

Ford bets billions on jaguar essay



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Introduction In the late 1980s, Ford strategists took a good look at the booming luxury-car market and realized they needed a global luxury brand to rival BMW and Mercedes-Benz. They considered acquiring several luxury brands. First on the list was Alfa Romeo. But Ford lost Alfa Romeo when Fiat intervened, with a little help from the Italian government.

Fiat did not want Alfa, but did not want Ford getting it either. Next came Saab and Jaguar. Ford was negotiating to buy both luxury-car companies at the same time. But Harold “ Red” Poling, then Ford chairman decided Ford could not manage two acquisitions at once, so Ford backed out of the Saab talks.

That left Ford to pay \$2. 5 billion for Jaguar, a legendary brand that had limped along through the 1980s as an independent after being mismanaged nearly to extinction by British Leyland. Jaguar had only two cars, and nothing in development but an ill-conceived sports car called F-type. And Jaguar was being wooed by other manufacturers at the time, most notably General Motors. John Egan, the Jaguar chairman who engineered the sale of Jaguar to Ford, said Jaguar and GM had been working together on plans for a joint car at the time Ford started buying shares. “ Ford’s initial aggressive takeover was premature in that we were talking to other companies,” said Egan.

“ When Ford contacted us we realized the game was up. We wanted to be sure we got a good price for shareholders. We came to the conclusion that of all companies interested, Ford was best. ” Had Ford planners realized how bad things were at Jaguar the company, they might have had second thoughts about taking on Jaguar the brand.

It wasn't that Jaguar's quality was bad, it was horrendous," said Bill Hayden, the tough east London manufacturing man Ford sent in as first Jaguar chairman in the new era. " It was a terrible organization making terrible cars," he added (Wernle 2003 p. 14). Problem Statement Ford is struggling to stay competitive in the luxury car market with the Jaguar line.

Manufacturing quality issues has lead to slowing sales and may have tainted the image of the once coveted Jaguar name.

My research will explore the different options that Ford can consider.

Possible Alternatives There are two basic options that Ford can consider: fix the line or sell it. If Ford wants to compete in the luxury car markets, they would have to ensure that the best manufacturing processes are implemented to limit the number of defects per car produced. With its antiquated factory and shoddy quality, it was something of a miracle Jaguar had survived the decade.

The fact that it did was a tribute to the power of the Jaguar name and the memory of the great cars from its past. Even though the company wasn't in good shape, the brand was still in good shape," said Bruce Blythe, then Ford's chief European strategist and co-negotiator of the Jaguar deal (Wernle 2003 p. 14). Another reason for Ford to keep the Jaguar line is to compete with the German luxury car manufacturers.

Despite overall downturns in the major markets of Japan, the United States and Western Europe, Germany's luxury automakers remain on track for record results again in 2008. That is the conclusion of an Automobilwoche survey of Audi, BMW and Mercedes-Benz plans and projections for 2008.

Both Audi and Mercedes say they are aiming for sales records. Including Smart, Mercedes and Maybach, the Mercedes-Benz Car Group sold a record 1, 285, 900 units in 2007. The core Mercedes-Benz brand achieved record results of 1, 185, 300 units.

At Audi, CEO Rupert Stadler says he intends to sell more than 1 million vehicles for the first time in 2008, up from 964, 151 units in 2007. The VW subsidiary has reported big sales increases in the United States — up 3. 8 percent to 93, 506 cars — and China — up 24. 8 percent to 101, 996. ?? Christoph Stuermer, who follows the industry for the Global Insight forecasting firm, predicts demand for luxury vehicles will continue to increase through 2010, rising 5 percent over 2007 to 5. 7 million units.

The prospect of continuing strong demand for luxury cars and trucks comes amid overall weakness in major world markets that has hit volume brands hard. Sales in the United States fell to a 10-year low of 16 million units last year and are expected to sink further in 2008, while the German market skidded 9. 2 percent to a 17-year low. At best, analysts say, overall demand in Japan, the United States and western European will stagnate (Krust 2008). Ford Motor Co. CEO Bill Ford says that the automaker will fix Jaguar, but the brand will have lower volume than projected.

Jaguar's products and brand value remain strong, Bill Ford said in an interview. But Ford tried to increase Jaguar's volume too fast, he said. Jaguar once targeted global volume of 200, 000 units. " In retrospect, it was just too big a stretch," Bill Ford said. " That end of the market doesn't lend itself to

rapid expansion. One of Jaguar's biggest stretches, critics charge, was introducing the X-type small sedan in 2001.

It is based on the Ford Mondeo platform. Ford Motor hasn't decided whether to produce a second-generation X-type. In the X-type's defense, Bill Ford pointed out that the vehicle is the brand's highest-volume seller and attracts buyers who move up to other Jaguar models. The viability of a future X-type is one of several issues that Ford Motor is studying as it tries to turn around Jaguar. The automaker doesn't break out financial information for Jaguar or other Premier Automotive Group brands. But sources say Jaguar lost nearly \$800 million (about 620 million) in the first six months of 2004 (Wilson 2004 pg.

6). " The good news is, it's not like we're having to fix a brand that either has very poor customer acceptance or an empty product display. We are having to fix a brand that's growth, its appetite, was bigger than it could handle. "

Recommendations After nearly two decades of ownership, troubled Ford Motor should sell the troubled British luxury brand Jaguar. ?? Ford has poured billions of dollars into Jaguar trying to make it work.

But now Ford is facing a broader financial crisis after losing \$1. 4 billion in the first half of 2006. Top executives have said they're looking at all options for restructuring the company. Ford has undeniably raised the quality of Jaguar, one of the world's best-known and most-desired brands.

But it has been criticized for letting Jaguar's look age, relying on updates of older models rather than pushing the styling forward. It also pushed the brand to grow too much and too fast, people inside and outside Ford say.

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Now could be a good time to sell the brand. Jaguar appears to be on the verge of revitalization, reverting its focus to high-margin, low-volume products. The recent \$75, 000 XK coupe is a hit with critics and is sold out through the end of the year, Ford says. Even Jaguar's critics think the brand has a future and can be turned around.

And potential buyers appear to be lining up. But industry sources say one of the big problems with Jaguar can be traced to problems in the late 1990s at Ford of Europe, which is separate from Ford's Premier Automotive Group, which includes Jaguar. One of Ford of Europe's most troublesome plants was the Halewood plant in Merseyside, England. Ford moved that plant onto Jaguar's books, effectively quadrupling Jaguar's production capabilities overnight. To keep the plant producing, the company decided to manufacture the X-Type sedan, an entry-level Jaguar meant to appeal to the same buyers interested in the BMW 3 Series or the Mercedes Benz C-Class. Still, Hume says, " There were volume objectives that would now be considered somewhat unrealistic.

" After Jaguar's total sales peaked at 130, 000 worldwide in 2002, the automaker plans to sell about 90, 000 cars this year, about flat with last year. Jaguar is now in the process of refocusing as a lower-volume, higher-revenue manufacturer," he says(Carty 2006 pg. 1b). Keeping Jaguar doesn't make sense for Ford, says Lemonides. " Ford doesn't necessarily get a halo effect from the brand, nor does it get a significant marketplace presence from the brand," he says. " It's not clear what Ford gains from having it.

It will never be big enough to be important for Ford. ” Carty, S. S. (2006), “ Will Ford make the big leap? ; The company line says talk of putting Jag on the block is just that: Talk,” USA Today, August, pg. B.

Krust, M. (2008), “ Luxury makers eye more records for '08,” Automotive News German Auto Industry Newsletter, January, pg. e-mail. Wernle, B.

(2003), “ How Ford bought, fixed Jaguar; Plans to buy Alfa Romeo and Saab didn't work out for Ford, but the carmaker got Jaguar – then the real work began,” Automotive News Europe, June, pg. 14. Wilson, A. (2004), “ Bill Ford says Jaguar will be fixed; Ford Motor Co. made mistakes with British brand, CEO admits,” Automotive News Europe, November, pg.

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