

Ford Picks H-P – draft v1 1/27/99

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Ford Picks H-P As Prime Outsource for IT Management

**Hard-Won, Five-Year Deal Worth \$170 Million
Further Enduring Relationship Between the Two Firms.**

Detroit, Mich., Jan. 27, 1999 -- Few companies can claim the global reach of the Detroit-based Ford Motor Company. It has some 370,000 employees across five key operating divisions in as many as 140 countries, nearly 200 manufacturing plants across every continent, and almost 16,000 dealers in 200 countries.

Even further, few companies of such size and scope can claim to have delivered the kinds of consistent shareholder results that Ford has. For 1998, the company reported its eleventh consecutive quarter of operating earnings growth and provided a total shareholder return of 89 percent.

This performance is especially striking given the economic slowdown in many of Ford's key international markets. But in the words of President and CEO Jacques Nasser, "Our quality is the best it has ever been, we improved our operating efficiency, and our products continue to be well-received by customers."

Future flexibility. Nasser and his executive team are determined to keep the momentum going by continually reducing the company's breakeven costs. One objective to that end is to outsource all non-core IT, to help shift as much of its costs from fixed to variable. This gives Ford greater flexibility to assure and optimize profitability in all economic climates, fair weather or not. With a business as large as Ford's, outsourcing network management is not a trivial decision. Not when its network infrastructure is critical to global communications, systems management, and overall operating performance. That's why, after a carefully considered bidding process and evaluation, Ford appointed long-time business partner Hewlett-Packard as the primary manager of its IT infrastructure worldwide.

The two firms entered into a five-year, \$170 million agreement in which H-P will continue to operate Ford's global local area network as well as its global wide area network that carries the company's intranet. As part of the deal, H-P expanded its role in operating the network infrastructure of Ford Credit, the world's largest automotive financing company with assets of \$133 billion and operations in 35 countries.

Innovative approach. CIO Bud Mathaisel, a veteran of Disney and Ernst & Young who came to Ford in 1997, said H-P's willingness to be flexible and take a "selective" outsourcing approach was attractive to Ford. "H-P took an innovative approach to bidding on our business," he explained. "Instead of looking at our business infrastructure as stovepipes, they took a diagonal view across our five categories of requirements."

Those requirements included bidding on the management of telecommunications, data centers, the product development test system, applications development, and distributed computing. Eventually H-P will bring 4,000 servers across 550 sites under its management. To control it all, H-P will build an Operations Services Center inside Ford's Detroit headquarters that will be fully dedicated to managing the company's IT infrastructure.

Mathaisel pointed out that Ford not only aims to reduce its IT operating costs by 30% over the next five years, but it also faces a problem of employee turnover. "In the next four years, we

expect 50 percent of our workforce to retire as the baby boomers enter their 60s. This means we will be losing a lot of critical IT skills, especially on our legacy mainframe systems, just at a time when we also need to ramp up our skills in NT and client/server computing.”

As are most companies these days, Ford is email driven, so much so that email is considered a mission-critical application. While for years the company has relied on a 1980s-era PROFS messaging system based on a mainframe, it is now migrating to an Exchange client-server based messaging platform. H-P will also manage the underlying infrastructure.

Hot competition. Mike Needham, H-P’s Global Client Business Manager, said that despite H-P’s long-time relationship with Ford – including deployment of its first TCP/IP network seven years ago – it had no assurances of winning this additional business from Ford. IBM, which also has a large stake in running Ford’s IT, was also a contender as were Lockheed-Martin and CSC.

“IBM was especially competitive,” Needham said. “It never hurt their chances that IBM’s CEO Lou Gerstner sits on Ford’s board of directors, or that Nasser, Ford’s new president and CEO, has a long history with IBM.”

In fact, Gerstner led IBM in an unsolicited bid to run all of Ford’s IT just two years ago. However, IBM backed off after a team from its Armouk headquarters could not figure out how to deliver promised savings.

With all those inside heavyweight connections, why did H-P come out on top? Mathaisel cited a number of reasons. “For one, H-P delivers and does that by setting accurate expectations. Two, H-P isn’t just a vendor, but a business partner that coaches us on new ways of applying technology to our business issues. Last, we appreciated the participation of H-P’s local account team in its bid. They really know our business, but the others brought in headquarters SWAT teams and the local team disappeared.”

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