

Ford Continues on Forward:
An Analysis of Corporate Strategy

BUSI 400-004

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Case Study

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Introduction

The last few years have been a roller coaster ride in regards to the automobile industry. It was not too long ago that an economic disaster occurred in America when the government bailed out the “Big Three” — that is the big three automakers General Motors, Daimler Chrysler and Ford— due to lack of competitive strategy, increase in fuel prices and the healthcare fiasco. While American motor companies used to own the U.S. automobile market, now they are being beat out by other foreign automakers like Nissan and Toyota. There is much room for improvement among the big three American car companies and they are all striving to regain their images post the bailout.

While GM and Chrysler were desperate for finances and welcomed the bailout with open arms, Ford decided to take a different approach. Instead of accepting the short term strategy of the bailout, Ford declined governmental assistance (Reichmann, 2008). In fact, in 2009 Ford and its investors made a deal to exchange stock and cash for debt totaling just under \$10 billion, which dropped the auto company’s total debt by 28 percent (The Heritage Foundation, 2009).

This paper will analyze the current conditions of the automobile industry and review how Ford is attempting to regain its foundation in the American car market since the bailout (Reichmann, 2008). Strategic recommendations will be stated based on extensive research of Ford as a corporation and from inferences made by industry data. Finally, a conclusion follows the recommendations which will synthesize the overall status of Ford and its current competitiveness level in the American automobile market.

Industry Situational Analysis

Dominant Economic Characteristics of the Automobile Industry Environment

The automobile market is a large and crowded market that is defined by strict competition and keen marketing strategies. There several auto companies that compete either to reach a vast amount of sales through mass production or organizations attempt to find a niche market to base their product offering around. Meanwhile, globalization plays a huge role in the overall international auto market. Automakers that have a good grip in international sales find success in mass production since the economies of scale provide a large avenue for increase of unit production.

Competition is stiff and that can be seen in the American auto market alone. American automakers GM, Chrysler and Ford had significant market share in the United States before the bailout. In June 2007, the big three American auto companies made just over 50 percent of the U.S. automobile market (The Heritage Foundation, 2009). Just a year later the total market share of the American automakers in the United States decrease to 45 percent. A big part of that lost market share can be attributed to the financial troubles that the Big Three were facing as well as foreign automakers taking advantage of situation. One characteristic of the automobile market that can make competition difficult to stay current is the fact that the industry changes on a very rapid pace. Companies have developed pro-models years in advance just to make sure they do not lose out on any market shifts or opportunities.

Industry Key Success factors

An attractive value proposition that can create an attachment between consumers and the buying process is the most important success factor in the automobile industry. Cars like the Honda Civic, Toyota Camry and the Nissan Altima have made a buzz in the minds of the consumer based on the fact that these are affordable cars that people can attain with an average income while also being a value buy due to their long lasting built and semi luxury features. The reason why value proposition is so important is because customers are attracted to products that create a viable cost effective decision. These are first based off of a product that is the right fit for the customer at the right price (Berry, 2009).

Strong research and development departments are crucial and truly needed if an organization wants to become a viable competitor in the automobile market. Organizations like Nissan and Ford are key examples of how research and develop increase the quality and overall technological advancements in their newer car models. Nissan produce the very popular Nissan Leaf, a car model that runs 100 percent on electric without any carbon emissions (Krisher, 2011). Ford has done lots of research in developing their popular SYNC communication system in various models and has stimulated the cars to be more than just vehicles but also mobile devices (Ford, 2009). Research and development is an integral part of innovation which is a key aspect of creating a successful value proposition. This is a success factor in the automobile industry because the nature of the industry can be classified as very fast changing due to how rapid technological advancements are made (Greenstone, 2011).

Driving Forces Shaping the Automobile Industry

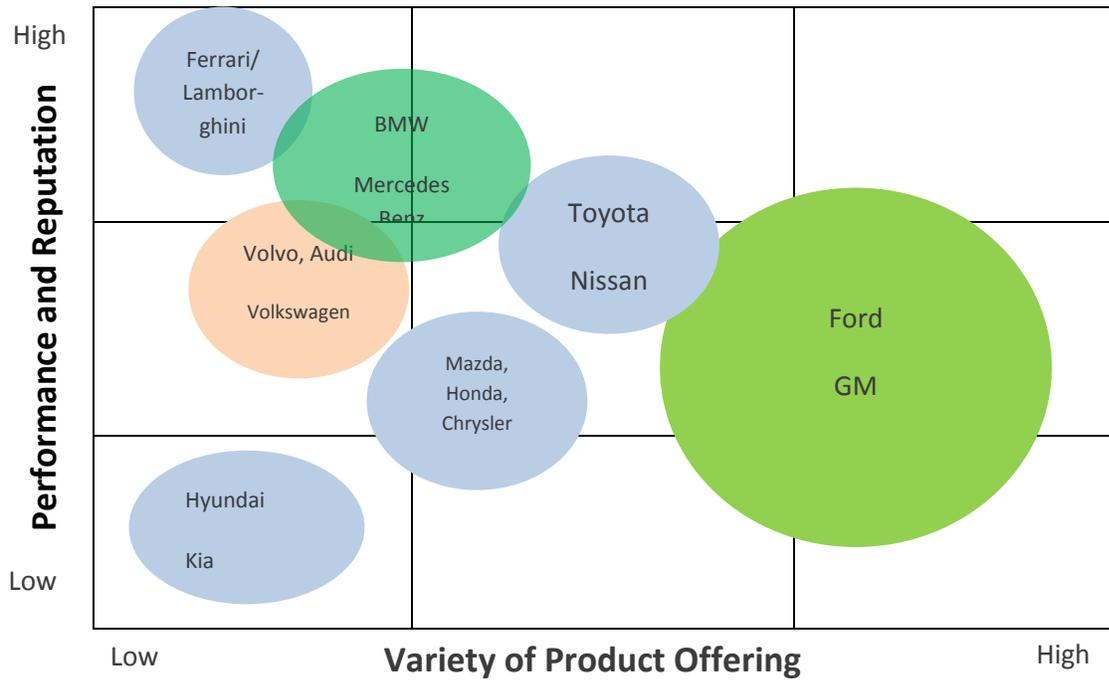
It has been evident that the rise in fuel economy and oil prices has had direct impact on the profitability of auto companies. The recent gas prices in the United States have risen just shy of \$4 a gallon (Brady, 2011). In 2008, the highest gas price was \$1.83 gallon (Brady, 2011). The prices of gas have seen a significant increase of more than double the amount it was just three years ago. This change has created a stingy environment for consumers who are forced different decisions than usual; increase of gas prices have made people to look for greener cars that offer high mileage per gallon.

Globalization plays a role in the auto industry because to capture economies of scale, some organizations have followed standardizing their product offerings. For example, Ford and Lincoln models are basically built on the same structure (Griffin, 2011). The only difference between the two is the perceived value and some features. However, more and more companies finding a way to compete and match competitors due to a convergence of the market offerings.

Industry Competitive Landscape Analysis (Porter's 5 Force Model)

The threat of new entrants is weak because the auto industry is so large and vast with very high operating costs, it would be nearly impossible for a new entrant to enter and gain a decent market share. *Buyers Power is strong* because there are so many auto companies that are trying to sell to the same consumer. This creates massive competition among competing organizations because the buyer can purchase from vast amount of choices. *Supplier power is weak* because there are so many avenues where automakers can purchase auto parts. *The threat of substitutes is weak* as well due to the fact that automobile has a strong foundation on consumer needs in terms of transportation. In some areas around the world, there might be lower need for cars due the living environment such as third world countries or crowded cities and metro areas. However, even those substitutes create minimal infraction in competing against cars and the void automobiles fill in the needs of the consumer. *The competitive rivalry within the auto industry is fierce*. The reason why rivalry is fierce is because there are so many competitors in the same market. The only way to differentiate is by creating new industry standards or raising the consumer's perceived value of the product.

Competitive Position of major Companies (Group Map)



According to the group map, the companies that have a stable, favorable position would include Nissan, Toyota and BMW. These companies offer a valuable product that has good reputation of quality that appeals to the consumer. Kia and Hyundai are two companies that offer the least attractive value proposition due to their lack of quality. Even though they are both cheap in prices, the cost benefit for consumer is unattractive.

Competitor Analysis

Company	Corporate Strategies
Ford	Single, unified approach to global market, accelerate development of new cars while leveraging all resources across the board in order to make strategy financially viable. (Ford, 2009)
GM	Corporate strategy based on upgrading their performance in all brands and vehicles with a specialization on increasing how fuel efficient car models are and developing string research and development in order to incorporate new technology of alternative fuel in newer models. (GM, 2010)
Toyota	Looking to reinstate their brand after a fall out when they had to recall several models. New strategy involves emphasis on reaching financial performance and incorporating development of variety of hybrid models. (Reuters, 2011)
Honda	Invest heavily in research and development that will bring production efficiency and adhere to keep environment clean. Honda has a global strategy that involves being in several segments of transportation including motorcycles, jets and power equipment. (Honda, 2010)
Volvo	Striving to rebrand their image as more than just a safe car, but drive perceived value of a sport car persona. Their production and product offering includes not only sedans and cross country vehicles but large trucks. Currently they are establishing a new corporate structure. (Volvo, 2011)
Nissan	Nissan looks to continue to gain recognition with their strategy that is based on top notch innovation and fierce marketing. (Fast Company, 2011)
BMW	Continue to provide top quality cars that have very luxurious features.

Company	Competitors' Next Moves
Ford	Focus on Research and development to compete with Nissan and Toyota
GM	Getting out of debt by cutting costs and adding value to current brands
Toyota	Continue to build Prius and other alternative fuel vehicles
Honda	Developing other SBUs in Motorcycles and Jets while maintaining success of Civic
Volvo	Reimagining Volvo through developing more sport series vehicles while invest in R&D
Nissan	Keeping their brand image and adding new eco-friendly products to the market.
BMW	Add value to the Mini brand series while developing more fuel efficient cars with its BMW brand as well as market BMW motorcycles in a greater way

Overall Attractiveness of Industry and Competitive Environment

The automobile industry is still very attractive and continues provide products that most everyone need in this current age. One of the factors that make this industry attractive is the fact that many companies are developing stronger research and development competencies. Most companies have already or are beginning to understand that there is a fierce push for developing vehicles that run on alternatives fuels or alternative energies. With such social emphasis on “going green”, automakers are expected to capitalize on the opportunity to provide more efficient products that cater to the notion of keeping environment safe.

In the United States, there has been some recovery of the bailout crisis. In 2010, U.S. automakers GM and Ford reported on profits of \$4.7 and \$6.6 billion and over 50,000 jobs have been added due to the auto industry (Noyes, 2010). However, there are some factors that make the auto industry unattractive. The main fact that there are so many competitors in the market, it makes the road for succeeding very strict. Another reason why the auto market seems unfavorable is to special issues that are outside the controls of auto companies. These include the constant struggle of rising gas prices, the war in the Middle East, and the unstable plan of Healthcare reform in the United States (Noyes, 2010). However, profit outlook is favorable because of the steady recovery of the U.S. automakers, and the focus of innovation among several top organizations, the opportunity for an existing auto company to capitalize on profits is evident.

Company Situation Analysis

Evaluation of Current Strategy

Ford is moving towards a standardized strategy that involves cutting cost down and effectively marketing the Ford Brand. Currently Ford operates and manages two brands: original Ford brand and a luxury brand in Lincoln (Ford, 2009). One of the main focuses of the current corporate strategy is to cut excess cost down and restructure the internal focus of corporate image and branding. It is evident that Ford is achieving early success in their initiatives to cut cost because in 2009, a little over \$5 billion were cut down in automotive structuring costs, surpassing an organizational goal of cutting down \$4 billion (Ford, 2009).

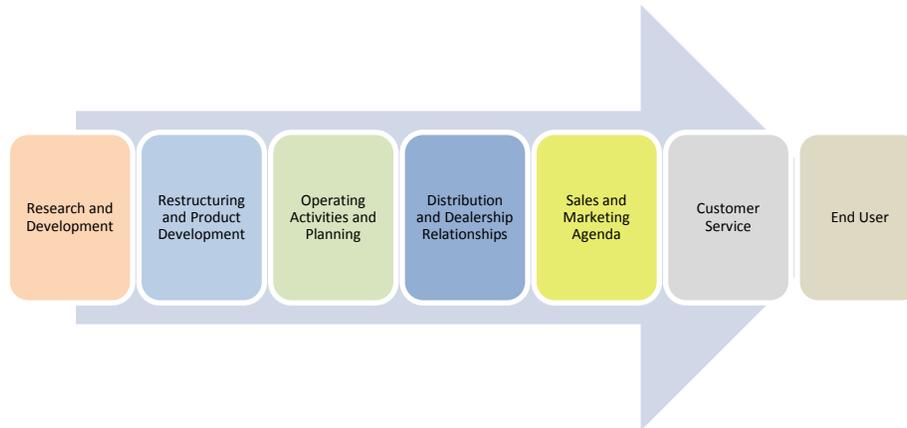
Another aspect of their current strategy is providing cars that emphasize fuel efficiency. This is seen in the new models of sedans and crossovers which including four cars that are being heavily advertised in the Ford Fusion, Ford Focus, Ford Ka and the Ford Fiesta (Ford, 2009). Pushes for environmentally safe vehicles are even making an entry and are seen within Ford's SUV Escape Hybrid. Coming in late 2011, Ford will make an all-electric version of their Ford Focus model (Ford, 2009). Meanwhile, Ford will continue to build and have great success with their award-winning F series trucks, which has earned the position of best-selling truck in the United States for the 33rd time and in Canada for the 44th time (Ford, 2009). So it is evident that Ford current strategy of cutting costs, focusing in a unified single Ford brand image, and production of environmentally savvy vehicles is bringing hope for continuous recovery of the financial crisis in 2008.

Ratio	Unit	Comments
Current Ratio	1.55	Good considering it recovery plan from 2008
Debt Ratio	.348	About 35 cents of every dollar in liabilities. This good that their debt management is not overwhelming
Debt To Equity Ratio	2.0	However, this is too high. This is too risky and can drive the interest rate up.
Gross Profit Margin Percentage	19.0%	In good standing
Earnings Per Share	1.66	Good compared to competitors
Market Share %	16%	Considering the total market share in the US by US auto makers is just under fifty percent, Ford has a good chunk.
NPAT %	-2.8%	Restructuring Phase, can bring up profits soon
Market Cap	56.21 Billion	Above average market cap compared to industry.
Statistics are found from Yahoo Finance and Ford's 2009 Annual Report		

SWOT Analysis

Two *strengths* of Ford include an established brand and a developed distribution relationship with its dealers. This key because the automobile market is so competitive, Ford clearly has been in business for years so the learning curve is so low, younger companies are at a disadvantage (Berry, 2008). The brand image and brand name Ford is a prized American label, with rich history of its American muscle car, the Ford Mustang. The name will never be erased out of the consumer's mind. However, a *weakness* that Ford does have is the fact that financially they are playing catch up. Ever since strict competition from foreign companies in the United States, the market share has decreased compare to what it used to be prior the financial crisis of 2008. There are several *opportunities* which include advancement in research of alternative fuels, new technology that can be incorporated in the cars, and vast economies of scale when participating in the global market. However, there are crucial external threats like current war, economic recovery from fall outs in other industries and the continuous battle of rising oil prices that still pose a threat to success of the Ford's strive to reestablish their organization.

Analysis of Company Price and Cost Competitiveness (Value Chain)



This value chain is a representation of how Ford delivers their product to the end user. It is a good value chain because it begins with research and development, which is a key strength of Ford. Using their strengths is part of their strategy of having a competitive value chain, one that rivals other companies. As stated before, another key point of their value chain is the fact that they have a strong relationship with distribution partners and good variety of dealership partnerships.

Weighted Competitive Strength Assessment

Competitive Strength	Weight	Rating/ Score
Innovation	0.20	6/1.2
Research and Development	0.35	7/2.45
Attractive Value Proposition	0.30	7/2.1
Globalization	0.10	7/0.7
Sum of Weights	1.00	
Overall Weighted Industry Attractiveness Score		6.45

Scale: 1 = Most Unattractive; 10 = Most Attractive Strength

These are very important scales and success factors that are evident in the new structure of Ford. The reason why innovation and research and development are weight higher than globalization is due to the fact that Ford needs to maintain is brand image and value proposition. It is important in the restructuring phase to be established before going into international market. Once all the corporation is set on the winning strategy, then globalization can play a huge role.

Strategic Issues Analysis

Overall, after analyzing the data given, Ford does not seem to have issues with the current strategy in terms of organization and timely assessable corporate goals. The only issue that can hinder Ford is lack of implementing the new restructure plan of action. The corporate culture and motto is “One”, meaning focusing on the ability to revive and start making profits by reintroducing teamwork and synergy across all departments (Ford, 2009). Of course there will always unforeseeable external issues like the current crisis with high gas prices and war will occur. Nevertheless, the current movement within the structure of Ford has winning initiatives and traits that can bring them profit sooner rather than later.

Strategy Recommendations

Strategic Mission, Vision, and Objectives

The current mission, vision and corporate objective that are in place are the right fit and do not need any large changes. One aspect that can be added to the current strategy is focusing on social networking aspects of marketing. One of the areas that Ford needs to work on is creating a higher perceived value over their competition. Marketing in this day age has become very personable and is customized to reach the targeted consumer. Social media and networking is what is the most popular and used area that connects many consumers to strong brand names on a personal level. This strategy can include live Facebook events and groups, using Twitter to give up-to-date feeds and even customer service over Skype, Android and iPhone apps. Even though research and development adds real value to the end product, strong marketing campaigns can create the perceived value aspect.

Competitive, Complementary Strategies and Functional Area Objectives

A key success factor that was stated was to be involved in the global market. One complementary strategy that can reap more sales is establishing relationships in developing nations like Latin America and India (Harvard Business Review, 2011). This is essential in competing with foreign brands around the world, while help the growth of current high developing areas in the world. This is functional in the sense that going into develop nations that are growing in the midst of trying economic times will help build a brand recognition and customer reaction. In this case Ford would want to be known more than just another American company, but an organization that is on the same page as the developing nation

Timing Initiatives for Strategy Recommendations

Strategy Recommendations	
Coming Year	Following Three Years
Advertise the three hybrid cars (Fusion, Focus, Fiesta)	Be distinguished as an environmentally friendly company
Develop a budget for social marketing	Develop strong brand recognition in India and Brazil
Research trends in social networking and new media	Interact with customers on a personal level and keep customer retention when upgrading products
Continue to keep on schedule with R & D timetables and events	TQM and continuous assessment of current strategic goals

Conclusion

The automobile industry is one of fierce competition that is driven by a strong value proposition and the ability to capture economies of scale. Ford is in a good position because they have seen the failure and now they are coming out of the rut. They are really cutting down the costs in an effective way that not only allows them to be profitable, but allows the organization to grow and sell more efficiently (Berry, 2009). The current strategy seems to be having a positive with Ford success organizationally and financially (Ford, 2009). Sales have been steadily growing with car sales up 10 percent and continuous success of the F series truck brand (Prial, 2010). With structural forces internally intact and a creative, innovative marketing scheme while investing in research and development, Ford can continue on forward towards bringing back glory to the proud, American brand.

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