Strategic analysis report for ford motor company

Business, Company

According to Robbins and Coulter (2005), strategies may be formulated at three levels within any organization. These include: at the corporate level (where we have corporate level strategies), at the business level (where we have business level strategies) and at the functional level. At the business level, Porter (1998) has identified three types of strategies, deployed at the business level, which he enumerates as the generic strategies of differentiation, overall low costleadership, and niche / focus.

A firm's business level strategy may also be a combination of the overall low cost and differentiation strategies (where it is referred to as an integrated low cost / differentiation strategy), while its niche strategy may either be a focused low cost or focused differentiation strategy (Porter, 1998). The business level strategy of the Ford Motor Company may thus be discussed in the light of this context.

1. Firms competing using an overall low cost leadership strategy appeal to a wide customer base on the basis of their ability to offer lower prices. As such, such firms are characterized by high standards of internal efficiency that drive down the organization's overall cost structure. Consequently, they end up having relative cost advantages when compared to their competitors, and are thus able to charge lower prices for the same product and therefore to attract more customers.

To maintain their competitive sustainable advantage, they engage in continuous efforts to lower costs, which they achieve through: cost minimization initiatives, maintenance of strict control over production and overhead costs, and continuous upgrading of their facilities to ensure that they are efficient beyond their competitors' ability to imitate (Porter, 1998).

Unlike in the overall low cost leadership where value is created by means of the ability to offer lower relative prices, in the differentiation strategy value is created by means of the ability to offer products that are of higher relative quality, or which have innovative or unique features, superior customer service, and so on. In the niche strategy, the firms will target a small segment of the market which has specialized needs and which has been ignored by the mainstream.

It will target this niche either through a differentiation or overall low cost leadership strategy (Porter, 1998). Of the four strategies outlined above, Ford’s business strategy (as summarized by its “ One Ford – One Team • One Plan • One Goal” plan) can be described as an integrated low cost / differentiation strategy, where its appeal is based on both a low price, and product features (Ford Motor Co, 2008). This strategy is characterized by efforts geared towards both reducing costs and enhancing product features and innovation, as follows:

- The introduction of safer, greener, and better quality products such as “ a new line of midsized cars,” hybrid Sports Utility Vehicles (SUVs), and green cars. Specific examples of these include the Ford Escape, Ford Transit, Fusion and Milam (Ford Motor Company, 2008, p. 14). In a submission to the Congress, Ford states that its aim is to achieve “ Product excellence through leadership in fuel economy, innovation, quality, safety, and leading edge “ comfort and convenience” technology” (Ford Motor Company, 2008, p. 14).

- Cost reduction initiatives undertaken include: closure of some of its underperforming plants in a bid to save costs and lower its cost structure, laying off of more than 12, 000 full time and 45, 000 part time employees in the key North American region, and other cost reduction initiatives geared towards cutting down its operational costs by a massive $45 billion in just three years.

Considering that wages of auto workers are a significant burden for the US automobile industry, Ford has also taken steps to lower this cost component by negotiating with the United Auto Workers union that have resulted in lower but also flexible wages (Ford Motor Company, 2008).

2. How the company's value-chain activities can be better linked to create value for the company. The value chain activities at Ford can be better linked in the following ways in order to create more value for Ford:

In line with shifting customer tastes that are gravitating more and more towards smaller, more fuel-efficient cars, Ford Motor Company should convert most of its truck assembly plants into plants for the production of small and medium sized cars. Ford should establish flexible body shops, which will enable it to respond fast to any changes in consumer preferences. For example, it should have plants that can manufacture the various blends of engine transmissions and families. It should close down some of its plants in order to align production more closely with demand, given increased competition and falling demand.

This will help it cut down on unnecessary costs. It should adopt lean manufacturing systems such as Toyota’s TPS system, where raw materials are only pulled into the production process as demand materializes. This will help it reduce the stock of inventories required (both in terms of raw materials and finished products) and help to reduce inventory carrying costs and obsolescence costs (Robins and Coulter, 2005). Additionally, the firm should rationalize its supply base by reducing its supplier base. This will enable it to develop closer, mutually beneficial and more intimate relationships with a few quality suppliers.

By spreading its supplies among only a few suppliers, it will also be in a position to enjoy scale economies. It should also downsize its dealer network especially for its key marquees (Mercury, Ford and Lincoln), being careful in the process to also maintain customer convenience. Given that it has very many dealers (about 4, 400 in 2005, for just these three brands), downsizing of its dealer networks will enable it to cut down on its intermediation costs (Ford, 2008; Robbins and Coulter, 2005). It should outsource some of its non-core functions to dealers in places such as Asia who boast of superior products at relatively lower costs.

Given that production costs in North America are high due to factors such as a high wage rate and legacy costs, this will also help the firm to cut costs. For example, in so doing, Ford will be able to reduce its fulltime and part-time staff complement (Ford, 2008).

3. Competitor analysis and Porter's Five Forces: According to Porter (1998), there are five competitive forces that every firm must contend with. These include: industry rivalry, the threat of new entrants, the threat of substitutes, the bargaining power of suppliers, and the bargaining power of buyers. As relates to Ford, these are described as below:

- Industry rivalry: while there are more than fifty players in the US automobile industry, the top five control more than 70% of the industry.

These include: Toyota (with a 16. 73% market share), GM (19. 58%), Chrysler (15. 29%), Ford (8. 29%), and Honda (10. 86%) (Ward’s Auto, 2010). A high industry concentration points to a low intensity of industry rivalry. According to Ward’s Auto (2010), the rate of growth of the US auto industry has been dwindling thanks to factors such as intense competition, high costs driven by factors such as unsustainable legacy costs, high costs of fuel, and a slowdown in economic growth.

As a result, the total number of motor vehicle units sold has declined from 17, 812 units in 2000 to just 10, 601 by 2009. A low rate of growth of the market translates into fierce competition for the few customers available, thereby leading to a high intensity of rivalry. According to Lewenza (2009), the US automobile industry has some of the highest fixed cost structures in the world due to factors such as high wage rates and legacy costs.

High fixed costs imply that firms must produce at full capacity in order to enjoy scale economies, which leads to overcapacity and a fierce struggle to dispose the extra products. As a result, a high intensity of rivalry ensues. Overall therefore, the threat posed by industry rivalry can be described as moderate to high.

- Threat posed by new entrants: Traditionally, the automobile industry has been regarded as having high entry barriers, as a result of the massive capital and sophisticated technology required to venture into the industry.

As a result, the threat posed by new entrants has traditionally been considered low. However, Cooney and Yaccobbucci (2005) write that there are many players (for example from Asia) who have the financial muscle as well as technical expertise required and that together with the advent of flexible manufacturing techniques (which eliminate the barrier posed by scale economies), the threat posed by new entrants to the US automobile industry is high.

- Threat of substitutes: While a number of substitutes to the motor vehicle exist (examples of which include riding the bicycle, or walking on foot, or flying by plane), none of them can offer " the utility, convenience, independence, and value afforded by automobiles" (Bradley et al, 2005, p. 3). Consequently, the threat posed by substitutes is low.

- Bargaining power of suppliers: the largest segment of motor vehicle buyers comprises of individuals, who are many and fragmented, and no single individual makes up a significant portion of any of the firm's purchases.

As a result, the buyer bargaining power can be described as low (Cooney and Yaccobbucci (2005).

- Bargaining power of suppliers: given that the suppliers of components and other parts to the motor vehicle industry are many, small and fragmented; as well as the fact that motor vehicle manufacturers like Ford possess a credible backward integration threat (as illustrated when the firm took over a number of its own suppliers such as Vieston), the bargaining power of the suppliers can be described as low and their threat as weak (Bradley et al, 2005).

4. Ford's positioning, and expected competitor behavior: In summary, Ford faces: a weak threat posed by the bargaining power of suppliers, a weak threat posed by the bargaining power of buyers and a weak threat from

substitutes; but a strong threat from new entrants (primarily from Asia) as well as a strong threat posed by a high intensity of industry rivalry. What Ford therefore needs is to come up with a strategy to counter the competition posed by existing as well as potential competitors.

It can do this by getting aggressively into the production of the smaller sized vehicles, which has been the strong point of its rivals from Asia such as Toyota, Honda, and Nissan; in addition to maintaining the production of the large vehicles and trucks, where it has established unique capabilities. For the small car segment, it would pursue the overall low-cost leadership strategy, where it would offer: a mass market product with low levels of differentiation, at a relative lower cost. Read also about focused low cost strategy

In this regard, it will have to develop relative cost advantages through techniques such as outsourcing and other cost reduction initiatives as described earlier. Its cars would be thus positioned as greener, low cost alternatives, and more fuel-efficient. This action is likely to trigger a price war from its foreign rivals, but with a strong financial muscle, it can be able to outlast its rivals. For the large car segment, it should follow the differentiation strategy and offer more, innovative, and better features, which should help it command a price premium.

With superior innovative features, the threat of imitation by its rivals will be real, but Ford can maintain its sustainable competitive advantage in this regard by continuously upgrading its innovative capabilities.

5. The role which strategic leadership will play in helping Mulally and the organization meet its strategic objectives: Strategic leadership will play a big role in helping Alan Mullaly and his team to meet the objectives of the Ford Motor Company.

First and foremost, external environmental analysis techniques (such as PESTLE analysis) will help them identify the politico-legal, economic, technological, as well as socio-cultural factors which can present opportunities or pose threats to the organization. Internal analysis techniques such as SWOT analysis will enable Ford to identify the weaknesses which have the potential of bringing down the organization as well as the strengths which it can exploit to meet its objectives.

By matching the organization's strengths and weaknesses to the opportunities and threats, Ford will be able to come up with strategies that help it to match its capabilities to its macroenvironmentand to succeed in meeting its objectives. Strategic analysis tools such as the Ansoff Matrix and the BCG matrix will help Ford come up with the best strategies given its macro environment, competitive environment, and weaknesses and strengths.

Use of techniques such as the Porter's Five Forces framework will enable Ford to identify its competitors and to take steps to preempt those rivals from subduing them in the marketplace (Robbins and Coulter, 2005). References: Bradley, D, Bruns, M, Fleming, A, Ling, J, Margolin, L, and Roman, F. 2005. Automotive industry analysis. Retrieved on 5th August 2010 from http://www. srl. gatech. edu/Members/bbradley/me6753. industryanalysis. teamA. pdf

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