will depend in no small part on a healthy, strong and profitable dealer network that can provide the industry's best customer service and enhance the image of our four remaining brands: Chevrolet, Cadillac, Buick and GMC. Dealers who underperform simply cannot provide these benefits to our customers. GM's remaining dealerships will be better positioned to keep their current GM customers, while aggressively marketing to take sales from competitors.

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I'd like to talk for a moment about the objective process we are using to consolidate GM's dealer network. We strongly believe that <u>how</u> we are doing this is as critical to our success as <u>what</u> we are doing, and GM's dealer consolidation process is unique.

Prior to taking any action, we conducted a thorough analysis of every GM dealer in every market throughout the U.S. to assess individual market requirements and dealer performance.

Some of the key dealer performance factors that we looked at included:

- Customer satisfaction index
- Sales performance and volume
- Working capital
- Profitability
- Dualing patterns
- Dealership location
- And current state of each facility

We also carefully considered our dealer network coverage in rural areas and small towns versus urban/suburban markets. We know that our strong presence in rural areas, small towns and "hub" towns gives us a strong competitive advantage on average of more than 10 points in market share, and we would like to maintain that advantage. When our rural and small town dealers perform to our standards, they are a huge asset, and so we intend to retain an extensive rural network of 1,505 dealers nationally.

We also took great pains to ensure that minority dealers were considered equitably and proportionally in our process. In fact, the percentage of minority dealers overall may actually increase slightly after the consolidation takes place.

Following our analysis, we identified those dealers that we cannot retain in the GM dealer network long-term. It is important to note, as I stated earlier, that we have not terminated any GM dealers. Instead, we have sent wind-down agreements to those dealers we cannot retain. When executed, these agreements allow dealers to stay in business until October 2010 – the expiration date of their current dealer agreement – so they can sell down their vehicle inventories and provide warranty service to customers. This allows dealers to wind down their businesses in an orderly fashion – for the benefit of GM, our dealers and our customers.

Subject to bankruptcy court approval, we also offer some financial assistance to dealers as part of the wind-down agreements to help them close their stores in an orderly fashion. And we notified dealers about our planning as soon as possible – on May 15, in most cases. While this process is far from painless, we think it is far preferable to an abrupt termination.

Identifying dealerships that we cannot retain has been a very difficult step, but one we had to take for GM's long-term viability.

By reducing the number of GM dealers, our remaining dealers will see increased sales throughput at more competitive levels. This will provide a greater return on their investment, especially in metropolitan markets. They will be able to retain top sales and service talent, invest in their facilities and focus more resources on selling vehicles to people who don't currently own a GM car or truck. Most importantly, they will be able to improve the overall customer experience and retain current customers.

By winding down under-performing dealers, we will eliminate the negative impact they have on our brand image and increase the opportunity for sales and service by our high-performing dealers. As a result of this effort, we will achieve substantial cost reductions. And moving forward, these actions will enable us to focus our limited resources on strong performers and core brands, enhancing our long-term viability, spurring a return to profitability and enabling us to repay our debt to the taxpayer more quickly.

While we are operating with the highest level of urgency in these matters, we believe it is equally important that we get this process right in light of the personal and financial stakes at hand. We recognize we won't get every call right. That's why we are listening and working with our dealers and the National Automobile Dealers Association to give us all a better understanding of their concerns.

As a result of these consultations, we sent our dealers a letter this week clarifying various subjects in the participation agreement for remaining dealers, most notably dualing with competitive makes and performance standards.

We also have in a place an appeals process. We have considered **856** appeal requests and are reviewing hundreds of appeal cases. We will continue to evaluate all GM dealers against a common set of performance standards to ensure that our selection process is fair and robust.

As of today's deadline, we are encouraged by the progress we are making and the overall dealer response has been very strong. 91 percent of GM dealers have signed or verbally agreed to the participation agreements, while almost 67 percent have done so with the wind-down agreements.

Successful dealers are critical to the future of General Motors. Strengthening our dealer network will make that future possible and preserve over 200,000 jobs at GM's remaining dealers, along with hundreds of thousands of jobs with GM's direct manufacturing and supplier network.

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Before concluding, I would like to commend the House of Representatives for its swift passage earlier this week of the Consumer Assistance to Recycle and Save (CARS) Act. This fleet modernization or "scrappage" legislation provides incentives for customers to trade in older, less fuel-efficient vehicles for vouchers to purchase newer, cleaner more fuel-efficient vehicles. Similar programs have been very successful in stimulating vehicle sales in other countries, and we urge the full Congress to quickly enact legislation for such a program in the U.S.

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In conclusion, we at GM are grateful for the support of Congress and the Administration as we undertake this painful, yet essential reinvention of our company.

As we are experiencing first-hand, it's much easier to talk about the need to change than to make it happen.

The wholesale reinvention of GM requires sacrifice, and will not been easy. But we will not soften our determination to see this process through. We hope your support remains just as strong.

We understand our responsibility to American taxpayers, and we take it very seriously. We want GM not only to survive, but thrive. And we want our employees, communities and our dealers to thrive with us. This – and of course great cars and trucks – is the way to pay back our nation's support.

The end result will be a leaner, stronger "New GM" positioned for a profitable, self-sustaining and competitive future – one that will not only benefit employees and dealers, but contribute to America's economic well being.

Thank you. I look forward to your questions.