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Ford, 1993–2007: Losing Its Way?

Glenn Mercer

From the mid-1990s onward the Ford Motor Company entered a period of decline, continuing to the time of this writing, although for the first part of this downward trajectory it remained concealed by enormous profits earned from North American sales of trucks.[1] The decline was driven by a loss of strategic direction, which this chapter will investigate. By 2000 or so the trajectory was clear and a series of turnaround efforts was launched, whose eventual results are as yet unknown.

The arrangement of the chapter is as follows. First, we will set the stage by discussing developments leading up to the period in question, primarily by recapping Gerard Bordenave's review of Ford's history in the predecessor to this volume, *One Best Way?* (Freyssenet et al. (eds), 1998). Next we will review the course of the company under the guidance of the four individual men who served as CEOs during this time, as each one set a particular stamp on Ford. Finally, we will conclude by extracting and reviewing several cross-cutting themes that perhaps explain the company's trajectory, and point to a possibly brighter way forward for Ford.

Introduction: setting the stage

The Ford Motor Company thrived throughout the 1960s and 1970s, safely tucked under the price- and product-umbrella that General Motors provided, maintaining a solid second place market share position to GM, and staying well ahead of third-place Chrysler/American Motors. The American market at this time was well suited to Fordist mass production, as individual model annual production runs reached almost to a million, and model updates were both widely spaced in time and generally superficial in nature (e.g. often limited to cosmetic changes in exterior sheet metal). Imported vehicles were present mostly in the form of the VW Beetle, which the Detroit makers hardly considered competition, as a trace of imported Japanese cars (mostly on the West Coast), and as some tens of thousands of mostly upscale European imports (whose buyers Detroit considered well outside the American mainstream). Sales volumes might fluctuate with overall economic conditions, but these periodic recessions were well understood and not considered threatening to either GM or Ford, although third-place Chrysler was much more at risk due to its lower volumes. (This fact led Chrysler to constantly experiment with volume-building and cost-sharing alliances, such as the purchase of American Motors, a long-term JV with Mitsubishi Motors, and then of course the eventual sale to Daimler.) Each of the three main competitors had overseas operations, primarily in Europe, but the success or failure of each remained firmly dependent on the North American market.

This peaceful oligopoly was overthrown by the so-called oil shocks of 1973 (related to the Yom Kippur War) and 1979 (related to the Iranian revolution), which drove up the low price of gasoline in the USA and thus opened the door to highly efficient Japanese cars.[2] At about the same time the US government enacted the Clean Air Act and various amendments to it, which required much lower emissions of pollutants from cars. The Detroit OEMs were faced with the dual challenge of simultaneously converting their powertrains to be both more economical and cleaner. Uncounted billions were spent on doing this, which involved moving from carburetion to fuel injection, from rear-wheel to front-wheel drive, and from untreated exhaust to catalytic converters and exhaust gas recirculation. Detroit launched numerous import-fighting products along the way (including the Ford Pinto), but as these were rushed into production prematurely they fell short and did little to stem the Japanese tide. By 1985 or so the worst was over, in that the American carmakers had made the necessary conversions, but by then the Japanese had established a market-share beach-head which they would never thereafter give up. The game had changed.

Ford fought back strongly in this period, on many fronts. It diligently studied and tried to adopt the principles of lean production that seemed to underpin the Japanese productivity advantage (aided by its acquisition of a minority share in Mazda in 1979); it implemented new systems (e.g. the Q1 quality management process) to help close the gap in perceived quality between its products and those of the leading Japanese firms; and in 1985 it regained momentum in the product arena with the launch of the Ford Taurus, acclaimed by many as 'the car that saved Ford'. Ford would go on to sell over 6 million of this radically new design, which would become the best-selling car in the USA for several years in the 1990s. The company also launched, in 1990, the Ford Explorer, arguably one of the first modern (that is, car-like in terms of ride and features) SUVs[3]: this vehicle would go on to become the best-selling SUV in the USA for fourteen consecutive years.

While its mainstream business was now back on track, Ford realised it needed to supplement its premium vehicle lines (Mercury and Lincoln) with additional product, as the American market was steadily moving upscale, and determined that the best route to this goal was via acquisition. Accordingly, Ford purchased Aston Martin in 1987 and Jaguar in 1989.

Additionally, the shock of the Japanese onslaught had made management realise that the company would have to compete globally, which meant making more use of both Mazda and Ford Europe. Accordingly, Ford increased its stake in the Japanese firm to a controlling interest on the one hand, and on the other attempted to jointly develop with Ford Europe so-called 'world cars' that could achieve global scale. The first result of the latter effort was the Mondeo of 1993, sold as the Contour and Mystique in the US. As one of the costliest product launches ever (reports estimated some $6 billion were invested), disappointment was all the greater when the car failed to meet its sales targets. Blame for the failure can be apportioned to various causes, including political infighting at Ford, misdesign of the product for certain major markets, and a failure to truly commonalise parts (this 'world car' was in fact made of very different components in different parts of the world). As we shall see, the first CEO we will study, Alex Trotman, would take as a main task rectifying this failure to leverage Ford's product development[4] resources globally. He would also take steps to improve the stand-alone profitability of Ford Europe, which had been part of the company for over half a century, but which was failing to deliver consistent profitability.

One final development will bring this abbreviated history of Ford up to the start of our selected time period. This was the increasing 'financialisation' of the company, defined as a growing reliance on profits from services related to car *transactions*, rather than profits derived from car *manufacturing*. Ford Motor Credit of course provided income from car loans and leases, but Ford in the 1980s and early 1990s had very actively diversified further into financial services, not all of them even car-related. In 1985 Ford had acquired the large savings and loan institution First Nationwide Bank (to diversify into other consumer financial services). In 1994 it moved from a minority stake to 100 per cent ownership of Hertz (thus gaining a big share of car rental revenues). And in 1989 it spent billions to acquire the large consumer finance company The Associates. By the mid-1990s Ford's profitability was highly dependent on these financial sources: in fact, financial operations including Hertz contributed 75 per cent of Ford's cumulative net income between 1990 and 1995.[5]

To sum up then, as we approach the mid-1990s, we can characterise Ford in this way: generally the company had recovered from the Japanese invasion, especially thanks to two key products, Taurus and Explorer; it had armed itself with acquired upscale brands to buttress its domestic premium lines of Mercury and Lincoln; the company was not yet able to effectively leverage global scale and scope in product development; and Ford was increasingly dependent, for better or worse, on financial services as a source of income.

As far as the broader American truck and car business was concerned at this time, it remained as exposed as ever to economic cycles in the US, and accordingly the recession of 1990–2 had not spared ~~either~~ GM or Chrysler or Ford. ~~The last~~ suffered large losses in 1991 and 1992. But by 1993, as Mr Trotman arrived, the recovery had begun, and Ford was already rebounding. It is here that we begin the main part of our story.

The Trotman era: 1993–1998

Baron Alexander James Trotman (he was awarded the peerage in 1999) was Ford Motor Company's first foreign-born CEO, in this case hailing from the United Kingdom. Trotman got his start at Ford UK (an incubator for many Ford corporate executives over time), working his way up to become CEO in November 1993. His time in the office is marked by three key developments, in the arenas of products (e.g. SUVs), processes (e.g. product development) and M&A (e.g. Volvo).

Following the introduction of the Ford Explorer in 1990 (and Chrysler's Jeep Grand Cherokee in 1993), the age of the modern American sport utility vehicle began. The SUV was much more than a new model (as the 2007 Camry is a ~~new~~ model of sedan): it defined a new *segment* of the market, and thus stimulated incremental demand; with the modern SUV on the market Americans either added additional vehicles to their driveways or purchased a new vehicle sooner than they had otherwise planned.[6] It is almost impossible to overstate the financial impact of these vehicles on Ford, GM and Chrysler. An excerpt from Keith Bradsher's history of the modern SUV, *High and Mighty*, will best make this point:

> The Michigan Truck Plant [which made the Explorer and other vehicles such as the even larger Expedition] had become *the single most profitable factory in any industry anywhere in the world*. It was cranking out 1040 full-size sport utilities every workday. The factory's annual production was worth almost $11 billion – greater than the global sales for Fortune 500 companies like CBS, Texas Instruments, Honeywell, and Nike ... The factory's profits from those sales were even more spectacular: about $3.7 billion in pretax profits ... while Ford had 53 assembly plants worldwide, the Michigan Truck Plant accounted for a third of the company's entire profits. There were fewer than 100 companies in the world that earned more than this single factory did in 1998. (Bradsher, 2002: 89; emphasis added)

Production of SUVs was so profitable due to reasons of both demand and supply. On the demand side, the virtual absence (at this time) of Japanese competition meant that, at least as far as SUVs were concerned, Detroit had recreated the profitable oligopoly of the 1960s. Additionally, the American public was eager to purchase the product, not just because cheap gasoline made it inexpensive to run, but because it offered real benefits. Essentially, the SUV provided large amounts of interior space (crucial for American families used to hauling bulk cargo such as groceries from Costco or children to hockey games) without the 'soccer mom' stigma of the minivan, and with a higher seating position that offered better visibility than a station wagon. Additionally, the SUV had a characteristic key to most prior very successful American vehicle launches: it was *something new*. The modern SUV was not just the latest iteration of a pre-existing product line: it was a new product category entirely, combining truck toughness and space with car-like ride and handling. American fervour for something new had previously ignited demand for the 'pony car' in the mid-1960s[7] and the minivan in the 1980s: there was always significant pent-up demand for the next new thing. The SUV market share, less than 3 per cent in 1980, was over 15 per cent by 1995. The love affair was in full swing.

On the supply side, Ford and the other Detroit makers were only too happy to offer up as many SUVs as Americans wanted. This was because the vehicle was fundamentally very profitable. Built on frame rails rather than a unibody, it was much easier to weld and assemble than a car. Expected to be big and brawny rather than sleek and smooth like a car, it did not require a sophisticated (expensive) engine or a highly insulated (expensive) interior. With no expectations for sports-car handling, suspensions could use primitive beam axles and heavy steel (versus costly aluminum) components. With styling basically reduced to a large box on wheels, expensive dies for stamping exotically curved body panels could be avoided. All these factors cut per-unit variable cost, and then per-unit fixed cost was driven down by adding in the enormous volumes of the pickup trucks on which the Detroit SUVs were based.[8]

Put high demand (and thus high price realisation) and low cost together and high margins result. Even as late as 2000 Ford was realising variable profit margins of about 50 per cent on the Explorer line: roughly $12,000 for each Explorer wholesaled to dealers at roughly $24,000. The comparable figure for cars like the Taurus was $4,000 or less, and after fixed costs were subtracted, the average Ford car in 2000 was probably only at break-even. By 1995, therefore, the SUV (and the pickup trucks on which it was based) ~~was~~ likely providing more than 100 per cent of Ford's North American profits – a reality which would come back to haunt the company when the SUV boom subsided and the company had to go back once more to relying on cars for profits.

Even while the SUVs were bringing in enormous profits, Ford realised that its prosperity was concealing significant weaknesses. Yes, the Taurus had been a hit, but it had been the only one (on the car side) in years. The Mondeo, an attempt at a world car, had taken much too long to develop and had gone well over budget. The Ford development process was slow relative to Japanese benchmarks. These problems, Trotman's team concluded, were the result of underlying organisational issues including: (a) lack of integration among Ford North America (NA), Ford Europe (EU), Ford Asia Pacific (AP) and Ford

Automotive Components (AC); and (b) functional organisation 'chimneys' that prevented synergistic interaction among manufacturing, engineering, marketing and other realms.

The proposed solution to this problem was Ford 2000, a gigantic internal merger and restructuring of the entire car company. Ford North America and Ford Europe were combined with Ford Automotive Components into the umbrella group Ford Automotive Operations (Ford Asia Pacific was to follow later). Product development was wrenched 90 degrees around on the organisation chart, from a geographic focus (e.g. NA, EU, AP) into a product focus: five vehicle programme centres (VPCs) (each specialising in a vehicle type such as front-wheel drive (FWD), rear-wheel drive (RWD), light truck) were set up. And the entire organisation was matrixed along the two dimensions of the VPCs on the one hand and functional departments on the other: now every person would have two or more managers to report to. The merger was to create purchasing and engineering scale; the formation of the globally focused multi-disciplinary VPCs was to improve development performance (both time-to-market speed and development cost); and the matrix setup was to tear down the functional chimneys.

While this would not become evident for a few years, Ford 2000 would turn out to be a failure. More charitable observers consider it the right idea at the wrong time, poorly executed; others believe it was an exercise in futility from the start. Blame can be apportioned to various factors. First, while the point was to be global, four of the VPCs were placed in Detroit, where they could hardly get an international perspective on product trends and needs, and where they were subject to the headquarters infighting that Ford was famous for. Next, while one goal was to gain scale, when each VPC tried to optimise its own results corporate scale was divided by five and as a result the expected cost savings were modest at best. Then, too, while the old Ford NA and Ford EU structures had their problems, they at least had a clear P&L ('profit & loss') focus, which seemed to become lost in the new structure. But finally and perhaps more importantly, Ford employees generally did not see the rationale for such an upheaval (after all, they reasoned, look at the profit numbers). Thus in ways big and small they undermined the implementation of Ford 2000 (despite heroic efforts at communication by Trotman), such that more effort seemed to be spent explaining why things couldn't be done differently, than in doing them differently. The programme bogged down under its own paperwork (it was rumoured that by the time the Ford 2000 Powertrain Requirements planning document had made its way through all the editing rounds it was over 1,000 pages long!) and in a few years was essentially abandoned. As we shall see, valuable time had been lost to competitors while the Ford 2000 wrangle was being sorted out.

At the end of Trotman's reign,[9] Ford made one of the largest acquisitions of its history, picking up the car operations of Volvo for about $6.5 billion.[10] Realising that the ailing Jaguar, Mercury and Lincoln brands could not carry

Ford into the premium market segment on their own, Ford hoped the addition of Volvo would let it create a multi-brand premium-brand powerhouse, a plan which the next CEO, Jac Nasser, would begin to execute.

The purchase was easily funded, both by light truck and SUV profits, and by the enormously profitable sale of The Associates. As to this latter transaction, it seemed that Ford had realised that financialisation could only go so far, and should be limited, in the case of a car company at least, to car-based transactions. Accordingly, while the company increased its stake in Hertz to 100 per cent in 1994 (floating a minority interest to the public a few years later), in the same year it sold off the struggling First Nationwide Bank, and then in 1998 the (very profitable) Associates group. Thus by 2000 or so the contribution to Ford's total net profits from its financial operations had fallen from about 75 per cent to about 25 per cent, although this figure would later start to rise again.

The Nasser era: 1999–2001

While Ford was in good shape financially in the late 1990s there was growing concern that the underlying cost base was not sound, and this served as impetus to promote Jac Nasser into the CEO spot, famous as he was throughout his Ford career as a cost-cutter. An Australian of Lebanese origin who had spent time in Latin America and Europe for Ford, he was also thought to bring the international experience needed to knit the far-flung empire together, in a way Ford 2000 could not. But Nasser's legacy would turn out to be very different from what one might have expected when he arrived in 1999.

Nasser was impressed by the high profits (and stock prices) of consumer goods companies such as Nike. As he reportedly joked about the car business: 'We make cars, everyone else makes money!' He was also thrilled by the heady developments of the late-1990s internet boom, and the possibilities it offered. He determined to bring both themes to Ford. Accordingly, he repositioned Ford from being 'a car company' to being 'a provider of automotive goods and services', with a high degree of internet enablement.

To make progress on the first front, he went on a multi-billion-dollar buying binge in the world of so-called 'downstream' automotive businesses (downstream of designing and building new cars), such as repair shops (Kwik-Fit), collision repair (Collision Team of America), parts recycling (Copher Brothers), extended warranties (APCO), limousine services, and even drivers' schools. To further reconfigure the company away from manufacturing and into customer-facing businesses (and to emulate GM's flotation of its own parts division, as Delphi), he accelerated the spin-off of Ford's components group to 2000, when it became the independent company known as Visteon.[11]

He even attempted to enter the world of automotive retailing directly by forward integrating into dealerships in the US (a practice common in Europe but unheard-of in North America), via the so-called Ford Retail Network. He hoped to further leverage advanced retailing and marketing techniques by forming the Premier Automotive Group (PAG), which would house under one roof Ford's premium brands of Lincoln, Aston Martin, Jaguar, Volvo, and now (as of 2000) Land Rover. The goal was to offer a range of upscale brands to consumers in a one-stop multi-brand dealer shopping environment, much as a Nordstrom's might offer multiple *haute couture* clothing lines within one store. This concept ran directly against American car retailing tradition and practice, which advocated instead focusing the salesforce on one or at most two brands within one store.

On the second front, he elevated the IT department of Ford to a leading role, and advocated adopting the best practices of internet-enabled firms, both on the sell-side and the buy-side of a company. On the sell-side he sought to emulate PC builder Dell Computer, which was famous for building tailor-made computers to order, whereas Ford and other OEMs had traditionally built masses of similar cars to stock. On the buy-side he ordered the development of the revolutionary online purchasing portal, Covisint, which was to use online auctions to drive down the cost of purchased car parts.

But then fate intervened, starting in 1999 and snowballing through 2000 and onward, with the catastrophe of the Ford/Firestone tyre scandal. While volumes have been written covering this story and assigning blame for the problem, in short form it can be said that Ford Explorer SUVs wearing Firestone tyres seemed to be rolling over and killing their occupants more often than might be expected. As the details emerged, both firms clumsily handled the public relations nightmare that resulted, leading to higher costs and greater ill will than otherwise might have been the case. Massive and costly recalls of tyres followed, huge brand equity losses were incurred, and hundreds of lawsuits were filed.

Partly as a result of this debacle, and almost before he had begun to work on his grand plans, Nasser was out, retiring in the autumn of 2001. His legacy to the company was unfortunately not positive. As SUV profits started to erode (by now customer enthusiasm on the demand side was waning, and Japanese competition on the supply side was waxing), Ford's record profits in the late 1990s had turned to losses by the early 2000s. There was a strong push within the firm to go back to basics in order to reverse these losses, and virtually all of Nasser's innovative initiatives were overthrown, and quickly. The downstream automotive businesses were almost completely sold off, often at a loss. Covisint's value proposition proved to be illusory, and the unit was downgraded from a purchasing portal to a communications service, and then sold to another IT firm entirely. The Ford Retail Network proved unmanageable (companies good at making cars are not generally good at retailing them) and was dissolved. And the Premier Automotive Group was steadily losing money, as Volvo profits were generally erased by losses at Jaguar, a brand Ford had never managed to turn around. In some respects this wholesale de-Nasserisation was a shame, as many of his ideas were strategically sound, if poorly executed: downstream businesses *are* more profitable than carmaking. Observers at the time asserted that Ford was willing to spend money to buy things, but not to run them, and so the diverse initiatives and their management challenges simply overwhelmed the company.

Meanwhile, while management was focused on all these other matters, Ford's product development process languished: most effort had been spent on the SUVs, and now that their star was fading, it seemed that the pipeline of attractive car products was nearly empty. In addition, neglected operations outside the US, especially in Europe, had moved into a loss position as well. It was into this difficult situation that the Ford family, who still had voting control if not a majority of financial ownership, inserted as CEO one of their own, William Clay Ford Junior, better known as Bill or 'Billy' Ford, in the autumn of 2001.[12]

The Ford era: 2001–2006

Ford was the great-grandson of the firm's founder, Henry, and perhaps therefore was seen by the Ford family (who were the instigators of the management change) as someone who could indeed return the company to its roots: the profitable design and manufacture of passenger cars. As he arrived on the scene the company's automotive operations had swung to a loss (in 2001 and 2002), and although the financial side of the house was still producing well, the overall results were inadequate to cover Ford's cost of capital.

The problem was, as noted above, that while the long American love affair with SUVs was ending, Ford had precious few competitive entries in the car market to offer drivers instead. The Ford Focus, a compact car on which the company had pinned its hopes of regaining some momentum in the American market, never caught on there as well as in Europe, in part due to enormous quality problems. The car was recalled a record fourteen times in its first two sales years, beating the sorry record of thirteen in two years by the General Motors X-cars of 1980. Meanwhile, the once-mighty Taurus had aged so poorly in retail buyers' eyes that over half of its sales were at wholesale prices to rental-car fleets. The Premier Automotive Group was no help, either, turning in a string of losses, and overseas operations such as Ford Europe and Ford Asia Pacific were also running red ink.

Bill Ford's response was perhaps predictable for a leader under such pressures: he launched ~~a~~ back-to-basics campaign and executed the aforementioned sale of the Nasser-era businesses. In addition, he began the restructuring of the core North American vehicle operations: factories were closed and headcount reduced. However, the company continued to lose market share: given the years between customers' purchases of new cars, it takes a great deal of time to alter their buying preferences; and given the years it takes to develop new cars, it takes a great deal of time to offer them something new.

The tragic events of 11 September 2001 occurred almost simultaneously with Ford's accession as CEO, and with them came a seemingly permanent cap on Ford's profits. To help reassure a badly battered ~~US~~, General Motors launched its 'keep America rolling' discount and rebate campaign soon after the attack ~~on New York~~. The programme, which offered massive rebates and cheap financing, worked as intended, and unit sales volumes in the US stayed remarkably firm. The problem, of course, was that these unit volumes were rolling out showroom doors at sharply lower prices, thus slashing profitability. Ford and Chrysler had no option but to match GM, and so industry profits significantly eroded in late 2001 onward. The so-called 'incentive wars' had begun, escalating over the next few years to the point where it seemed an American consumer need not even consider a Detroit car or truck unless it carried a $3,000 or $4,000 discount. Given an average transaction price of some $25,000 (at retail), these rebates were destroying all hope of sustained ~~'big three'~~ profitability~~.~~

Ford now found itself in a series of vicious downward circles, in terms of its core North American vehicle business. Falling market share meant it had to downsize capacity. But costs did not easily adjust downward with layoffs, as Ford – under UAW (United Auto Workers) contracts – was still responsible for dismissed workers' retirement pensions and health care costs. To take the cost base down Ford had to turn to other sources, notably the outside suppliers of the parts that made up 60 per cent or more of its COGS (cost of goods sold). Pressuring suppliers for cost cuts resulted, however, in both key suppliers going bankrupt and healthier suppliers favouring more generous buyers, such as the Japanese. Accordingly, Ford's relations with its suppliers deteriorated rapidly. Meanwhile, the Ford dealer body, protected both by regulation and contract from unilateral Ford action, remained sized for a company with a much larger share of the market. Seeing their volumes fall, individual dealers tried to regain profits by cutting prices, which lowered the overall financial health of the dealer group, reducing their ability to invest in the brand. As fixed labour costs stayed high, supplier health deteriorated, retail pricing and brand image suffered, and Ford's market share dropped further, triggering another turn of the vicious circle.

Ford was profitable in its automotive operations only two years out of the five that Bill Ford had been in charge, as 2005 ended. Something had to be done, and it was. Three key steps were taken. First, Hertz was sold off, raising $15 billion in badly needed cash. Second, a~~n official and new~~ turnaround programme, dubbed 'The Way Forward', was launched in late 2005, with the goal of resizing the North American operations downward, to match the company's shrinking market share: over 30,000 jobs were to be axed. And finally, the search was begun for a new CEO. Throughout his tenure there had been mutterings that Mr Ford was in over his head, or that only his name had got him the job – and in fact, he had been quite candid with the press that indeed he would hire a better man for the job if the situation seemed right. And in 2006 it seemed right.

Ford, the family determined, needed another change: not necessarily to alter the direction of the company, but to accelerate the pace of the changes that were already under way. The search began for a new CEO. To truly shake up the company it was decided to look outside the industry – but not so far afield that the new leader would lack credibility on the factory floor. Aerospace executives were targeted, as 'car guys' had always felt that building airplanes offered similar challenges to building cars. In autumn 2006, therefore, Alan Mulally, CEO of Boeing Commercial Airplanes, was enticed to Dearborn to run Ford. Bill Ford would remain as executive chairman, but the real power would go to this new CEO.

The Mulally era: 2006 onward

Some have said that the formula for success that formed the rationale for Mulally's appointment was quite simple. At Boeing he had engineered massive downsizing (in response to Boeing's own mis-steps and the competitive advances made by rival Airbus), followed by an equally massive product offensive, culminating in the 787 Dreamliner. He had been able to ask the organisation for significant sacrifice, in return for bringing the company new prosperity with the 787. The question now was, could he apply this formula now to Ford?

He started out by attacking the cost side, where action to stop the ongoing losses could be taken fastest. The Way Forward plan was accelerated. Tens of thousands of blue- and white-collar buyouts were executed, more plants were closed, with more planned to be closed, and immense pressure was placed on suppliers. But all this could do was slow the rate of decline: Ford desperately needed still more funds to invest in the new product offensive, in order to boost the revenue side of the equation. Mulally took the unprecedented step of literally mortgaging the company, pledging assets from factories, to equipment, to even the Ford trademark itself to a consortium of banks, in return for about $23 billion in cash. This action meant rolling the dice in a big way, for now if Ford faltered it could find its entire legacy being delivered into the hands of the financiers. To raise even more cash and conserve more resources Mulally also sold Aston Martin, put Jaguar and Land Rover up for sale, and announced that he would seriously consider selling Volvo as well. In this way were both Ford's globalisation and premium-brand strategies unwound, in a desperate attempt to rescue the North American core of the company.

As his attention shifted to the product side of the P&L, Mulally moved rapidly to cut costs by rationalising part numbers (it was said that Ford had four times the number of different parts and components that Toyota

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did, even though Toyota outsold Ford worldwide), standardising products and processes, and pulling forward key launches planned for 2009 through 2011, to 2008 and 2009. But this work would take years to bear fruit, and meanwhile the Ford product pipeline had run dry. The company would have to hang on until new key vehicles appeared, such as the redesigned F-150 pickup truck, in 2008. Meanwhile, in the marketplace, Ford's domestic sales continued to decline: by early 2008 its US market share was lodged under 15 per cent.

At the time of writing Ford's future remains very much in question. Many positive steps have been taken: a take-charge outsider has been put in place, with carte blanche to do what needs to be done and enough money in the bank to fund his programme. Contract talks with the UAW, aimed at reducing both labour wages and benefits (i.e. health care for active and retired workers) produced a breakthrough settlement in autumn 2007, which will yield over a billion dollars of savings annually for Ford – once all the terms become active, starting in approximately 2010. And as of this writing, India's Tata Motors is on the verge of closing a deal to acquire both Jaguar and Land Rover, sending another $2 billion to Ford's coffers.

But shareholders remain nervous that all the payoff from all these actions will be 'too little too late', and so have driven the stock price down, from historic highs of about $35 as recently as 1999, to about $6 in early March 2008 (Figure 10.1). The dividend has been suspended, so that the controlling Ford family has seen first its wealth dwindle and now its income stopped.

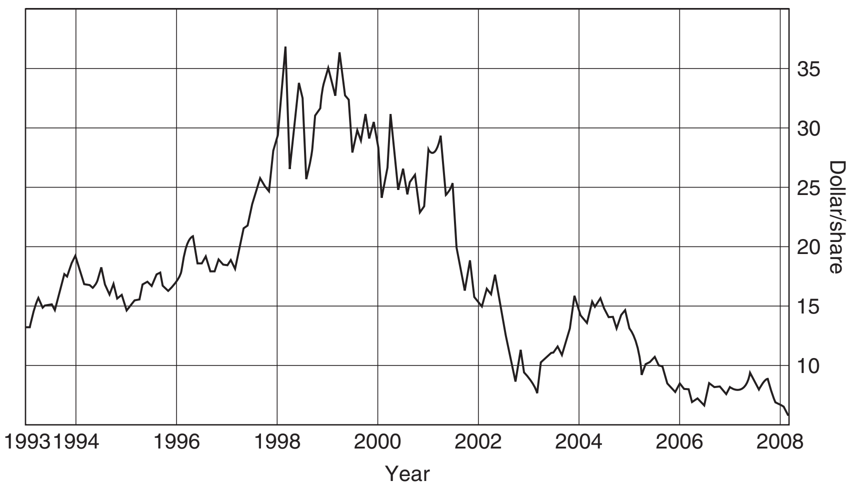

Figure 10.1 Ford share price history, 1993 to March 2008
Source: Yahoo! Finance

The question is whether Ford can pull out of this slide or, without the benefit of a segment-busting product such as the SUV, find itself unable to recover. It possesses a large enough cash hoard to keep afloat for a year or more, but the fundamental health of this iconic automotive manufacturer may be damaged beyond hope of recovery.

Four CEOs and three common themes

While each of the four CEOs has left or is leaving a distinctive mark on Ford, three themes cut across their tenures, from which lessons can perhaps be learned, and which might help refine an optimal model of mass-market OEM strategy. These are the themes of globalisation, financialisation and distraction.

Globalisation

Every major OEM including Ford has recognised the need to deal with globalisation, on several dimensions. There is the opportunity to source components globally, in order to access the lowest possible cost of parts. There is the need to gain global scale, to drive down internal engineering and manufacturing costs per unit sold. And there is the opportunity to learn from different markets, in terms of discovering new segments, technologies and features that can be leveraged in other countries around the world.

Ford, arguably, saw the global opportunity long before most OEMs. After all, Ford opened a sales office in the UK as long ago as 1909, and built a factory there in 1911. The company was present ahead of other rivals in Asia and Latin America as well. But these overseas units were run essentially as disconnected outposts for many years, arguably well into the 1990s. As we have seen, Trotman's Ford 2000 initiative was an attempt to bring together the disparate pieces and forge them into a global whole, with all the benefits that this would entail.

However, globalisation has been neither well-executed at Ford nor financially rewarding – and of course these two facts are interlinked. As Table 10.1 shows, from 1990 through 2006 Ford's overseas automotive units (Ford Europe, Premier Automotive Group, Latin America, etc.) had together cumulatively lost over $3.5 billion.[13] Obviously, Ford had not figured out how to design and market its products successfully in these markets[14] (and in the case of PAG, how to find synergy across its multiple brands).[15] Further, the company had great difficulty in bringing products from these markets back to the US, despite numerous experiments (e.g. the Capri of the 1970s, the XR4TI of the 1980s, and the Mondeo of the 1990s). If there is any argument in favour of Ford's approach to globalisation to date, it might be from the perspective of human resources: Ford's non-NAFTA operations have long been a breeding ground of talent for executives that later rose very high in the

Table 10.1 Ford cumulative net income by operation, 1990–2006 (billions of dollars) Numbers ignore gains or losses on sales of assets; rounding prevents exact footing.

Activities and regions			*Total*	*SUV boom (a) 1990–2000*	*Post-boom(a) 2001–2006*
Automotive operations	North America (NA)	Vehicles	21.2	24.7	−3.5
		Visteon (b)	2.4	2.4	0
		Total	23.6	27.1	−3.5
	Outside NA	Europe	−1.9	−1.8	−0.1
		PAG (c)	−1.7	N/A	−1.7
		ROW	−0.2	−0.4	0.2
		Total	−0.8	−2.2	−1.6
	Total		19.8	24.9	−5.1
Finance	Ford Credit		24.1	12.5	11.6
	Associates (d)		3.0	3.0	N/A
	Total		27.1	15.5	11.6
Hertz			2.1	1.5	0.6
Total			49.0	41.9	7.1

Notes:
(a) To illustrate the impact of the declining profitability of Ford SUVs in North America, the period is split into SUV boom and a post-boom periods. The year 2000 is used as a somewhat arbitrary inflection point because, even though SUV unit sales rose slightly after 2000, in that year discounts on SUVs began to dramatically increase, and Detroit's competition (Asian and European SUVs) passed the 1/3 market share point for the first time. While almost all other business units continued their prior trajectories, the collapse in NA vehicle profit as a result of the boom's end is clear.
(b) It should be noted that although Visteon was formally spun off from Ford in 1999, thus removing its profits and losses from the Ford income statement, it nevertheless became quite a drag on Ford in the 2000s, as the former parent found itself paying for Visteon's weakening situation in various ways, from the collapse of the value of its investment in the firm (a balance sheet item for Ford), to costly employment guarantees for Visteon workers (who if laid off from the supplier were usually allowed to 'flow back' to Ford plants), to Ford's reacquisition of various loss-making Visteon plants that the latter could not make economically viable, but on whose output the former remained dependent.
(c) Premier Automotive Group (includes various over time Jaguar, Aston Martin, Land Rover, Volvo, &c), formally created in 2000/1.
(d) Other financial operations other than The Associates included in this line include the APCO extended warranty unit and the AMI leasing company.

Ford hierarchy: Trotman and Nasser themselves of course were 'imports' in this way.

Thus, from the harsh perspective of financial results, especially with the sale or possible sale of non-US units Aston Martin, Jaguar, Land Rover and Volvo all in mind, it cannot be said that Ford has been able to solve the global puzzle. It is especially painful to note that, as the 'Chinese century' begins, Ford badly lags most rivals in China.

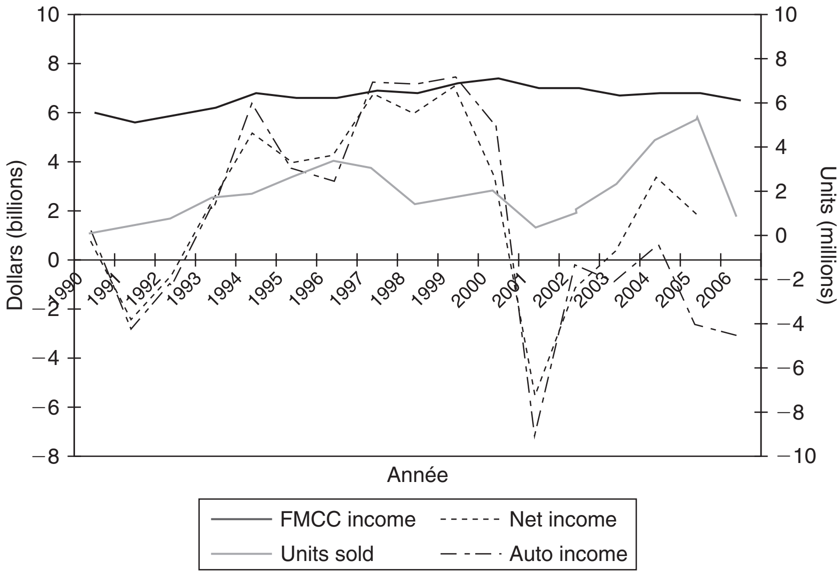

Figure 10.2 Ford Motor Company units sold and financial results, 1990–2006
Note: $16 billion gain on sale of The Associates in 1998 excluded from income.
Source: Company financial statements.

Financialisation

While Ford initially trailed General Motors in the US in this field (establishing its Ford Credit arm only in 1959, whereas GM's lending group dates to 1919), the company soon caught up and in some ways surpassed its larger rival in the world of financing. Ford learned that the profits from issuing loans and leases to car buyers could be greater than those from building cars, and accordingly pursued these revenues aggressively. In fact, from 1990 through 2006 Ford's financial services profits did indeed exceed those of the car operations, by billions of dollars (Figure 10.2). This occurred in part because financing is simply more profitable than car making (for one thing, price levels are less transparent to the customer), and in part because Ford concluded that it could leverage its financial skills beyond cars, to home mortgages and other services, via acquisitions such as The Associates and First Nationwide.

However, financialisation has somewhat fallen out of favour at Ford, as most of the non-automotive finance units have been sold off, the company realising that these assets were worth more in the hands of others than in Ford's, and the cash released has been redeployed back into the car business. Whether management attention paid to the finance businesses has also diverted key resources from automotive challenges is difficult to say, but it is clear that they were managed quite independently, with a separate and specialised management team. A consensus view would be that for car companies, car-related financial services make sense, but non-car services do not.

Distraction

It is clear that Ford has paid a heavy price for its other (non-financial) excursions far afield of the core business of designing and making cars and trucks. Especially in the Nasser era, when dozens of downstream businesses were purchased, but also earlier, during forays into aerospace and other arenas, Ford has spent an undue amount of time and effort on distractions from the car business. Given that profit margins in automotive manufacturing are already slim, the company could not afford the diversion of money, time and human resources to these other pursuits. It is the author's belief, bolstered by numerous interviews with Ford executives over the years, that the price paid for these distractions – in terms of eroding focus on and competitiveness in the core car business – was very high.

The role of M&A must be pointed out in particular. It is instructive to note that some of the best performing OEMs over time have either avoided acquisitions altogether (e.g. Toyota and Honda), or reversed those they did pursue (e.g. BMW and Daimler). Ford, with the frantic pace of its buying and selling (in the case of Hertz even backtracking) could not help but pay less attention to its car business, thereby allowing its rivals to steal a march. Additionally, there seem to be some corporate cultures that handle mergers well and some that do not, and those that do not would be well advised to stay clear of M&A. Numerous observers have commented that Ford has a very distinctive, strong and aggressive corporate culture that does not pay a great deal of attention to outside influences, such as the managers or policies of an acquired company. This stubborn independence of thought can be an asset on many occasions (e.g. in motivating employees to focus on a key goal), but it is probably a liability when it comes to exploiting synergies with allied or acquired firms. Even in the case of Mazda, which has turned out to be quite useful to Ford,[16] one has to say that it took a *very* long time, arguably two decades, before the alliance really began to bear fruit.

Even within the vehicle business distraction was a problem. As noted, the money machine that was the 1990s SUV made Ford incredibly cash rich, for relatively little effort. However, as trucks took the driver's seat at the company, they distracted attention from the car lines, which were allowed to languish. While GM was reinvigorating Cadillac, and Chrysler found its high-end brand partner in Mercedes, Ford's own domestic luxury line, Lincoln, was allowed to slip, such that today it is known mostly as a builder of outdated town cars for use by taxi and limousine firms. The company also failed to reinvest enough in its mid-market car products and production technologies. Then, when the oil price turned and the Japanese arrived in force, and as the high tide of the SUV receded, what were left were the previously hidden rocky flats of a weakened car division. No longer able to rely on trucks to buoy it, Ford found itself fighting for survival against Asian and European competitors who had never taken their eyes off cars. The SUV boom of the 1990s thus proved to be Ford's undoing in the early 2000s.

If there is any lesson from all this, it is that the car business is so difficult, that OEMs must remain laser-focused on that business if they are to survive at all: any distraction could be fatal, and any profits made in good years must be poured back into product development to ensure good health in the lean years. In this way, it can be said that in the modern car business execution trumps strategy: it is more important in making cars to execute consistently and well, than to pick the best market to enter or the right company to buy.

Conclusion

As of ~~early~~ 2008, Ford remains a troubled firm, as noted, and the impending recession in its home American market is threatening to scuttle even the modest progress its turnaround efforts have made. However, it is of course unwise to count this company out yet. It has started to address the issues our three themes raise. In terms of globalisation, Ford Europe seems to be returning at last to profitability, and Mr Mulally is bringing some European Fords to the American market. The company still lags years behind rival GM in terms of global product development systems and Chinese market penetration, but it is moving ahead. As for financialisation, all non-car-related services have been dropped. And as for distraction, it is clear all efforts are now turned to getting the basic car business fixed.

In addition, Ford has taken steps to address two large liabilities that do not fit neatly within the themes mentioned. First, on the cost side, is the issue of employee retirement benefits, and second, on the revenue side, is the challenge of clean and efficient powertrains. As regards the retirement issue, Ford, like its two Detroit rivals, had been increasingly burdened over time with contractual obligations to pay virtually 100 per cent of the health care bills of its retired blue-collar US-based workers. Such pledges were inexpensive when the Ford workforce was younger and the company growing, but as more employees have retired and as the company has shrunk, the necessary payments have grown larger, and the ability to pay them has grown smaller: by 2007 there was almost $1,000 of future health care payments owed to retirees 'embedded' in every Ford vehicle made in the US. With the landmark labour negotiations of autumn 2007, Ford (and GM and Chrysler) have essentially solved the problem by placing all these obligations into ~~a~~ company-funded trust. Such a step entails enormous initial payments, but relieves ongoing operations of this particularly onerous burden.

As to the powertrain issue, Ford like other OEMs has found itself overtaken in the world of 'clean and green' vehicles by high oil prices, tightening emissions and fuel-economy regulations, and competitive initiatives such as the launch of the Toyota Prius (which *as a single model* has, over the course of 2007, outsold *entire multi-model divisions* of Ford, such as Lincoln, Mercury and Volvo~~!~~). The company is now working hard to regain its competitive footing here, launching its own hybrid models and stepping up research into alternative power sources of many kinds. However, it must be said that Ford is still a laggard in this regard, rather than a leader.

Ford Motor Company is one of the oldest and most successful in the industry, and its Model T still reigns as the iconic original motor car for the masses. The ~~firm~~ has abundant cash reserves and deep ranks of management talent, as well as tangible and intangible assets all around the world. Nevertheless, the legacy is at risk, and management clearly recognises this, as it sells off unneeded assets and mortgages the rest. Whether Ford will be here in another 100 years is hard to say, but it seems clear that at least for the present moment the painful lesson of distraction has been learned, and all hands on the Ford ship are rowing hard in the same direction: to rebuilding this once-mighty global institution.

Appendix Table 10.1 Ford, 1990–2006

Year	*Production (millions of units)*			*Workers (worldwide)*	*Financial results (billions of US dollars)*		
	N. America	*Rest of world*	*Total*		*Sales*	*Net income*	*Assets*
1990	3.6	2.2	5.8	370,000	98	0.9	60
1991	3.2	2.1	5.3	333,000	89	−2.2	62
1992	3.7	2.0	5.7	325,000	101	−0.1	67
1993	4.1	2.1	6.2	322,000	109	2.5	74
1994	4.6	2.2	6.8	338,000	129	5.3	82
1995	4.3	2.3	6.6	347,000	138	4.1	86
1996	4.3	2.3	6.6	372,000	148	4.4	95
1997	4.4	2.5	6.9	364,000	155	6.9	102
1998	4.4	2.4	6.8	345,000	146	6.0	106
1999	4.6	2.6	7.2	374,000	162	6.5	111
2000	4.7	2.7	7.4	346,000	172	5.4	108
2001	4.0	3.0	7.0	354,000	163	−5.4	101
2002	4.1	2.9	7.0	350,000	163	0.3	122
2003	3.7	3.0	6.7	354,000	165	0.9	134
2004	3.5	3.3	6.8	347,000	172	3.6	130
2005	3.3	3.5	6.8	340,000	178	2.2	122
2006	3.0	3.5	6.5	337,000	162	−12.6	133

Note: certain amounts, e.g. 2006 income, do not match amounts used in the text or figures, as the amounts here are SEC 10-K certified quantities, which include significant adjustments for write-offs and asset sales, deliberately excluded in the textual discussion.
Sources: Ford; Union Bank of Switzerland.

Notes

1. Throughout this chapter we will follow the American definition of a light truck: any vehicle traditionally built on or derived from a frame-rail chassis, which includes pickup trucks, SUVs and minivans. Over time more and more of these vehicles have migrated to unibody car frames (e.g. Honda Ridgeline pickup truck, Toyota RAV4 SUV, many minivans), so that this definition no longer holds. But through most of the 1990s the distinction was accurate, and so is appropriate in this historical context.
2. An often-posed but as-yet unanswered question is why the spike in gasoline prices did not trigger a similar invasion of European cars in the US, as European vehicles were as fuel-efficient as the Japanese models. Hypotheses on this topic include an unwillingness of European firms to invest in massive engine upgrades required to meet the US's more stringent air quality rules, and a lack of European focus on export markets, given a historic emphasis on defending their own national home bases.
3. SUV is sport utility vehicle, as in, for example, a Land Rover, Jeep, or Ford Explorer.
4. Throughout this chapter we will use the American term for the process of designing and engineering new cars, 'product development'. Our European readers may substitute if they wish the phrase 'research and development', which is an alternative term, used on the eastern side of the Atlantic, for the same thing.
5. It should be noted that Ford at this time was also selling off manufacturing operations not directly linked to car making: the Rouge Steel mill, Ford Aerospace and the Ford New Holland agricultural equipment company were all gone or on the way out of Ford by the mid-1990s.
6. Other 'segment busters' in the American market have included the Ford Mustang of the mid-1960s (which created a new middle ground between the traditional coupé and the outright sports car) and the Chrysler minivans of the 1980s (which invented a new kind of people mover). A European example might be the Renault Megane Scénic of the 1990s, which reinvented the minivan in a size and style specifically tailored to continental tastes.
7. The 'pony car' got its name from the first exemplar of the type, the Ford Mustang.
8. We must remember that pickup trucks are the true mass-market vehicle in the US. The Ford F-150 pickup truck has been the best-selling vehicle in the US every year for the last two or three decades, easily selling 800,000 units in a good year and vastly outstripping car sales leaders such as Accord or Taurus, which struggle to hit 400,000 units. The SUV boom of the 1990s greatly boosted profits for Detroit, but the foundation for those profits lay in the pickups on which the SUVs were based.
9. The deal was actually closed after he retired, in early 1999.
10. Ford did not purchase the other parts of Volvo, such as the heavy-duty truck division, which continued onward as the independent firm AB Volvo.
11. The story of Visteon is not central to this chapter, but the reader may be interested in some commentary. Both GM and Ford decided in the 1980s that their level of vertical integration was too high, yielding to Wall Street pressure to reduce their capital intensity, and seeking to emulate what seemed to be a higher level of outsourcing among the successful Japanese OEMs. They determined to spin off their large internal component-manufacturing operations into independent firms (respectively, Delphi and Visteon) – Chrysler had sold off much of its own parts divisions earlier, in its periods of financial distress. While in theory this might have been a good idea, neither entity was prepared to compete in the open market

and both were too dependent on sales to their parent firms, which would prove disastrous as the two OEMs began to suffer sales declines, and thus cut back their parts purchases. Delphi declared bankruptcy in 2005, and while Visteon is still technically solvent, this is only because Ford in 2005 both took back seventeen of its worst money-losing plants, and absorbed about 18,000 of its excess workforce into its own headcount. At the time of this writing the future of Visteon remains very much in doubt. The impact on Ford of all this has been a modest but steady financial drain (either directly through Visteon losses when still owned by Ford, or indirectly through bailout costs later), and some diversion of managerial talent towards 'fixing' Visteon. The worst of this seems to be over, in that Visteon is likely to sink or swim on its own going forward: there will not be a further bailout.

12. While Bill Ford would not formally adopt the title of CEO until 30 October 2001, it should be noted that even prior to Nasser's departure the Ford heir had begun to assume a more active role in the company, working almost as a co-CEO with him. Thus some developments that might be ascribed to Mr Ford predate his actual assumption of the CEO title.
13. Mazda, as a separate investment, is excluded from these numbers.
14. The case of Ford Europe is especially troubling, given that, as noted, Ford has been in Europe for a long time, and has drawn many top executives from its European operations. Various observers have put forward various explanations for the steady slide in Ford Europe's fortunes (see especially work by Bonin, 2003), but one factor that many accept is the 'homeland' hypothesis. In this reasoning, Ford Europe (and GM Europe for that matter) has done poorly since the UK opened its market wide (after the demise of the domestic OEM conglomerate British Leyland, and later, Rover). As the UK became an offshore European production site for the Japanese and others, Ford found itself with no safe home base, unlike VW (Germany), PSA and Renault (France), and Fiat (Italy). With no secure location in which to make profits to fund attacks elsewhere, Ford found itself on the defensive across Europe, and with no particular national image to leverage (such as, for example, 'German engineering' ~~and~~ 'French style'). Such an across-the-board defence is expensive, and as a result Ford Europe profits are rare.
15. As with Visteon, the story of PAG's disappointment is one of an idea that had some inherent strategic merit foundering in the execution stage. Strategically, the idea was to bolster Ford's weak global presence in the luxury market via acquisition of several brands, and then to leverage those brands jointly in both the upstream and downstream direction. Upstream, they would enjoy lower costs by sharing parts, and downstream they would gain market share by offering customers a broad menu of luxury choices in a 'one stop shopping' multi-brand luxury dealership. But the downstream savings never materialised as the dealerships proved much too hard to merge, and the upstream savings caused a disaster when customers realised (in the case of Jaguar) that they were paying luxury prices for cars made from the Ford mass-market parts bin. Ford eventually realised the problem but ran out of time and money to solve it, such that as of this writing PAG has been dissolved, with Aston Martin sold, Jaguar and Land Rover on the auction block, and only Volvo remaining. Once again, distraction was an issue: without sufficient resources (money and managers) to devote to PAG, it became a costly sideline that sucked up attention that should have been paid to the core North American car business.
16. Mazda in fact is the happy exception to Ford's recently difficult history with non-North American operations, in that the Japanese firm, for example, provides key

product platforms on which various Ford cars are built. As noted, it has taken a long time for Mazda to bear fruit for Ford, but it is now more ~~integral~~ to the company's operations than other, *wholly-owned* divisions. Some observers assert that Mazda has done well because Ford has used a 'light touch' with it, not trying to forcibly integrate it as it has done more aggressively with Jaguar and even Volvo. Another factor in Mazda's favour is that, when Ford realised it had neglected its own small- and mid-sized car development in recent years, Ford saw that Mazda could provide a solution, by loaning its own platforms to the Detroit firm. Ford's relationship with Mazda may be another indication that in the global automotive industry alliances often work better than complete takeovers and acquisitions.

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