How to Make Cars And Make Money Too.
By keeping it simple, Ford’s Alan Mulally has led the industrial comeback of the decade

BY BILL Saporito/DEARBORN

Listen to Ford Motor Co.’s excitable CEO, Alan Mulally, for five minutes and you are almost ready to march down to the assembly line, grab a torque wrench and start knocking bolts into Mustangs. “We are fighting for the soul of American manufacturing,” he begins. “We are leading the way on. What does it take for America to compete in the global economy? That’s what this is about. And it starts with making the best products in the world. That’s why we can have this lifestyle—because you have to earn it.”

Ford is certainly earning quite a bit of it. After the industrial Armageddon that left GM and Chrysler in bankruptcy and the car industry’s 5,000 top suppliers hanging by a fraying fan belt, Ford is flying the flag of resurgence. The company earned $2.6 billion on sales of $31.3 billion in its second quarter. Its pretax operating profit—a measure of how well the core business is running—was $2.9 billion, vs. a loss of $6.424 million a year earlier. Ford’s market share jumped 1.4 points, to 17.5%, at the expense of GM and Chrysler. In rankings compiled by Kelley Blue Book, an auto marketing research firm, Ford recently claimed the top spot from troubled Toyota as the best-regarded auto brand in the U.S.

Pulling off the biggest business turnaround of the Great Recession has been a pretty good second act for Mulally, who turns 65 on Aug. 4. The CEO arrived at Ford in late 2006 after 37 years at Boeing, amid some sniping that he wasn’t a “car guy”—as if the car guys in Detroit were doing a bang-up job. Yet if Ford is going to change gears from a world-class survivor to world-class manufacturer, Mulally will have to show that he is indeed a car guy—just his own kind of thing.

He’s about to get the chance. This year the company is introducing new models that will reflect Ford’s strategic direction and test its ability to create cars that Americans want to buy even without getting a discount. The Fiesta, which debuted in May, is evidence of Ford’s commitment to producing profitable small cars. The Fiesta is a spiffy-enough $13,300 subcompact, available in four-door sedan and five-door hatchback models. The car was largely designed in Germany but meets the demands of American buyers: it’s sporty, smart, thrifty, cool. “The old Fiesta was total crap,” says Patrick Olsen, editor in chief of Cars.com. “This one looks better and is more solidly built than any of their previous small cars”—even if the rear seat in the sedan version “is too small for most humans.”

In late July, Mulally traveled to Manhattan to reveal the sleek Explorer, an SUV rebranded as a more mom-friendly, stable, fuel-efficient vehicle built on a Taurus platform, as opposed to the gas-gulping truck frame it once inhabited. The company plans to export the Explorer to 90 countries from its Chicago plant, where it will create 1,200 assembly jobs and 600 supplier jobs, underlining Mulally’s commitment to manufacturing on the global playing field.

Ford’s most important new family member arrives later this year, when the company unveils the latest version of the Focus, which will be the first global car built from the ground up based on Mulally’s signature strategy, known as One Ford. In its broadest sense, One Ford means selling the same model, built the same way, in all markets. About 85% of the Focus’ parts will be common to all regions. One Ford is possible because the world’s consumers are becoming more alike: they value quality, safety, fuel efficiency and design. This allows Ford to meet global needs with fewer models and thus ratchet costs down, since the company can engineer a single Focus to sell everywhere.

If One Ford works, Ford can sell each model at a higher volume, with costs that are as much as 20% lower than for earlier versions. Although Ford will still be building such purely American cars as the Mustang and the highly profitable F-150 pickup series, One Ford means that the very definition of what a Ford is—steering, handling, the sound of a door slamming shut—may change as the company’s global DNA evolves. One spin in a Fiesta will tell you as much: it’s as much Milan as it is Milwaukee.

For a manufacturing enterprise, One Ford is radical simplification. Ford was a company with too much of everything: brands, models, engines, platforms, factories, people. Mulally has reduced it to a manageable core. He delights in presenting the company’s entire strategy—it’s products, standards and operating plan—to a visitor on a single 11-by-17-in. piece of paper.

Yet you don’t revamp a $118 billion, 107-year-old corporation saddled with

Photographs by Gregg Segal for TIME
contentious management and labor histories without a fight. Although the tanking economy gave Mulally and chairman Bill Ford Jr. cover to crush the feuds within the company that had sabotaged previous restructuring efforts, even Ford himself, then CEO, wasn’t sure he could knock enough heads together to do it. Mulally had barely arrived before execs began showing up at Bill Ford’s door to complain about the new guy. Ford shut it on them. He says, “If I had even cracked the door open an inch to let anybody complain to me or to think that there was ever any separation between the two of us, I think the culture could have overwhelmed Alan and ultimately brought the company down.”

Essentially, Mulally took the car keys from the reactionaries by demanding complete information that he then shared across a newly created management matrix composed of product teams (say, the Focus) and skill teams (say, stamping and body). Mulally instituted a weekly Thursday drill during which every shred of performance data would become unmistakably clear in some 300 charts presented to the executive corps in 2 hr. 15 min. In corporations, control of information provides a power base; Mulally neutralized the hoarders. “Alan’s always saying that you can’t manage a secret,” says general counsel David Leitch. Mulally describes the breakthrough this way: “We finally got the data going. And I said, ‘You know, you guys lost $14 billion last year. Is there anything not going well here?’”

The idea is that there’s nowhere to hide and no reason to, either; if you need help, everyone who can help you is present with the necessary information at hand. “How did I know to do this?” Mulally asks himself. “That’s what I’ve done for 37 years at Boeing.” The process is known as large-scale systems integration, and you can’t do it well unless everyone plays nice together. “A car has about 10,000 parts, and an airplane has about 4 million, but the technology is the same. The sophistication is the same. The parallels are incredible,” he says.

Revved Up and Ready to Go
Enthusiasm is measurable in automotive terms, Mulally is 16 cylinders of it, pedal to the metal. Standing before the stamping-and-body group at a town-hall meeting at 8:30 a.m. at Ford’s assembly hall near its headquarters in Dearborn, Mich., he seems a little disappointed that the group’s members aren’t as revved up as he is. After all, there’s plenty of good news around, and Mulally can’t wait to share it. “Are you people awake?” he shouts. “Market share is up; four new vehicles are being introduced in an eight-month period; the stock is rising. This is our year now. Everybody is looking at us,” he says. “I wouldn’t trade our position for anybody’s.”

The cheers he gets are genuine—Mulally is Ford’s rock star—but there’s still some understandable wariness, because brutal choices were made in the past three years. Upon Mulally’s arrival, Ford had 300,000 employees and 108 plants around the world. Today the company has 138,000 employees and 80 plants worldwide, which has helped to push capacity utilization to a healthy 85%. Mulally made a deal with the United Auto Workers that got Ford’s retiree health care liabilities off the books in exchange for stocks and cash. He sold Jaguar and Range Rover to India’s Tata Motors and Aston Martin to a British-led consortium, reduced Ford’s ownership of Mazda from 33% to 13% and this year unloaded Volvo on China’s ambitious Geely. Mulally unceremoniously smothered the none-too-swift Mercury brand in June, a move that will cost $500 million.

One Ford is almost exactly the opposite site of the way Ford used to build and sell cars. Ford not only offered different cars for different markets and assembled them according to local quirks, but also bought into the notion of mass customization—a Burger King for car buyers. Not long ago, a customer could choose from 128 different options for the center console of a Lincoln Navigator. But it’s a tad easier to customize Whoppers than Lincolns. “We tell the customer that you could choose the options you want, and you believed us,” Mulally explains. “And you picked four of them, and we took you out to the lot, and what do you think the chances are that we’d have that combination? It’s zero. You know what a 128 factorial is?” (Let me guess: 3.85620482 x 10^125?) Mulally says his 88-year-old mother called in tears one day because she was so overwhelmed by the options available on the van he was going to buy for her senior citizens’ group.

Don’t worry, Mrs. M., your boy has reduced Ford’s chances of bringing customers to tears again. Ford now sells fewer than 60 nameplates worldwide under the Ford and Lincoln brands, down from 97, and on the way to 20, says Mulally. It is reducing the number of platforms on which it builds cars from 25 to a dozen. “The reason for doing it is that the customer is all right with it,” says Derrick Kuzak, head of global product development.

Mulally hasn’t turned the clock all the way back to the Model T, which for more than a decade came only in black. The Focus platform is a flexible one. “We are going to get 10 top hats off this baby,” says Mulally, using industry jargon. In this case, he means you’ll be able to get a two-door, four-door or hatchback Focus off what Ford calls its C platform. But the same platform can also be used for anything from a people mover to a delivery vehicle.

Even product development is getting

‘Our competition now is really Toyota and Volkswagen. They’re pursuing the same strategy: a full family of cars and best in class.’

—ALAN MULALLY, FORD CEO
For Ford, Less Is More. Fewer people, parts, plants, platforms and nameplates. But more profits

2
Number of brands.
Ford is closing
Mercury. It sold Volvo,
Jaguar, Range Rover
and Aston Martin

<60
Number of
nameplates,
down from 97;
target: fewer
than 20

178,000
Number of global
employees,
down from 300,000
in 2006

85%
Proportion of
parts common
to the new
Focus in all
regions

downsized. The company used to make three regional variations of the Focus. “Keeping those products fresh in the marketplace required three different engineering programs,” says CFO Lewis Booth. At one point, Ford had 35 to 40 product-development programs worldwide. And that meant each one had to have its own engineering team for the exhaust system alone. For the Focus relaunch, one engineering team can handle the job.

The changes in Ford’s approach to creating cars run so deep that its engineers and designers had to answer the question, What is a Ford? Even if they produce cars specific to the American market, like the Mustang, says Kuzak, “they need to reflect a global Ford view in terms of how the vehicle drives, how it sounds, how it looks, how it feels. And so we developed a global Ford-brand DNA that encapsulates all of those elements—look, sound and feel—and that’s a really, really big deal.”

Take steering, for instance. Americans have traditionally preferred it loose. We’re interstate cruisers, a finger on the wheel, beverage in hand, twiddling with the GPS. European drivers prefer tighter, more responsive steering, especially given Europe’s narrow roads and its speed-limited autobahns and autostradas. Ford’s steering DNA is going to be more Stuttgart than Dearborn—just one sign of a more cosmopolitan car. Says Kuzak: “In North America, we were on a path to get there. This is our end point. It’s an improved experience and reflects a true Ford-brand point of view.”

Quality Is Job 1, Again
If one Ford works as planned, a series of benefits will rain down on the company and its suppliers. Perhaps the biggest of them is that quality improvement will become almost a mathematical certainty. “Since the orderable combinations will be reduced by more than 50%, that means that on half of the cars, it’s significantly simpler for the manufacturing plant. The ability to make a mistake is reduced,” says Ford manufacturing boss John Fleming. The results already show: in a J.D. Power survey of initial quality reported in June, Ford’s 2010 models ranked No. 1 among car brands, excluding luxury makes. Higher quality means lower warranty costs and higher resale value, so consumers will accept lower discounts on Fords than they’ve been used to over the past two decades.

These compounding cost improvements could help Ford earn a ton more money. Soleil Securities says Ford has the potential to boost operating profit margins to about 13%, from the current 7%; that jump would create an additional $7 billion in operating profit on projected 2011 sales of $118 billion. Ford could use those extra profits to pay down its $27.3 billion debt or even restore a dividend, which was dropped in 2006 and has cost Ford family members tens of millions in annual payouts.

That’s assuming the cars sell. The upcoming Focus is key. “That’s where they can make their money,” says Cars.com’s Olsen. “But they have to prove the value of that car. You are not going to build your future on the Fiesta.” Nor can Ford expect Toyota to be on the defensive forever.

To both Mulally and Bill Ford, the company’s resurrection is an unmistakable sign that manufacturing has to have a central role in the American economy, even though making stuff accounts for 11% of the U.S. GDP. “You can’t find any economy in the world, post–Industrial Revolution, that is a strong economy that has lost its manufacturing base,” says Ford. He says this knowing that the bulk of Ford’s sales are going to be in China, Europe and Latin America. Ford can’t escape the pull of another economic downturn either. But the point is well taken. If you can’t make cars in Detroit, where Henry Ford revolutionized the process, it’s not likely you can compete with Toyota City or Wolfsburg either. “Our competition now is really Toyota and Volkswagen, because they are pursuing the same fundamental strategy—a full family of cars and best in class,” says Mulally. It’s a pretty astonishing statement, given Ford’s historical game of bumper cars with GM and Chrysler. Then again, Mulally is looking at the world in a completely different way. He’s not a car guy, you know.

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