Business Case Analysis:

Ford Pinto Case

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INTRODUCTION

Have you ever contemplated the safety of the products you purchase? This question is often overlooked as most consumers trust that companies have grown to abide with the cultures of ethical decision-making. It is particularly overlooked with products launched by larger corporations as their large success is correlated with good reputation. However, this is a common misconception and the Ford Pinto case serves as a reminder of the effects of unethical decisions by corporations. The case revolves around the Pinto, a car launched by the American automobile company, that received its notorious reputation not because of unexpected circumstances but a well-thought-out decision of their management and engineers. The presented case closes with a rhetorical question, “Do the benefits of a business-oriented solution exceed the importance of an ethically right one?”. In this case analysis, we will explore how an ethically right solution should be foundational as it dictates other aspects of the company, including brand reputation and customer loyalty.

PROBLEM IDENTIFICATION

Primary Problem

It can be noted that the proposed case is composed of a collection of problems, the most evident being the company’s failure to uphold ethical values which resulted in a negative brand reputation. Although Ford released a product that abided by the government’s guidelines, it posed a lethal threat to not only its consumers but innocent bystanders. Ford was aware of the danger the Pinto was, yet decided to keep it on the market for a decade.

Secondary Problems

- In its pursuit to quickly outshine its rival companies, Ford's production process with the Pinto was nothing short of reckless. Their decision to sacrifice quality to cut costs rendered a huge design flaw. One that will later have consumers question Ford's ability to produce quality and reliable vehicles.
- At the time of its release, Ford was aware of the financial impact the faulty gas tank would make on the company in the legal realm. They concluded that they would still generate profit with the unsafe gas tank if legal actions were taken against the company. While this was true at the time, Ford failed to consider the long-term financial consequence this will have on the company. Ford did not account for any decline in sales and missed revenue opportunities due to the controversy surrounding the Pinto.

DECISION CRITERIA

Upon the formulation of our solution, we will consider the following:

- Ford should make an ethically aligned decision. Cost-efficiency can be weighed in other factors of the product, but should not compromise ethics i.e. the safety of its consumers.
- The financial risk of the decision should be evaluated on a long-term scale (for the proceeding several years)
- Ford should develop a competitive launch approach. With added emphasis on quality, and cost-efficiency, Ford can lead with a product that ensures the safety of its consumers. The company would need to prove to the market its distinction from its competitors.

ANALYSIS

The Ford Pinto case highlights the importance of the moral conundrum. where profit is prioritized before human life. In an effort to increase safety, Ford chooses not to include a in the gas tank. A fix that can stop people from dying in rear-end incidents exposed a glaring ethical and commercial conflict. Nonetheless, Ford complied with the applicable laws at the time. Serious ethical considerations are a reflection of this.

The Ethical Dilemma

The moral conundrum facing Ford was at the center of this case. The decision to include a rubber bladder or not rested with the firm. Should they include it. Every automobile they own will cost $11 more. Their goal was to manufacture 12.5 million vehicles. Thus, $137.5 million will be the entire cost. This is the extra expense they had to deal with. They therefore look for options to cut this expense. Consequently, they devised a way to provide clients who suffered severe injuries or lost their lives in the accident with monetary compensation. This customer received $49.5 million in compensation, which is less than the cost of installing the rubber bladder. Ford chooses not to install the rubber bladder as a result.

Although this argument made sense financially, it compromised the company's moral obligations to its clients. Ford damaged its reputation by putting profit before safety, and in 1978 it was the first American corporation to face manslaughter charges. Even though Ford had technically

complied with the law at the time, the business was incensed by the moral action, which ultimately cost them their reputation.

In 1978, they were accused of manslaughter. After five months, they ceased making the Pinto automobile because they had to modify the vehicles available on the market at a cost of $20 to $40 million. Their schedule was also about to expire in a few months.

When it comes to moral behavior, the business should put the safety and well-being of its customers ahead of its own interests. This is because it takes years to build a strong brand value, which is why the reputation and valuation of the brand are damaged. Given that the company's ethical behavior is lacking, it is unlikely that any investor will put money into it.

To put all this in a nutshell, the Ford Pinto was a good model, but it overlooked the moral conundrum. As a result, they lost the value of their brand and were sued. Nevertheless, this endeavor brings them profit. But it takes Ford years to win back the loyalty and trust of its customers.

Assumptions

- **Selling Price**: $2,000 (same for all options)
- **Base Cost Without Rubber Bladder**: No extra cost for safety features.
- **Profit Margin**: 10% of the base selling price = $200 per car.
- **Total Cars Produced**: 12.5 million cars.
- **Additional Costs**:

- **Rubber Bladder Cost per Car**: $11
- **Patent Gas Tank Cost per Car**: $5
- **Alternative Gas Tank Cost per Car**: $7

Table 1: Cost-Benefit and Valuation Summary ($2k Retail Value)

Scenario	Cost per Car	Total Cost	Profit per Car	Total Profit
Install rubber bladder	$11	$137.5 million	$189	$2.3625 billion
Do not install rubber bladder	$0	$89.5 million	$200	$2.5 billion
Use patent gas tank	$5	$62.5 million	$195	$2.4375 billion
Use alternative gas tank	$7	$87.5 million	$193	$2.4125 billion

ALTERNATIVES

One of the most obvious alternatives is to install the rubber bladder for $11 per car, which would have reduced the risk of gas tank explosions. This option would have increased the overall production cost by $137.5 million but it would have also saved lives and reduced Ford's liability in lawsuits. It would have prevented damage to Ford's reputation and avoided any issues with the customers in the future

PROS	CONS
● Enhances safety, reducing the risk of fatalities and injuries due to the gas tank exploding ● Preserves Ford's reputation, avoiding bad publicity and legal repercussions. ● Aligns with ethical standards	● Increases production costs, reducing profit margins. ● The additional cost per car might have reduced competitiveness in a price-sensitive market.

Another alternative is, that Ford could have delayed the production of the Pinto to redesign it. This would have allowed the company to produce a safer, more reliable product while avoiding the long-term costs associated with lawsuits and bad publicity.

PROS	CONS
● Producing a safer car would have prevented deaths and injuries. ● Ford's reputation would remain intact, avoiding later PR issues. ● Long-term savings by avoiding lawsuits, recalls, and settlements. ● Showing that Ford's product is safe and reliable may create more future sales	● Delaying production could have resulted in losing market share to competitors like Japanese automakers. ● Increased costs because of the delayed launch and redesign.

The last alternative is that Ford could have used the patented gas tank design from the Ford Capri, which was already in production at the time. This gas tank would have improved the safety of the Pinto by reducing the risk of gas tank explosions during rear-end collisions. However, using this design would have reduced the trunk space in the Pinto, which was a main selling point for consumers who valued compact cars with storage capacity.

PROS	CONS
● Enhanced Safety ● Reputation Protection	● Reduced Luggage Space. The Pinto's appeal as a compact car with decent luggage space would have been

• Implementing a safer gas tank would have "future-proofed" the Pinto from later safety standards, potentially avoiding future legal and regulatory issues.	compromised, potentially affecting sales. • Potential Higher Production Costs. Using the Capri's gas tank design might have increased manufacturing costs slightly beyond the original budget. • With less luggage space, the Pinto might have been seen as less competitive in the market compared to other small cars like the Volkswagen Beetle.

DECISION

We think the first alternative is the best. Ford should have installed the $11 rubber bladder in all Pintos from the beginning. Although the initial cost would have been significant, this decision would have saved Ford from the consequences of lawsuits, and loss of reputation. The ethical reasoning and the reputation cost outweigh the financial cost, consumer safety must

be a priority in any product launch, especially in the automotive industry. Below are some of the reasons why we think this is the correct decision

- Ethical Responsibility: Placing a monetary value on human lives, while it is used in cost-benefit analyses, should not outweigh the company's obligation to provide a safe product. Implementing the rubber bladder would have shown that Ford has a commitment to providing safe products for consumers which is very important in the automotive industry.

- Long-Term Financial Impact: Though the upfront cost of installing the bladder would have been significant, the long-term savings from avoiding lawsuits, settlements, and damage to the reputation cost would have made this investment worthwhile.

- Brand and Reputation: Ford's reputation took a huge hit because of their poor decision. By prioritizing safety, Ford could have maintained consumer trust and avoided bad publicity that harmed them for years. A more ethical approach would have shown Ford's commitment to quality and safety, which would have likely given them better sales in the long run. By keeping their reputation in good standing Ford would have also been able to capitalize on this particular product and continue with production but instead, they were forced to stop making the Pinto, and with the bad publicity they received Ford missed their opportunity to fully capitalize on this market.

While Ford's decision to avoid the $11 rubber bladder may have seemed financially logical at the time, it was flawed. The company had a responsibility to ensure that their vehicles were safe for consumers, even if the vehicle fit under all government regulations Ford did not take into account the reputation cost when they were doing their analysis. This caused the downfall of the Ford Pinto and cost Ford Billions more in sales that they missed out on.

IMPLEMENTATION

The implementation plan would have consisted of 6 steps:

1. **Planning**

Once the company would have found out about the gas tank problem at the initial stages of the Ford Pinto development, management must have immediately taken an initiative and rationally worked through all pros and cons of potential alternatives. An invitation of the Ford's business analysts for consultation would have been a reasonable approach, along with ensuring constant communication with engineers who could estimate real risks of launching Ford Pinto without a rubber bladder.

Thorough assessments of the 1st version of the gas tank, proper planning, and complex analysis of the case would have likely led to the decision of installing the $11 rubber bladder. This step would have approximately taken 6 months, having started from the generation of the Ford Pinto idea and continuing with the subsequent planning, discussions and engineering processes.

Approximate additional cost of this decision would have been **$137.5 million** found by multiplying **total produced cars** by **cost of installing rubber bladder**.

2. **Testing**

With the decision about gas tank improvement having been made and finalized, engineers of the company must have started assembling first Ford Pinto models for the car testing. 7 months would have been required to fully ensure performance, safety and consistency of the car. Engineers and designers would have been focused on constant improvement of the vehicle, by conducting testings, implementing engineering ideas, and combating problems that might have appeared within the duration of 7 months. These processes would have been crucial for ensuring no further problems could appear after launch of the Pinto model.

No additional cost would have been required for testing the Ford Pinto with the rubber bladder compared to testing the model without gas tank protection. However, the duration of testing might have become slightly longer due to the more complex protection system of the car. This step would have helped the company meet government's and consumer's expectations regarding the safety of the vehicle.

3. **Manufacturing**

After testing had been successfully completed and all decision-making criterias had been satisfied, the manufacturing process would have been started. Despite the fact that assembly of the car is relatively quick, preparation for the big launch takes a long time. With that being said, approximate manufacturing time for **the short-term plan** would have been 3 months (would

have allowed to prepare for the launch of the Pinto model) and for **the long-term plan** it would have been 10 and more years (would have allowed successfully establish manufacturing processes, and therefore company could have continued selling the new car and earn a great revenue by the end of the production of this model)

As it was said earlier, the approximate additional cost of manufacturing the model with the rubber bladders would have been **$137.5 million.** From a manufacturing perspective only, this step would have been crucial for making sure cars are prepared in advance for the official launch of the new model. Also, it would have ensured prosperity in the future, as all manufacturing processes would have been consistent and well-established from the 1st day)

4. **Promoting**

Ford would have started promoting the new Pinto model to potential consumers, at the same time with the start of manufacturing processes. New models would have provided not only mobility-wise features like design, spacious trunk and innovations, but also would have ensured the consistency in the safety aspects thanks to the thorough testing processes. Ford would have had a chance to use a combination of these aspects as their main promotion tactic.
The promotion strategy would have been made by the marketing team and would have been focused on magazines, radio-broadcasting and television. This car would have become a great choice in the eyes of lots of people after Ford's marketing campaign, increasing chances of success.

This step would have approximately taken 4 months, from the point of planning promotions to the implementation of them before and after launch of the product. No additional cost would have been required for promoting the Ford Pinto with the rubber bladder compared to promoting the model without gas tank protection. However, the approach that would have been used for promoting the safer model would have focused on targeting different emotions and different human values.

5. **Launching**

The launch of the Ford Pinto would have happened in around 2 years after the start of the development of the car. This step would have included all the hard work behind the final model, and the company would have wanted to do their best to ensure a successful and smooth start of the sellings. To do that, a big event with a showcase would have been organized, with the CEO and engineers talking about the advantages of the new model. 1000 could have had a chance to attend this event, including celebrities, media and potential consumers.

The approximate cost of organizing this event would have been **$15.000. Cost would include rent of the space, special equipment for the event, food, and entertainment.**

6. **Constant improvement**

After the launch of the car, necessary improvements in production would have been made based on the feedback and performance of the Ford Pinto in real-life conditions. A team of business analysts and engineers would have continued working on constant upgrades and used all possible

opportunities to maintain top-notch quality and success for the car. Team would have needed to ensure that Pinto would have remained competitive in the next few years.

The approximate cost of implementing this step could have varied, as it is impossible to predict needs and reactions of future customers**.** However, the importance of constant improvement cannot be ignored and must have received big recognition and financing from Ford.