American Icon

By Bryce Hoffman

Introduction

Ford is one of the largest enterprises in the world. Today, Ford looks very healthy and well placed in the global automobile industry. But that was not the case about 8 years back. The story of Ford's transformation has been well articulated by Bryce Hoffman in his book, "American Icon".

Background

In July 2006, CEO Bill Ford admitted to his board that the company was in serious trouble, heading for the largest loss ever and with the stock trading at less than $7. Analysts speculated that Ford was on the verge of bankruptcy. Bill Ford, in consultation with the board of directors decided to appoint Alan Mulally then head of Boeing's Commercial Airplanes group as the new CEO. The decision called for a lot of courage on Bill Ford's part. Many admired him for his humility and self-awareness and a frank admission of his inability to handle the serious challenges which the company was facing then. But some wondered whether he had left it too late for the new CEO to restore the company back to health.

Mulally though new to the auto industry, had established a formidable reputation as a turnaround artist. He had helped Boeing survive a period of intense competition with Airbus, a difficult merger with McDonnell Douglas and the steep fall in airplane sales that followed the September 11, 2001 strikes on the World Trade Centre. In the process, he had converted Boeing into a lean, mean and profitable enterprise. An engineer by training, data driven and very methodical, Mulally was also known to be a quintessential people leader. Mulally's ability to motivate people and create high performance teams with a shared sense of purpose was largely responsible for his success at Boeing. Ironically, enough, Mulally had picked up many of the basic principles for his approach called "Working Together" from Ford!

It took quite some amount of persuasion on the part of Bill Ford to get Mulally on board. Mulally insisted on a free hand to drive change but requested Bill Ford to continue as Executive Chairman: "Bill has the name. I'm sure he has the magic with employees and probably with the dealers. He can do things that I wouldn't be able to do because of who he is and the way he is."

Before accepting the offer, Mulally made it clear that restructuring Ford would be painful. But he himself was probably not so clear about the magnitude of the pain at the time of taking charge! The restructuring would include consolidation of global operations, rationalization of platforms, sale of foreign brands, closure of factories, employee layoffs, dealing with hostile Congressmen and tough negotiations with the militant United Auto Workers union (UAW). Bill Ford promised full backing to Mulally.

People at Ford wondered whether Mulally as an outsider would really be able to understand the auto business. But Mulally believed there were strong similarities between the manufacture of airplanes and cars. Both industries involved machining and assembly of many parts, global supply chains, strong dependence on vendors and militant labor unions.

Business Plan Review

The key institutional mechanism that Mulally put in place to drive change was a weekly meeting called the Business Plan Review (BPR). A select group of senior people were expected to come personally and present brief and accurate updates on their business. Issues that needed more detailed discussion were taken up immediately after the BPR in a Special Attention Review (SAR). During the BPR, all the data from every business unit and function was summarized into a set of tables, charts and graphs that were then presented as Power Point slides. The senior executives were expected to make the presentation themselves and not delegate it to people below them. The BPR would not be a forum for debate or discussion. The SAR was the forum in case some discussion was needed. Mulally made it clear that during the BPRs, there would be no side discussions, no jokes at someone's expense and no use of Blackberrys. The company would develop a plan quickly, and each week, the assembled group would examine the progress against the plan in the BPR and make the adjustments needed in the SAR: "This is the only way I know how to operate. We need to have everybody involved. We need to have a plan. And we need to know where we are on the plan."

Enforcing attendance at these meetings and ensuring the right behaviors itself proved to be a major change exercise for Mulally! Some Ford veterans felt uncomfortable about falling in line with the new dispensation. They tried to wriggle out of the meetings by giving feeble excuses or by coming totally unprepared. Mulally gently but firmly enforced attendance and ensured people came for each meeting with all the facts and figures. Some tried to use their old connections and complained to Bill Ford behind Mulally's back that it was a waste of time. But the Chairman made it clear that any problems they had, must be directly sorted out with the CEO!

When the BPRs started, executives were reluctant to admit they had any problems. All the charts showed green. Mulally looked at his direct reports in the eye and remarked: "We are going to lose billions of dollars this year. Is there anything that is not going well here?" Finally, one of Ford's most promising leaders, Mark Fields (the current CEO) admitted there was a quality problem with a new vehicle, on which Ford was betting heavily. Mulally appreciated his frankness. Only then people realized that the BPRs were a safe environment to talk openly about their problems and improvement areas.

Preparing the plan

Quickly, Mulally realized that his benchmarks were the Japanese car manufacturers. They made products which customers wanted, more efficiently, with better quality and with much less time to go to the market. As Mulally took stock of the situation, he became clear what needed to be done.

The key elements of Mulally's restructuring plan were:

- Combining the different regional operations into a global one
- Rationalizing the brands and product lines
- Building more trucks and cars on a smaller number of common platforms, leading to more economies of scale and less duplication
- Reducing capacity to match supply with demand
- Improving quality
- Rationalizing the dealer network
- Rationalizing the vendor base
- Renegotiating terms with the UAW union

Mulally distilled it all down to 4 key messages:

- Aggressively restructure to operate profitably with the current product mix and at current demand
- Accelerate development of new products that appeal to customers

- Fund the plan and strengthen the balance sheet
- Improve teamwork.

Implementing the plan

After receiving board approval for the restructuring plan, Mulally's next challenge was to eliminate unnecessary positions and find the right people to head the key functions such as product development, quality and vendor management. Mulally did not fire anyone. At the same time, he did not go out of his way to hold back anyone who he felt was not up to the task and or was showing a lot of negativity while coping with the change program. He brought in a marketing expert, Jim Farley from Toyota to revitalize Ford's image.

Mulally needed to mobilize funds for the restructuring plan to be implemented smoothly. Prescient board members suggested that Ford must talk to banks and tie up funding immediately as they expected liquidity in the financial markets to dry up in the near future (The world was flush with liquidity then!). The Ford CEO was able to convince the bankers that the company had a good restructuring plan and obtain funding of about $ 24 bn. This financing deal with the banks would later enable Ford to survive the global financial crisis without a government bailout.

Mulally sold off the Jaguar and Land Rover assets to Tata Motors for about $ 2.3 billion and he would later sell off Volvo to a Chinese automaker, Geely for $1.8 bn. He restructured the terms and conditions of workers through long and intense negotiations with the United Auto Workers union making it clear that if the union did not show sufficient flexibility, there was little hope of Ford surviving in the long run.(This summary does not cover the negotiations with UAW. People should read the book to understand the drama surrounding the long drawn out negotiations.) Various initiatives were simultaneously launched to streamline operations, improve quality, reduce costs, improve dealer and supplier relations and encourage product innovation. Here is a quick look at some of these initiatives.

Improving quality

Benny Fowler who led the quality initiative insisted on factories across the world following the same quality procedures. All quality problems were tracked by a global information system and attempts made to get to the root of the problem. A companywide report was generated every day to identify the top quality issues across the world. Data from third party analysts like JD Power and the warranty costs associated with each vehicle component were tracked carefully. With each BPR meeting, the quality metrics started to improve. Fowler expressed confidence that by the end of 2008, Ford would be able to virtually eliminate the quality gap with the Japanese car makers.

Global Product Development

Mulally realized that the key to Ford's long term profitability and growth lay in having a balanced product portfolio of cars, crossovers and trucks and balanced revenue mix across the three geographies, Americas, Europe and Asia.

Some good practices existed in product development in different parts of the system and they needed to be taken global. For example, in Mazda, Ford's Japanese subsidiary, engineers and designers worked together and invited functions such as manufacturing, purchase and even sales to take part in the product development deliberations right from the design stage. This prevented costly and time consuming revisions of the original design. Derrick Kuzak, appointed the head of Global Product Development, tried to leverage the virtual design system of Volvo, another Ford subsidiary, Ford of Europe's superior industrial processes and the advanced computer aided design and engineering systems used in North America. The Global Product Development System once refined would save Ford plenty of money and also bring products to the market much faster.

By 2008, Kuzak had reduced the number of different Ford name plates from 97 when Mulally had joined, to just 59. The plan was to reduce the total number of vehicle platforms used worldwide by 40% by 2013 and to have more than two thirds of all the vehicles coming off just 10 platforms.

Global teams focused on specific areas of expertise. A team based in Europe assumed responsibility for manual transmissions across the world while one based in the US had similar responsibilities for all hybrid power trains. Europe became the global hub for small cars sold worldwide while North America played that role for the larger pickup trucks.

Ford's new global approach extended even to design. Traditionally, North America focused on "bold American design" characterized by a "chunky chrome heavy" approach. In contrast, Europe emphasized "kinetic design" characterized by curves and fluid shapes and making cars that seemed to be moving even when they were actually standing still. Mulally made it clear that Kuzak had to choose one of the two designs. Kuzak went ahead with the kinetic design with only minor variations to account for regional requirements. Mulally also declared that to revitalize the Ford brand, it was important to have consistency. Each Ford vehicle had to look the same across the world. All over the world, to the extent possible, he even wanted the knobs and switches to be placed in the same way and the sound to be the same when a door was closed!

Ford's continued investment in R&D efforts also paid off. A major breakthrough was a new engine technology called EcoBoost. This technology combined turbocharging and direct fuel injection to produce more power from a smaller engine. (Turbochargers are essentially centrifugal compressors driven by an engine's exhaust gases. They increase the pressure of the air entering the motor, resulting in more power. Direct fuel injection allows better dispersion of gasoline inside the cylinder. This results in higher compression and more aggressive ignition timing, leading to better performance.) An EcoBoost engine added only a few hundred dollars to the price unlike a hybrid which cost thousands of dollars more. Ford believed that despite hybrids having better mileage, EcoBoost cars would take off because customers would find them more affordable.

Dealer relationships

Dealers typically found it difficult to deal with Ford. They were not sure the company really cared for them. It became evident to Mulally that for Ford to prosper, dealers also had to make money. Mulally realized it was important to restore trust and strengthen relationships with the dealers. He invited all the dealers to Ford headquarters. He acknowledged their contribution and outlined his vision for the new Ford he was trying to build. He asked all the Ford employees who were present to shout loudly: "We love you."

The fundamental challenge which Ford faced was that there too many dealers competing for a smaller slice of a shrinking market. Indeed, many of the dealers were dying a slow death. So Ford had to reduce the number of outlets in a given area. But Ford did this slowly showing a lot of empathy. In contrast, following their bankruptcy, GM and Chrysler eliminated hundreds of dealers overnight. Angry dealers destroyed customer data and account information. In contrast, dealers eliminated by Ford cooperated with those remaining. And the dealers that remained did their best to absorb the staff who lost their jobs.

Supplier relationships

Ford was considered a difficult company to do business with, by most suppliers. The company was known to put constant pressure on suppliers to cut prices. Ford also frequently made last minute design changes and exaggerated production estimates to extract price concessions. Suppliers had caught onto the game and were incorporating a premium in their pricing structure to take into account these hidden costs.

Ford also had too many suppliers since its philosophy was to play off one against another. and negotiate discounts. In the new dispensation, the head of procurement, Tony Brown began to reduce the number of suppliers dramatically and strengthen relationships with those that remained.

At the height of the subprime crisis, when the Big three of Detroit were in deep trouble, many of the suppliers were on the verge of bankruptcy. Brown put together cross functional teams to monitor parts manufacturers, prevent supply chain disruptions and accelerate Ford's efforts to shrink its supplier base. The suppliers on whom Ford was betting received comprehensive financial and managerial support from Ford. The risk profiles of suppliers were studied carefully to anticipate bankruptcies and where required prevent the supplier from going under.

Typically, car makers owned the tools and dies used to make parts for their vehicles. But suppliers whose contracts were terminated often played difficult and would refuse to return the equipment. So Ford had to order duplicate tools ahead of time and be ready in case of such eventualities.

The whole vendor management exercise was a tight rope walk for Brown but he had to take tough decisions. More so because of the complex global supply chains that characterized the auto industry. Thus Ford might be buying parts from a Toyota Kereitsu partner and this supplier might in turn be buying components from an American parts manufacturer who might be supplying parts to a Toyota plant in North America! Thus the Japanese were as afraid as the Americans about the collapse of the supplier network. That is why Toyota and Honda joined hands with

Ford in a bid to rescue suppliers in trouble. Even as it did all this, Ford had to ensure it was not violating the stringent antitrust rules in the US.

The global financial crisis

Just when it seemed Ford was recovering, the global financial crisis started to unfold. As Bear Stearns and later Lehman Brothers collapsed, panic grew in the financial markets, risk aversion increased and liquidity dried up. Under these conditions, people found it difficult to finance the purchase of new cars.

In the second quarter of 2008, Ford posted a staggering loss of $ 8.7 billion, the company's largest quarterly loss ever. Write offs associated with Ford's financing arm, Ford Credit, slowdown in demand and the massive shift by customers away from SUVs and trucks to more fuel efficient cars were the main reasons for the huge loss. But thanks to the massive financing package that Ford had tied up before the crisis, the company did not face any immediate threat of bankruptcy. The same could not be said of GM and Chrysler. If they became bankrupt, Ford would be affected as the three automakers shared many suppliers. As 2008 progressed, the condition of GM and Chrysler continued to deteriorate. So did that of Ford. Realizing its cash position was becoming precarious, Ford took full advantage of two major Federal reserve programs that aimed at pumping liquidity into the market. As a result, Ford Credit remained adequately funded and the company continued to support customers and dealers with financing throughout the crisis.

Meanwhile, Mulally received encouragement from the warm consumer reception to the new version of the Ford F 150 pickup truck and the new Fiesta Sub Compact. These new cars held the promise of putting Ford firmly on the path to profitable growth. But Ford had to survive the crisis first. The company looked for various ways to generate cash. There was still a $ 10 million revolving credit line to be tapped. Volvo when sold would fetch a good price. The terms with UAW could be renegotiated so that Ford could meet its healthcare obligations to workers through stocks instead of cash. Against this background, Mulally realized there was a big opportunity to differentiate Ford from GM and Chrysler, He decided against approaching the government for a bail out. Bill Ford was pleased especially because any government involvement posed a threat to the Ford family's control of the company. Mulally told Congress that Ford was a fundamentally stronger company and did not need government funding. However, just in case the crisis deepened, he asked for a $ 9 billion standby credit. Bill Ford proudly declared on CNN: "Our plan is working. Our market share is picking up. …. We are not asking for any Federal money. We are trying to pull ourselves by our bootstraps and make it on our own. "Meanwhile, Chrysler and GM were given emergency funding by the government and an ultimatum issued to sort out their problems quickly.

Many customers were impressed by Ford's refusal to seek tax payer funds. Ford cars suddenly became popular and people were reluctant to buy from GM and Chrysler which would go bankrupt any moment. The redesigned version of the once popular Taurus launched in early 2009 came as another boost to Ford. Despite all these positive developments, Ford announced a loss of $ 14.6 billion for 2008, the biggest annual loss ever.

In March 2009, Ford launched a bold debt restructuring program which succeeded beyond all expectations. Ford spent $ 2.4 bn in cash and issued 468 million shares to retire about $ 9.9 bn of debt. The stock price slowly stated to inch up. In April, S&P boosted the company's credit rating for the first time in a decade. Encouraged by the development, Ford issued $ 1.6 bn of new shares to strengthen its balance sheet.

Chrysler filed for bankruptcy on April 30, 2009 and GM a month later. The government announced it would invest in the two companies in the form of equity. Both companies emerged from bankruptcy by mid-July. Ford felt bitter because it had not received any government assistance so far. But things were now looking up for Ford. The company got a loan of $ 5.9 bn from the US Department of Energy to introduce a full family of electric and hybrid vehicles. Congress also approved a Car allowance rebate system that enabled people to get up to $ 4500 if they traded their older vehicle for a new more fuel efficient one. As customers lapped up the offer, Ford posted its first year over year monthly sales gain since 2007. In the second quarter of 2009, Ford made an unexpected profit of $ 2.3 bn and the quarterly cash burn rate reduced to $ 1 bn.

In August 2009, Toyota began to face a major product recall crisis as on account of safety concerns over its vehicles. As Toyotas' sales plummeted and GM/Chrysler continued to suffer from the stigma of bankruptcy/bailout, Ford moved in to fill the void. New products came in handy for Ford. The new Focus represented a truly global product. Though assembled in 4 plants on 3 continents, 80% of the parts were common worldwide and 75% of these parts came from the same suppliers.

The underlying architecture was expected to provide the foundation for at least 10 different vehicle models. Ford's transition from trucks/SUVs to Compacts/Crossovers was nearing completion.

For the second quarter of 2010, Ford reported earnings of $ 2.6 bn the best since 2004. Ford seemed to be beating analyst estimates consistently. Even Ford executives were surprised that the company's performance was exceeding expectations quarter after quarter. For 2010 as a whole, Ford reported a record profit of $ 6.6 bn.

With the North American business looking healthy, Mulally turned his attention to Asia and Europe. Both India and China were promising markets. The European operations had traditionally been more profitable compared to US but Europe had not seen any fundamental restructuring during the financial crisis. In fact, the government assistance in Europe had been contingent on companies keeping their factories running and not announcing layoffs.

The changes Mulally had introduced at the top percolated downwards. Each department had its own weekly BPR meeting as managers tried to adopt an inclusive but data driven approach. Ford employees found that managers were willing to listen to their ideas and concerns.

Conclusion

What can we learn from Ford's turnaround under Mulally? To succeed, a change initiative cannot be completely reactive. In the mid-2000s, all the three car makers in Detroit, GM, Chrysler and Ford were struggling to cope with competition from the Japanese car makers, high labor costs, outdated product line and an inward orientation that ignored market realities. Only Ford started a meaningful change initiative before things became too bad. Some of the steps in this regard were initiated by Bill Ford and a few senior executives even before Mulally had joined. But it was Mulally who provided the decisive leadership and a sense of urgency for Ford to move forward on several fronts simultaneously and quickly.

When things are looking bad, an outsider's perceptive can help. Mulally was an outsider to Detroit. So he could think and act without being burdened by any baggage of the past. But the problem for outsiders is that they may not understand the dynamics of the industry. Fortunately, Mulally was not any outsider. With his experience in Boeing, he was aware of the complexities of manufacturing, global supply chains, labor relations and heavily engineered products.

The leader's personal attributes and style of functioning can make a big difference while implementing a major change initiative. Mulally proved to be a great engineer, finance whizz kid and people leader rolled into one. He had a clear vision of where Ford should be heading and the determination and discipline to implement that vision. As he put it later: " What I have learned is the power of a compelling vision, a comprehensive strategy, a relentless implementation process, and talented people working together based on those commitments.. Working together always works. It always works. Everybody has to be on the team. They have to be interdependent…"

Major change initiatives take time to implement. So some degree of patience and resilience is a must. And even as the change is being implemented, the environment can change for the worse. So it is important for the leader driving the change and the principal sponsor not to give up too soon. While Mulally had full confidence that his plan would work, even at the height of the global financial crisis, the main shareholders, the Ford family also took a long term view and held on to their shares.

In the past too, Ford had faced crises and been successfully tuned around. But Ford's dysfunctional culture had not changed. It was left to Mulally to get to the root of the problem. Any change initiative has two components: a technical strategy and a behavioral strategy. Technical strategy is important but is relatively easy to put in place while encouraging the right behaviors by changing the dysfunctional elements of the culture of a large organization is not easy. It was Mulally who took apart the silos in Ford and challenged the organizational politics in which Ford executives had become past masters.

A leaders' job is to protect people by exposing them to the reality, not spoil them by hiding the truth. Mulally did this admirably well. The BPR was the forum where the reality was brought to the surface with data. Indeed, each of the initial BPR meetings was a moment of truth for top Ford executives who had to admit their problems openly in front of their peers and do something about them.

How does the future look for Ford? Mulally has just retired and Mark Fields has taken over as CEO. Will the mechanisms he has put in place in Ford outlive him?

After Mulally left Boeing to join Ford, the airplane manufacturer did suffer some major setbacks because his successors failed to maintain the processes he had introduced. What will happen at Ford after Mulally leaves, only time will tell. But we must all salute him for leading successfully one of the most famous and successful turnarounds in corporate history.