

McKinsey Quarterly

OCTOBER 2014

Bill Ford charts a course for the future

The carmaker's executive chairman offers his thoughts on the discontinuities facing automakers, management, and the city of Detroit.

William Clay Ford Jr. is known for taking the long view. The great-grandson of Henry Ford and the executive chairman of Ford Motor Company, Bill Ford was an early advocate for sustainability at the company, which earned the number-one spot on Interbrand's list of Best Global Green Brands in 2014 and also has been improving its competitive position. But to navigate through the coming years, Ford must travel in uncharted territory. Today's automakers confront developments that will affect the industry for decades: swelling megacities, self-driving vehicles, new technology challengers, and digitally connected cars—among others.

In September 2014, Ford sat down with Hans-Werner Kaas, a director in McKinsey's Detroit office and a leader of the firm's Automotive & Assembly Practice, and shared his views on disruptive trends throughout the automotive industry, his perspectives on leadership, and the opportunities he sees for the city of Detroit. The interview took place in Ford's office at the company's headquarters, in Dearborn, Michigan.

The Quarterly: There are a lot of forces converging in the auto industry right now, including urbanization in emerging markets, powertrain electrification, emissions concerns, and trends toward active safety systems, semiautonomous driving, and vehicle connectivity. Is it an understatement to call this an interesting time?

Bill Ford: The pace of change is accelerating and I love it. I think it's the most interesting time in my 35 years at Ford. It used to be that the auto industry, and the car itself, were part of a self-contained ecosystem. If there were breakthroughs, they were developed within the industry. It was a much more controlled environment and not nearly as dynamic as today's. In fact, I think we ended up being rather insular as an industry, and on balance it was not a good thing.

That's all been turned on its head; we now have disruption coming from every angle, from the potential ways we fuel our vehicles to the ownership model. We have a whole generation that just wants access to vehicles as opposed to ownership—for example, through services such as Uber, Zipcar, and RelayRides. Even the dealership model is changing, with Tesla selling directly to consumers.

In terms of connectivity, so much of the technology is being developed outside the auto industry. Whether it's vehicle-to-vehicle and vehicle-to-infrastructure communication, semiautonomous and fully autonomous driving, or connecting to the cloud—these are all major trends coming at us fast and furiously.

The Quarterly: How do the changes, and especially their disruptive nature and simultaneous appearance, affect automakers?

Bill Ford: The reality is that we will not own, or develop, most of these technologies. So we have to be a thoughtful integrator of other peoples' technologies and understand where we add value. Because if we're not careful, we could become like some mobile-handset makers, where all the value is added by someone else.

One way to distinguish ourselves will be in how we present these technologies to customers, so that they find them appealing and not intimidating. There will be a lot of new technologies that help enhance the driving and safety experience, but some people won't be comfortable with them—they don't want their data uploaded in the cloud, for example. So we'll need to have levels of opt-in/opt-out in our offerings.

Ultimately, we can make the driving experience safer, more intuitive, and more fun. Actually, "fun" isn't something that people talk about when they talk about all this technology. But fun is something that should always be a part of the driving equation.

The Quarterly: Speaking of fun, semiautonomous cars are an increasingly important development today, heading toward self-driving cars in the future. Will that affect our love affair with the car?

Bill Ford: Well, I think we are already seeing a different type of love affair. When I was a child, people could work on their own cars easily. They would wax them in their driveways. It was a very personal, hands-on relationship. That's evolved over the last 15 years or so as more technology has come into vehicles and cars have gotten more sophisticated. But the fun of driving is still there. And as we look forward to autonomous driving, it certainly—if done correctly—can have profound safety implications. The elderly wouldn't have to give up their driver's licenses as early as they do

today. Drunk driving could be a thing of the past. There are a lot of really positive things that come with it, and I'm excited by it. Still, I am also a little bit nostalgic, because I love to drive. I even like a manual transmission, though I may be a throwback.

The Quarterly: When should we expect those transformations to happen?

Bill Ford: There are a lot of bold, singular predictions. I take a more relaxed and holistic view. I think a lot of the required elements will go into vehicles over the next two, three, or perhaps five years. Yet by the time we actually get to full autonomy, it will almost feel like an anticlimax because we'll have been 95 percent of the way there already. That last 5 percent, though, will be interesting, and no one really can predict when it will happen. We'll need a lot more certainty than we have today before cars can be fully autonomous, and we'll need redundancies in these systems.

There are elements already in place. I recently drove up to northern Michigan on Interstate Highway 75. I put on the adaptive cruise control, comfortable knowing that if the car in front of me decelerated quickly, my car would act immediately to keep the gap I'd set. I found that a really useful tool. We'll keep adding more of these features, so that the final steps to full autonomy will feel almost uneventful. I think the technology will be ready before society and lawmakers are.

The Quarterly: How will connectivity affect the equation? Will there be a battle between our mobile devices and what is embedded in the vehicle?

Bill Ford: It's true that people want to bring their lives—in the form of their phones and their iPads and whatever else they carry—into vehicles in a seamless way. And that's happening to some extent now. But we can't distract the driver with too much going on. Those are the kinds of things we're thinking through and must think through as an industry. It's the same with vehicle-to-vehicle communication: it doesn't do any good if Ford vehicles can talk only to other Fords. Even though we have a lot of competitive issues, we have to have a standard, and that's something we are working on as an industry.

I think all vehicles have to be part of an integrated network, and every form of transportation has to be talking to the others, so that we can optimize our way of moving around. For example, very soon our cars will be able—through sensors and technology—to be notified when a parking space opens up and then to pre-reserve it for us and have us billed directly, through an app. Things like this will start to redefine what urban mobility means.

The Quarterly: What's the right balance between individual mobility and more holistic transportation systems, especially in light of accelerating urbanization and the development of megacities?

Bill Ford: I talked about this a few years ago at a TED conference,¹ where I used the phrase “global gridlock,” which is exactly where we’re headed. It’s a fallacy to look at the GDP growth in emerging markets and say, “Wow, isn’t this great?” and then to extrapolate some absurd number of vehicle sales ten years out, with no thought of “Really? Where are these cars going to go?” The roads already are impassable in some emerging markets, and they don’t have the proper infrastructure. You’re not going to put two cars in every garage in Mumbai, for example, even if residents there can afford it. Given how disproportionately quickly the world is urbanizing, we are going to hit the limits of our ability to provide mobility unless we adopt a very different profile going forward.

It’s already happening. In most cities, if people have a car, they love their car and hate everybody else’s. And they are paying a fortune to just keep the car. In many cases, they have to pay a fee to get into a city center or can only go in on odd or even days, depending on the license plate. Lots of cities are trying to deal with this in different fashions, but those aren’t long-term solutions. Those are Band-Aids. Today, 30 percent of all fuel burned in cities comes from cars looking for a parking spot. And that’s not only fuel. That’s time, that’s aggravation.

When I gave my TED talk, people were shocked. They said, “Wait a minute. What I just heard you say is you’re going to be, potentially, selling fewer cars in the future.” And I told them that’s exactly what’s going to happen unless we start doing something differently and redefine ourselves as a mobility company and not just as a car and truck manufacturer.

The Quarterly: What does it mean to be a mobility company?

Bill Ford: The role of a traditional automaker changes dramatically. We become a piece of the mobility ecosystem. In this new world, we need to figure out what we have to own and what we don’t and to be a great integrator of technologies and services. We need to figure out who are friends, who are foes, and how do we turn our foes into friends.

I was speaking at a conference, several years ago, where I met Scott Griffith, then-CEO of Zipcar, which was relatively new at the time. I told Scott that I’d love to talk to him, and he said to me, “Didn’t you hear my talk about taking cars off the road?” And I said, “Yes, but it’s going to happen with or without us, and I’d like to have it happen with us.” So we’ve now gone together to over 250 college campuses—Ford and Zipcar—and it’s been a great partnership because students are influenced by what they drive in Zipcar, so when they leave school, we become a car of choice. It’s a win-win.

¹ “Bill Ford: A future beyond traffic gridlock,” TED, March 2011, ted.com.

The Quarterly: Do you regard new or nontraditional players—such as Tesla, Google, or Apple—as welcome disruptors, partners, or foes?

Bill Ford: We have to make them all our friends at some point, and they may not all start out that way. But we need to be exceptionally curious as a company. We have to know how to interact with those companies because they speak a different language; they're on a different cadence. They often have a different customer experience. Another big challenge is just keeping abreast of who these players are. The disruptors are being disrupted themselves on a regular basis. We need to be accessible, so that all these companies feel comfortable approaching us. It's not a muscle that we've developed over the years, but we are doing that now and we need to continue to do it.

The Quarterly: How do you foster curiosity and accessibility while also focusing on your core business?

Bill Ford: There's an interesting balance that has to take place, because we need to be open to and excited by the disruption happening everywhere. But we can't be distracted by it, because we have a daily business to run. We have to deliver a quality product, which requires attention to detail; we have to meet all the regulatory requirements. And so what Mark Fields² and I are talking about is the appropriate level of distraction. I think companies and their leadership need to understand the intensity of the disruption that's taking place in our industry. We need to have an initial point of view on these disruptions. We need at least enough knowledge internally to be able to interact with these companies externally. I'm sure these very questions that we're grappling with are being grappled with throughout our industry. But I think our family ownership and the way we're organized allow us to take a longer view.

The Quarterly: You have been both an executive chairman and a CEO. What are the benefits of separating the roles?

Bill Ford: I've actually had three jobs. I've been nonexecutive chairman, I've been CEO, and then I've been executive chairman, so I've really lived the spectrum. And I love this construct because it allows me to use my knowledge of this company to think about where it can and should go in the future in a way that I could never do as CEO.

Just by definition, Mark's share of mind has to be more focused on the immediate pressures of being a CEO and running the day-to-day business. A problem arises this morning; it's got to be solved immediately. Still, this separation has to be a partnership. I can't be off in an ivory tower

² Ford CEO Mark Fields

with a stack of books thinking about the future, and Mark can't be completely disengaged from what I'm doing. We spend a lot of time just talking and making sure we're on the same page and moving forward in lockstep, although at times concentrating on different issues.

The Quarterly: How do you view a leader's role with respect to engaging the company on broader societal issues?

Bill Ford: I think you've got several roles. You have to be an advocate for positive societal change within your company. I've pushed the environmental movement for 35 years within Ford. I met with tremendous resistance, both within the industry and my company; even the environmental community initially thought I was a wolf in sheep's clothing. But I continued pushing.

Leaders also have an important role in their communities. People are very busy, and we can all find reasons not to get involved, but our communities need us. As leaders, we have, hopefully, some brain power, we have connections, we have resources. And we should bring those to bear to make our communities better places—whether that's schools or hospitals or helping with social issues like homelessness and hunger. Find the thing that resonates most—but whatever it is, do it and set the example. And, usually, what comes back to you in terms of goodwill is ten times what you put into it.

The Quarterly: What is your outlook for the community of Detroit?

Bill Ford: I remember the 1967 riots in Detroit. I was ten years old, and I remember the city in flames. We had many years of decline: population decline, economic decline. And now—it seems strange to say as we sit here today with the city in bankruptcy—I've never been more optimistic. The economic equation taking place in this city is unlike anything I've seen, whether it's start-ups coming into the city, established companies moving back to the city, or young people wanting to live in the city. I believe that when we do exit bankruptcy, there's something to build on now. Lots and lots of work to do still, but I'm the most hopeful I've been in my adult lifetime. □

This interview was conducted by **Hans-Werner Kaas**, a director in McKinsey's Detroit office, and **Thomas Fleming**, a former member of McKinsey Publishing.

Copyright © 2014 McKinsey & Company. All rights reserved.