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MY YEARS WITH GENERAL MOTORS

How General Motors Was Built Into the Largest Corporation in the World

ALFRED P. SLOAN JR.

1.

Two key events occurred in 1908 which were to have a lasting impact on the automotive industry:

1. Henry Ford announced the Model T, and started organizing his company around the concepts of assembly-line production, high minimum wages and a car which would become progressively cheaper as more were manufactured. (Within less than 8 years, the Ford Motor Company would be following this formula to sell more than 500,000 Model T's per year. In 1920 alone, over 2 million Model T Fords were sold).
2. William C. Durant formed the General Motors Company on September 16, 1908. Over the next two years, 25 companies, including Buick, Oldsmobile and Cadillac, were brought into the company in one of the most successful corporate consolidations in history.

Both Henry Ford and William Durant would later become widely known for the business enterprises they formed during an exceptionally volatile period for the automotive industry.

In setting up General Motors, Durant followed three key ideas:

1. To provide a variety of cars for a variety of tastes and economic levels.
2. To diversify to cover as many possibilities of the engineering future of the automobile as possible.
3. To increase integration by bringing automotive parts manufacturers into the same corporate entity as vehicle assemblers.

William Durant was good at building a company, but had less skill in running one. Within two years of the creation of GM, Durant lost control of the company which had over extended itself financially. A $15 million loan was secured from a group of bankers, who provided the funds on condition that William Durant be replaced by Charles Nash as president. A further $9 million loan for working capital was also secured.

By 1915, General Motors was back on sound footing financially -- so much so the directors paid a $50 per share dividend payment -- a distribution of about $8 million which was the largest cash dividend per share ever paid out for a stock listed on the New York Stock Exchange to that time.

While the banks were running General Motors, Durant teamed up with Louis Chevrolet and built up the Chevrolet Motor Company. By 1915, Durant started using Chevrolet to attempt to regain a controlling interest in General Motors. He was successful in doing so, and in 1916, Durant re registered the General Motors Company as the General Motors Corporation and increased its capitalization from $60 million to $100 million.

Over the next few years, William Durant also introduced the du Pont company into General Motors as a financial partner. By the end of 1919, du Pont had spent about $49 million buying a 28.7-percent interest in General Motors on the open market and from individuals. Together, William Durant and du Pont had joint control of General Motors.

In this same period, Alfred Sloan had been building up the Hyatt Roller Bearing Company, a supplier of roller bearings to the automotive industry. In 1916, William Durant approached him to see whether Hyatt could be acquired by General Motors. They agreed on a price of $13.5 million, to be paid half in cash and half in stock of a new corporation to be called United Motors Corporation. In 1918, United Motors Corporation was merged with General Motors, with Alfred Sloan becoming a director of General Motors and vice president in charge of various accessory companies within the group.

Meanwhile, General Motors' sales revenues were also increasing at an impressive rate of growth. In 1918, the company had $270 million in sales, increasing to $510 million the following year.

Unfortunately, however, William Durant again lost control of General Motors. When the U.S. economy hit a recession at the end of 1919, William Durant had around $20 million in personal debt, secured by his share holding in General Motors' stock. To repay his loans, he was again forced to sell the bulk of his General Motors share holding, and on November 20, 1920, Durant resigned as president of General Motors. He was replaced by Pierre S. du Pont, chairman of the du Pont Company which owned about 36-percent of the common stock of the General Motors Corporation. A four man executive committee was formed to run General Motors, consisting of:

1. Pierre du Pont (President)
2. John Raskob (chairman, GM Finance Committee)
3. Alfred Sloan Jr. (Executive Vice-President)
4. J. Amory Haskell (Executive Vice President)

"Thanks mainly to Mr. Durant, General Motors had then the makings of a great enterprise. Mr. Durant in 1921 sold back to the du Ponts his interest in the company formed to bail him out. He received for his interest 230,000 shares of General Motors stock, whose market value at the time of acquisition was $2,990,000. Mr. Durant's disposition of these shares is not part of this story. However, their market value if he had held them to the time of his death, March 19, 1947, would have been $25,713,281, on which he would have received an aggregate of $27,033,625 in dividends and from the sale of rights."

– Alfred Sloan Jr.

2.

The first challenge addressed by the new executive committee was to restructure the administrative organization of General Motors. General Motors had historically been a decentralized collection of standalone business units, brought under the General Motors umbrella by William Durant who ran the business with a "seat of the pants" style approach to management.

The new executive committee decided to introduce a corporate governance structure which was more of a happy medium between pure centralization and pure decentralization. For the first time, General Motors was structured into operating divisions, each of which was headed by a chief executive officer who assumed responsibility for the results achieved by that unit. At the same time, a central organization which could provide advisory control and ancillary services was also established.

Once the new corporate structure had been finalized, the new executive committee next turned its attention to the fact General Motors had no explicit policy regarding the line of cars the company should produce. Henry Ford with the Model T was pursuing the concept of a static model sold at the lowest possible price. General Motors, by contrast, had seven lines of cars (Chevrolet, Oakland, Olds, Scripps-Booth, Sheridan, Buick and Cadillac) but no coordinated approach as to which price bracket each company would target. In addition, all of the GM car companies were losing money in 1921, and they frequently

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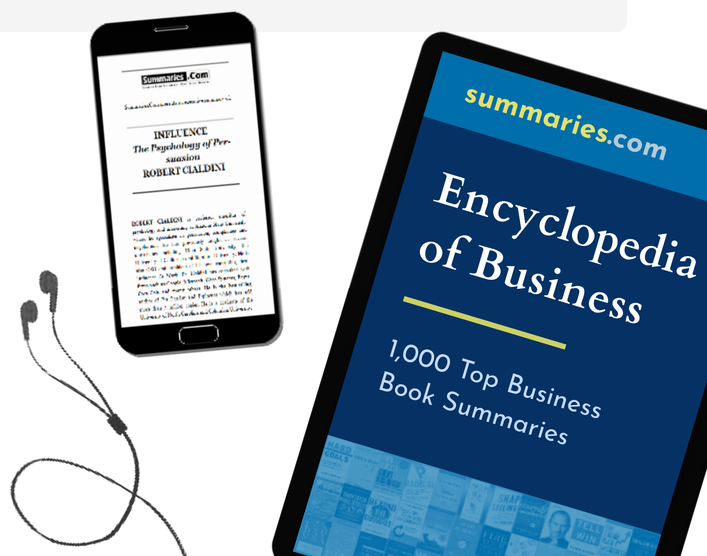

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