Carnegie Consulting

Strategic Solutions for Business

Retaining Market Share Amidst Intense Competition

Prepared for:
Ford Motor Company

Table of Contents

Executive Summary

The problems facing the many different brands that comprise Ford Motor are plentiful and daunting. In the past year Ford's stock has fallen from the high $20's to the mid teens, trimming 40-50% of market value from the company. We propose to management a three-stage campaign to restore profitability and earnings growth to the company.

Carnegie Consulting's expects its recommendations will be satisfactory to both management and the UAW. Management will like our plan because it is not one of retreat, but one of full speed-ahead advancement. The UAW will endorse our plan because it does not involve layoffs in either the short term or the long term.

Shareholders will be negative on our plan at first, but once it is fully explained and implemented, we are convinced that Ford's stock price will respond positively.

In summary, moving forward our proposal represents the best plan at the company's disposal for long-term growth and renewed market strength.

Company History

Incorporated in 1903, Ford Motor Company grew from an operation located in a wagon shop to the world's largest producer of trucks and the second-largest producer of cars. The company has been an international corporation since the beginning. In 1904, the first foreign branch, Ford Motor Company of Canada, Ltd., was incorporated in Ontario; production there began the year after.

Today, Ford Motor Company is a global corporation with operations in more than 30 countries providing jobs for more than 340,000 people. Ford relies on approximately 60,000 supplier companies worldwide to provide it with goods and services. Ford and its seven brands sold more than 7 million cars last year, generating revenues exceeding the national product of many industrialized nations.

In 1996, Ford launched its Ford 2000 initiative to consolidate the company's North American and European operations. The idea was to create a single organization out of the Ford worldwide operation, essentially to streamline the company and make it more efficient. In Ford's own words, Ford 2000 "allowed the company to eliminate duplication, initiate best practices, use common components and designs for the advantage of scale, and allocate resources wherever they are needed to best serve market needs."[i] Moreover, the initiative created a global management team.

Whether intentional or not, Ford's strategy in the past seems to have been different from that of its competitors. Although Ford was not always the first mover, when Ford moved, it succeeded in becoming the number one manufacturer in whatever segment it was competing. Evidence of this today is seen in the list of the top ten selling cars in America. Ford claims five of these spots, more than any other car manufacturer[ii]. The F-Series trucks top the list as the number one selling vehicle. The Ford Explorer, Taurus, Ranger and Focus follow in spots 3, 6, 9 and 10, respectively.

Internal Rivalry

Industry

Ford Motor Co. is in the business of the design, manufacture, sale, and service of cars and light trucks/SUVs. Ford Credit leases and finances the purchase of cars and trucks made by Ford and other companies. It also provides inventory and capital financing to retail car and truck dealerships. Hertz rents cars and trucks and industrial and construction equipment. Both Ford Credit and Hertz also have insurance operations related to their businesses. Ford operates service centers under several nameplates, most notably Ford Quality Care and Kwik-Fit. To the extent that these other businesses impact Ford Motor, we will include them in our analysis. However, for the most part, this report will focus on Ford Motor Company.

Product

Ford Motor Company is in the business of producing and selling automobiles, particularly cars and light trucks & sport-utility vehicles. Within the umbrella of Ford there are eight fairly distinct lines of vehicles- Ford, Mercury, Lincoln, Volvo Cars, Land Rover, Jaguar, Aston Martin and Mazda.

Geography

About two-thirds of Ford's sales come from within North America, while the remainder are made in international markets. Europe is the biggest of these markets, representing about 26% of total unit sales. Other markets, including Asia and Latin America, account for the remaining 7% of sales.

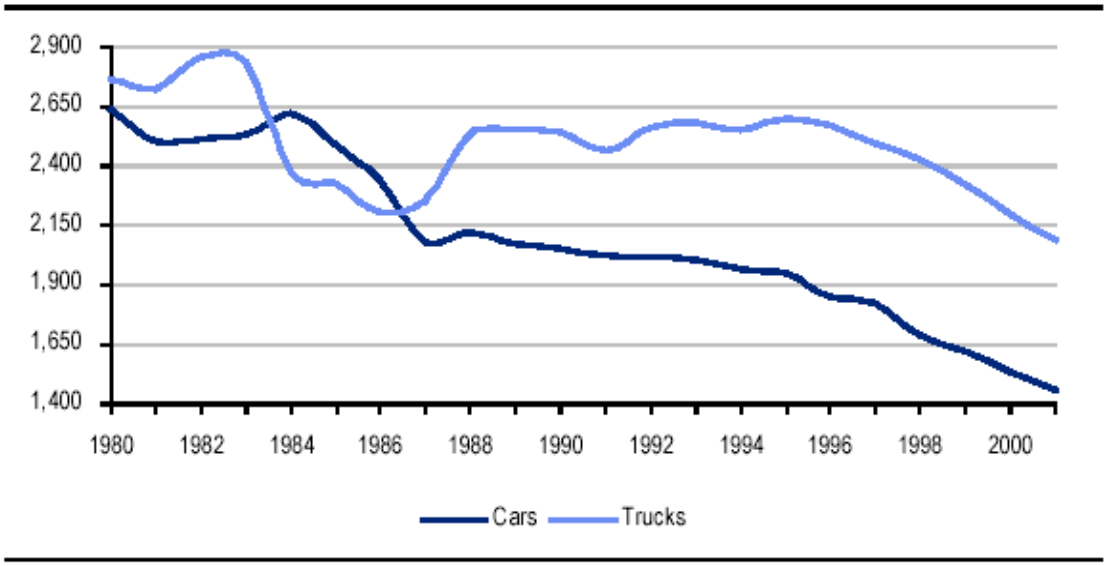
Rival Firms

There are several direct competitors to Ford Motor, and all are household names. Among these are General Motors and DaimlerChrysler, which, along with Ford, constitute the "Big Three" U.S. automakers. In addition to the Big Three are several international firms, both European and Asian. Chief among them are Japanese firms Honda, Toyota and Nissan; German firms Volkswagen and Bavarian Motor Works (BMW); and, to a lesser extent, Korean firms like Kia and Hyundai.

Herfindahl Index

There has been a consistent and steady decline in the U.S. H-Index for 20 years. Today it stands between 1400 and 1500, the numerical equivalent of about 7 firms of equal size. In 1980, the H-Index stood at about 2600, meaning that the numerical equivalent of 3 major players have entered the market in the past 20 years. For light trucks and SUVs, the situation is slightly different. The H-Index held steady at 2600 for about 10 years, from 1985-1995. However, since then it has declined to its current level of 2100. All indicators suggest that this number will continue to drop as international firms tap this lucrative market.

Chart 1: The Herfindahl Index 1980-2001



Source: Ward's Automotive

Differentiation from Competitors

Ford's products have a strong brand image associated with them, and that is one of the main bases for differentiation. Since Ford offers a wide range of vehicles across their many brands, they are able to reach many market segments. Jaguar, Volvo and Lincoln, for example, all cater to a higher-end market, each with its own focus. Land Rover also caters to a high-end market, but with a focus on SUVs. Ford's products are differentiated from the competition to the extent that some prefer the Ford brands to those of its rivals.

Restructuring Plan

Analysts agree that Ford is in trouble right now, with market share shrinking and profitability lost. Most of the strategic changes that management is considering are aimed at restoring profitability and financial solvency. Carnegie Consulting believes that these strategies are insufficient. One of management's strategies is to drastically reduce its offering of new models/concept cars. Just twelve major product changes will be coming from the company in the next two years and twenty-five within the next four years. Distributed amongst the eight brands, that makes for just one change per brand per year. Ford's strategy is clearly one of retreat, which will bring design and production in line with its current stalled sales.

Chart 2: Details of Ford's restructuring plan

New Products	10 new major products per annum	mid decade
Plant Capacity	Reduce NA plant operating capacity by 1 million units	mid decade
Discontinue Models	Low-margin Mercury Cougar and Villager, Lincoln Continental, Ford Escort	this year
Hourly Workforce	Lay off 12,000 in NA (3,000 additional removed in 2001)	this year and beyond
Salaried Workforce	Lay off 1,500 in NA (3,500 additional removed in 2001, voluntary program)	this year
Other Workforce	On a global basis, 13,500 other employees	last year and beyond
Material Costs	Reduce costs with suppliers, share in savings 65/35 of $3 billion pretax per annum	mid decade
Divestitures	$1 billion non-core asset and business sales	this year
Dividend	33% cut in dividend ($350 million savings) to $0.40 (additional 50% cut in Oct. 2001)	this year
Beyond NA	Europe strategy, PAG strategy, turnaround in S. America, refocus Ford Credit	this year and beyond

Source: Ford Motor Company

Chart 2 outlines restructuring plans set forth by management. Carnegie Consulting believes that these plans will not restore profitability to historical levels. Management needs to begin by deciding whether its goal is short-term profitability or long-term market share. We believe that Ford can restore profitability in the short term if it is willing to cede market share. But,

management will have to postpone profitability if it is to go head to head with GM for market share. In its restructuring plans, management has unrealistically assumed that Ford will retain and even expand market share to previous levels, yet the same can be said for the rest of the Big Three. We feel that as it stands now, GM is more likely to achieve this goal, and because Big Three auto shares as a whole are likely to remain roughly constant, it is Ford (and DaimlerChrysler) that will likely see their market shares fall.

Regulation

Ford Motor is subject to the same level of regulation as other automobile companies that sell in the U.S. Tough emissions and fuel economy standards are two such regulations, and Ford complies with these. Safety standards are another, and Ford complies with these as well.

Substitutes and Complements

There is no close substitute for an automobile. The strongest substitute for urban dwellers would be public transportation, and the most important complement is gasoline. In the long term, as crude oil becomes more and more scarce, it is possible that consumers might switch to public transportation.

For longer distances, train and especially air travel are considered strong substitutes for cars.

Entry and Exit

The automotive industry is a high fixed cost business, and the initial capital requirements are high enough that entry does not pose a serious threat. The only real way this could occur would be if a foreign government started a manufacturer (a la Airbus) and covered the several years of losses that would be required for sustainability. The main threat to entry is new product lines by the competition, like GM's Saturn brand. The best example of this is Toyota Motor's Lexus brand, which, 13 years after launch, is now the number one luxury manufacturer in the U.S. The competition that is already in place constitutes the majority of the threat to Ford Motor Co.

Exit has been occurring through consolidation via merger as well as reduction of product lines by existing sellers.

Buyer and Supplier Power

The raw materials used to produce automobiles are purchased from a variety of suppliers. These materials are then used to produce the parts of the car. Independent manufacturers closely allied to the car manufacturer generally produce car parts. Car parts are the primary cost component of the finished automobile. The two largest United States car manufacturers, Ford and GM, have vertically integrated some car parts manufacturers in order to eliminate rent extraction by suppliers. They do increase supplier power somewhat by trying to minimize the number of parts in their cars. This increases their reliance on each supplier. Typically, the number of parts in the automobile falls by about 30% with every redesign. Automobile manufacturers have also given independent manufacturers some freedom to

redesign parts, giving them greater supplier power. Overall, though, the interrelated production of car parts and cars contain little supplier power.

Labor is the major supplier with power. The United Auto Workers Union (UAW) is the main labor supplier in the domestic industry. The UAW is well organized, large, and wields its power to establish a contract that outlines wages, hours and working conditions. The cost of unionized labor facing Ford is nearly $50 per hour per employee including wages and benefits. Auto manufacturers are trying to increase productivity to lower labor costs.

The buyer power lies with the automobile dealers and is sparse due to the number of dealers. No single buyer can extract a cheaper price from the automobile dealer because of large volume purchases. Some buying power exists in the fact that the car manufacturer shares the cost of marketing the vehicles sold on the dealer's lots. Nonetheless, car dealers still must market for themselves and assume the risk of the car they purchase from the manufacturers.

Strengths, Weaknesses, Opportunities and Threats

Strengths

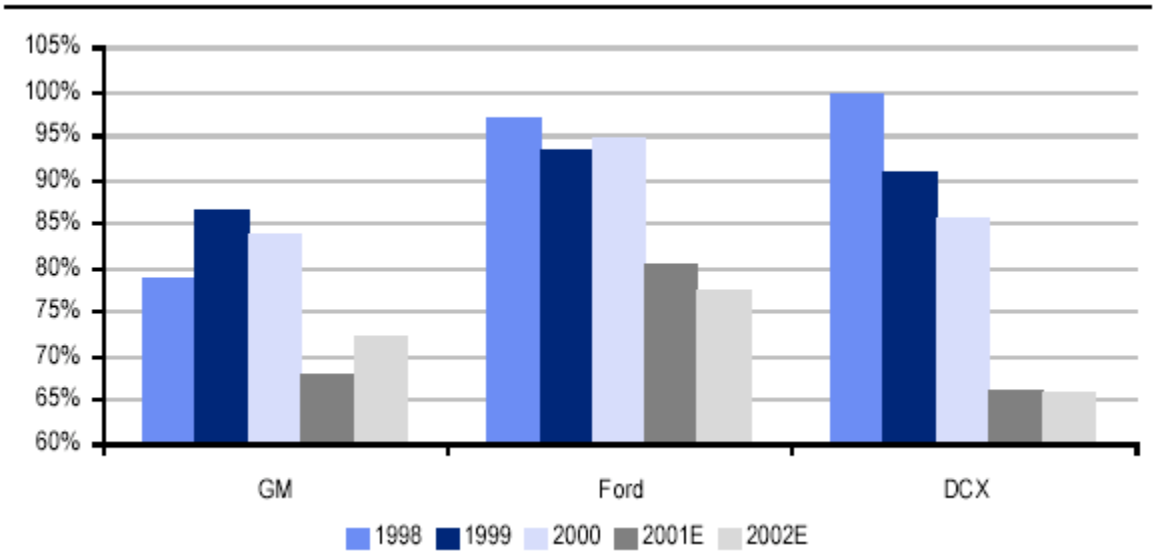
Ford has major strengths despite its problems. Most impressive is its current level of sales in several key segments. Ford has five of the ten best-selling cars in America (Taurus, Focus, Ranger, F-150, Explorer), and four of those five are the best selling in their segment (Focus, Ranger, F-150 and Explorer). The Explorer is the third best selling vehicle in the U.S.[iii] and the best selling SUV. The nearest competitor is the Jeep Cherokee, which is the tenth best selling vehicle with about 40% fewer sales than the Explorer[iv]. The Ford F-150 has been the best selling vehicle in the U.S. for the past twenty years, usually with a healthy distance between it and the nearest competitor (this year, the Chevy Silverado pickup). The Ford Focus is perhaps the most vulnerable of Ford's best selling vehicles, with the Honda Civic nipping close behind, but it is nevertheless the best selling compact in the U.S. The Ford Taurus was the best selling *car* in the U.S. for ten years running until its replacement by the Toyota Camry. Currently it ranks third behind the Camry and the Honda Accord. Finally, the Ford Ranger is the best selling light truck in the U.S. market, with no real threats competitively.

In the fourth quarter 2001, Ford saw a surge in sales due to incentive financing. While management acknowledged that many of these sales were simply transfers from 1Q2002, it nevertheless demonstrates that the American consumer does like Ford cars. However, the demand for any one brand in the American market is somewhat elastic, as many consumers will switch brands for a difference of 200 or 300 APR basis points.

Weaknesses

As shown in Chart 3, Ford is losing its edge in capacity utilization. While Ford has historically performed much better than its Detroit rivals in this regard (and is still the highest), the recent trend is alarming. Ford's utilization has fallen by a much greater percentage than GM, again suggesting that GM presents a danger to Ford. GM's trend is decidedly positive moving forward, while Ford is in decline. Given its level of utilization, Ford is implicitly structured for a 25% share of the North American market. However, Carnegie Consulting feels that the restructuring plan put forth by management will not support this level of share, particularly with the low number of new models planned for the coming five years, and capacity utilization will continue to fall.

Chart 3: Capacity Utilization 1998-2002



Source: Ward's Automotive, Harbour Reports and UBS Warburg LLC estimates

In the 90's, Ford's high market share has been attributable to innovations in new automotive segments, most notably SUVs and light-trucks. Ford's share of this market is declining as Japanese competition moves in, leaving Ford with a need for new models. In addition, Ford has several models in the Mercury nameplate that add little value to the Ford bottom line (Mercury Sable, for example). In attempting to differentiate, Ford loses possible economies of scale in production. Some of these models should be discontinued. Recently GM announced that it would cease its Oldsmobile lineup, which is remarkably similar to Buick. It could be that Ford needs to dump the Mercury nameplate, and free up production, planning and management for new product launches at the other brands. Plans are already in the works to eliminate the Mercury Cougar, one of the few Mercury models not purely based on an already existing Ford brand vehicle.

One final weakness for Ford stems from September 11th, and has two implications. First, because overall travel is down, car rentals associated with travel are down as well. This has impacted Ford directly via the Hertz business. However, it also affects Ford because fleet sales are down to other rental agencies like Avis, Enterprise and National.

Opportunities

Carnegie Consulting believes that Ford's best new opportunities lie in the luxury segment. Ford has recently spent a considerable amount on the acquisition of two luxury brands, Volvo and Land Rover. These brands, along with Aston Martin, Lincoln and Jaguar comprise what Ford calls its Premier Auto Group (PAG). In addition, Lincoln has surpassed Cadillac as the number one luxury nameplate in Detroit. We feel that this segment is where good growth prospects for Ford exist. For 2001, 1.6 million of the 8.8 million total cars sold in the U.S. were luxury and near-luxury[v]. The competition is less intense in this segment, and Ford has a considerable advantage in its diversified lineup. Lincoln has outperformed its closest rival, Cadillac, in sales volume recently. We feel that Lincoln can continue to capitalize on the customer who buys American and take share from Cadillac, but only if management invests the marketing to do it. GM is making a strong push to take business back from Lincoln.

Ford acquisitions Volvo and Jaguar have strong potential for luring business away from their European rivals, most notably BMW and Mercedes-Benz. For example, Jaguar currently has just a 10% share of the market for high-end luxury cars,[vi] while Mercedes-Benz has 42%. With the marketing and branding strategy laid out by Carnegie Consulting, this number can rise substantially.

While the PAG accounted for just 18.9% of Ford Motor revenues for FY 2001, we feel that this can be significantly increased to 20-25%. Our strategic advice will move toward attaining this goal, and cuts into the shares of competitors will occur.

Additionally, Ford brands still have the largest share of several important segments mentioned in the strengths section. Carnegie Consulting feels that if the company continues on its decline, market share will dwindle, but our strategic plan will help to maintain and build on these strengths.

Threats

The threats to Ford are serious. Chief among them is the recent success of GM, which has increased its market share with much less damage to its bottom line than Ford. Ford's lack of new product is of chief concern to us. GM appears to be replacing Ford as the Detroit innovator. Most notably, GM's Avalanche[vii] is one of the most innovative vehicles to come out of Detroit in some time, and it could represent a new key segment for the American market, a segment where GM has a first mover's advantage. No other manufacturer has moved into this market yet, and we urge Ford to move into this space.

Additionally, GM seems to be gaining more control over its UAW lately. The natural attrition rate at GM is approximately 7%, meaning that during the most recent economic downturn, GM has been able to slim down its cost structure more quickly than Ford. If this trend continues, which we feel it will, GM will be in the enviable position of being able to adjust labor to output. In short, we recommend that Ford attempt to emulate GM in this respect.

The GM Silverado full-size has moved closer to the F-150 in total sales volume, and this will continue to pose a threat.

In addition, the Explorer is facing threat from Japanese manufacturers, as was suggested by the light truck Herfindahl index. This threat from increased competition is coupled with the Firestone problem, which adversely affected the consumer's perception of Explorer safety. The full ramifications of this event have yet to be felt.

Operational threats to Ford are substantial, and are only partially addressed in its restructuring plan. While Ford anticipates some minor plant closings, it is likely that more shutdowns will be needed if Ford is to operate efficiently after ceding market share. To maintain profitability at current capacity, Ford will have to retain market share and grow. We propose a strategy for this in our concluding section of this report.

Financial Outlook

The equity markets have been unkind to Ford stock in the past year. As the chart below reveals, Ford's stock price has come down from the high 20's to the mid teens, trimming 40-50% of market value from the company. By contrast, GM's stock is up 50% since September 11th.

For fiscal year 2000, Ford earned $3.26 per share. For FY2001, this number plummeted to $-0.44, due mostly to the souring economy and charges related to the Firestone debacle. Correspondingly, FY2001 EBITDA was $12.6 billion on sales of $162.4 billion.

At just .74 mrq, Ford's current ratio is a concern to investors. While this does not include the recent convertible offering, at best that will improve the ratio to no more than .84 (any number less than 1.00 is considered a bad sign). The company carries $18 billion in cash on the books. Again, however, the current ratio is alarmingly low. Ford's quick ratio is .39. Again, this number is desired to be above one.

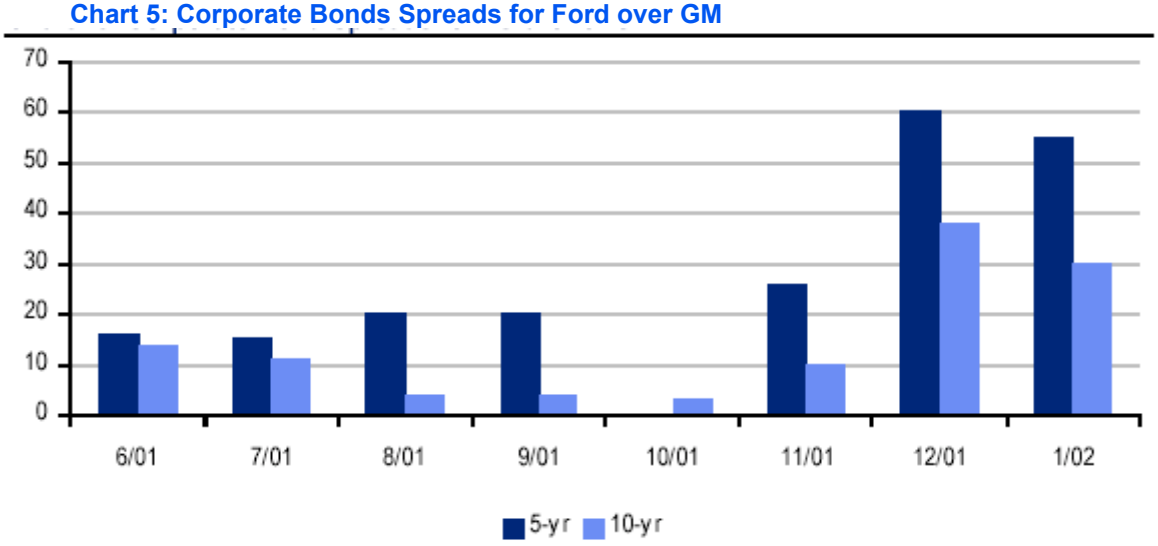
Its cash-debt coverage ratio is 0.08. Both ratios do not include proceeds from the convertible offering, and the dangerously low quick ratio reveals why the convertible offering was so desperately needed.

Chart 4: Ford Stock Price History March 2001 – March 2002

Source: finance.yahoo.com

Without major structural changes, the outlook for Ford shareholders is bleak. The most likely prospect for shareholders is stagnation, in which the stock hovers in the $12.00 to $14.00 range for the foreseeable future. Some analysts, however, hypothesize a traumatic turn of events in which Ford is forced into a meltdown. While such doomsday scenarios seem unlikely, the risk is present. The credit markets have demonstrated concern recently for Ford's cash flow position:

Chart 5: Corporate Bonds Spreads for Ford over GM



Source: UBS Warburg LLC

Chart 5 above demonstrates more subtly what the equity markets have already demonstrated: GM is becoming a more financially solid company than Ford. This increase in bond spreads is alarming, because if creditors take too tough a stance against Ford, a cash crisis could ensue, along with possible chapter 11. While this is certainly extreme, if management does not execute a drastic plan, it may become reality.

Strategic Analysis: Retaining Market Share Amidst Intense Competition

The critical issue for Ford is the inadequacy of its restructuring plan. The problem stems from a contradiction imbedded in the plan. To restore profitability to previous levels, Ford needs to completely revamp itself, cede market share, and operate efficiently at a lower level of output. While this strategy is likely to improve shareholder value in the short term, management and the UAW will likely not choose this course of action because of its painful short-term effects. The second problem with the restructuring is that management is on a course to trim expenses just enough to surrender market share but not enough to be competitive at the new lower level of output. Carnegie Consulting proposes an aggressive strategy aimed at retaining market share where it is currently strong, and expanding in opportunity markets. Current levels of sales in the key markets will not be sustained, as management hopes, given the intense competition from abroad and the especially vexing success of GM as of late. Steps must therefore be taken to hold Ford's share of the market.

We recommend that management undertake a three-stage strategy to increase shareholder value over the long term. The returns from this strategy will take longer to achieve than Ford's current plan, but the rewards will be much greater when they do arrive. Our plan is more drastic than that proposed by management and is designed to minimize trouble with the UAW.

The three stages in our recommended plan are 1) problem solving 2) product development and 3) marketing and dealer restructuring.

Our plan foresees large operating losses in the near term due to higher R&D and marketing spending, but should result eventually in the desired 22-25% market share. Earnings and most likely the stock price will take a beating during this period. The only other plan that will result in profitability is to close down plants and cede market share, as noted above. But, in the short term, this plan will incur large write-offs and result in losses as well. Thus, of the two plans, our plan presents only slightly more risk.

In the final analysis, our plan's success will depend on successful execution, which requires quality people. We at Carnegie Consulting hope that we will be further engaged by Ford to help guarantee the success of our strategic plan.

Stage 1) First and foremost, the following issues must be addressed.

Ford- Ford cars were recently ranked the worst of the top seven world automakers in quality by J.D. Power & Associates. In addition to the Explorer recalls, the Focus and Escape have been recalled several times. These recalls ultimately impair Ford's bottom line, as they raise warranty costs ($650 per vehicle per annum vs. $550 at GM and $400 at Toyota[viii]) and lower the price consumers are willing to pay for Ford vehicles. Ford must embark on a program to upgrade its overall standards of quality. If this can be accomplished, Ford can command prices closer to those charged by Japanese manufacturers, and this will lead to improved operating margins.

Jaguar- This brand represents one of the biggest growth categories for Ford. The main problem facing Jaguar is also related to quality control. Jaguar still has a negative brand image in the U.S. market stemming from quality issues mostly prevalent in the 1980's, but which remain today. We recommend that Jaguar establish an independent quality control team to assess problems in all facets of the brand's operations, ranging from engineering to production.

Land Rover- Land Rover is not reaching its potential at this point, again because of negative perception by the public regarding product quality. Without inspection of production facilities and engineering plans, we cannot make specific recommendations for improvement,

but we are convinced that Land Rover, like Jaguar, would benefit from a quality control makeover.

Mercury-The main problem with Mercury is that its vehicle mix that is not sufficiently differentiated from Ford. The niche for Mercury is supposed to be the in between brand, accommodating customers who want something more luxurious than Ford, but who do not wish to spend the money required for a Lincoln.

We recommend that management finally make up its mind and choose between two strategies for Mercury. If Mercury is to survive, it should be positioned as a head to head competitor with Buick, and be quite differentiated from Ford. We feel that this is a potentially profitable market, but product improvements will be needed. The Marauder is a good start in this way. Otherwise Ford should close operations and send Mercury the way of Oldsmobile and Plymouth. In choosing between these two strategies, Carnegie Consulting recommends the second, completely discontinuing the brand. The Mercury Cougar was the first Mercury model in many years to not be based on a preexisting Ford model, and it has been discontinued because it is losing money. We are concerned that more attempts to develop unique Mercury models will yield similar results.

Stage 2) Further product development is needed for some of the brands in order to be competitive with current market trends and interests. This stage should be undertaken immediately at Volvo, Lincoln and Ford. At Land Rover, quality control should be taken care of first. Our timeframe for this stage at Ford, Lincoln and Volvo are model year 2005. For Land Rover, 2006 is more appropriate.

To implement this strategy, we recommend that Ford find a world class director of product development. Bob Lutz was recently hired as head of product development at GM. He was wooed over from Chrysler, which indicates he may be willing to shift companies again for the right salary. He is responsible for much of the improvement at GM and we hope that he might add value to the Ford team.

Ford **–** With market shares shrinking in Ford's traditional niches, the need for a new concept is urgent. We recommend that Ford introduce two new concepts- an alternative fuel vehicle, and SUV/Pickup crossover. The first is already in development and is set for debut in 2003. As alternative fuel technology grows more popular and changes, the Ford brand needs to be the one to capitalize on possible market trends. The 2003 Prodigy DIATA concept is an HEV (Hybrid Electric Vehicle), which compete directly with the Toyota Prius. For the 2005 model year, a plan is set for an HEV Explorer, which is worthy of applause. But, while these are moves in the right direction, Ford needs to be aware of competing concepts, most notably hydrogen fuel cell technology. Since it is too soon to tell what technology will ultimately succeed, Ford needs to involve itself in all of these possibilities.

We also urge Ford to develop a vehicle to compete with the Avalanche concept. Ford should focus on a mid-size model, built on the Ranger/Explorer platform. The mid-size SUV is traditionally much more popular than its full-size cousin, and we think GM made a mistake by targeting the full-size market. Ford needs to turn GM's mistake into Ford's gain. We would like to see this model by the 2005 model year.

Lincoln- Cadillac has been very aggressive in both its marketing and design as of late. Recently Cadillac debuted the Cien concept car, a very high margin 750 hp luxury sports car. This could represent a special niche market, and we recommend that Lincoln go into production with its MK9 concept coupe and develop a high output version to compete with the Cien. It is vital for Lincoln to get a first mover's advantage here.

Volvo- The C70 coupe should be redesigned. It should be made into more a direct competitor of the BMW 3 series, and perhaps offer a lower price point, if possible. However, quality should not be in any way compromised at Volvo. This is perhaps the only brand in the

Ford nameplate with good public perception for quality, and it is imperative that this not be compromised.

Stage 3) Marketing is the key component of this stage. The target for this stage should be the 2005 model year. Realistically, it will occur in 2006.

Through marketing Ford will convey to the consumer the work done in stages 1 and 2. We recommend that Ford immediately assign a top-flight marketing person to focus exclusively on the 2005/2006 campaign and beyond. Ample time is needed to develop the appropriate campaign.

Next, we will recommend marketing/brand image that Ford should project for each of its brands:

***Aston Martin*-** The nameplate has a strong reputation, but is relatively unknown. We hope that this brand will make itself more known to the high-end customer through expansion of dealerships in the U.S. and targeted advertising in magazines read by the desired demographic, etc.

The brand that should be projected by Aston Martin is one of highly refined sportiness. The brand is exclusively for performance enthusiasts who can appreciate the finest in automotive technology and beauty. The uniqueness of the product should be stressed. Owning an Aston Martin will put its owner in a class of his own, much more unique than Porsche or Ferrari.

***Ford*-** The blue oval brand needs to have its quality improvements made public and achieve a higher rating in the J.D. Power & Associates survey. Also, the new Ford models should be rather heavily marketed, with the hope of creating a new high-margin segment much like the SUV of several years ago. Additionally, we hope that the Prodigy will see its fair share of advertising because the alternative fuel market will likely represent long-term growth.

Ford's image should be one of reliability and good value. The brand should personify the new era in the American automotive industry. The trucks are functional and powerful. The economy cars are attractive to younger consumers and others who emphasize value.

Jaguar- Jaguar's product quality improvements should again be made clear to the consumer. Thereafter, Jaguar should be heavily marketed directly against the Mercedes-Benz nameplate. The product can compete with Mercedes-Benz and succeed once the negative perception of quality is remedied. We recognize that it is sometimes difficult to change the mind of consumers, but also know that when these improvements are made, knowledge of them will filter through to consumers via independent and trusted sources such as Motorweek magazine.

Jaguar is a vehicle for the professional, sophisticated buyer. The brand should be one of the traditional fine European sedan. To buy a Jaguar is to spoil oneself.

***Land Rover*-** A focal point of the PAG, Land Rover should be very heavily marketed in all segments. The recently revealed Freelander should be able to win over the $25,000-$35,000 SUV market with the Land Rover reputation for durability. The quality improvements should again be made clear to the consumer through higher rankings by independent evaluators, like J.D. Power & Associates.

Once quality issues are taken care of, we feel that the Discovery will experience growth in the luxury segment and provide healthy margins to Ford.

Finally, the Range Rover could perhaps be one of the most lucrative vehicles in the entire Ford family. Its only real competitor at the >$65,000 price point is the Hummer, for most other competitors do not have the same reputation for four-wheeling excellence. We want the Range Rover to compete with Hummer on the basis of luxury, with Rover offering greater luxury than the Hummer. It is not likely that the Land Rover brand will cannibalize Ford Explorer sales, because the target demographics are considerably different, with Land Rover having a clear bias toward functional SUVs.

Land Rover should be heavily branded as a functional SUV. It offers the best of luxury and aggressiveness. Land Rover is more luxurious than a Hummer, and more functional than a Lexus, and these points should be stressed.

Lincoln- Lincoln needs to market the MK9 to the younger consumer, while being careful not to alienate its current older consumer. We feel that the rest of the lineup will be sufficiently appealing to that group, and hope that the MK9 can take share from both Cadillac and other sports coupes.

Lincoln is the personification of American luxury, featuring high-tech gadgetry and power. The cars are larger and more solid than their import competitors, and offer the peak of comfort. These cars are for the consumer who "has arrived." After a lifetime of hard work, an American deserves such luxury and power.

The MK9 will carry an image above and beyond the traditional Lincoln brand. The MK9 combines luxury with muscle, and is a mature sports car. The target consumer is a middle-aged to older man who wants to recapture the feelings he had about the great American muscle cars of his childhood without sacrificing luxury and comfort.

Mercury- The Mercury nameplate, if it is not discontinued, should be marketed as its own entity, separate from the blue oval brand. This way, higher prices can be justified, and customers who would otherwise buy Buick can be swayed to Ford Motor Co.

Volvo- The Swedish nameplate should be further marketed in the luxury sports segment, which is currently dominated by BMW. The C70 coupe is key to penetrating this market, and a lower price than the BMW 3 series will be vital to this occurrence.

Volvo's brand is at the intersection of reliability, safety and luxury. It is a sporty European car that should appeal to many different demographics. Younger consumers will be caught by the new C70 coupe, while consumers with children will be attracted to the safety aspects. It is a brand for parents who want to have fun when the children are not in the car. These cars will unleash the child within, while giving off the air of responsibility.

Dealerships- Where possible, Carnegie Consulting recommends that Ford establish PAG dealerships that will sell Aston Martin, Land Rover, Jaguar and Volvo together to fully realize the economies of scale that are necessary for dealership success. None of these brands is capable of supporting a dealership on its own, but together they will provide a strong presence for the PAG. This will also allow these brands to distance themselves from any problems that might arise with the traditional Ford and Lincoln brands, and to manage the diseconomies of scale inherent in travel distances to dealerships. Lincoln cars should continue to be grouped with Ford in the same dealerships, as the two are well known to be under the Ford Motor umbrella.

If management undertakes our plan as it is currently designed, and continues to consult Carnegie Consulting for implementation of the plan, we are confident that the results will be pleasing. Shareholders will likely be upset in the short term at the large expenses required by our plan, but it can be made clear that there are no alternatives. Ford must succeed if it is to remain one of the largest automotive firms in the world.

Carnegie Consulting stands ready to continue our relationship with management as each stage of the plan is implemented, and will continue to offer strategic advice in many areas.

[i] http://www.ford.com/en/ourCompany/heritage/theFordStory.htm
[ii] *U.S. Light-Truck Sales, December and YTD" and "U.S. Car Sales, December and YTD,"* Automotive News*, Jan. 7, 2002*
[iii] For the 2001 FY, courtesy of Edmunds.com
[iv] FY 2001, courtesy of Edmunds.com
[v] Source: carmetrics.com
[vi] The high-end market includes Jaguar's XJ and XK, along with the Mercedes E and S classes, and the Lexus LS 400
[vii] The Avalanche is a vehicle that can be easily converted between SUV and full-size pickup.
[viii]Deutsche Bank analyst estimates