Engineer & Pioneer

The road to running Ford's automotive operations wasn't a smooth ride, but now that Joe Hinrichs has the reins, he won't let anything stand in the way of making the Blue Oval the market leader in global mobility.

BY PAUL EISENSTEIN
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LOOKING THROUGH THE WINDOWS OF HIS OFFICE ATOP THE "GLASS HOUSE," Ford Motor Co.'s towering headquarters in Dearborn, Joe Hinrichs has a panoramic view of the empire he commands as the company's president of automotive operations. His has been a meteoric rise. When he joined Ford nearly 20 years ago, Hinrichs was brought in to run a transmission plant in Sterling Heights. Now he oversees a network of design, engineering, manufacturing, and marketing operations that covers every corner of the globe.

But Hinrichs isn't celebrating these days. He's well aware that Ford — like the rest of the auto industry — is facing serious challenges.

For only the second time since the American automotive market began to recover from the Great Recession, new U.S. vehicle sales are on the decline and this year will dip from last year's 17.3 million units. In 2021, projected sales are expected to be 15.1 million. What's more, demand woes extend far beyond America.

China, the industry's growth engine of the past decade, has stalled and fallen into a slump. Europe is stagnant and Latin America isn't doing any better. Consulting firm AlixPartners in Southfield is forecasting a "profit drought" for an industry that only recently reported record earnings. The situation is likely to grow worse as manufacturers ramp up spending on autonomous and electrified vehicles, technologies they can only hope will eventually catch on. Autonomous mobility on the ground, it turns out, is much harder than it looks, and very expensive considering R&D costs, regulatory requirements, and consumer acceptance.

Breakeven points have been rising fast, while tariffs and trade wars are disrupting increasingly global operations. Any number of other headwinds — such as a potentially tumultuous legal battle looming over U.S. fuel economy standards — have created the sort of conditions that can keep a senior executive up at night.

"It's fair to say that we're in the most uncertain period since the global financial crisis," Hinrichs says during the first in a series of interviews over the past few months. "Given our cycle times and the capital exposures we have, we crave certainty for planning, as much as possible. So, when you add everything going on, the industry is going to get more conservative because we don't know where to place all our bets."

Ford has, indeed, been erring toward the conservative side. In May, it announced plans to trim 7,000 white-collar jobs, a third of them in the U.S. In June, the carmaker said it plans to eliminate another 12,000 jobs in Europe out of a regional workforce of 53,000.

In the process, six of 24 European plants will be closed or sold. Further cuts, especially in Latin America and other troubled regions, likely are on the horizon.

For Hinrichs, demand uncertainty has been in his windshield for nearly two years, and he's made it crystal clear that more big changes are needed — and coming.

One only has to look over at Corktown, Detroit's oldest neighborhood, to have that driven home. The old Michigan Central Train Depot, long the symbol of Detroit's decay, is being transformed into the heartbeat of the city's renaissance, thanks to Ford. It will serve as the center of the automaker's push into autonomous and electrified vehicles. The facility also will play a central role in two of the three alliances Ford has now entered into with erstwhile rival Volkswagen. Not only will they work on battery cars and self-driving vehicles, but they are also joining forces on the development of commercials vehicles. And, Hinrichs said following a joint Ford-VW news conference in New York this past July, still other projects could follow.

Back in his surprisingly modest-sized office at the Glass House, Hinrichs has traded his suit for jeans and a denim shirt in "Ford blue," with the automaker's familiar oval logo on the pocket. The 53-year-old executive has a boyish charm and a comfortably disarming manner. In an industry where counterparts can fall back on jargon and buzzwords, Hinrichs is plainspoken, even blunt. His aversion to marketing and sales verbiage is refreshing, and it reflects Hinrichs' roots as an engineer. At 29, he was General Motors' youngest plant manager, running a seriously troubled powertrain facility in Fredericksburg, Va., and leading a turnaround that resulted in a Harvard Business School case study.

That's not to say Hinrichs is a classic shop warrior. These days, it takes some serious chops — read cross-disciplinary skills — to rise to the top at a major automaker. As a GM Fellow, he earned the requisite MBA from Harvard in 1994 at the age of 28. Four years later, he took an unexpected detour, signing on as partner and senior vice president of Ryan Enterprises Group, a Chicago-based private equity company.

But, if you'll excuse the cliché, the auto industry was in his blood. Blue blood, it turned out, as he signed on with Ford in 2000 to manage the Van Dyke transmission plant in Sterling Heights.

Ford is well known for fast-tracking promising young executives. Within five years, Hinrichs was appointed executive director of Ford's Global Material Planning and Logistics organization, director of manufacturing for its

BUILT FORD TOUGH At Ford Motor Co.'s Rouge Assembly Plant in Dearborn, F-150 pickups represent the automaker's most popular and trusted product offering.

North American Vehicle Operations, the president and CEO of Ford of Canada, and then vice president of Vehicle Operations, overseeing 19 vehicle assembly plants and six stamping plants. It's a wonder the ink had enough time to dry on each of his new business cards.

It was a troubling period for Ford. Barely a year after Hinrichs landed at the Blue Oval, the automaker fired Jacques Nasser, the hard-charging CEO who had spent billions on an acquisition binge that covered everything from an automotive repair shop chain to European automakers Jaguar, Land Rover, and Volvo. Ford's board replaced Nasser with Bill Ford Jr., the company heir serving double-duty as executive chairman. By the time Alan Mulally, the former Boeing executive, came on board as CEO in September 2006, Ford Motor Co. was in deep financial straits.

Mulally wasted little time. He put out the "For Sale" sign, quickly shedding most of Nasser's acquisitions, albeit at deep discounts, and he signed off on the massive credit line needed to keep Ford afloat, even while the board agreed to put up such prized collateral as the Blue Oval logo itself. But the new CEO knew that he had to address a deeper issue.

Corporate politics are an unpleasant aspect of the business world, but Ford took things to a new level, recalls George Peterson, founder and head of consultancy AutoPacific Inc., who spent his early years as an analyst at the company. "When I was there, you'd knife the guy next to you to get ahead," Peterson recalls. "And you would go to great lengths to cover over any of your own problems to avoid revealing your vulnerabilities."

That became readily apparent to Ford's new CEO just months after his arrival. During a regular Thursday morning management meeting, Mulally asked his team how things were going and, one after the other, each of his reports said, "fine." If so, the CEO responded with exasperation, "Then why am I about to report a $30 billion loss?" It was the worst in Ford's history. Transforming Ford's cutthroat culture became as critical to Mulally as fixing its worsening financial problems — indeed, he saw it as an essential part of addressing those troubles.

Mulally's focus on fixing Ford's corporate culture put several executives at the forefront, notably Hinrichs, along with Mark Fields, another fast-tracked outside recruit. Working together with the CEO, they helped spearhead a remarkable turnaround. Where Ford had seemed to be the basket case among the domestic automakers as the housing crisis began to tank the American economy, it was the only member of the Big Three to sidestep bankruptcy as the bottom fell out, with U.S. new car sales plunging to less than 10 million.

Both Fields and Hinrichs were well-rewarded and rapidly promoted for their roles in the turnaround, though Fields was clearly the new CEO's heir apparent. When Mulally stepped down in 2014 Fields was, indeed, his handpicked successor, and Hinrichs was his new lieutenant.

But things weren't running nearly as smoothly as they might have initially appeared. Ford's weakening sales, slowing revenue in China, and a seeming lack of focus began to scare off investors, sending the company's stock tanking. As the pressure mounted and the Ford board demanded answers, the relationship between Fields and Hinrichs began to take on a Shakespearean tone. The new CEO cut Hinrichs' bonus and, when it became apparent his own job was on the line, Fields tried to throw his second-in-command under the bus. The move backfired. In a May 2017 management shake-up, it was Fields who found himself on the outs, replaced by former Steelcase CEO Jim Hackett.

"Few of us were surprised by what happened," said a senior Ford manager, speaking anonymously due to the sensitive nature of the subject. "Mark Fields could tell us what he wanted to do, but it was Joe Hinrichs people were willing to listen to and march to his orders."

That wasn't lost on Hackett, who had previously served as a Ford board member with responsibilities for the company's push into areas like autonomous vehicles. Under his third CEO, Hinrichs got his bonus back and not only kept his job, but was quickly promoted.

"Clearly, Joe earns quickly the trust of others given his authentic and down-to-earth style," Hackett said in an e-mail, referring to Hinrichs' management style as "extremely powerful. I think what really stands out for me … is how he's able to leverage his decades of experience to not only advance Ford's strategy within our team but how his approach has helped Ford continue to foster a trusted relationship with many of our partners as well, including the UAW, (and our) government and supplier partners."

Mark Petroff, CEO of OneMagnify, a marketing and communications firm in Detroit, echoed that sentiment. "It's funny. I'm a supplier to Ford Motor Co., so I've always been a little intimidated by the big executives. However, as I've gotten to know Joe, I've found he may be one of the most down-to-earth, humble, genuine folks I've ever worked with in the automotive industry."

Seldom prone to false modesty, Hinrichs is direct when asked about his management style. "I have a term I like to use: you get the behaviors you teach and/or tolerate. Part of the responsibility of a leader is to spend energy teaching the right behaviors and, importantly, addressing the wrong behaviors you don't want to tolerate.

"That's a really important part of how I like to work with a team, and how we set expectations for how we work together. You won't find a

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DBRIEF

FORD MOTOR CO.

Headquarters: Dearborn
Founded: 1903
Director of Automotive Operations: Joe Hinrichs
Employees: 196,000
Revenue: $160.3B

well-performing team in any part of life, whether it's a sports team, business team, whatever, where the leadership team isn't aligned well and working together. That was a great part of the success under Alan (Mulally), and I believe will be a great part of the success under Jim (Hackett)."

Those who know Hinrichs say this is more than just a business philosophy. Indeed, he demonstrated his leadership savvy while helping to coach his oldest daughter's high school tennis team a few years back. "I don't know how to coach tennis," he laughs, "but I do know how to build a team." The payoff? They went on to become state champions.

Despite the long hours at work, Hinrichs still finds time to reach out beyond his Ford duties. "I truly believe that leadership is about service — to lead is to serve. It's one of the reasons why I do so much community work," he says. The Ohio native has been, among other things, chairman of the National Minority Supplier Development Council in New York City, and currently chairs the annual campaign for the United Way for Southeastern Michigan.

"He has been outstanding with his time here," says Chris Perry, chief development and marketing officer at United Way. "He's passionate about the work he does for us. He's enthusiastic and it's contagious with other people here. Others see him and they follow."

How much time he'll have for such work going forward is questionable. For all the challenges he has faced, Hinrichs is being tested at a new level.

THE ROAD FORWARD Hinrichs and Ford's executive team, like other automakers and technology companies, are navigating uncharted waters as the industry moves to introduce electric, connected, and autonomous vehicles. To get there, Ford Smart Mobility announced in July that it had acquired Journey Holding Corp. in Salt Lake City to better deliver integrated solutions that support cities and their transportation systems. In turn, the automaker acquired Quantum Signal, a mobile robotics firm in Saline, Mich.

Under Hackett, Ford has essentially been divided into two halves. Jim Farley, the former Toyota executive who was recruited to run marketing operations in November 2007, was named president, New Businesses, Technology and Strategy, this past May. That puts him in charge of corporate analytics and strategy, with an emphasis on the technologies and ventures that many expect to transform the auto industry over the coming decade, such as autonomous, connected, and electrified vehicles.

You might think of Farley as the face of Ford's future as it shifts from being an automotive manufacturer to a mobility services provider. But, for now, it's a big bet with no guaranteed payoff. Ford, for one thing, has committed $11 billion to fund its electrified vehicle program, with its first long-range model, a high-performance crossover, due out in the coming year.

But overall, sales for battery-based vehicles have been marginal, with no clear sign of when they will make it into the mainstream. Meanwhile, as the new AlixPartners study points out, electric vehicles are so costly they're not likely to generate profits for years. The same holds true for the driverless vehicles Ford also is betting heavily on.

For his part, Hinrichs is the face of the familiar, 116-year-old Ford Motor Co., and all the money being bet on the future will have to come from the operations he now runs. "Over the next 10 years, we'll see a disruption in the automotive business like we've never seen historically from a technology standpoint," Hinrichs says during an interview at the Glass House. "We want to leverage the automotive business to help enable that future business to be successful and bring them together."

If that's the goal, Ford has picked the right executive to run its metal-bending operations, says Stephanie Brinley, a principle automotive analyst with IHS Markit, a global information provider based in London with a large presence in Southfield. "He has the depth of understanding of what that will take, and he has a way of getting people on board."

Psychologists will tell you that people are resistant to change, especially when it threatens their jobs. And there are a lot of jobs at risk. Ford already has announced plans to eliminate about 20,000 employees this year alone — nearly 10 percent of its global workforce — and more cuts could follow. Still, Hinrichs stresses you can't simply cost-cut your way to prosperity. What he's aiming for is to create a leaner, faster, and more efficient organization that can operate with the speed and clarity of some of the new enterprises entering the automotive space, such as Tesla.

The job cuts and plant closings are part of a broad restructuring meant to reflect changing sales levels and shifting market demands, such as the move away from sedans and coupes to SUVs and crossovers. But Ford also is undergoing what Hinrichs calls a "smart redesign" aimed at flattening out what is a bloated corporate bureaucracy.

"It's a methodical organized process … to have less hierarchy, and to make faster decisions," Hinrichs says. "I mean, everything we need to do in this business needs to happen more quickly. If you think about the competitive set we're working against now, it's not just automotive OEMs, which still are, obviously, competitors, but it's a number of tech companies or other organizations. So, we have to go faster on everything. Let's just say, for a hypothetical situation, it (now) takes you four or five meetings to make a decision. We should take one meeting, so you can fix (a problem) overnight."

There's no guarantee Hinrichs can pull it all together. The number of challenges facing Ford's automotive operations is substantial. There's not a single major market where the company is operating as it would like from a sales or market share perspective.

If Hinrichs pulls it off, the rewards will be substantial. Hackett turned 64 this past April, and it's unclear whether he would want to stay on much past his next birthday. Hinrichs may be the ultimate team player, but he is nonetheless an ambitious man, as his career rise clearly demonstrates. His next step up would likely be to CEO, where he could wind up facing off with Farley, an equally driven executive. For now, Hinrichs dismisses talk of internal rivalries.

"Frankly, the biggest challenge is to compete against our automotive competitors today and the tech companies and the startup companies that are going after the future," he says.

Whether he wants to talk about it or not, however, it's a question that won't go away. There are plenty of folks who would like to see Hinrichs land the top spot. Others favor Farley. But the best part is, when it comes time for the Ford board to make a decision, they have options. db

RESOURCES & EXPERTISE

Is the U.S. auto industry heading for another downturn, barely a decade after emerging from the Great Recession? That's certainly looking a lot more likely, according to automotive analysts who point to an ongoing slump in sales and industry earnings.

"It does not require negative GDP (growth) for an automotive recession," says Mark Wakefield, head of the automotive practice for AlixPartners Inc., a management-consulting firm in New York with a large practice in Southfield. The firm recently issued a report warning that the industry is heading toward a "profit drought … and a lot of disruption."

New vehicle sales certainly are heading in the wrong direction. After hitting a mid-decade peak of 17.5 million, they were down to 17.3 million last year and, if mid-2019 trends hold, they're likely going to dip below the 17 million mark for the full year. What's more, AlixPartners anticipates the domestic industry will bottom out to around 15.1 million units before staging a modest recovery in 2022.

The challenge is that even as sales slip, industry spending is on a rapid rise. Automakers globally will see annual investments in self-driving vehicles grow to $85 billion by 2025, says Wakefield, while the industry is expected to invest a collective $225 billion in battery-car technology between 2019 and 2023.

The new investments in technology, however, aren't expected to contribute positively to industry profits for another decade. AlixPartners notes that an electrified drivetrain costs as much as 2.5 times more than one using an internal combustion engine. As for autonomous vehicles, fully driverless models currently seem years away and likely will be too pricey for most retail buyers, relegating them to fleet customers.

Factor in all the other rising costs the industry faces and it's becoming harder and harder to stay in the black. Consider that, as recently as 2010, the U.S. industry had a collective breakeven point of around 10 million annual vehicles, according to the new study. That now stands at 15 million, Wakefield notes.

The situation isn't much better abroad. Latin America is struggling after years of recession, and the European market is flat, with aggressive competition wiping out most profits. China, which helped prop up the industry during much of the past decade with high double-digit annual growth, suddenly has gone into recession, with sales showing the first real decline in decades.

Overall, automakers have retained a moderate level of discipline, Wakefield says. For now, they've avoided the sort of profit-crushing incentive wars seen in the run-up to the Great Recession.

But they're going to have to find other ways to rein in spending, Wakefield stresses. That could mean mergers like the abortive one Fiat Chrysler recently proposed to Renault.

Or, as is likely, there will be more limited alliances, such as the one Ford and Volkswagen announced in July that includes teaming up on commercial vehicles and other programs. BMW and Jaguar Land Rover also are eyeing opportunities to work together and share costs, while Honda and General Motors are partnering on some portions of electrified and autonomous vehicles.

When it's all said and done, the big names still will be in the marketplace, but behind the scenes the once-fierce competitors will share resources and expertise like never before. ■

— Paul Eisenstein