

# Ford finds itself an also-ran in China

By Keith Naughton and Tim Higgins  
Bloomberg News

When Qi Rui shopped for his first car, the Beijing government worker asked his friends for advice. Most of them drove Buicks from General Motors Co., China's second-largest foreign automaker. Only one friend drove a Ford.

Qi bought a Buick Excelle, the top-selling car in China.

"They are all famous automakers, but it is a big purchase and I'd rather go for something that is more popular," said Qi, 32. "There must be a reason why GM does better than Ford in China."

Ford Motor Co. is a distant also-ran in China, where GM's Buick and Chevrolet brands outsold it 5-1 this year, according to researcher LMC Automotive. The Ford brand has just 2 percent of China's passenger-car market. Intent to catch up, the second-largest U.S. automaker is spending \$4.9 billion to build eight factories and debut 15 new models in China by 2015.

"Ford is at last ready to get genuinely serious about China," said Michael Dunne, a veteran Asia analyst based in Jakarta. "The key will be for Ford products to connect with Chinese consumers on an emotional level just as Buick and Chevy have managed to do."

Making that connection has been challenging for Dearborn, Mich.-based Ford, which had a 14 percent sales decline in China in the first three months of the year, while leading sellers Volkswagen AG and GM gained buyers in a slowing market.

After Chief Executive Officer Alan Mulally last June set a target to derive one-third of Ford's sales from Asia by 2020, the company lost \$92 million in the region in 2011 as flooding in Thailand hobbled production. Ford has said it also may report a loss in Asia in the first three months of this year.



Ford Motor Co. is making a \$4.9 billion bet on its Mondeo car and the rest of the line in China. NELSON CHING/BLOOMBERG

## 'Transition time'

The cost of rolling out all those new products, including three sport-utility vehicles introduced this week at the Beijing auto show, is driving up costs and driving down profit for now, said Joe Hinrichs, chief of Ford's Asian operations.

"This is a bit of a transition time," Hinrichs said in an April 18 interview. "The more dramatic payoff comes later."

Ford's current image among Chinese consumers is defined by the Focus family car, Hinrichs said. That's outside the fastest-growing categories: luxury cars and SUVs.

"To consumers in China, we're viewed as not having as broad a lineup as our competitors," Hinrichs said. "Chinese consumers are anxious for us to broaden our lineup, but it's never fast enough for anybody."

Ford is stretching its lineup in two directions. It's going upscale with SUVs, including the Explorer, loaded with technology such as voice-activated phones and dashboard touch-screen controls, Hinrichs said. And it's going to sell low-priced "value models" to China's emerging consumer class in inland regions, he said.

## 'Two markets'

"China is a tale of two markets," Dunne said. "Ev-

ery brand has the challenge of marketing yesterday's cars inland while offering world-class products to the affluent buyers along the east coast."

Ford's best growth potential is in China's interior, which is dotted with more than 600 cities with populations that exceed 500,000 people, said Jim Press, a former Toyota Motor Corp. and Chrysler Group LLC executive who now is CEO of Yanjun Auto, a luxury-dealer network based in Beijing.

"The real opportunities, if you look in the cracks, are in the tier-two and tier-three cities where you can build a reputation," Press said in an interview. "Those customers are the least satisfied and the least loyal to their brands."

Ford has said it is most rapidly expanding its dealer network in China's smaller cities. The automaker is opening an average of two showrooms a week as it seeks to boost its dealer total in China to 680 by 2015 from 400 at the end of last year.

## Thinking small

The smaller cities are "where we expect most of the auto industry's growth because there's a lot of saturation in the large cities," Hinrichs told reporters this week in Beijing.

The company will find it difficult taking on GM and VW in big cities such as

Shanghai and Beijing, where they are the entrenched leaders and the Chinese government is putting restrictions on new cars, Press said.

Ford has the added challenge of a brand with a limited history of selling mostly utilitarian cars and commercial vehicles. When Ford first pushed into China in 2002, it was losing money at home and starting a wrenching restructuring.

"Ford was dogged by troubles at home through most of the 2000s, which prevented the company from offering compelling products to Chinese consumers," Dunne said. "Their all-important-in-terms-of-setting-image first offering, a basic Fiesta, was a disappointment to Chinese consumers."

## Decade behind

The company arrived in China almost a decade behind GM, which won a crucial partnership with Shanghai Automotive Industrial Corp. in 1995. Ford's partner, Changan Ford Mazda Automobile Co., put its base of operations in the southwestern city of Chongqing, far from the economic and political power centers of Shanghai and Beijing in the east.

"Ford took it on the chin

when GM was selected as SAIC's partner," Dunne said. "This not only hurt in terms of timing, but it also meant that not pairing up with China's most powerful and competitive municipality. You cannot overstate the power and influence of the city of Shanghai."

Ford is finally establishing a beachhead along China's affluent east coast with a \$760 million assembly plant it is building in Hangzhou that will double its output in the country to 1.2 million vehicles annually.

## 'Competitive footprint'

"This plant will give Ford a more competitive footprint in China," said Jeff Schuster, senior vice president of forecasting for LMC Automotive in Troy, Mich. "Sales are concentrated along the coast and having a factory there will raise their presence."

The Hangzhou plant will open in 2015 and will build models that Hinrichs declined to identify. Schuster said the factory probably will produce upscale vehicles, such as SUVs, that Chinese consumers in that area favor.

Mid-decade is when Hinrichs said he expects

Ford's fortunes to change in China. By then, Ford's 15 new models such as the EcoSport subcompact SUV and Mondeo sedan should be winning consumers in the interior and along the coasts, he said.

"To get consumers to connect with Ford is all about new products and bringing the best of what we have around the world to China," Hinrichs said. "That's what people have been waiting for."

Ford won't be bringing its Lincoln luxury cars, which are being overhauled in the U.S. in a bid to lure younger buyers. The lagging luxury line, whose buyers now average 65 years old, has seen U.S. sales slide 63 percent since peaking in 1990.

Hinrichs said there are no plans now to use Lincoln to fill the Ford's luxury void in China. Models such as the Explorer SUV will represent the company's "premium" offerings to Chinese buyers, he said.

Given China's growing affluence and appetite for luxury, Ford eventually must bring Lincoln there, as GM has done with Cadillac, said Michael Robinet, managing director for industry consultant IHS Automotive in Northville, Mich.

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Joy-1015 LLC to LUG Properties-1015 LLC, 1015 Bardstown Road, 40204, \$682,000.

Anderson-Monsour Inc. to Ball Homes, 11405 Willow Branch Drive, 40291, \$48,500.

Hills Homes of Kentucky LLC to IH of Ky Inc., 2010 Frog Pond Way, 40245, \$49,440.

Lease Venture Corp. to Bloop Land Trust, 6317 Outer Loop, 40219, \$22,500.

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Commonwealth Bank & Trust Co., et al., to Nguyen Investments, 219 W. Woodlawn Ave. No. 1, 40214, \$8,000.

PBI Bank Inc. to DGBL I LLC, 540 E. Ormsby Ave., 40216, \$4,333.

PBI Bank Inc. to DGBL I LLC, 1600 Bank St., 40203, \$4,333.

PBI Bank Inc. to DGBL I LLC, 664 S. 38th St., 40211, \$4,333.

RSW Distributors LLC to 1101 E. Washington Street LLC, 407 Mockingbird Valley Road, 40207, \$200,000.

Twin Moons LLC to Mr. Z's Enterprises Inc., 3766 Taylorsville Road, 40220, \$10,000.

Bank of America N.A. to Henry Properties C LLC, 12209 Meadow Lane, 40243, \$121,000.

Fox Run Partners to DeVille Homes, 3527 Meadow Bluff Way, 40245, \$59,500.

## SINGLETON: Insurance woes detailed

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trends will change with a rebound in employment rates, even when the unemployment rate fell between 2002 and 2005, it did not appear to have an impact on employer sponsorship of health plans," Fronstin wrote.

He said that estimates presented in his report could serve as a baseline to measure the future impact of the 2010 Patient Protection and Affordable Care Act on employment-based health benefits. Given all the misinformation and criticism about the health care law, we certainly need a nonpartisan baseline.

For now, without anything else on the table, President Obama's Affordable Care Act is the backup to employer-provided health care coverage. But that backup depends on a lot of assumptions.

For example, we are still waiting to see whether the Supreme Court will strike down key parts of the act — in particular the individual mandate that requires most people to buy a minimum level of health insur-

ance coverage for themselves and their dependents after the law is fully implemented in 2014. The court is expected to rule in June.

In another report released in March, Fronstin noted that the health care law will require employers with 50 or more full-time workers who don't provide health coverage to pay a penalty. But "there is concern that employers may respond by cutting back on health coverage for part-time workers or by increasing the proportion of part-time workers employed," he said.

In a yet another report released this month, The Commonwealth Fund found one-quarter of adults ages 19 to 64 experienced a gap in their health insurance in 2011, with a majority having been uninsured for a year or longer. Among those who had employer-sponsored insurance prior to their gap in coverage, two-thirds cited a loss or change of a job as the primary reason they were uninsured.

The Commonwealth Fund said that between

2008 and 2010, more than half of adults — or about 9 million people — who lost a job with health benefits became uninsured.

Beginning in 2014, subsidized private health insurance offered through new state insurance exchanges will allow adults and their families to remain insured even in the face of job changes and other life disruptions, the organization said.

We probably can't afford to shift from employers being the primary provider of health benefits. But we have to acknowledge high unemployment puts many people's employer-sponsored health coverage at risk, the Kaiser Family Foundation points out.

Taken together, the reports provide a truth we can't ignore: There has to be a viable, affordable backup to employer-based health coverage.

Readers can write to Michelle Singleton care of The Washington Post, 1150 15th St., N.W., Washington, D.C. 20071. Her email address is singletonm@washpost.com.

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