

IS ONE FORD REALLY WORKING?*

In January 2015 Ford Motor Company reported its best January sales performance since 2004. Retail sales were up for passenger cars and utility vehicles, with the Mustang, Lincoln MKC, Lincoln Navigator, Explorer, and Escape leading the way. The Transit van segment also had its best January sales results since 2001, but the real star, as always, was the Ford F-Series pickup, America's best-selling truck for the 38th straight year. The all-new F-150, which hit an all-time annual record of 54,370 vehicles sold in January, was named 2015 North American Truck of the Year.¹

Ford was hoping for a big year in 2015, driven primarily by the F-150 popularity. New CEO Mark Fields was relying on North American sales in 2015 to offset increasing losses in Europe, as well as uncertainty in Asia as Ford continued its cautious introduction of Lincoln into the Chinese luxury-vehicle market. Ford needed all the good news it could get, having posted a 2014 year-end profit that saw a 56 percent drop from 2013. As CEO Fields remarked,

[Last year] was a solid yet challenging year for Ford—with our investments and a record number of new products launched around the world positioning us for strong growth this year and beyond... . The entire Ford team remains focused on our three priorities of accelerating our ONE Ford plan, delivering product excellence, and driving innovation in every part of the business.²

Given the current lackluster performance and associated ambivalence of the investment community in the wake of Ford's disappointing year-end numbers, Mark Fields had some significant decisions to make in the coming year. Fields had been promoted to CEO in July 2014 upon the retirement of Alan Mulally, who was widely hailed as one of the “five most significant corporate leaders of the last decade” and was the architect of Ford's eight-year turnaround from the brink of bankruptcy in 2006.³ It was Mulally who had created the vision that drove Ford's revitalization—“ONE Ford.” The ONE Ford message was intended to communicate consistency across all departments and all segments of the company, requiring people to work together as one team, with one plan, and one goal: “an exciting viable Ford delivering profitable growth for all.”⁴ Mulally had wanted to leverage Ford's unique automotive knowledge and assets to build cars and trucks that people wanted and valued, and he had managed to arrange the financing necessary to pay for it all. The 2009 economic downturn that caused a financial catastrophe for U.S. automakers had trapped General Motors and Chrysler in emergency government loans, but Ford was able to avoid bankruptcy due to Mulally's actions.

Mulally had worked to create a culture of accountability and collaboration across the company, and he had groomed his successor, Mark Fields, since 2012, instilling confidence among the company's stakeholders that Ford would be able to continue to be profitable once Mulally stepped down. Even with this preparation, CEO Fields was facing an industry affected by general economic conditions over which he had little control and a changing technological and sociocultural environment in which consumer preferences were difficult to predict. Fields would have to anticipate and address numerous challenges as he positioned the company for continued success.

Attempts at repositioning Ford had been under way for many years. In the 1990s, former CEO Jacques Nasser had emphasized acquisitions to reshape Ford, but day-to-day business activities were ignored in the process. When Nasser left in October 2001, Bill Ford, great-grandson of company founder Henry Ford, took over and emphasized innovation as a core strategy to reshape Ford. In an attempt to stem the downward slide at Ford, and perhaps to jump-start a turnaround, Bill Ford recruited Alan Mulally, who was elected as president and chief executive officer of Ford on September 5, 2006. Mulally, former head of commercial airplanes at Boeing, was expected to steer the struggling automaker out of the problems of falling market

share and serious financial losses. Mulally created his vision of “ONE Ford” to reshape the company, and in 2009 he finally achieved profitability, committing to remaining “on track for both [Ford's] overall and North American Automotive pre-tax results to be breakeven or profitable”⁵ in the coming years. Mulally was able to sustain this success past the initial stages of his tenure and maintained profitability until his retirement in June 2014. Mark Fields would have to take over from there (see Exhibit 1).



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EXHIBIT 1 Ford Motor Company and Subsidiaries: Income Statement (\$ millions, except per-share amounts)



	Year Ended December 31		
	2014	2013	2012
AUTOMOTIVE			
Revenues	\$135,782	\$139,369	\$126,567
Costs and expenses			
Cost of sales	123,516	125,195	113,039
Selling, administrative, and other expenses	<u>10,243</u>	<u>9,997</u>	<u>9,041</u>
Total costs and expenses	133,759	135,192	122,080
Interest expense	797	829	713
Interest income and other income/(loss), net	76	974	1,599
Equity in net income of affiliated companies	<u>1,246</u>	<u>1,046</u>	<u>555</u>
Income before income taxes — Automotive	2,548	5,368	5,928

FINANCIAL SERVICES

Revenues	8,295	7,548	6,992
Costs and expenses			
Interest expense	2,699	2,860	3,115
Depreciation on vehicles subject to operating leases	3,098	2,411	1,795
Operating and other expenses	776	768	693
Provision for credit and insurance losses	<u>305</u>	<u>208</u>	<u>77</u>
Total costs and expenses	6,878	6,247	5,680
Other income/(loss), net	348	348	365
Equity in net income of affiliated companies	<u>29</u>	<u>23</u>	<u>33</u>
Income before income taxes — Financial Services	<u>1,794</u>	<u>1,672</u>	<u>1,710</u>
TOTAL COMPANY			
Income before income taxes	4,342	7,040	7,638
Provision for/(Benefit from) income taxes	<u>1,156</u>	<u>(135)</u>	<u>2,026</u>
Net income	3,186	7,175	5,612
Less: Income/(Loss) attributable to noncontrolling interests	<u>(1)</u>	<u>(7)</u>	<u>(1)</u>

Net income attributable to Ford Motor Company \$ 3,187\$ 7,182\$ 5,613

Source: Ford Motor Company 10-K filings.

EXHIBIT 1

Ford Motor Company and Subsidiaries: Income Statement (\$ millions, except per-share amounts) Ford Motor Company and Subsidiaries: Income Statement (\$ millions, except per-share amounts)

History of the Ford Motor Company

In 2015, Ford Motor Company, based in Dearborn, Michigan, had about 187,000 employees and 62 plants worldwide. It manufactured or distributed the automotive brands Ford and Lincoln across six continents and provided financial services via Ford Motor Credit. It was also the only company in the industry whose company name still honored the vision and legacy of its founder, Henry Ford.

Page C-246

American engineer and industrial icon Henry Ford had been a true innovator. He didn't invent the automobile or the assembly line, but through his ability to recognize opportunities, articulate a vision, and inspire others to join him in fulfilling that vision, he was responsible for making significant changes in the trajectory of the automobile industry and even in the history of manufacturing in America. Starting with the invention of the self-propelled Quadricycle in 1896, Ford developed other vehicles, primarily racing cars, that attracted a series of interested investors. In 1903, 12 investors backed him in the creation of a company to build and sell horseless carriages, and Ford Motor Company was born.

Page C-247

Starting with the Model A, the company produced a series of successful vehicles, but in 1908 Henry Ford wanted to create a better, cheaper “motorcar for the great multitude.”⁶ Working with a group of handpicked employees, he designed the Model T. The design was so successful, and demand so great, that Ford decided to investigate methods for increasing production and lowering costs. Borrowing concepts from other industries, by 1913 Ford had developed a moving assembly line for automobile manufacture. Although the work was so demanding that it created a high degree of employee turnover, the production process was significantly more efficient, reducing chassis assembly time from 12½ hours to 2 hours 40 minutes. In 1904, Ford expanded into Canada and by 1925 had assembly plants in Europe, Argentina, South Africa, and Australia. By the end of 1919, Ford was producing 50 percent of all the cars in the United States, and the assembly line disruption in the industry had led to the demise of most of Ford's rivals.⁷

The Automotive Industry and Ford Leadership

The automotive industry in the United States had always been a highly competitive, cyclical business. In 2015 there were “a wide and growing variety of product offerings from a growing number of manufacturers,”⁸ including the electric-car lineup from Tesla Motors, self-styled as “not just an automaker, but also a technology and design company with a focus on energy innovation.”⁹ The total number of cars and trucks sold to retail buyers, or “industry demand,” varied substantially from year to year depending on general economic conditions, the cost of purchasing and operating cars and trucks, and the availability of credit and fuel. Because cars and trucks were durable items, consumers could wait to replace them, and, starting in 2013, the average age of light vehicles on U.S. roads was over 11 years. Due to this, high replacement demand for cars and car parts was forecast to result in increased sales for 2015 and beyond. These sales would be aided by an improvement in the general economic situation, reduced gasoline prices, and lower interest rates for car loans, all contributing to the best results for U.S. auto sales since the 2008

recession.¹⁰ However, sales in the U.S. markets no longer belonged just to U.S. manufacturers (Exhibit 2).

EXHIBIT 2 Sales and Share of U.S. Total Market by Manufacturer, 2015



	Sales, YTD			Market Share, YTD	
	2015	2014	% Chg	2015	2014
General Motors Corp.	202,786	171,486	18.3	17.6	16.9
Ford Motor Company	177,441	153,494	15.6	15.4	15.2
Toyota Motor Sales	169,194	146,365	15.6	14.7	14.5
Chrysler LLC	145,007	127,183	14.0	12.6	12.6
Nissan North America	104,107	90,470	15.1	9.0	8.9
American Honda Motor	102,184	91,631	11.5	8.9	9.0
Hyundai Motor America	44,505	44,005	1.1	3.9	4.3
Subaru of America Inc.	40,812	33,000	23.7	3.5	3.3
Kia Motors America	38,299	37,011	3.5	3.3	3.7
Mercedes-Benz	26,124	23,892	9.3	2.3	2.4
Volkswagen of America	23,504	23,494	—	2.0	2.3
Mazda Motor of America	20,271	18,813	7.7	1.8	1.9

BMW of North America	18,981	18,253	4.0	1.6	1.8
Audi of America Inc.	11,541	10,101	14.3	1.0	1.0
Mitsubishi Motors NA	6,493	4,867	33.4	0.6	0.5
Land Rover**	5,281	4,674	13.0	0.5	0.5
Porsche Cars NA Inc.	3,937	3,096	27.2	0.3	0.3
Volvo	3,794	3,792	0.1	0.3	0.4
Mini*	3,228	2,543	26.9	0.3	0.3
Jaguar*	1,266	1,347	-6.0	0.1	0.1
Maserati*	452	567	-20.3	—	0.1
Ferrari*	174	186	-6.5	—	—
Bentley*	96	192	-50.0	—	—
Rolls-Royce*	67	56	19.6	—	—
Total car	529,696	491,724	7.7	46.0	48.6
Domestic car	160,761	152,319	5.5	14.0	15.0
Import car	368,935	339,405	8.7	32.1	33.5
Total truck	621,427	520,858	19.3	54.0	51.4
Domestic truck	362,121	298,122	21.5	31.5	29.4

Import truck	259,306	222,736	16.4	22.5	22.0
TOTAL VEHICLES	1,151,123	1,012,582	13.7	100.0	100.0
Selling Days	26	25	—	—	—

Source: www.motorintelligence.com.

EXHIBIT 2

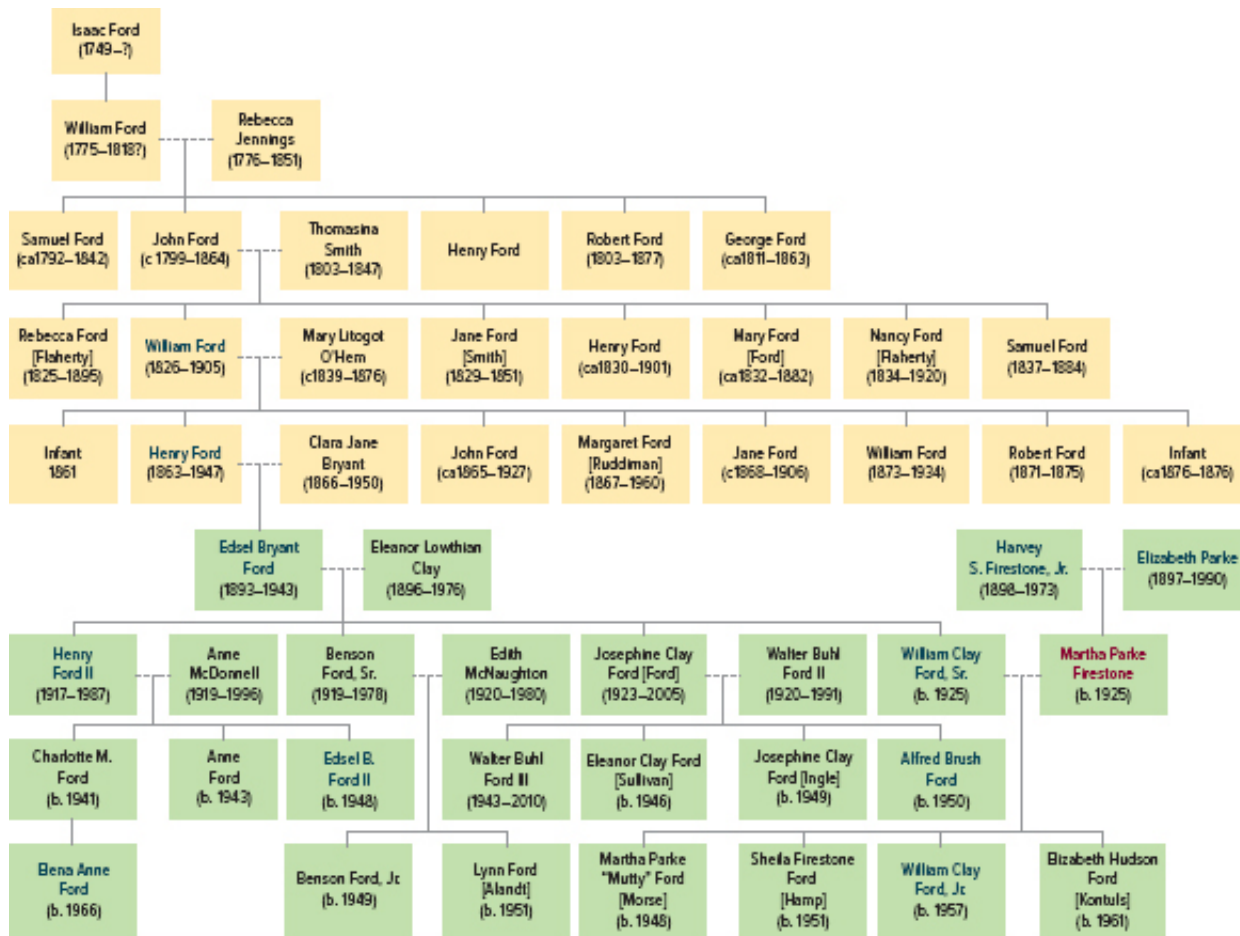
Sales and Share of U.S. Total Market by Manufacturer, 2015 Sales and Share of U.S. Total Market by Manufacturer, 2015

Originally dominated by the “big 3” Detroit-based car companies—Ford, General Motors, and Chrysler—competition in the United States had intensified since the 1980s, when Japanese carmakers began gaining a foothold in the market. To counter the problem of being viewed as foreign, Japanese companies Nissan, Toyota, and Honda had set up production facilities in the United States and thus gained acceptance from American consumers. Production quality and lean production were judged to be the major weapons that Japanese carmakers used to gain an advantage over American carmakers. Starting in 2003, because of innovative production processes that yielded better quality for American consumers, Toyota vehicles unquestionably became “a better value proposition” than Detroit's products.¹¹

Back in 1999, Ford Motor Company had been in good shape, having attained a U.S. market share of 24.8 percent, and had seen profits reach a remarkable \$7.2 billion (\$5.86 per share), with pretax income of \$11 billion. At that time people even speculated that Ford would soon overtake General Motors as the world's number-one automobile manufacturer.¹² But soon Toyota, through its innovative technology, management philosophy of continuous improvement, and cost arbitrage due to its presence in multiple geographic locations, was threatening to overtake GM and Ford. In addition, unfortunately, the profits at Ford in 1999 had come at the expense of investing in Ford's future. Jacques Nasser, the CEO at that time, had focused on corporate acquisition and diversification rather than new vehicle development. By the time Chairman Bill Ford stepped in and fired Nasser in 2001, Ford was seeing declines in both market share and profitability. By 2005, market share had dropped to 18.6 percent and Ford had skidded out of control, losing \$1.6 billion, pretax, in North American profits. It was obvious that Ford needed a change in order to adapt and survive. Observers believed that the Ford family would take action to prevent further losses: “Ford may need a strongman ... a Ford characteristic—the ‘prime minister’ who actually runs the company under the ‘constitutional monarch,’ a member of the Ford family.” It was speculated that Mark Fields, named head of Ford's North American operations in 2005, might be tapped to take that job.¹³ This became a legitimate observation about Ford's approach to succession planning.

The Ford empire had been around for over a century, and the company had not gone outside its ranks for a top executive since hiring Ernest Breech away from General Motors Corporation in 1946 (see Exhibit 3).¹⁴ Since taking the CEO position in 2001, Bill Ford had tried several times to find a qualified successor, “going after such industry luminaries as Renault-Nissan CEO Carlos Ghosn and DaimlerChrysler Chairman Dieter Zetsche.”¹⁵

EXHIBIT 3 Ford Family Tree



Note: Family tree includes descendants of Henry Ford who worked at Ford Motor Co. and their children.

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Ford Family Tree Ford Family Tree

Note: Family tree includes descendants of Henry Ford who worked at Ford Motor Co. and their children.

Source: *BusinessWeek*, www.businessweek.com/1998/39/b3597003.htm.

Among large corporations, it had become fairly common to hire a CEO from outside the family or board. According to Joseph Bower from Harvard Business School, about one-third of the time at S&P 500 firms, and about 40 percent of the time at companies that were struggling with problems in operations or financial distress, an outsider was appointed as CEO. The reason might have been to get a fresh point of view or to get the support of the board. "Results suggest that forced turnover followed by outsider succession, on average, improves firm performance."¹⁶ Bill Ford claimed that to undertake major changes in Ford's dysfunctional culture, an outsider might be more qualified than even the most proficient auto industry insider.¹⁷

An outsider CEO might also help restore faith in Ford management among investors, who were discontented with the Ford family's high dividends and extravagant lifestyle. The Ford family controlled about 40 percent of the company's voting shares through their ownership of all its class-B stock and holdings of common stock. The class-B family shares had almost the same market value as that of the common stock, but the voting rights of the family shares were exceptionally high by industry standards. The dividend stream was an annuity, which over the years had enabled various family members to own a football team, fund museums and philanthropic causes, and even promote the Hare Krishna movement. Given that the company was experiencing serious financial problems, these activities raised stockholder dissent, as the annual retained

earnings in the past had been dissipated as dividends instead of reinvested in firm operations or acquisitions to increase the net value of the firm.

In 2006, Alan Mulally had been selected as the new CEO and was expected to accomplish “nothing less than undoing a strongly entrenched management system put into place by Henry Ford II almost 40 years ago”—a system of regional fiefdoms around the world that had sapped the company's ability to compete in a global industry, a system that Chairman Bill Ford couldn't or wouldn't unwind.¹⁸

Mulally's Vision

Alan Mulally understood that organizational culture was key to organizational change and that change could be aided by an appropriate organizational structure. However, that restructuring had to be supported and inspired by a clear vision. Prior to joining Ford, Mulally had served as executive vice president of the Boeing Company and as president and chief executive officer of Boeing Commercial Airplanes. In those roles, he was responsible for all the Boeing Company's commercial airplane programs and related services.¹⁹ Under Mulally's visionary leadership, Boeing had regained the top position in its market from its major European competitor, Airbus. The appointment of Mulally at Ford was seen by the market as a move to utilize his experience and success in managing manufacturing and assembly lines to help shape the future of Ford.

Alan Mulally had come from a metal-bending business that, like auto making, was influenced by global competition, had a unionized workforce, and was subject to complex regulations and rapidly changing technologies.²⁰ Although he was not an auto guy, he had a proven record in an industry that faced issues similar to those faced by the automobile industry, and a lot of his expertise and management techniques were highly transferable. In his own words, “Everybody says, well, I'm not a car guy, so you couldn't make a contribution here. But I'm a product (guy) and I'm a designer.”²¹

Bill Ford praised Mulally as “an outstanding leader and a man of great character.” In his email to Ford employees announcing the appointment of Mulally, Bill Ford wrote, “Alan has deep experience in customer satisfaction, manufacturing, supplier relations and labor relations, all of which have applications to the challenges of Ford. He also has the personality and team-building skills that will help guide our Company in the right direction.”²²

Mulally set his own priorities for fixing Ford: “At the top of the list, I would put dealing with reality.” The newly elected CEO signaled that “the bigger-is-better worldview that has defined Ford for decades was being replaced with a new approach: Less is More.”²³ Ford needed to pay more attention to cutting costs and transforming the way it did business than to traditional measurements such as market share.²⁴ The vision was to have a smaller and more profitable Ford.

Mulally's cutback plan built on the 14 plant closures and 30,000-plus job cuts announced by Ford in January 2007. Ford's new plan added two more North American plants to the closure list and exceeded the targeted \$5 billion in cost cuts by the end of 2008,²⁵ but it pushed back a target for North American profitability by one year to 2009 and then again to 2011.²⁶ The company targeted seven vehicle manufacturing sites for closure. At the same time, it also planned to increase the plant utilization and production levels in each production unit, while focusing more on smaller, more fuel-efficient vehicles. The overall strategy was to use restructuring as a tool to obtain operating profitability at lower volume and create a mix of products that better appealed to the market.

By 2011, Ford had closed or sold a quarter of its plants and cut its global workforce by more than one-third. It also slashed labor and health care costs, plowing the money back into the design of some well-received new

products, like the Ford Fusion sedan and Ford Edge crossover. This put Ford in a better position to compete, especially taking into consideration that General Motors and Chrysler had filed for bankruptcy in 2009 and Toyota had recently announced a major recall of its vehicles for “unintended acceleration” problems.²⁷ Ford's sales grew at double the rate of the rest of the industry in 2010, but entering 2011 its rivals' problems seemed to be in the rearview mirror, and General Motors, especially, was on the rebound.

Mulally had set three priorities: first, to determine the brands Ford would offer; second, to be “best in class for all its vehicles”; and, third, to make sure that those vehicles would be accepted and adapted by consumers around the globe—“if a model was developed for the U.S. market, it needed to be adaptable to car buyers in other countries.”²⁸ Mulally said that the “real opportunity going forward is to integrate and leverage our Ford assets around the world” and decide on the best mix of brands in the company's portfolio.²⁹ The “best mix of brands” appeared to have been established going into 2011, after brands such as Jaguar, Land Rover, Aston Martin, and Volvo were all sold off and the Mercury brand was discontinued. Ford also had had an equity interest in Mazda Motor Corporation, which it reduced substantially in 2010, retaining only a 3.5 percent share of ownership. This left the company with only the Ford and Lincoln brands, but the Lincoln offerings had struggled against Cadillac and other rivals for the luxury-car market. Mulally acknowledged that this needed fixing, and forecast a date of 2013 for real changes in the Lincoln lineup.³⁰

Page C-251

Since his appointment, Mulally had also made some additional structural and procedural changes in the company. For instance, instead of discussing business plans monthly or semiannually as they used to do, executives now met with Mulally weekly. The in-depth sessions were a contrast to executives' previous efforts to explain away bad news, said Donat R. Leclair, Ford's chief financial officer. “The difference I see now is that we're actually committed to hitting the numbers. Before, it was a culture of trying to explain why we were off the plan. The more eloquently you could explain why you were off the plan, the [easier] it was to change the plan.”³¹

Mulally also did some senior executive reorganization at Ford, and many of the newly appointed executives reported to him directly, including a global head of product development. In addition, the head of worldwide purchasing, the chief of quality and advanced manufacturing, the head of information technology, the chief technical officer, and the leaders of Ford's European division, its Asia, Pacific, and Africa units, and its Americas unit all reported directly to him.³²

Mulally's fearlessness had been well suited to pushing through projects at Boeing, but its suitability to Ford's good-old-boy culture was a question. Like every new leader, he had to move with confidence in his early days, but as an industry outsider he also had to take care to avoid violating long-standing industry norms.³³ Regarding his approach to culture change, one observer noted, “Mulally's approach to management and communication hasn't been seen before in the halls of Ford, which have historically been the atmosphere of a kingdom with competing dukes.”³⁴ Mulally encountered conflict between his management style and the old “Ford way,” but this didn't deter him from making changes.

One significant thing Mulally did was to break down the global structure in which Ford Europe, Ford Asia, Ford North America, Ford Australia, and Ford South America had long created redundancies of efforts, products, engineering platforms, engines, and the like, as a way of perpetuating each division's independence.³⁵ The geographic segments were reconfigured into Ford North America, Latin America (including Mexico), Europe, and Asia/Pacific/Africa. Mulally further consolidated top leadership to cover the major operations—the Americas, Europe, Asia/Pacific/Africa—and appointed leaders for global manufacturing and labor and for global marketing, sales, and service.

However, these restructuring efforts also had their drawbacks. Unable to accept the Mulally management approach, some senior executives left Ford. The international chief of the company, Mark A. Schulz, was one of them. “He had decided to retire after working for more than three decades at the company. Schulz was just one of a string of senior executives to leave after Mulally took over. Ford's second-ranking North American executive, its North American manufacturing chief and its chief of staff also all announced their departures after Mulally's hiring.”³⁶ Ford lost some of its most experienced leaders because of the outsider CEO. Yet Mulally remained confident that his restructuring decision was still the right one for the long term.

Going into 2013, Mulally appeared to have reached his goal. As he said,

We achieved several important milestones, including restoring Ford's investment-grade status and reclaiming the Ford Blue Oval, resuming regular dividend payments to our shareholders and achieving 14 straight quarters of operating profit... . We launched 25 vehicles and 31 powertrains globally in 2012, a testament to our ongoing commitment to product development. We also announced plans to revitalize our Lincoln brand ... which will introduce an exciting new lineup of great luxury vehicles.³⁷

In 2014, thanks to Mulally's vision and perseverance, Ford maintained its position. Ford had introduced 24 vehicles around the world, including the new Mondeo in Europe, but although the firm was still profitable, net income was down \$4 billion from 2013. Even though Ford maintained its number-two position in Europe, behind Volkswagen, major losses had occurred in that sector, primarily due to Russian economic instabilities, and South America had also seen losses due to currency devaluation and changing government rules. In addition, Ford's push into the Asia-Pacific region, specifically China, was behind schedule. North American sales, while still strong, had resulted in operating margin reductions due to recalls and costs associated with the relaunch of the F-150. The one real bright spot was in financial services. Ford Motor Credit, the financing company that lends people money to buy new cars, saw its best results since 2011.³⁸

As Mark Fields took over as CEO, he pointed to the ONE Ford plan as essential to Ford's future: “Our ONE Ford plan is built on compelling vision, comprehensive strategy, and relentless implementation, all leading to profitable growth around the world.”³⁹ The actions of Mulally and now Fields, in enacting the ONE Ford plan, had attracted many long-term investors who believed in the strategy. Going into 2015 the financials, especially the balance sheet, appeared strong, and because of this, the company was able to reinstate and subsequently boost the dividend to shareholders, rewarding those investors who had stayed the course. (See Exhibits 4 and 5.)

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EXHIBIT 4 Ford Motor Company and Subsidiaries: Sector Balance Sheets (\$ millions)



DecemberDecember
31, 2014 31, 2013

ASSETS

Automotive

Cash and cash equivalents	\$ 4,567	\$ 4,959
Marketable securities	<u>17,135</u>	<u>20,157</u>
Total cash and marketable securities	21,702	25,116
Receivables, less allowances of \$455 and \$132	5,789	5,641
Inventories	7,866	7,708
Deferred income taxes	2,039	1,574
Net investment in operating leases	1,699	1,384
Other current assets	<u>1,347</u>	<u>1,034</u>
Total current assets	40,442	42,457
Equity in net assets of affiliated companies	3,216	3,546
Net property	29,795	27,492
Deferred income taxes	13,331	13,436
Other assets	2,798	2,824
Non-current receivable from Financial Services	<u>497</u>	<u>724</u>
Total Automotive assets	90,079	90,479

Financial Services

Cash and cash equivalents	6,190	9,509
Marketable securities	3,258	1,943

Finance receivables, net	86,141	80,816
Net investment in operating leases	21,518	18,600
Equity in net assets of affiliated companies	141	133
Other assets	3,613	3,149
Receivable from Automotive	<u>527</u>	<u>907</u>
Total Financial Services assets	121,388	115,057
Intersector elimination	<u>(1,024)</u>	<u>(1,631)</u>
Total assets	<u>\$210,443</u>	<u>\$203,905</u>

LIABILITIES

Automotive

Payables	\$ 18,876	\$ 18,035
Other liabilities and deferred revenue	17,934	16,537
Deferred income taxes	270	267
Debt payable within one year	2,501	1,257
Current payable to Financial Services	<u>527</u>	<u>907</u>
Total current liabilities	40,108	37,003
Long-term debt	11,323	14,426

Other liabilities and deferred revenue	23,793	22,089
Deferred income taxes	<u>367</u>	<u>430</u>
Total Automotive liabilities	75,591	73,948

Financial Services

Payables	1,159	1,496
Debt	105,347	99,005
Deferred income taxes	1,849	1,627
Other liabilities and deferred revenue	1,850	2,260
Payable to Automotive	<u>497</u>	<u>724</u>
Total Financial Services liabilities	110,702	105,112
Intersector elimination	<u>(1,024)</u>	<u>(1,631)</u>
Total liabilities	185,269	177,429
Redeemable noncontrolling interest	342	331

EQUITY

Capital stock

Common Stock, par value \$.01 per share (3,938 million shares issued of 6 billion authorized)	39	39
Class B Stock, par value \$.01 per share (71 million shares issued of 530 million authorized)	1	1

Capital in excess of par value of stock	21,089	21,422
Retained earnings	24,556	23,386
Accumulated other comprehensive income/(loss)	(20,032)	(18,230)
Treasury stock	<u>(848)</u>	<u>(506)</u>
Total equity attributable to Ford Motor Company	24,805	26,112
Equity attributable to noncontrolling interests	<u>27</u>	<u>33</u>
Total equity	<u>24,832</u>	<u>26,145</u>
Total liabilities and equity	<u>\$210,443</u>	<u>\$203,905</u>

Source: Ford Motor Company 10-K filings.

EXHIBIT 4

Ford Motor Company and Subsidiaries: Sector Balance Sheets (\$ millions) Ford Motor Company and Subsidiaries: Sector Balance Sheets (\$ millions)



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EXHIBIT 5 Ford Motor Company and Subsidiaries: Sector Statements of Cash Flows (\$ millions)



Year Ended December 31

2014

2013

2012

AutomotiveFinancialAutomotiveFinancialAutomotiveFinancial

Cash flows from operating activities of continuing operations

Net income	\$ 1,489	\$ 1,697	\$ 5,775	\$ 1,400	\$ 4,413	\$ 1,199
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Depreciation and tooling amortization	4,252	3,133	4,064	2,440	3,655	1,831
Other amortization	216	(178)	198	(158)	139	(325)
Provision for credit and insurance losses	—	305	2	208	6	77
Pension and OPEB expense	1,249	—	2,543	—	1,557	—
Equity investment (earnings)/losses in excess of dividends received	216	(27)	(529)	(14)	20	3
Foreign currency adjustments	827	(2)	227	1	(121)	5
Net (gain)/loss on changes in investments in affiliates	798	—	113	—	(594)	—
Stock compensation	172	8	152	7	134	6
Provision for deferred income taxes	483	580	(481)	(367)	1,209	545
Decrease/(Increase) in intersector receivables/payables	(83)	83	(136)	136	899	(899)
Decrease/(Increase) in accounts receivable and other assets	(2,826)	(71)	(1,486)	(554)	(2,343)	(165)
Decrease/(Increase) in inventory	(875)	—	(572)	—	(1,401)	—

Increase/(Decrease) in accounts payable and accrued and other liabilities	6,229	(495)	494	737	633	(34)
Other	(242)	(223)	(228)	(484)	(26)	(200)
Interest supplements and residual value support to Financial Services	(3,141)	—	(2,398)	—	(1,914)	—
Net cash provided by/(used in) operating activities	8,764	4,810	7,738	3,352	6,266	2,043

Cash flows from investing activities of continuing operations

Capital spending	(7,360)	(103)	(6,566)	(31)	(5,459)	(29)
Acquisitions of finance receivables and operating leases (excluding wholesale and other)	—	(51,673)	—	(45,822)	—	(38,445)
Collections of finance receivables and operating leases (excluding wholesale and other)	—	36,497	—	33,966	—	31,570
Net change in wholesale and other receivables	—	(2,208)	—	(3,044)	—	(1,178)
Purchases of marketable securities	(35,096)	(13,598)	(89,676)	(30,317)	(73,100)	(22,035)
Sales and maturities	38,028	12,236	87,799	30,448	70,001	23,748

of marketable
securities

Change related to Venezuelan operations	(477)	—	—	—	—	—
Settlements of derivatives	247	34	(284)	67	(788)	51
Proceeds from sales of retail finance receivables	—	—	—	495	—	—
Other	77	64	171	19	196	—
Investing activity (to)/from Financial Services	322	—	445	—	925	—
Maturity of Financial Services debt held by Automotive	—	—	—	—	201	—
Interest supplements and residual value support from Automotive	<u>—</u>	<u>3,141</u>	<u>—</u>	<u>2,398</u>	<u>—</u>	<u>1,914</u>
Net cash provided by/(used in) investing activities	(4,259)	(15,610)	(8,111)	(11,821)	(8,024)	(4,404)

Cash flows from financing activities of continuing operations

Cash dividends	(1,952)	—	(1,574)	—	(763)	—
Purchases of Common Stock	(1,964)	—	(213)	—	(125)	—

Net changes in short term debt	(126)	(3,744)	(133)	(2,794)	154	1,054
Proceeds from issuance of other debt	185	39,858	2,250	38,293	1,553	30,883
Principal payments on other debt	(1,010)	(27,849)	(1,439)	(26,514)	(810)	(28,400)
Other	134	(109)	287	(30)	31	128
Financing activity to/(from) Automotive	—	(322)	—	(445)	—	(925)
Maturity of Financial Services debt held by Automotive	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>_(201)</u>
Net cash provided by/(used in) financing activities	(4,733)	(7,834)	(822)	8,510	40	2,539
Effect of exchange rate changes on cash and cash equivalents	<u>(164)</u>	<u>(353)</u>	<u>_(93)</u>	<u>56</u>	<u>—</u>	<u>51</u>
Net increase/(decrease) in cash and cash equivalents	<u>\$ 392</u>	<u>\$ (3,319)</u>	<u>\$ (1,288)</u>	<u>\$ 97</u>	<u>\$ (1,718)</u>	<u>\$ 229</u>
Cash and cash equivalents at January 1	\$ 4,959	\$ 9,509	\$ 6,247	\$ 9,412	\$ 7,965	\$ 9,183
Net increase/(decrease) in cash and cash equivalents	<u>(392)</u>	<u>(3,319)</u>	<u>(1,288)</u>	<u>97</u>	<u>(1,718)</u>	<u>229</u>

Cash and cash equivalents at December 31	\$4,567	\$6,190	\$ 4,959	\$ 9,509	\$ 6,247	\$ 9,412
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Source: Ford Motor Company 10-K filings.

EXHIBIT 5

Ford Motor Company and Subsidiaries: Sector Statements of Cash Flows (\$ millions) Ford Motor Company and Subsidiaries: Sector Statements of Cash Flows (\$ millions)

Page C-253

Ford and the Automobile Industry Changing Product Mix

Going into 2015, the entire automobile industry was facing disruption. The 2009 global economic downturn and financial crisis had had a significant impact on global sales volumes in the auto industry. It was possible that the once-profitable business of manufacturing and selling trucks and SUVs had changed. Especially in the U.S., oil prices had been fluctuating, making it difficult to anticipate consumer demand. In 2010, this had caused a shift in consumers' car-buying habits, reducing the demand for large vehicles, but by late 2014 gas prices had lowered enough to spur interest in SUVs once again. (See Exhibit 6.)

EXHIBIT 6 U.S. New Vehicle Sales by Segment, 2006–2014*

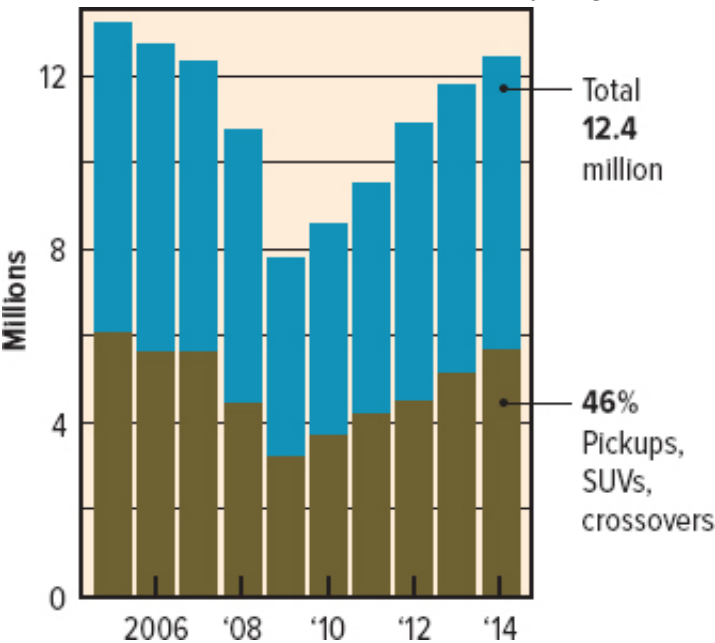


EXHIBIT 6

U.S. New Vehicle Sales by Segment, 2006–2014* U.S. New Vehicle Sales by Segment, 2006–2014*

Source: www.wsj.com/articles/gm-outlines-financial-plans-1412173772.

Page C-256

This trend should have been good for Ford, given its branding emphasis on the F-150, Escape, and Explorer, but in 2013 Ford had shifted production to the small and midsize cars, as well as making a major push to promote the Lincoln luxury vehicle. Going into 2015 this positioning hurt Ford. See Exhibit 7 for vehicle sales figures in the U.S. market.

EXHIBIT 7 Overall Vehicle Sales by Segment, January 2015

Segment totals, ranked by Jan unit sales				
	Jan 2015	% Change from Jan 2014	YTD 2015	% Chg from YTD 2014
Cars	529,696	7.7	529,696	7.7
Midsize	233,167	5.7	233,167	5.7
Small	219,344	12.2	219,344	12.2
Luxuty	77,061	2.0	77,061	2.0
Large	124	− 38.0	124	− 38.0
Light-duty trucks	621,427	19.3	621,427	19.3
Pickup	166,326	21.9	166,326	21.9
Crossover	281,630	14.7	281,630	14.7
Minivan	55,445	9.9	55,445	9.9
Midsize SUV	66,388	32.2	66,388	32.2
Large SUV	19,744	74.3	19,744	74.3
Small SUV	15,281	6.0	15,281	6.0
Luxury SUV	16,613	33.4	16,613	33.4
Total SUV/Crossover	399,656	19.7	399,656	19.7
Total SUV	118,026	33.5	118,026	33.5
Total Crossover	281,630	14.7	281,630	14.7

Source: www.motorintelligence.com.

Segment totals, ranked by Jan unit sales

	Jan 2015	% Change from Jan 2014	YTD 2015	% Chg from YTD 2014
Cars	529,696	7.7	529,696	
Midsize	233,167	5.7	233,167	
Small	219,344	12.2	219,344	
Luxuty	77,061	2.0	77,061	
Large	124	≈38.0	124	
Light-duty trucks	621,427	19.3	621,427	

Pickup	166,326	21.9 166,326
Crossover	281,630	14.7 281,630
Minivan	55,445	9.9 55,445
Midsize SUV	66,388	32.2 66,388
Large SUV	19,744	74.3 19,744
Small SUV	15,281	6.0 15,281
Luxury SUV	16,613	33.4 16,613
Total SUV/Crossover	399,656	19.7 399,656
Total SUV	118,026	33.5 118,026
Total Crossover	281,630	14.7 281,630

Source: www.motorintelligence.com.

EXHIBIT 7

Overall Vehicle Sales by Segment, January 2015 Overall Vehicle Sales by Segment, January 2015

The core strategy at Ford starting in 2011 centered on a change in products, shifting to smaller and more fuel-efficient cars. Ford imported European-made small vehicles, the European Focus and Fiesta, into North America. It also converted three truck-manufacturing plants to small-car production.⁴⁰ The Ford and Lincoln lines were upgraded, emphasizing fuel-economy improvement and the introduction of hybrid cars. In 2012 Ford launched six new Ford hybrid cars in North America and sold more hybrids in the fourth quarter of 2012 than during any quarter in its history. In 2014 Ford began producing its first hybrid electric car in Europe, the Mondeo Hybrid. This car was well known to those in the U.S., being based on the North American Fusion model hybrid vehicle. By 2014, Ford was the world's second-largest manufacturer of hybrids, after Toyota.⁴¹

In 2014 Ford launched more new products than at any other time in its history—23 new models, including a redesigned Mustang, the Ford Edge and Lincoln MKC crossovers, and the Super Duty version of the F-Series pickup. This push was part of Ford's design to increase sales and volume while also building margins and overall profitability, but it came at a cost. Ford had opened three assembly plants and added 14,000 jobs since 2012.⁴²

In the U.S., Ford's market share had dropped over time—from 25 percent in 1999 to 15.5 percent in 2011,⁴³

with major blows to market share in the light-vehicle segment. Going into 2015, although still losing ground at 14.9 percent, Ford claimed the second spot in the U.S. market, just behind GM and ahead of Toyota (see Exhibit 8).

EXHIBIT 8 U.S. Market Share by Brand, 2014 Year End

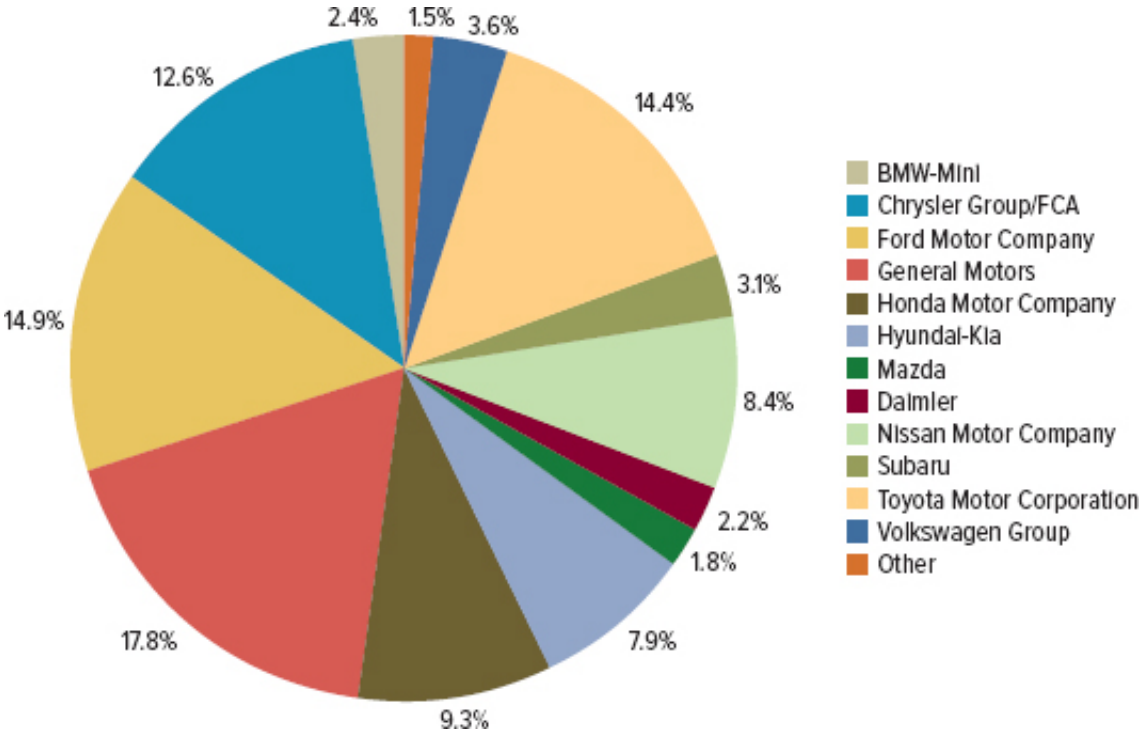


EXHIBIT 8

U.S. Market Share by Brand, 2014 Year End U.S. Market Share by Brand, 2014 Year End

Source: www.goodcarbadcar.net/search/label/US%20Auto%20Sales%20By%20Brand?max-results=5.

Ford's most successful vehicles were still the F-Series pickup trucks (see Exhibit 9). In 2015, for the 38th consecutive year, the Ford F-Series was ranked as America's top-selling vehicle.⁴⁴ Ford's vehicles had proven dependable as well, overall. However, it appeared that consumer perceptions had not kept pace with actual performance—in 2012 J.D. Power and Associates found that the Ford and Lincoln brands still had large lags between actual dependability performance and consumer perception. “Producing vehicles with world-class quality is just part of the battle for automakers; convincing consumers to believe in their quality is equally as important,” said David Sargent, vice president of global vehicle research at J.D. Power and Associates. “It takes considerable time to positively change consumer perceptions of quality and dependability—sometimes a decade or more—so it is vital for manufacturers to continually improve quality and also to convince consumers of these gains.”⁴⁵ In 2014, the Lincoln MKZ came in at number 15 out of 28 vehicles rated by *Consumer Reports* as most reliable in the world, while the Ford Fusion 1.5-liter EcoBoost was rated 23rd.⁴⁶

EXHIBIT 9 Best-Selling Vehicles in America, 2014 (in units sold)

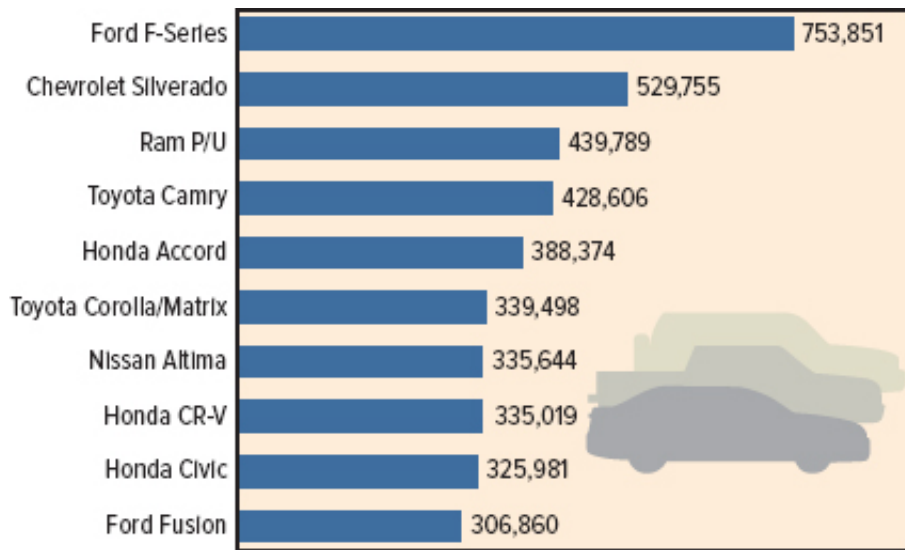


EXHIBIT 9

Best-Selling Vehicles in America, 2014 (in units sold) Best-Selling Vehicles in America, 2014 (in units sold)

Source: www.forbes.com/sites/niallmccarthy/2015/01/07/americas-best-selling-vehicles-in-2014-infographic/.

Page C-258

Globalizing the Ford Brand

In the auto industry it was common practice that different regions cooperated, and companies basically sold the same cars around the world. This had not been the case at Ford. Since it set up its European operations, Ford Europe and Ford North America had gone separate ways, but, starting in 2007, Mulally was determined to change that.

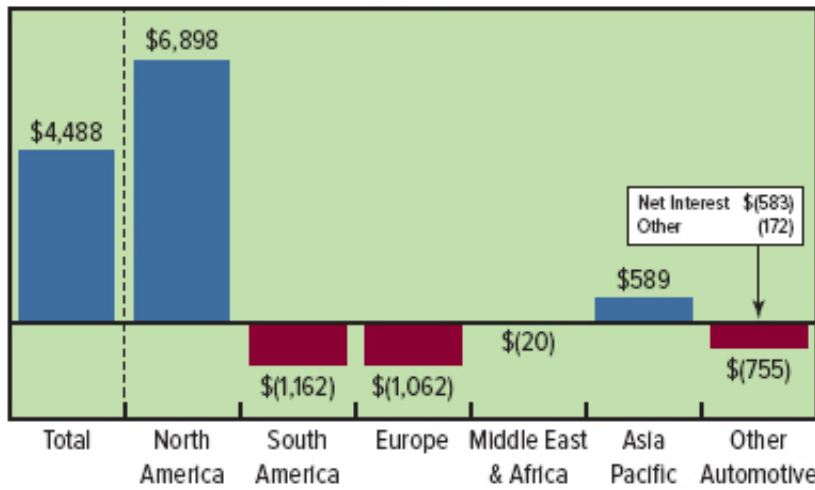
Under the ONE Ford vision, Mulally globalized the Ford brand, meaning that all Ford vehicles competing in global segments were the same in North America, Europe, and Asia.⁴⁷ The company was looking for a reduction of complexity, and thus costs, in the purchasing and manufacturing processes. The idea was to deliver more vehicles worldwide from fewer platforms and to maximize the use of common parts and systems. By 2009, Mulally felt he had positioned Ford to take advantage of its scale, global products, and brand to respond to the changing marketplace.⁴⁸ However, each year seemed to pose new challenges.

Going into 2015, the global marketplace for automobiles was gaining strength overall, but each geographic segment had its issues: North American auto sales reached a post-recession high in 2014, in spite of an increasing number of recalls; the Chinese and larger Asian market was still growing, although starting to slow; European economic concerns, especially in Russia, made this a difficult area to manage; South American government regulations and currency fluctuations impacted growth there (see Exhibit 10). The need for a global strategy was driving all major auto manufacturers to reduce the number of vehicle platforms while simultaneously adding models in response to consumer preferences. Although the increased complexity did raise costs, this more flexible approach allowed for improved product commonality and increased volume. As components could be shared between cars and platforms, this also reduced the number of suppliers. Ford, for instance, anticipated it would reduce its supplier base from 1,150 to 750.⁴⁹ Although seemingly a positive, this could also prove costly if a major supplier had a problem, as occurred with Japanese airbag manufacturer Takata in 2014.⁵⁰ Ford, specifically, had recalled 850,000 vehicles for airbag problems in 2014, at a cost of \$500 million.⁵¹

EXHIBIT 10 Ford Performance by Region 2014

AUTOMOTIVE SECTOR
FULL-YEAR & PRETAX

Millions



Memo:

B/(W) 2013 \$(2,448) \$(1,911) \$(1,129) \$380 \$49 \$262 \$(99)

EXHIBIT 10

Ford Performance by Region 2014 Ford Performance by Region 2014

Source: Ford 10-K.

Regarding global growth, Ford had developed two car plants in India and planned to open two more in 2015, while also increasing its commitment in China, having invested \$5 billion in factories there since 2012.⁵² Although the Chinese market was slowing, it was still forecast to grow 7 percent in 2015, with the luxury, or premium, and SUV sectors seeing the most expansion. Ford was betting on this to spur its Lincoln sales, having introduced the Lincoln lineup to China in April 2014 with eight dealerships. Seventeen more dealerships were scheduled to open in 2015.⁵³ Sales growth in this region was critical, given that Ford was late to the China market, with a 2014 share of less than 5 percent, while General Motors controlled 15 percent. Although Ford had partnered with Chinese manufacturer Changan to produce light vehicles such as the Focus, the Lincoln would be imported from America, leaving Ford to “deal with the added cost of import duties that would leave their premium vehicles in a difficult position against rivals who are already well positioned in China.”⁵⁴

Fields Restructures

Given all the global challenges and the continuing need for innovation, Ford's new CEO Mark Fields was feeling the pressure to perform following Alan Mulally's departure. Although Fields was clear that he would continue to support Mulally's legacy, he would do this by “tailoring aspects of the company to his preferences.”⁵⁵ Fields made eight changes in management since he became CEO, among them the appointment of investment banker John Casesa as group vice president, Global Strategy; the hiring of analytics expert Paul Ballew as executive director and chief data and analytics officer, driving development of research into data science; and the opening of the Research and Innovation Center in Palo Alto, California, under the direction of former Apple engineer Drago Maciucă. These moves indicated Fields was focused on driving the ONE Ford strategy worldwide and accelerating innovation in connectivity, mobility, and autonomous vehicles, among other things.⁵⁶

Page C-259

Looking Ahead

Going into 2015, Ford Motor Company was the fourth-largest automobile manufacturer in the world, but, like

all others that produced a multivehicle lineup, it was facing considerable uncertainty. Global markets were hard to predict, countries were increasing regulatory requirements for safety and environmental impact, all vehicles were seeing an increase in the amount of onboard technology that required a shift in both engineering and manufacturing priorities, worldwide manufacturers were making design changes that allowed more lean production and consolidation of suppliers, and consumers were changing how they purchased vehicles and rethinking what they wanted from the transportation experience overall.⁵⁷ These fundamental changes in the industry required leadership that could anticipate trends and allocate resources wisely, all while crafting a vision for the future that could inspire all relevant stakeholders to support and promote the company's success.

Several other shifts in the overall landscape were occurring: the interest, worldwide, in electric or alternative-fueled vehicles, the development of autonomously controlled cars that were also personally connected to a user who might not be the driver, and the reduction in demand for actual automobile ownership in favor of rental or on-demand transportation options. These shifts would create additional challenges for entrenched car manufacturers. In 2015 news surfaced that Apple might be entering the personal transportation industry with an Apple-branded electric or partially self-driving car, ready for market by 2020.⁵⁸ Ford and other carmakers needed to be prepared for this type of potential disruption.

As Mark Fields took over from Alan Mulally, he inherited a legacy developed over eight years of visionary leadership. Mulally had created accountability and collaboration across the company's management structure that allowed him to drive innovation in product development as well as technology: Ford had gone from selling 97 different automotive products to just 20, and it had turned cars and trucks into “mobile centers of entertainment and communication that paralleled the fast growth of smartphones and social media.”⁵⁹ Fields would need to further spur innovation into “an era when cars may no longer need drivers,” and he realized that to do this he needed to continue the “culture of openness and collaboration cultivated under Mulally.” As Ford Chairman Bill Ford said, in the coming years, “there will be different realities—some we can anticipate, like mobility and this notion of global gridlock ... some we can't anticipate. The best thing Mark can do is to continue to make us a very adaptable, nimble company.”⁶⁰

Ford management was clear:

Our first priority is to accelerate the pace of progress of our ONE Ford plan. The ONE Ford plan has been fundamental to the progress we have made in recent years, and it is fundamental to our performance going forward. In many ways we are starting to see the full benefits and strength of the ONE Ford plan, and we see an opportunity to accelerate our pace of progress to drive operational excellence and profitable growth for all.⁶¹

Page C-260

Could CEO Mark Fields expand ONE Ford to accommodate these future challenges? Henry Ford had had the initial vision of disruption in personal transportation. Would the 21st-century version of Ford Motor Company be as successful?

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