

Ford Motor Company*

Learning from the Automotive Industry

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Series
Case

Introduction

It is Thursday, 8 p.m., and Peter Burger is still in the office going through his presentation for tomorrow's meeting. It was two weeks ago, that he received an urgent telephone call from his boss to meet in his office immediately.

Mr. Burger started working with Ford of Europe in 2006, the year when Ford reported one of the worst losses in the companies' history. Being part of the corporate strategy team in Europe and working as assistant to the head of this team, Mr. Burger found himself soon in the middle of a restructuring process called the "Way Forward Initiative". The initiative was started by Bill Ford and will be continued by the new CEO, Alan Mulally, who succeeded Bill Ford in September 2006. The aim is to restructure the operations of Ford Motors and bring it back into making profit. Ford was going through a troubled phase starting in 2000. Especially in the US market, Ford was facing a tremendous downward trend. For decades, Ford concentrated its effort on selling SUV's and Pickups and built its reputation on manufacturing big trucks, selling big cars with big engines. It left the growing segments of manufacturing small and medium-sized cars to its foreign competitors. As a result of the increase in the oil prices, the demand for small and medium-size cars was increasing. Ford somehow missed that trend. Although Ford made changes to the product portfolio recently, it will take time to shift the image in consumers' minds. In addition, bad news on the company's financial performance has not helped Ford's reputation.

Together with his boss, Mr. Burger was assigned to prepare a presentation for the Board of Ford of Europe. Given the current economic situation and its impact on the automotive industry, the board meeting was planned to discuss the position of Ford of Europe within the organization and its future strategy. The board meeting is scheduled for Friday morning. Reflecting on tomorrow's meeting made Mr. Burger shiver, he knows that the presentation and their recommendations will be of major importance to the European Board. So, he starts going through the facts and figures once again to make sure that he presents a realistic picture of the current situation of Ford of Europe and provide steps regarding the strategic directions for the future.

Company Background

Since its establishment in 1903, Ford has successfully developed its position in the global automotive industry, ranking among the top of the world's biggest car manufacturer.

It manufactures and distributes automobiles in over 200 markets across five continents. Ford primarily operates in the US and Europe with 95 plants worldwide. It is headquartered in Dearborn, Michigan, and employed 246,000 people as of December 2007.

The company recorded revenues of \$172,455 million in fiscal year up to December 2007, an increase of 7.7 per cent over 2006. The operating profit of the company was \$5,631 million in fiscal year 2007, as compared to an operating loss of \$8,190 million in 2006. The net loss was \$2,723 million in 2007, compared to a net loss of \$12,613 million in 2006.¹

Ford is divided into two businesses: the automotive division and the financial service division.

Automotive Division

In the automotive business Ford produces a variety of vehicles, among them cars for the small, medium, large and premium segment as well as trucks, buses, vans and SUV's. The company's automotive vehicle brands include Ford, Jaguar, Lincoln, Mazda, Mercury and Volvo. It also owns a 33.4 per cent controlling stake in Mazda. Following the consumer trend towards smaller and more economical cars, Ford has increased its business in this segment. The automotive business is organized into five segments: Ford North America, Ford South America, Ford Europe, Premier Automotive Group (PAG), and Ford Asia Pacific & Africa and Mazda. In addition to manufacturing and selling cars and trucks, Ford also provides a variety of after-sales services and products through its dealer network.

Financial Service Division

The financial service division, Ford Motor Credit Company, was established in 1923 as a wholly owned subsidiary of Ford. It provides automotive financing for Ford, Lincoln, Mercury and Volvo dealers and customers. Ford Credit was established so Ford Motor Company dealers could provide competitive financing services to both individuals and businesses. The key financial services include: retail financing, wholesale financing and third-party claim management services. The revenues of the two divisions in FY 2007 were split as follows: automotive (89.5 per cent) and financial services (10.5 per cent)ⁱⁱ.

History

Ford Motor Company was established in 1903 by Henry Ford and 11 business associates. At that time, the US was home of 87 other car companies. Before Ford, cars were luxury items, very expensive and only affordable by the wealthy. Ford's genius was to recognize that with the right technology, cars can be made available to the public at an affordable price. He focused on making the process more efficient and as a result produced more cars and charged lower prices. Within short time Ford became an innovative and one of the most successful car-producers of the US.

After 20 years of experimentations, the company launched its first model "T", also known as "Tin Lizzie" in 1908. It was a powerful car with a possible speed of 45 mph. It could run 25 miles on a gallon of gasoline. It carried a 20-horsepower, side-valve four-cylinder engine and two-speed planetary transmission on a 100-inch wheelbase.

But some of Ford's greatest innovations were not in cars themselves but in the manufacturing process. In 1914, he introduced a moving conveyor belt at the Highland Park plant which led to a dramatic increase in production. As a result, in 1914, Ford produced 308,162 cars, more than all other automakers combined, thus making Ford the inventor of mass production.

In 1917, he set the first step toward an all-in-one manufacturing complex, where the processing of raw materials, parts and final automobiles could happen efficiently in a single place. Also in 1917 the company began producing trucks and tractors.

In 1919, after a conflict between Henry Ford and the stockholders, several investors left and the company became wholly owned by the Ford family.

In 1922, Ford bought Lincoln Motor Company, named after Abraham Lincoln, for \$8 million. Lincoln became the first "outsider" to join the Ford family of vehicle brands and initiated the company's entrance into the luxury market.

In the mid 1950s, Ford went public. In the same decade, Ford introduced the legendary Ford Thunderbird at Detroit's first auto show after World War II. The two-seated sports car became a legend and grew with each generation during the next five decades. Thunderbird went through several design changes with coupes, sedans, convertibles, hardtops, and mid-size and large-size configurations. It went on hiatus after the 1997 model year, but returned in 2001 as a retro-styled roadster.

The global expansion of Ford was intensified in 1960s when the company established Ford Europe in 1967. The "North American Automotive Operations" was established in 1971, consolidating the operations in the US, Canada and Mexico. Throughout the 1970s and 1980s the expansion continued with further moves into Europe and Asia.

In 1987, Ford helped to form the Park Ridge Corporation in order to acquire the Hertz car rental business. Seven years later, Ford increased its stake in Hertz to 100 per cent. During the 1990s, as a result of the growing US economy and the low fuel price, Ford succeeded in selling a large number of vehicles in the home market. Also in the 1990s, the company acquired Jaguar and Land Rover.

The presence in China and Thailand was further extended during 2002 und 2003. In 2004, Ford signed a deal with the Chinese government to secure rights to land in Nanjing, where the company plans to build a second Ford plant in China. In 2005, Ford took full control of its operations in India with the purchase of a nearly 16 per cent stake from its partner, Mahindra & Mahindra Ltd. Ford Motor had set up its Indian subsidiary in Madras in 1995 as a 50-50 joint venture with Mahindra.

However, in the 2000s Ford experienced a downwards trend in its performance. The slowing economy, an increase in the fuel price as well as its product mix - the focus on fuel-intensive passenger cars - led to a decrease in sales.

Also in 2000, Ford was facing a major loss of reputation. Firestone tires that were fitted to all Ford Explorer vehicles were tipping and causing accidents. Bridgestone/Firestone recalled more than 6.5 million tires after more than 200 rollover deaths in Ford Explorers. The tires exploded while the vehicle was moving; as a result the SUVs lost control. Ford recalled another 13 million tires in 2001. As a consequence, Firestone/Bridgestone dumped Ford as a customer and accused the company of using Firestone/Bridgestone as a scapegoat to deflect attention from the Ford Explorer. Ford's cost for the product recalls summed up to 2 billion US\$. After Federal investigators concluded that the tire defects were the main cause for the rollovers, Firestone/Bridgestone decided in 2005 to pay Ford US\$ 240 million to help cover the costs of the recalls. However, as a consequence the reputation and credibility of Ford sank and the public lost confidence in the companyⁱⁱⁱ.

In addition, major product recalls on Mazda in 2004 and Ford pickup trucks and SUVs in 2005 contributed to the negative trend the company was facing.

Markets

Global Operations

Ford Motor Company has organized its automotive business activities into five segments: Ford North America, Ford South America, Ford Europe, Premier Automotive Group (PAG) and Ford Asia Pacific and Africa/Mazda. Ford is therefore divided into geographical regions on the one hand and separates its Ford brands from luxury brands on the other hand. Whereas Ford Europe sells Ford brand vehicles and related service parts in Europe, Turkey and Russia, PAG - also located in Europe - sells its luxury brands (Volvo, Jaguar and Land Rover) throughout the whole world.

Table 1 illustrates the global market share of automobiles; Ford Motor Company is currently ranked on fourth position.

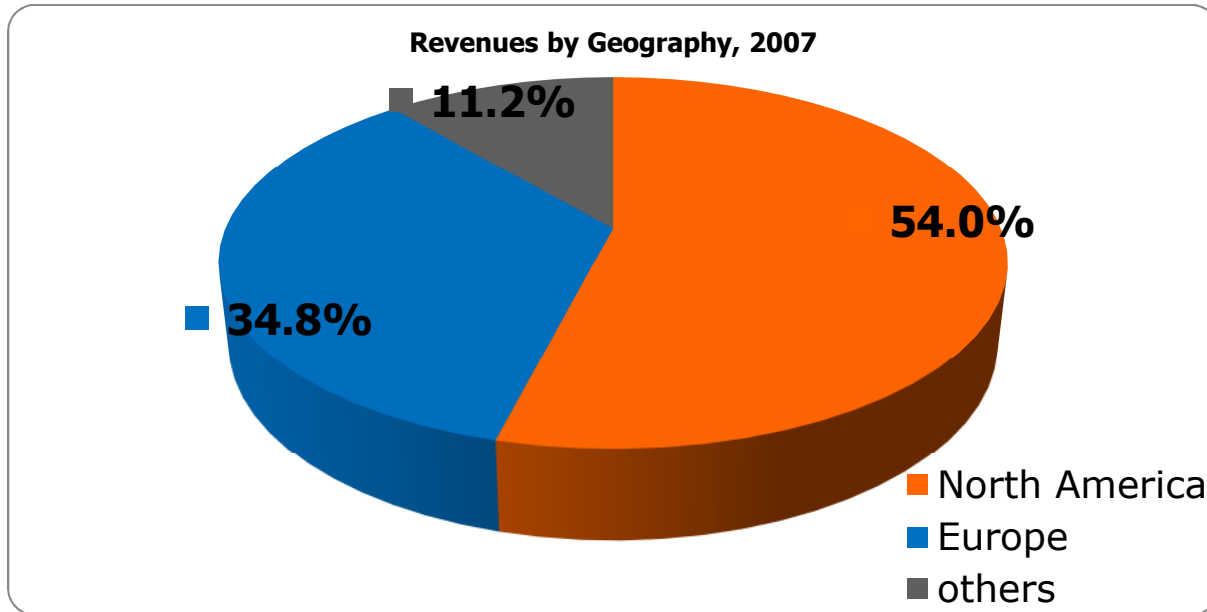
Table 1: Global market share, 2008

Company % Share, by Value, 2008	
Toyota Motor Corporation	12.80%
General Motors Corporation	8.90%
Daimler AG	8.10%
Ford Motor Company	7.80%
Other	62.40%
Total	100.0%

Source: Datamonitor, Global Automobiles, 2009, p 13

During the FY 2007, the automotive division of Ford recorded revenues of US\$ 154,379 million, an increase of 7.8 per cent vs. 2006. North America, the largest geographic market, reached US\$ 93,063 million (+0.5 per cent vs. 2006) and accounted for 54 per cent of total revenues in 2007. In comparison, Europe accounted for 34.8 per cent of total revenues in 2007. Revenues in Europe increased by 19.9 per cent and reached US\$ 60,044 in 2007. Other regions accounted for 11.2 per cent of total revenues in 2007. Revenues reached US\$ 19,348 million, an increase of 11.5 per cent over 2006.^{iv}

Figure 1 illustrates the revenues by Geography in 2007:



Source: Datamonitor, Ford Motor Company, November 2008, p 18.

Table 2 provides an overview of Ford’s core and affiliates brands, the retail vehicle sales per brand and the presence in the various regions. Whereas the Ford brand is sold in every region, Lincoln and Mercury are purely North American brands and almost unknown outside North America. Volvo and Land Rover have a strong presence in Europe, whereas the focus of Mazda lies in the region of Asia Pacific.

Table 2: Automotive Core and Affiliate Brands

Automotive Core and Affiliate Brands							
Dealers** and Markets	10,963 dealers 111 markets	1,466 dealers 31 markets	1,916 dealers 20 markets	859 dealers 93 markets	2,369 dealers 105 markets	1,397 dealers 175 markets	5,899 dealers 133 markets
Retail Vehicle Sales and Sales Mix	5,298,471 Sales Mix: 46% N. America 35% Europe 9% Asia Pacific 8% S. America 2% Rest-of-world	143,886 Sales Mix: 99% N. America 1% Rest-of-world	177,896 Sales Mix: 96% N. America 4% Rest-of-world	60,485 Sales Mix: 59% Europe 27% N. America 9% Asia Pacific 5% Rest-of-world	458,323 Sales Mix: 57% Europe 26% N. America 9% Rest-of-world 8% Asia Pacific	226,395 Sales Mix: 60% Europe 23% N. America 8% Rest-of-world 7% Asia Pacific 2% S. America	1,335,148*** Sales Mix: 36% Asia Pacific 30% N. America 24% Europe 6% Rest-of-world 4% S. America

Source: Ford Motor Company / 2007 Annual Report, p 129

North America

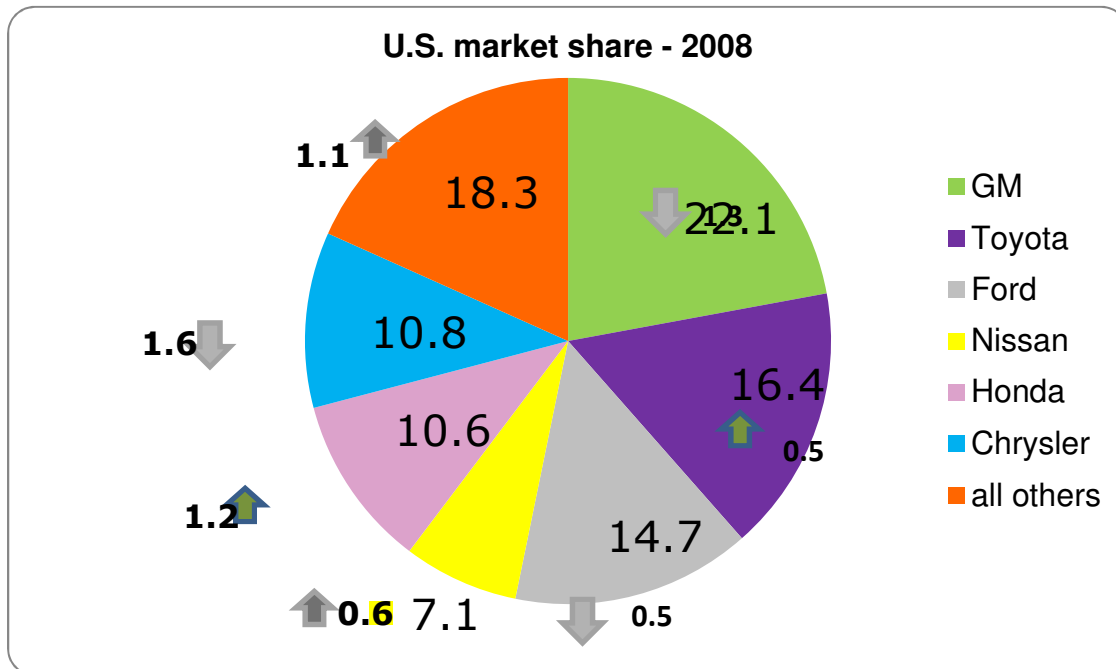
Ford North America represents the most important geographical region within the company, accounting for more than 50 per cent of total revenues. The North America business includes the United States, Canada and Mexico.

Although Ford belongs to the key players in the U.S. automobile industry, it has been losing market share in the past five years. Ford's overall market share in the U.S. has declined from 20.5 per cent in 2003 to 14.7 per cent in 2008. This downwards trend was primarily a result of increased competition, an industry shift away from Ford's traditionally strong segments (for example SUV's and pickups) and the discontinuation of a number of company's vehicle lines over the last couple of years.^v

Figure 2 illustrates the market share within the U.S. market in 2008. The U.S. market is dominated by the "Big Three" national manufacturers General Motors, Ford and Chrysler, which account for approximately 48 per cent of the market. The "Big Three" are heavily challenged by Japanese producers, which already account for more than 30 per cent of the U.S. market.

Compared to 2005, when Ford was ranked Number two with 18.2 per cent market share, Ford lost one rank in 2008. Toyota increased its market share over the last years from 13.0 per cent in 2005 to 16.4 per cent in 2008 and overtook Ford, who is now ranked number three (14.7 per cent in 2008). GM is market leader with 22.1 per cent in 2008.^{vi}

Figure 2: Competitive situation in the US automobiles market, 2008



Source: Manufacturer's report quoted in: @Ford North America, January 09, p 3.

Europe

Europe has always been of major importance to the automotive industry. The region is the world's largest vehicle producer: one third of the 50 million cars produced globally are manufactured in the European Union.^{vii}

Ford broke into the new market quite soon after the company was established. In 1903, the first car model was imported to Britain. In the following year, the Central Motor Car Company of London was set up as Ford's overseas sales organization. In 1925, Ford Motor Company AG in Berlin was established. Ford Europe as a separate regional business was established in 1986.

It was Henry Ford II who was very interested in Europe, and he ensured the leadership at the top of the company to develop a European organization. (Ian Slater, Vice President PR, Ford Europe)

Since then, Ford Europe has built a solid position in Europe. It is the second largest geographical region for Ford and accounts for 34.8 per cent of total revenues in 2007.

In addition to Ford Europe, the Premier Automotive Group (PAG), which comprises the luxury brands (Jaguar, Volvo and Land Rover), is located in Europe, selling its vehicles throughout the world.

The European car market is extremely competitive. For the past ten years, the six top car manufacturers Ford, General Motors, Volkswagen AG, PSA Group, Renault Group and Fiat SpA have accounted for more than 70 per cent of the total market. The competition is expected to become more intensive since Japanese and Korean manufacturers increase their production capacity in Europe and offer vehicles at lower prices.

Table 3 illustrates the top 10 brands in the European automotive industry in March 2008. VW is Europe's top selling brand, followed by Ford and Opel. As a result of the difficult economic climate in most European countries, every brand had to face decreasing sales in 2008 compared to 2007.

Table 3: Top European car brands, March 2008 vs. March 2007

Top Ten Brands						
Brand	Mar 08	Mar 07	% Change Mar	Mar YtD 08	Mar YtD 07	% Chnge YtD
VW	152,92	175,562	-12.9%	399,953	399,041	+0.2%
FORD	151,709	169,59	-10.5%	350,914	365,931	-4.1%
OPEL /VAUXHALL	144,547	165,588	-12.7%	334,152	364,911	-8.4%
RENAULT	121,848	129,55	-5.9%	306,657	311,981	-1.7%
PEUGEOT	109,639	126,794	-13.5%	293,014	300,249	-2.4%
FIAT	98,411	104,687	-6.0%	275,799	267,242	+3.2%
CITROEN	87,122	101,404	-14.1%	241,041	257,779	-6.5%
TOYOTA	86,638	105,74	-18.1%	224,471	253,316	-11.4%
BMW	74,869	76,074	-1.6%	175,908	163,847	+7.4%
MERCEDES	74,086	81,783	-9.4%	186,246	184,043	+1.2%

Source: Jato Dynamics quoted in Finfacts Business News Centre, www.finfacts.ie/irishfinancenews/article_1013319.shtml, (March 3rd, 2009)

Table 4 illustrates the top ten models in March 2008 compared to prior year. Ford Fiesta is ranked number two, just slightly behind Peugeot 207. The top ten models in Europe comprise small and medium sized cars, which is in line with the global trend to smaller and less fuel-intensive vehicles.

Table 4: Top ten European models, March 2008 vs. March 2007

Top Ten Models						
Marke & Model	Mar 08	Mar 07	% Chge Mar	Mar YtD 08	Mar YtD 07	% Chge YtD
PEUGEOT 207	46,5	49,802	-6.6%	123,15	115,444	+6.7%
FORD FIESTA	45,666	49,821	-8.3%	98,229	105,511	-6.9%
VW GOLF	45,484	47,209	-3.7%	123,555	102,633	+20.4%
OPEL /VAUXHALL CORSA	45,459	50,345	-9.7%	106,624	118,607	-10.1%
FORD FOCUS	45,274	54,104	-16.3%	106,502	118,832	-10.4%
OPEL /VAUXHALL ASTRA	43,794	51,492	-14.9%	99,94	108,229	-7.7%
RENAULT CLIO	39,123	46,264	-15.4%	97,643	110,087	-11.3%
FIAT PUNTO	32,89	47,125	-30.2%	89,605	116,247	-22.9%
BMW SERIES 3	29,397	37,219	-21.0%	66,942	75,718	-11.6%
VW POLO	29,356	32,133	-8.6%	74,168	73,424	+1.0%

Source: Jato Dynamics quoted in Finfacts Business News Centre, www.finfacts.ie/irishfinancenews/article_1013319.shtml, (March 3rd, 2009)

Organizational Structure of Ford Motor Company

Ford Motor Company is headquartered in Dearborn, Michigan, and employed 246,000 people as of December 2007. Since September 2006, Alan Mulally holds the position of Ford's President and CEO. He succeeded William C. Ford, who now serves as Executive Chairman and Chairman of the Board. The Board of directors is elected by and responsible to the shareholders. Their duty is to monitor the performance of the CEO and senior management to guarantee shareholder interests are being served. The Board of directors has established the following committees to assist their work: Audit, Compensation, Environmental and Public Policy, Finance, and Nominating and Governance.

Strategic operations (for example global manufacturing, global product development, human resources and labour affairs) and regional strategic operations (for example The Americas, Europe, Asia Pacific & Africa and Mazda) are managed by senior managers (Executive Vice Presidents and Group Vice Presidents).

Ford of Europe

Ford of Europe was set up in 1986. It is the largest overseas operation of Ford with about 70,000 employees and eight vehicle plants. Originally, the European Headquarter was located in Britain, since Ford had already been there for several decades. In the 1990s, the

headquarter was relocated to Germany. Several reasons led to this decision: firstly, in Britain Ford had a very strong position for several decades and even though Ford is an American company, many British people tend to think of Ford as a British company. This was not true in Germany and due to the importance of this market, Ford wanted to increase its presence in Germany. Secondly, Germany is well-known for its quality, which is also true for the automotive industry. "We came to regard Germany increasingly as the real bellwether for quality in the automotive industry." (Ian Slater, Vice President PR, Ford Europe). The move was planned in order to further increase Ford's position as leader in quality. Thirdly, Germany is known for its high environmental standards. With the relocation, Ford has taken advantage of the sensitivity within the German organization towards environmental issues. This was in line with the global trend in the automotive industry to show more environmental commitment.

The Premier Automotive Group (PAG), which includes luxury brands such as Jaguar, Volvo and Land Rover is also located in Europe but does not belong to Ford of Europe. It is a separate consumer business group (CBG). PAG oversees the sales, marketing, communications, franchise development, parts, distribution, and customer service efforts of these premier brands on a global basis. PAG is headquartered in the UK. Both Ford of Europe and PAG report into the same office in London.

Which is interesting from an academic point of view, because you have a regional, what we call consumer business group, which is Ford of Europe reporting into this management structure, but also global business like Volvo, Jaguar, etc. reporting into the same unit, which in turn reports to the US. (Ian Slater, Vice President PR Europe)

Ford of Europe sells cars under the brand "Ford" to 51 European countries. The major focus is on 19 main European countries, called the "EU 19". In addition to that, Ford of Europe also comprises Russia and Turkey, markets with high growth potential.

Table 5 and table 6 show the top 5 markets by volume and by market share for Ford of Europe (January - September 2008). UK is leading in both categories accounting for more than 330,000 vehicle sales and a market share of 16.1 per cent January to September 2008. In terms of volume, Germany is ranked on second position, whereas in terms of market share it is not among the top five. Germany's market share in the period of January to September 2008 was 7.7 per cent. Across the main 19 European countries, Ford had a market share of 9.3 per cent (September 2008). In total Europe, Ford's market share was 8.6 per cent in September 2008 (-0.7 per cent compared to 2007).^{viii}

Table 5: Top 5 markets (volume)

Top 5 markets by volume Jan-Sept 2008	
UK	335,804
Germany	181,134
Italy	147,345
Russia	141,420
France	106,080

Table 6: Top 5 markets (market share)

Top 5 markets by market share Jan-Sept 08	
UK	16.1
Turkey	14.6
Ireland	13.6
Hungary	11.6
Spain	9.5

Source: @Ford Europe, November 2008, p 7.

The year 2008 was full of contrasts for Ford Europe. For the last years, Ford was accused of not launching enough new models in Europe and offering an ageing product line. In the first half of the year 2008, the company launched three models – the Fiesta small car, Kuga crossover and Ka minicar – as well as a refreshed version of the Focus. As a result, new-car sales of 1 million units were the division's highest ever. However, as a result of the economic crisis, sales dropped during the second half of the year 2008.

In addition, over capacity has been an issue for the company for several years. Ford Europe was facing excess capacity of 15 per cent in 2008. The new vehicle sales for the EU 19 (the main markets in Europe) were forecasted for 18 million units in 2008. Due to the difficult economic situation the market was down to 15 million units. Confronted with the falling demand, the company needed to adjust its capacity on a weekly basis.^{ix}

Structure within Ford of Europe

The role of the regional headquarters. With Europe as leading manufacturer of cars, one third of the global production is done in Europe; Ford has recognized the importance of a strong presence in the market.

Further to that, the automotive industry is a highly regulated industry; with a trend towards even more regulations and governmental interferences. The EU is further increasing the environmental standards within the car industry, for instance setting directives on Co2 emissions. Further to EU directives, car manufacturers are also confronted with different regulations on local level. Due to the complexity within Europe – many countries and various regulations – it would be very difficult to manage it from far away. This is an additional reason for the presence of a strong regional head quarter in Europe. Ford Europe, in its function as regional headquarter, is a highly autonomous business entity.

We do everything in Europe. I mean this effectively – I mean it is not autarky, but is effectively an autonomous business entity. It is still very much a regional business – producing European cars for Europeans. (Ian Slater, Vice President PR, Ford Europe)

The company imports engines and components on a global basis and also exports to some degree. Ford Motor Company operates with regional product lines, selling different cars to different geographical regions. As a result, the product portfolio of Europe is different to that of North America. "We have a regionally consistent product line, but we don't have a globally consistent product line." (Mark Schirmer, Head of Public Relations Asia&Africa)

In addition to production facilities in Europe, the company also established two R&D centres; one is located in Germany and one in the UK. These centres were separately built and existed parallel for many years. Instead of shutting down one and growing the other, Ford Europe's strategy was to maintain both R&D centres and specialize the role and responsibility of each. These helped to build the two strongest pillars of Ford of Europe, UK and Germany. "We try to keep a balance between the two centres and it works remarkable well." (Ian Slater, Vice President PR, Ford Europe)

In their R&D process, the company also takes advantage of so-called shared technology. It is a set of technologies which come together in different forms to make different vehicles. Ford considers shared technology of being a more sophisticated model and a further development compared to platforms.

For example the new generation Focus had a lot of technologies in common with Volvo S40. But if you look at the two vehicles they have nothing in common. Whereas, a generation ago, in terms of the automotive industry, the Mondeo in Europe and the Contour in America were very similar-looking vehicles. (Ian Slater, Vice President PR, Ford Europe)

Further to R&D, marketing activities are carried out by Ford of Europe independently to the Ford Motor Company. The organizational set-up also guarantees that the business units are more or less self-financing and therefore responsible for their own budgeting.

The role of the local markets

Within Ford of Europe the local markets, called national sales centres, are concerned with local sales, customer service and local PR. Most of the European countries are handled through these national sales centres; they are 100 per cent subsidiaries of Ford Motor Company. In countries, where Ford has no local presence 3rd party importers are applied. These operations are coordinated by an office in Budapest, responsible for export countries.

Manufacturing, purchasing and product development is done on a European level and belongs to the responsibility of the European business group. The European headquarter also provides the countries with the long term product strategy, gives directions in product pricing and guidelines for communication. All marketing communication on above-the-line level is managed by the European headquarter, such as TV commercials, billboards and internet. "It is more or less a toolbox for the national sales companies to make use of – you know – everything is there." (Hans Schep, Marketing Manager Ford Netherlands).

The tactical work and the adaption of the European communication material are carried out by the local teams.

In terms of reporting, local marketing managers report to the local managing directors. The local managing directors in return report to the vice president of marketing and sales of Ford of Europe, who is located in UK. Although the regional headquarter is based in Cologne, some headquarter functions, such as marketing & sales are located in the UK. This goes back to the time when the regional headquarter was located in Great Britain.

The major focus of the local markets is on managing the dealer network. Over the years, support functions such as sales planning and finance have been locally reduced and centralized. The company bundled these functions in order to make use of synergies and achieve economies of scale.

Trends and challenges for the Automobile industry

Not only had the global financial crisis left marks on the automobile industry. Further to that, trends and changes such as increasing competition and stronger environmental regulations already have and further will challenge the automobile market. Especially the saturated markets such as Europe, in particular Western Europe, will face major impacts. It will be of great importance to Ford Europe on how it manages and responds to these challenges and how it adapts to the changing environment.

Bankruptcy of a major automobile manufacturer

The automotive crisis as a result of the financial crisis has come to a head that even bankruptcy has become a major topic in the business press. According to CSM worldwide, an automotive research firm, a bankruptcy filing by one of the "Big Three", General Motors, Chrysler or Ford would have an immediate impact on the financial health and stability of suppliers and every automaker operating in North America, including the Asian and European manufacturers, because they are mutually dependent on the same supply base.

As the following graphic shows, 46 per cent of Ford suppliers also supply European automakers, and 59 per cent of Ford's suppliers also supply Asian manufacturers.

Table 7: Suppliers

Also supply to:					
OEM Supply Base for NA Vehicles	Chrysler	Ford	GM	Asian OEMs	European OEMs
GM	56%	51%	100%	58%	37%
Ford	64%	100%	70%	65%	46%
Chrysler	100%	54%	66%	59%	44%

Source: CSM Worldwide (www.csmauto.com)

Excess Capacity

In 2007, the estimated automotive industry global production capacity for light vehicles of around 85.4 million units exceeded global production by about 16.8 million units. In North America and Europe, excess capacity was estimated 17 per cent and 11 per cent respectively. This trend is projected to continue over the next couple of years.^x

Pricing pressure and Asian competition.

The pressure on prices will stay at a high level due to excess capacity, new product developments and increase in competition from Japanese and Korean manufacturers. European and U.S. manufacturing capacity of Asian manufacturers in recent years have contributed, and will further contribute, to the pricing pressure in the markets. For instance, the Korean car maker Hyundai announced plans to double its European engine production capacity by 2012. Hyundai and the sister brand Kia need more locally produced engines to power cars made in their new Central European factories.^{xi}

Consumer spending trends in Western Europe

Sales of passenger cars and light commercial vehicle are predicted to further decrease in 2010 as credit remains tight and consumers avoid replacing their vehicles until absolutely necessary. CSM Worldwide projects that passenger car sales in Western Europe will fall by 12.4 percent to 12.0 million units in 2009 compared to 2008.^{xii}

Growth potential in emerging markets

As the market for light vehicles in Western Europe and US is saturated, the growth potential lies within the emerging markets such as India, China as well as Central and Eastern Europe. The importance of Eastern and Central Europe in the automotive sector has increased tremendously over the last years. This is true for production as well as sales. New member states (EU12) accounted for 15 per cent of EU motor vehicles production by the end of 2007. This represents an increase of 25.2 per cent in 2007. Although still small, the new member states are highly specialized road vehicle producers. Based on skilled workers, low labour costs and a high potential demand the importance of EU12 is increasing continuously.

Whereas the new car registration in Western Europe is flat or even declining, the figure is increasing in East and Central Europe. In the new EU member states, where car density is still much lower and many households have been able to afford buying a new car only recently, a steady growth was recorded in 2007 (+13.9 per cent). Mainly the Baltic States, Bulgaria, Poland and Romania are contributing to the high growth rate in EU12.^{xiii}

EU vehicles regulations

The automobile industry is one of the most regulated sectors within the EU. Before a car can be sold in the EU market, it must comply with what is known as the Framework Directive for Whole Vehicle Type Approval. This framework directive consists of a long list of technical requirements for motor vehicles as well as for components and separate technical units from which vehicles are assembled. These requirements are set up for the following categories: environment, lighting and signalling, active safety, passive safety and others.^{xiv}

Further directives of the EU include increasingly stringent emission standards for passenger and light commercial vehicles for the models years 2005 and thereafter (EURO 4). Manufacturers are responsible for the emissions performance of these vehicles for five years or 100,000 kilometres, depending which occurs first. Even more stringent emission standards (EURO 5 and EURO 6) are planned for 2014/15.^{xv}

The European Union is a party to the Kyoto Protocol of the United Nations Framework Convention on Climate Change, and therefore has agreed to reduce greenhouse gas emissions. As a result for the automobile industry, the Co2 legislation of the EU says, automakers will have to reduce Co2 emissions from new cars to 130 grams per kilometre by 2012/15, with an additional 10 gram reduction coming from 'complementary measures' including a greater use of biofuels. Furthermore, 65 percent of new cars will have to comply with the emission requirements in 2012, 75 percent in 2013, 80 percent in 2014 and 100 percent in 2015. This regulation also includes car labelling and Co2 information in advertising.^{xvi} To follow these directions will be challenging and costly for Ford of Europe and the automobile industry.

Ford's restructuring efforts

Ford was going through a troubled phase starting in 2000 onwards. Especially in the home market US, Ford was facing a tremendous downwards trend. The rising healthcare costs for its aging workforce and the increase in fuel prices led to a downturn in profit. For decades, Ford concentrated its effort on selling SUV's and Pickups and left the growing segments of small and medium-sized car to its foreign competitors. As a result of the increase in oil price, the demand for small and medium-size cars was increasing. Nowadays, small cars have reached nearly 45 per cent of total industry sales globally.^{xvii} Ford somehow missed the trend and started to face a decrease in sales, resulting in decreasing plant utilization and huge discount activities. The troubles reached a peak in 2006, when Ford Motors posted a loss of US\$12.7 billion for the fiscal year 2006, one of the worst losses in the company's history.^{xviii}

In order to improve its operations, the company started the "Way Forward Plan" in 2006. The aim is to restructure the operations of Ford Motors and bring it back into profit. The initiative was started by Bill Ford and will be continued by the new CEO, Alan Mulally, who succeeded Bill Ford in September 2006. Prior to his position at Ford, Mulally served as Executive Vice President at The Boeing Company and as a President and CEO of Boeing Commercial Airplane. He is known as a turnaround expert, which he successfully demonstrated at the airplanes division at Boeing.

The restructuring plan of Ford comprises four key priorities:

- aggressively restructuring to operate profitably at the current demand and changing mix
- accelerating development of new products customers want and value
- financing the plan and improving the balance sheet
- working together effectively as a global team.

Alan Mulally put it in words in the company's annual report for 2007:

To achieve profitable growth we need to take advantage of every potential economy of scale and best practice we can find. That means operating as a team around the world, with one plan and one goal. One team, one plan, one goal – one Ford.

As a first result of the restructuring process, the company recorded revenues of \$172,455 million during the fiscal year ending in December 2007, an increase of 7.7 per cent over 2006.

So far the restructuring process mainly affected the North American operations, where thousands of jobs had been shed since 2006.

However, faced with ongoing sales decreases, Ford Europe announced that it needs to return to profit as soon as possible.

Preparations for the European Board Meeting

After he had gone through the presentation again and again for the last several hours, Mr. Burger is convinced that Ford of Europe will play a major role in the restructuring process and in bringing Ford back on fast lane. He is certain he and his boss have developed reasonable answer to the following questions: What will be the effects of the company's re-

structuring plans on Ford of Europe? How can Ford meet the challenges resulting from the difficult state of the economy? How will Ford of Europe deal with future trends and challenges on their European operations? What role will Ford of Europe play in bringing the company back into profit?

It is already midnight when Mr. Burger leaves the office to get some sleep before tomorrow's meeting. He feels that he is well prepared to meet tomorrow's challenges; just like Ford of Europe will meet its future challenges.



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- ⁱ Datamonitor, Ford Motor Company, November 2008, p 4
- ⁱⁱ Datamonitor, Ford Motor Company, November 2008, p 18
- ⁱⁱⁱ NPR (National Public Radio), 3 March 2009:
<http://www.npr.org/templates/story/story.php?storyId=5168769>
- ^{iv} Datamonitor, Ford Motor Company, November 2008, p 18
- ^v Datamonitor, Ford Motor Company, Nov 2008, p 21 and @Ford North America, January 2009, p 3
- ^{vi} Just-auto, competitor analysis 2009, p 11
- ^{vii} ACEA, European Automobile Manufacturer's Association, www.acea.be
- ^{viii} @Ford Europe, November 2008, p 7
- ^{ix} Automotive News, 15 December 2008, p 18
- ^x Ford Motor Company / 2007 Annual Report, p 10
- ^{xi} Automotive News Europe, 29 September 2008, p 22
- ^{xii} CSM Worldwide (www.csmauto.com)
- ^{xiii} ACEA – European Automobile Manufacturers' Association (2008): *EU Economic Report February 2008*
- ^{xiv} ACEA – European Automobile Manufacturers' Association, www.acea.be, regulation and standards
- ^{xv} Datamonitor, Ford Motor Company, Nov 2008, p 24
- ^{xvi} ACEA – European Automobile Manufacturers' Association, www.acea.be, CO2 emissions
- ^{xvii} Ford Motor Company / 2007 Annual Report, p 2
- ^{xviii} Datamonitor, Ford Motor Company, Nov. 2008, p 4

Appendix 1

Consolidated Statement of Income

Ford Motor Company and Subsidiaries
For the Years Ended December 31, 2007, 2006, and 2005
(in millions, except per share amounts)

	2007	2006	2005
Sales and revenues			
Automotive sales.....	\$ 154,379	\$ 143,249	\$ 153,413
Financial Services revenues.....	18,076	16,816	23,422
Total sales and revenues.....	<u>172,455</u>	<u>160,065</u>	<u>176,835</u>
Costs and expenses			
Automotive cost of sales.....	142,587	148,866	144,920
Selling, administrative and other expenses.....	21,169	19,148	24,588
Goodwill impairment.....	2,400	—	—
Interest expense.....	10,927	8,783	8,417
Financial Services provision for credit and insurance losses.....	668	241	483
Total costs and expenses.....	<u>177,751</u>	<u>177,038</u>	<u>178,408</u>
Automotive interest income and other non-operating income/(expense), net.....	1,161	1,478	1,247
Automotive equity in net income/(loss) of affiliated companies.....	389	421	285
Gain on sale of The Hertz Corporation ("Hertz") (Note 20).....	—	—	1,095
Income/(Loss) before income taxes	<u>(3,746)</u>	<u>(15,074)</u>	<u>1,054</u>
Provision for/(Benefit from) income taxes (Note 19).....	(1,294)	(2,655)	(855)
Income/(Loss) before minority interests	<u>(2,452)</u>	<u>(12,419)</u>	<u>1,909</u>
Minority interests in net income/(loss) of subsidiaries.....	312	210	280
Income/(Loss) from continuing operations	<u>(2,764)</u>	<u>(12,629)</u>	<u>1,629</u>
Income/(Loss) from discontinued operations (Note 20).....	41	16	62
Income/(Loss) before cumulative effects of changes in accounting principles	<u>(2,723)</u>	<u>(12,613)</u>	<u>1,691</u>
Cumulative effects of changes in accounting principles (Note 28).....	—	—	(251)
Net income/(loss)	<u>\$ (2,723)</u>	<u>\$ (12,613)</u>	<u>\$ 1,440</u>
Average number of shares of Common and Class B Stock outstanding.....	1,979	1,879	1,846
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 21)			
Basic income/(loss)			
Income/(Loss) from continuing operations.....	\$ (1.40)	\$ (6.73)	\$ 0.88
Income/(Loss) from discontinued operations.....	0.02	0.01	0.04
Cumulative effects of changes in accounting principles.....	—	—	(0.14)
Net income/(loss)	<u>\$ (1.38)</u>	<u>\$ (6.72)</u>	<u>\$ 0.78</u>
Diluted income/(loss)			
Income/(Loss) from continuing operations.....	\$ (1.40)	\$ (6.73)	\$ 0.86
Income/(Loss) from discontinued operations.....	0.02	0.01	0.03
Cumulative effects of changes in accounting principles.....	—	—	(0.12)
Net income/(loss)	<u>\$ (1.38)</u>	<u>\$ (6.72)</u>	<u>\$ 0.77</u>
Cash dividends	\$ —	\$ 0.25	\$ 0.40

Source: Ford Motor Company, 2007/Annual report, p 54.

Sector Statement of Income

Ford Motor Company and Subsidiaries
For the Years Ended December 31, 2007, 2006, and 2005
(in millions, except per share amounts)

	2007	2006	2005
AUTOMOTIVE			
Sales	\$ 154,379	\$ 143,249	\$ 153,413
Costs and expenses			
Cost of sales	142,587	148,866	144,920
Selling, administrative and other expenses	13,660	12,327	12,704
Goodwill impairment	2,400	—	—
Total costs and expenses	158,647	161,193	157,624
Operating income/(loss)	(4,268)	(17,944)	(4,211)
Interest expense	2,252	995	1,220
Interest income and other non-operating income/(expense), net	1,161	1,478	1,247
Equity in net income/(loss) of affiliated companies	389	421	285
Income/(Loss) before income taxes — Automotive	(4,970)	(17,040)	(3,899)
FINANCIAL SERVICES			
Revenues	18,076	16,816	23,422
Costs and expenses			
Interest expense	8,675	7,788	7,197
Depreciation	6,289	5,295	5,854
Operating and other expenses	1,220	1,526	6,030
Provision for credit and insurance losses	668	241	483
Total costs and expenses	16,852	14,850	19,564
Gain on sale of Hertz (Note 20)	—	—	1,095
Income/(Loss) before income taxes — Financial Services	1,224	1,966	4,953
TOTAL COMPANY			
Income/(Loss) before income taxes	(3,746)	(15,074)	1,054
Provision for/(Benefit from) income taxes (Note 19)	(1,294)	(2,655)	(855)
Income/(Loss) before minority interests	(2,452)	(12,419)	1,909
Minority interests in net income/(loss) of subsidiaries	312	210	280
Income/(Loss) from continuing operations	(2,764)	(12,629)	1,629
Income/(Loss) from discontinued operations (Note 20)	41	16	62
Income/(Loss) before cumulative effects of changes in accounting principles	(2,723)	(12,613)	1,691
Cumulative effects of changes in accounting principles (Note 28)	—	—	(251)
Net income/(loss)	\$ (2,723)	\$ (12,613)	\$ 1,440
Average number of shares of Common and Class B Stock outstanding	1,979	1,879	1,846
AMOUNTS PER SHARE OF COMMON AND CLASS B STOCK (Note 21)			
Basic income/(loss)			
Income/(Loss) from continuing operations	\$ (1.40)	\$ (6.73)	\$ 0.88
Income/(Loss) from discontinued operations	0.02	0.01	0.04
Cumulative effects of changes in accounting principles	—	—	(0.14)
Net income/(loss)	\$ (1.38)	\$ (6.72)	\$ 0.78
Diluted income/(loss)			
Income/(Loss) from continuing operations	\$ (1.40)	\$ (6.73)	\$ 0.86
Income/(Loss) from discontinued operations	0.02	0.01	0.03
Cumulative effects of changes in accounting principles	—	—	(0.12)
Net income/(loss)	\$ (1.38)	\$ (6.72)	\$ 0.77
Cash dividends	\$ —	\$ 0.25	\$ 0.40

Source: Ford Motor Company, 2007/Annual report, p 55.

Consolidated Balance Sheet

Ford Motor Company and Subsidiaries (in millions)

	December 31, 2007	December 31, 2006
ASSETS		
Cash and cash equivalents.....	\$ 35,283	\$ 28,896
Marketable securities (Note 3).....	5,248	21,472
Loaned securities (Note 3).....	10,267	5,256
Finance receivables, net.....	109,053	106,863
Other receivables, net.....	8,210	7,067
Net investment in operating leases (Note 5).....	33,255	29,787
Retained interest in sold receivables (Note 7).....	653	990
Inventories (Note 8).....	10,121	10,017
Equity in net assets of affiliated companies (Note 9).....	2,853	2,790
Net property (Note 11).....	36,239	36,055
Deferred income taxes.....	3,500	4,922
Goodwill and other net intangible assets (Note 13).....	2,069	3,611
Assets of discontinued/held-for-sale operations.....	7,537	8,215
Other assets.....	14,976	13,255
Total assets.....	\$ 279,264	\$ 279,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Payables.....	\$ 20,832	\$ 21,214
Accrued liabilities and deferred revenue (Note 15).....	74,738	80,058
Debt (Note 16).....	168,530	171,832
Deferred income taxes.....	3,034	2,744
Liabilities of discontinued/held-for-sale operations.....	5,081	5,654
Total liabilities.....	272,215	281,502
Minority interests.....	1,421	1,159
Stockholders' equity		
Capital stock (Note 21)		
Common Stock, par value \$0.01 per share (2,124 million shares issued and 6,000 million authorized).....	21	18
Class B Stock, par value \$0.01 per share (71 million shares issued and 530 million authorized).....	1	1
Capital in excess of par value of stock.....	7,834	4,562
Accumulated other comprehensive income/(loss).....	(558)	(7,846)
Treasury stock.....	(185)	(183)
Retained earnings/(Accumulated deficit).....	(1,485)	(17)
Total stockholders' equity.....	5,628	(3,465)
Total liabilities and stockholders' equity.....	\$ 279,264	\$ 279,196

Source: Ford Motor Company, 2007/Annual report, p 56

Appendix 2

Ford market share September 2008		
total vehicles per country (+/- 2007)		
Austria	7.5%	(+0.4%)
Belgium	8.0%	(+0.8%)
Switzerland	6.1%	(+1.9%)
Czech Republic	10.5%	(+1.7%)
Germany	7.7%	(+0.8%)
Denmark	6.7%	(-2.4%)
Spain	8.2%	(1.4%)
France	5.3%	(+0.7%)
Finland	8.4%	(+0.2%)
Great Britain	14.9%	(-0.1%)
Greece	6.9%	(-0.7%)
Hungary	10.3%	(-1.6%)
Italy	7.7%	(+/-0.0%)
Ireland	16.3%	(+0.9%)
Norway	9.2%	(+1.5%)
Netherlands	10.2%	(+1.3%)
Portugal	7.3%	(+0.8%)
Poland	5.2%	(-1.8%)
Sweden	5.6%	(-0.8%)
Russia	4.2%	(-2.0%)
Turkey	16.0%	(-0.9%)
TOTAL EUROPE	8.6%	(-0.7%)

Source: @Ford Europe, November 2008, p 6