Ford Motor Company

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Brian Johnson: Welcome back after lunch. Very pleased to have with us Joe Hinrichs from Ford Motor Company. Joe is the EVP and President of Global Operations, which basically means he and Jim Farley are the two direct reports on the operating side into CEO Jim Hackett. He's been at Ford for a long time doing a whole bunch of stuff, most recently Americas. Many of you know him as a--from product development, planning, manufacturing, global manufacturing and labor affairs, material planning, so he really knows Ford well, the operations side and the auto industry well.

Just to get it going, let's do a couple of ARS questions to baseline it, and then I'll ask a couple at the end. So again, use your voters. So if you could bring up ARS Question Number 1 for Ford. Do you currently own the stock?

Joe Hinrichs: So my answer is Number 1. You guys already know that, though. It's public knowledge.

Brian Johnson: 72% non-owners, but actually very little shortage risk. We had one company that was 50/50 earlier. And Number 2, general bias towards the stock. Bell curve tilting towards the negative. So with that, Joe, why don't you tell us about some of the developments at Ford?

Joe Hinrichs: All right, thanks, Brian. Good afternoon, everyone, so we'll see if we can influence a little bit of that bias. So what I wanted to do today was start out with the framework we've been using. Jim Hackett's been leading in a lot of the conversations around Creating Tomorrow Together, and this is a frame we use for creating value. And in the middle there you'll see our plan, talking about how we are focused on products and deep customer insight.

I'm going to spend most of my time today on fitness, which is that lower left box. I know there's been a lot of questions in a number of the conversations we've had with investors, but also with the media and others around, "What does fitness really mean, and can you give us some more concrete examples? And how does it fit into what you're trying to accomplish?" So I'm going to spend some time diving a little bit more deeply into a couple of our initiatives--three, actually, of our initiatives in fitness today around

complexity, around CapExreuse, and around yield management, and give you a little bit more exposure to the redesign that's going on inside the company--frankly, a more fundamental redesign than any time I've been at the company in 18 years--or what's going on in the process side of the business to make it more fit or more competitive.

And fitness is all about being competitive and being able to compete. It's more than just cost. Of course, cost is very important. It's efficiency, it's speed, it's time to market, all those things. So we'll talk a little bit about all of that today when we dive into it.

Now we've never shown this before, but these are the 18 initiatives--there were 19; we consolidated two into one--there are 18 major initiatives going on as part of the fitness redesign efforts across the company. I'm going to focus on the three that are in the red box today. But you can see that a number of the parts of the organization are engaged in leading parts of the processes that help with our competitiveness and go-to-market.

On the bottom you'll see smart redesign. That's how we're organized in our structure of our business. And then enterprise product line management. That's a new organization that's been established to manage the product lines across the globe in both the near term and long term. And I'll spend time on these three, but this gives you a perspective on how broad-based the work is on fitness and what it looks like across the enterprise. Everything from IT, manufacturing, marketing and sales, product development, purchasing/material costs, which we're all involved in that, and some that are more cross-functional. We can see a lot of them are in the manufacturing space and IT. Those report to me as well as the global order-to-delivery and some of the other things that we're working on.

So let's dive in. The first one we'll talk about is complexity management. Now anybody that knows the auto industry knows complexity has been talked about probably since after the Model T was successful and GM started to try to go after a different approach to customers. Complexity is really an important subject in our business. It's usually captured in kind of two areas. One is what are the order configurations or the complexity of the order--what you can buy and what you can order and what we can build. And the other is around number of parts, to keep it rather simple at a high level.

And we have a number of initiatives going on across the organization to attack this complexity. Now complexity has a way of affecting so many parts of the business, we can't spend time on all of that today. But you think about this. In the manufacturing system, of course, complexity leads to a lot of labor allocation, floor space allocation, even sequencing of parts, et cetera. But on the dealer side of things, the customer-facing side, today people go online and they'll build and price a vehicle and they'll try and find it. And if you have a million configurations available on your Build Online, chances are you're not going to find that vehicle when you go look for it at a dealership.

Now all of these things are interrelated because they all influence each other. And just like those 18 initiatives on the fitness chart show you, most of these things interlock together, and I'll try and place them out.

But we've started our focus in North America which is, of course, our biggest business and where we generate most of our profits. And we took the first 20 nameplates in North America and we've reduced the orderable configurations by about 70% to 90% for the

next generation of the vehicles. And I'll give you some examples of things that we're doing. We've also--so that means, for example, you go from a million to, in the case of some of our more complicated vehicles like trucks and vans, where you go from the millions to a smaller number. But on the cars and the SUVs, you go down to even smaller numbers. I'll talk about that.

It's all about capturing value. So if you do it after the fact, you do capture value by being able to make it more likely for a customer to find their vehicle on the showroom or in the dealer's lot or be able to find the vehicle. But if you do it beforehand when you're developing a vehicle program, you can greatly simplify the complexity of what you're testing, also what you're designing, engineering, testing, and then tooling up at the supplier or yourself. That's where the real benefits come in. That's where we're going to see the longer-term value.

So let me give you some examples of where we are. When you're looking at the Explorer program for 2020, we have a brand-new Explorer coming next year. It's a really exciting vehicle. Explorer is number one in its segment, so since 1990 there have been no nameplates sold, more SUVs in the US market than the Explorer.

Now we saw the Explorer. Although we only build it in one plant right now, we actually, as far as built-up units, we build it in Chicago. And we're capacity constrained. So we were diving into the part numbers and all the complexity of the Explorer program as we get ready to launch the new one next year, and we identified a number of parts tied to (inaudible) or regulation for unique markets, because almost every market has unique configurations or unique requirements.

And we identified that about half the markets that the Explorer was going to were selling less than 100 units a year in a constrained plant with constrained volume. So one of the things that that data allowed us to do was to go after and analyze those, and we have taken those out of the program. So going forward, we won't be selling to these countries that are in red because the cost of doing business there and the complexity that it brought wasn't worth the trip for less than 100 vehicles.

Now we can sell all the Explorers we can make, so that's one of those situations where that's pretty much a no-brainer. But it allows us as digging into the data on the part numbers and the complexity and the build configurations exposes things like this and allows us to take it out of the program so we can be more profitable, but also cannot spend the engineering resources and the other resources for (inaudible) in the markets, et cetera, to do that.

Let me give you another example of next year's Explorer as well. So on the current Explorer, which again, is the number-one selling SUV in its segment, the side mirrors on the side of the car, on both sides, we have 139 mirrors. That's when you start getting, you're crazy about what happens in the auto industry. Why is that? Because we allow blind spot monitoring to be an option, so every configuration can either have blind spot monitoring or not. And we color-match the skullcap of the side mirror to the body color, which designers love because they think it looks even better.

On the 2020 model year Explorer, though, we said, "Listen. As part of our Co-Pilot 360 program of standardizing safety features, we're going to standardize blind spot monitoring, because actually, it has a very high take rate and it's actually one of the highest customer satisfaction safety features out there. If you don't have it, once you have it, you'll get used to it." And then we went--so that's standardizing that. And then we said, "You know what? Let's make all the skullcaps just high-gloss black like a lot of our competitors do." And the combination of those two actions got us down to 25 mirrors, which is still a lot, but you can see--first of all, there's one on each side, so the minimum you can have is two. But you can see how this works.

And we'd go part by part by part, and we'd go product by product to attack all of this complexity in our business. Let me show you some more benefits.

So on the Fusion, which we currently are producing in Hermosillo, Mexico, here in North America, we had about 2,000 orderable configurations. So you could build about 2,000 different types of a Fusion, depending on what power train, hybrid, non-hybrid, et cetera; color combinations, et cetera. And what we did is we cut that down to about 30 for the last several months, and the dealers, about 85% of what the dealers ordered was in just 12 configurations.

What it allowed us to do was it took us on average 80-some days to deliver the vehicle from Mexico to the dealerships in the US, and it cut it by 63%, into the 30s. Just by reducing that complexity, we could turn the entire system much more quickly because, one, you're building a lot more quantity of the same units, but two, the complexity reduces everything in the system and makes everything flow faster. That's just a real-time example. That's been in the last couple of months. That's real.

Next year when we launch the new Escape, which is all new next year at Louisville assembly plant, we're taking the configurations down to about 25. In the current model, they're in the thousands. When we do that, that allows us to then batch build, which is much more efficient for paint. It's also more efficient for sequencing because you're sequencing in kits of 60 as opposed to one by one. And that saves us about $70 a unit just in sequencing alone by taking those configurations down. So it's just another example.

Another example I have is a next-generation SUV which we haven't announced yet. We took the configurations down when we're developing the vehicle. Just testing alone is reduced by $20 million by not having to test more configurations because of the--so it just plays out over and over again.

So how is that connected to the rest of the fitness initiatives? Well, it starts with once we get to our flexible architecture strategy with our modular catalogue, the modular catalogue fits into the limits of the orderable configurations which, by definition, have now standards they have to meet for all of our product milestones, so they fit together very nicely. If we are going to allow only, let's say, 20-some configurations, buildable configurations of a vehicle, it's pretty easy to standardize what's going to be on what vehicle, and then we can design the modules that build up that vehicle accordingly and test accordingly, tool up our suppliers, et cetera. There's tremendous value in here. I just gave you some examples. Tremendous value throughout the system to doing this.

Now every automaker deals with this and every automaker talks about it. But what we have done is systemically ingrained the data and the processes to our product milestones, and there are now rules you can't violate when it comes to next-generation product programs and how we're doing this. And ultimately, we see, especially when it comes to our order delivery times, another one of the initiatives in our fitness redesign efforts, tremendous value in this complexity reduction contributing to a much faster cycle time of how we manufacture vehicles and get them to our customers through our dealers.

All right, the next one I'm going to highlight is capital equipment reuse. Having spent a lot of my career in manufacturing, this one is near and dear. There's an age-old issue between product development and manufacturing in the design community about how much leeway can you give the designers to make--and freedom to make the vehicles new and different and changed while also leveraging all the capital you've spent on the current generation vehicle? It's all about how the two organizations work together to keep the hard points, to start with an expectation around what's going to be reused. And then from there, allow freedom in the design and freedom in the ability to do what you want to do.

Now since we have 90-some plants worldwide, we have a lot of capacity and a lot of capital already spent on tooling, fixtures, and equipment. So it's a big deal to us to invest in the time and energy to set the expectations with our product teams and our manufacturing teams and guide through our milestone process with our new vehicle programs to do that. Through this process, we've already identified $1.5 billion of additional capital savings over the 5-year business plan period incremental to what we already were assuming by just continually working the process over and over again. So again, we set guardrails, we set targets, we set authority levels, and we move forward.

So here's examples of how this works. You have a bill of process design for your manufacturing system and you have to follow that bill of process; that's a no-brainer. But carrying on the build sequence is incredibly important when it comes to how we use capital. You have to keep the hard points in the body shops, especially in the paint shop, to be able to take advantage of not having new tooling--a need for new tooling and a need for new equipment. And then, of course, the whole locating strategy. I won't bore you with the details here.

The key point here is that we've developed all the different requirements and agreed to them with manufacturing and product development. Now this goes back to, okay, the flexible architecture strategy. Knowing that, the architectures are designed to fit into the current existing footprints and hard points as we develop forward. All of this feeds off each other as we look to go forward.

Here are some examples of the targets we've set for the new program. So if we have a minor freshening, there's a much higher expectation around reuse. These are the minimum thresholds, so nobody can violate those without getting some signatures from people like myself. Or on major platform changes, obviously, you allow for more freedom, depending on what's going on. But major platform changes don't happen that frequently. They shouldn't happen that frequently. Especially once we line up with our five flexible architectures, we should be reusing those architectures.

So again, this is all about return on invested capital and making sure that our precious capital is prioritized for the right parts of the business and that we design the business around freeing up that capital and not using it.

The last area I want to spend a little bit more time in is on yield management. Again, a very important topic not new to the auto industry. But we've set up a number of new processes, a lot driven largely by all the data we now have through our global data insights analytics group to be able to take all this data and run the business in new and better ways on what incentives do we use, what inventory, where does our product go, what decisions we make about where should that allocation go, and of course, pricing, advertising, et cetera. A lot of work going on between the marketing and sales organization worldwide. We started in North America. This is fully ingrained in the North America business. It's now been started in Europe and it's migrating to China next. So we're already up and running. And the teams in North America are running the business day to day by having rooms full of data by each nameplate, each product that we have, and making decisions around that in real time. I'll share some of that with you.

So when we look at yield management, we tend to think of it in terms of margin and in days to turn. So how fast is something selling? How fast is it turning? You can also overlay inventory on this, but for simplicity's sake, let's just stay with margin. So obviously, higher margin's better and faster turns, or lower days, is better. So you really want to be in that top left--on this diagram, you want to be in the top left corner if you can be there, because that's really fast turns and high margins.

But the industry tends to look at things at a vehicle level. And if you look at things at a vehicle level, a nameplate level, it's averaged across all the markets in, say, let's say the United States, across all the trim levels, all the series and mix and that kind of thing. And that average kind of shows you where the average days of turn, average margin is. It doesn't tell you enough to know what to do and how to act. In fact, you can waste a lot of money taking actions based on the average because each part of the market--let's stay in the US--is very different.

So let's take some examples and see how the one-size-fits-all approach doesn't really work. Now there's no numbers on these X and Y graphs because we don't want you to know what vehicles we're talking about and what margin we're talking about. But the average contribution margin per vehicle is that line, that dashed line you see across on the horizontal, and then the average days of turn is that vertical dashed line. Now what these are, the colors represent different series or trims on the vehicle. So think of if you had an Explorer, you've got all the way up from Platinum, you've got XLT, et cetera, or you've got an F-150, you have King Ranch and you have Raptor and you have XL and XLT, et cetera.

The circles represent the 21 different regions in the United States. We break up ourselves by regions. And the size of the circle is the volume. So when you look at this, you can start to see outliers. Remember, we want to get to the upper left. But if you look at the color--let's stay with the light blue for a second in the middle there. You can see there's one sales region where the bubble there is turning a lot faster than all the rest of them. So then the question is why. And then we could go look at the data. Are they advertising more? Do they have more inventory? Are dealers doing something different in that

region? Is that region just naturally inclined--because you can look at the segments here in that region--is that naturally inclined to sell more of whatever this product is?

But you can also see there's a lot of big difference between the series and mix. So obviously, you want to be driving as much towards the higher mix from a margin standpoint, which has been a big deal for Ford this year in North America. A lot of our success this year has come from series and mix and driving more through this data analysis.

So what this does is it allows you, then, to start taking actions. And one of the things that's really cool about what the North America team is doing is every day, they're going in that room, looking at the data and they're taking actions. They're trying things, because you can do something in a sales region like New York, New York City or in Chicago area. You can do something, try it. If it works, then you cascade it and do something all across the nation. If it doesn't work, you kill it and you move on as opposed to a nationwide initiative.

It could be advertising. It could be inventory, how we're allocating the mix and allocating inventory. It could be pricing, incentives, backing op. So this is how we're running the business. It de-averages the data and allows us to make good decisions and move forward.

Here's another example. You can see, again the colors with different series, and you can see the different circles, which represent the different sales regions and the volume accordingly. This one's a little bit more balanced. But you can see the outliers. So if something is turning fast but has lower margin, then we should actually slow down the turn. We should actually raise the price or do something to get the margin up, because the turn doesn't need to be that fast for that margin. If you're in the bottom left corner, we need to take an action. If you're in the bottom right corner, what do you do? And you can see the outliers again. The question is why? On good and bad, what can you do differently about it?

And the data sets us free to try things out and expose things. And we've had very much a brutal approach to allocating inventory where we're constrained to where the markets are most productive from a margin standpoint and a turn standpoint. So this gives you a sense for how we're doing it.

We have a process in place, of course, to manage this because it's a big business and there's a lot to manage here. I won't go through all of these details here, but you can see we have a strategy and a framework in place on how we're going to manage this globally as well as within the markets.

And then we do this at a global level as well. On products that we sell around the world, we will allocate to the markets based on the same kind of data, based on prioritization of margin and turns and how do we leverage that. And it kind of creates an opportunity for the others to learn about best practices as well. So everything from advertising to incentives and everything are related to this.

And then you can see that it allows us, one, to play defense. If we see competitors doing stuff to us, it will show up in our turns, it will show up in our margins. It also allows us to play offense where we see opportunities. We can reallocate inventory to certain markets if they're doing better, or we can take more aggressive stances on incentives or spending or advertising, whatever. But this process that we've now embarked on allows us to do that around the world.

Now, just wrapping up, those are just 3 of the 18. I could go into a lot more detail, but it gives you a little bit more depth of understanding of the process changes we're putting in place. A lot of it's driven by data and a lot of it's driven by guardrails and process changes to fundamentally change how we do business to get more fit and stay there going forwards.

And I've been around, as I said, at Ford 18 years. We had a massive restructuring of the business in the '06, '07, '08, '09 time period. Now we're going through a massive redesign of the business, which will lead to some restructuring. We've already announced that we'll, obviously, be doing some significant restructuring. But it's the redesign of the business that really will set us up for the future and free up capital and allow us to compete going forward. And those are the benefits of fitness.

So now we'll go to Q&A. Brian, are we all set?

Brian Johnson: Yes. So let's get a couple of ARS questions out while we also circulate the microphones. ARS Question Number 3. Do you think (inaudible) consensus of 132 for 2019 is too high, too low, or just about right? Oh, too high, too low and about right.

And then I guess the next one, what's the right multiple for Ford off of 2019? 5x to 6x, 7x to 8x. Okay. Reactions to that, Joe, either on the EPS side or the multiples?

Joe Hinrichs: I'm not giving any guidance for 2019 today, so interesting. I like the bias towards 7x to 8x, leaning towards 7x to 8x.

Brian Johnson: Questions from the audience? Right here there's one. Okay.

Unidentified Participant: Hello, (inaudible) from Alba Capital. I think it's a very good presentation, but I would have said, I would have hoped you've done all of this for the past 10 years already. So why now and what is the reason why it took so long? Then secondly, and this is the more important question, if I split the initiatives into two, yield management should be very quick, right? We should see the results literally within the next month or quarter because that goes straight to the bottom line. The redesign or the simplification of the product offering is, from a cross-facility perspective, probably a longer-term initiative. So how long is that going to take until we see the benefits? Or on the short-term side, can we hope to see this in the investment in CapEx and R&D quicker?

Joe Hinrichs: Yes, so great questions. One, I would say that we're already seeing benefits of the fitness redesign. Our structural costs are basically flat this year, essentially flat year over year, which has not been the trend over the last several years, so we're starting to already see some of those benefits. The North American business, where the yield management work started first, has been performing at a much different level than our other businesses. And

as you've seen in the quarterly earnings reports, it's shown very strong series mix contributions this year. A lot of that is from this work, which is where you get the benefits.

Your question about you should be doing this for the last 10 years, you should be doing it for the last 100 years, next 100 years, that's all true. First of all, just recognize that I presented at a high level intentionally because the details are competitive. We don't want to give away our secrets at the competitive level. So there are nuances in the details that are probably more specific and more important as far as --because you're right. All of this is part of just manufacturing and Auto 101.

Having said that, like any business, there's an opportunity to see where over time you haven't been--stayed as fit or competitive as you wanted to be, and you go back and reevaluate. We had the global platform strategy, nine global platforms which served us well from the 20-some that we had. But then yes, to evolve to the next level. And so your question around the product development and the flexible architectures, that's going to take a number of years to play out, but we're already into it. The first platform that we developed this strategy on was our global C-car platform, our C-sized vehicles, which you've seen the Focus is already out now. The Escape Kuga will come out next year, and you'll see many more benefits come from that over the next several years. So that will play itself out rather quickly into our business. The key difference, I would say here, is the nature by which we're setting up the guardrails and the requirements into our product development auto milestone processes so that you can't deviate.

So one of the things that if you look back on North America, let's say, because I ran North America for 4.5 years, if you look back, we got tremendous revenue coming out of the financial crisis for the new products in North America, starting in '11-'12, and then '13-'14 with the launch of the new F-150 on that time period, because we had a fresher portfolio than most and we had a lot of new product. And that revenue growth in the product portfolio said the next generation of products assumptions--more content, more ability to get revenue because of what had transpired over those 5 years. That's not exactly played out in most cases. It has on trucks, but it hasn't played out on most products. So a reset was necessary to acknowledge where the industry is and where things are going.

And so one of the error states that happened was we assumed a lot more revenue for the complexity of the product offerings we were making than we ended up getting because we did get it for that 5-year period. So now we're just going back to getting them. Don't assume you're going to get revenue with all that complexity. Just go back to being simple about the configuration set and then offer more content for the vehicle for the consumer.

So there's a lot of learnings, as there always are. The North American business continues to stay at a pretty healthy level, but then taking those learnings to the rest of the markets around the world is what we have to do quickly.

Unidentified Participant: Yes, for over-the-air updates, when do you think Ford will release the first production car with that capability? And do you think some of that complexity and differentiation reduction that you're doing would help with that?

Joe Hinrichs: Yes, so on the second question, simplifying the product lineup and reducing the complexity helps on all fronts, including anything related to over-the-air updates or anything related to quality, et cetera. We've said that we're going to have all of our vehicles in the US with modems next year. That's the first step. You've got to have a connected vehicle for the over-the-air updates, and you have to have the architecture developed to be able to handle the over-the-air updates. And so that will be in the next couple of years. It's not far away. We already have it in the works and we're looking forward to it.

So there's two steps--getting the modems in the vehicles and then getting electrical architecture and the software set up so you can do over-the-air updates safely, avoiding the ability to get into access of the vehicle controls, because that's everyone's concern for security and safety. So we feel really good about where we are. We always want to go faster, but we're doing it in a way that we think we can manage it securely and safely.

Brian Johnson: Other questions? Because I've got a bunch.

Joe Hinrichs: I'm sure you do.

Brian Johnson: Over there. It's in your interest to keep them from the audience.

Unidentified Participant: How are you? Thanks for the presentation. One question I had was, as you guys think about trying to right-size your manufacturing footprint, and you've laid out a restructuring plan that gives us very little detail in terms of how exactly it's going to play out, how do you think about your terms with suppliers and being able to push on them? Because a year ago, every supplier and their mother was here talking about how they're all going to get more content. And now here you are, talking about restructuring, so how do you think about supplier terms, and what areas specifically do you feel like you have the most leverage to pressure the supplier group to help you save costs?

Joe Hinrichs: Sure. So a really good question, a really important question. First, I want to make sure people aren't confused. Complexity reduction doesn't mean content reduction; it means how you manage that content in your offers and your configurations. But having said that, supply base is a critical part of all this. One of the initiatives that you would have seen quickly on the fitness work is around the best costs at Job 1 and how we reallocate some of work with our supply base between TVM or cost-downs over time versus the cost at Job 1 over time that's evolved with Ford and our supply base.

The simple--well, not simple--the first answer I would give on the supply base is it's related to our manufacturing system, as you highlighted. The first thing we have to do is align on where we're going to play and what products we're going to offer, and that's the work we've been working on throughout this year--what markets, what products, and how we allocate the capital accordingly. Once we decide that, and we have decided that, then we decide how we're going to manage that capacity to build that product, whatever it may be and whatever markets it may be. And then we work with the supply base to rationalize their footprint as well.

The leverage we have on suppliers, of course, is we have a lot of volume and we have a lot of scale in certain key markets, and there's always an interest in being a part of that.

And importantly, we've many times been a leader in putting technology into more mass volume cars. Think Sync in '07 with Focus and then quickly going across the system. Think Co-Pilot 360 on the safety. So suppliers want to be a part of that content, and they want to be a part of doing business with Ford. And, of course, we're having a number of partnership conversations, which can expand our potential reach with folks and what we do together.

So I think the key thing here, we haven't said a lot about restructuring because you have to first decide what markets you're going to play in and what products you're going to offer in those markets and how you're going to compete in those markets. And then you need to then work on what the footprint's going to be to support that. And importantly, there are so many stakeholders influenced by all these things, from unions and our employees to governments to suppliers to all kinds of other parties, that out of respect for all of them, we don't go public with our plans until we've had a chance to work through them. And frankly, if you don't do it the right way, it will cost even more money, and cash is really important to everybody. So that's just the nature of the business.

And when we restructured the United States manufacturing footprint in '06, really that time period, we were dealing with one union and one country, largely. And we had Canada and we had Mexico, but largely in the US. When you're dealing with some of these other parts of the world--South America, Europe, others--you're dealing with a lot more different added complexities between the governments and unions and footprints. So we have a lot to work through, but we gave a high-level cost--$11 billion of restructuring, $7 billion of cash tied to that--to give you a sense for how big we're thinking about the restructuring. But we have the details in our mind and what we have planned to do, but we're not ready to talk about them. The supply base will come along with that accordingly.

Unidentified Participant: As you said, the North American business is in reasonably good shape, but when we look elsewhere, things are not so rosy. In Latin America, you have lost a lot of money for a number of years in a row, and the only response so far we've always had is that the market needs to come back. In Europe, there's also always a reason why things turn more difficult. And yes, there are a lot of external factors--currency, one of your key end markets was weaker. But you're also significantly underperforming everybody else. And then in China, obviously, your business--actually, a small word--but is (inaudible) collapsing?

So what needs to happen to fix all of this quickly? And secondly, what is the longer-term strategic outlook for those regions? And as you're simplifying, maybe your product is also an argument to further simplify your global footprint.

Joe Hinrichs: Sure. Well, I don't know how much time we have to answer those questions. There's a lot there, but very important questions. Let's start in South America. We made money for 9 straight years, I think from '03 to '12. From '13 on, we've lost money, and pretty substantial amounts of money since then. Our business needs to be--our business model needs to be restructured in South America, and we have every intention of doing that. We already took the Focus out of Pacheco. We don't build it in Argentina anymore. And we'll have a lot more to say. Lyle Watters and the team are working on a plan for South America.

Europe, we've been hit hard by--our strongest market's the UK, and of course, the pound sterling. We've been hit hard by a lot of what's going on there. But Europe is interesting because while the total business is not acceptable, there's a pocket of business that has very strong returns, the commercial vehicle business, which Ford is very strong in. So we have to let that grow and prosper, and we need to deal with the rest of the business. And I think we've been pretty transparent in our quarterly earnings calls, showing kind of these buckets or circles of where the profits are and where they aren't in the different regions.

We just launched a new Fiesta last year and a new Focus this year in Europe, so it's going to take some time to work through the product portfolio and what our plans are. And our extensive conversations we've had with Volkswagen, we've noted have been largely focused on the commercial vehicle side, which we think provides opportunity for both of us. So we're encouraged by that.

China, it has been a very disappointing year. Our sales have been, the last couple of months especially, down significantly year over year. There are a number of factors that I probably could spend a lot of time on. I was there last week with the leaders of our company spending time in the market, doing a business review. We have changed a lot of the management of the Ford China team. We now have the Ford China business unit reporting directly into Dearborn as part of a standalone business so we can focus on it. We've got a lot more local national talent running it, and we have a number of very important product launches coming that will help the China business.

The Focus and Escort are the two highest-volume cars we have in China. They're both new this quarter--very important. Then we have an incremental small SUV, lower-cost SUV, coming, called the Territory, in early 2020. And we have a number of other new products, including the global, the Escape Kuga, which is a very important product, being all new next year. And localization of some Lincoln and Explorer products and other things in China.

So we have a plan. It's going to take some time to play out. Some of the issues we have in China are self-inflicted. With our partners and our dealers, we're working through that as we work through the relationships and work through some of the issues that have happened as the volumes declined. So believe me, China's really important, and there's no reason why we can't have a successful business in China, as we did just a few years ago, and we're working really hard on that. That's the quick answer.

A lot to do in all those markets, but importantly, all of these efforts that we have undergoing on fitness will play out across all the different markets, including South America, Europe, and China. And we are making really important decisions on where we're going to play and what products we're going to offer, what customers we're going to serve and how we're going to allocate capital. And we're doing it based on return on invested capital, and we can't, because of all the other demands on capital in the business, whether it's autonomous vehicles or electrification or mobility or other parts of the business where we can grow, the parts of the business that don't return acceptably on capital aren't going to get capital allocated to them in the future; they can't. There isn't enough to go around. And importantly, they shouldn't. So that's what I think you'll see differently about Ford going forward.

Unidentified Participant: Thanks. Just a quick question on return on invested capital. How do you marry that up with the recent investment in the scooter company and the Detroit station? It just does seem a little, maybe, inconsistent with kind of the view of capital as being so precious.

Joe Hinrichs: Sure. Well, the acquisition of Spin, which is the scooter company you were talking about, in the scheme of things is not a huge amount of capital, and it's a really important part of this mobility strategy that really looks at mobility broader than just the automotive space. So we see opportunity there and growth there, and we're seeing it, as you know. What we like about Spin is they do it collaboratively with the local governments. They go in together and work on launching in a collaborative way.

On the train station, looking to the future and looking at where do the next generation of workers want to work, what kind of environments they want to work in, where do they want to work, we believe very strongly that having a big role in Detroit and having an iconic building that's renovated and becomes very modern from a workplace standpoint will be very attractive to a lot of these workers in the future. And we believe we can do that pretty efficiently, actually, because of the support we're getting from the community to reinvest in what has become an iconic building that's been sitting there for 20 years empty.

So if you actually look at what it's going to end up costing us and how much support we're getting to do that and to renovate and rejuvenate that area, we think it's not only a good use of our capital, but it's the right thing to do for the community and for Ford longer term. And so we are already seeing a lot of people want to be in that Corktown area because our T-medicine, our EV/AV group is already down there, and we're seeing a lot of people want to be in that environment. So it's a balancing act like everything, but we think for a lot of reasons, it makes sense for the future of Ford and the mobility sector and attracting and keeping talent where they want to work in the future.