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OESA Speech

- Good afternoon, everyone. Great to be here as your last speaker of the day. You know, it's always hard to come before an automotive crowd who has seen it all, experienced it all, maybe even if you've been around long enough, done it all and give you something different, unique, insightful.
- So, I'm not going to lecture extensively about new business models or market shifts. Customer price pressures or global consolidation. Steel or the price of tea.
- O.K., I may weave those in --- just for context --- but really I want to spend a few minutes talking to you about leadership in these tough times.
- What a world we live in. What a time to lead.
- Humongous health care costs. Onerous oil prices. Whopping warranty burden. Repressive regulations. Obese overcapacity. Soaring steel prices. Paltry profit margins. Sputtering stock market. Dwindling consumer confidence.
- Heavens!! We must be in this business 'cause they pay us so well! That or institutional insanity.
- First the challenges. You've heard about them most of the day.
- Industry estimates for vehicle production in North America next year range from about 15.8M to an optimistic 16.2M with CSM at about 16. Actually, sales in 2004 are a reasonably healthy 17M vehicles with similar estimates for 2005. We should all be thrilled. 2004 will be one of the best sales years on record, but all indicators point toward another year of profitless prosperity for many in our industry. Why? Dramatic share changes among the major automakers have caused suppliers to juggle not-very-flexible

capacity and rising raw material costs have challenged everyone in the business....well, almost everyone. The steel guys are finally having their day!

- Rising oil prices are attacking us where it hurts most. No, not actually in our budgets, in our consumers' pocketbook. Consumer buying power is dwindling. According to the Dismal Scientist.com, wages for rank-and-file workers, who make up some 80% of the U.S. workforce, have risen by one percentage point less in the past year than the rise in consumer prices. That means most workers' buying power is falling. Total personal incomes before any adjustments have lagged far behind the rise in energy prices over the past three years. This puts even more pressure on automakers to entice reluctant buyers into the showroom with incentives which we all know roll right downhill into price downs for the supply base.
- Total consumer debt is rising. According to the Federal Reserve, it equals about 114% of disposable personal incomes compared with 100% three years ago and 65% 20 years ago. Hmmmm. Looks like some of our balance sheets!!
- And just to make matters a bit more daunting, after years of relatively low raw material prices, changes in global supply and demand have caused prices on key materials to skyrocket. In steel alone, the market saw year-over-year price increases of 120% on U.S. hot rolled coil, +50% on European hot rolled coil, and +45% on Korean hot rolled coil. The recent announcement of a major London steel company purchasing U.S.-based International Steel Group or ISG will drive further changes into the market. If 2004 was the year of steel, 2005 may well be the year of resins as oil prices reach dollar per barrel levels not seen in years. Reducing barriers to free market dynamics will help but not eliminate these pressures any time soon.

- The future does hold production volume growth but much of it outside of mature economies. Garel Rhys, a respected economist at the Centre for Automotive Industry Research at Cardiff University in Wales, predicts the following for the auto industry.
- Manufacturers will produce more vehicles in the next 20 years than the 1.8 billion made in the first 110 years. That's an average of 90 million a year, compared with about 50 million this year.
- Increased demand will create the need for 180 new assembly plants, each with annual capacity of 300,000 units.
- Old factories will need to be refurbished or replaced at a total cost will be about \$80 trillion.
- But Rhys also figures that the industry has some 8 million units of excess capacity today, based on two shifts, straight time. That's actually a smaller number than some analysts use. But it's big enough. That's why the industry is in disequilibrium. That's why it's a buyer's market. That's why some companies are under extreme cost-profit pressure. And why more consolidation is likely.
- So, after all this, can you understand why Wall Street does not just LOVE this business ... besides the fact that most of the 27-year-old New York analysts who cover us don't even drive automobiles? Why even the best auto and supplier companies struggle to achieve investment grade while many of us are rated as just so many various grades of junk. Why commercial banks have all but fled the industry, hunkered in the most risk-free corners the few left that there might be. Why investment banks still hover ready to scoop up a juicy deal or bond offering but some 30% of their volume is now done for a newly important set of clients.
- Why? Because, increasingly, the only money with the risk profile for this business is private equity and hedge funds....once thought of as pirates

and financial guerrilla warriors....well, maybe they still arebut now the only ones courageous enough to play in the piranha-filled waters of automotive.

- At this year's SAE Leadership Meeting at Greenbrier Questor's Jay Alix said there is about 200 billion ... yes billion ... dollars of private equity buying power available today and a chunk of it might be earmarked for investment in the auto industry. He said traditional capital will be difficult to acquire in the future and that the industry needs "brave capital."
- A recent survey by Hedge Fund Manager Magazine shows global hedge fund assets under management have grown a dizzying pace and have reached \$1.5 trillion. Most industry sources had estimated assets under management at somewhere between \$800 billion and \$900 billion.
- Hedge funds have grown more than 20-fold since 1990. It's no longer a cottage industry. We need to take it seriously. The SEC sure is. It is decided to make hedge funds register their businesses. Some of these investors have longer term return horizons but some young cannibals would as soon as short stock and bonds and bounce a company into bankruptcy to make a buck or to avoid a mark-to-market on their short position. It is a brave new world.
- Of course, as they say, "it is what is." You have to play with the cards you're dealt. Clearly, the first rule in this business is to take off the rose-colored glasses and see our situation in the unvarnished truth of today. We have structural issues in this business that we are not moving faster enough to solve because the decisions are so hard to make from a people standpoint and the right long-term solutions might take more money than current shareholders can digest in the short-term. The key long-term question is not whether these changes will happen but under what ownership structure, and by what leadership group.

- While we may not be able to do everything at once, competitive cruisin' speed in this sector continues to kick up every year. We need to make a long-term plan, stick with it, make the tough decisions, take action and lead through these tumultuous times. Or someone else will do it for us.
- In many cases it will take a heroic effort to turn things around. Not everyone has the stomach or the stamina or the support to do it.
- How much time to you give things to turn around before taking drastic action?
- When do you say this is not the right fit and make the change?
- How do you decide if what you're doing well today will be what you should be doing well tomorrow?
- How do you eliminate the feeling of entitlement that is so prevalent and destructive to the industry?
- Well, the good news is our industry is done with denial. No longer grieving for what was. Now it's time to lead the turnaround plan.
- Let me talk a little bit about Tower. Like the entire industry, our plan falls into three phases – survival, consolidation of competitive position and, once we've earned it again, growth. And, like the industry, we're almost through the tribal vote of the Survivor's council.
- I don't know about all of you, but the last few years have been tough for Tower. We invested over a half a billion dollars in new business, built seven new plants around the world and launched thousands of new tooled parts. While the growth added to our customer base and our product portfolio, this was definitely a case of eyes too big for the stomach without a clear strategy for the future. The company, constructed by deal guys, had not invested in a robust operating foundation or planned for the necessary liquidity to fund the new business. And to quote one of my favorite Yogi Berra-isms, "We made too many wrong mistakes."

- Now we are driving operational excellence into the fabric of all we do. “World class manufacturing” cannot just be a leadership slogan. Its principles must live real time at the stem cell level within every person in every plant or companies in our business just won’t make it.
- And this is just the entry ticket. High cost plants that are operationally excellent will live longer but, ultimately, plants must be cost competitive on an absolute basis. For companies, this means that supply chains need to average down by adding locations in lower cost areas: southern U.S., Mexico, Central/Eastern Europe, Turkey, India, and China. And, even if the business is growing, constantly restructure the high cost locations that don’t provide technology or service advantages, ideally a little at a time, to keep the chain strong. In the last year, we have expanded into key geographies and announced the closure of several older facilities and the downsizing of several more. And we still have a ways to go.
- As many of you know, the operations side is not enough, especially for those of us with a levered balance sheet. Truth be told, many of us spend as much time with our bankers and investors as with our customers. Good treasury people and even better lawyers (all jokes aside, at least for the ones on your side) are also key skills needed today. Tower was able to refinance our debt this spring pushing our maturities out to 2009, buying us some breathing room to drive the operational side.
- Well, just when we thought we had it handled, these challenges combined with the macroeconomic impact of rising steel and lower vehicle volumes at key customers to make the summer and fall even more interesting.
- These last quarters of 2004, as we complete our major launches and finalize some amendments to our refinancing package, are the turning point. Now, even as we are coming through the hardest period, Tower, like the rest of the industry, needs to look to 2005 and beyond.

- Some of you who have heard me speak before know that I often look for leadership inspiration in great female leaders. While there are not thousands around, one that I admire, a fellow redhead and one of the great CEO's of all time ... is Queen Elizabeth the First. This woman built an empire out of a country one traveler at her 1558 coronation called the "arse of the world". Prudent, bold and fair, this woman of many talents not only survived, she consolidated power and presided over the renaissance of a nation.

Leadership in the Survival Phase

- Queen Elizabeth faced difficult times from the start. And we think that we folks in the car business have it hard. Her mother, Anne Boleyn, was executed as an adulterous traitor and her dad, good old Henry the Eighth, wasn't exactly a role model for anyone besides Herman's Hermits.
- When she was born on September 7, 1533, Elizabeth was a terrible disappointment to her parents ... after all she was not a boy ... a boy could be king, but all a girl could be was queen. What good was that? Her parents weren't the only ones disappointed. After seeing Elizabeth on her coronation day one shocked citizen exclaimed, "Oh Lord! The Queen is a woman!"
- What a world she inherited. England had lost its way. It was fighting the Scots and the French. It as overcharged with debt. The treasury was exhausted. Its people were distracted. Numerous suitors wanted to merge with ... I mean marry her ... to gain control of her kingdom and usurp the crown jewels. Sound familiar? Bear any resemblance to our business?
- Elizabeth was in the survival mode from the day she born. She spent time in the Tower of London sure she was headed for the block. She was put under house arrest. But she never panicked.

- Survival is never about panic. Panic makes you powerless. We may say “heads will roll” but in Elizabeth’s case that was double edged sword – the axe rarely leaves second chances.
- Those who panicked or took sudden, sweeping or impulsive actions that were not strategically thought out found themselves in the Tower...the merry old England tower, not the automotive version. Best bet was to give the axe man a few coins to make the cut swift and clean.
- But, Elizabeth avoided the axe, literally and figuratively, and moved England from survival to consolidation of position to prosperity by taking command, creating a positive vision and demonstrating some very effective leadership qualities.
- Here are some suggestions for navigating through the survival phase.
- Be the Marco Polo of business ... map out the typography to success. Elizabeth encouraged the exploration of the new world. That strategy brought economic prosperity and expansion to England. We can do the same by encouraging innovation, demanding operational excellence in all that we do and re-establishing our industry and our companies as the makers of one of the most technologically advanced, innovative products in the world.
- Surround yourself with good, trusted advisors. Listen to them, hear them, weigh their counsel then make your decision and stick with it. If your key leaders, aren’t up to the task, find some who are. You cannot do it alone.
- Put your house in order. In the political world, that might mean putting down rebellions, building the economy, negotiating alliances and encouraging trade. In business, it means uniting the company under a common cause, fortifying the fundamentals, negotiating alliances and promoting prosperity through sound strategy.

- Boost corporate self confidence by celebrating successes and communicating constantly and consistently. This is not just a battle of beating on the basics but a marathon of wills to be won with hearts and minds.
- Don't force a showdown unless you are sure you can win. As Elizabeth once said, "I do not like wars. They have uncertain outcomes." Seek mutual benefit and win win's if at all possible.
- Share the fate of your company. It's time we rid ourselves of that feeling of entitlement at all levels that is so prevalent and so destructive to our industry. We might start by getting rid of leadership bling bling. Does everyone need a corporate jet? Shouldn't executives fly coach if they're asking their colleagues to do so? Should executives get a bonus when their companies don't show a profit? How can we ask our colleagues to sacrifice if we are not willing to make the same sacrifices? How else can you win the hearts and minds of your colleagues and unleash their passion and enthusiasm?
- When England was anticipating the invasion of the Spanish Armada, Elizabeth donned full body armor and spoke to her troops even though her advisors warned her of assassination threats. Elizabeth ignored them because she thought it was critically important to share the danger and lift their spirits. I am "resolved," she said, "to live or die amongst you."
- "I know I have the body of a weak and feeble woman but I have the heart and stomach of a King, and of a King of England, too." In the same speech she told promised them they would be rewarded for their service.
- What a great speech. She took control. She showed herself to be a leader and promised her troops their performance would be celebrated and rewarded ... a promise she kept.

- It takes equality of sacrifice to move from the survival phase to the consolidation of power needed for future victory. True leaders will stand up and share the in the fate of their companies.
- Now that you're through the trough, it's time to consolidate your position and clarify your competitive raison d'etre ... to communicate your vision more broadly, re-establish the company or industry and turn the organization around.
- This is a time of performance-oriented teamwork. Where we keep the faith, baby. This is where we have to get the whole church choir singing off the same song sheet. Where we have to end derisiveness in our industry and companies.
- In this phase we've made the Olympics. The catch is, we have to be in them for the next two or three years at peak performance in every one of the events.
- We can learn quite a bit from some of our Olympic heroes at this year's games.
- You all know Michael Phelps' success story – six gold medals, two bronze and a metal winning appearance almost every day we saw him swim. But his biggest success was stepping aside and letting a teammate swim the medley relay.
- “We started the meet as a team, and we ended it as a team,” he told reporters. He told them sitting in the stands was a difference experience. “I was able to lead the cheers and get the rest of the team going. We were on our feet for the entire race.” His decision resulted in a new world record for the relay.
- He knew the whole team had shared one common goal so he was willing to step aside and trust others to bring the race home.

- It was a bold move and that's leadership. How many of us as leaders are willing to step aside, trust others and share ... and sometimes give up ... the limelight?
- As an industry it's time to turn the organization around, too, collaboratively addressing our common challenges such as health care and steel. We need to get all our industry associations, companies and unions on the same page. We need to consolidate our position to achieve mutually beneficial goals. If we keep going to Washington with different ideas and different agendas, they are never going to listen to us, much less hear what we have to say. The lip-service will simply continue.
- This OESA conference seems like the perfect place to accelerate our collaboration. We need to do a better job with our associations, helping them work across our industry to solve the problems we face today. We need to figure out what we agree on, where we have commonality and create agendas based on those shared goals.
- Even as we strengthen these cross-industry collaborations, we must accept that some of our relationships are affected by an increasingly agnostic world. We may still do business with a customer or a supplier or a bank for many years but that business is earned each and every day all over again. Many relationships are not as enduring as in the past. Divorce is much more common. We are learning to live in a world where we have some long-term marriages and affairs of convenience. Each side should simply be clear which relationship is which.
- These issues will challenge us as leaders. We have to address them. We have to create a new environment, learn to work in it together if we hope to move our companies and our industry into renewal and growth.

Leadership in the Growth Phase

- Success. Growth. The good times will return, at least for those who survive. Persistence and tenacity are key. In the growth phase, we can finally start hyping our comeback story. Curses be damned. Like the Boston Red Sox and the Detroit Pistons, we've endured and created a winning strategy.
- The reason these two teams won championships is a common goal and a superb, above-and-beyond spirit of teamwork to accomplish it.
- To lead effectively in the good times, we cannot forget what we learned in the trenches. Our collective amnesia has often proven our Achilles' heel. We simply don't learn from the mistakes of the past.
- Here's where leaders fall. Beguiled by progress and growth, they grow arrogant. Size becomes more important than execution and the top line bloats without a bottom line strategy. Without competitive clarity and the expectation of excellence.

Leadership Conclusion

- I'll leave you with two favorite quotes. The first is from the book, Zen and the Art of Motorcycle Maintenance. "I like the word "gumption" It's an old Scottish word, once used a lot by pioneers, but which, like "kin," seems to have all but dropped out of use. I like it also because it describes exactly what happens to someone who connects with Quality. He gets filled with gumption.
- The Greeks called it enthousiasmos, the root of "enthusiasm," which means literally "filled with theos," or God, or Quality. See how that fits?

- A person filled with gumption doesn't sit around dissipating and stewing about things. He's at the front of the train of his own awareness, watching to see what's up the track and meeting it when it comes. That's gumption.”
- The second is from Queen Elizabeth who once said, “We are not interested in the possibilities of defeat.”
- We aren't either.
- Thank you.