

# Degree of globalisation of ford motor company

[Business](#), [Company](#)



The Automotive Industry Global vehicle production has more than doubled since 1975, from 33 to nearly 73 million in 2007. The opening of new markets in China and India has helped to drive the pace of growth.

While seven countries accounted for about 80% of world production in 1975, 11 countries accounted for the same share in 2005. ( Starkey, K. & McKinlay, A 2007: 89) Lead firms in the automotive industry, known as automakers or original equipment manufacturers, carry out most aspects of product design, the production of most engines and transmissions and nearly all vehicle assembly within their own facilities. They are large employers, traders and innovators. They have substantial coordination and buying power in the chain. The automotive industry is distinctive because of its extremely concentrated firm structure: a small number of giant companies exert an extraordinary amount of power over smaller firms. Eleven lead firms from three countries, Japan, Germany and the USA, dominate production in the main markets.

The global scope of both lead firms and the largest suppliers was enhanced by a wave of mergers and acquisitions, and equity-based alliances in the 1990s. A second distinctive feature specific to the automotive industry is that final vehicle assembly, and by extension, parts production, has largely been kept close to end markets because of political sensitivities. Market saturation, high levels of motorisation and the tendency for automakers to ‘ build where they sell’ have also encouraged the dispersion of final assembly, which now takes place in many more countries, than it did 30 years ago.

(Maxcy, G & Silberston, A. 1959: 15) ? Industrialisation of the auto industry

The production of automobiles in volume began in the early 1890s, in

Western Europe. The USA started the production of both electric and gas automobiles by 1896. In 1903, Ford stepped in.

According to Starkey, K. & McKinlay, A the price of cars reduced from USD 850 in 1908 to USD 360 in 1916. The great depression and the World Wars saw a drop in sale; but the 1950s and 1960s were the glorious era for automobiles (driven by Ford, GM and Chrysler). Starkey, K. & McKinlay, A (2007: 90) argues that production reached 11 million units in 1970. Starkey, K. & McKinlay, A further indicates that international business in the automobile industry dates back to the technology transfer of Ford Motor Company's mass-production model from the U.

S. to Western Europe and Japan following both World Wars I and II. This gives rise to two important trends. The first one is that, the advancements in industrialization led to significant increase in the growth and production of the Japanese and German automotive markets. The second important trend was that due to the oil embargo from 1973 to 1974, the export of fuel efficient cars from Japan to the U. S. Earlier due to low fuel prices, US was producing 'muscle cars' but after the oil price shocks US had to compete with Europe and Japan who succeeded in producing fuel efficient cars.

For the first time, design, marketing, prices, customer satisfaction etc become important in the automobile market. By 1982, Japan became the world leader in US market. The potential growth opportunities led to global overcapacity in automobile industry. 1990s observed the merger and acquisition (M; A) and formation of strategic alliances to tackle this overcapacity problem. Increasing global trade also act as a major factor for

rising growth in world commercial distribution systems, which has also increased the global competition amongst the automobile manufacturers. Japanese automakers have instituted innovative production methods by modifying the U. S.

manufacturing model. They are also capable of adapting and utilizing technology to enhance production and increase product competition. Starkey, K. ; McKinlay, A(2007: 75) argues that the rising competition and increasing global trade are the major factors in improving the global distribution system and has forced many auto-giants such as General Motors, Ford, Toyota, Honda, Volkswagen, and Daimler Chrysler, to shift their production bases in different developing countries which help hem operate efficiently in a globally competitive marketplace. ? Globalisation of the automotive industry Firms globalize when they attempt to integrate key day-to-day functions on a global scale, such as component sourcing, vehicle development, new model introduction (the Big Three's investments in Mexico are a good example). From a geographic point of view, the world automotive industry is in the midst of a profound transition. Since the mid-1980s, it has, like many other industries, been shifting from a series of discrete national industries to a more integrated global industry.

Global integration embeds firms in larger regional and global-scale systems of production, consumption, innovation, sourcing, command and control. These global ties have been accompanied by strong regional structures at the operational level. (Sturgeon, T. ; Florida, R. 2000: 17) Market differences

sometimes require automakers to alter the design of their vehicles to fit the characteristics of specific markets (e. g. , right vs.

left hand drive, more rugged suspension and larger fuel tanks for developing countries, pick-up trucks for Thailand and Australia, etc. ). While many vehicles are designed with global markets in mind, an increasing number are developed with inputs from affiliated regional design centres, where designers and engineers help to tailor vehicles to national and regional markets. But, since the early 1990s, outsourcing has led to the creation of large global suppliers, which have taken on a more extensive role in the areas of design, production and foreign investment. The largest 20-30 suppliers have shifted the balance of power away from leading automakers, although in a very partial and incomplete way. Globalisation has created two classes of suppliers in the automotive industry, global and local. In the past, lead firms either exported parts to offshore assembly plants or relied on local suppliers in each production location.

Today, a new class of supplier has been added, the global supplier (Sturgeon and Lester, 2004). This trend has expanded the field of customers for many large suppliers to the automotive industry. Vickery, G(1996: 17) argues that most of the top suppliers now serve US, European and Japanese lead firms and have had to adapt to the different approaches these firms take to vehicle development and to forming and maintaining supplier linkages. Lead firm globalisation has also meant globalisation for suppliers, as demands for local production are now often part of winning contracts. ? Global integration of the automotive industry Ball, D. A. et al (2000: 10) argues that there are

three major global integration trends of world automotive industry global market dynamics, establishment of global alliances, ; industry consolidation: Global Market Dynamics - The world's leading automobile manufacturers continue to invest into production facilities in emerging markets in order to reduce production costs and therefore rise in profits.

These emerging markets include Latin America, China, Malaysia and other markets in Southeast Asia. Establishment of Global Alliances – Now-a-days, there is trend of joint venture in global automotive industry. Most of the giant automobile manufacturers are merging with each others. The big three U. S. automakers (GM, Ford and Chrysler) have merged with, and in some cases established commercial strategic partnerships with other European and Japanese automobile manufacturers. Industry Consolidation - Increasing global competition amongst the global manufacturers and positioning within foreign markets has divided the world's automakers into three groups, the first group being GM, Ford, Toyota, Honda and Volkswagen, and the two remaining group manufacturers attempting to consolidate or merge with other lower group automakers to compete with the first group companies.

The automobile industry is typically considered to be at the forefront of globalization. Evidence supporting this view includes:

- the intricate network of alliances and cross-shareholdings among automobile companies, within nations and regions but also between regions
- intensified M; A (mergers and acquisitions) activities in the 1990s, involving both end-producers and automotive input suppliers (PricewaterhouseCoopers 2000);
- the trend towards technologically motivated cooperation agreements,

which was caused, inter alia, by end-producers entering into new forms of partnerships for the design of principal components and subsystems

(UNCTAD 1998: 25 f. ; •and the significant role of intra-firm trade, e. g. of US-based automobile multinationals (UNCTAD 1999: 443). Sturgeon, T. ; Florida, R.

(2000: 9) further argues that a greater degree of global integration in the automotive industry has developed at the level of design, as global firms have sought to leverage design efforts across products sold in multiple end markets. The work of vehicle design and development continues to be concentrated in, or near, the headquarters of lead firms. In addition, suppliers of parts have taken on a larger role in design and have established their own design centres close to their major customers to facilitate collaboration.?

Brief Ford background Few companies are as closely identified with the history and development of industry and society throughout the 20th century as Ford Motor Company. Ford Motor Company entered the business world on June 16, 1903, when Henry Ford and 11 business associates signed the company's articles of incorporation. As with most great enterprises, Ford Motor Company's beginnings were modest. With \$28, 000 in cash, the pioneering industrialists gave birth to what was to become one of the world's largest corporations.

With the company's first sale came hope—a young Ford Motor Company had taken its first steps. The company went public and, on Feb. 24, 1956, had about 350, 000 new stockholders. Today, with about 300, 000 employees and 108 plants worldwide, the company's core and affiliated automotive

brands include Aston Martin, Ford, Jaguar, Land Rover, Lincoln, Mazda, Mercury and Volvo. Its automotive-related services include Ford Motor Credit Company. They are currently headquartered at Dearborn, Michigan (US), and distribute automobiles, including cars and trucks, in 200 markets pning six continents. Perhaps Ford Motor Company's single greatest contribution to automotive manufacturing was the moving assembly line.

The line proved tremendously efficient, helping the company exceed the production levels of their competitors by a sizeable amount—and making the vehicles more affordable. The company is beginning its second century of existence with a worldwide organization that retains and expands Henry Ford's heritage by developing products that serve the varying and ever-changing needs of people in the global community. ? Challenges of Ford The United auto workers union continues to be a major challenge for Ford and the automotive industry at large. The challenge for the last century has been employee satisfaction which leads to constant strikes throughout the corporation. Managers have been battling with employees and unions on keeping wages, hours, and retirement plans fair. Ford initially faced UAW resistance and was only able to gain the union's cooperation after management had put the work in to create a shared understanding of the extent of the transformation required To overcome the organizational challenges, they launched initiatives to help diffuse new process innovations across the company. (Starkey, K.

; McKinlay, A 2007: 8) Ford is currently spending a large proportion of their earnings on healthcare for their retirees as compared with newer



automakers. In the past, Ford has offered generous plans to attract workers to its plants, but no one thought about what would happen when these workers got to the age of retirement. Well, that time has arrived and the company is facing a difficult future as these costs of retirement continue to rise. Currently Ford is burdened with health care and pension costs of as much as \$1, 500 per vehicle in competing with foreign-based companies and have sought tax relief from Congress to alleviate this disadvantage. Ford is unfairly burdened in competing with both imports and domestic production from foreign-based automakers by their own rising pension and health care costs. Ford spent \$2 billion on retiree health care in 2004, By comparison, Toyota's employees in Japan are switched from the company health care plan to a national health care system within two years of retirement; the company is thus responsible currently for retiree health care coverage of only 3, 000 persons in Japan (Treece, B. J 2005: 26). Secondly, increasing global competition is changing the environment facing most companies today. As trade barriers fall and transaction costs decline, new global competitors are entering previously more isolated domestic markets.

In response to this intensified competitive pressure, local companies are pushed to enhance performance by innovating and adopting process and product improvements. Global competitors have established efficient operations in the US and earn much of their worldwide profit in the US market. The Japan-based OEMs (primarily Toyota, Honda, and Nissan), with their superior "lean production" process, were able to produce higher quality vehicles at lower cost. This competitive challenge was the most crucial driver of higher productivity as the Big Three were forced to respond

by introducing their own versions of lean production. At the same time, the Korea-based OEMs competed on low cost, intensifying price pressure in the small car segment, and the German- (and Japan-) based OEMs provided a strong challenge in the luxury and performance segments. This three-pronged competitive threat took market share from the Big Three and put pressure on their profitability. Grimm, B.

argues that the problem is Ford's key product -- its gas-guzzling sport/utility vehicles -- is seeing declining demand that has forced the company to step up the cash-back offers needed to maintain sales. That should not have been a surprise, given rising gasoline prices that are not expected to moderate because of a shortage of refining capacity. But Ford has not responded effectively to sudden market changes. Instead of introducing new vehicles to fit new market conditions, it has tried to keep sales of unpopular vehicles strong through ever-increasing financial incentives. It is very unwise for a high-cost producer to lead a price war. The result was financial loss accompanying market share loss to more cost-effective foreign competitors. Thirdly, the automotive industry in the US is also strongly affected by regulation. Concerns about safety, fuel economy, and emissions have resulted in a complex and changing regulatory environment.

Vehicles and parts imported into the US market on average face a very low tariff, while foreign direct investment is allowed, and even encouraged. More to that, is the challenge of overcapacity. According to the Wall Street Journal, the industry is capable of building nearly 86 million vehicles a year, about 30 million more than will be sold this year. And by 2015 the industry will only

get to 85 percent of capacity utilization. Ford is no exception. Its worldwide capacity tops the 8 million level, and sales are about 7 million. So it should close factories it doesn't need. The automobile industry has been plagued by mass overcapacity and has been in decline for decades.

In addition the rivalry among the competitors is very strong in this industry. The major competitors are so closely balanced that it increases the rivalry. In order to gain market share in the automobile must gain market share by taking it from their competitors. One of the other reasons there is such high rivalry is that there is a lack of differentiation opportunities. All the companies make cars, trucks or SUV's. The competitors are compared to one another constantly. The price, quality, durability, and many other aspects of different manufacturers are greatly taken into consideration when deciding what type of vehicle to purchase.

When the different manufacturers advertise they even compare their products to their competitors. For example, the commercials will focus on areas where the company outperforms its competitors. Another challenge to Ford in the context of global competition is rising material costs. Raw materials include rubber, glass, steel, plastic, and aluminium. Over the past few years, the cost of raw materials has increased significantly, mostly due to the price increase of oil and natural rubber. According to the U. S.

Bureau of Labor, from June 2007 to June 2008, the prices of steel-mill products increased 30. percent (a sharp spike, but minimal compared to the 105. 6 percent cost increase of crude petroleum). Iron and steel scrap prices increased 96. 9 percent during that time period, while diesel fuel jumped 85

percent. The Bureau of Labor predicts that in light of the growing worldwide demand for products such as steel and petroleum-driven by India, China and other surging economies-it is unlikely prices will decrease much, if at all, anytime soon. Some suppliers want automakers to pay an extra 10% to 20% when renewing contracts because of rising steel prices.

Automakers are balking, demanding instead that suppliers find ways to cut costs. If automakers accept the price increases sought by suppliers, the likely impact is \$100 to \$200 a car. Because of intense sales competition, automakers would be unlikely to pass that increase on to buyers, further draining profits already hurt by customer incentives. Product Differentiation Key to Ford's Survival in the Competitive Automotive industry Porter, M. E (1980: 35) argues that in the context of formulating a competitive strategy, firms can decide between costleadership, focus, or product differentiation strategy. In my view Ford needs to continually differentiate their products from their competitors. Product differentiation as the preferred option is a business level strategy in which firms attempt to create and exploit differences between their products and those offered by competitors.

These differences may lead to competitive advantage if customers perceive the difference and have a preference for the difference. Successful product differentiation will mean that customers have a preference for the Ford's products and these customers' preferences will lead them to pay a premium price for the Ford's products. Porter, M. E (1980: 38) further argues that the notion of a base of differentiation is important because it allows the firm to focus its efforts on creating and exploiting a particular difference between its

products and competitors' products. Everything from tangible product characteristics to abstract intangible concepts like national or regional pride could potentially be a base of differentiation. A successful product differentiation strategy for Ford will include the appropriate implementation of the strategy with respect to organizational structure, management controls, and compensation policies. Differentiation primarily impacts performance through reducing directness of competition: As the product becomes more different, categorization becomes more difficult and hence draws fewer comparisons with its competition.

A successful product differentiation strategy will move Ford's products from competing based primarily on price to competing on non-price factors (such as product characteristics, distribution strategy, or promotion variables). Ford is justified to use differentiation strategy because its most highly valued attributes will become commodity features over time. To combat that loss of advantage or uniqueness, Ford needs to be continually developing new value and benefits in existing products or services and/or developing new products and services to remain in a market leader position. Another justification for this strategy is cost leadership imposes severe burdens on the firm to keep up its position and Focus will not be an effective strategy because of the stiff competition that is present in the world automotive industry needs the flexibility that product differentiation strategy offers. Conclusions Fordism was instrumental in the mass production revolution ; internationalisation of the automotive industry. International business in the automobile industry dates back to the technology transfer of Ford Motor Company's mass-production model from the U. S. to Western Europe and Japan.

The automotive industry is at the forefront of globalization. The world automotive industry is in the midst of a profound globalisation transition. Currently the three major global integration trends of world automotive industry are Global Market Dynamics, Establishment of Global Alliances & Industry Consolidation Ford has many challenges it faces in competing globally. These are labour representation by the united auto workers union, very high health care and pension costs, foreign competitors, strong rivalry between competition, overcapacity, too much regulation & rising material costs And lastly product differentiation is a key strategy for Ford's survival in the competitive automotive industry. ? References

jhtml"> <http://www.pwc.com/gx/en/automotive/index.jhtml>