Delphi makes drastic moves

Jeff Bennett

AUTO-PARTS supplier Delphi Corp asked a US judge to void its labor contracts as part of a plan to exit bankruptcy that includes selling or closing most US plants, eliminating 8,500 salaried jobs and rewriting contracts with General Motors Corp.

Delphi Chief Executive Officer Steve Miller's request to cancel labor pacts escalates a confrontation with the United Auto Workers Union that may lead to a strike and drag GM itself into bankruptcy. Delphi, GM's biggest auto-parts supplier, is a former unit of GM.

GM said it was "disappointed" in Delphi's bid to overhaul parts contracts, and the UAW called the court filing a "misuse of the bankruptcy procedure."

The move will increase pressure on all sides to agree to wage and benefit cuts before a US bankruptcy judge rules on the request as early as June. Miller said he intends to continue negotiating with GM and the UAW in the hopes of reaching an out-of-court agreement.

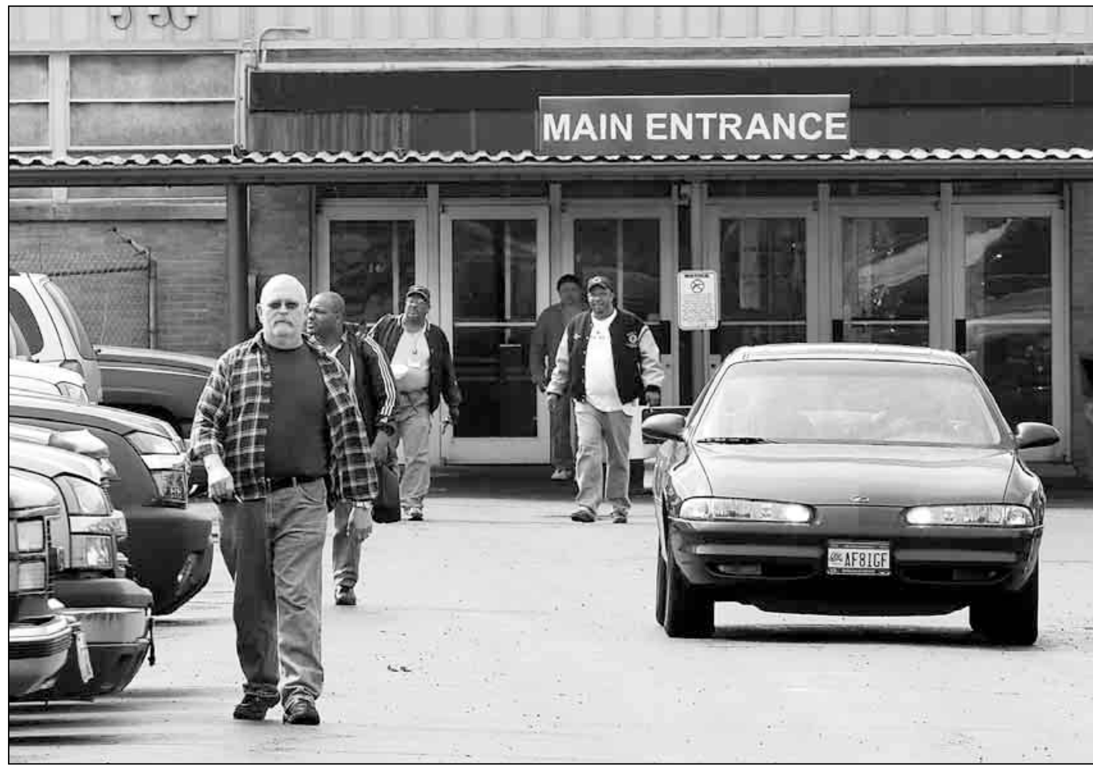
"It's a bigger game of chicken ideally designed to get everyone at the negotiating table," said Joseph Balestrino, senior portfolio manager at Federated Investors in Pittsburgh.

As part of the court filing, Miller asked permission to renegotiate the terms on more than 400 unprofitable GM parts contracts. In addition, Miller said Delphi will stop making brakes and steering systems and other parts to focus on higher-technology products such as in-vehicle entertainment systems. He plans to close 21 of his 29 US production sites by the end of next year.

As many as 8,500 people, or 25 percent of the company's global salaried workforce, would be cut through firings or attrition. Delphi said it will freeze pensions beginning this year and reduce its corporate officer ranks by as much as 40 percent.

Resolution of the conflict is vital to GM, as the UAW has pledged to strike at Delphi plants if its contracts are thrown out. A strike would force GM to shut auto-assembly plants within 48 hours, according to Sean McAlinden, an analyst with the Center for Automotive Research in Ann Arbor, Michigan.

Through the first 60 days of a strike, GM "would hemorrhage US$7 billion to US$8 billion of cash," Merrill Lynch analyst John Murphy said in a report. A three-month UAW strike could bankrupt GM, Sanford C. Bernstein analyst Brian Johnson has said.



Workers leave the Delphi Needmore Road Operations plant in Dayton, Ohio, on Friday. Delphi Corp asked a US judge to void its labor contracts as part of a plan to exit bankruptcy that includes selling or closing most US plants, eliminating 8,500 salaried jobs and rewriting contracts with General Motors Corp. — Tom Uhlman

"Emergence from the Chapter 11 process in the US requires that we make difficult, yet necessary, decisions," Miller said in a statement. "These actions will result in a stronger company with future global growth opportunities."

Miller, 64, said he will stick with his latest offer of giving workers a US$50,000 bonus in exchange for an initial wage reduction from US$27.50 an hour to US$22 followed by a drop to US$16.50 by September 3, 2007. That offer is dependent on UAW's nod and financial contributions from GM.

Delphi says its total labor costs, including benefits, is about US$78.63 an hour, more than three times that of its competitors. It said that if its labor and benefit payouts aren't reduced, it will lose as much as US$13 billion over the next five years. The company hasn't had an annual profit since 2003 and posted a net loss of US$2.8 billion last year.

Miller announced while the court filings are necessary steps, "we are singularly focused on reaching a consensual resolution with all of our unions and GM before any court hearing is necessary."

Shanghai has established itself as a major shipping player with the expansion of the Waigaoqiao port.

China on the move

CHINA is now ranked as Asia Pacific's leading merger and acquisition market. It is also increasingly becoming a focal point on the global M&A scene.

With its 2001 World Trade Organization entry, China has made large strides towards the completion of a well-rounded legal framework. Such groundwork has led to the creation of a dynamic and safe environment for enthusiastic foreign investors to enter the country's logistics market.

Logistics companies must now tackle the "China question" and determine their strategy in the Chinese logistics market, as well as to evaluate how these new investments will affect their global logistics operations.

Despite China's progress over the past few years, M&A participants are sure to encounter pitfalls, namely operating through a complicated legal system that is hardly a steady foundation for M&A deals. With thorough due diligence and well-crafted documents, however, China promises to be near the forefront of the wave of logistics M&A transactions globally.

China's first and only Logistics Mergers & Acquisitions event will be held tomorrow in Shanghai. The forum will bring together corporate and strategic buyers to share their perspectives on investment opportunities, challenges and critical issues facing the logistics industry today.

The forum provides the opportunity for personal meetings with M&A advisers — giving exclusive access to expert advice and information. It will also be an opportunity for 3PLs, freight forwarders, warehouse operators and transport providers to meet and exchange information on planned and executed M&A work.

An afternoon will also feature a workshop led by BG Strategic Advisors (www.bgstrategicadvisors.com) that managed the deal between PWC Logistics and Transoceanic (Geo-Logistics), as well as Translink in Asia. Benjamin Gordon, managing director and founder of BGSA, will lead the workshop.

To view the agenda and get more information on the speakers, visit: www.supplychain.cn/en/cev/56

For further information, contact Sabrina Wei at 5102-1617 or 5102-1618. Alternatively, e-mail swei@supplychain.cn.

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The brave new world of logistics

Benjamin Gordon

INNOVATION was once viewed as the bastion of the United States. In 1790, George Washington authorized the first US patent. Today, 216 years later, both manufacturing and innovation have gone west, from the United States to Asia. As a result, we are in the midst of a sea change that is revolutionizing not just the global economy, but also the logistics world.

To understand the changes in Asia, one has to look at China, since the US and China represent a combined 60 percent of global trade.

An important engine of growth is China's 2001 acceptance by the World Trade Organization (WTO). As a result, China must now adhere to WTO rules. In the past four years, China has reduced tariffs from 25 percent to less than 10 percent. Continued legal changes will attract more overseas investment and fuel accelerated expansion.

Another key driver of Asian logistics growth is the low level of logistics outsourcing. Both China and India have under-penetrated third-party logistics (3PL) markets.

China's 3PL sector represents just 2 percent of the country's total spending. In contrast, the United States' 3PL sector is much more penetrated, at approximately 10 percent. Europe is even higher, at 25 percent. Clearly, the 3PL sector has a lot of room to grow.

The impact of Asia's ascendance on US logistics markets has been swift.

First, manufacturing has shifted from the US to Asia. Second, carriers and freight forwarders have gained significant benefits. Third, the West Coast of the US has continued to register record levels of demand.

The rapid ascent of China has caught the attention of global logistics leaders.

FedEx and UPS are strengthening their positions in the country, and recently increased the number of flights in and out of China. UPS also entered into an agreement whereby it would acquire the express delivery agency business from Sinotrans.

For US-based companies, the implications of this are monumental.

On the one hand, companies that gain a successful foothold in Asia can expect to see significant growth. On the other hand, companies that overlook Asia do so at their peril. Much like the European manufacturers of the 1800s, who found themselves supplanted by Samuel Hopkins and other leaders of the US manufacturing golden era, US companies today who fail to invest in Asia will eventually slip behind.

Smart logistics companies have several options for responding. Some, like BAX and GeoLogistics, sought mergers with the global firms of Deutsche Bahn and PWC Logistics, respectively, gaining resources to fund accelerated growth in Asia. Others are raising capital in a bid to fund acquisition-led growth while maintaining independence. What is clear is that every US logistics firm needs a strategy for growth in what may be known as the Asian century.

For Asian companies, the choices are even more dramatic. Most Asian logistics firms are at a crossroads.

Those that develop winning niche leadership strategies are pursuing rapid growth, and in turn are attracting significant interest from outside parties. On the other hand, firms that fail to achieve meaningful differentiation are at risk of falling behind. As global competitors pour capital and resources into the Asian region, mid-sized companies will enjoy growth in the short term but risk obsolescence in the long term.

As a result, the smartest Asian logistics companies are preparing for the coming wave of consolidation. Whether as buyers or sellers, the leaders are getting ready to stake out their position in a rapidly-changing marketplace.

For more information, please visit BGSA's Website at www.BGStrategicAdvisors.com, contact Benjamin Gordon directly at Ben@BGStrategicAdvisors.com, or call BGSA at (561) 655-6677.

(Benjamin Gordon is managing director of BG Strategic Advisors, Inc, a global investment banking and strategy consulting firm specializing in warehousing, logistics and supply chain advisory services.)

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