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Ford reports UAW strike has cost it \$1.3 billion, vows to improve quality issues

Story by Phoebe Wall Howard, Detroit Free Press • 1d

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^L This current Ford logo on the F-150 will not be used on 2024 models or in the future. The logo has been redesigned for vehicles.
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Ford Motor Co. announced Thursday that it has been hit with \$1.3 billion in costs by the 2023 UAW strike that lasted 41 days and ended with a tentative agreement late Wednesday.

The Dearborn automaker sustained \$100 million in losses during the third quarter and the remainder in the fourth quarter, according to John Lawler, Ford chief financial officer. He said the company has been losing \$400 million a week since the strike began Sept. 15.

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While he declined to assign a total dollar value to the negotiated UAW package, Lawler did estimate an \$850 to \$900 added cost per unit in labor costs.

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"The company will be profitable moving forward. there's no doubt about that," Lawler said during a news media call. "This is an increase in costs for us. This is something we're going to have to work on. We're going to have to find efficiencies throughout the system ... to help mitigate the impacts of higher labor costs."

Ford faces serious costs related to quality, too, he said, and those costs need to be addressed and contained as quickly as possible. Ford has consistently spent the most on warranty and quality costs in the industry, billions more than competitors. During the third quarter specifically, Lawler said, 50,000 vehicles were put on [quality hold](#), and that hurt the bottom line financially. Ford executives said they've spent more than \$1.1 billion more on warranty costs than the same time last year.

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What benefits are in the 'historic' UAW tentative agreement with Ford?

Paying people more during periods of inflation is essential or it creates hardship, Lawler said, adding, "You, as a company, need to find a way

to operate more efficiently, increase productivity and eliminate waste."

Ford Pro, the unit that focuses on business clients, is thriving, he said. "And we're leaning into Ford Blue."

The Ford Blue unit, which oversees gasoline-powered vehicles, diesel and hybrid, is generating enough revenue to pay for the company's transition to electric vehicles. During third quarter, the Ford Blue unit delivered \$1.7 billion in adjusted earnings before interest and taxes (EBIT), up 17% from a year ago. Meanwhile, Ford e recorded an EBIT loss of \$1.3 billion

Lawler said adoption of electric vehicles is slower than expected but it is growing. Buyers seem to be shifting more quickly to hybrid vehicles, which do offer 25% efficiency on emissions, Lawler said.

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Ford said electric vehicle customers in North America are unwilling to pay premium prices, limiting price and profitability.

As a result, the automaker is reevaluating its speed of investment in electric vehicles, though it is "not moving away" from its next generation of electric products, he said. But the company is "going to be very thoughtful" about balancing consumer demand and volumes produced.

Lawler estimated the delay of an estimated \$12 billion in capital investments related to electric vehicle production. Ford is studying commitments in Michigan and Kentucky, assessing how best to move forward.

"When you look at the quarter, you can see the strength that's in there," Lawler said. "It is the cost and quality that we need to continue working on. ... We're very focused on improving that but it's going to take us some time."

The raw numbers

Ford failed to beat Wall Street expectations with its third quarter earnings, showing revenue growth of 11% to \$44 billion from the same period in 2022; a net income of \$1.2 billion compared with a year-ago loss of \$827 million, and EBIT of \$2.2 billion.

Ford Blue again illustrates the company's ongoing strength with gas and hybrid vehicles, with higher revenue. Ford Model e reported 44% higher shipments of electric vehicles, 26% revenue growth and an operating loss "exacerbated" by electric vehicle price pressure, the company said in a news release. Ford withdrew its 2023 guidance with pending ratification of the tentative labor agreement with the UAW.

The company touted its success with commercial customers through its [Ford Pro](#) division, which generated \$1.7 billion in (EBIT) on \$13.8 billion in revenue, which was up 16%, Ford said in its news release.

Ford CEO Jim Farley told industry analysts in a call that quarterly results are "mixed" as "cost and quality remain a drag on the business." Recent hires and promotions are tasked with transforming industrial processes, he said.

"We're ... radically changing how we work with a series of actions that put the right people with the right capabilities in the right places across the organization, so that our promise isn't masked by cost and [quality issues](#)," Farley said in a news release.

He said holding Super Duty production for quality review cost the company more than \$1 billion — but noted it was worth it.

Quarterly earnings highlights

Ford reported in its earnings statement:

- Cash flow from operations was \$4.6 billion in the quarter, \$12.4 billion through the first nine months of 2023.
- Adjusted free cash flow for the same periods was \$1.2 billion and \$4.8 billion, respectively.
- Ford had \$29 billion in cash and \$51 billion in liquidity at the end of the third quarter. That included a \$4 billion line of credit that the company secured in August in anticipation of business uncertainties.

UAW deal pending

The UAW strike affected two weeks of the third quarter.

Ford [reached a tentative agreement](#) the day before earnings. It is the first automaker to do so during this 2023 contract period. Ford has sustained financial damage with the closure of the [Michigan Assembly Plant](#) in Wayne, [Chicago Assembly Plant](#) in Illinois and the [Kentucky Truck Plant \(KTP\)](#) in Louisville. The strike on the Detroit Three automakers [began Sept. 15](#).

"Once KTP went down, the [strike was living on borrowed time](#)," said Marcus Hudson, Calderone Advisory Group's executive managing director who has automotive and manufacturing expertise. "Hourly wages at Ford in North America are roughly \$6 billion. ... A 30-day strike at KTP would cost \$1.2 billion plus all the back pay the union would get. That's more than the union is seeking in the first year."

Ford workers have left the picket line, awaiting review of the agreement prior to the union's ratification vote.

The cost to the company shouldn't be considered noncompetitive, Hudson said, because nonunion automakers tend to match hourly wages to keep members from organizing with unions and retain a skilled workforce that can be hard to find. Analysts will be watching to

see whether auto suppliers that want to cut costs will take jobs to Mexico, Canada and China, he said.

Ford earnings pre-strike vs. post-strike

Last quarter, Ford earnings beat Wall Street expectations by increasing revenue 12% to \$45 billion from the same period in 2022; a net income of \$1.9 billion, and EBIT of \$3.8 billion.

The company touted its success with commercial customers through its [Ford Pro](#) division, which produced 22% revenue growth and EBIT that more than doubled to nearly \$2.4 billion, Ford said in its news release.

Farley compared the Ford Pro success to running a stand-alone company like John Deere. The gasoline-powered division known as Ford Blue generated \$2.3 billion.

GM bruised but fine

GM [reported earlier this week](#) the UAW's ongoing strike [cost it about \\$200 million in lost revenue](#) in the third quarter from its Wentzville Assembly, Fairfax Assembly and Lansing Delta Township Assembly plants. The [UAW is also striking 18 of GM's parts distribution](#) centers across the nation. GM, too, was hit hard by costs associated with warranty repairs, as well as costs related to its [self-driving Cruise subsidiary](#)

The automaker reported a \$2.2 billion gain in revenue to \$44 billion compared with the year-ago quarter. But net income slid to \$3.1 billion compared with \$3.3 billion in the year-ago period. For the third quarter, GM reported that its EBIT fell 17% to \$3.6 billion compared with \$4.3 billion a year ago.

Meanwhile, Stellantis will report its third-quarter shipments and revenue Oct. 31. [Jeep plants](#) and [Chrysler, Ram, Jeep and Dodge parts warehouses](#) have been on strike as [contract negotiations continue](#).

Caution from Wall Street

Jeff Windau, an analyst at Edward Jones, recommended on Oct. 12 that investors hold on purchasing Ford stock because of ongoing supply chain disruption, high costs associated with the company's "weaker than average" credit ratings that may hurt profits and investments, and the cost of spending on electric vehicles to meet stricter regulations on emissions and mileage. None of these things changed with the recent earnings report.

One of the concerns, in addition to getting factories up and running after being shut down, is getting 20,000 people back to work seamlessly, Lawler said. He noted that suppliers lost workers during the uncertainty and the supply chain has been directly affected in unpredictable ways.

More: [Stellantis workers after 5 weeks on UAW strike: 'Enough is enough. Let's get it done.'](#)

More: [There's a reason UAW is pushing so hard for Ford deal first, analyst says](#)

Free Press staff writer [Jamie L. LaReau](#) contributed to this report.

Contact [Phoebe Wall Howard](#): 313-618-1034 or phoward@freepress.com. Follow her on Twitter [@phoebesaid](#).

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Story by Christopher Alarcon • 40m



They Can't Wait for Early Retirement, but Their Kids Are Outraged by Inheritance News

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