

October 2010

Issue: 30



DICK STIEGLITZ, PhD
Business Consultant, Author
and Keynote Speaker

Welcome to the Change Challenge Newsletter

October is when new car models reach the showrooms. Since I'm thinking about buying a new car, I've been looking at the challenges the auto industry is facing. This month's feature article titled "**Government Motors**" discusses how those challenges closely parallel challenges the overall U.S. economy is facing.

This month's *Personal Change* article titled *ATaking Our Medicine@* examines the challenge of making painful choices to rebuild a sick economy. And this month's *Leading Change* article titled "**Analysis-Paralysis**" addresses how, when we aren't satisfied with the current situation, we can get stuck analyzing alternatives, and allow doubts and fears to get in the way of actions

Your feedback and recommendations to improve this e-letter are always appreciated via return email or *The Change Blog* at www.dickstieglitz.com.

Sincerely,

Dick Stieglitz

Feature Article

GOVERNMENT MOTORS

In This Issue

Government Motors

Taking our Medicine

Analysis-Paralysis

Buying & Selling a Company

Business Change

Fifty years ago, the Chairman of General Motors (GM) said: "What's good for GM is good for America!" Today, it's more accurate to say: "What's happened to GM is happening to America." Once a shining symbol of U.S. prosperity, GM was driven into bankruptcy when the Great Recession slowed the demand for new cars and GM ran out of cash. The Federal government stepped in with a \$50 billion bailout in exchange for 61% ownership. Bankruptcy seems to have helped GM, but will it help America?

The bailout of GM, Chrysler, and other Fortune-100 companies sparked fears about the end of capitalism. Historically, government-owned companies are managed to achieve political rather than business goals. Fortunately, even though the bailout favored the United Auto Workers, a key Obama constituent, GM was pretty much allowed to run itself. Just 16 months later GM is producing modest profits and adding jobs. When GM filed with the SEC for an initial public offering (IPO), President Obama declared victory in a campaign-style speech at a Detroit auto plant. The IPO will allow GM to payback \$20 billion of the bailout and escape the stigma of "Government Motors." But high-fives seem premature when annual U.S. auto sales are 11 million vehicles - way below the 17.4 million peak in 2000 that may never be reached again.

President Obama's ability to fulfill his pledge to put a million electric cars on the road by 2015 depends on the willingness of automakers to produce expensive electric cars that consumers may not buy. Nissan's all-electric Leaf will go on sale in December at a sticker price of \$32,500; and early next year GM will release the hybrid Chevy Volt at nearly \$40,000. Even after a \$7500 tax credit, both cars will be way more expensive than equivalent gas-fueled models like the Ford Focus or Honda Civic which cost around \$20,000. Operating costs of the Leaf will be half of a gas-fueled car, but consumers who buy a Leaf must also fork-over \$2000 for a home-docking station that recharges an empty car in eight hours. For the next decade, the electric car market will resemble the auto industry in the days of Henry Ford's Model T with dozens of new companies (e.g., Tesla Motors) competing with auto industry giants to sell electric cars.

In addition to decades of greedy unions, weak-kneed management, and stubborn resistance to change, GM must overcome the same social challenges the economy faces to regain its position among the elite. Those challenges include: globalization, global warming, urbanization, aging infrastructure, and an aging population. Like members of the auto unions, U.S. citizens expect more benefits and programs than the tax base can sustain, and Congress refuses to change even when the devastating effects of partisan politics are obvious to everyone. Let's take a look at the social challenges that both GM and the U.S. economy are facing.

Globalization. The demand for goods and services is leveling off in the U.S. and other rich countries, but growing in emerging economies. Once people have enough to eat and a tolerable place to live, they want a car. So the market for cars in the rich world is flat, while car ownership elsewhere is exploding. Fortunately, GM has a presence in China and Brazil where the demand is growing. International alliances are another phenomena that permeates the auto industry. Fiat's management role in Chrysler is one example. But did you realize that Renault owns 40% of Nissan, which in turn owns 15% of Renault; VW has a 20% stake in Suzuki which is strong in Indian markets; and Peugeot and Mitsubishi are discussing a partnership? Global alliances are a necessity in today's market, and the trend of moving manufacturing to low labor cost areas is irreversible. Instead of fighting off-shoring with onerous taxes, Congress and the President must implement policies that encourage trade in markets where the U.S. has a competitive advantage in terms of skills and automated tools.

Global Warming. The world's seven billion people currently drive 800 million cars. Explosive growth in Brazil, Russia, India and China will easily push that number past a billion in this decade; and China will pass the U.S. as the world's largest car market. Expanded use of gas-fueled cars clearly is unsustainable given the energy inefficiency, environmental consequences, unreliable sources of oil, and urban pollution they cause. Despite rhetoric about renewable energy, the blunt truth is that without mass-market electric cars we won't save a drop of oil. Today's cars exhaust 10% of the greenhouse gases that contribute to global warming. So our

Buying or selling a business can be a lucrative but risky transaction

IF YOU'RE GOING TO BUY OR SELL A BUSINESS, YOU NEED TO KNOW THE INS AND OUTS OF THE TRANSACTION. THIS BOOK IS THE ONLY ONE THAT WILL SHOW YOU HOW TO AVOID MILLIONS OF DOLLARS OF LOSS.

EXPENSIVE MISTAKES

WHEN BUYING & SELLING COMPANIES

...AND HOW TO AVOID THEM IN YOUR BUSINESS



Richard G. Stiegitz, PhD
Stuart H. Sorokin, JD, LL.M., CPA

CLICK BOOK COVER TO ORDER FROM AMAZON.COM

A popular maxim says average people learn from their mistakes, stupid people repeat their mistakes, and brilliant people learn from the mistakes of other. This book is designed to move you toward the brilliant category among business owners who buy and sell privately-held companies.

Looking to have your organization embrace change?

Taming the Dragons of Change can help!

HOW TO THRIVE—NOT JUST SURVIVE—IN THE GLOBAL RELATIONSHIP ECONOMY

TAMING THE DRAGONS OF CHANGE IN BUSINESS



government should encourage, encourage, and encourage. The cost of ownership to favor low-emission cars. A carbon tax would be ideal since it makes owning a gas-guzzler very expensive. Other taxes could work too. For example, gas taxes are higher in Europe compared to the U.S. where they aren't even sufficient to maintain the roads. In response to lobbying by oil companies and squeals from taxpayer groups, low gas taxes in the U.S. are, in effect, subsidizing pollution and global warming instead of reversing them.

Urbanization. Today, most cars are driven by people who live in or near cities. In 2007 the UN reported that, for the first time in human history, more people lived in cities than in rural areas, and mass migration of rural poor to cities to find jobs will continue. In 1950, New York was the only metropolitan area with a population over 10 million. Today, there are 25 such mega-cities, most of them in Asia and South America. Electric cars make sense in cities where speeds are low, distances are short, and charging stations could be plentiful. A new business is springing up in cities: car-sharing by companies like Zip-Car. Car-sharing companies promote the "green" aspects of their business, and electric cars enhance that image. So car-sharing companies should become a reliable source of demand for electric cars just like traditional rental car companies were for gas-powered cars. Federal and local policies that promote car-sharing and use of electric cars, especially in cities, would accelerate this trend.

Aging Infrastructure. In addition to low operating costs, the ability to conveniently recharge electric cars will influence consumer acceptance. Obama's stimulus included billions for electric car research, but virtually nothing to build an infrastructure to support the cars. It's like buying tropical fish without a tank for them to swim in. Without ubiquitous charging stations, electric cars are fish out of water. Furthermore, billions are being invested in alternative energy sources without an adequate power grid to link them together - more tropical fish with no tank! Studies show the U.S. has enough generating capacity to replace most gas-powered cars with electric cars - but only if electricity to recharge the cars is managed carefully. The electrical grids in use today were built nearly a century ago as one-way conduits from power plants to consumers. That approach was sufficient for decades, but new energy sources (e.g., wind and solar power) and new demands (e.g., electric cars and net-zero buildings) make a one-way grid inadequate. The Federal government must incentivize industry to build charging stations and, for the most part, finance construction of smart power grids.

An Aging Population. By 2020, 40% of U.S. new car buyers will be over 60 compared with less than 30% today. My profile is typical of an "affluent-old" car buyer: I like premium brands but prefer smaller models. Being semi-retired, I don't need much carrying space and I buy cars with my own money, rather than with a company's money. In addition, I drive half the miles I did when I worked, so my cars last longer. Taken together, the profile of affluent-old buyers and the improved durability of today's cars will cause the U.S. demand for cars to fall as the population ages. From the government's perspective, of course, an aging population also increases the demand for Social Security and Medicare. One problem the Obama-sponsored bankruptcy didn't solve was the shaky condition of GM's pension plans. GM's defined-benefit plans (Social Security is defined-benefit plan too!) are under-funded by nearly \$30 billion. Under the bankruptcy agreement, GM can delay payments to the pension plans for three years - but those plans are a ticking time-bomb. If GM earns enough profit, much more than they currently do, the bomb won't explode. But in a worst-case scenario GM would declare a second bankruptcy, and the Pension Benefits Guaranty Corporation (PBGC) would be forced to rescue GM's pension plans. That would necessitate another bailout since the PBGC doesn't have the wherewithal to fund such a huge loss. At some point, GM must put more money into the plans or renegotiate the defined benefits - just like the U.S. government must do to survive the Social Security crisis.

Even with effective government policies and incentives, the transition to electric



CLICK BOOK COVER TO
ORDER FROM
AMAZON.COM

The recession, layoffs, budget shortfalls, new technologies, acquisitions, and out-sourcings have produced a world of constant change. Today, ideas travel at the speed of light. You can communicate with anyone, anywhere, at any time, on any subject. To stay on top, you must do more than react. You must anticipate, embrace, and use change to your advantage.

THAT'S WHAT THIS
BOOK IS ALL ABOUT!

QUICKLINKS

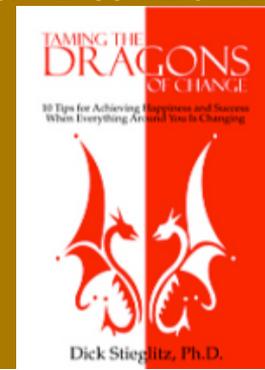
[Dick Stieglitz's Website](#)

[Dragons Of Change
Website](#)

[Presentations &
Workshops](#)

[The Change Blog!](#)

ORDER DICK'S BOOK
ON PERSONAL CHANGE



cars will be difficult. 20 years from now when the transition is history, the U.S. economy will enjoy a huge stimulus like the peace bonus at the end of the Cold War because consumers will save about half the money they spend today on gas for their cars. GM's bankruptcy will be seen as a turning point in the auto industry, in labor-management relations, and in U.S. manufacturing. Replacing the 250 million automobiles in the U.S. with electric cars will produce a manufacturing boom that could halt the erosion of our manufacturing base. Only senior citizens will remember pumping gas and smelling gasoline on their hands. 20-somethings will consider gas-powered vehicles archaic, much like today's youngsters wonder how we existed without the Internet. Politicians will blame others for making the transition to electric cars take so long when oil was such an environmental and economic disaster. Instead of using bailouts to save jobs, if Washington passes taxes and incentives to encourage the transition, auto companies change, and you and I realize we must pay for a clean environment in part by spending more to buy an electric car, electric cars could be a common sight by 2020.

Personal Change

TAKING OUR MEDICINE

As a young boy, I was thin and sickly even though I had a healthy appetite and exercised every day. Being sick had benefits: it got me the attention and sympathy I never received as a baby. I had pneumonia six times before I was twelve, including double pneumonia twice. Every winter I would get sick around Christmas time, and miss a week or two of school. My mother and the doctor were sick of me being sick and tried everything. I took every vitamin known to mankind in the 1950s. And for two winters I wore an adhesive patch on my chest - it was painful, uncomfortable, and didn't help. I still got sick.

Then the doctor suggested I take a tablespoon of cod liver oil every morning and night. I didn't think that would work either - and the stuff tasted horrible! I threw up the first time I tried to swallow a spoonful, and dreaded taking my medicine. I would have quit the cod liver oil, except I didn't want to be sick any more. Gradually, I began to accept the flavor of cod liver oil. It wasn't long before I was drinking it straight from the bottle - there was no chance anyone else in the family would want any of it.

I took a tablespoonful cod liver oil twice a day for five years, and haven't had pneumonia since. Was it from taking the cod liver oil? Or was it because I was sick of being sick, and was willing to try anything? There's a parallel between my sickness and the growing U.S. national debt which is causing a sick economy. To conquer that sickness, we may need to cut desirable programs and raise taxes - actions that seem as onerous as taking cod liver oil. Our choice is to take the medicine - or risk seeing the economy get pneumonia.

Leading Change

ANALYSIS-PARALYSIS

When I was six, I drove with my Grandmother in her green DeSoto from New Jersey to Cleveland via the Pennsylvania Turnpike. Traveling the then-new super highway was boring. It was over 90° and the car had no air conditioning. I played with every toy in the back seat at least twice and didn't know what else to do. So I exercised the creativity of a child. I took off my clothes piece-by-piece and threw them out the open window - every last piece including my sneakers and underwear. My Grandmother was shocked when she discovered me nude in the back seat and realized what I had done. But the trip no longer was boring!

Oh, to have the freedom of a child again. As adults, we often are dissatisfied with our situation and analyze potential alternatives over and over again - but doubts and fears stop us from taking action. *Analysis-paralysis* is like Superman with amnesia: we forget how powerful we are. But doubts and fears can be controlled like an emotional thermostat - actors make a living doing it. They are enthusiastic, confident or daring on cue no matter how they feel in real life.

**TAMING THE DRAGONS
OF CHANGE**
10 Tips For Achieving Happiness
and Success When Everything
Around You Is Changing
**CLICK BOOK COVER TO
ORDER THROUGH
AMAZON.COM**

Join Our Mailing List!

When we set aside doubts and fears, we unleash personal power. It's a stimulating, almost instant feeling of relief. The obstacles in front of us don't disappear, they just aren't so overwhelming. The obstacles we face fall into three categories.

! **Obstacles We Control.** Least threatening are obstacles we directly control, such as spending the time and money we already have. We usually feel empowered to make unilateral decisions over matters in this category.

! **Obstacles We Influence.** Obstacles over which we have influence, but no control, are frustrating because other people like bosses, co-workers, spouses, and children make the final decisions and they may, or may not, listen to our suggestions and requests.

! **Uncontrollable Obstacles.** The big dragons are obstacles over which we feel we have neither control nor influence. Many people put politics, laws, the weather, and world events in this category, and feel powerless to wrestle with such monsters.

Most people measure their personal power in terms of the first category. But it is our attitude toward the second and third categories that enables us to achieve our biggest goals. By changing how we influence others and proactively moving the obstacles we face from the third to the second category, we seize the power to solve our problems and achieve our goals. Really powerful people learn to control and influence seemingly uncontrollable obstacles.

Friends & Colleagues,

If you feel that your organization is making slow progress in resolving long-standing challenges, contact me to discuss potential new solutions. If you found this e-letter to be interesting and useful, send it to a friend. If not, please let me know why at dick@dragonsofchange.com.

Until Next Month,

Dick (www.DickStieglitz.com)