

Ford truck analysis

Business



External Environment Competition & Its Variables The SUV & Light Truck industry is highly intense primarily because of changing consumer demands and international competition. The competition is both domestic and foreign with most of the foreign from Honda and Toyota.

That being said, the industry is currently worth over 100 billion dollars and Ford is the biggest player earning more than 24% of sales. The other main competitors include General Motors (23%), Chrysler (15%), Toyota (13%) and Honda (9%). Together the big 5 make up over 85% of sales meaning there is a lot of manufacture power since there are a few number of producers making most of the products. The performance of the industry is primarily driven by consumer sentiment and their purchasing power. Historically these two factors have been weak because of the recent recession, generally poor outlook on the economy and increasingly high demand for fuel efficacy.

As consumers are becoming more price consciences they are moving towards lighter trucks with better mileage such as Japanese trucks. Ford is having trouble maintain its dominate position because developing fuel efficient cars isn't one of their core competencies, in fact Ford does not benefit financially from this market because the production costs incurred in research hybrid and similar technology outweighs the benefit proved to customers. Simply stated, customers are unwilling to pay for hybrid Ford trucks because they do not value the added inputs from the manufacture more than they cost. Other smaller factors that determine success in this highly competitive industry include flexible cost structures, establishment of export markets, optimum capacity utilization and research/development. The <https://assignbuster.com/ford-truck-analysis/>

flexible cost structures are extremely important because consumer demand can and has radically changed year by year. Ford must be able to adapt its products to match consumers without a high cost of adapting assembly lines.

Wages are the second largest cost structure and must battle unions and required/relative wages within the industry. The establishment of export markets has become increasingly important as domestic sales have been declining and Ford has been increasingly relying on foreign sales to survive. Domestic laws demanding more fuel efficient cars and stringent standards have narrowed the profit margin for Ford. Optimum capacity utilization is necessary to ensure there is no waste in the operations management as other competitors can compete on pricing by focusing on reducing production costs and minimizing both explicit and implicit costs. The research and development affects this industry as it is a huge barrier to entry since a huge amount of capital is necessary to produce a truck assembly line.

A large amount of money must also be funneled into improving that line to meet changing customer demands better than competitors while spending the least time and money. Ford has been able to do this relatively well as the market leader. Economy As mentioned earlier the performance of the industry is driven by consumer sentiment and their purchasing power; this is determined by the economy. As the economy went south in mid 2006 so did the truck industry. Trucks are normal goods, as income falls so does their willingness to buy trucks because they are seen as an unnecessary expense in most cases. They are expensive to purchase and maintain relative to compacts and crossovers.

<https://assignbuster.com/ford-truck-analysis/>

Japanese automakers took advantage of the U. S. recession and stole part of Fords truck market by meeting the demand for cheaper and more fuel efficient trucks better and faster than Ford. Currently the industry is expected to make a comeback and Ford was the only domestic manufacture to not file for chapter 11 bankruptcies unlike GM and Chrysler. For 2010 and 2011 revenue industry has grown 19.

6% and 9. 6% respectively as the economy has slowly recovers. The influence of the economy on Ford trucks can be further analyzed by trend in the world price of crude oil, the yield on 10-year treasury bonds and per capita disposable income. As the world price of crude oil increases the demand for fuel efficient cars decreases correspondingly, especially for Trucks, they are the most sensitive to gas prices of the automobiles. Furthermore, legislative requirements by Obama will require lowers MPG averages of automobiles produced in America which only increases Fords production costs. This year, 2012, fuel prices are expected to rise and make it even hard to squeeze profit from the truck industry.

The yield on 10= year treasury bonds also projects truck sales as interest rates dictates consumers' ability to purchase trucks due to loan and lease costs. As interest rates increase consumers will hesitate to purchase automobiles; 2012 expects an increase in interest rates. The per capita disposable income also reflects the state of the economy because as the income levels decrease consumers will be more demanding of value from a Truck and limits the price range of a new automobile. Trucks are relatively expensive and will suffer more than other cars until per capita disposable income increases relatively significantly. Political Trends, Legal and <https://assignbuster.com/ford-truck-analysis/>

Regulatory Issues, Technological advancements and Socio-Cultural Trends are included in above but will be broken down more specifically once we decide the direction more.