

# Fixing Up

# FORD

IF BUSINESS WERE POLITICS, DETROIT WOULD BE THE MIDDLE EAST. SO HOW IS AN OUTSIDER LIKE ALAN MULALLY FINDING SOLUTIONS? AND WHY DOES HE SEEM TO BE ENJOYING HIMSELF?

BY ALEX TAYLOR III

Photograph by David Yelkn

**ALAN MULALLY IS IN MY FACE-AGAIN. IN FACT, HE HAS BARELY LEFT** it for the past two hours. He has taken me through the thick loose-leaf binder he assembled for my interview and shown me another five binders filled with interviews he did upon taking the CEO job at Ford, along with research material and personal notes. He has given me his opinion on all the stories I've written about Ford since he took over and, for good measure, the stories I wrote about Boeing back when he worked there. The man is relentless and demands all my attention. He won't let up until he has turned all my "nos" and "maybes" into "yeses."

Call it the Mulally method: this good-natured but relentless insistence on following what he has determined to be the correct course of action. My immersion is taking place around a conference table in his office on the 12th floor of Ford Motor Co.'s world headquarters in Dearborn, Mich. Mulally is sitting so close, he could

be in my lap. The office decoration is sparse, but Mulally likes the ISO-degree view; Ford's historic River Rouge complex is visible on the horizon, and he says he can keep an eye on General Motors and Chrysler from here too. Not that Mulally has much time for window gazing. He's on a crusade to save Ford Motor. Now he's showing me the corporate mission statement he wrote and had printed on plastic cards and distributed to employees. And here is the hand-drawn diagram he's created just for me (with my name in a cloudburst!) to explain what it all means (see "Inside the Mind of Mulally" on page 46). In case I hadn't noticed, Mulally says, "I went to a lot of work for this." Trust me, Alan, I noticed.

All this attention is wearing me out—but not Mulally. In the midst of history's second-worst auto depression, Mulally seems to be ... enjoying himself? This is a man who lives less than three miles from his office, arrives there each morning at 5:15 a.m. for a

12<sup>3</sup>/<sub>4</sub>-hour workday, and does so with smile. At 63, he still gets enthusiastic about tackling big jobs. "I've always wanted to do something important, and it had to be in a big organization," says Mulally. You would think once in a lifetime would be enough for the aeronautical engineer in charge of developing the 777 airliner at Boeing. But here he is, doing it all over again: "What gets me really excited is a big thing where a lot of talented, smart people are involved," he says. Mulally once asked his mother, now 90, "Why am I this way?" She replied, "You've always been this way."

Mulally's being "this way" has, at least for now, kept Ford ahead of GM and Chrysler in the fight for survival. Unlike its traditional rivals, Mulally's Ford insists it has enough cash to ride out the economic downturn and does not want the government loans that the other two companies have accepted. Ford's financial independence is largely due to a new operational discipline that Mulally has installed, as well as some timely strategic moves he initiated. So while GM suffered the ignominy of seeing the Treasury Department's auto task force depose chairman and CEO Rick Wagoner, and Chrysler has declared bankruptcy, Ford stands alone as an independent company and, potentially, a Detroit survivor. "Alan was the right choice [to be CEO], and it gets more right every day," says executive chairman Bill Ford, the man who hired him.

Ford Motor is still losing money, like nearly every other automaker, but it shows signs of recovery. In the U.S. its market share of retail sales to individuals (as opposed to wholesale sales to fleet customers) has gone up in six of the past seven months. It has negotiated four new agreements with the United Auto Workers, bringing its hourly labor cost down from \$76 an hour to \$55 an hour and, Ford

says, promising to make it competitive with Toyota. While GM and Chrysler are hoarding cash, Ford actually laid out \$2.4 billion in March to pay down \$10.1 billion in long-term debt. Its share price has increased nearly fivefold since hitting a low in November.

Mulally, who was hired as CEO in September 2006, hasn't engineered, designed, or built any cars. But he has devised a plan that identifies specific goals for the company, created a process that moves it toward those goals, and installed a system to make sure it gets there. Mulally watches all this with intensity—and demands weekly, sometimes daily, updates. "Alan's style is pretty relentless," says chief financial officer Lewis Booth, a 31-year Ford veteran. "He says, 'If this is the reality, what are we going to do about it?' not 'We're going to work our way through it.'"

The Mulally method has pointed Ford to some smart strategic moves. Sensing a recession in 2006, Mulally decided to borrow \$23.6 billion against Ford's assets. Piling on more debt wasn't an easy call, but the extra cash meant that Ford could say no to government loans when sales fell apart last year. Mulally is moving to integrate the company globally, despite several failed attempts in the past. In 2010, Ford will be selling small cars in the U.S. that were developed in Europe, Mulally persuaded Bill Ford to dispose of Jaguar and Land Rover and focus its resources on the Ford brand, and by moving quickly he managed to sell them to India's Tata in 2007 when there was still a market for makers of luxury vehicles. He took longer to untangle Volvo from the rest of the company, but he has now put that up for sale too.

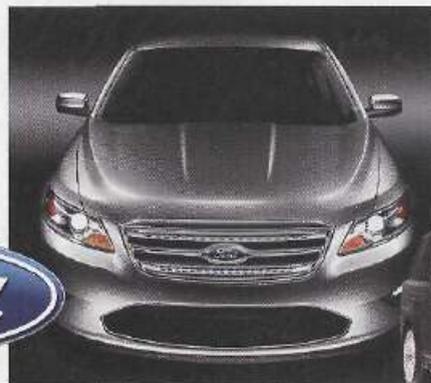
Those moves have helped Ford separate from GM and Chrysler, and Mulally is pumped. "As we come through this, we're going to

## Mulally's Greatest Hits

SINCE TAKING OVER AS CEO IN 2006, MULALLY HAS METHODICALLY STRENGTHENED FORD'S BALANCE SHEET AND SIMPLIFIED ITS OPERATIONS.



MULALLY



4. 2010 TAURUS



5. 2010 RANGE ROVER SPORT

①

### October 2006

Creates the Business Plan Review meeting, bringing organizational unity and operational discipline to the company.

②

### November 2006

Mortgages Ford's assets—including its blue oval logo—for \$23.6 billion, hedging against the business downturn to come.

③

### December 2006

Creates global heads of manufacturing, marketing, and product development and announces company will consolidate under the rubric "One Ford."

④

### February 2007

Revives the Taurus nameplate and signals his support for longer-lasting brands and product rationalization.

be a turbo machine on the other side," he says. He has promised that Ford's core North American operations, as well as the entire company, will turn profitable by 2011. It had better, because it can't keep losing money indefinitely. Ford recorded a loss of \$14.7 billion last year and another \$1.4 billion in zoog's first quarter. If the U.S. and the rest of the global economy continue to slump, Ford's survival could be endangered. "The test of Ford's liquidity will be how low vehicle sales go this year, when they recover, and what levels they recover to in 2010 and 2011," writes analyst Shelly LombardofGimmeCredit.

Besides, Ford hasn't always handled prosperity well. It boomed in the mid-1980s on the strength of the Taurus, pickup trucks, and Lincolns, only to be laid low by the recession of 1990-91. Then it squeezed record profits out of Expeditions, Lincoln Navigators, and pickups—all built on the same platform—in the middle to late 1990s. But a binge of overseas acquisitions, combined with laxity in operations, brought it limping into the 21st century. When Mulally arrived in September 2006, Ford was known mainly for its pickup trucks and the Mustang, and the company was on the verge of collapse. It lost \$12.6 billion in 2006 and another \$2.7 billion in 2007.

Now, if the economy recovers on schedule, Ford is in a position to thrive. To meet stricter government fuel-economy standards, it is introducing a line of more efficient, smaller-displacement engines

with turbocharging, and it will start rolling out electric vehicles in 2010. A healthier Ford will be able to scoop up business from GM and Chrysler as those companies shed brands and models. Goldman Sachs's Patrick Archanibault sees Ford picking up 25% of the sales the two companies lose, equivalent to 1.35 points of market share.

So how does an industry outsider like Mulally come into a company as large as Ford—with its 205,000 employees, multiple product lines, and international operations—and straighten it out?

To people like me who follow the industry and find its inner workings infinitely complex, the success of a non-auto person is surprising and, frankly, a little discomfiting. Mulally, after all, was so removed from Detroit ways when Ford hired him that his personal car was a Lexus. Although there are similarities between building airplanes and making cars—heavy R&D, complex manufacturing, supplier relations, a unionized workforce—there are crucial differences too.

Mulally had no experience in mass marketing or dealer relations. Although he has weighed in on model names, brand streamlining (he is allowing Mercury to wither away), and product complexity (he was flabbergasted to hear that engineers had created 132 different center consoles for the Navigator), he leaves product decisions to the professionals.

The story of how Mulally revived Ford's best-known sedan is a quintessential demonstration of the Mulally method—analyzing

**"YOU STOPPED THE TAURUS? HOW MANY BILLIONS OF DOLLARS DOES IT TAKE TO BUILD BRAND LOYALTY AROUND A NAME?"**



5. 2010 JAGUAR XKR

7. WAGNER, NARDELLI, AND MULALLY



8. GETTELFINGER



5

**March 2007**

Sells Aston Martin as a first step in divestiture of noncore assets. Jaguar and Land Rover are sold to India's Tata in June 2008.

6

**June 2008**

Announces plan to bring European-developed small cars Fiesta and Focus to the U.S. in 2010.

7

**December 2008**

Faces congressional critics alongside GM CEO Wagoner (left) and Chrysler CEO Nardelli (between them) but declares Ford can survive without a bailout.

8

**February 2009**

Reaches agreement with United Auto Workers, led by Ron Gettelfinger, to make hourly labor costs competitive with Toyota by 2010.

9

**April 2009**

Buys back Ford debt at 35¢ on the dollar to reduce overall debt by \$10.1 billion and lower annual interest payments by up to \$500 million annually.



BILL FORD, THE EXECUTIVE CHAIRMAN AND THE MAN WHO HIRED MULALLY, SUMS HIM UP THIS WAY: "ALAN IS NOT A VERY COMPLICATED PERSON. HE IS VERY DRIVEN."

a situation using accepted facts and then winning over support through persistence. Here's the story, told by Mulally:

"I arrive here, and the first day I say, 'Let's go look at the product lineup.' And they lay it out, and I said, 'Where's the Taurus?' They said, 'Well, we killed it.' I said, 'What do you mean, you killed it?' 'Well, we made a couple that looked like a football. They didn't sell very well, so we stopped it.' 'You stopped the Taurus?' I said, 'How many billions of dollars does it cost to build brand loyalty around a name?' 'Well, we thought it was so damaged that we named it the Five Hundred.' I said, 'Well, you've got until tomorrow to find a vehicle to put the Taurus name on because that's why I'm here. Then you have two years to make the coolest vehicle that you can possibly make.'" The 2010 Taurus is arriving on the market this spring, and while it is not as startling as the original 1986 Taurus, it is still pretty cool.

It's difficult to imagine the reaction of hard-bitten Ford executives to Mulally's arrival. Sharp elbows, fierce loyalties, and frequent turf battles were hallmarks of Ford's management culture: The tough guys won. Despite nearly 40 years in the commercial airplane business—one of the most international of industries—Mulally looks as if he had just left his home state of Kansas. He dresses like a Boy Scout leader—blue blazer, button-down shirt, kiltie loafers—and his open-mouth smile makes him appear bemused or even a bit puzzled by what goes on around him. That corn-fed sincerity, however, masks confidence, discipline, and a fierce desire to win.

"Communicate, communicate, communicate," Mulally explained in one of his notes to me. "Everyone has to know the plan, its status, and areas that need special attention." For instance, Mulally is de-

termined that Ford reduce its dependence on light trucks as gas becomes more expensive, and he has let the entire organization know it in the bluntest possible language. "Everybody says you can't make money off small cars," he says. "Well, you'd better damn well figure out how to make money, because that's where the world is going."

Mulally's openness seems to have won him support throughout the organization. Says manufacturing boss Joe Hinrichs: "Alan brings infectious energy. This is a person people want to follow." Sometimes Mulally verges on guilelessness. In preparation for our interview, he provided me with a one-page summary of his managerial abilities. Titled "Alan's Leadership," it includes some boilerplate—"proven successful leader ... business acumen and judgment... steady... true North"—but leavens it with less quantifiable traits: "expects the very best of himself and others, seeks to understand rather than to be understood." I can't imagine another CEO making such a list public. Bill Ford sums Mulally up this way: "Alan is not a very complicated person. He is very driven."

Arriving at Ford, Mulally boned up on the company like a student cramming for an exam, interviewing dozens of employees, analysts, and consultants, and filling those five binders with his typed notes. The research allowed him to develop a point of view about the auto business that now frames all his decisions. Its pillars draw heavily from his experience at Boeing: Focus on the Ford brand ("nobody buys a house of brands"); compete in every market segment with carefully defined products (small, medium, and large; cars, utilities, and trucks); market fewer nameplates (40 worldwide by 2013, down from 97 worldwide in 2006); and become best in class in quality, fuel

efficiency, safety, and value. Are corporate mission statements so 1990s? Not to Mulally. To let everyone know what he had in mind, Mulally created those plastic cards with four goals on one side ("Expected Behaviors") and a revised definition of the company ("One Ford") on the other. To Mulally, it is like sacred text: "This is me. I wrote it. It's what I believe in. You can't make this shit up."

"I am here to save an American and global icon," Mulally declares.

He drives performance the way he did at Boeing, with the Business Plan Review, a meeting with his direct reports, held early every Thursday. "I live for Thursday morning at 8 a.m.," he says. First up are Ford's four profit centers: the Americas, Europe, Asia Pacific, and Ford Credit. Then come presentations from 12 functional areas (from product development and manufacturing to human resources and government relations). "When I arrived there were six or seven people reporting to Bill Ford, and the IT person wasn't there, the human resources person wasn't there," says Mulally. "So I moved up and included every functional discipline on my team because everybody in this place had to be involved and had to know everything."

The Thursday meetings are held in what's known as the Thunderbird Room, one floor below Mulally's office, around a circular dark-wood table fitted with three pairs of videoscreens in the center. Eight clocks, one for each Ford time zone, are mounted on the wall. There are seats for 18 executives around the table, with additional ones on the perimeter ("Here's where I sit," says Mulally, indicating a chair: "Pilot's seat"). There are no pre-meetings or briefing books. "They

don't bring their big books anymore because I'm not going to grind them with as many questions as I can to humiliate them," Mulally says. "We'll see them next week. We don't take action—I'm going to see you next week." No BlackBerrys are allowed, and no side conversations either—Mulally is insistent about that. "If somebody starts to talk or they don't respect each other, the meeting just stops. They know I've removed vice presidents because they couldn't stop talking because they thought they were so damn important."

Mulally instituted color coding for reports: green for good, yellow for caution, red for problems. Managers coded their operations green at the first couple of meetings to show how well they were doing, but Mulally called them on it. "You guys, you know we lost a few billion dollars last year," he told the group. "Is there anything that's not going well?" After that the process loosened up. Americas boss Mark Fields went first. He admitted that the Ford Edge, due to arrive at dealers, had some technical problems with the rear lift gate and wasn't ready for the start of production. "The whole place was deathly silent," says Mulally. "Then I clapped, and I said, 'Mark, I really appreciate that clear visibility.' And the next week the entire set of charts were all rainbows."

"If something is off-track, we are much better at identifying it and resolving it," says CFO Booth. "Not everything turns to green. If it doesn't, we have to modify the plan."

To monitor operations during the week, Mulally can visit two adjacent rooms whose walls are lined with 280 performance charts, arranged by area of responsibility, with a big picture of the executive

**"EVERYBODY SAYS YOU CAN'T MAKE MONEY OFF SMALL CARS. WELL, YOU'D BETTER DAMN WELL FIGURE OUT HOW TO MAKE MONEY."**

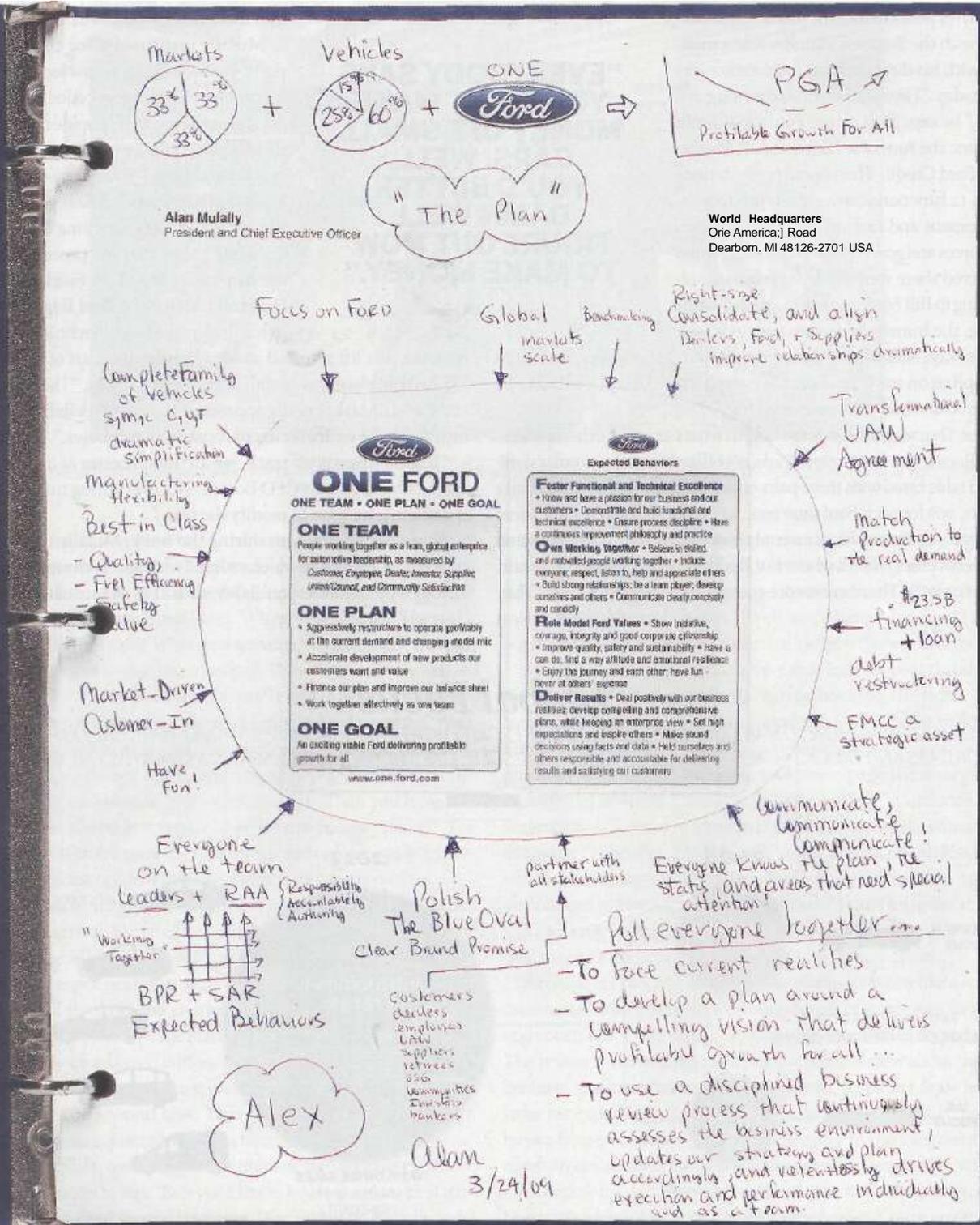
## Global Focus

FORD IS LEARNING HOW TO MAKE MORE DISTINCT MODELS FROM FEWER PLATFORMS. IN 2013 IT WILL HAVE ONLY 13 PLATFORMS FOR CARS AND TRUCKS—HALF AS MANY AS IN 2007—BUT SOME, LIKE THE FOCUS, WILL SPAWN AS MANY AS FIVE VARIANTS.



# Inside the Mind of Mulally

AT THE CENTER OF THE PAGE ARE THE TWO SIDES OF A MISSION STATEMENT. PRINTED ON A CARD, THAT THE CEO WROTE AND DISTRIBUTED TO EMPLOYEES. AROUND IT ARE NOTATIONS HE MADE IN PREPARATION FOR FORTUNE'S INTERVIEW.





MULLALLY LEARNED ABOUT RUNNING BIG PROJECTS IN COMPLEX ORGANIZATIONS AT BOEING, WHERE HE WAS THE ENGINEER IN CHARGE OF DEVELOPING THE 777.

in charge in case there are any doubts. Everyone at the Thursday meeting gets wall space. Mulally spends 30 minutes explaining the charts to me, making sure I stand 20 feet away so that I can't see any of the data. The message, though, comes through clearly: Mulally has his finger on every piece of this large and complex company. So does his board of directors; they see a subset of the same data. There are no secrets at Ford anymore. "This is a huge enterprise, and the magic is, everybody knows the plan," says Mulally.

And everyone seems to be onboard. Chief financial officer Don Leclair became a company hero for arranging the \$23.6 billion loan in 2006. But other executives found him hard to work with, and Leclair decided to retire. Mulally doesn't want to have to settle arguments between executives, either. "They can either work together or they can come see me," he says. He demonstrates how infrequently that happens by springing up from his chair, dashing into his outer office, and then racing back and sitting down. He reports that nobody is waiting to see him. "They're not here. There's nobody here. There's nobody outside. So they must be working together." I am speechless, but I get the point.

So far, Mulally has been mostly managing the hand dealt him when he arrived. The first new model to bear his fingerprints will be the restyled 2010 Taurus that goes on sale in June. His plan for "One Ford" won't get a real test until next year when two small, fuel-efficient cars, the Fiesta and the Focus, make their way from Europe to the U.S. It remains an open question whether Americans will be

willing to pay more for the smaller, higher-content vehicles. They will have to if Mulally is to succeed in reducing Ford's dependence on pickup truck profits.

The biggest unanswered questions about Mulally are how long he will stay at Ford and who will succeed him. Bill Ford has been saying that he hopes Mulally never leaves, but having spent nearly four decades in Seattle, he isn't likely to settle in Dearborn, and in fact, the company spent \$344,109 in 2008 flying Mulally and his family between the two cities and elsewhere. Now that Ford is running more smoothly, there shouldn't be a need to look outside again for his successor. If Mulally leaves when he turns 65, the betting is that he will be succeeded by Booth, who is 60. If Mulally stays longer, then 48-year-old Fields would likely be the choice.

Mulally talks as if he has found a home and is doing the work he was always intended to do. "Something about just being mature, being almost 64, is that I've been there. I've been through a lot of cycles. I'm not up and down. I'm rock-solid, no matter where the bad news comes from. I'm steady. And everybody knows why I'm here. It's not a career move.

I'm not trying to get ahead. I am not looking for more awards."

At one of his early meetings with employees upon joining Ford in 2006, Mulally was asked whether Ford would be able to remain in business: "Was Ford going to make it?" "I don't know," Mulally replied. "But we have a plan, and the plan says we are going to make it." It was a moment Mulally's mother would have appreciated, a

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**"I AM HERE TO SAVE AN AMERICAN AND GLOBAL ICON," SAYS THE CEO, WHO GAVE UP HIS LEXUS AND WORKS 12¾ HOURS A DAY.**