

Bill Ford on Tipping Points and Thinking Small

Maria Bartiromo



With cars like the hot-selling Focus, Ford hopes to build a fuel-efficient image Rebecca Cook/Reuters



Kerkorian and his team "obviously have ideas," says Ford, "and we listen to them" Kevork Djansezian/AP Photo

After a loss as large as the one Ford (F) posted in the second quarter, you might expect the chairman of the board and the most high-profile member of the famed auto family to be crying in his beer. But Bill Ford is embracing the prospect of a more fuel-efficient Ford with gusto. He recognizes that it's a tough moment for the company and its employees as high gasoline prices dramatically change the game in Detroit. Yet he has a risk-taking CEO, Alan Mulally, in place and a new marketing whiz, James Farley, shaking up the culture. While Bill Ford says there will always be a need and desire for the company's iconic trucks, he doesn't believe that the American driving and buying public will ever go back the days when SUVs ruled. A student of Zen, he has awakened to a new future—and guess what, it's small.

MARIA BARTIROMO

Bill, the company reported the worst single quarter in history last week, a loss of \$8.7 billion. What's happening, and why did we see such a loss?

WILLIAM CLAY FORD JR.

We had a good first quarter, we made money, and we thought we were on our way. Even though fuel prices were rising in the first quarter, we didn't see a big change in customer behavior. But when gas crossed about \$3.50 a gallon, that was the tipping point. And, of course, we had no idea where that tipping point was going to be. Literally overnight people stopped buying trucks and big SUVs and came into the dealerships demanding the smallest

and most fuel-efficient vehicles they could find, and the fall-off [in sales], therefore, was very dramatic. What you saw in the second quarter was not only the result of that but also the result of falling residual values of trucks and SUVs.

A lot of people say Mulally was the right guy to bring in, but he seems to have been surprised by the second-quarter loss. BusinessWeek reported that he was unprepared for the loss until about two months ago. Why didn't management see this train wreck coming sooner? I think you go back to what I said earlier. It wasn't until early April that customer behavior began to change, and then the train started moving very fast.

For years the F-150 pickup was the best-selling vehicle in America, and it really did help shape the perception of the company. How do you now retool Ford's image in the mind of the buying public?

That's an interesting point because first of all, we're not walking away from the truck market. We're the best there is in the truck market, and people are still going to need trucks. But the challenge that lies before us is to reestablish ourselves in the car market. And we're doing that with the Focus—we're basically sold out of the Focus and the Fusion. So what we need to do now is to add to that [lineup of smaller cars]. But we will have a marketing challenge to get customers to understand that Ford is a fuel-efficiency leader.

On a scale of one to 10, with 10 being the most confident, how confident are you that this switch to smaller cars is going to work?

I'm very close to the 10 end of the scale because we're basically bringing over our European product, which has been very, very successful. They're extremely profitable, have won lots of awards, and are very fuel-efficient—plus they're extremely well-appointed. It's not like we have to create these products from scratch. They're there, and they're ready to come over here. These are not what you think of when you think of small cars, which we used to produce here, which tended to be stripped down and not terribly desirable.

Let me take you back to when you were CEO. When you took back control of the company, you had this vision. You said: "Look, we want fuel efficiency." But to an outsider, it seems as though the financial guys didn't buy into it, the operations guys didn't buy into it, and you caved. How come you couldn't get this switch-over done two years ago?

Frankly, the market was pulling us in a different direction. I knew this day would come. I've been an environmentalist my whole life, and I've fought a lot of battles during 30 years at Ford. In fact, when I first went on the board, I was told I had to stop associating with any known or suspected environmentalists. And I said: "No, of course I have no intention of stopping." I was viewed as a bit of a Bolshevik throughout my whole career because I knew this day was coming. So we built the Rouge Plant, which was the greenest plant on the planet, and...we also launched the first American hybrid, the Escape. But gasoline prices were cheap, and customers were buying many more of our big F-150s than they were of our Escape hybrids. Now everyone's aligned behind this [fuel-efficiency] vision.

If oil goes down, could we see a shift back to SUVs? I don't think we'll ever see a shift back to where we were before. There may be a small drifting back, but I think this is relatively permanent because a lot of it is psychology as well. It's not just what the absolute price is. Once people have been shaken as they have been, even if gasoline comes back down to \$3, people are still going to remember paying \$4, and they'll be very nervous about resuming their old habits. This is a permanent shift in the marketplace.

Does Ford have enough liquidity to see it through this current crisis? Sure, Mulally comes in and leads this recapitalization and raises a lot of money, but it looks like you're burning cash

faster than you can recover it in sales. How worried are you about the worsening economy thwarting the recovery plan?

Obviously, the economy is not where we need it to be, and we project a rather slow industry through the rest of the year. And it's hard to see next year with any great clarity at this point. But at the end of the second quarter we had over \$38 billion in liquidity. And so, as you point out, we did go out, just before Alan got here, and borrowed a ton of money. And our timing was excellent because we did it right before the credit market closed down. And we had that in place when I was interviewing Alan.

Where is the biggest opportunity around the world?

Europe and South America are both doing phenomenally well and are very profitable. In terms of growth, it's Asia. In places like China, we're out of capacity. In India, we're growing very fast.

What do you think of the new automakers coming out of India and China?

I think they're very credible competitors. The biggest mistake we could ever make is to disregard them. We're watching them very closely.

Might we see further consolidation in the industry?

I'll never forget that the board had a presentation from an outside consultant in the early '80s who said within five years there would be four players in the world auto industry. That was almost 30 years ago. Now rather than fewer, we have many more. You've had the Chinese, the Indians, the Koreans come in, and the established brands, for the most part, have not disappeared.

Carlos Ghosn told me recently that he suspects there's going to be plenty more consolidation. Is an alliance with another automaker all that objectionable to Ford?

We've had joint ventures around the world for as long as I've been at Ford, and they are very labor-intensive, very time-intensive. You have to be absolutely clear in terms of governance and in terms of expectations, and both parties have to share the same vision. The best alliance we can have right now is with ourselves.

How much influence do [billion-dollar-plus investor] Kirk Kerkorian and his lieutenant Jerry York have on the direction of the company?

They're really supportive of what we're doing. We had a great meeting with Mr. Kerkorian and with Jerry and their team. I'm really very honored that they would find us a good investment. They obviously have ideas, and we listen to them, as we listen to all of our big investors.

So do they have any input in terms of how much fuel efficiency you should shoot for or cash levels or real specifics on the direction of the company?

Maybe the reason that they haven't been terribly specific is that they have bought into what we're trying to do. They agree with our goal to be the fuel-efficiency leader in each segment. There certainly have been no contentious discussions at all.

When you look back over the last couple of years, do you have any regrets about putting Jac Nasser in as CEO, maybe leaving him there too long [1999-2001], and then eventually having to fire him and put yourself in as CEO? Even though you had the right vision, you maybe needed an industrial engineer like Mulally.

I don't really afford myself that luxury. I mean, you know, one of the things I feel good about is that when I stepped in as CEO, we were losing a lot of money. We turned it around, and we had three straight profitable years when a lot of our competitors did not. But it was clear to me that I really needed somebody like a Mulally who could come in and drive the operations of this company on a daily basis. And so I feel really great that Alan is here. I mean, I couldn't feel better about it.

Do you think Chrysler will be sold?

I have no idea what's going to happen to Chrysler.

How about GM? You think it will survive?

I think it will. GM (GM) has a lot of strengths. You know, they're obviously struggling with the same issues that really the whole industry is struggling with now. But GM has some great brands, some very good technology, and very good management. Yeah, they'll get through this.

You must have had some tough meetings with the family over the last year or so. How are they taking all of this?

They're supportive. I mean, this family's been in this company for over 100 years, and our name is on each product. There's a tremendous amount of pride. Everyone in our family grew up loving Ford and loving what Ford stood for in the world. And so, yeah, I mean, nobody's happy to be going through what we're going through now. And it's not just the impact on their personal finances. It's because we have such a strong emotional attachment to the company. It hurts us to see the company go through it, and most important, it hurts us to see the employees of the company suffer. That has the biggest impact of all.

Maria Bartiromo is the anchor of CNBC's Closing Bell .