

# Ford global strategy



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Global business environment is now transforming in more competitive and intense, for companies to operate globally it is more difficult and strategically challenging to retain their competitive advantage and gain profits.

When organizations are expanding and working in global environment they need to have a global business strategy that in order to not only be successful in their home country but also to remain competitive internationally, as there different strategic choice are present to be used by top management, still the challenge is to select such strategy that is not in line short term business objectives but also can be carried out to achieve long term business objectives. Successful companies while enjoying their success face strategic paradox in and fail to understand the global environment and foresee upcoming challenges caused by being global, this strategic paradox not only affects their global profitability but also challenge them locally (Bartlett and Ghoshal, 1989).

To understand the global business strategies, strategic paradox and analyze that what challenges an organization has to face while operating in current diverse business environment and what are the problems that need to be taken care of while implementing global business strategy we have choose a leading automotive company based in USA, named Ford Motor Company.

In below mentioned lines I shall be analyzing few incidents in the life of the organization that will help us to understand strategic paradox; I shall review the literature available on some global business strategies to sustain competitive advantage in longer run, I shall also try to suggest key business

decisions that will be helpful for the organization in longer run, and at the end we shall see that what are challenges that are likely to be faced while implementing this global business strategy.

## **About Ford Motor Company**

Ford Motor Company is USA based market leader in automotive industry with its operations in more than 6 continents, and they operate near 70 plants worldwide, with about 159, 000 employees worldwide it has been leading the automotive industry in USA, and Europe.

With their successful mergers with Volvo, Aston Martin and Jaguar they have been able to perform well in UK as well, their vision names one plan one goal shows their global thinking with the integration on suppliers, distributors and global works force they plan to become a true worldwide market leader in consumer vehicles. Their strategy of becoming on stop shop for all vehicle related things that's include purchasing, financing and maintaining shows their progressive thinking. After their success in USA and Europe market, they plan to conquer Asia Pacific and Middle East which is also an emerging market (www. ford. com, 2010).

## **Strategic Paradox at Ford**

Ford, with its mission of becoming leading consumer good provider in automotive industry, had been a success story for decades, they had been leading USA, and Europe with their high quality, standard products and financial services. During the period of global economic crisis automotive industry also facing challenges in operating their business because of increased material costs, expensive labors and decreased demands. Due to

all these circumstances Ford had to cut jobs in their North American operation and close down some plants and layoff around 30, 000 employees, because their North American operation were suffering losses (Bordenave and Lung, 2000).

Same was the case of their main competitor GM, they also had to cut jobs in order to remain profitable in highly competitive market, reasons for Ford to suffer losses in American market were not understanding their customer's need that were changing and underestimating their non-American competitors like Toyota and Honda.

Oil prices were increasing globally and heavy expensive cars were no more affordable of consumer markets, that is what Ford was unable to understand at that time, this was the time when Toyota and Honda entered into USA market and introduced low cost hybrid cars and started getting market share, Ford at that time were not into hybrid cars market and that is why started losing market share and revenue started dropping causing them heavy losses in North American market. Before the time Toyota and Honda introduced hybrid cars models Ford was trapped in strategic paradox and was unable to predict future.

At that time their business strategy was diversification with different operations for different markets with different standards and specifications, for example one Ford model called explorer was different for USA and Europe market (Bartlett, and Ghoshal1989).

This strategy of having separated operation for different market caused them heavy costs in inter of high parts cost, separate R&D for different

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markets and models, inefficient production cycle and no knowledge sharing among strategic business units resulting in silos instead of synergies, the above mention strategy was causing high costs and in the times of low demand and high competition this caused them revenue loses.

To avoid this scenario and to stay competitive and profitable in business Ford launched their globalization 2000 plan that served as a way forward and made them again profitable and help them sustain their position as market leader. According to plan they shut down their some of the plants and came to the strategy of standardization, and that strategy help them reduce cost in terms of R&D, as Research and Development was done at one place and at one product and applied everywhere, made their production efficient as after avulsion of Volvo, Aston Martin and Jaguar they were able to share knowledge and made their production more profitable and cost efficient by adopting each other's best practices. They saved cost in parts as global purchase system helps them have more bargaining power on suppliers. Having this globalization plan applied, Ford was able to achieve low cost strategy and that increased their profitability (Buckley and Casson, 1976).

## **Literature Review on Global Business Strategies**

By the growth of business when companies starts their operations in other countries they are called global or international companies, at that time of growth their business strategies that being used in their home countries are no more effective, since global business dynamics are different from local business environment and local business objectives are different from global business objectives, there is a need to have a global business strategy that is not able to achieve global business objectives but also able to make the

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organization perform in home country, at the same time that strategy should be able to meet short term and long term goals of the organization, while looking at goals shorts term goals can be managing cash flows, revenue targets, market share and cost management and long term goals can be having sustainable competitive advantage and brand building leading to continued profits and growth (Ahlstrom and Bruton, 2007).

While looking at the literature available regarding global business management and having sustainable competitive advantage and profitability, there are strategies which are presented and commented, but the there are two most important and main strategies that are suggested by key practitioners and commentators, these two generic are called standardization and adaptation, these are the main strategies one business follow and other strategies like cost leadership and diversification are derived from them. Each of these strategies has their own advantages and disadvantages, some commentators are in favor of standardization and some commentators are in favor of adaptation. In below lines let us explore each of these strategies in detail and try to find out which strategy Ford is currently follow and what strategic change is required in order to thrive in global business environment (Buckley and Casson, 1976).

Standardization has been in use from the early production era, basic philosophy of this strategy is to make a standardized product or service for every target market, the entire marketing plan remain one and unchanged for different market segments, this strategy has a building block which is the idea that all human beings have the same need and this need can be

satisfied with the a standard product no matter what the geographical area is and other forces that are involved in decision making can be ignored.

Standardization has be practiced by production oriented companies specially the FMCG sector and automotive industry, this strategy has its own benefits that makes strategists to advocate it, for example when company opt for standardization it produces the same product for every market, that gives the company with the advantage of economies of scale, companies following cost leadership strategies normally goes for standardization strategy and compete in market on the basis of price. One other benefit that company gets is regarding raw material, when company produces one product then they need one kind of raw material by doing this they comes in the position of having bargaining power advantage over their suppliers because they will be purchasing in bulk quantity and this way they also get preference over other suppliers, another benefit is related to channel of distribution, standardized products are easy and cost effective to distribute and manage (Hrebiniak, 2006). Standardized products and marketing plan also provides companies with global brand image and helps company to establish their brand as big giant. Some commentators advocate that standardization fails to understand the local variation of needs.

In contrast to standardization there is a strategy called adaptation, this strategy follows the base line that needs differ from region to region and market to market, and there are some other variables that influence the decision making of any product or service that can range from economic forces to cultural variable and that is why every product cannot be sold to everyone or everywhere without making some small but valuable changes in

them and entire marketing plan should be customized according to the factors available in the target market (Hrebiniak, 2006).

Adaptation requires some customization of marketing plan according to the region or market that is targeted, according to some commentators adaptation increases the cost of operating in business as production processes are channel of distribution needs to be modified accordingly but on the other hand it is also an argument that since adaptation enhances the overall customer experience with brand and their acceptability of product it eventually results in increased profit. Modern day businesses are not transferring toward adaptation with some mix of standardization; this strategy increases the adaptation process by the consumers and increases the revenues in result, companies following adaptation also follow diversification and then compete local players in market.

What is to follow entirely depends upon the business, industry and target market, in some industries standardization is more suitable where mass production is required, needs of customers do not vary significantly and same product is required worldwide, in some industries adaptation is best to follow where customer's need are variable is geography and diversification is required to have competitive advantage. Currently we can say that no company is depending entirely on one strategy, there is a mix of standardization and adaptation which followed by most of global companies, whether it is FMCG or Telecom or Automotive sector, big organizations are mixing standardization with adaptation, where main product remains same and some small modifications are done in marketing plan to make it successful and acceptable in market (Hrebiniak, 2006).



While looking at Ford, it is very interesting to find that Ford has changed their strategy from adaptation to standardization; reason of such strategic shift was to reduce the high cost which were incurred due to adaptation and was negatively affecting profitability of Ford. By launching their Globalization 2000 plan they shut down their few plants, and merge their some departments and made standardized processes and products for all markets, following this strategy they created synergies in different strategic business units and made them do work towards one goal and on one marketing plan for whole global market, this strategy reduced their operational costs and enhanced their profitability, and was a success move for them.

## **Key Decisions for Ford**

Ford has emerged as market leader in automotive industry globally, they have been able to sustain their position for a longer period of time, in 1994 they changed their strategic focus, from standardization to adaptation, and up till now this strategy has been paying them, to stay competitive in coming years and not to get trapped in strategic paradox, they are required to make some critical business decisions, below are the areas where Ford would be required to focus and make decision in order to improve its business locally and globally.

- Invest in Brand

Since automotive industry is related to the products in which buying behavior of consumer involves sensitivity with product performance and safety, this decision making is also complex because it involves a heavy amount of money from one's pocket. That is why industry is dependent

upon good word of mouth and favorable brand image can positively affect companies revenues, such complex decisions are always associated with opinion leaders and positive brand image helps getting positive word of mouth, in this regard Ford need to invest heavily in their brand especially there they are newly entered, and planning to enter (Freysenet, Shimizu & Volpato , 2002).

- Efficient Distribution Channel

While operating globally and having standardization strategy in mind Ford need to have an efficient distribution channel in place, auto market is also dependent on a good channel of distribution, as customers rely heavily on the opinions of dealers, their product information and persuasion abilities play a vital role in decision making of consumers. The more efficient the dealer is and has reliable know about product the more likely is consumer to trust them and depend upon their opinion. Efficient channel of distribution also helps save costs and Ford should improve their geographical management of channel in way that costs are reduced (Bordenave and Lung, 2000).

- Cash Flow Management

Automotive industry is characterized with heavy cost and capital investments, for this reason organizations need to have a good cash flow management to supports their operational expenses, to improve their cash flow Ford can get help from their finance SBU as the provide financing to consumers for their automobile purchase. But the key area to look into is an overall cash flow management system to help them operate successfully, and in scenario of global standardization strategy this is even more critical.

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- Compliance with Standards

As companies go global standards of production varies from country to country and region to region, and having a standardization strategy may be a challenge to continue as there may be difference in local and international rules and regulations, however this challenge can be faced by making small modifications in production standards but this be again a challenge to keep these modification under controlled and bearable costs, this may also require to have a strategic shift and if not this factor stand alone but mixed with others can be significant to require a strategic move (Bordenave and Lung, 2000).

- Changing Needs

In today's business scenario, consumers needs are changing more rapidly than ever, automotive industry where consumer's need where pretty much stagnant as compared to other industries this sector is also starting facing this challenge of rapidly changing needs, now every market has their own set of need that will eventually lead the industry to customization according to geographical region, and this can affect their strategic decisions of remaining on standardization, there may be a strategic shift required to cater to this changing paradigm of market dynamics. Ford may have to have their customize options open in order to keep the customers and stay competitive in market, their standardization is right now is serving as competitive advantage but maybe there will be a strategic shift required to sustain their competitive advantage (Freysenet, Shimizu & Volpato, 2002).

- Organizational Size Management

Ford's organizational size may be key factor for them, they have already shut their plants and laid off their thousands of employees, this was an obvious result of strategy they were about to follow, as they were about to create synergies and sharing of resources of among different strategic business units, to keep up with the same strategy they may have to create more synergies and change their organizational size, since they need to reduce their cost further, there may be decisions required to reduce their organizational size, may be from Europe, and USA.

- Mergers

Ford has been doing some successful mergers and these mergers has been improving their profitability and enhancing their corporate image as market leader in the industry, Ford may be required to have more merger in order to go in untapped markets, they may be required to have merges with local players in order to penetrate in market more rapidly and get more swift acceptance, while moving in emerging economies like India Ford can have some alliances with local industry that can win them more market share then their competitors, this can serve as good idea as this will also save some cost to the market leader (The Economist, 2005).

- New Markets

Ford has been market leader in USA and Europe, but now to be a true global market leader in automotive industry Ford should go for un served markets , these un served market can provide them with first mover's advantage, easy penetration and more profitability; India and some other countries of Asia Pacific and Middle East can be good markets for their new ventures, some countries in Asia Pacific are now considered as emerging economies and <https://assignbuster.com/ford-global-strategy/>

there are great potential for Ford's products, company should consider having new ventures and grab the market before their competitor's do.

- Strategic Way Forward

This is may be one the most important decisions that Ford may have to make, as described above there are certain factors that are interrelated and changing with the market dynamics, Ford at this point in time will have to make certain strategic decisions regarding their future business strategy and way forward, they will have to make strategic choice that what global business strategy they are going to follow in the future, standardized adaptation could be their choice but this decision is critical and will decide their future as market leader (The Economist, 2005).

- Strategic Implementation Challenges

Whenever a company decides upon its global business strategy, there comes another challenge of successfully implementing this strategy, same will be the case with Ford, below are challenges that are, in my point of view, can be challenging for Ford in the process implementation.

- Formulation of Strategy

First challenge will be making of viable, clear and successful business strategy, this first has the utmost importance and this is going to be the most important decision.

- Creating Synergies

Since ford is adopting the standardization strategy, there will be a requirement of creating synergies among departments to share resources

and knowledge, however most of the time creating synergies become a challenge for the management, people with different knowledge and cultural back ground, different implementation of systems and processes and ability to mold systems and streamline operation create hindrances in creation of synergies, and same will be a challenge for Ford in the short run, and making synergies work in longer run. To have this concept implemented top management will have to present on ground and pay special attention on this because this is the first step in strategy implementation and will provide ground for other steps (Hrebiniak, 2006).

- Commitment of Managers

The middle and lower level manger play a vital role in success and failure of any strategy, because they are the one are going to actually execute the process of implementation, their commitment level and understanding of strategy is very important, as mentioned above if we take synergy creation as example, the role of middle management is very vital in this regard, if they do not understand the concept and rationale of synergies, does not possess the knowledge and skills to actually create synergies they total strategic plan is going to result in a failure, same is the case with other aspect of strategic plan, for better implementation of strategy it is vital to have the required human resources that have the capabilities of having this done (Hrebiniak, 2006).

- Communication of Plans

This is a important and usually ignored aspect in organizations that strategy and plans are not properly communicated throughout the organization and that is why the whole organization cannot come on one frequency and

strategy fails, Ford has to make sure that all are aboard and on the same frequency before making the execution part happen, they will have to make sure that line managers and even support staff understand what is organizational direction and how they are going to achieve that direction, failure to do so will result in failure of strategy as happened with many organizations (Allio, 2005).

- Consensus

Is another challenge that many organizations has to face and same would be the case with Ford, there is a strategic shift at hand and many stake holders may be not agreed to it, and once they are not agreed to do what is required there will be a failure in the implementation process, getting everyone ready and agreed on one strategy will be a challenge that is likely to be faced by Ford top management, however this challenge can be overcome by better communication of strategy and having everyone's concerns listened and addressed (Allio, 2005).

- Top Management Commitment & Consistency

Having and strategy formulated and executed is one thing and being committed to one strategy is another thing and at the same time vital thing, while implementing a strategy top management's commitment is not only necessary to be there but also it needs to be visible in order to make middle management believe in what they are doing and having faith in their strategic direction. Such strategies, about which management's commitment is not visible are not properly executed and does not result in success (Allio, 2005).

- Organizational Structure

Having a strategy implemented requires a structure that support the strategy, if Ford is going to have standardization in place then they requires such organizational structure that supports this kind of plans, in order to remain in modern business Ford will be required to have more flatter organizational structure that empowers people with their own decision making (Okumus, 2001).

## **Conclusion**

Global businesses require global strategies and there are few options available to global businesses to follow, so there this strategic choice should be made with care and keeping all factors in mind, Ford has been successfully using standardization strategy for last one decade, but to be successful in coming years they need to make some crucial decisions and then the challenge will be to implement these challenges, top management's vision and commitment will play a vital roles this and at the same time middle management's commitment to executions will also be of much importance.