

A Magic Moment For Ford of Europe

It's been cashing in on Europe's cash-for-clunkers programs, but the future could be dicier

By Jack Ewing



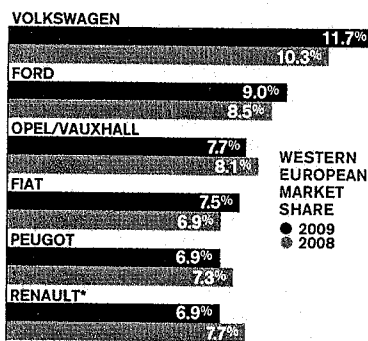
FRANKFURT

There's little doubt that Ford Motor's European unit is coming through the global auto slump better than most rivals. But even Ford of Europe boss John Fleming concedes that luck has played a role in that success. Four years ago, Ford scheduled an autumn 2008 launch for redesigned versions of its Fiesta and Ka small cars. That, as it turns out, was exactly when governments from Germany to Serbia started showering cash on citizens who trade in older gas-guzzlers for new, fuel-efficient vehicles. "We knew there was huge pressure on fuel economy and CO₂ emissions," Fleming says. "But to get the Fiesta and Ka out right at the bottom of the recession—we didn't plan that."

The happy combination of government stimulus and spiffy new compacts has sheltered Ford from the

worst of the industry's woes in Europe. As rival General Motors tries to sell beleaguered Opel to a consortium backed by the Kremlin, Ford is gaining market share. Ford models accounted

WEATHERING THE SLUMP



*Peugeot sold slightly more cars than Renault in absolute terms
Data: European Automobile Manufacturers' Assn.

for 9% of the Western European market in the first five months of 2009. That was up from 8.5% the year before and second only to Volkswagen, with 11.7%. True, Ford of Europe lost \$550 million in the first quarter, vs. a profit of \$739 million in the year-earlier period, and Ford sales were down 6.7% through May. But the European auto market slumped by nearly twice that. "Fundamentally, Ford is bearing up well," says Neil King, an auto analyst at IHS Global Insight in London.

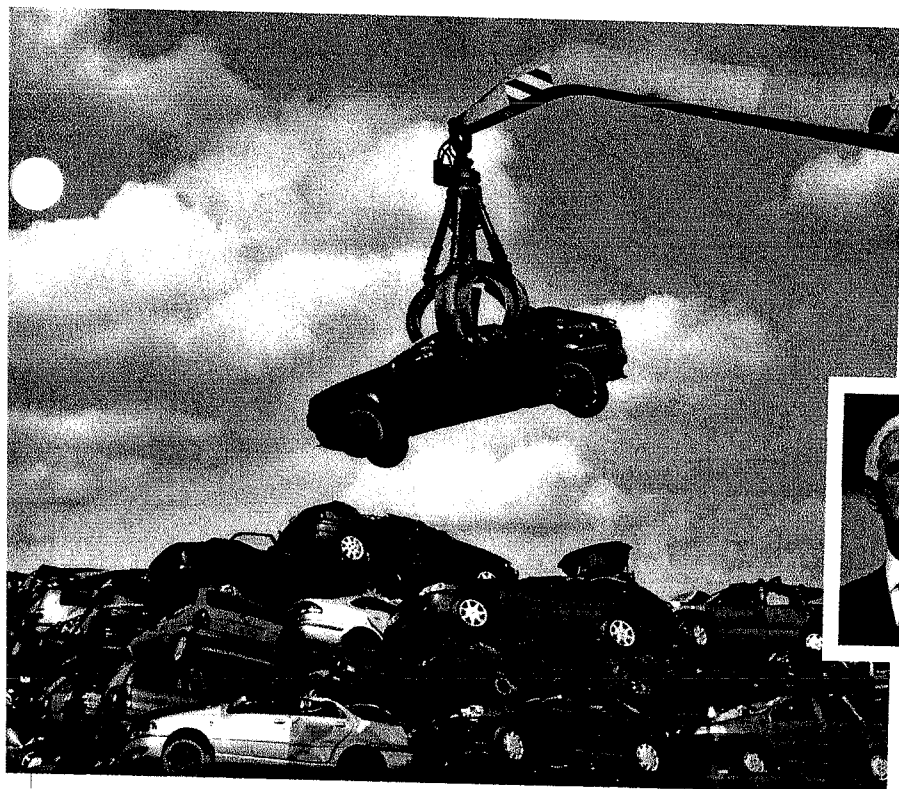
Europe, where Ford has been making cars since 1911, is important to the company's overall recovery. Ford of Europe head designer Martin Smith led development of the new Fiesta, which is bound for stateside showrooms next year. And the new Focus, expected in the U.S. over the next two years, was also created in Europe. "The design themes that have characterized the best of our European models will work globally now," says James Farley, Ford's marketing chief.

MORE AUTONOMY

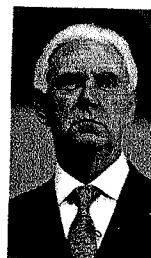
The big unknown is what happens when the cash-for-clunkers programs run their course in most European countries this fall. "Sales from the scrappage schemes are winding down," says Werner Iske, a Ford dealer in Hanau, 15 miles east of Frankfurt. Al-

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Ford has also benefited from its flexible manufacturing network. The company hires many temporary workers, which makes downsizing easier when demand slumps. So as sales have tumbled, the company has cut the workforce by about 6,500 people, mostly temps, to 69,400. And Ford



holds down costs by cooperating on engines and chassis with competitors such as Fiat and France's PSA Peugeot Citroën. "Ford has done its homework in Europe," says Gregor Matthies, a Munich-based partner at consultant Bain & Co., which has worked for Ford.

How soon Ford of Europe can return to profitability remains in question. Key markets such as Britain and Germany will become more competitive when Opel launches a redesign of its flagship Astra this fall, about a year before Ford updates its comparable Focus. Opel will also benefit if its prospective owners, Canadian parts maker Magna International and Russia's Sberbank, restore buyer confidence. And Opel, Renault, and Peugeot all will receive billions in state aid, which Ford has not gotten, though it is tapping government funds aimed at fostering development of fuel-efficient cars. So Fleming is keeping expectations low. Although he doesn't expect a plunge in sales when government incentives expire, he says: "The underlying market is still quite weak." **BW**

— With David Kiley in Detroit

though Iske doesn't think his business will collapse, others fear a nasty correction this autumn that could separate automakers that have been lucky from those that have been truly good.

It's clear that Ford's strength isn't entirely to chance. A decade ago, Ford's Michigan headquarters gave the Europeans more autonomy to run their operations and craft vehicles. That has helped keep the product lineup fresh. "The design is better than it has ever been," says Stefan Nauheim, who manages a Ford dealership in the Frankfurt suburb of Eschborn.

Fleming's team moved faster than

GM to boost efficiency. At its four auto factories in the European Union, Ford makes more vehicles than Opel builds in its seven car plants in the region. And Ford's Cologne workers churn out each Fiesta in less than 12 hours—the fastest rate in the region, says Ferdinand Dudenhöffer, professor of auto economics at Germany's University of Duisburg-Essen. "Ford is the most efficient volume carmaker in Europe," Dudenhöffer says.

Fleming:
Launching Fiesta and Ka just when guzzlers were being junked was a happy coincidence

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