

Our wholesale unit volumes vary with the level of total industry demand and our share of that industry demand. Our wholesale unit volumes also are influenced by the level of dealer inventory, and our ability to maintain sufficient production levels to support desired dealer inventory in the event of supplier disruptions or other types of disruptions affecting our production. Our share is influenced by how our products are perceived by customers in comparison to those offered by other manufacturers based on many factors, including price, quality, styling, reliability, safety, fuel efficiency, functionality, and reputation. Our share also is affected by the timing and frequency of new model introductions. Our ability to satisfy changing consumer and business preferences with respect to type or size of vehicle, as well as design and performance characteristics, affects our sales and earnings significantly.

As with other manufacturers, the profitability of our business is affected by many factors, including:

- Wholesale unit volumes
- Margin of profit on each vehicle sold - which, in turn, is affected by many factors, such as:
 - Market factors - volume and mix of vehicles and options sold, and net pricing (reflecting, among other factors, incentive programs)
 - Costs of components and raw materials necessary for production of vehicles
 - Costs for customer warranty claims and additional service actions
 - Costs for safety, emissions, and fuel economy technology and equipment
- A high proportion of relatively fixed structural costs, so that small changes in wholesale unit volumes can significantly affect overall profitability

Although recent supply disruptions have resulted in near-term upward pressure on new vehicle prices, our industry has historically had a very competitive pricing environment, driven in part by excess capacity. For the past several decades, manufacturers typically have offered price discounts and other marketing incentives to provide value for customers and maintain market share and production levels, and we are beginning to see indications that some of these actions will resume in 2023 as industry production and inventories improve. The decline in value of foreign currencies in the past has also contributed significantly to competitive pressures in many of our markets.

Competitive Position. The worldwide automotive industry consists of many producers, with no single dominant producer. Certain manufacturers, however, account for the major percentage of total sales within particular countries, especially their countries of origin.

Seasonality. We manage our vehicle production schedule based on a number of factors, including retail sales (i.e., units sold by our dealerships to their customers at retail) and dealer stock levels (i.e., the number of units held in inventory by our dealerships for sale to their customers). Historically, we have experienced some seasonal fluctuation in the business, with production in many markets tending to be higher in the first half of the year to meet demand in the spring and summer (typically the strongest sales months of the year). In recent years, due to COVID-19, the semiconductor shortage, and other supply constraints, production has been higher in the second half of the year.

Backlog Orders. During the past year, gross stock levels at dealers were lower than normal due largely to the semiconductor shortage and other supply constraints, and the amount of time required to fill orders for certain vehicles increased.

Raw Materials. We purchase a wide variety of raw materials from numerous suppliers around the world for use in the production of, and development of technologies in, our vehicles. These materials include base metals (e.g., steel and aluminum), precious metals (e.g., palladium), energy (e.g., natural gas), and plastics/resins (e.g., polypropylene). As we transition to a greater mix of electric vehicles, we expect to increase our reliance on lithium, cobalt, nickel, graphite, and manganese, among other materials, for batteries. We expect to have adequate supplies or sources of availability of raw materials necessary to meet our needs; however, there always are risks and uncertainties with respect to the supply of raw materials that could impact availability in sufficient quantities and at cost effective prices to meet our needs. See "Item 1A. Risk Factors" for a discussion of the risks associated with a shortage of components or raw materials, supplier disruptions, and inflationary pressures, the "Key Trends and Economic Factors Affecting Ford and the Automotive Industry" section of Item 7 for a discussion of supplier disruptions caused by a shortage of key components, as well as commodity and energy price changes, and "Item 7A. Quantitative and Qualitative Disclosures about Market Risk" ("Item 7A") for a discussion of commodity price risks.