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Tuesday, February 12, 2008

# Buyouts key to Ford goals

## Carmaker misses 4Q cost reductions after UAW negotiations dragged on.

Bryce G. Hoffman / The Detroit News

Ford Motor Co. missed its own targets for operating cost reductions in the fourth quarter of last year, largely because the automaker never expected contract negotiations with the United Auto Workers to drag on that long.

However, the company says it met its full-year cost-reduction goals, though it still faces real challenges in meeting its broader goal of reducing operating expenses by \$5 billion by the end of this year.

Ford succeeded in slashing operating costs by \$2.1 billion through last year, but missed its fourth-quarter cost-reduction goal by about \$200 million, according to an internal company document obtained by The Detroit News. Titled "Report Card: January 2008," it outlines the automaker's progress on key elements of its North American turnaround plan.

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That was about equal to the amount Ford paid out in signing bonuses to

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UAW members as part of its new labor agreement with the union, according to Ford spokesman Mark Truby, who added that the company had expected to pay those in the third quarter. But Ford was the last of Detroit's Big Three automakers to reach a contract settlement with the UAW. As a result, Truby said, Ford exceeded its cost reduction goals in the third quarter, but missed them by roughly the same amount in the last three months of the year.

"They may have to cut a little deeper in the coming year to catch up with themselves," said Mike Whitty, a business professor at the University of Detroit-Mercy.

One way to do that, he said, is with more buyouts.

Ford has reached an agreement with the United Auto Workers to offer another round of buyouts to all UAW-represented hourly employees in the United States. Moreover, Ford's new contract with the UAW allows it to fill openings in its factories with second-tier workers, who will receive lower pay and fewer benefits than existing employees.

Ford already has convinced 32,800 hourly employees to leave last year through buyout and early retirement offers.

The new buyouts were already part of Ford's cost-cutting plan, according to sources familiar with that strategy. They said it is hard to predict how many workers will sign up for one of the offers this time, given that most of the workers who wanted to leave Ford already signed up last time. They told The News that the company would like to convince between 8,000 and 10,000 blue-collar workers to leave, but added that any number will be welcome.

Officially, Ford would not discuss its goals for the program.

"Because the buyouts are voluntary, we're not providing a target figure," said Ford spokeswoman Marcey Evans.

The packages will be similar to those Ford offered in late 2006, but it has upped the ante when it comes to early-retirement offers. Retirement-eligible workers will now receive \$50,000 instead of the \$35,000 Ford offered in

2006. Those employed in the skilled trades will receive an added \$20,000, for a total of \$70,000.

"Maybe they'll have to sweeten the pot (even more) to get people to take buyouts or early retirement," said analyst Bradley Rubin of BNP Paribas. He said Ford needs to convince as many workers to leave as possible in order to meet its goal of returning to profitability in 2009 -- a goal he said is looking increasingly like a stretch.

Ford has about 54,000 UAW-represented employees, 12,000 of whom are eligible to retire.

The window for signing up for one of these offers will open early next week, Evans said. She added that workers will have until the week of March 17 to do so. The offers already have been extended to workers at idled factories.

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