Is Ford Strong Enough To Survive Their Latest Success?

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DEARBORN, Michigan (AP) — In every boom cycle of its 107-year life, Ford Motor Co. became complacent, unprepared for the inevitable bust in the auto business.

From the 1920s, when Ford lost its dominant position in the U.S. because it was slow to update the Model T, to the 2000s, when it squandered billions in SUV profits and narrowly avoided bankruptcy, the company stuck with some strategies too long and didn't pay enough attention to others.

"You often hear people at Ford say we can't manage prosperity. I think it's really quite different than that. It's that we stop changing," Executive Chairman Bill Ford told The Associated Press in a recent interview.

Now, coming off a great 2010, Executive Chairman Bill Ford and Alan Mulally, the man who replaced Ford as CEO four years ago, say they are ready to break that cycle. Mulally has transformed the company into a simpler, nimbler organization that's ready to react to change more quickly. Management experts aren't so sure.

Thanks to strong new products and stumbles at rivals like General Motors and Toyota, Ford saw the industry's biggest increases in market share. It had the best-selling vehicle — the F-Series pickup — and ended 2010 with its second straight annual profit. Ford's U.S. sales rose 20 percent, almost double the industrywide increase.

Mulally laid the groundwork. He cut brands and put in place a system that encourages managers to stay on top of market changes and other issues and communicate more openly with each other. It was a radical change at company known for vicious infighting, where managers who pointed out problems were demonized. The healthier communication in Ford's top ranks means it's much more likely the company will hire its next CEO from within the company instead of turning to another outsider like Mulally.

Mulally, 65, won't say when he plans to retire.

Management experts say it's easy to talk about a willingness to change and much harder to do it, especially after pulling off a remarkable comeback like Mulally did after coming to Ford from airplane maker Boeing Co.

"Act two is always very, very hard," said Joe Bower, a professor of business administration at Harvard Business School. "There are leaders who can do it, but it requires a tremendous willingness to imagine the need to rethink everything."

Consider Ford in 2000. Flush with profits from sport utility vehicles and pickup trucks, it earned $3.5 billion and bought the Land Rover luxury brand from BMW. Just one year later, hammered by the faltering economy and a slow reaction to a recall of Firestone tires use on its SUVs, Ford lost $5 billion, announced a plan to cut 35,000 jobs and fired its CEO. Bill Ford held the reins until he hired Mulally.

Even now, Ford is facing some demons, including the recent recall of 600,000 Windstar minivans whose axles can break and questions from Consumer Reports, which says its MyFordTouch dashboard touchscreen is too distracting. The company says it reacted quickly to the Windstar issue and will study Consumer Reports' findings but believes its system is safe.

Ford and Mulally say management can respond faster to such crises because of changes Mulally made. He instituted weekly meetings with the entire 18-member executive team, ensuring that all of Ford's leaders are constantly examining worldwide market conditions, future products and other issues. He also simplified the company's mission, getting rid of excess brands like Land Rover, Volvo and Mercury so Ford could concentrate on its core Ford and Lincoln brands. The company is now consolidating Lincoln dealerships and trying to take the brand even further upscale in order to revive its flagging sales.

"Everybody now knows why they're coming to Ford. They know why they're coming in in the morning. They know what success looks like," Mulally said.

Success, though, has a natural tendency to make a company smug. Experts say management teams continue to do what made them prosperous, believing that the formula will always work. Bill Ford, 53, the great-grandson of company founder Henry Ford, says he's seen it many times in his 31 years with the company.

"In the past, we would become static, and perhaps thought we had the secret formula and we were going to be slaves to it," he said.

James Schrager, a professor at the University of Chicago Graduate School of Business, said it's commendable Mulally and Ford recognize the company hasn't changed quickly in the past. Mulally's plan to save Ford was well done, but it hasn't been tested yet by an unforeseen event that throws off the strategy, such as a huge gas price uptick, Schrager said.

"There's a lot of things that happen outside of Ford's control that determine if they go from boom to bust," he said. "What I haven't seen yet is if they know how to deal with these large exogenous changes that will happen to them from time to time."

A few years ago, Ford said, the company would have based its product plans on fuel price predictions that could turn out to be wrong. Now it has a simpler vision: If you build high-quality, fuel-efficient cars and trucks in each segment, fuel prices don't matter anymore.

"We have the product lineup and the engine lineup and the transmission lineup to give the customer whatever they want regardless of whatever the external factors

are. That's a freedom that's hugely off our backs," he said.

Ford and Mulally say simplifying production also will help them deal with external changes. For example, the new Focus sedan will eventually come in hybrid, plug-in hybrid, gas and electric versions, all built on the same Michigan assembly line. Ford will be able to switch quickly between them if it finds buyers prefer one technology over another.

Ford is also saving hundreds of millions of dollars by building one car for all worldwide markets. Previously, Ford's global regions operated as independent companies, so cars developed in Europe would never make it to the U.S. or Asia. Now, Ford is basing 10 vehicles off the new, European-developed Focus, including a small minivan that will be introduced at the Detroit auto show this week. Eighty percent of the parts those vehicles share are the same.

Those savings have helped Ford make money even though U.S. and global auto sales are near historic lows, and industry analysts say big profits are possible when economies recover and sales return to more normal levels.

Will the turnaround stay on track if Mulally decides to retire?

Mulally and Ford think so. The weekly meetings are training the team in all aspects of the business, they say, and the sharp elbows that used to characterize Ford's executive ranks have given way to a spirit of collaboration. Ford won't say for sure whether the next CEO will come from within the company. But the chances are high.

"At the old Ford, you had heroes and villains," Ford said. "Now, it's, 'OK, where do we have issues and how do we solve them?'"

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AP Auto Writer Sharon Silke Carty contributed to this report.

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