GM: New Company for a New World

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Excerpts from Mr. Akerson's Speech

On GM Near Death: Eighteen months ago, GM was pretty much flat on its back. In June of '09, we filed for bankruptcy protection. That's kind of old news now. But if you would just think about it for a moment: General Motors, the icon of American manufacturing, one time the holder of 50% of the U.S. vehicle market, standard bearer of what was termed "the modern corporation." And it went bankrupt.

It was unimaginable until it actually happened. Thirty-nine days — 39 days later — thanks to help from the U.S. taxpayer and others, GM was relaunched. Critics gave us very little chance of success. Many thought we would remain on the public dole for decades. Others simply left us for dead. But 16 months later, after emerging from bankruptcy, this new GM was relaunched in one of the most – if not the most – successful initial public offering ever.

On the IPO: I can promise you that, 2 years ago, there were precious few in this country who gave GM a chance or were willing to bet on its future. But 3 weeks ago people by the hundreds of thousands did just that. They bet on General Motors.

They saw a company with a new business model, focused on solely three things: designing, building, and selling the world's best vehicles. They saw a new company with a competitive cost structure, improved capacity utilization, leaner inventories, improved brand equity, and customers willing to pay higher prices for great vehicles, all of which result in improved earnings and great cash flow.

They saw an automotive company competing in a growth business – hard to imagine, not too many years ago – one that was better positioned than any other company in the world in the emerging markets of India, China, and Brazil. They saw a new company with a strong balance sheet and plans to make it even stronger.

On the Volt: The Volt was named Car of the Year by Green Car Journal as well as top honors from Car and Driver and Popular Mechanics. We're confident that the Volt will be one of the most important cars that GM's ever produced.

Gratitude for Government Support: We survived a near-death experience and we deeply appreciate the support we got from the American people on a state and federal level and we will not forget that, and I am not kidding.

Why He Took the GM Job: I know I made the right decision because this company, quite frankly, is too important to fail. The American industrial infrastructure is too important to let go down…. So sometimes you have to do what has to be done, and I'm not that special, but someone had to stand up.

Repaying the Government: Now, a total of about $32 billion has been repaid to the federal government, 23 [billion dollars] from the IPO and some earlier.

On China: We have a most enviable position in China.

On the Balance Sheet: So we had $26 billion in debt before the bankruptcy. We have less than $4 billion in debt today. We had a $26 billion pension liability when I came in. It's $10 billion today. We have $28 billion of cash on the balance sheet and we're looking at that unfunded pension liability now. But we have to have a robust fortress balance sheet.
On the UAW: I meet with the union every 4 to 6 weeks. I know that may sound strange to some of my former business friends. I actually had the head of the UAW …on the balcony at the IPO. I've invited them to board dinners. I've invited them to that employee meeting I referenced before and had them introduced. They are our business partners. I don't want a contentious relationship with the union.
On GM Employees: I go to a plant a month and I'll tell you – it's like – it's so invigorating and affirming to walk through the plant, people yelling at you, hey, Dan.
On federal supervision: It's a very clear and bright line and the Administration has been great about this. They don't involve themselves in the board room or the management or the operation of the company.
On shareholders (before the IPO): We had a shareholder meeting this summer. It was funny; there were four people there. The U.S. government, the Canadian government, the Health Trust – for the union, and Motors Liquidation Corporation representing the bondholders, in large measure. If they don't like what the board's doing, they would remove them or parts of them.
On the Buick: The Buick Lacrosse… is, I think, the finest automobile for its money.

DAVID RUBENSTEIN: Good morning and welcome, members and guests. I'm David Rubenstein, President of The Economic Club of Washington. Welcome to this breakfast event at the Ritz-Carlton, Washington, DC.

Over the past 2 years – I've served as President for the past 2 years – we've had many very distinguished speakers. I've tried to be as dispassionate as possible in introducing them, even though some of them were my friends. I probably will not be as dispassionate this morning, because Dan Akerson was, as I think many of you know, my business partner for 7 years and is a very good friend. So I will probably be less dispassionate than I normally am.

Dan joined the Carlyle Group in 2003 and rose up to be the head of our global buyout business, which is our most important business, and was a member of our management committee and really provided enormous value to Carlyle and really helped it grow to the point where it is today.

So when Dan told me that he was going to be the CEO of General Motors, I was not happy, honestly. I said, do you know how much money you're leaving on the table? He said he did. I said, okay, does your wife know how much money you're leaving on the table? [Laughter.] And then I said, well, okay, maybe she does, but do your children know how much money you're leaving on the table? [Laughter.]

You'll hear that Dan did this out of a sense of patriotism, to really help the U.S. government get its money back and do other things for an iconic company. I doubt that there are very many people that I'm aware of who have made as big a financial sacrifice as Dan did to help serve his country. We'd never disclose it, and I'm not going to disclose today, but it's an extraordinary amount of money that Dan basically just walked away from. I applaud him as an American, as an American taxpayer, but – it was a lot of money. [Laughter.] Money isn't everything, but…. [Laughter.]

Dan began life in Minnesota. He went to the Naval Academy, graduated in the class of 1970, subsequently served in the Navy for 5 years. When he left the Navy, he went to work in the petroleum industry in England. He got a master's degree at the London School of Economics and returned to the United States to work for 5 years at AT&T.

Then he joined a little company called MCI. He became the head of the Southeast Division. When Carlyle was started, I recruited the CFO of MCI, Bill Conway, to join Carlyle in 1987. Dan replaced Bill as the CFO and moved to Washington and ultimately rose up to be the president and chief operating officer of MCI. He was recruited away to be a partner at Forstmann Little in New York – a leverage buyout by a private equity firm. And very shortly thereafter, he became the CEO of one of its portfolio companies, General Instruments, replacing Don Rumsfeld as the CEO, incidentally.

He did that for a number of years. It was successfully sold. Then he became the CEO of Nextel and transformed that company by increasing revenues by about 25 times during the short period of time that he was there. He then became the CEO of XO, in effect, his fourth company that he had run as a CEO.

Dan then left that and joined Carlyle in 2003. When he left Carlyle to become the CEO of General Motors, I knew it was a daunting task, and he did an extraordinarily great job from the time he took over. He was elected to the CEO position on August 11th of this year. And of course they've completed a historic – the largest IPO in history. I doubt that there's anybody that I'm aware of who singlehandedly has put as much money in the coffers of the U.S. government in as short a period of time as Dan did.

As a result of that IPO, the U.S. government has been repaid $23 billion. So I refer to Dan now as our "$23 billion man." In his short tenure, Dan has shown his extraordinary skills as an executive and as a CEO. I doubt that that IPO could have been done in a shorter period of time, unless Dan was there to shepherd it through.

So already, in a very short period of time he's shown the extraordinary skills that I saw at Carlyle. We're very pleased that Dan is here today and, I think as a taxpayer, we're very pleased that he's now the CEO of General Motors. Dan Akerson. [Applause.]

DAN AKERSON: I had a thought while David was speaking. Karen, I want you to remember this. When I meet my ultimate reward, invite David to the funeral. [Laughter.] This is really a pleasure and an honor to be here today. And it's hard to be unemotional about today.

There are so many of my friends here, and I have deep ties into this community, having served in various positions at MCI, which was the fountainhead of many of the changes that you see from a technology point of view here and worldwide. My friends from Nextel. We had a mini-American Express board meeting with Ted Leonsis and Vernon Jordan earlier.

Steve Case and Jean Case from AOL and all the folks in AOL. I was on the board at AOL/Time Warner for many years. And of course the Carlyle Group, who are great and my personal friends. To the gentleman I've known for 20 years, I play squash with routinely and, I might add, routinely beat. [Laughter.]

And of course my college roommate's here. Jim Perry, who's a dear friend – he knew me when I had hair – [laughter] – which even my wife can't say. Jim and I roomed together for three-and-a-half years at the United States Naval Academy. And of course my wife — I couldn't have embarked on this adventure without her.

How many veterans are there in the group? Would you raise your hands? Thank you for your service. [Applause.] And thank you, David, for the kind introduction. It's great to be here. I flew in last night and, yes, I did fly commercial. [Laughter.] I'm not that dumb. [Laughter.]

I did the whole airport thing. I actually chose the enhanced pat-down of the entire body. [Laughter.] And I told the TSA agent, take your best shot, big guy; I've been through it all. [Laughter.] The roadshow was an experience on many different levels. But it was worth it.

Eighteen months ago, GM was pretty much flat on its back. In June of '09, we filed for bankruptcy protection. That's kind of old news now. But if you would just think about it for a moment: General Motors, the icon of American manufacturing, one time the holder of 50% of the U.S. vehicle market, standard bearer of what was termed "the modern corporation." And it went bankrupt.

It was unimaginable until it actually happened. Thirty-nine days — 39 days later — thanks to help from the U.S. taxpayer and others, GM was relaunched. Critics gave us very little chance of success. Many thought we would remain on the public dole for decades. Others simply left us for dead. But 16 months later, after emerging from bankruptcy, this new GM was relaunched in one of the most – if not the most – successful initial public offering ever.

I spent many decades in business, mostly recently in private equity. It was my job, in a sense, to assess companies, their jobs, their prospects, their managements, and essentially make bets on their futures. I can promise you that, 2 years ago, there were precious few in this country who gave GM a chance or were willing to bet on its future. But 3 weeks ago people by the hundreds of thousands did just that. They bet on General Motors.

They saw a company with a new business model, focused on solely three things: designing, building, and selling the world's best vehicles. They saw a new company with a competitive cost structure, improved capacity utilization, leaner inventories, improved brand equity, and customers willing to pay higher prices for great vehicles, all of which result in improved earnings and great cash flow.

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They saw a new company positioned to break even at the bottom of the market. Actually, '09 was a 50-year low for the automotive industry in this country, in this region. And we actually made money. Heretofore, the company would break even at mid-cycle, and they would only make money at the high end of the cycle. If we achieve a mid-cycle correction in the next year, GM is very well-positioned to move forward.

The new investors saw a company being managed by a mix of new talent that was intent on change and a team of highly skilled insiders who are running key operations around the world. And most importantly, they saw great new products in the marketplace, like the Cadillac SRX, which took 9 market share points in one year.

Buick Lacrosse – Buick is the fastest-selling brand in America in the past 12 months. The GM Terrain and the Chevy Cruze, which is in 80 countries now. We introduced it here. It's either number one or two in each of the countries that it is currently manufactured in, and is the first really strong eco-subcompact compact that we've produced in this country.

They also saw a company that today, with four brands, is selling more than it did a year ago with eight brands. And finally, they saw a lot of people beginning to believe in the new GM, a company that has learned from its past and is committed and determined not to make the mistakes of the past.

At GM, we're building a culture that values speed, agility, and competitiveness, that continually and will continually adapt its business model to the rapidly changing world, that puts the customer first. This may not seem revolutionary to you, but trust me – it is. [Laughter.]

What does this mean? It means that we're working hard to set the pace with new cars like the Chevy Cruze. The Cruze was recently named "2001 Urban Car of the Year" by Decisive Media. It's a segment leader. It features things that we're going to start to differentiate on. Ten airbags; its competition has eight. We have OnStar. We intend to make OnStar in every car on the road essentially a network node. You'll see dramatic changes in the Internet application to automotive and automotive safety.

It means we're bringing customers the newest design and technology like Volt, the extended-range electric vehicle. Volt is like no other car on the road today. None. By the way, there will be four of them upstairs for you all to see. And anyone who would like to drive, it's only $25 for a trip around the block. We're trying to raise more revenue at every opportunity. [Laughter.]

This car will go 50 miles on a single charge, and then it converts to a generator – an 86-horsepower combustion engine – and it'll go another 300 miles. You can literally drive this car from Washington, D.C., to Los Angeles – not to say that we won't develop other cars like the Leaf. Those are battery electric cars. We think they have a place in the marketplace, but we think they'll be more of a metro car. Yes, Steve, we'll sell them to Zip if you would like to have some.

From the start, the Volt was designed to change the way that we think about the automobile. And I think we've made a strong statement in that area. Just in 2011, the accolades have been many and wide. Car of the Year Award by Automobile Magazine. Motor Trend. I might also note we were also named to have the Truck of the Year. That's very rare for an automotive company to have both Car and Truck of the Year by Motor Trend.

The Volt was also named Car of the Year by Green Car Journal as well as top honors from Car and Driver and Popular Mechanics. We're confident that the Volt will be one of the most important cars that GM's ever produced.

In fact, when I think back over many people's lives in this room, the iconic car might have been described as the '64-'65 Mustang. I think in 2020 and 2030, I hope my children will reflect back that the Volt was the iconic of their generation. I might also note that one of the launch markets for the Volt will be Washington, D.C. There are seven. We intend to start shipping Volts next week for commercial purchases.

The Volt, also, is a statement that we are thinking globally as well as acting in what we believe to be society's best interest. Last month we announced that Chevrolet will invest $40 million over the next few years for various clean-energy projects throughout America.

Why $40 million? These projects are designed to reduce about 8 million metric tons of carbon dioxide emissions in the United States. That's roughly the carbon imprint or footprint emitted from all Chevrolets that will be sold between now and the end of '11, and we wanted to make a strong statement that we're just not out for a fast buck or to sell cars, but we want to be a responsible member of our society. This is a big and important goal and one we're committed to achieve. We think it's the right thing to do for our customers, our company, and for the communities that we live in. It's all part of GM's commitment to the environment and to a clean-energy future.

To be fair – and I appreciate all your kind words, David – this is not the result of me; I'm a member of the team. Many of these projects were started well before the bankruptcy, and I think we have to give due credit and gratitude to the people who had the foresight at General Motors to develop these great cars and trucks that are now winning so many awards.

I think it is testimony to the tenacity and the persistence and the focus of the GM employees who looked through the dark days of the bankruptcy, the days leading up to the bankruptcy, and kept focused to deliver great products. There was a lot of turmoil about the company, around the industry. And it was most impressive and it is the source of inspiration to me, personally, and it's a privilege, as much as anything, to lead such a great team of people that are so committed to doing what's right for their company, and in a sense, for their country.

In many ways, what it comes down to in the future, to get people like you – and I view everyone in this room as a potential GM customer; that's why I'm here today. [Laughter.] But we have to rebuild the trust in the General Motors product line, and it took many years of really not listening to our customer base and, arguably, poor quality to destroy what was once a great image.

Well, I will tell you today that our quality is second to none. There's no foreign transplant, there's no foreign competitor that produces cars any better than we do. These are world-class cars. That's been verified not only from internal but also to external metrics. So I'm proud to be a team leader of a great company with great products, and I hope you will reconsider – or consider – your next purchase, four of which will be upstairs following the meeting. [Laughter.]

As we went through the IPO – and we knew we were going to have a special offering – I hope you saw in our public statements the humility we wanted to project. We survived a near-death experience and we deeply appreciate the support we got from the American people on a state and federal level and we will not forget that, and I am not kidding. This was a company that had many structural-cost problems, post-retirement health care, job banks, the list goes on and on. That has all been rectified. In fact, for the first time, we have a level playing field. So as we said in one of our earlier advertising lines: "May the Best Car Win."

If that's the metric by which we are measured, I am confident of our future. So we look forward to re-earning the public's trust and respect, every day. We look forward to a bright future and with that, David, I'd like to turn it back to you, because I know you wanted to ask me a lot of questions. [Laughter, applause.]

QUESTIONS FROM PRESIDENT RUBENSTEIN

MR. RUBENSTEIN: I understand you drove over in a Volt today, so just between us, what was it like?

MR. AKERSON: Ecstasy. [Laughter.] You know, it's interesting – I've had my life threatened so far, so I actually have security now, which is something new for me. I always felt secure with you, though, David.

MR. RUBENSTEIN: Right. [Laughter.]

MR. AKERSON: He drove the car, because usually I drive in a SUV. But I wanted to drive the car here in case anybody wanted to take us up on the $25-round-the-block. [Laughter.] But he was impressed. I mean, this guy drives professionally.

What does it look like? I know I'm going to offend a lot of you Toyota – but we commonly refer to the "geekmobile" as the Prius. I mean, I wouldn't be caught dead in a Prius. [Laughter.] But this actually looks good – [laughter] – and I've driven it 500 miles. My wife's here; she'll attest to it. We've used 1.2 gallons of gas.

MR. RUBENSTEIN: Really?

AUDIENCE MEMBER: Wow.

MR. AKERSON: So, 80% of the people in America drive 40 miles or less per day. So 80% of us should be able to drive without ever ….

MR. RUBENSTEIN: So it's going to be for sale as of, what, 2 weeks from now or –?

MR. AKERSON: We've already got 200,000 orders so – now, a lot of people when they show up may not want to fork over that much money. You know, this is another thing about the Volt, and there aren't going to be that many available this year, probably, 20, 25,000 nationally.

We liquid-cool the battery pack. The battery pack weighs 400 pounds. And many of the battery-electric vehicles will be air-cooled, and we are at the forefront in the – we spend $7 billion a year on research and development. We're a true repository of technology; we put another $7 billion in engineering.

And the air-cooled battery pack is estimated to last 3 to 5 years. That's a $15,000 replacement cost. So we've guaranteed the battery pack on the Volt for 8 years or 100,000 miles, so we know the residual of this car will be good at the end of 3 years – the total cost of a car over a 3-year period. When we come out with a battery-electric that could be a problem to residuals because it would be something to be factored into the economics.

MR. RUBENSTEIN: So when you are here, whenever you are – on the weekends – what car are you driving?

MR. AKERSON: I'm driving the Volt right now. Wait till you see the new Camaro coming out. I know this sounds like an advertisement, but it – [laughter] – the new Camaro convertible. You're going to love that car, too, and it's been a great seller, but we're going to put in the soft top starting January; get that this summer.

MR. RUBENSTEIN: So why exactly did you walk away from a lot of money – [laughter] – that would have helped your children and grandchildren and great-grandchildren? What was really the motivation if you could articulate that?

MR. AKERSON: Well, I was asked that question last week, when we rolled out the Volt, by a FOX reporter. I doubt that they showed this on television but he was quoting you. I think you've said this in several forums. [Laughter.] In fact, I know you told Larry Summers, because he mentioned the specific number. [Laughter.]

MR. RUBENSTEIN: Well, he was staggered when I told it to him. [Laughter.]

MR. AKERSON: Are you recruiting him to? Anyway –

MR. RUBENSTEIN: Today is his last day on the job but –

MR. AKERSON: I know. There's more to life than money. I wasn't put on this Earth to just make money. In my lifetime there have been iconic events: when I got married, my children, my grandchildren. When I walked on the trading floor once the deal was done – there must have been 400 people – they stood up and they clapped. One of the traders on the floor told me when they had to delist General Motors, he cried. And when they relisted General Motors, he cried.

And when I went back to Detroit there was an employee meeting of 2,000 people. And there was a man my age and he cried and he said, 18 months ago I thought this company was gone; my house was gone.

So it's hard to describe – and it was in those experiences – no offense to Carlyle; it is a wonderful place, it's a wonderful – it's got great people. But I know I made the right decision because this company, quite frankly, is too important to fail. The American industrial infrastructure is too important to let go down.

And I will tell you the implications here – and I'll leave it to other people to argue about it. Had General Motors gone down – we spend $80 billion a year in our supply chain. Ford wasn't in that good of shape 2 years ago, and I'm not going to say they would have gone down, but if our supply chain would have gone down, I think that would have caused huge disruptions for everybody.

And I don't know what the cost would have been of another million people unemployed in this country, but it would have been a lot more than a lot of people have projected, in my opinion.

So sometimes you have to do what has to be done, and I'm not –

MR. RUBENSTEIN: I understand.

MR. AKERSON: – that special, but someone had to stand up.

MR. RUBENSTEIN: Well, Dan, when you did the IPO and you went around the world, what were the impressions that you got around the world? What do you think made the stock sell so well, really? You were originally going to price it at the – I think, the mid-20s [dollars] or so –

MR. AKERSON: 26 [dollars] to 29 [dollars].

MR. RUBENSTEIN: And it priced at $33, so obviously it was great demand; you increased the offering size. So what would you say the one or two main factors that propelled the interest?

MR. AKERSON: Well, the fact is that we have a great contract with the union and the substance and form have a competitive cost structure here in North America. But what really, I thought, intrigued and surprised me when I went on the board in July of '09 was the market position. We will produce almost as many cars in China this year as we will the United States, and we are continually gaining market share.

We have a most enviable position in China. We look at China in four different ways. Big cities: Shanghai, Beijing, Hong Kong. But if you look out at into the western provinces, we're going to produce a new car called BaoJun this year. It wouldn't sell in any industrial market, because we've got to sell it for down in the $5,000 range. And you can imagine – for example – easy: doesn't have electric windows; you have roll windows. That would freak all of us out. [Laughter.] It might hurt my wrist. [Laughter.]

But anyway, so we not only sell upmarket, but we're going to sell downmarket. Chevrolet is our global brand. I will tell you, I looked at a Chevrolet – I was at our design and tech center the other day. We have a new Chevrolet that's going to come out; if you looked at it, it looks like a BMW – only it's American and it costs half as much.

And when we asked, we stacked all the cars in that sector up against the Chevrolet. And this is – we were right in the middle from a price point. And we asked people to take those same cars. They drove them all; they didn't know who made them. They put that car that they didn't know was a Chevrolet here; BMW here. I mean, they just went right down the line. There are new cars coming, new models that will, I think, stand us in very good stead.

MR. RUBENSTEIN: Now, a total of about $32 billion has been repaid to the federal government, 23 [billion dollars] from the IPO and some earlier. How much money does the government have to get back to break even? And what stock price would they have to sell the remaining shares in order to, quote, "break even"?

MR. AKERSON: Well, they own 61% of the company. Before, they owned 33% on a basic basis. On a fully diluted, they own 27. I just happen to know these numbers. [Laughter.] So they own a third of the company, so 500 million shares at about $33 a share, multiply 500 times 33. That's what they need to get out to break. That'll mean it's somewhere in the high 40s, low 50s. The previous break-even was around 41, 42 dollars a share, I think. We sold for 33 and that's about where it is today.

MR. RUBENSTEIN: So do you give any advice to the government about when they should sell the remaining shares? And does the government give you any advice about how to operate the company?

MR. AKERSON: No and no. [Laughter.] It's a very clear and bright line and the Administration has been great about this. They don't involve themselves in the board room or the management or the operation of the company.

We had a shareholder meeting this summer. It was funny; there were four people there. The U.S. government, the Canadian government, the Health Trust – for the union, and Motors Liquidation Corporation representing the bond holders, in large measure. If they don't like what the board's doing, they would remove them or parts of them. It's not our business, not our call.

If you had a million shares and only David would have a million shares of a particular stock – [laughter] – if your financial advisor said you wanted to sell, you wouldn't want the advisor saying, well, I'll tell you when you're going to sell and how much you're going to sell. It's not our role to tell the federal government anything. They are an owner and they determine how much they wanted to sell and when they want to sell it.

MR. RUBENSTEIN: But they still can determine pay, salaries, and so forth at General Motors. Is that still appropriate?

MR. AKERSON: That's still true. [Laughter.]

MR. RUBENSTEIN: Nice, shall we go on to the next question? [Laughter.]

MR. AKERSON: Well, you know, in fact, I'm visiting with a special paymaster this afternoon. And – [laughter] – not about me – I mean we have to be competitive and we have to be able to attract and retain great people. And we've been able to do that, but I think it's largely out of a commitment, which may sound strange that money isn't every –

We've been able to attract pretty damn good people in my opinion and we've been able to retain people. But we're starting to lose them, though. I think that's an issue for our shareholder – our owners to recognize that in their best interest, we should get some relaxation.

MR. RUBENSTEIN: Now, you were asked to join the General Motors board, you were a member of the board before you became the CEO. One, did the government know that you were Republican? Did they care? And second, what impressions did you take away from the General Motors company when you joined the board? What was the biggest shock that you found when you joined the board?

MR. AKERSON: Did you plant this, David? Well, I would describe myself – and I say this with some pride – as a Colin Powell Republican. [Applause.] Aren't many of them left, I guess. [Laughter.] Well, there are at least two and it sounds like there are more. [Laughter.] I know John McCain. He happened to go to the Naval Academy, and I consider him a friend, so I supported him, yes. I've supported Democrats as well. I'd like to think that people that are right-thinking, not right-of-center, but right-thinking should be in our Congress and in our political community. So I don't think that made a difference to them.

MR. RUBENSTEIN: When you joined the board, though, what were your biggest impressions of the company? When you joined, you had not been on their board before and weren't that familiar with the company. What was the biggest surprise or shock that you had?

MR. AKERSON: On the board?

MR. RUBENSTEIN: When you joined the board.

MR. AKERSON: Well, I think that too often, too many things were done intuitively. And at Carlyle, you do, I thought insightful, probing financial analyses. There was one report – a couple of us got upset when they brought up the request board. I mean the numbers we're talking about here are really large.

I mean we do $10 billion to $12 billion in sales a month. Our capital budgets are huge and the development of a new eco-engine was in excess of a billion dollars, and it was basically – we need it. Most of you in business would say, well, do you make it or do you buy it? Can I get it from somewhere else?

Little-known fact. How many of you all drive BMWs? That car with that great engineering. Well, you'd be pleased to know that GM makes your transmission, that German engineering is – [laughter] – made in Detroit. But do you have to make everything? And that was kind of anathema to the GM culture – it's the GM way. And culturally, I would say, that has to change over time, the sooner the better, but it won't probably be overnight.

MR. RUBENSTEIN: Now, your labor costs now. Are they roughly the same as BMW or Toyota in the United States? When you produce a car, now, are your labor per hour costs roughly the same?

MR. AKERSON: Yes. They are the same.

MR. RUBENSTEIN: Okay. Now, some of your predecessors, Rick Wagoner, Fritz Henderson, have you talked with them about what mistakes they think they might have made? Or what advice they would give to you? What have you done to kind of get some the institutional memory?

MR. AKERSON: Well, yes, I have. I thought they're all fine gentlemen. I don't know if I was criticized as much – I'm not a car guy. In some respects, I think, maybe a fresh perspective and someone who's been in other industries, seen other issues and as you know, we used to look at a lot of turnarounds and recapitalization.

So I'm not sure I was totally witless, but I think institutional knowledge is important. I still meet with a subset of the prior management on a routine basis just to see – I want to know what others think. I don't necessarily have to accept it, but I want to know what outside, informed auto executives, tenured auto executives, think about what we're doing.

Some of it's very insightful for me. But the more points of view I get, I think the better I'm able to make better decisions. So yes, I've gone to their homes. I've played Jeopardy with them on occasion – not literally, but from an auto perspective. And I think I've been the beneficiary of their knowledge.

MR. RUBENSTEIN: Today, what would you say your two or three biggest challenges are as the CEO of General Motors? What do you stay up at night worrying about the most?

MR. AKERSON: Well, as I tell everybody, I worry about everything. And it was funny – when I was on the floor of the – I mean we just ran like dogs for weeks and one of the reporters is telling me I look like hell.

MR. RUBENSTEIN: Nice.

MR. AKERSON: Thanks. That was just before the camera went on. [Laughter.] Then I saw him in Detroit, when we rolled out the Volt and he says, you look better, but you don't look that great. [Laughter.] My wife told me I did though. And well, I worry about the culture. I worry about our cost position going forward.

For example, I think management has to have integrity. I don't mean that we don't have integrity, but for example, I just put out a memo to all of North America, there will be no salary increases this year.

We are going to put a small contingency to the side so if we see issues where we're not competitive, we can address it because, with a structural cost 2% or 3% annual increase, after 5 years I've got a 15% structural cost increase. I can't have that, in a company that's in a very cyclical industry.

I mean, it's unbelievable how predictably cyclical this industry has been over the past 100 years. About every 3 to 5, 7 years, up, down, up, down. And going back to the Carlyle days, you see the great Carlyle investors here. Before the great recession, we actually intellectualized and said let's buy more defensive industries that will be impacted, but not as severely.

And in an upmarket, you look for cyclical companies. This is a cyclical company, and I don't get the opportunity to be a portfolio manager anymore. You were betting on a cyclical industry. That's why I want a zero-debt balance sheet so we can invest without cancelling and getting a ratcheting in our capital programs.

So we had $26 billion in debt before the bankruptcy. We have less than $4 billion in debt today. We had a $26 billion pension liability when I came in. It's $10 billion today. We have $28 billion of cash on the balance sheet and we're looking at that unfunded pension liability now. But we have to have a robust fortress balance sheet. That sounds funny.

I mean people look at me like I'm from Mars now, coming from a private equity firm, where we typically bought predictable cash flows, again, predictable cash flows and then had debt. And we would pay the debt down. This is a different game. We're playing football, not rugby. It's kind of the same thing, but it's different.

You have to shape the business model and intellectualize the problem much more than maybe it was done before. So if you look across this cost structure, and structural costs will kill you, we're going to have incentive pay – variable pay for management in the near term.

I meet with the union every 4 to 6 weeks. I know that may sound strange to some of my former business friends. I actually had the head of the UAW and the head of the GM vice presidents on the balcony at the IPO. I've invited them to board dinners. I've invited them to that employee meeting I referenced before and had them introduced.

They are our business partners. I don't want a contentious relationship with the union. I want them to be our business partner. You heard a lot of noise in the public forum about aren't you guys going to go back hard at management? Aren't you going to get every dime back that you had to give up in the bankruptcy?

Their prosperity is tied to the company's prosperity. They happen to have a representative between me and the average employee. But I've tried to breach that. I mean I go to a plant a month and I'll tell you – it's like – it's so invigorating and affirming to walk through the plant, people yelling at you, hey, Dan.

I mean, because you know, you can't be trusted without giving trust. And you can't have credibility because the immediate response was, well, I want you guys to think about this. He says, I've heard that from CEOs at GM and then they go and give management a 3% to 5% raise.

So I put it out on our website that essentially, there are no increases in base pay this year, because I don't think we can do that if we don't lead by example. The culture issue isn't some amorphous thing. It's about me. It's about the management team. It's about our relationship with the union.

Can we be trusted? I think we've got to invest – and I talk about product. Are we going to have the right products? How do we want to be? What do we want to be remembered? Of course, I'm probably a little thin-skinned, having worked in private equity, I'm not as tough as I used to be. [Laughter.]

I know some of you out there I used to work with probably don't believe that. But I mean, you know, it's important that we have credibility in what we do. And it extends into our products. So what do we want to be remembered as? For example, when I look back to the dumb things that management did coming out of post-World War II, we have an oligopoly. We had 50%. In fact, people bitch about the – complain about the – [laughter] – about government involvement in General Motors. In 1960, they were talking, well, they have too much market share, we have to break them up. Well, were they involved in the company then? Of course they were.

So now, they're just involved in the company from another perspective. But it's – how do we want the company to be remembered? So when you go back and you look at 1960 and they were giving away post-retirement health care, which was just corrosive to the cost structure, the structural cost of the company. And they gave these job banks in perpetuity; it just was such a burden on the company that made us not competitive.

And you say, well, who did that? Well, they did it because there was no competition after the war out of Europe, because it was bombed out and so was Asia. We were roaming the globe on a trade perspective, and these guys just wanted peace. So Ford would agree with the labor contract that GM or Chrysler negotiated, because as long as they didn't get competitive advantage. So they underestimated foreign competition, foreign quality, and they were arrogant.

So I mean, I've had people come to me and say, well, what about a labor agreement until 2020, 2025? I don't want to burden my successor with that type of decision.

MR. RUBENSTEIN: When you say "your successor?" You're not leaving, I know, but you're committed to do this for 5 years or so would you say?

MR. AKERSON: Yeah. But I mean, the reason I wanted – and this a criticism – thin-skinned, I guess – why did I want the Chinese in this investment? Because if someone looks back in 2050 to 2010 and says, who was the fool running the place then, and I passed an opportunity not only to have a leading market share and a dynamic position in China but I also tied up with the number-one manufacturer in China, from an economics point of view – and I've been to China; I've met with the senior management of the Shanghai auto; this is a great partnership and I think, to be tied – and we went in with 50/50 into India.

One in three people on the earth lives in two countries: India and China. We would be fools to pass this up. So they put half-billion dollars into us, I know it sounds like a money but it's not that much in the grand scheme of things, that I want that tie into China, I want that tie into Asia and I think, in some respects, it wouldn't be all bad if we were considered Global Motors and not General Motors.

MR. RUBENSTEIN: What percentage of your stock is held by people outside the United States, now?

MR. AKERSON: About 8%.

MR. RUBENSTEIN: And today your market share in the United States is, roughly, what?

MR. AKERSON: At this time last year, we were 17.5%. I think we're up to 19 %

MR. RUBENSTEIN: 19%. And then your market share in China is what?

MR. AKERSON: Almost 13%, 14%.

MR. RUBENSTEIN: But that 13% is almost as many cars as you're selling in the United States?

MR. AKERSON: We'll make as many cars in China – well, almost as many – as we do in the United States. It's been a dramatic change.

MR. RUBENSTEIN: Has anybody from the government called to thank you for getting $23 billion back in the coffers of the Treasury?

MR. AKERSON: Well, remember, not all of it went to federal government; the Canadians got a little bit. [Laughter.] They own a reasonably small amount but, yes.

MR. RUBENSTEIN: Okay. [Laughter.] Were they effusive or just – [laughter] – polite?

MR. AKERSON: You know, David, I thought you were more effusive here today than you ever were when I was at Carlyle, so I suppose when I'm gone they might be effusive but they aren't now. [Laughter.] I got a job to do, not to be.

MR. RUBENSTEIN: Okay. Well, let me ask you one last question before we have a couple from the audience. What was the best advice that somebody gave you when you became the CEO? Did somebody, a business colleague, or somebody give you some advice? What was the best advice you got?

MR. AKERSON: Probably not to take myself too seriously. I mean, look at this. If I would have showed up here last year it probably would have filled that table. [Laughter.] It is overwhelming, the public exposure you get in this position, I was surprised at that and I think it is, don't take yourself too seriously.

QUESTIONS FROM THE AUDIENCE

MR. RUBENSTEIN: Okay. We have time for some questions. Right here, one?

QUESTIONER: It used to be a status symbol to drive a GM car, not a German car, so listening to you I hope that those days will come back again and driving a GM car will make us all proud outside the U.S. But my question for you is, about 6 months ago at "All Things D" the CEO of Ford talked about the SYNC and how they're introducing all this new technology to help the driver in the car. Do you think that that's a differentiator or is it really building a solid car at a good cost structure?

MR. AKERSON: I think, first and foremost, you have to deliver core value in the basic value proposition, a good car, it's reliable, it's got great quality, and it's durable and that's why we've made huge progress. The average residual, what is the car worth after 3 and 5 years? GM has increased anywhere from 500 to 900 basis points in the past year, so we're comparable with our competition.

Now we have to show that we're consistent. One, you can't be good 1 year or 2 years, you've got to do it over 5 or 10 or 15 years. I just hired a Nextel, one of the senior Nextel people to go into OnStar. It was kind of a safety and security.

SYNC is contained within the car, there are no external updates. I mean, believe it or not, if you're driving a GM car with OnStar on it, I can tell what your oil pressure is, your transmission fluids, your air in your car or your tires. We don't want to create bad habits with distracted driving; I just met with the Secretary of Transportation last week on this subject. Texting, it'll be digitized and downloaded to you. For every GM car you have a unique phone number attached to it, I didn't know that before I was at GM.

So if your spouse or someone is running errands and you say, well, how can I get hold of her and she never turns on her cell phone in the car and – [laughter] – I could call the car and it would download to her. I could text her, it would verbalize to her and then I don't want her texting so we're going to try to conform four or five basic questions so she can yes, no – or he can say yes, no, I can't talk now, I'll call you – so we're working on that. We're working with consumer groups or focus groups. For example, we were driving out to Annapolis and it was, what restaurant do we go to?

Well, as you know if you have GPS, while the car is moving you can't punch it in, for safety reasons. Well, all you've got to do is hit your OnStar button and say, I want to go to such and such a restaurant in Annapolis and she'll say, I'll download it to you and it's down there right like that. That interactivity with a database outside the automobile – is it going to be a distinction and a differentiator versus SYNC?

I think people will look at our cars are generally all five-star rated from a safety perspective. I don't want to say quality is a commodity, but quality, in terms of the way we do supply chain all around the world, we've gone to global architectures and global platforms, so a car that we build in Germany or we build in China or we build in the United States is basically off the same supply chain, so we test like no one's ever – and so do our competitors – so the quality of cars has risen dramatically.

So how do I differentiate? I take an active interest in all of our commercials, and some of them you've seen. I look at every one of them. I want to look at every design of every car. There are certain things CEOs should do and there are certain things you should stay the hell out of. But safety and telematics are differentiators in my mind and I think we should –

MR. RUBENSTEIN: Dan, in advertising, you mentioned that your predecessor was on TV all the time with ads. Are we going to see you on TV with any ads, or you're not sure yet?

MR. AKERSON: No, you'll never see me on television. [Laughter.] I want to have a hand in them and I don't know how many of you over Thanksgiving saw the falling down ad. Did anybody see those ads? We all fall down? [Applause.] You know, it – that was a big risk for us because it just reinforced the bankruptcy, but you know, everybody has troubles in their life. We had trouble as a company, as a family, and to say we made mistakes, we failed and that we appreciated it, and we wanted to say thank you.

I got letters and emails saying, you know, I like this, you're humble, and we should be humble. We did fail. But you said thank you, why didn't the banks say thank you? Why didn't AIG, which got $150 billion, say thank you? And just a thank you and that ad could only run for a week, the one week after the IPO, and we can't do it again. So no, I will not be, but I am going to be very involved and very interested in commercials.

MR. RUBENSTEIN: All right, time for another question.

QUESTIONER: A question about corporate culture. GM for years was known for "the GM way", which was something that you're probably now saying, wasn't so good. You knew for a long time that you had more brands than you could sustain; you had safety and you had quality issues. Was the near-death experience and bankruptcy enough to shake up the corporate culture and the mid-level manager issue, and did you get over some of the issues, you think?

MR. AKERSON: I doubt it. I talked to all the employees and I said, the good news, we were in bankruptcy 39 days; I don't think we did irreparable damage to the brands. The bad news, we were in bankruptcy only 39 days and I will say this – there is an element in a segment of the population that views it as a bad storm that passed. And so we have to change.

For example, we went from four to eight models – you'd love this. In my office, I keep the front cover of Fortune magazine from the mid-'80s, and they had Oldsmobile, Pontiac, Chevrolet, and Buick, and they were exactly the same.

I meet routinely with the head of Cadillac, GMC, Buick, and Chevrolet because I want brand identity, I want brand attributes, I want brand equity, and now we have what I call swim lanes, when your cars look exactly the same. My dad always had GM cars, and when we were not doing so well we had Pontiacs, and when things went better, we got an Oldsmobile, and then you went to Buick and you said, what the hell? What's the difference if it's a GM car?

GM is not a brand. It's a holding company. Chevrolet is a brand, Buick is a brand, GMC is a brand, Cadillac is a brand. So now we have these swim lanes that are broad enough that we can talk about brand attributes associated with styling, exciting youth, reliability, value – and that's the Chevy. Understated elegance is the Buick, and I went to Buick to flank the premium brands. Before, they were too closely bunched, and we have to really intellectualize the marketing.

And then, getting to your point, you say, well, how many engine types do we have? We have 18 engine types, and maybe I'm not a car guy but I was an engineer once, and you say, well, what's the difference – [chuckles] – what's the difference between a 1.4 and a 1.5-litre engine? This guy says, one-tenth of a liter. [Laughter.] And I say, yeah, yeah, I know, but why do we have a team-dedicated 1.4 and 1.5? And then we have what are called variants, whether it's turbo, gas, diesel. So I have a 1.4 in gas, diesel, turbo – and you know, my god, we've made it too complex. So we now have a plan to go from 18 down to eight or nine.

And we have a – we had a plan – I shouldn't say all this. I know there are reporters in the crowd. You know, what do we do if oil goes to $100 a barrel? What do we do? Or $200 a barrel?

The last time oil went to $140 a barrel, we were largely SUV/crossover-driven and now we've got what we call a T300, which is going to be another great small car. You've got the Cruze which is, I think, going to be a grand-slam homerun and we're going to come up with an eco-engine on that, and you've got the Volt. The lineup is pretty impressive over the next couple of years, so you say to yourself, well, what do we do?

Well, right now we've got to start – it takes years to turn this ship around and you say, well, what do we do if oil is $120 next year? That's the question before the executive committee. I obviously have a strong point of view on that, and I don't want to influence it as an outcome, but as a team. I'm trying to get people to come to the right conclusion and I think we do have a plan that's not final form, but it's getting pretty firm, on how do we reposition the company for good times, in mid-cycle, upcycle?

But what if we have an upcycle and oil goes to $120 or $130 dollars a barrel? What do we do? And it's going to boil down to not so much design and style, the "top hat" as I call it of the car, but how do we drive the propulsion systems? Propulsion is a key investment. We're spending billions of dollars. We have hydrogen cars that are really cool. I mean, I'm a real pain in the rear sometimes. I say, well, if it's that clean, let me put my face down by the muffler, by the exhaust – [laughter] – and I did, and you know, the guy is looking at me like, oh God. [Laughter.] And so I'm down there and it's water. It's just water coming out.

I mean – [laughter] – but the car costs $500,000 – [laughter] – because, in the chemistry of the engine, you got a lot of platinum. Well, platinum is, like, more expensive than gold, so the actual chemistry has to be worked out before we can develop these new propulsion systems. But electrification of the car is critical, and I talked about an extended-range electric vehicle, the battery-electric vehicles, we've got plug-in hybrid-electric vehicles. We're going to have a family of them and we want them in every one of our models. We don't want the Cadillac to be left out – we're going to have electrification.

For example, the Buick Lacrosse, which is, I think, the finest automobile for its money. We're killing Lexus; we're killing Acura on these things. And you say to yourself, we get 26 miles to the gallon on the road. Well, that's okay today, so we're going to put what's called a BAS plus, a battery, alternator, starter on it. It'll jump to 37 or 36 miles to the gallon. Gee whiz, a mid-size sedan making that kind of mileage is good, but it's not good enough, because the government is looking at 60-plus-miles-per-gallon in 2025. How do we achieve that across the portfolio?

Bill McGowan, who was the founder of MCI, was one of the biggest men in my life and a great mentor for me. When he made me president of MCI he said, Dan, don't try to look into the future. Imagine yourself in 5 years. Where do you want this company to be and how do we get there? Well, this company takes so much investment and development, it is in 3- and 4- and 5-year increments. I can't think out 5 years. You have to ask, what are we going to do in 2025?

Because if some of the prior management had thought out 20 years and 25 years, I don't think they would have made the decisions they made in 1960 that really, in a sense, sealed the fate of my immediate predecessors. They were good guys, capable, smart. They were the victims of structural costs that were engaged or committed to in the '60s and '70s.

MR. RUBENSTEIN: Dan, I hope it was water coming out of the exhaust pipe – [laughter] – and I wanted to thank you on behalf of The Economic Club of Washington for a terrific presentation. It's clear why you took the job. [Applause.] Let me give you a gift. It's an antique map of the District of Columbia. Thank you all very much for coming, thank you very much, Dan.

MR. AKERSON: Thank you. [Applause.]

Daniel F. Akerson

Daniel F. Akerson was elected chief executive officer of General Motors Company on August 11, 2010. He became CEO effective September 1. Prior to joining General Motors, Mr. Akerson was a managing director of The Carlyle Group and the head of global buyout. He served on the firm's executive committee and was based in Washington, D.C. He joined the GM board of directors July 24, 2009.

Mr. Akerson is a seasoned executive with extensive operating and management experience, having served as chairman, chief executive officer, or president of several major companies, including General Instrument, MCI, Nextel, and XO Communications. His corporate management experience, private equity track record, and deep understanding of Carlyle's global operation provided a strong foundation for his leadership of Carlyle's buyout activities in Asia, Europe, Financial Services, Infrastructure, Japan, and the United States.

Prior to joining Carlyle, Mr. Akerson served in several key roles at MCI Communications Corporation from 1983-1993 including executive vice president and chief financial officer from 1987-1990 and president and chief operating officer from 1992-1993. During his tenure, Mr. Akerson formulated and executed MCI's global strategy.

In 1993, Mr. Akerson became a general partner of private equity firm Forstmann Little & Company, during which time he served as chairman and chief executive officer of General Instrument Company from 1993-1995. While at General Instrument, he led a successful effort to develop and deploy the first digital video, satellite, and cable systems domestically and internationally.

Mr. Akerson served as chairman from 1996-2001 and as chief executive officer of Nextel Communications, Inc., from 1996-1999, where he transitioned the company from a regional analog walkie-talkie provider into a national digital wireless competitor. From late 1999 until January 2003, Mr. Akerson served as chairman and chief executive officer of XO Communications, Inc. where he led the successful restructuring of the company. In addition to serving on GM's board, Mr. Akerson also serves on the board of the American Express Company.

Mr. Akerson graduated from the U.S. Naval Academy in 1970 with a bachelor of science in engineering. He earned his M.Sc. in economics from the London School of Economics.