Taking Stock: Chrysler faces a bumpy road

by Malcolm_Berko

Dear Mr. Berko: I have worked at Chrysler Corp. since 1986 and have gone through some rough times but have managed to hold my job for 21 years. Do you have any idea if I will be able to keep my job if there will be massive layoffs after this Cerberus takes us over? Can you tell us in plain English who and what is Cerberus and if they will be more reasonable that the people at Daimler? A bunch of us are hearing "large layoffs" and that many of our jobs will be taken over by lower-paying workers for about one-third what we're making. Is there any advice you can give me? I'm 46, earn $86,000 a year, no savings to speak of, married, five kids, have a first and second mortgage on my house, owe on three cars plus some large credit card debts. Most of my buddies are in the same boat.

G.T.

Detroit

Dear G.T.: Cerberus Capital Management LP is part of a cabal of private equity firms with seemingly unlimited capital, the sources of which, some say, may be suspicious. Cerberus, headed by John Snow, former treasury secretary in the George W. Bush administration, is buying Chrysler from Daimler Benz AG for $7.4 billion. Thanks to Snow, whose knowledge and leverage could compel certain reluctant people and institutions to invest billions, Cerberus owns a 51 percent stake in GMAC Financial Services and will soon own auto-parts maker, Tower Automotive.

Cerberus owns a broad swath of 52 companies such as Formica, Guilford Mills (largest automotive seating supplier), Peguform Group (makes plastics used in automobiles) and Air Canada. The Cerberus Capital purchase of Chrysler seems to fit well with its ownership of Tower, Guilford, GMAC Financial Peguform and its equity position in Delphi, the giant auto-parts manufacturer.

Cerberus' 80 percent purchase for $7.4 billion unwinds the $36 billion marriage that I disparaged in 1998. Sadly, what was ultimately supposed to be a humongous automotive powerhouse segued into ignoble failure. Daimler-Benz found itself hobbled and smothered by sharply rising pension costs and huge increases in retiree health obligations as Toyota and other Asian manufacturers captured the hearts and pocketbooks of the U.S. consumer. The intransigent American unions and the German autocratic management style were as compatible as a pair of fighting gamecocks.

Cerberus Capital may be in the process of shooting itself in the foot. Cerberus, contrary to public announcements, will take a mammoth ax to the Chrysler work force and the United Auto Workers Union is nervous as deer being tracked by a pack of coyotes.

I don't know if you will be able to maintain your job. Since 1998 when Daimler purchased Chrysler there have been about 40,000 job cuts. Unions must be more accommodative, because Chrysler must lay off about 20 percent of its work force and that could easily include you. The sale of Chrysler will certainly have an impact on upcoming national contract talks. However, your 21 years with Chrysler is worth bupkis and your irresponsible accumulation of debt - without savings - may be your economic death sentence.

New management must make this work and Chrysler could easily (and would prefer to) hire immigrants who will gladly do your job at one third of your grossly inflated salary and enormous benefits. Cerberus will have to make changes of epic proportions, especially with fuel at $3.10 a gallon, to turn its $7.4 billion investment into a profit machine. Chrysler's current management team (including the stuffy and stiff John Snow) lacks the personality, trust and patience to work with the unions while the unions' jingoistic belligerence may not serve its members well.

Both sides must make some serious adjustments in attitude. Cerberus wants to fix Chrysler then take it public, which is how they plan to earn a return on their investment. And in order to achieve this objective, Cerberus will consider giving each employee options to purchase new Chrysler shares well below the market price at some time in the future. In return, many Chrysler workers may have to give up some benefits (pension, health and salary) to maintain their jobs.

Meanwhile, I'd find a second job, tell the wife to find work, move a couple of kids out of the house or have them pay rent, stop spending like a drunken sailor, pay off as much debt as possible or be prepared to declare bankruptcy. And while I doubt you can find another job paying $86,000 a year, you might consider looking around for other work. From my perspective there's not an assembly line job worth $86,000 a year, so you and the unions and management must have a "come to Jesus" meeting to make Chrysler a going company.

Please address your financial questions to Malcolm Berko, P.O. Box 1416, Boca Raton, FL 33429 or e-mail him at malber@comcast.net.

Â© Copley News Service

Taking Stock: Chrysler faces a bumpy road by Malcolm_Berko