

Ford Lust. At Last.



TABLE OF CONTENTS

Ford in 2005	03
Ford's Way Forward Plan	04
Change Readiness Analysis	05
Analysis Current Strategy	06
Key Opportunity Areas	07
Proposed Vision, Focus, Strategy	08
LUST Overview	09
Assumptions	10
LUST Implementation Plan	
Lifestyle brands and product portfolio management	11
User-Centered design	14
Sustainable, empowered culture	16
Total manufacturing excellence	18
Roadmap	20
Summary	21
Appendix	22

SUMMARY FORD IN 2005

Ford Motor Company, an American institution in the automotive landscape for over a century, is facing its immediate future with great concern and determination.

2005 was a particularly difficult year for Ford as they were forced to admit that employee and retiree health and pension costs were unsustainable in their current form. 2005 also marked the tenth year that the company lost market share, having lost \$1.6B in profits from North America alone. (Other global regions were profitable but couldn't compensate for the significant North American losses.) This drop in profitability was attributed, in large part, to conservative designs, a lack of customer focus, and a slow product development cycle, with minivans, SUVs, and cross-over vehicles underselling versus projections. Manufacturing facilities produced more vehicles than the market demanded, forcing a personnel reduction of 10,000 people over the course of the year.

While Ford struggled to match the low cost and high quality of competitive vehicles, they encountered resistance from the union as well as organizational barriers resulting from their risk averse, hierarchical, short-term focused culture. Further hampering internal alignment, Ford discovered that there was confusion about the essence of their brands as well as the identity of the Ford customer. To make matters worse, consumer perceptions of both Ford and Mercury ranged from "indifferent" to "negative".

Given these daunting challenges, Ford recognized that drastic action was necessary. Bill Ford, Chairman and CEO, tapped President of the Americas Mark Fields to drive the company's turnaround efforts. In order to focus on implementing the long term changes necessary to bring Ford back from the brink of bankruptcy, they chose to withhold earnings guidance beginning in 2006.

All attention was to be focused on creating and implementing this essential turn-around strategy.

Sources:

Mark Fields, Business Review: "Ford North America Way Forward", January 23, 2006.

Ford Fourth Quarter and Full Year 2005 Earnings Review, January 23, 2006.

Wall Street Journal, Jeffrey McCracken, 'Way Forward' Requires Culture Shift at Ford, January 23, 2006.

SUMMARY WAY FORWARD PLAN

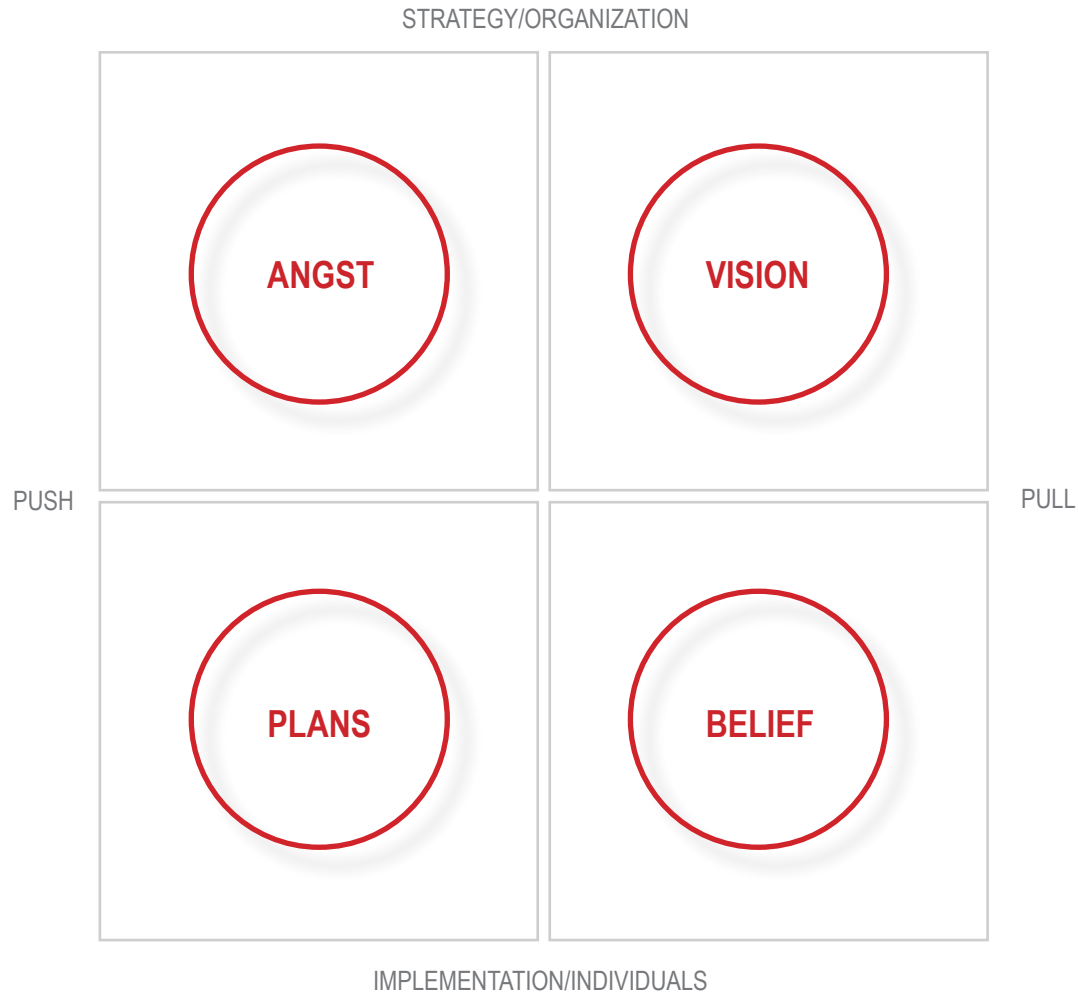
In response to Ford's challenges, Mark Fields developed the "Way Forward" strategy which consists of the following elements:

- Bold Leadership
- Customer Focus and Strong Distinctive Brands
- Innovative Products (which includes maintaining truck leadership, renovating their small car portfolio and business, and delivering new products faster and more efficiently)
- Enhanced Manufacturing (which includes leveraging global architectures, increasing parts commonality and reusability, and driving toward lean and flexible manufacturing processes)
- Great Quality via Focused, Aligned, Disciplined Teams
- Clear Pricing and Increased Advertising
- Competitively Priced Vehicles and
- Right-sized Plant Capacity

Source: Mark Fields, Business Review: "Ford North America Way Forward", January 23, 2006.

ANALYSIS CHANGE READINESS

The Change Readiness model was used to determine whether all components necessary for making a successful organizational change were present at Ford. It revealed that they were, indicating that the effort to change should appear both reasonable and necessary to employees at all levels.



Angst

CEO Bill Ford, Jr. declared in one short powerful message that the organization must “change or die.”

Vision

Our new plan’s vision is to dramatically improve profit and market share through lustworthy design.

Belief

Ford’s design team is in capable hands, led by J Mays, VP and Executive Creative Officer. In addition, Ford can leverage its history and heritage as one of America’s enduring companies.

Plan

The LUST plan details the proposed changes required to help Ford achieve our collective vision.

ANALYSIS CURRENT STRATEGY

Using a combination of the Change Readiness and Propeller models in a matrix format, Ford's current situation and proposed strategy were analyzed (see Appendix for Propeller Model).

	Purpose	Structure	Process	People	Market	Culture
Angst	<p>Perceived last chance to restructure so taking risks</p> <p>"Change or die"</p> <p>Faces heavy skepticism among investors, analysts and won't provide earnings guidance as of 2006</p>	<p>Ongoing challenges with union</p> <p>Need to overcome incremental change, avoiding risk, thinking short-term, blocking innovation, tying employees' hands, defending procedures that don't make sense, and selling what they have instead of what the customer wants</p>	<p>Minivans, SUVs, cross-overs underselling</p> <p>Can't compete with competitors' low cost vehicles</p> <p>Lost market share for 10 straight years</p> <p>Conservative designs and slow product development cycle</p>	<p>Employees realize could lose pensions, health benefits, jobs</p> <p>Union focused on personal rather than corporate well being</p> <p>Different functions don't know what "Ford" stands for</p> <p>Don't know who customer is</p>	<p>Unclear who market is</p>	<p>Toxic, cautious, cliquish, hierarchical</p> <p>Withstood past overhaul efforts</p>
Vision	<p>Returning the company to profitability no later than 2008</p> <p>Stop share slide</p> <p>Focus on long term viability</p>	<p>Build new low cost manufacturing site in N.A.</p> <p>Right-size capacity</p> <p>Lean, flexible manufacturing</p>	<p>Provide vehicles at competitive costs</p> <p>Accelerate product development cycles</p>	<p>Provide unified message of who Ford is and who Ford customer is</p>	<p>Focusing on customers first will result in more relevant designs</p>	<p>Culture which encourages risk taking, long term thinking, innovation, and customer focus</p>
Belief	<p>Focus on likely customers instead of those who won't buy Fords</p> <p>Protect base of truck buyers</p> <p>Renovate small car portfolio, biz</p> <p>Attract female buyers with cars and cross-over wagons</p>	<p>Leverage global architectures</p> <p>Increase parts commonality, reusability</p> <p>Align and motivate teams toward quality practices</p>	<p>Minimize purchasing costs</p>			
Plan		<p>Cut vehicle capacity by 26% in N.A., closing 14 facilities</p> <p>Cut 28% of N.A. workforce and 12% of officers (30,000 non-salary, 4000 salary)</p>	<p>Cut \$6B from material costs by 2010</p>	<p>Voluntarily reduce employees through three pre-retirement plans, one voluntary termination plan, and "educational opportunity" plan</p>		

ANALYSIS KEY OPPORTUNITY AREAS

The following categories were identified as critical to Ford's turn-around efforts. They form the basis for our implementation strategy.

	Purpose	Structure	Process	People	Market	Culture
Angst	Perceived last chance to restructure so taking risks "Change or die" Faces heavy skepticism among analysts and won't provide earnings as of 2006	Ongoing challenges with union Overcome incremental Avoiding risk, thinking short-term Innovation, tying employees Defending procedures Make sense, and selling Have instead of what the wants	Minivans, SUVs, cross-overs underselling Can't compete with competitors' low cost vehicles Lost market share for 10 straight years Conservative designs and slow product development cycle	Employees realize could lose pensions, health benefits Union focused on people rather than corporate Different functions what "Ford" stands for Don't know who customer	Unclear who is Focusing on customers first will result in more relevant designs	Toxic, cautious, cliquish, hierarchical Withstood past overhaul efforts
Vision	Returning the company to profitability no later than 2008 Stop share slide Focus on long term viability	Build new low cost manufacturing site in N.A. Right-size capacity Global manufacturing	Provide vehicles at competitive costs Accelerate product development cycles	Provide unified message of who Ford is and who Ford customer is	Focusing on customers first will result in more relevant designs	Culture which encourages risk taking, long term thinking, innovation, and customer focus
Belief	Focus on likely customers instead of those who won't buy Fords Protect base of truck buyers Renovate small car portfolio, biz Attract female buyers with cars and cross-over wagons	Global architectures Commonality, re and motivate teams toward quality practices	Reducing costs			
Plan		Cut vehicle capacity by 26% in N.A., closing 14 facilities Cut 28% of N.A. workforce and 12% of officers (30,000 non-salary, 4000 salary)	Cut \$6B from material costs by 2010	Voluntarily reduce employees through three pre-retirement plans, one voluntary termination plan, and "educational opportunity" plan		

CULTURE

BRAND/VEHICLE PORTFOLIO

DESIGN

MANUFACTURING

LUST OVERVIEW

VISION

To dramatically improve profit and marketshare through lustworthy design.

FOCUS

To construct an implementation plan that considers the “Ford” brand of vehicles.

PROPOSED STRATEGY

Our four-point implementation strategy builds upon the “Way Forward” by redirecting several elements that were mentioned previously, while identifying several other critical areas that hadn’t yet been articulated. The proposed strategy can be summarized by the acronym, LUST.

L

Lifestyle brand and
vehicle portfolio

U

User-centered
design

S

Sustainable,
empowered culture

T

Total manufacturing
excellence

LUST OVERVIEW

For reference purposes, the Ford brand target customer is described as the following, based on the Way Forward strategy:

- Having a strong American spirit, making it important that they buy American
- Successful, hardworking, and disciplined
- Leading an active lifestyle and being adventurous and
- Highly valuing friends and family

LUST ASSUMPTIONS

GENERAL

- Leadership is earnest and highly motivated to make necessary changes.
- Some measurement and testing processes are inappropriate, ineffective, or non-existent in manufacturing, design, employee relations, and marketing.

BRAND / VEHICLE PORTFOLIO

- Previously, customer focus hasn't been a priority in vehicle development.
- Ford doesn't know what their brand essence is or who its customers are.

DESIGN

- Innovation and design haven't been a priority.
- Ford hadn't previously recognized the impact that design has on the bottom line.
- Ford doesn't produce lustworthy vehicles now.
- Ford isn't perceived as a leader in design.
- Design doesn't have a CXO role at this point.

MANUFACTURING

- Ford doesn't have a reputation for producing high quality vehicles.
- Ford doesn't employ world class manufacturing or material procurement processes.
- They don't make good use of global platforms.

CULTURE

- Current culture is hierarchical, risk averse, and focused on the short term.
- Culture is weak and decentralized.
- Different departments work in silos.
- Cross functional teams aren't being used to their best ability now.
- Lack of internal communications about best practices, desired processes, and the big picture.
- Employee morale is suffering because of concern over health benefits, job security, and pensions.

LUST IMPLEMENTATION PLAN

L, LIFESTYLE BRANDS AND PRODUCT PORTFOLIO MANAGEMENT

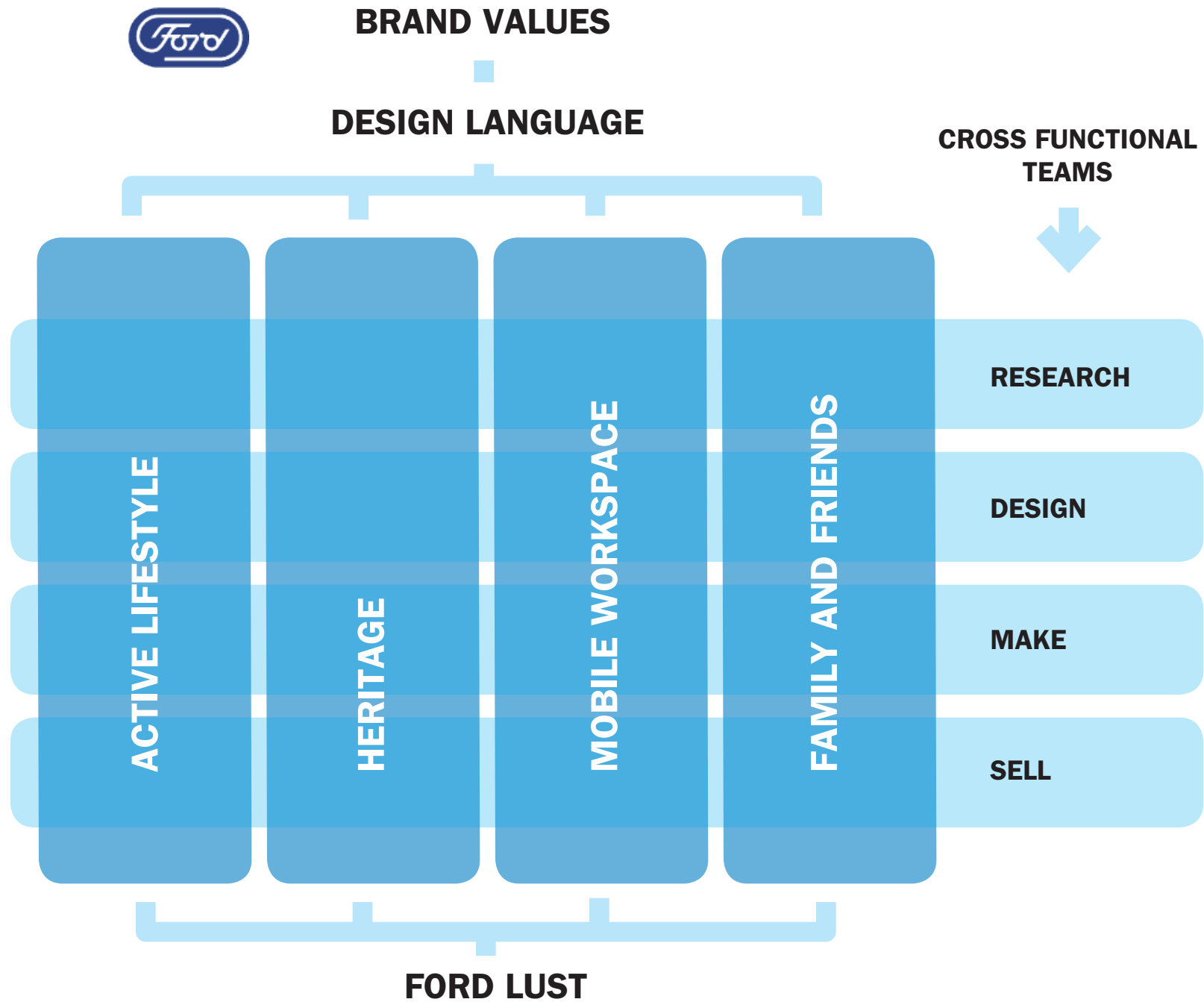
Brand and product portfolio management at Ford must be redefined. Currently, its product lines focus on producing specific vehicle types rather than developing vehicles that meet the needs of consumers. To encourage this change in mindset, the LUST plan promotes the creation of four lifestyles: Adventure, Mobile Office, Friends and Family, and Heritage. These lifestyles were generated based on an analysis of their most recent successes as well as the segmentation characteristics of Ford customers.

Another aspect of the LUST plan is the introduction of a matrix organizational structure (shown on page 12). This structure will be used to staff the development teams for each of the four lifestyle brands. Each lifestyle brand will have horizontal cross-functional teams (CFTs) which operate in broad activity areas, including Research, Design, Make, and Sell. Research CFTs will primarily be composed of marketing, market research, design, design research, and branding. Design CFTs include functions such as marketing, design, engineering, and manufacturing. Make CFTs include design, engineering, manufacturing, sales, and marketing. Finally, Sell CFTs would include, sales, marketing, and finance. The composition of the CFTs may involve other areas as necessary, but this provides guidance as to what functions are most important.

By introducing the matrix structure, Ford facilitates interaction among employees from other disciplines, with the goal of dissolving current barriers and organizational silos. Encouraging employees to work on multi-disciplinary teams educates them about other groups' roles in the development process and builds relationships, which ultimately result in better team communication and quicker development cycles. For example, an engineer would develop more of an appreciation for marketing and design because they would work side by side with people from those disciplines on a Design CFT.

As part of the lifestyle repositioning activity, a comprehensive audit of Ford's product portfolio must be conducted to determine which vehicles should be kept, modified, or eliminated. Particular attention should be given to distinguishing the Ford and Mercury brands. (Mercury was initially intended to be the midpoint between Ford and Lincoln, but over time it has become too similar to Ford in price and vehicle features.) A decision must be made to either redefine the





LUST IMPLEMENTATION PLAN

Mercury brand or eliminate it. Granted, if Mercury is dissolved, additional white and blue collar jobs will be eliminated. However, Ford has stated that it wants to act like a smaller car company, and this position is best achieved when all offerings serve a distinct and valued purpose.

Communication of the brand essence to both internal and external audiences is critical to the success of the LUST plan. Communications must be clear and consistent in their explanation of the new lifestyle brands and the accompanying “customer-focused mindset”. Externally focused communications including advertising, PR, and analyst presentations must deliver the same focused message: “Ford is synonymous with lustworthy design and innovation.” The message to customers should target those who fall into one or more of the lifestyle categories through appropriate channels. Through focused communications, customers should hear and come to believe that Ford is moving away from “design for the masses” and is moving toward “lustworthy design for those living a given lifestyle”.

Internally, the communication plan should deliver messaging using the most effective channels, which may include webcasts, brand communications meetings, workshops, and department meetings. Clear, consistent messaging should also be visible in the office, plant, and Ford campus environments. These communications should reinforce the organization’s desired direction and motivate Ford employees to not only accept but also to actively participate in the change program.

LUST IMPLEMENTATION PLAN

U, USER-CENTERED DESIGN

The second critical component of the LUST plan is User-Centered Design. This aspect is especially important since Ford isn't known for manufacturing cars that users want to buy. In recent years, their designs haven't been compelling, and their vehicles haven't accommodated user needs as well as those of competitors.

To provide design teams with guidance, to facilitate the cross-studio sharing of best practices, and to educate the corporation about design, a senior design oversight committee will be created. This advisory board will provide strategic direction for the entire design organization. In addition, they will take responsibility for communicating the visual lifestyle brand elements to the executive committee and to more senior members in relevant disciplines. The committee's communication efforts will require them to not only share the visual elements associated with each lifestyle brand but also to emphasize the importance of their inclusion in future vehicle designs. Leveraging their design and innovation planning skills, the committee will strive to elevate the company's appreciation of design by highlighting the contribution that design can make to Ford's short and long term financial health.

As detailed in the previous section, LUST plans to leverage cross-functional teams to encourage more consumer-centric vehicle development. These project teams will be co-located with their assigned lifestyle brand studio, whenever possible, to facilitate team member collaboration. Additionally, key suppliers will be brought into this cross-functional team environment and asked to co-locate with the team at critical junctures in the product development process.

As part of the design process, advanced consumer research will be employed to clearly understand the latent as well as the expressed needs, behaviors, and attitudes of each consumer lifestyle segment. Evaluative research processes will be used to determine whether concepts are relevant and desirable to consumers. The desired outcome is strong agreement from the consumer target about metness of needs. However, some target consumers should feel strongly positive about the appearance of new concepts while 15-20% of the target should detest the appearance. This strong split in receptivity is an indication that, by the time the vehicle is released to the market, it's contemporary enough to be seen as "new".



LUST IMPLEMENTATION PLAN

To acquire and retain world-class design talent and related staff, competitive compensation packages and opportunities for corporate visibility must be provided. In addition, employees will have the chance to hone existing skills and acquire new ones through training and continuing education courses, attendance at non-industry trade shows, design exchanges with other Ford brand studios, and Ford-sponsored lecturettes. Academic and other industry experts will be brought in to conduct discussions and workshops, continually introducing fresh perspectives into Ford's design process and driving innovation. These experts might represent fields as diverse as nature, nanotechnology, or biotechnology. Workshops could also coincide with other larger design conferences where new and innovative methods are being shared.

A color/material/finish/trend resource library will be located within the design and innovation center, as a source of daily inspiration. It will be used to store primary and secondary research, aesthetic samples, new technologies and related information, and fascinating products from other industries.

Processes and metrics for measuring the effectiveness of design will be incorporated into the development process. These metrics will be used to evaluate current and competitive designs as well as to evaluate the potential of new concepts against pre-existing vehicles.

To communicate each lifestyle's essence, a consistent "visual language" will be developed and used in the creation of each lifestyle's vehicle line. This level of consistency will also demonstrate to others that Ford no longer creates bland vehicles for the masses.

Key executives must play a critical role in supporting these innovation-driven practices. They must publicly emphasize the importance of design and innovative thinking on an ongoing basis, and they must encourage measured risk-taking. Conducting personal visits and repeatedly articulating these points internally will help to ensure that the organization sees and believes in these initiatives.

LUST IMPLEMENTATION PLAN

S, SUSTAINABLE EMPOWERED CULTURE

The third and potentially most challenging element of the LUST plan involves changing the organization's corporate culture. The intent is to create a sustainable atmosphere of excitement that empowers employees to work together in repositioning Ford as the most innovative automotive company in the world.

Over time, Ford had become risk averse, hierarchical, and short-term focused. This mindset evolved because of management's desire to design vehicles for the masses, with the belief that this approach would increase market share. Ironically, these conservative practices had the opposite effect, leading to decreased market share. Their car designs had become uninspiring and irrelevant to consumers. Furthermore, it created an uninspired organization that had lost its identity and desire.

The LUST plan embraces the pursuit of risk-seeking designs that evoke a love/hate reaction from target consumers. Key management must drive this message throughout the organization and lead by example in demonstrating to employees that bold design is their intent. As mentioned previously, leveraging technology such as webcasts is one method for executive management to distribute these messages. Another effective approach is to make personal appearances around the organization to rally employees around "innovative, lustworthy design".

Encouraging the development of new innovation and design tools and methods will help the organization achieve this audacious goal. Although new innovation and design methods will primarily be applied within the design center, other functions such as marketing and brand management will also learn to leverage these tools through their involvement in cross functional teams. Furthermore, other functions in the organization will have access to training materials that will show them how these methods can be generalized for use in other parts of the organization.

Center of Excellence (CoE) Teams will be established to locate, generate, and distribute tools which facilitate process improvement, whether those processes for change are located in marketing, manufacturing, engineering, or sales. The CoEs are responsible for sharing



Sustainable,
empowered culture

LUST IMPLEMENTATION PLAN

knowledge on new innovations and new innovation processes that the organization has created. With the help of executive management, these teams will also highlight achievements associated with the change initiative to motivate other employees and create buy-in for changes in process, as well as those yet to be made.

Furthermore, developing incentive plans that promote and reward employees for pursuing innovative thinking, new idea generation, and team collaboration will help break down barriers and minimize silos within the organization.

An awards initiative will provide opportunities for recognizing those whose achievements exceed normal job expectations. As part of the awards initiative, CoE Teams will identify and evaluate nominations from around the organization. These public acknowledgements of outstanding performance will motivate employees to continually strive for excellence.

LUST IMPLEMENTATION PLAN

T, TOTAL MANUFACTURING EXCELLENCE

The fourth and final component of the LUST plan is total manufacturing excellence. This initiative ranges from providing world-class vehicle quality to eventually manufacturing mass customized vehicles. Execution of this strategy element should demonstrate to the public that Ford is deeply committed to satisfying its customers. This perception will be especially believable if Ford successfully executes and is the first large automaker to market customization.

As part of the move toward mass customization, information technology systems must be implemented to bridge the gap between the purchase decisions customers make in the showrooms and the vehicles being manufactured in the plants.

Leveraging Center of Excellence Teams in manufacturing and engineering will help to generate quality and cost reduction improvements. For example, if a plant, group, or team develops a better way of manufacturing, reducing tooling costs, or increasing quality (i.e., a new innovation), they would be required to inform the CoE Team. The CoE Team would then share news of the innovation throughout relevant parts of the organization to boost morale and to provide them with a best-in-class example to apply, as appropriate. If the new innovation is implemented, the originators of the innovation would be rewarded.

To improve Ford's supplier relationships, suppliers will be asked to participate actively in all phases of product development with internal CFTs. They will be offered incentives to contribute ideas for innovative new designs and cost efficiencies. As an example, if a supplier helps Ford reduce its manufacturing costs, both Ford and the supplier will benefit through a shared savings plan. This will promote a healthier and more positive relationship with suppliers.

Additionally, continued global leverage of the supply chain across all Ford brands will be implemented to further reduce manufacturing costs. Platform optimization and, where necessary, reduction will further reduce manufacturing costs.

Unfortunately, as part of the plan to become innovative and focused, Ford must make personnel



LUST IMPLEMENTATION PLAN

cuts. This headcount reduction will involve a loss of jobs for both white and blue-collar workers, in addition to plant consolidations and closures.

Finally, a knowledge management process will be implemented to obtain, retain, and re-distribute the intellectual property and general knowledge of employees who are laid off or who leave the company. This effort will allow Ford to retain important information that would otherwise be lost when individuals leave the company.

LUST ROADMAP

The LUST implementation plan will be rolled out in three stages: establishing protocols, disciplined practice, and optimization. This roadmap ensures that the most critical components are addressed first to establish a foundation for the other implementation phases.

“Establish Protocols” introduces the processes and tools required to execute the LUST plan. “Disciplined Practice” focuses on common values and the approaches required to achieve them. Finally, “Optimization” is concerned with optimizing manufacturing processes across the company.



SUMMARY

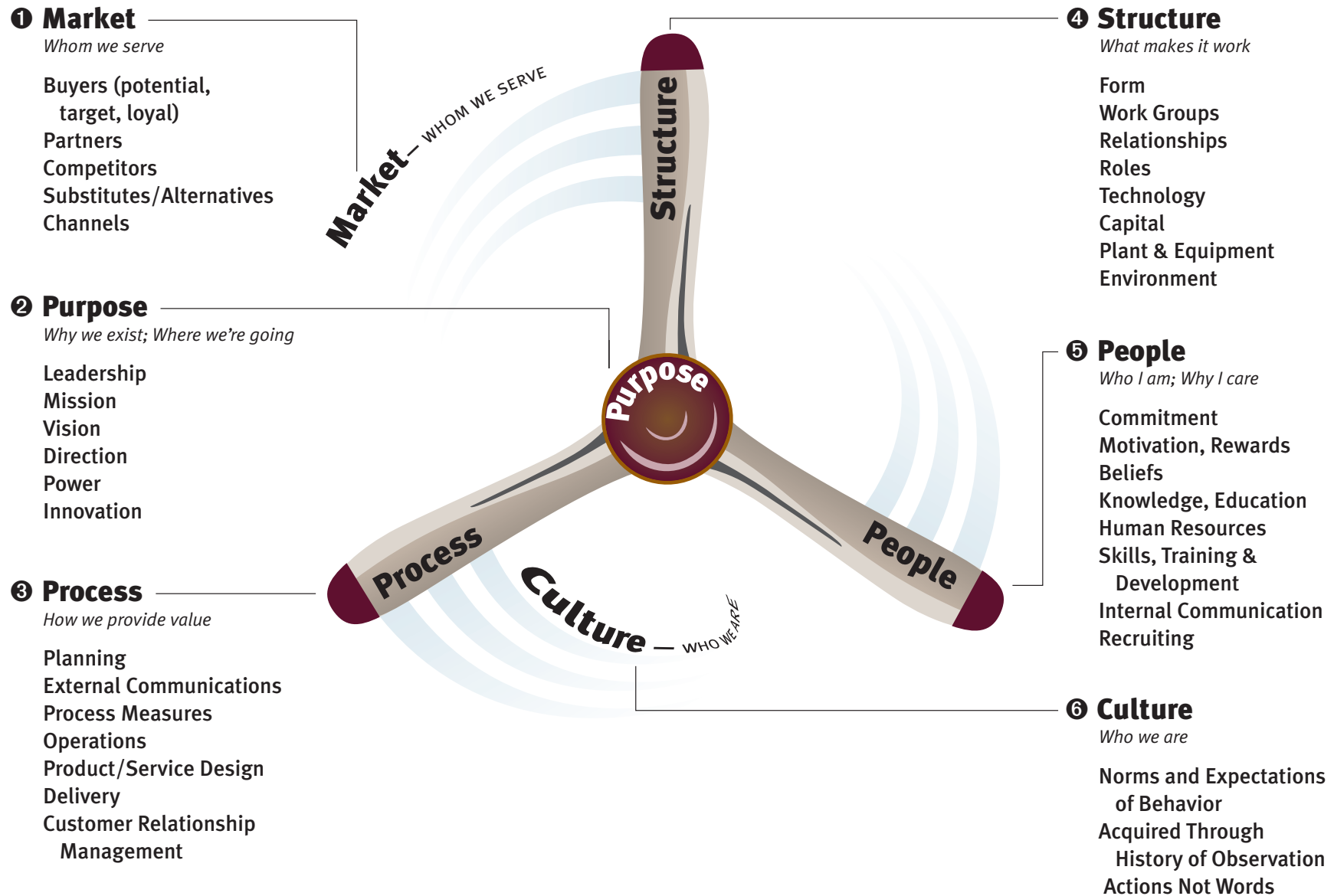
The LUST implementation strategy encourages the reorganization of the Ford brand and vehicle portfolio into lifestyles, as opposed to vehicle types. The intent of this restructuring effort is to create a more relevant, customer-centric organization, in contrast to the previously product-driven structure. The revised vehicle portfolio will more clearly define appropriate line breadth, tiers, and platforms.

LUST also promotes the development of vehicle designs that evoke love/hate responses from target customers. It supports the creation of a more sustainable, empowered corporate culture by actively engaging employees in the change process and motivating them to action, while eliminating undesired behaviors through the use of incentives. Finally, it encourages the optimization of current manufacturing processes as well as the identification of new practices, with the intent of maximizing product development speed while minimizing vehicle cost.

Focusing on Lifestyle brand and product portfolio management, User-centered design, a Sustainable, empowered culture, and Total manufacturing excellence will help to make “lustworthy design” a reality, while positioning Ford for a future of excitement and growth.

APPENDIX

Propeller Diagnostic



Ford Lust.
Build for the Road Ahead.

