

CASE 9 Ford Motor Company: Staying "Ford Tough"

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Introduction

During the financial crisis, the future of Ford Motor Company was hanging in the balance, and no one was certain how to save the once-great company. Question after question without any easy answers . . . How much longer could Ford survive with large losses? Would it have to sell assets or financially restructure? Could it cut enough costs, and where should it cut? Would union leaders realize the situation, and how much would they be willing to help? When would Chinese competitors enter the US market? How could Ford develop its product offerings to adjust for higher fuel costs? How could Ford improve its product offerings to reverse or at least stop its market share losses? How much more market share would it lose?

The magnitude of the situation was overwhelming. To overcome these challenges, it seemed Ford would have to restructure every aspect of its business. It would require improved product offerings with cutting-edge design and high quality; improved operations with more flexibility and lower costs; and improved marketing with better brand image and customer interest. Ford was at a crossroads, and the road ahead remained shrouded in uncertainty.

History

Ford Motor Company has gone through many evolutions since its humble beginnings on June 16, 1903. Engineer and entrepreneur Henry Ford began the corporation (now synonymous with the assembly line, Industrial Revolution, and the "American Dream") with 11 business associates and \$28,000 in capital. Its first car, the Model A, debuted in Detroit amid offerings from 87 other car manufacturing companies in the US.¹ At that time, cars were considered luxury items that only the wealthy could afford. However, Henry Ford believed

these vehicles had the potential to transform society, and with the right manufacturing techniques, they could be made affordable to the general public.

I will build a car for the great multitude . . . large enough for the family, but small enough for the individual to run and care for. It will be constructed of the best materials, by the best men to be hired, and after the simplest designs that modern engineering can devise. It will be so low in price that no man making a good salary will be unable to own one - and enjoy with his family the blessing of hours of pleasure in God's great open spaces.²

The Model T debuted on August 12, 1908. The first moving conveyor belt was introduced at Ford's Highland Park plant in 1914, followed in 1917 by the construction of the Rouge plant, envisioned by Ford as "an all-in-one manufacturing complex, where the processing of raw materials, parts, and final automobiles could happen efficiently in a single place."³ In 1914, Ford produced 308,162 cars, more than all other US automakers combined. Production of the Model T increased from 20,277 vehicles at \$780 each in 1910 to 585,388 at \$360 each in 1916.⁴ The increase in sales and decrease in price was primarily the result of production and supply chain efficiencies related to the implementation of the assembly line manufacturing process and Ford's vertically integrated supply chain.

Henry Ford believed he could manage the entire supply chain more efficiently within his own organization. As Ford expanded, the following process developed:

- Ford employees mined iron ore from Ford-owned pits.
- Ore was transported on Ford ships and tractors.
- The ore was unloaded using Ford cranes.
- Ford steel mills processed the iron ore to make steel plate from which Ford factories built the Model T.⁵

Ford was known to boast that iron ore unloaded at his Rouge plant became the steel components of a Ford vehicle rolling off the assembly line within 48 hours.⁶

Ford also understood that the mass production process would create more jobs that, in turn, would create more people able to afford the lower priced vehicles produced by his company, and he wanted to make certain that Ford employees would be able to afford the vehicles they helped produce. In 1914, he more than doubled the existing minimum wage per day to \$5. Ford viewed the high wage he paid to Ford employees as a “profit-sharing” program.

In 1919, following a dispute with other Ford stockholders, Henry, his wife Clara, and son Edsel purchased all outstanding shares for \$105,820,894 and made Ford Motor Company a family-owned business. Outside ownership of company stock would not be allowed again until 1956.⁷ For many years, the company and the man were inseparable—the public image of the company focused on the personality of its charismatic leader. Having begun the international expansion of the company, at the height of operations, Ford Motor Company operated or sold products in more than 30 countries, including Indonesia, China, Brazil, Egypt, and much of Europe.⁸

Henry’s son Edsel joined the company in 1915, assuming responsibility for the business side of the company (sales, purchasing, advertising, and much of the day-to-day business operations), leaving Henry free to focus on engineering and production. In 1919, Edsel became president of the company, but Henry remained actively involved. Edsel believed that, in addition to its functionality, the auto could be stylish and beautiful and he pushed for aesthetic improvements of the Model T, convincing Henry that the Model T should be available in a variety of colors, despite Henry’s famous statement, “You can have any color, as long as it’s black.”⁹ Other innovations credited to Edsel include the installation of hydraulic brakes, production of a six-cylinder engine in addition to the V-8, and the development of safety glass. In 1922, Ford bought the Lincoln Motor Company, and the Mercury brand debuted in 1938 allowing Ford to enter the medium price market, an area that would benefit from the shift to higher-priced vehicles.¹⁰

Ford Motor Company continued to operate with minimal leadership problems until the death of Edsel Ford in 1943 from cancer. Intense dissension about who should succeed Edsel continued until Henry Ford, at the age of 79, returned from retirement to lead the company. It was widely believed that Henry had never recovered fully from the death of his son Edsel, and in 1945, he resigned at age 82. In his letter of resignation, he recommended that Edsel’s oldest son, Henry Ford II, become his successor.¹¹

By the time Henry Ford II took over, Ford’s US market share had slipped to number three, behind General Motors (GM) and Chrysler. As the nation struggled to recover from World War II, Henry II hired a group of ten young former US Army Air Force officers to create a sophisticated management system including accounting and financial controls. The group eventually became known as the “Whiz Kids” and included financial disciplinarians J. Edward “Ed” Lundy, Arjay R. Miller, and Robert S. McNamara, who eventually became Secretary of Defense in the John F. Kennedy administration. The Whiz Kids are credited with bringing “quantitative analysis and the science of modern management to Ford Motor Company.”¹² Under Henry II’s leadership and with the help of the Whiz Kids, Ford recaptured the number two position in 1950.

In 1956, Ford Motor Company went public, offering 10.2 million shares of Ford stock for sale to the public in what was considered at the time the largest stock issue ever offered. Henry II retained his position as president and CEO and was instrumental in the establishment of Ford Motor Company of Europe in 1967 and the consolidation of its US, Canadian, and Mexican operations into its North American Automotive Operations in 1971 (more than 20 years prior to the North American Free Trade Agreement). He is credited with revitalizing Ford with modern engineering, manufacturing, assembly, and distribution facilities in the US and 22 foreign countries. Henry Ford II served as president from 1945 until 1960, CEO from 1945 until 1979, chairman of the board of directors from 1960 until 1980, and chairman of the finance committee from 1980 until his death in 1987.¹³

The 70s and early 80s were turbulent times in the US automotive industry. Gas prices quadrupled over the span of a few months in the early 70s when the Middle Eastern OPEC nations halted exports to the US and other western nations. Although the embargo lasted only a year, it created conservation awareness within US consumers. Vehicle manufacturers were required to increase the fuel efficiency of their products and the US Big Three automotive manufacturers (Ford, GM, and Chrysler), which manufactured larger, heavier, less fuel efficient vehicles, saw sales decline while sales of Japanese imports (Toyota, Honda, and Nissan), which met the new fuel efficiency standards, increased.¹⁴ Ford responded in the 80s by cutting its workforce and closing plants.

Ford’s rebound started with the 1988 introduction of the Ford Taurus and Mercury Sable, the popularity of which enabled Ford to increase its share of the US auto market to 22%—its largest in ten years. In the late 80s, Ford began to diversify its product offerings with the hope of expanding profits and worldwide sales by purchasing luxury European brands such as Aston Martin

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and Jaguar. In 1997, Ford began making a minibus line in China, beating General Motors in the race to produce vehicles for the Chinese market. In 1998, William Clay Ford, Jr. (Bill Ford), the great-grandson of company founder Henry Ford, became chairman of the board, and Jacques A. Nasser, with 31 years of experience with Ford, took over the CEO position in early 1999. Ford purchased the Swedish automaker Volvo in 1999 and formed the Premier Automotive Group (PAG) that would eventually include the European brands Aston Martin, Jaguar, Volvo, and Land Rover.¹⁵

In 2000, Ford spun off its automotive systems supplier Visteon (formerly Ford Automotive Products Operation) as an independent company and purchased Land Rover from BMW to increase its European presence. In July 2001, Nasser, who had acquired the nickname "Jacques the Knife" as a result of his cost cutting efforts including extensive cuts in personnel, resigned from the company. Bill Ford took over the CEO seat, marking the first time since the departure of Henry Ford II in 1979 that a Ford family member held the reins.¹⁶

Ford had not yet fully recovered from the extensive recall of Firestone tires (used as original equipment on Ford Explorers) that cost Ford approximately \$2.1 billion to replace when September 11, 2001 arrived. The terrorist attacks on American soil extracted a heavy toll with Ford suffering net losses totaling \$692 million. Also in 2001, Ford recalled approximately 300,000 cars, including the 1995-96 Ford Contour and Mercury Mystique sedans for possible fire danger from engine overheating problems. In August 2001, Ford announced it would eliminate 4,500 to 5,000 of its salaried employees (approximately 10 percent) using early retirement incentives and, shortly afterward, combined its car and truck engineering groups. In early 2002, Ford announced further cost-cutting measures, including the closure of three North American assembly plants, 35,000 worldwide job

cuts (22,000 in North America), and the discontinuation of four vehicle models—Ford Escort, Mercury Villager, Mercury Cougar, and Lincoln Continental.¹⁷

According to the annual National Automobile Dealers Association (NADA) DATA report, US franchised new car and light truck dealers recorded their third strongest year on record in 2005, selling more than 16.94 million vehicles (up from 16.86 million in 2004). Sales were driven primarily by incentives including cash rebates, attractive financing rates, lease options, and enhanced dealership services. Light trucks outsold cars for the fifth consecutive year and represented 54.8 percent of total new vehicle sales in 2005. Large domestic sedans and crossover utility vehicles led the sales increases, which grew 31 percent and 14 percent, respectively. Small car sales were up by a mere 0.8 percent.¹⁸ Although Ford reported earnings of \$2 billion in 2005, this amount represented a 42 percent decline from its 2004 profit of \$3.5 billion. It was the third straight year that Ford reported a profit; however, gains from international sales in Europe, Asia, and other areas were offset by a \$1.6 billion loss in North American operations as the US auto industry went into decline¹⁹ (see Exhibit 1 for Ford's historical income).

In January 2006, Ford announced plans to cut 25,000 to 30,000 hourly jobs, 12 percent of management positions, and close 14 facilities by 2012 as part of a massive restructuring plan (called "The Way Forward") designed to reverse the \$1.6 billion loss. The cuts represented 20 to 25 percent of its 122,000 remaining North American workforce. Making the announcement, Bill Ford said, "These cuts are a painful last resort, and I'm deeply mindful of their impact. In the long run, we will create far more stable and secure jobs. We all have to change and we all have to sacrifice, but I believe this is the path to winning."²⁰ As anticipated, United Auto Workers president Ron Gettelfinger and vice president Gerald

Exhibit 1 Ford Motor Company Historical Income

Year	Revenue (\$ M)	Net Income (\$ M)	Net Profit Margin	Employees
Dec 2010	128,954	6,561	5.09%	164,000
Dec 2009	118,308	2,717	2.30%	198,000
Dec 2008	146,277	(14,672)	—	213,000
Dec 2007	172,455	(2,723)	—	246,000
Dec 2006	160,123	(12,613)	—	283,000
Dec 2005	177,089	2,275	1.28%	300,000
Dec 2004	171,652	3,487	2.03%	324,864
Dec 2003	164,196	759	0.46%	327,531
Dec 2002	163,420	22	0.01%	350,321
Dec 2001	162,412	(5,453)	—	354,431

Source: Data gathered from Hoover's Company Reports, The Ford Motor Company, www.hoovers.com and <http://corporate.ford.com/investors/reports-financial-information/annual-reports>

Bantom said the news was “extremely disappointing,” and that Ford should focus on gaining market share instead of aligning production capacity with shrinking demand for the company’s vehicles.²¹

Ford was not the only US automobile manufacturer experiencing difficulty in 2006. GM and Chrysler also faced decreasing product demand, increased competition from foreign manufacturers such as Toyota, Nissan, and Honda, and increased spending on high union wages, healthcare, and retiree benefits (known as “legacy costs”) that their non-unionized foreign competitors did not have. With rising gas prices, demand shifted away from trucks and sport utility vehicles (SUVs) produced by US manufacturers to more fuel-efficient cars and car-based crossover vehicles, both strengths of Toyota and the other Asian competitors.²² Toyota passed Ford in July 2006 to become the second largest auto company behind GM in the US in terms of vehicle sales, and Honda outsold Chrysler for the first time.²³

Ford officials realized their business model was outdated and in September 2006, made announcements of further cuts, including an additional 10,000 white-collar jobs. The company would also offer early retirement and buyout packages to 75,000 hourly workers. The new cuts would reduce the total North American workforce approximately 29 percent from 130,000 to 92,000 by the end of 2008. Ford would also close two more plants, bringing the total to 16 since the January announcement, and cease production of minivans. The new goal was to cut \$5 billion in annual operating costs in 2006 and introduce new products that would be more appealing to consumers on a faster production schedule. Mark Fields, Ford’s president of the Americas, said, “We’re dealing with the world as it is – not as it was ten years ago.”²⁴ Ford’s market share had declined steadily from about 26 percent in the early 90s, and it conceded in the announcement that it was ready to accept a smaller share of the market while focusing less on volume and more on profitable sales. With new products and quality improvements, Ford planned for a market share of 14 to 15 percent going forward. New CEO Alan Mulally, who had joined the company the week prior to the announcement, said, “The most important thing we do is to size our company and our capacity to the current demand and, on top of that, to continue to invest in the products and services—the cars and trucks—that the customers really, really want.”²⁵

While Bill Ford had led Ford Motor Company to three straight years of profitability, this period was followed by a sharp decrease in profits and a \$1.44 billion loss in the first half of 2006.²⁶ This motivated him to remove himself from the CEO position and search for a new CEO from outside the industry.

In September 2006, Alan Mulally of Boeing Corporation was selected as the next CEO. Mulally demonstrated the leadership skills Henry Ford had

established many years ago as critical to success and stood out as a qualified successor. Additionally, he came from a “metal-bending business . . . that is buffeted by global competition, has a unionized workforce and is subject to complex regulation and rapidly changing technologies”²⁷ that was similar in many ways to auto manufacturing. Designing new airplane models takes years, so Mulally was aware it would take time to improve Ford’s 2006 product lineup. The decision to hire Alan Mulally would be a major turning point in the history of Ford Motor Company.

While Ford posted a seemingly insurmountable loss of \$12.6 billion in 2006, Mulally made a prophetic decision that would enable Ford to survive and remain independent during the worst new-vehicle market in almost 30 years. Although the US economy was healthy at the time, Ford raised \$23.6 billion in loans by using many of its North American assets as collateral, including the Ford logo. According to Mulally, the money would provide Ford with a “cushion to protect for a recession or other unexpected event.”²⁸

Under Mulally, Ford expanded its plans to increase profitability by “improving its cost structure, introducing new products, strengthening its balance sheet, and operating as a single global team.”²⁹ To focus on its core US brands, Ford began to divest the foreign brands in the PAG and eventually decreased its stake in Mazda to approximately three percent.³⁰ (Ford had held an ownership stake in Mazda since it purchased a 25 percent share in 1979.) Ford’s emphasis on quality resulted in five segment winners in the 2007 Initial Quality Survey by J.D. Power and Associates—more than any other manufacturer that year. All operations were profitable in 2007, except North America, and Ford fell to the number three position in the US vehicle market for the first time since the Great Depression, behind GM and Toyota. Ford also reached an agreement with the United Auto Workers Union. The new four-year collective bargaining agreement contained provisions for reduced retiree healthcare costs, more competitive wages and benefits, and improved operational flexibility. Also in 2007, Ford appointed the auto industry’s first senior executive dedicated to sustainability and formed the Transformation Advisory Council, a group of “nationally known thought leaders from outside Ford” to provide guidance about future technologies and global trends. This group would meet several times each year with Ford executives with the goal of making Ford a leader in sustainability.³¹

With the global economic downturn well underway, by the end of 2008, US auto sales had dropped 37 percent compared to 2007, amounting to approximately 400,000 fewer vehicles sold that year. Toyota had passed GM as the world’s largest automaker in terms of vehicles sold. Suffering from the effects of the financial crisis and

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the global economic recession, Ford, GM, and Chrysler CEOs went to Washington, DC, to ask the US government for a \$34 billion bailout. They argued that the effects of the auto industry were so far reaching that if their companies went out of business, at least three million layoffs would result within one year, sending the US economy even further into recession. At the time, the US auto industry employed approximately 850,000 workers in manufacturing and 1.8 million in dealerships.³² Raw materials producers, parts manufacturers, and other suppliers would also be affected if the US automakers went bankrupt.

Many lawmakers were irritated with the CEOs because they had flown to Washington on private jets to request the bailout funds and were not prepared to discuss their plans for using the money thus, despite the grim picture the CEOs painted, the original request was rejected. The automakers were instructed to prepare and be ready to defend business plans proving that, upon receiving the bailout money, they would be able to generate positive cash flows, thus ensuring they could repay the government loans. The automakers drafted business plans and the CEOs returned to Washington—this time driving hybrid vehicles.³³

In January 2009, the government used \$24.9 of the \$700 billion bailout fund (originally designated to buy mortgage-backed securities that were in danger of defaulting from banks) to bail out GM and Chrysler. In addition, the Presidential Task Force on the Auto Industry was formed to oversee the financial and operational restructuring of GM and Chrysler. Ford had asked for a \$9 billion line of credit. Although Ford lost \$14.7 billion in 2008 (the highest loss in its 105-year history), because of the decision to mortgage Ford's assets in 2006, ultimately, Ford did not need or receive any government bailout funds.³⁴ As there had been intense opposition by US taxpayers to the bailout of the automakers, Ford's exemption from the bailout caused its popularity among the American public to soar, winning new customers and improving its reputation.

Back on the car making side of business, Mulally's focus on product quality won accolades for Ford in March 2009 when *Consumer Reports* recommended 70 percent of Ford's vehicles, compared with only 19 percent of GM's and none of Chrysler's.³⁵ Ford reported a profit of \$2.7 billion for 2009, its first in four years, after the record \$14.7 billion loss in 2008 (see Exhibit 1). The profit was made possible in part by cost cuts and layoffs, to the extent that Ford's hourly workforce at the end of 2009 was less than half of what it had been five years before at the end of 2004. The company continued to produce new vehicles and market their fuel efficiency heavily.³⁶

New vehicle sales in 2009 received support from the federal government when US President Barack Obama

signed the "Cash for Clunkers" bill into law in June. The intent was to modernize America's vehicles on the road and "accelerate national economic recovery."³⁷ This program, officially named the Car Allowance Rebate System (CARS), offered \$3,500 to \$4,500 to people who traded in qualifying used vehicles for new ones with higher fuel efficiency and less harmful effects on the environment. The trade-ins had to be less than 25 years old with fuel economy of 18 miles per gallon or less and had to be sent to salvage. The Bush administration had introduced a similar program in 1992 as a "market-based approach to environmental policy."³⁸

In 2010, US vehicle sales increased 11 percent. Ford passed Toyota to regain the number two position in terms of vehicles sold in the US with sales of 1.97 million vehicles, an increase of 17 percent from 2009. GM was first in terms of US vehicle sales, with 2.22 million vehicles sold. Toyota recalled more than 8 million vehicles worldwide in 2010 primarily due to unintended acceleration flaws. Its total number of vehicles sold in the US was 1.76 million.³⁹ Ford's total sales increased 15.2 percent despite the sale of Volvo to China's Zhejiang Geely Holding in March and the closure of the Mercury brand in the fall. Ford had originally paid \$6.45 billion for Volvo in 1999, but sold it to Geely for \$1.8 billion after struggling for years to make it profitable.⁴⁰

For the first time since 1993, Ford's market share increased for the second consecutive year in 2010 and in February, Ford outsold GM for the first time in more than 50 years (with the exception of several months in 1998 when the GM workers were on strike).⁴¹ At the end of 2010, Ford was the best-selling automaker in Canada for the first time in more than 50 years and sales increased by 32 percent in China and 168 percent in India.⁴² Also in 2010, the Fusion became the first Ford sedan to sell more than 200,000 units in one year since 2004,⁴³ and global sales of the latest generation model Fiesta, available on five continents, surpassed one million.⁴⁴ In addition, the 2011 Fiesta became the first car in its segment (lower small market, or B-market, according to Ward's segmentation) to earn top crash-test ratings in all three of the world's largest auto markets that perform safety testing—the US, China, and Europe.⁴⁵ In 2010, Ford sold approximately 5,524,000 vehicles at wholesale throughout the world and had a net income of \$6.6 billion.⁴⁶

The summer of 2011 has been called the "best summer in years for Detroit carmakers" by *The Detroit News*. Ford, GM, and Chrysler claimed 50.1 percent of the US auto market in June. When a massive earthquake and tsunami hit Japan in March 2011, Japanese automakers and parts suppliers experienced major disruptions in their operations and announced that production would probably not reach normal levels until fall. Toyota,

Honda, and Nissan were all forced to stop production at some of their plants while damages were assessed, resulting in inventory and parts shortages during the first half of the year. In addition, the Detroit Three were producing vehicles that more closely matched consumer needs—vehicles that were smaller, more stylish, and more fuel-efficient. The Chevrolet Cruze became the best-selling car in the US in June, beating the Toyota Camry, Honda Civic, and Honda Accord. Chrysler's Jeep Grand Cherokee and Ford's new version of the Explorer (a more fuel-efficient crossover vehicle compared with the previous SUV version) were also successful. The popularity of these domestic products seemed to indicate that they had emerged from restructuring with some best-in-class vehicles.⁴⁷

Today, Ford Motor Company operates in four business segments in the automotive sector: Ford North America, Ford South America, Ford Europe, and Ford Asia Pacific Africa. Ford's finance unit, Ford Motor Credit, is one of the leading automotive finance companies in the US. In 2011, Ford ranked tenth on *Fortune Magazine's* Fortune 500 list of America's largest companies, after capturing eighth place in 2010.⁴⁸

Ford's accomplishments were made possible primarily through the vision and insight of its executive leadership team.

Strategic Leadership

When Bill Ford made the decision to step down as president and CEO of Ford in 2006, the company was facing recalls, global recessions, and high gas prices. Sales of trucks and SUVs had slowed, and consumers considered its lineup of cars old and stale. Bill Ford said, "We strayed from what got us to the top of the mountain, and it cost us greatly." He decided to ask for help from the board of directors. Ford said,

*At the time, I was chairman, I was CEO, I was COO and I was president. I was wearing all the hats. And they said, 'Well, what do you need? Are you looking for a CEO or a COO?' I said, 'I really don't much care. What I want is the right person.'*⁴⁹

Although Bill Ford determined that the right person was Alan Mulally, the reaction inside the company ranged from suspicion to outrage. Automotive companies frequently hired executives from each other, but the industry was resistant to outsiders, especially at the highest level. The management team was upset, especially those who would have liked to be considered for the position. When questioned about the decision, Bill Ford said that the company needed a fresh perspective. Ford knew that the company had a history of rejecting outsiders and was determined to provide all the assistance and

advice Mulally needed. In a meeting with Mulally prior to his acceptance of the CEO position, Ford told him that his biggest challenge would be breaking down silos, specifically the operating regions around the world that were more interested in defending their turf than working together.⁵⁰

When Alan Mulally arrived at Ford, he discovered for himself that one of Ford's major problems was the lack of global synergy. All groups and brands were working independently as separate businesses. He was surprised that prior to his arrival the plan had been "to operate our eight Fords"⁵¹ (one separate business for each of Ford's brands).

Mulally implemented weekly meetings with Ford's management team, during which each business head would present his results and forecasts. At the first meeting, Mulally was stunned by the lack of transparency within the company. "Why don't all the pieces add up for the total corporate financials?" he asked. One manager responded, "We don't share everything." He said that Ford executives ran their units without meshing with other divisions and sometimes held back information. The following week all executives brought complete figures. According to Mulally, "Data can set you free... You can't manage a secret."⁵²

Ford's leadership team was reorganized in 2007; positions were streamlined, and some people were promoted to head unified global organizations. All product development operations worldwide would report to one person, Group Vice President of Global Product Development, Derrick Kuzak. Purchasing, manufacturing, quality, communications, and other functions were also given a global structure. James Farley, Jr. (a 22-year veteran of Toyota) became Group Vice President of Marketing and Communications (later renamed Global Marketing, Sales, and Service) and Sue Cischke was named Senior Vice President of Sustainability, Environment, and Safety Engineering.⁵³ Although the top management team has been restructured several times since 2007, these executives remain in their positions (see Exhibit 2 for a list of Ford's executive officers).

Alan Mulally

Alan Mulally was named CEO and president of Ford Motor Company in September 2006. He is also a member of the board of directors. Prior to joining Ford, Mulally was an executive vice president at Boeing as well as the president and CEO of Boeing Commercial Airlines. Mulally has received many accolades throughout his career and has been recognized numerous times for his contributions and industry leadership with awards including "Businessperson of the Year" by the readers of *Fortune* magazine, "Industry Leader of the Year" by *Automotive News*, one of "The World's Most

Exhibit 2 Ford Motor Company Executive Officer Group

<p>William Clay Ford, Jr. Executive Chairman and Chairman of the Board</p> <p>Alan R. Mulally President and Chief Executive Officer</p> <p>Michael E. Bannister Executive Vice President – Chairman and Chief Executive Officer, Ford Motor Credit Company</p> <p>Lewis W. K. Booth Executive Vice President and Chief Financial Officer</p> <p>Mark Fields Executive Vice President – President, The Americas</p> <p>John Fleming Executive Vice President – Global Manufacturing and Labor Affairs</p> <p>Tony Brown Group Vice President – Purchasing</p>	<p>Susan M. Cischke Group Vice President – Sustainability, Environment and Safety Engineering</p> <p>James D. Farley, Jr. Group Vice President – Global Marketing, Sales and Service</p> <p>Felicia J. Fields Group Vice President – Human Resources and Corporate Services</p> <p>Bennie W. Fowler Group Vice President – Quality</p> <p>Joseph R. Hinrichs Group Vice President – President, Asia Pacific and Africa</p> <p>Derrick M. Kuzak Group Vice President – Global Product Development</p> <p>David G. Leitch Group Vice President and General Counsel</p>	<p>J C Mays Group Vice President and Chief Creative Officer – Design</p> <p>Stephen T. Odell Group Vice President, Chairman and Chief Executive Officer, Ford of Europe</p> <p>Ziad S. Ojakli Group Vice President – Government and Community Relations</p> <p>Robert L. Shanks Vice President and Controller</p> <p>Nicholas J. Smither Group Vice President – Information Technology</p>
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Source: The Ford Motor Company Annual Report 2010.

Influential People” by *TIME* magazine, “Chief Executive of the Year” by *Chief Executive* magazine, and one of “The Best Leaders” by *Business Week* magazine. He also received the Automotive Executive of the Year Award, the Edison Achievement Award, and was inducted into the Kansas Business Hall of Fame.⁵⁴

In June 2011, Mulally was named “2011 Chief Executive of the Year” by *CEO Magazine*. According to James Turley, chairman and CEO of Ernst & Young and a member of the 2011 selection committee,

*The foresight he showed throughout the process, the courage he showed in making some tough decisions on popular brands, the global mindset he showed and above all, the statesmanship he showed when two major competitors were on the public dole shows he was thinking for the good of the country as well as his company and industry.*⁵⁵

Previous winners include Bill Gates, Jack Welch, Michael Dell, and Herb Kelleher. Prior to his tenure at Ford, Mulally was perhaps best known for his efforts to streamline Boeing’s production system and the associated transformation of the company’s commercial aircraft product line.⁵⁶

Today, Mulally is credited with not only turning around Boeing’s commercial aircraft division, but also downsizing and restructuring Ford’s global operation, revamping Ford’s product lineup, unifying the branches of the organization under the ONE Ford plan, and restoring Ford Motor Company to profitability. His progress at Ford was described by Robert Djurovic, executive director of the Automotive Executive of the

Year Award program, when Mulally was presented with the award on April 13, 2011.

*Alan Mulally shows such clear confidence in his company, its people, its products, and its brand. With his leadership and conviction, Ford Motor Company stood apart from its competitors by standing on its own two feet. And the US consumer—inspired by his quiet confidence and strong belief that Ford Motor Company could manage its own recovery without taxpayers’ hard-earned dollars—got behind him, cheered him on, and bought Ford cars.*⁵⁷

William Clay Ford, Jr.

The current executive chairman of Ford Motor Company is William (Bill) Clay Ford, Jr. Bill Ford has been a member of the board since 1988, and was elected to the office of chairman on January 1, 1999. He is also the chair of the board’s Finance Committee and a member of the Sustainability Committee (formerly the Environmental and Public Policy Committee). Bill Ford also served as CEO from October 2001 to September 2006. As CEO, Bill Ford led the company to three straight years of profitability, after experiencing a \$5.5 billion loss in 2001, by focusing on improving quality, lowering costs, and delivering new products that satisfied customers.⁵⁸

On his step back from CEO to executive chairman, Bill Ford said in an interview with journalist Keith Naughton of *Newsweek*, “I’ve always said that titles are not important to me. This company has been part of my life since the day I was born and will be until the day I

die. What's important is getting this company headed in the right direction."⁵⁹ Bill Ford continues to work with Alan Mulally to focus on the future of Ford Motor Company and the strategies that will move it successfully into the future. He is quoted as saying, "The ongoing success of Ford Motor Company is my life's work. We want to have an even greater impact in our next 100 years than we did in our first 100."⁶⁰

Board of Directors

Ford Motor Company's board of directors is comprised of 15 extremely diverse members representing different corporate and personal backgrounds, ranging from a professor of physics to individuals with careers in consulting, banking, and auditing. Three of the directors are members of the Ford family and six have served on the board of directors for more than ten years (see Exhibit 3 for a listing of board members). Despite the myriad of backgrounds presented in Ford's board of directors, past decisions have shown that the Ford family retains most of the decision-making power and influence, along with approximately 42 percent of the voting stock in the company.

To maintain profitability and competitiveness, Alan Mulally, Bill Ford, and the executive leadership team constantly monitor current and emerging trends in the US and international auto markets.

Trends in the US Auto Market

Dealership Consolidation

In 2005, the US auto market was saturated with dealerships and the demand for US-manufactured vehicles was declining rapidly. Ford consolidated dealerships and by the end of 2010, reduced the number of retail outlets from almost 4,400 to 3,424. GM and Chrysler reduced their dealer ranks by more than 2,200 dealers in bankruptcy reorganization. GM reduced its number of dealers from 5,969 before the 2009 bankruptcy to approximately 4,500, and Chrysler reduced its number of dealers by 789, from 3,100 to 2,311 in February 2011.⁶¹

Most of Ford's cuts were from larger metropolitan markets and the elimination of the Mercury brand. Ford has indicated it may also eventually cut approximately 35 percent of its Lincoln dealerships. After a meeting with Lincoln dealers in October 2010, Mark Fields, Ford's president of the Americas, said, "In the top 150 markets, our vision is to substantially reduce the number of dealers to become competitive... We need to make sure our dealers are competitive in their throughput so they can provide the experience our customers expect."⁶²

Customers

Auto manufacturers sell their cars to a distribution network of dealerships that then sell to fleet customers

Exhibit 3 Ford Motor Company Board of Directors*

Name	Title	Principal Occupation	Director Since
Stephen G. Butler	Director	Retired Chairman and CEO, KPMG, LLP	2004
Kimberly A. Casiano	Director	President, Kimberly Casiano & Associates, Inc.	2003
Anthony F. Earley, Jr.	Director	Chairman and CEO, DTE Energy	2009
Edsel B. Ford II	Director	Director and Consultant, Ford Motor Company	1988
William Clay Ford, Jr.	Chairman	Executive Chairman and Chairman of the Board of Directors, Ford Motor Company	1988
Richard A. Gephardt	Director	President and CEO, Gephardt Group	2009
James H. Hance, Jr.	Director	Senior Advisor to the Carlyle Group	2010
Irvine O. Hockaday, Jr.	Director	Retired President and CEO, Hallmark Cards, Inc.	1987
Richard A. Manoogian	Director	Chairman of the Board, Masco Corporation	2001
Ellen R. Marram	Director	President, The Barnegat Group, LLC	1988
Alan Mulally	Director	President and CEO, Ford Motor Company	2006
Homer A. Neal	Director	Director, ATLAS Project, Professor of Physics, Interim President Emeritus and VP for Research Emeritus, University of Michigan	1997
Gerald L. Shaheen	Director	Retired Group President, Caterpillar	2007
John L. Thornton	Director	Professor and Director, Global Leadership Program, Tsinghua University	1996
William Clay Ford	Director Emeritus	Director Emeritus, The Ford Motor Company	2001

Source: 2011, The Ford Motor Company Corporate Web site, <http://corporate.ford.com>

* Data compiled as of October, 2010.

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(including commercial fleet customers), daily rental car companies, leasing companies, and governments, in addition to the general public. Almost all Ford vehicles and parts are marketed through independently owned dealerships.

Although the auto manufacturers sell to the dealerships, they must be aware of all the factors that can influence the decision to purchase a vehicle, including slowing economic growth (state of the economy), geopolitical events, the cost of purchasing and operating a vehicle, the availability and cost of credit, and fuel. Each manufacturer's share of the market is influenced by how its products are perceived by the customer in comparison to other manufacturers based on such factors as price, quality, styling, reliability, safety, fuel efficiency, effect on the environment (sustainability), functionality, and reputation.⁶³

Today's consumers are more technology-savvy than ever before and with the vast amount of information available on the Internet they have access to an almost unlimited amount of information to compare products to determine the vehicles that meet their needs. Many well-informed consumers choose to shop and negotiate pricing between dealerships, while others prefer to not negotiate price at all, choosing instead to purchase vehicles from companies such as CarMax that sell used vehicles at fixed "no-haggle" prices.⁶⁴

In the past, the car buying experience was considered unpleasant by many customers, particularly those who did not like to negotiate. Stereotypical salesmen used hard sell tactics and showed little consideration for customers. The main focus of many salesmen was to make the sale and earn their commission, with no thought given to creating a positive experience for the customer so s/he would return to the dealership for future purchases of vehicles and/or services. Because profit margins are generally larger on used vehicles and on the sales of products and services after the purchase of a new vehicle (such as maintenance and light repair, collision repair, vehicle accessories, and extended service contracts), the most successful dealerships strive for 100 percent service absorption. In this manner, income generated by the parts and service departments covers the operating expenses of the dealership, making income from the lower-margin sales of new vehicles pure profit.

Historically, US manufacturers paid little attention to customer feedback regarding their preferences on vehicle styles and features, and little attention to feedback from their dealers. Instead, a "push" system of distribution was used, in which a manufacturer's representative would call on dealers to determine what vehicles the dealerships would order. Frequently, dealers had to accept a number of vehicles that were not considered popular or desirable by their customers if

they wanted to receive vehicles that were. Manufacturers produced the vehicles, then "pushed" the vehicles to the dealers who, in turn, "pushed" them to their customers.

As US manufacturers lost market share to their Asian competitors, they realized the need to revise their business plans to place a much higher priority on customer satisfaction, thus creating customers for life. Their production and distribution processes changed from "push" to "pull" and became driven by market forces such as customer demand and preferences.

Many of the new models target specific customer segments, such as the Ford Fiesta and Chevrolet Sonic minicar that target Generation Y buyers. The auto industry targets younger first-time buyers hoping to keep them as customers as they get older. In addition, according to TrueCar.com's lead analyst Jesse Toprak, "Generation Y buyers are very important to automakers because they help set trends, from popularizing social media sites such as Facebook or Twitter or technologies such as the iPhone and iPod."⁶⁵ In July 2011, TrueCar.com released study results indicating that while turning away from the larger manufacturers such as Toyota and Honda, younger buyers still prefer Asian brands to the US manufacturers. Scion was the number one preference, followed by Mitsubishi, Mazda, Nissan, Volkswagen, Kia, Hyundai, Honda, Toyota, and Subaru. The highest-ranking domestic manufacturer, Chrysler, didn't show up until number 12.⁶⁶

Ford and its competitors are seeking to significantly increase their customer bases through international expansion.

Globalization

As the demand for vehicles fell in the US, automakers took steps to increase their presence in international markets, particularly emerging markets such as China and India. Vehicle sales in China rose 46 percent in 2009, ousting the US as the world's largest auto market. Sales of passenger cars, buses, and trucks rose to 13.6 million with Chinese auto sales expected to reach 35 million by 2020, according to J.D. Power and Associates.⁶⁷

US automakers can enter international markets through joint ventures or partnerships with domestic companies, with these partners sometimes collaborating on other international projects as well. Partnerships and joint ventures can be beneficial as each partner can capitalize on the strengths of the other. Ford has participated in joint ventures with companies in China, Germany, Mexico, Taiwan, Turkey, and Vietnam, among others.⁶⁸ GM and its Chinese partner, Shanghai Automotive Industry Corporation (SAIC), have collaborated on a number of successful joint ventures in China and, in early 2011, announced plans to launch a vehicle designed to rival the Maruti Alto and other vehicles in

India.⁶⁹ The Maruti Alto has been one of India's largest selling cars with average monthly sales of approximately 30,000 vehicles. GM has been slow to enter the Indian market, and Tim Lee, GM international operations president, said that SAIC would play a "major role" in the development and launch of new products in India. "The frugal element (in vehicle design and production) is added by SAIC, while GM helps with its branding, distribution set-up, and existing products."⁷⁰ As the world's sixth-largest auto market, India is poised to increase its ranking to third-largest market after China and the US for vehicle sales by 2020 with expected sales of approximately 11 million.⁷¹

Ford currently has approximately three percent of the Indian market and, in June 2011, announced plans to launch eight new vehicles by 2015, with at least five to six small cars included. Ford also plans to expand its sales and service network to more than 200 outlets by the end of 2011, and plans to triple its number of dealerships by 2016. Ford has one manufacturing plant in India that produces the Ford Figo hatchback, and is in discussion with the Gujarat state government to establish a second plant.⁷²

Ford has been slow to enter the Chinese market and currently has only a 2.6 percent market share. While Mulally's attention was focused on fixing Ford in the US, GM was working to gain a 10 percent share of the Chinese market. According to IHS Automotive analyst Michael Robinet, "Asia has been a sore point for Ford for years. GM had so much success in emerging Asia, and Ford was always following along like a baby brother."⁷³ In June 2011, Mulally announced a major global expansion plan that included spending \$1.6 billion in China to build four factories, including an assembly plant and an engine factory in Chongqing. He also announced intentions to triple Ford's product lineup in China to 15 models by 2015. Ford is currently opening approximately two new showrooms per week, and plans to double its distribution network by 2016. Ford's success in China will depend on its new vehicle lineup with new models that share mechanical underpinnings (platforms) worldwide. By using a standardized platform, Ford should be able to reduce operating costs and Mulally believes Ford will be able to offer many models in China profitably for less than \$14,500. Currently, approximately 70 percent of all models sold in China are at that price or lower.⁷⁴

Despite these plans, auto sales in China have slowed and actually fell in April 2011. Even with its new models, Ford will still have gaps in its product lineup. It does not yet have a tiny car to compete with India's \$2,500 Nano from Tata Motors and does not have a contender for China's fast-growing luxury car market. Lincoln is receiving a makeover but will not be ready for sale outside the US for several years. Even so, Chinese

consumers have not been enthusiastic about GM's Cadillac brand, instead preferring Volkswagen's Audi and BMWs. Ford has had sluggish sales in other emerging markets as well, ranking number four in Brazil and number five in Russia, with less than half the sales of GM in each market.⁷⁵

Mulally's new global expansion plan amounts to a 50 percent increase in global sales for Ford and, if successful, would mean that approximately half of Ford's revenues would come from international operations, up from approximately 20 percent currently. It is considered by many analysts to be very ambitious, even for Mulally. According to Jefferies analyst Peter Nesvold, "This is a very dramatic transformation. If they can pull this off, this is a new Ford."⁷⁶

Sustainability

The increasing global focus on sustainability and need to develop alternative power sources for vehicles has significantly influenced the automotive industry and auto manufacturers' efforts to increase their share of both the global and domestic markets. The world population is rapidly increasing and with it, the demand for fuel, thus leading to higher gasoline prices and an increasing impact on the environment.

Ford has produced an annual Sustainability Report since 1999 to offer the public a comprehensive view of the company's progress on environmental, economic, and social issues such as improving fuel economy and safety, decreasing greenhouse gas emissions and water use, and operational sustainability.⁷⁷

Electric/gasoline-powered hybrid vehicles are the most widely used alternative power vehicles today, and several companies offer fully electric vehicles as well. The Chevrolet Volt, *Motor Trend's* 2011 Car of the Year, is an electric car that can use gasoline to create its own electricity and extend its range. The battery is charged by plugging into a standard 120-volt household outlet.⁷⁸ The Volt competes with the Nissan Leaf, a pure electric vehicle with a range of approximately 75 miles between charges. Many plug-in models are in the development process and will be available soon in the US from companies including Ford, Toyota, Honda, and Mitsubishi.⁷⁹

One alternative fuel currently used by automakers is a biofuel, or "farm fuel," E85—a corn-based fuel composed of a blend of 85 percent ethanol (a form of alcohol) and 15 percent gasoline. E85 provides about 25 percent less energy than traditional gasoline, but advocates argue that it will reduce US dependence on foreign oil and develop a domestic industry that supports farmers.⁸⁰ Since it is plant based, it is a renewable energy source. However, opponents contend that large amounts of farmland and labor are required to make ethanol from corn, and using significant amounts for

fuel could limit the amount available for food, thus driving up prices.

Hydrogen fuel cell vehicles (FCVs) are still in the early stages of development, but have the potential to reduce US dependence on foreign oil significantly and lower emissions that cause climate change. FCVs look like ordinary vehicles, but contain technologically advanced components such as a fuel cell stack that converts hydrogen gas stored onboard with oxygen from the air into electricity to run the electric motor that propels the vehicle. A storage tank stores hydrogen gas compressed at extremely high pressure to increase driving range and a power control unit governs the flow of electricity. FCVs emit only heat and water (steam) from their tailpipes. Manufacturers are currently working to solve issues involving safe onboard hydrogen storage, high vehicle cost, fuel cell durability and reliability, how to deliver hydrogen to consumers, and public acceptance of the dependability and safety of the vehicles.⁸¹

Rules and regulations on vehicle mileage and emissions standards are established by the federal government. Recently the Obama administration and the auto manufacturers were in negotiations over new standards that could reduce global warming emissions by millions of tons per year and decrease oil imports by billions of barrels during the life of the program. Proposed regulations would require new US cars and trucks to reach an average of as much as 56.2 miles per gallon by 2025 with increases in fuel efficiency of nearly five percent per year for cars from 2017 to 2025.⁸² This would place US fuel efficiency at the same level as Europe, China, and Japan.

The automakers requested that the government phase in the standard gradually and wanted assurance that the government would help build the charging stations needed for electric and plug-in hybrid-electric vehicles. The manufacturers agreed that the standard could be achieved, but they expressed concern that US consumers would not accept the smaller, lighter, and, in some cases, more expensive vehicles. Gloria Bergquist, vice president for public affairs at the Alliance of Automobile Manufacturers (the leading industry lobby in Washington), said, "We can build these vehicles. The question is, will consumers buy them?" The manufacturers also warned that it would cost billions of dollars for development.⁸³ After talks with the automakers, the Obama administration eased the requirements to 54.5 mpg, with a 3.5 percent per year increase in fuel efficiency for light trucks through 2021, but kept the requirement for passenger cars at five percent. By July 28, 2011, Ford, GM, Chrysler, and Toyota had indicated they would support the proposal, but Mazda, Volkswagen AG, and Daimler AG indicated they would probably not, claiming that the guidelines gave unfair benefits to full-size pickup trucks, a staple

in the product lineup of the Detroit Three, and placed the major increases on passenger cars. The formal proposal is scheduled to be disclosed by September 30, 2011, and the final ruling should be made by the end of July 2012.⁸⁴

Ford has already invested billions of dollars in the research and development of new fuel-efficient products in response to consumer demands. Currently, the company has 12 vehicles with best-in-class fuel economy and 4 models with at least 40 mpg.⁸⁵ According to the J.D. Power 2011 Automotive Performance, Execution, and Layout (APEAL) study, all of Ford's newer retail vehicles earned fuel efficiency ratings that were above their segment averages. Eight vehicles ranked in the top three in their respective segments, including the Fiesta, Explorer, and F-150 trucks. The F-150 is the only large pickup that received an award for both Initial Quality and APEAL in 2011.⁸⁶ The APEAL study is an annual survey that asks consumers to rate the performance, execution, and layout of their new vehicle after three months of ownership. Ford posted the highest scores of the Detroit automakers and outperformed Toyota and Honda as well. Lincoln scored higher than any other domestic luxury brand.⁸⁷

US Auto Industry Competitive Market

Recovery from the global economic recession has been slow and in 2010, dealers faced challenges including low disposable income among consumers and the discontinuation of several brands including Mercury, Saturn, and Pontiac. This led to the closure of 760 franchised dealerships in 2010. In 2011, the earthquake in Japan disrupted production and rising gas prices again affected consumer demand. The demand for small cars and crossover vehicles rose, leading to an overall increase in new vehicle sales of 26.6 percent and 14.8 percent in used vehicle sales. One positive result of the Japanese earthquake was lower inventory of vehicles in dealerships, which meant it cost less for dealerships to finance their inventories. Paul Taylor, chief economist for the National Automobile Dealers Association, said,

Despite challenges such as higher gasoline prices and generally slow economic growth, dealers have managed to increase sales while keeping their expenses low. As production ramps up in July and lenders increase their loan volume, we can expect to see continued growth in both sales and profits.⁸⁸

In June 2011, sales for the Detroit automakers increased their combined market share to just over 50 percent while leading Japanese manufacturers continued to report sales declines. Compared with March 2011

when the earthquake struck Japan, Nissan's US vehicle inventories were down 7.3 percent, Toyota's were down 39.5 percent, and Honda's were 47.2 percent lower, according to auto research firm Edmunds.com. While Nissan had larger US dealer inventories than its Japanese competitors, Toyota and Honda continued to work to restore production at their Japanese and overseas plants. They do not expect that US dealership inventory levels will return to normal until fall 2011.⁸⁹

At the end of 2010, Ford had 16.7 percent of US sales, an increase from 15.5 percent of US sales in 2009 and 15 percent in 2008.⁹⁰ At the end of the second quarter 2011, Ford had 18.4 percent of the total US market, compared with GM (20.4 percent), Chrysler LLC (11.4 percent), Toyota (10.5 percent), Honda (8.0 percent), and Nissan (6.8 percent). Hyundai and Kia have also increased their presence in the US market with 5.6 percent and 4.3 percent of the US market, respectively⁹¹ (see Exhibit 4).

Exhibit 4 Sales and Share of Total US Automotive Market by Manufacturer as of June 2011

	SALES			YTD SALES			% MARKET SHARE			
	June 2011	June 2010	% Chg	2011	2010	% Chg	June 2011	June 2010	YTD 2011	YTD 2010
General Motors	215,335	194,716	10.6	1,261,610	1,076,993	17.1	20.4	19.8	19.9	19.2
Total Cars	95,416	74,918	27.4	533,825	424,207	25.8	9.1	7.6	8.4	7.6
Total Light Trucks	119,919	119,798	0.1	727,785	652,786	11.5	11.4	12.2	11.5	11.6
Ford Motors	193,415	170,695	13.3	1,069,736	953,146	12.2	18.4	17.4	16.9	17.0
Total Cars	73,116	62,519	17.0	399,937	354,882	12.7	6.9	6.4	6.3	6.3
Total Light Trucks	120,299	108,176	11.2	669,799	598,264	12.0	11.4	11.0	10.6	10.7
Chrysler LLC	120,394	92,482	30.2	639,932	527,219	21.4	11.4	9.4	10.1	9.4
Total Cars	31,659	30,065	5.3	163,570	157,849	3.6	3.0	3.1	2.6	2.8
Total Light Trucks	88,735	62,417	42.2	476,362	369,370	29.0	8.4	6.3	7.5	6.6
Toyota USA	110,937	140,604	-21.1	812,788	846,542	-4.0	10.5	14.3	12.8	15.1
Total Cars	56,558	78,448	-27.9	443,550	472,214	-6.1	5.4	8.0	7.0	8.4
Total Light Trucks	54,379	62,156	-12.5	369,238	374,328	-1.4	5.2	6.3	5.8	6.7
American Honda	83,892	106,627	-21.3	607,442	593,909	2.3	8.0	10.8	9.6	10.6
Total Cars	44,261	62,229	-28.9	338,715	347,499	-2.5	4.2	6.3	5.3	6.2
Total Light Trucks	39,631	44,398	-10.7	268,727	246,410	9.1	3.8	4.5	4.2	4.4
Nissan NA	71,941	64,570	11.4	504,973	440,332	14.7	6.8	6.6	8.0	7.8
Total Cars	46,726	42,674	9.5	341,367	299,909	13.8	4.4	4.3	5.4	5.3
Total Light Trucks	25,215	21,896	15.2	163,606	140,423	16.5	2.4	2.2	2.6	2.5
Hyundai America	59,209	51,205	15.6	322,797	255,782	26.2	5.6	5.2	5.1	4.6
Total Cars	45,840	39,628	15.7	260,274	188,363	38.2	4.4	4.0	4.1	3.4
Total Light Trucks	13,369	11,577	15.5	62,523	67,419	-7.3	1.3	1.2	1.0	1.2
Mazda America	19,307	18,238	5.9	122,379	115,719	5.8	1.8	1.9	1.9	2.1
Total Cars	12,233	12,651	-3.3	78,120	78,417	-0.4	1.2	1.3	1.2	1.4
Total Light Trucks	7,074	5,587	26.6	44,259	37,302	18.7	0.7	0.6	0.7	0.7
Mitsubishi NA	8,299	4,198	97.7	44,115	26,490	66.5	0.8	0.4	0.7	0.5
Total Cars	4,367	3,099	40.9	26,042	18,243	42.8	0.4	0.3	0.4	0.3
Total Light Trucks	3,932	1,099	257.8	18,073	8,247	119.1	0.4	0.1	0.3	0.1
Kia America	45,044	31,906	41.2	245,104	170,069	44.1	4.3	3.2	3.9	3.0
Total Cars	28,558	16,793	70.1	146,561	91,884	59.5	2.7	1.7	2.3	1.6
Total Light Trucks	16,486	15,113	9.1	98,543	78,185	26.0	1.6	1.5	1.6	1.4
Subaru America	19,794	21,601	-8.4	132,049	125,960	4.8	1.9	2.2	2.1	2.2
Total Cars	14,148	13,819	2.4	93,633	81,714	14.6	1.3	1.4	1.5	1.5
Total Light Trucks	5,646	7,782	-27.4	38,416	44,246	-13.2	0.5	0.8	0.6	0.8

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Exhibit 4 Sales and Share of Total US Automotive Market by Manufacturer as of June 2011 (Continued)

	SALES			YTD SALES			% MARKET SHARE			
	June 2011	June 2010	% Chg	2011	2010	% Chg	June 2011	June 2010	YTD 2011	YTD 2010
American Suzuki	2,278	2,035	11.9	13,402	11,549	16.0	0.2	0.2	0.2	0.2
Total Cars	552	718	-23.1	3,746	2,420	54.8	0.1	0.1	0.1	...
Total Light Trucks	1,726	1,317	31.1	9,656	9,129	5.8	0.2	0.1	0.2	0.2
Mercedes-Benz	22,563	18,997	18.8	118,021	106,972	10.3	2.1	1.9	1.9	1.9
Total Cars	12,845	13,022	-1.4	71,738	68,649	4.5	1.2	1.3	1.1	1.2
Total Light Trucks	9,718	5,975	62.6	46,283	38,323	20.8	0.9	0.6	0.7	0.7
Saab	323	216	49.5	3,436	1,346	155.3	...	...	0.1	...
Total Cars	323	209	54.5	3,436	1,259	172.9	...	...	0.1	...
Total Light Trucks	...	7	...	...	87	...	...	...	...	...
Volvo	7,100	4,995	42.1	36,303	28,206	28.7	0.7	0.5	0.6	0.5
Total Cars	4,202	2,412	74.2	21,178	14,848	42.6	0.4	0.2	0.3	0.3
Total Light Trucks	2,898	2,583	12.2	15,125	13,358	13.2	0.3	0.3	0.2	0.2
VW America	28,444	21,051	35.1	154,124	126,012	22.3	2.7	2.1	2.4	2.2
Total Cars	24,463	17,535	39.5	130,836	105,501	24.0	2.3	1.8	2.1	1.9
Total Light Trucks	3,981	3,516	13.2	23,288	20,511	13.5	0.4	0.4	0.4	0.4
Audi America	10,051	8,601	16.9	55,909	48,440	15.4	1.0	0.9	0.9	0.9
Total Cars	7,479	5,981	25.0	40,060	35,348	13.3	0.7	0.6	0.6	0.6
Total Light Trucks	2,572	2,620	-1.8	15,849	13,092	21.1	0.2	0.3	0.3	0.2
BMW NA	21,637	19,182	12.8	113,705	100,632	13.0	2.1	1.9	1.8	1.8
Total Cars	15,474	14,490	6.8	82,338	78,423	5.0	1.5	1.5	1.3	1.4
Total Light Trucks	6,163	4,692	31.4	31,367	22,209	41.2	0.6	0.5	0.5	0.4
Porsche NA	2,546	2,141	18.9	15,542	10,984	41.5	0.2	0.2	0.2	0.2
Total Cars	1,537	1,645	-6.6	8,665	8,379	3.4	0.1	0.2	0.1	0.1
Total Light Trucks	1,009	496	103.4	6,877	2,605	164.0	0.1	0.1	0.1	...
All Others	10,386	9,066	14.6	56,507	44,239	27.7	0.1	0.2	0.1	0.1
Total Cars	7234	5276	15.3	39215	29275	34.0	...	...	...	...
Total Light Trucks	3152	2790	13.0	17292	14964	15.6	...	...	...	...
TOTAL CAR	527,344	499,743	5.5	3,229,498	2,862,764	12.8	50.1	50.8	51.0	51.0
TOTAL TRUCK	525,904	483,995	8.7	3,103,068	2,751,258	12.8	49.9	49.2	49.0	49.0
TOTAL LIGHT VEHICLE SALES	1,053,248	983,738	7.1	6,332,566	5,614,022	12.8	100.0	100.0	100.0	100.0
Selling Days	26	25	...	152	151	...	...	...	...	...

Source: www.motorintelligence.com via The Wall Street Journal Market Data Center, Auto Sales, <http://online.wsj.com>

To keep increasing its market share, Ford must continue to monitor the actions of its competitors.

Chrysler Group LLC

In 1920, the Maxwell Motor Car Company went into receivership and former Buick president and General Motors vice president Walter Chrysler was hired to reorganize the company. He became president in 1923 and took over the company in 1925, renaming it after himself. Chrysler became known as one of the US Big Three automakers, surpassing Ford as number two in 1933, but slipping back to third place by 1950. During

the OPEC embargo in the 70s, Chrysler continued to make large cars in spite of quadrupled gas prices, giving little attention to changes in consumer demand. Faced with bankruptcy, \$1.5 billion in federal loan guarantees were obtained from the federal government and in 1978, Lee Iacocca, a former president of Ford, joined the company as CEO. By 1983 and seven years ahead of schedule, Chrysler had repaid all guaranteed loans and in 1984, Chrysler introduced the first minivan. During an economic downturn in 1992, Iacocca resigned. In 1998, Daimler-Benz acquired Chrysler for an estimated \$37 billion in, what was at the time, the largest takeover of a

(Continued)

US firm by a foreign buyer. It spent the next eight years as part of the DaimlerChrysler organization.⁹²

At year-end 2006, DaimlerChrysler employed approximately 360,000 people and sold almost 4.7 million vehicles (both passenger and commercial) to consumers in 200 different countries.⁹³ Similar to the financial struggles experienced by Ford and GM, DaimlerChrysler announced a \$1.2 billion loss in 2006, a 9 percent decrease in sales, and a 0.5 percent decrease in market share to 13.5 percent.⁹⁴ Ultimately, the merger had not proven to be beneficial for Daimler and, in August 2007, the majority interest of Chrysler was divested to a private equity group, Cerberus Capital Management, for \$7.4 billion. Former Home Depot executive Robert Nardelli became CEO and Thomas LaSorda was named vice chairman and president.

As the global economic recession and financial crisis accelerated in 2008, Chrysler implemented cost-cutting measures such as reducing the number of dealerships through consolidation, requesting a five percent cost reduction from non-production parts suppliers, and spinning off its Walter P. Chrysler Museum into a not-for-profit organization. In 2009, Chrysler went through Chapter 11 bankruptcy reorganization and continued to operate with loans from the federal government. On May 14, 2009, Chrysler terminated franchise agreements with 789 dealerships (approximately 25 percent of Chrysler's dealer network) to lower distribution costs and increase profitability of its remaining dealers.⁹⁵

In June 2009, Chrysler entered a partnership giving Fiat, S.p.A. a 20 percent stake in Chrysler as it emerged from bankruptcy. Fiat's Sergio Marchionne became CEO and C. Robert Kidder became chairman of the board of directors. In 2010, Chrysler posted net revenues of \$41.9 billion and launched 16 all new or "significantly refreshed" vehicles. US vehicle sales rose 17 percent compared with 2009 and market share improved from 8.8 percent to 9.2 percent.⁹⁶ By April 2011, Fiat had increased its stake to 30 percent, and on May 19, 2011, Chrysler announced a \$7.5 billion refinancing plan that included paying off the US government loans and a further increase of Fiat's stake in Chrysler.⁹⁷

By the end of July 2011, Fiat owned a controlling stake of 53.5 percent of Chrysler. Fiat's stake is expected to increase to 58.5 percent later in 2011, and Marchionne has indicated that he intends to raise it even higher.⁹⁸ Joe Phillippi of AutoTrends Consulting Inc., said, "This is going to be one company one way or another, so it makes sense to announce these changes now. People need to know who is in charge."⁹⁹ In early July, Marchionne told reporters in Zurich, "We'll be a single company in terms of leadership pretty quickly."¹⁰⁰ Then, on July 28, Marchionne announced the new structure and management team. Marchionne,

CEO of both Fiat S.p.A and Chrysler Group LLC, will remain in charge of both automakers in North America under a new Group Executive Council. The council will be responsible for running both day-to-day business and establishing a unified strategy for both Fiat and Chrysler. In addition to Marchionne, the council includes 16 executives from Fiat and six from Chrysler. Marchionne stated, "We have now reached the right moment to step on the accelerator of the Fiat-Chrysler integration. We recognize in these leaders the future of Fiat-Chrysler as an efficient, multi-national competitor in a global automotive marketplace."¹⁰¹

Fiat provided technology, platforms, and power trains for smaller and mid-size cars that Chrysler needed. Today Chrysler products include the Chrysler, Jeep, Dodge, and Ram brand vehicles, along with MoPar parts and accessories. Chrysler products are sold in more than 120 countries worldwide. It also manufactures and sells the Fiat 500 in North America.¹⁰²

In line with its competitors, Chrysler has also invested in the development of more fuel-efficient technologies and has focused its efforts on reducing fuel consumption and emissions, vehicle energy demand, engines, transmissions, axles, and alternatively fueled powertrains including flex-fuel, compressed natural gas, hybrid, and fully electric vehicles. In 2010, Chrysler introduced the Pentastar V-6 engine designed to increase fuel efficiency by seven percent over previous engines. A small, fuel-efficient engine from Fiat was introduced with the December 2010 production launch of the Fiat 500: a 1.4 liter four-cylinder Fiat Fully Integrated Robotized Engine (FIRE) that incorporates Fiat's MultiAir technology. This engine will provide an up to 7.5 percent improvement in fuel economy and CO₂ emissions, while enhancing vehicle performance. The MultiAir technology will be adapted for use in future Chrysler engines, and a fully electric version of the Fiat 500 is slated for introduction to the US market in 2012.¹⁰³

General Motors

Believing that manufacturers could benefit if they joined together, William Durant, who had purchased the failing Buick Motors in 1904, founded General Motors 1908. He bought 17 additional companies including Oldsmobile, Cadillac, and Pontiac by 1910, and formed a company with racecar driver Louis Chevrolet in 1915.¹⁰⁴

Alfred Sloan, president of GM from 1923 to 1937, is credited with building GM into a corporate behemoth. Unlike Ford, which at the time offered cars only in black, GM offered a range of models and colors and by 1927, was established as the industry leader. GM continued to prosper until the Japanese automakers entered the market in the 70s. In 1984, GM established a joint venture with Toyota forming the New United Motor Manufacturing

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Inc. (NUMMI) to explore whether Toyota's manufacturing processes would be successful in the US and, in 1990, launched the Saturn brand.¹⁰⁵ In 1999, GM spun off its auto parts manufacturing company, Delphi, and in 2000, company president Rick Wagoner took over as CEO. Despite workforce reductions since 2000 of over 40 percent, on November 21, 2005, GM announced plant closings and additional workforce reductions that would result in an annual reduction of expenses of \$7 billion and a 30 percent reduction in capacity.¹⁰⁶

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In 2007, fighting for healthcare for retirees, the UAW called for a strike against GM. This was the first nationwide strike against GM in more than 35 years. The strike lasted two days and resulted in a deal that created a \$50 billion independent health care trust (with GM providing most of the funding). Later in 2007, GM reported an annual loss of \$38.7 billion, the largest annual loss in the history of the automotive industry. The company then offered buyouts to as many as 74,000 hourly workers in the US with approximately 35,000 workers accepting the buyout terms (about one-third of GM's hourly workforce). In addition, GM cut seven percent (approximately 25,000 jobs) of its white-collar workers.¹⁰⁷

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GM lost approximately \$32 billion in 2008 and by the time it returned to Washington in 2009 to present its business plan, GM reported that it might not have enough funds to survive another month without government assistance.¹⁰⁸

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In mid-2009, GM ended its brief government-supervised bankruptcy reorganization and emerged from Chapter 11 with fewer brands, less debt, and fewer operating costs. The US government owned approximately 60 percent of GM at that time. GM withdrew from the NUMMI joint venture with Toyota and continued to divest brands. Saturn was discontinued after a plan to sell it to Penske Automotive Group failed.¹⁰⁹

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In November 2010, GM raised \$20.1 billion in the biggest initial public offering (IPO) in US history. Shares were priced at the top of the proposed range as a result of investor demand, which indicated an increase in investor confidence that GM would be able to move beyond its taxpayer-funded bankruptcy.¹¹⁰ The US Treasury sold 358 million shares to reduce its ownership in GM to slightly less than 37 percent of the company.¹¹¹ By July 2011, the US government still owned approximately 26 percent of GM but had managed to recover \$23.1 billion of the \$49.5 billion in bailout funds that GM had received.¹¹²

GM currently employs approximately 209,000 people and manufactures its cars and trucks in 31 countries.¹¹³ Its annual sales in 2010 amounted to \$135 billion.¹¹⁴ By mid 2011, GM and its strategic partners produced, sold, and serviced the Buick, Cadillac, Chevrolet (Chevy), GMC, Daewoo, Holden, Isuzu, Jiefang, Opel,

Vauxhall, and Wuling brands. Its largest national market was China, followed by the US, Brazil, the United Kingdom, Germany, Canada, and Russia.¹¹⁵

GM manufactures the Chevrolet Volt, an "all-electrically driven" vehicle with a range of up to 379 miles. The Volt is powered by the Voltec propulsion system consisting of a 16-kWh lithium-ion battery pack and electric drive unit that gives the Volt a pure electric range between 25 and 50 miles. Its four-cylinder 1.4 L gasoline-powered engine extends the range of the vehicle an additional 344 miles on a full tank of fuel. The engine operates the vehicle's electric drive system until it can be plugged in and recharged or refueled. Electric-only vehicles, unlike the Volt, can't be operated when recharging.¹¹⁶ GM also offers five hybrid vehicles: Chevrolet Tahoe, Chevrolet Silverado, GMC Yukon, GMC Sierra, and Cadillac Escalade. Seventeen vehicle models from all four US brands can run on E85 (a fuel blend of 85 percent ethanol and 15 percent gasoline), and hydrogen fuel cell vehicles are being tested.¹¹⁷

GM won accolades in 2011 when the Chevy Cruze compact model became the best-selling passenger car in the US in June, surpassing traditional leaders Toyota Camry and Honda Civic. This was the first time in years that a US manufacturer won top honor in the passenger car category. The Cruze was the third best-selling vehicle overall, behind Ford's F-Series and Chevy Silverado trucks. Although the Japanese manufacturers were still suffering from the effects of the massive earthquake and tsunami in March, this indicates that GM is making significant progress with the design of its small cars. Alan Batey, US vice president of Chevrolet Sales and Service, remarked, "Chevrolet's investment in advanced engine technology is reflected in the increased popularity of our four-cylinder models. These technologies offer the performance and refinement drivers expect from Chevy in smaller engines that deliver the fuel efficiency they want."¹¹⁸

Toyota

Japanese automaker Toyota Motor Company has made tremendous strides in increasing market share and sales volume in the North American automotive market since its first vehicle, the Toyopet Crown, was introduced. Although the Crown was underpowered for the US market, the Corona (1965) and Corolla (1968) models became highly popular. In 1989, the Lexus line was launched in the US. In 1997, the Prius—the first mass-produced hybrid (electric- and gas-powered) vehicle—was introduced. In 2008, worldwide Prius sales exceeded 1 million vehicles, and in 2010, exceeded 2 million.¹¹⁹ The success of Toyota and the other Japanese manufacturers in the US led to the change in the "Big Three" moniker; Ford, GM, and Chrysler instead became the "Detroit Three."¹²⁰

Although Toyota passed GM in 2008 to become the world's largest auto manufacturer, it also posted its first operating loss in more than 70 years in 2009, with global sales falling four percent.¹²¹ Faced with the economic downturn and financial crisis, Toyota saw its revenue decrease approximately 20 percent in 2009 over 2008, but the declines lessened in 2010 with only a seven percent decrease in vehicle sales.¹²²

Historically, Toyota's appeal has been based on its vehicle lineup, quality, safety ratings, and resale value. Toyota offers a diverse vehicle lineup that includes sub-compacts, luxury, and sports vehicles, SUVs, trucks, minivans, and buses. Its vehicles are produced with either internal combustion engines or hybrid engines. Popular models include the Camry, Corolla, Land Cruiser, and luxury Lexus line.¹²³

In late 2009 and 2010, Toyota faced record recalls for unintended acceleration problems in the Prius model. From fall 2009 through spring 2011, Toyota recalled nearly 10 million vehicles worldwide (approximately 5 million in the US) for defective gas pedals, faulty floor mats, flawed fuel pump wiring, and problems with braking software.¹²⁴ In June 2011, Toyota said it would recall 105,784 early model Prius cars to repair a fault with the steering and gearbox—52,000 of those units were in the US. On June 29, 2011, Toyota announced another recall of 45,500 Highlander Hybrids and 36,700 Lexus RX 400h SUVs in the US due to inadequately soldered transistors. The company also recalled 11,164 units in Japan and 15,000 in Europe.¹²⁵

Toyota suffered another setback in 2009 when GM withdrew from their joint venture in California, NUMMI. NUMMI's California plant terminated almost 5,000 workers and was closed in spring 2010 with operations moved to plants in Canada and Texas. However, approximately one month later, Tesla, which manufactures luxury electric vehicles, purchased the NUMMI plant. At the closing of Tesla's IPO in mid-2010, Toyota invested \$50 million in Tesla stock and the companies agreed to cooperate on the development of electric parts, production systems, and vehicles. They agreed on a new \$60 million deal in fall 2010 and Tesla agreed to develop the power train for an electric version of Toyota's popular RAV4 SUV.¹²⁶

Toyota's largest markets include North America (approximately 30 percent of sales), Europe, China, and Asia. Like its competitors, one of Toyota's major goals is to increase its presence in China.¹²⁷

Additional Competitive Threats

Even though factors such as capital requirements, economies of scale, need for distribution channels, and threat of retaliation make it unlikely for a new entrant to emerge from within the US, history has shown that new

entrants can succeed in the US market. Asian automakers such as Toyota and Honda successfully entered and established themselves as key players in the market. More recently, Kia and Hyundai have made significant progress in the US. Automakers already established in foreign countries have been able to gain a foothold by exporting to the US and targeting a niche market. Once they have established a reputation and distribution channels, they are then able to expand into the broader market. After reaching an economic scale, they typically establish production within the US. Chinese and Indian auto manufacturers will likely provide the next wave of foreign entrants into the US market.

Regardless of whether a company is an established auto manufacturer or new to the market, maintaining efficient supply chain operations and good relationships with suppliers is imperative to achieving success and profitability.

Suppliers

The auto industry obtains resources from a wide array of firms globally. Although the number of suppliers has dropped since the recession, some of the survivors are growing and beginning to diversify. Louis Green, president of the Michigan Minority Supplier Development Council, called the survivors "highly competitive." He also stated that the surviving suppliers' customers were sometimes surprised by how competitive they are. For example, SET Enterprises, Inc., a firm that processes steel, expects to generate revenues of \$300 million in 2011, up from \$222 million in 2010. Prior to the recession there were 1,600 companies affiliated with the Michigan Minority Supplier Development Council, but that number had fallen to 1,132 by spring 2011.¹²⁸

Many suppliers rely heavily on the auto industry for a large percentage of their revenue. For example, Gentex Corp. supplies high-end rearview mirrors and realizes 98 percent of its sales from the auto industry.¹²⁹ Some of these suppliers went out of business during the economic downturn and decline of the US auto industry, and more were hurt by the March earthquake in Japan. Large diversified suppliers such as BASF and Dow Chemical supply plastics, foams, paint, and other basic materials to the auto industry as well as many other industries. Although these large suppliers are diversified with many products in many industries, the automotive industry is still a significant customer, especially for specific divisions within the large firms.

It is extremely important for auto manufacturers to develop and maintain strong relationships with their suppliers to gain access to their best technologies and receive priority order fulfillment in case of material or product shortages. According to Ford's purchasing

chief, Tony Brown, the increased pressure on suppliers as Japanese manufacturers' rebound from the March earthquake will not have an impact on Ford's production. In an interview with *Automotive News*, Brown said that Ford has not deviated from its production plan established at the beginning of 2011—to produce 13 to 13.5 million units for the US market in 2011 and 14 to 14.5 million units for the European market. Under Ford's Executive Business and Technology Review (EBTR) program (developed in 2006), Ford senior purchasing leaders and their engineering counterparts meet regularly with key suppliers to share Ford's strategies in great detail. In prior years, Ford was among the last to be offered new technology and struggled to get new technology to the market—but this has changed under the EBTR program. For example, Ford was able to offer features on the Focus including self-parking technology and blind spot detection that were first-to-market features for the compact car segment¹³⁰ (see Exhibit 5 for segment volume information).

In 2005, Ford reduced its number of suppliers to create the Aligned Business Framework (ABF) and entered into long-term agreements with select strategic global suppliers. This diverse group of suppliers continues to play a key role in Ford's global sourcing plans, helping to improve Ford quality and lower development and production costs.¹³¹ By 2011, Ford had 102 ABF suppliers

including Robert Bosch LLC, Continental AG, Faurecia, GETRAG FORD Transmissions, Johnson Controls, Lear Corp, TRW Automotive, Tenneco, Ford's spun off parts supplier Visteon, and GM's spun off supplier Delphi.¹³² Visteon's US operations filed for bankruptcy in 2009 and emerged from Chapter 11 protection in 2010. Although it is considered by analysts to be recovering, it is also considered a "takeover candidate" for another auto parts supplier wanting to increase its presence in Asia. Visteon owns a 50 percent stake in Yanfeng Visteon Automotive Trim Systems, a Chinese supplier of interiors and seating, and 70 percent of South Korean Halla Climate, a maker of vehicle air conditioning systems. In 2010, sales to Ford Motor Company accounted for 25 percent of Visteon's revenues.¹³³

Delphi emerged from bankruptcy reorganization in 2009 as Delphi Electronics and Safety, operating under the umbrella of Delphi Automotive. Delphi, which introduced the in-dash car radio (1936), the AM/FM radio (1963), cruise control (1963), and production air bags (1973), celebrated its 75th anniversary in June 2011. With new products entering the market, company president Jeff Owens is optimistic about the future and expects that Delphi will produce more than 1 billion products by the end of 2019 and reach revenues of \$6 billion by 2020.¹³⁴

Ford's efficient management of its supply chain is an important part of its corporate strategy.

Exhibit 5 Vehicle Segment Totals Ranked by June 2011 US Unit Sales

	June 2011	% Chg from June '10	YTD 2011	% Chg from YTD 2010
CARS	527,344	5.5	3,229,498	12.8
Midsize	251,987	3.2	1,565,058	11.0
Small	194,771	15.3	1,179,250	21.0
Luxury	73,854	-5.1	440,361	2.1
Large	6,732	-22.3	44,829	-4.7
LIGHT-DUTY TRUCKS	525,904	8.7	3,103,068	12.8
Pickup	150,783	9.2	825,730	10.8
Cross-over	200,206	4.0	1,268,119	9.5
Minivan	61,867	-0.7	362,432	9.5
Midsize SUV	62,220	41.9	364,367	46.6
Large SUV	18,751	-14.7	110,324	-8.7
Small SUV	19,579	31.9	102,014	23.3
Luxury SUV	12,498	20.0	70,082	6.7
Total SUV/Cross-over	313,254	10.4	1,914,906	14.3
Total SUV	113,048	24.1	646,787	24.9
Total Cross-over	200,206	4.0	1,268,119	9.5

Source: www.motorintelligence.com via The Wall Street Journal Market Data Center, Auto Sales, <http://online.wsj.com>

Corporate Strategy

When Alan Mulally took over as President and CEO of Ford, he was faced with nearly insurmountable management and operational problems resulting from the lack of both unity and communication within such a large global organization. On his first day at his new job, Mulally found an executive parking lot filled with Jaguars, Land Rovers, and Aston Martins. Mulally said, "There wasn't one Ford in the parking lot. I thought 'Oh-oh.'" The key issue was clear. If Ford executives wouldn't drive Fords, who would?¹³⁵ In response, Mulally developed the ONE Ford business transformation plan designed to create a leaner, more efficient global enterprise and return the company to profitability.

The ONE Ford plan focuses on four priorities that have remained virtually unchanged since the plan's original implementation in 2007:

1. Aggressively restructure to operate profitably at the current demand and the changing model mix.
2. Accelerate the development of high quality, fuel-efficient, safe new products that customers want and value.
3. Finance the plan and improve the balance sheet.
4. Work together as one team to leverage Ford's global assets.¹³⁶

The ONE Ford plan enabled Alan Mulally to unite the numerous entities of the global organization and streamline operations. Ford has consolidated dealerships, closed plants, reduced its workforce, reduced its supplier base, sold or shut down unprofitable brands, cut its debt, developed products and technologies that consumers want and value, and recently announced an aggressive plan to increase its presence in global markets, particularly in India and China. Since its inception, all Ford employees have been given and are expected to carry a 2" by 3" laminated card with the description of the ONE Ford plan and its mission: "ONE Ford. ONE

Team. ONE Plan. ONE Goal."¹³⁷ (see Exhibit 6 for a complete description of the ONE Ford mission).

According to Mulally,

*We achieved great success as we rebuilt our company in extremely challenging economic conditions. Now we are eager to show the world what a revitalized Ford Motor Company can accomplish in a growing global economy. We are one team with one plan and one goal: to continue serving our global customers with a full family of best-in-class products and delivering profitable growth for all associated with Ford.*¹³⁸

Product Design, Research, and Development

When Alan Mulally became CEO of Ford in 2006, the company had 97 models. "It was absolutely clear that we had to simplify Ford dramatically," he stated.¹³⁹ Some models were eliminated by the sale of the PAG brands and the discontinuation of the Mercury brand, but in fall 2010, Mulally said that Ford would reduce its lineup even further to as few as 20 models. According to Mulally, "Fewer brands means you can put more focus into improving the quality of engineering."¹⁴⁰ Component specifications for each product were simplified and standardized to reduce costs and improve quality. For example, by fall 2010, the Fiesta model, with approximately ten variations worldwide, had standardized an average of 65 percent of its parts.¹⁴¹

Ford's current vehicle lineup includes cars, hybrids and electric vehicles, crossovers, SUVs, trucks, commercial trucks, and commercial vans. The Ford F-Series pickup truck was the best-selling truck in America in 2010 for the 34th year in a row and the best-selling vehicle (car or truck) for the 29th year in a row and continues to dominate its segment. The E-Series was America's best-selling full-size van for the 31st year in a row¹⁴² (see Exhibit 7 for a list of the best-selling vehicles in June 2011).

Exhibit 6 One Ford

ONE FORD	
ONE TEAM • ONE PLAN • ONE GOAL	
<p>ONE FORD: ONE Ford expands on the company's four-point business plan for achieving success globally. It encourages focus, teamwork, and a single global approach, aligning employee efforts toward a common definition of success and optimizing their collective strengths worldwide. The elements of ONE Ford are:</p>	<p>ONE PLAN: The company's four-point plan consists of balancing our cost structure with our revenue and market share; accelerating development of new vehicles that customers want and value; financing our plan and rebuilding our balance sheet; and working together to leverage our resources around the world.</p>
<p>ONE TEAM: ONE Ford emphasizes the importance of working together as one team to achieve automotive leadership, which is measured by the satisfaction of our customers, employees, and essential business partners, such as our dealers, investors, suppliers, unions/councils, and communities.</p>	<p>ONE GOAL: The goal of ONE Ford is to create an exciting and viable company with profitable growth for all.</p>

Source: The Ford Motor Company Annual Report 2010.

Exhibit 7 Top 20 Vehicle Sales for June 2011

	Jun 2011	% Chg from Jun '10	YTD 2011	% Chg from YTD 2010
FORD F-SERIES PICK UP	49,618	6.7	264,079	9.9
Chevrolet Silverado PU	32,579	5.1	182,785	9.6
Chevrolet Cruze	24,896	n/a	122,972	n/a
Chevrolet Malibu	23,737	14.6	122,783	13.4
FORD ESCAPE	22,274	43.3	122,607	23.9
FORD FOCUS	21,385	41.2	98,024	9.2
Toyota Camry / Solara	21,375	-24.8	147,469	-4.4
Dodge Ram PU	21,362	34.7	111,898	31.8
FORD FUSION	20,808	13.0	131,686	18.4
Hyundai Elantra	19,992	40.3	103,301	79.5
Nissan Altima	19,534	22.7	131,842	17.6
Toyota Corolla / Matrix	18,872	-13.7	136,747	-2.7
Hyundai Sonata	18,644	4.9	115,014	28.9
Chevrolet Equinox	17,954	56.3	95,838	43.1
Honda Civic	17,485	-34.0	127,571	-4.5
Volkswagen Jetta	17,105	88.3	91,751	66.0
Chevrolet Impala	16,325	13.0	103,644	15.8
Honda Accord	15,712	-37.0	127,105	-13.9
Honda CR-V	15,493	-3.4	110,916	27.7
GMC Sierra PU	12,377	8.2	67,598	21.6

Source: www.motorintelligence.com via The Wall Street Journal Market Data Center, Auto Sales, <http://online.wsj.com>

Ford is "reenergizing" its Lincoln brand as a world-class luxury brand with compelling vehicles and consumer experience. Its current product lineup includes the Lincoln MKZ Hybrid—the most fuel-efficient luxury sedan in the US with an EPA-certified 41 mpg city rating. Ford will introduce an additional seven all-new or refreshed vehicles within the next three years.¹⁴³

Ford launched 24 new or redesigned vehicles in 2010 in key markets around the world, including the redesigned Ford Explorer, Ford Edge, and Lincoln MKX, and all-new Ford Fiesta in North America; a redesigned Ford C-MAX and new Ford Grand C-MAX in Europe; and the new Ford Figo in India. The introduction of new products continued in 2011 with the launch of the new global Ford Focus in North America, Europe, and Asia Pacific Africa. The Ford Focus Electric is scheduled for launch later in 2011 and the new global Ford Ranger small pickup truck is scheduled for introduction in 2011 in Asia Pacific Africa and Europe.¹⁴⁴

Ford has invested \$135 million within the past year to design, engineer, and manufacture key components for its hybrid, plug-in hybrid, and battery electric vehicles. This investment brought battery and hybrid transmission production in-house and created more than 220 jobs in Michigan. By spring 2012, Ford anticipates it will be manufacturing more hybrid transmissions in North America than any other auto manufacturer or supplier. The new transmission will replace a unit currently made in Japan and used in Ford and Lincoln hybrid vehicles and will provide improved performance over the Japanese manufactured unit.¹⁴⁵

In July 2011, Ford signed an agreement with Azure Dynamics Corp. to install plug-in hybrid powertrains in the F-Series Super Duty trucks. The F-350, F-450, and F-550 trucks will be retrofitted with Azure's hybrid-electric drive trains beginning with the F-550 in early 2013. The F-Series Super Duty represents approximately half of the 100,000 commercial cabs and chassis produced and sold

in the US annually. Ford partnered with Azure previously to manufacture the Transit Connect Electric and the 450 Balance Hybrid Electric Step Van and Shuttle Bus.¹⁴⁶

Ford is also preparing a 1.0-liter, three-cylinder EcoBoost engine touted to be the smallest engine Ford has ever built. (Ford's EcoBoost engines are gasoline engines that can deliver up to 20 percent better fuel economy and up to 15 percent fewer CO₂ emissions by combining direct fuel injection and turbo charging.) Ford claims it will offer output comparable to a normally aspirated 1.6-liter four-cylinder engine and will be available globally in Ford's smaller cars. A specific timeline has not been announced, but a 2012 or 2013 launch is rumored.¹⁴⁷ Ford will also add an in-house designed eight-speed automatic transmission. This will allow Ford to keep pace with premium carmakers such as Mercedes-Benz and BMW. According to Ford's vice president of Global Product Development Derrick Kuzak, "Today, we have the freshest powertrain lineup in the industry. And there is plenty more coming."¹⁴⁸

In spring 2011, Ford made a 3.5-liter direct-injection turbocharged EcoBoost V6 engine available in its popular F-150 series trucks and, for the first time since 1985, F-150 pickups with V6 engines (including both naturally aspirated and EcoBoost V6 engines) outsold those with V8 engines. Consumer demand has been so great that production has not been able to keep up and Ford's two engine plants in Ohio were put on overtime production to fulfill demand.¹⁴⁹

Ford introduced Transit Connect commercial vans, a highly popular series in Europe, to fleet customers in 2009. The Transit Connect vans are powered by lithium ion batteries and in July 2011, New York City joined Boston, Chicago, and Philadelphia on the list of major cities that have approved the Transit Connect Taxi for use. According to Mark Fields, Ford president of The Americas,

*For decades, Ford has been synonymous with New York City taxis, and we are pleased residents and tourists now will benefit from our next-generation vehicle. We have Transit Connect Taxis in service across the country, and people tell us they love its spaciousness and its fuel efficiency.*¹⁵⁰

Ford has also invested heavily in the development of premium technology to better serve its customers. Ford Work Solutions is a collection of affordable technologies that provide connectivity, flexibility, visibility, and security for truck and van customers. It features an in-dash computer that provides high-speed internet access and wireless accessories including a printer, Tool Link (an asset tracking system for customers to maintain real-time inventory of tools and equipment in the vehicle), Crew Chief (a telematics and diagnostics system to inform fleet managers of their fleets' locations and

maintenance needs), and Cable Lock (a security system to secure large tools or equipment in the cargo area).¹⁵¹

SYNC—an integrated communication and entertainment system that allows voice-activated control—was introduced in 2007. SYNC with MyFord Touch combines SYNC connectivity with over 10,000 first-level voice commands, a full-color eight-inch touch screen, and two 4.2 inch LCD screens that make vehicle functions, settings, and information easily accessible through voice commands, steering wheel controls, or a tap of the touch screen. Additional products include SYNC AppLink, SYNC with Traffic, Directions and Information, SYNC 911 Assist, SYNC Destinations, and SYNC Wi-Fi Mobile Hot Spot.¹⁵²

Ford also continues to focus on safety innovations such as inflatable seat belts and Curve Control—technology that rapidly reduces engine torque and applies four-wheel braking to slow the vehicle by up to 10 mph per second when it senses a driver is entering a curve too quickly—both of which were introduced on the new 2011 Explorer. Curve Control is standard on the 2011 Explorer and will be available on 90 percent of Ford's North American crossovers, SUVs, trucks, and vans by 2015.¹⁵³ Additional global driver-assist features include the Blind Spot Information System, Active Park Assist, and Adaptive Cruise Control. The next suite of new safety features and driver assistance technologies are currently offered in Europe. These features include Speed Limiter, Torque Vectoring Control, Lane Departure Warning, Lane Keeping Aid, Active City Stop, Traffic Sign Recognition System, Driver Alert, All-Seat Beltminder, and Power Child Locks.¹⁵⁴

Ford is in the process of developing "intelligent vehicle technology" that will allow vehicles to communicate with each other through Wi-Fi to reduce accidents and traffic congestion. These research and development efforts were highlighted at the "Forward with Ford" event held in June 2011, a conference exploring the linkage of Ford vehicles and technologies to global consumer trends. According to a National Highway Traffic Safety Administration (NHTSA) analysis in 2010, such vehicle-to-vehicle systems could potentially affect 79 percent of all vehicle target crashes, 81 percent of all light-vehicle target crashes, and 71 percent of all heavy-truck target crashes each year.¹⁵⁵

To generate public interest and awareness of its innovative products and features, Ford continually updates its marketing strategies.

Branding and Marketing Strategies

Under Mulally's guidance, Ford sold the PAG brands (Aston Martin in 2007, Jaguar and Land Rover in 2008, and Volvo in 2010) and reduced its ownership share in Mazda. In 2010, it discontinued the Mercury brand

and gave dealers permission to sell their remaining new Mercury vehicles under the used vehicle category. Currently, Ford is focused on building its two remaining brands—Ford and Lincoln. Historically, the Ford brand included light trucks and cars targeted at the more price-conscious consumers; Lincoln targeted higher-end consumers and the defunct Mercury brand aimed to fill the gap between the upper-end Lincoln and the lower-end Ford. However, the Ford brand now offers a product mix that appeals to both the price-conscious and middle market consumers, thus eliminating the need for Mercury.

In recent years, Ford has been very successful in its marketing and advertising efforts. It has "leveraged the 'digital' mindset of today's consumers" and capitalized on a renewed sense of patriotism and national pride.¹⁵⁶ The company reaches consumers through traditional venues such as newspaper, radio, and television advertising, as well as through social media venues including Facebook, Twitter, LinkedIn, and YouTube. Ford also sponsors the popular television reality show *American Idol*, and is a title sponsor of the "World's Toughest Endurance Event"—the Ironman Triathlon series leading to the Ford Ironman World Championship.¹⁵⁷

Ford builds rapport with consumers through authenticity in its communications. Ford's Swap Your Ride campaign took place recently in 2010 and 2011. Although the offer did not extend to Ford's higher-end offerings (hybrid vehicles or the Shelby GT500, for example), consumers were given the opportunity to exchange their competitive-make vehicles for a new Ford to drive for one week. According to Nielsen Automotive statistics, Swap Your Ride ads were 48 percent more memorable than ads for average sales events.¹⁵⁸ Candid feedback from consumers who participated in the Swap Your Ride event was then included in Ford's media advertising. According to Matt VanDyke, Ford's director of US Marketing Communications,

*We've found that challenging people's perceptions head-on is the best way to change their minds about Ford. We're tapping real people, allowing them to experience our vehicles for themselves and then capturing their enthusiasm for the products. We're telling the Ford story through the eyes of the people who matter most – real consumers.*¹⁵⁹

Thanks to Ford's innovative product designs, technology, and performance, "It's very cool to see people react the way they do," VanDyke added, "When they get into a Ford for the first time, they're really surprised with the fuel efficiency, performance, and great technology. That's been a consistent reaction to our entire lineup."¹⁶⁰

Ford recently announced it would venture into racing education for motorsports, a move designed to

attract the millennial demographic (18 to 29 year olds). The Octane Academy will be led by Ford motorsport superstars Ken Block, Brian Deegan, Tanner Foust, and Vaughn Gittin, Jr. Each will take a turn hosting one of four "action sports fantasy camps" and will help design the courses. The first class is scheduled to begin in November 2011 and will be taught by off-road truck racer Deegan. The Octane Academy is only offered to those in the millennial age group and the vehicles used will all be Fords. Each four-day camp will end with a competition with the winner receiving a Ford vehicle specially designed by Block, Deegan, Foust, and Gittin.¹⁶¹

Ford connects with teenage drivers and their parents by offering the Driving Skills for Life program—a program designed to encourage teens to learn driving skills and techniques that will make them safer, more competent drivers. Driving Skills for Life was established in 2003 by Ford along with the Governors Highway Safety Association and a panel of safety experts. The program includes an interactive online learning experience, video and educational curriculum, and hands-on safe driving demonstrations held across the country. Driving Skills for Life focuses on four key skills believed by safety experts to be significant in preventing crashes, injuries, and fatalities: hazard recognition, vehicle handling, space management, and speed management. Ford's team of professional instructors offer ride-and-drive events for schools across the US where teens are allowed to drive modified Ford vehicles, specially designed to simulate road hazards and hazardous driving conditions, with professional drivers at their sides.¹⁶²

Under Alan Mulally's leadership, Ford has developed a highly competitive product line with a positive brand image. Its desirable products and successful marketing strategies have contributed to its success in the highly competitive auto industry.

The success of Ford's corporate strategy is evident by its financial results.

Financial Condition

In 2010, Ford had an annual net income of \$6.6 billion, an increase of \$3.8 billion over 2009. Every region was profitable, led by a strong performance in North America. Ford was also able to reduce its debt by 43 percent, or \$14.5 billion. In March 2011, Ford reduced its automotive debt by another \$3 billion¹⁶³ (see Exhibits 8 and 9 for Ford's fiscal year 2010 financial information).

Ford reported strong progress in the first quarter of 2011, with net income of \$2.6 billion, a \$466 million increase over the first quarter of 2010. Total company

Exhibit 8 Ford Motor Company Selected Financial Data

On January 1, 2010, we adopted the new accounting standard regarding consolidation of VIEs. We have applied the standard retrospectively to periods covered in this Report, and present prior-year financial statement data on a basis that is revised for the application of this standard. The following table sets forth selected financial data for each of the last five years (dollar amounts in millions, except for per share amounts).

SUMMARY OF OPERATIONS					
	2010	2009	2008	2007	2006
Total Company					
Sales and revenues	\$ 128,954	\$ 116,283	\$ 143,584	\$ 168,884	\$ 156,711
Income/(Loss) before income taxes	\$ 7,149	\$ 2,600	\$ (14,805)	\$ (4,286)	\$ (15,400)
Provision for/(Benefit from) income taxes	592	(113)	(62)	(1,467)	(2,880)
Income/(Loss) from continuing operations	6,557	2,712	(14,833)	(2,819)	(12,610)
Income/(Loss) from discontinued operations	—	5	9	41	16
Income/(Loss) before cumulative effects of changes in accounting principles	6,557	2,717	(14,824)	(2,778)	(12,594)
Cumulative effects of changes in accounting principles	—	—	—	—	(7)
Net income/(loss)	6,557	2,717	(14,824)	(2,778)	(12,601)
Less: Income/(Loss) attributable to noncontrolling interests	(4)	—	(58)	17	16
Net income/(Loss) attributable to Ford Motor Company	\$ 6,561	\$ 2,717	\$ (14,766)	\$ (2,795)	\$ (12,617)
Automotive Sector					
Sales	\$ 119,280	\$ 103,868	\$ 127,635	\$ 152,691	\$ 141,727
Operating income (loss)	5,789	(3,352)	(9,976)	(4,979)	(18,518)
Income/(Loss) before income taxes	4,146	785	(12,314)	(5,510)	(17,456)
Financial Services Sector					
Revenues	\$ 9,674	\$ 12,415	\$ 15,949	\$ 16,193	\$ 14,984
Income/(Loss) before income taxes	3,003	1,814	(2,581)	1,224	1,966
Amounts Per Share Attributable to Ford Motor Company Common and Class B Stock					
Basic:					
Income/(Loss) from continuing operations	\$ 1.90	\$ 0.91	\$ (6.50)	\$ (1.43)	\$ (6.73)
Income/(Loss) from discontinued operations	—	—	—	0.02	0.01
Cumulative effects of change in accounting principles	—	—	—	—	—
Net income/(loss)	\$ 1.90	\$ 0.91	\$ (6.50)	\$ (1.41)	\$ (6.72)
Diluted:					
Income/(Loss) from continuing operations	\$ 1.66	\$ 0.86	\$ (6.50)	\$ (1.43)	\$ (6.73)
Income/(Loss) from discontinued operations	—	—	—	0.02	0.01
Cumulative effects of change in accounting principles	—	—	—	—	—
Net income/(loss)	\$ 1.66	\$ 0.86	\$ (6.50)	\$ (1.41)	\$ (6.72)
Cash dividends	\$ —	\$ —	\$ —	\$ —	\$ 0.25
Common Stock price range (NYSE Composite Intraday)					
High	\$ 17.42	\$ 10.37	\$ 8.79	\$ 9.70	\$ 9.48
Low	9.75	1.50	1.01	6.65	6.06
Average number of shares of Ford Common and Class B Stock outstanding (in millions)	3,449	2,992	2,273	1,979	1,879

Source: The Ford Motor Company Annual Report 2010.

revenue was \$33.1 billion, up \$5 billion from the first quarter of 2010. According to Alan Mulally,

Our team delivered a great quarter, with solid growth and improvements in all regions. We continue to acceler-

*ate our One Ford plan around the world, delivering on our commitments to serve our global customers with a full family of best-in-class vehicles and deliver profitable growth for all, despite uncertain economic conditions.*¹⁶⁴

Exhibit 9 Ford Motor Company and Subsidiaries Consolidated Balance Sheet (in millions)

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(17,456)

\$ 14,984

1,966

\$ (6.73)

0.01

\$(6.72)

\$(6.73)

0.01

\$(6.72)

\$ 0.25

\$ 9.48

6.06

1,879

	December 31, 2010	December 31, 2009
ASSETS		
Cash and cash equivalents	\$ 14,805	\$ 20,894
Marketable securities	20,765	21,387
Finance receivables, net	70,070	75,892
Other receivables, net	7,388	7,194
Net investment in operating leases	11,675	17,270
Inventories	5,917	5,041
Equity in net assets of affiliated companies	2,569	2,367
Net property	23,179	22,637
Deferred income taxes	2,003	3,479
Net intangible assets	102	165
Assets of held-for-sale operations	—	7,618
Other assets	6,214	8,096
Total assets	\$164,687	\$192,040
LIABILITIES		
Payables	\$ 16,362	\$ 14,301
Accrued liabilities and deferred revenue	43,844	46,144
Debt	103,988	131,635
Deferred income taxes	1,135	2,421
Liabilities of held-for-sale operations	—	5,321
Total liabilities	165,329	199,822
EQUITY		
Capital stock		
Common Stock, par value \$0.01 per share (3,707 million shares issued of 6 billion authorized)	37	33
Class B Stock, par value \$0.01 per share (71 million shares issued of 530 million authorized)	1	1
Capital in excess of par value of stock	20,803	16,786
Accumulated other comprehensive income/(loss)	(14,313)	(10,864)
Treasury stock	(163)	(177)
Retained earnings/(Accumulated deficit)	(7,038)	(13,599)
Total equity/(deficit) attributable to Ford Motor Company	(673)	(7,820)
Equity/(Deficit) attributable to noncontrolling interests	31	38
Total equity/(deficit)	(642)	(7,782)
Total liabilities and equity	\$164,687	\$192,040

The following table includes assets to be used to settle liabilities of the consolidated VIEs. These assets and liabilities are included in the consolidated balance sheet above. See Note 13 for additional information on our VIEs.

ASSETS		
Cash and cash equivalents	\$ 4,062	\$ 4,922
Marketable securities	—	—
Finance receivables, net	50,473	57,353
Other receivables, net	13	34
Net investment in operating leases	6,121	10,246
Inventories	19	106
Net property	31	154

(Continued)

Delivering on
owners with a
per profitable
conditions.¹⁶⁴

Exhibit 9 Ford Motor Company and Subsidiaries Consolidated Balance Sheet (in millions) (Continued)

	December 31, 2010	December 31, 2009
Deferred income taxes	—	—
Other assets	28	56
LIABILITIES		
Payables	16	23
Accrued liabilities and deferred revenue	222	560
Debt	40,247	46,167

Source: The Ford Motor Company Annual Report 2010.

In the second quarter of 2011, Ford reported net income of \$2.4 billion, a \$201 million decrease from second quarter 2010. However, total company revenue was \$35.5 billion, up \$4.2 billion from second quarter 2010.¹⁶⁵ Ford Chief Financial Officer Lewis Booth said that it was not the easiest of quarters for Ford. Although some vehicle production had been lost in Asia Pacific because of the Japanese tsunami, the amount was lower than anticipated and Ford did not lose any significant production anywhere else in the world. Ford's outlook for US sales in 2011 has been dropped to 13 million vehicles, from 13.5 million predicted earlier in the year. Booth also said that Ford's second quarter profit had been hindered by higher commodity costs related mostly to higher oil prices. In addition, prices for plastics, steel, aluminum, copper, and precious metals increased and affected Ford's profit margins.¹⁶⁶

Regardless of Ford's financial success and turnaround over the past two years, there are still numerous obstacles on the road ahead.

Challenges

New entrants to the US auto market will eventually come from China and India, among others. Although Chinese manufacturers including Brilliance, Geely, Great Wall, and BYD Auto have displayed vehicles at the Detroit and Los Angeles auto shows, no vehicles have entered the US market. Currently, BYD claims that its plug-in hybrid will be introduced in the US in spring 2012. If this does happen, it is not anticipated to be a significant threat as hybrids and electric vehicles currently represent only 2.2 percent of global sales.¹⁶⁷ Even so, the Chinese and Indian vehicles will enter the US eventually, and Ford must be prepared.

As the population increases, roads and highways become more congested. Many urban areas are developing or enhancing public transportation systems such as light rail systems and subways, as well as increasing bus routes and schedules. Other alternative transportation methods include trolleys, Dial-A-Ride (a door-to-door shared ride service), taxis, bicycles, and walking. It is possible that personal mobility will become a service in the future, with more people choosing to use public transportation

or a car-sharing program, such as Zipcar. This would significantly decrease consumer demand for vehicles.

Although the UAW made concessions to the US automakers to help them through the industry downturn, it is probable that the union will want to take back those concessions now that the automakers have returned to profitability. UAW president Bob King, who took over from Ron Gettelfinger in 2010, has told automakers that they need to share their newfound profits with workers, and the workers need to trade wage increases for profit sharing. The Detroit automakers have indicated they welcome this approach and industry analysts believe it makes sense. However, many workers share the opinion of Ford worker Gary Walkowicz, who told the *Detroit News* "A lot of people feel like we need some guaranteed money. People are looking to get back a lot of the things we gave up."¹⁶⁸

In addition, Alan Mulally's \$25.6 million and Bill Ford's \$25.2 million pay packages received in 2010 practically guarantee that wage increases will be a key issue in union negotiations with Ford.¹⁶⁹ Wage increases and greater benefits for workers would lead to increased operating costs that would once again, reduce the competitiveness of US manufacturers with their foreign rivals. Currently, Ford spends approximately \$58 per hour for wages and benefits to UAW members—\$8 more than the average labor costs at the primarily non-union US factories of foreign competitors such as Hyundai, and more than domestic competitors Chrysler and GM. Chrysler reports labor costs of approximately \$50 per hour and GM estimates hourly labor costs at \$56. As part of the bankruptcy restructuring, the UAW made agreements with GM and Chrysler to not strike during the 2011 contract negotiations. However, Ford has no such protection and could face the threat of a strike.¹⁷⁰ King has also indicated that that the UAW wants a seat on Ford's board of directors.¹⁷¹ Talks between the UAW and Ford began on July 29, 2011 and continued as of this writing.

Within a six month period in early 2011, Ford made a series of recalls and, as a result, its quality ratings slipped. Approximately 1.4 million F-150 pickup trucks were recalled worldwide for airbags that could unexpectedly deploy,¹⁷² and approximately 25,000 Ford Rangers and

31, 2009
—
56
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560
6,167

9,100 Ford Edge, F-Series trucks, and Lincoln MKX vehicles were recalled for electrical problems that could cause vehicle fires.¹⁷³ Given the number of recent recalls, it is not surprising that Ford has fallen in the J.D. Power and Associates 2011 US Initial Quality Study—a survey that tracks vehicle problems reported within the first 90 days of ownership. Ford, which ranked fifth and was the highest mass-market brand in the 2010 Initial Quality Study, fell to 23, and Lincoln fell from eighth place in 2010 to 17.¹⁷⁴ (See Exhibit 10 for the 2011 survey listings.)

When Alan Mulally announced Ford's plan to increase worldwide sales 50 percent to eight million vehicles annually by 2015, Wall Street analysts were skeptical, investors were worried, and in the two weeks following the announcement in June 2011, shares fell to their lowest level in 2011, to \$12.65, down 23 percent since January 1. In particular, analysts and investors were concerned that Ford was expanding too late, after growth in China had already started to slow. Although some analysts are supportive of Mulally's plan, many analysts and investors are taking a wait-and-see approach.¹⁷⁵

Although 65-year-old Alan Mulally has said he is not going to rush to leave Ford as long as he's having "fun," insiders have indicated there is much speculation about who might eventually replace Mulally and when. Although Bill Ford has indicated he would like to keep Mulally in his current position until he reaches the age of 80, it is a certainty that Mulally will eventually leave Ford.¹⁷⁶ Given the numerous challenges facing the auto industry and the current global economic environment, Ford's ability to survive without him at this point is viewed by many as questionable.

Conclusion

As UAW president Bob King explained, the success that Ford, GM, and Chrysler now enjoy is relative. The Detroit Three still face formidable foreign competition, including potential new entrants from China and India. In addition, the economy remains weak and vehicle sales in the US and Europe remain well below their historic highs.¹⁷⁷ In addition, if the US government is unable to reach an agreement on whether to raise the debt ceiling and defaults, many types of interest rates could rise, making it more difficult for businesses and consumers to borrow money.¹⁷⁸

Successful innovation in manufacturing processes, product design, marketing approach, and business structure were all attained under Alan Mulally's leadership. Ford Motor Company returned to profitability after the global economic crisis and differentiated itself as the only major US automaker that did not require a government bailout. Today, Ford is faced with challenges that include intense domestic and international competition, pressure to maintain quality standards while bringing new, innovative, energy-efficient products to market,

Exhibit 10 J.D. Power and Associates 2011 US Initial Quality Study* 2011 Ranking/Problems per 100 Vehicles

Brand	Score
Lexus	73
Honda	86
Acura	89
Mercedes-Benz	94
Mazda	100
Porsche	100
Toyota	101
Infiniti	102
Cadillac	103
GMC	104
Industry Average	107
Hyundai	108
Subaru	108
BMW	109
Chevrolet	109
Volvo	109
Chrysler	110
LINCOLN	111
Audi	113
Kia	113
Buick	114
Jaguar	114
Ram	114
FORD	116
Nissan	117
Jeep	122
Land Rover	123
Scion	123
MINI	131
Volkswagen	131
Mitsubishi	133
Suzuki	136
Dodge	137

*Study released June 23, 2011

Source: *The Automotive News*, June 23, 2011. <http://www.autonews.com>

the threat of a UAW strike if contract negotiations reach a stalemate, and decreased analyst and stockholder confidence after Mulally's announcement of Ford's bold international expansion plan. However, Alan Mulally's reputation is untarnished and his leadership abilities are confirmed by successful turnarounds at both Boeing and Ford. Although Mulally has a proven track record, it will be interesting to see if he can continue to manage Ford and maneuver around the significant obstacles ahead.

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