

TCMT612_05M_087T_Ford-Motor-competitive-analysis

1. Main

1.2 Topic title

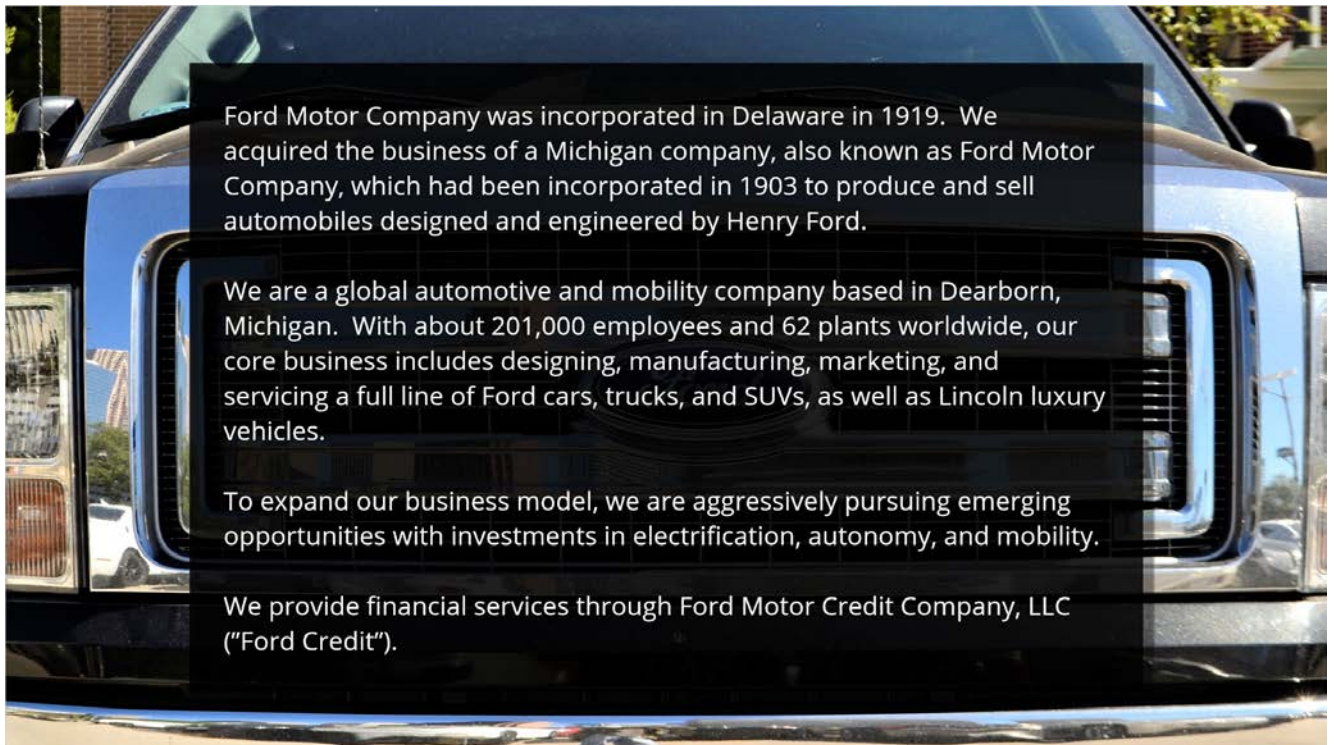


Notes:

We will discuss how to use Porter's Five Force Framework to assess the profitability of an industry.

I will use Ford Motor and the auto industry as an example to illustrate how to develop a competitive strategy of an organization.

1.3 Ford Motor Company



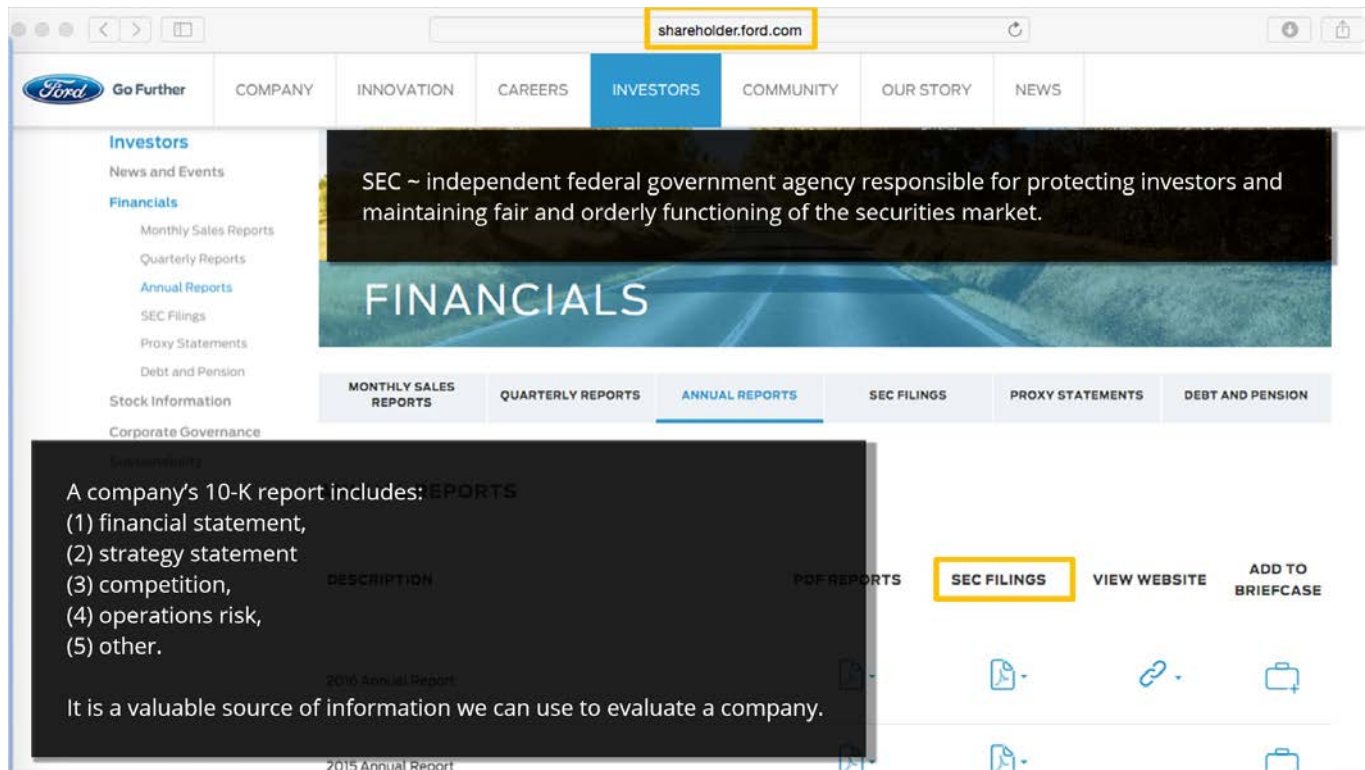
Notes:

We all know about Ford.

This is a formal description of the company's business that the company published in his shareholder relationship website.

Please take a couple minutes to read it.

1.4 Public information



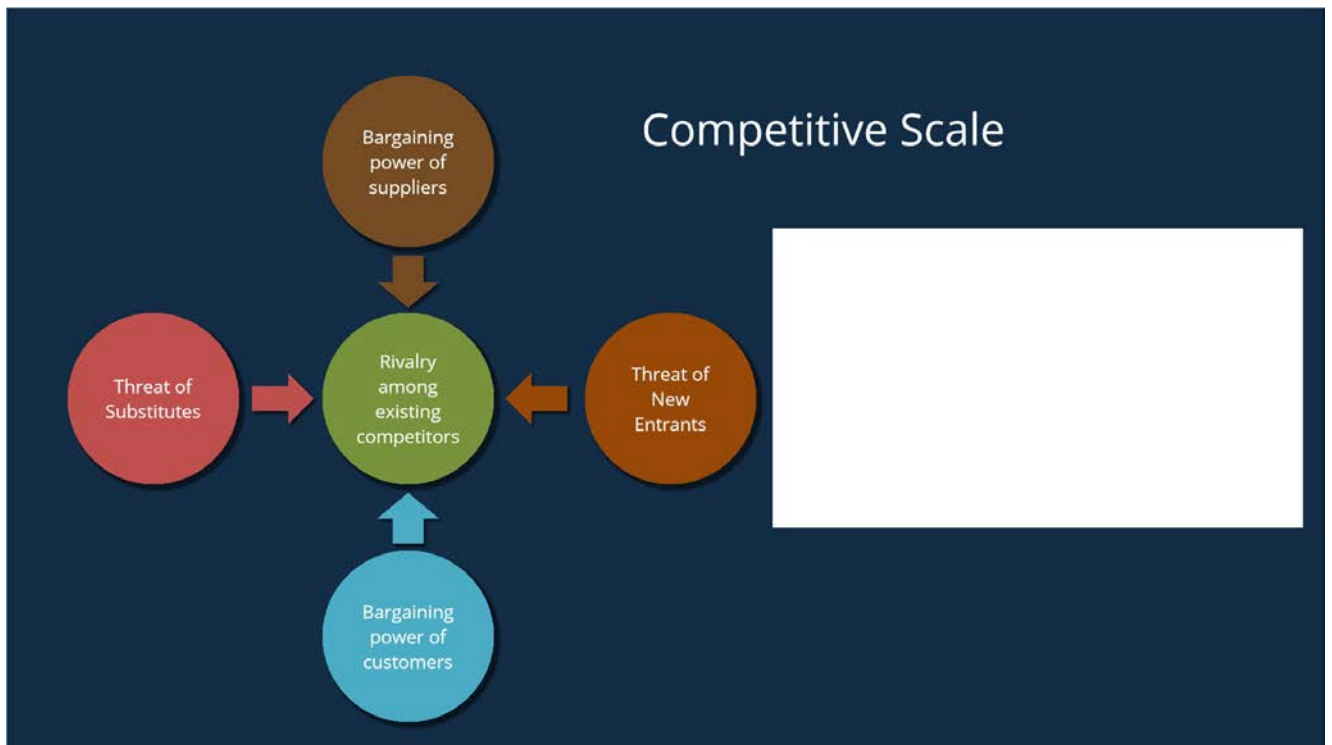
Notes:

My competitive strategy analysis is based on public information that Ford released on its shareholder website.

Every year a publicly traded company releases its annual report, called 10-K, to the US Securities and Exchange Commission (SEC), which is an independent federal government agency responsible for protecting investors and maintaining fair and orderly functioning of the securities market.

A company's 10-K report include financial statement, strategy statement, competition, operations risk, and so on. It is a valuable source of information we can use to evaluate a company.

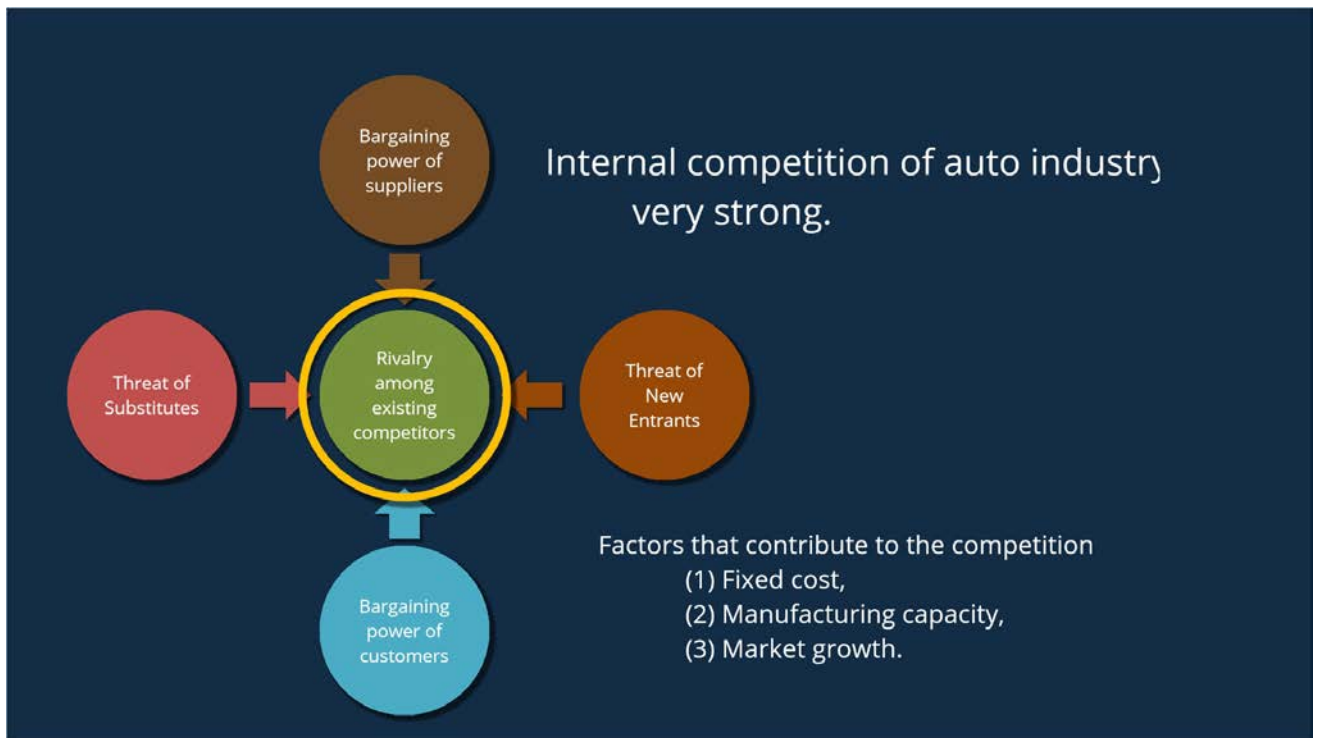
1.5 Competitive force



Notes:

We use three scales ("strong", "moderate", and "weak") to gauge the strength of each competitive force.

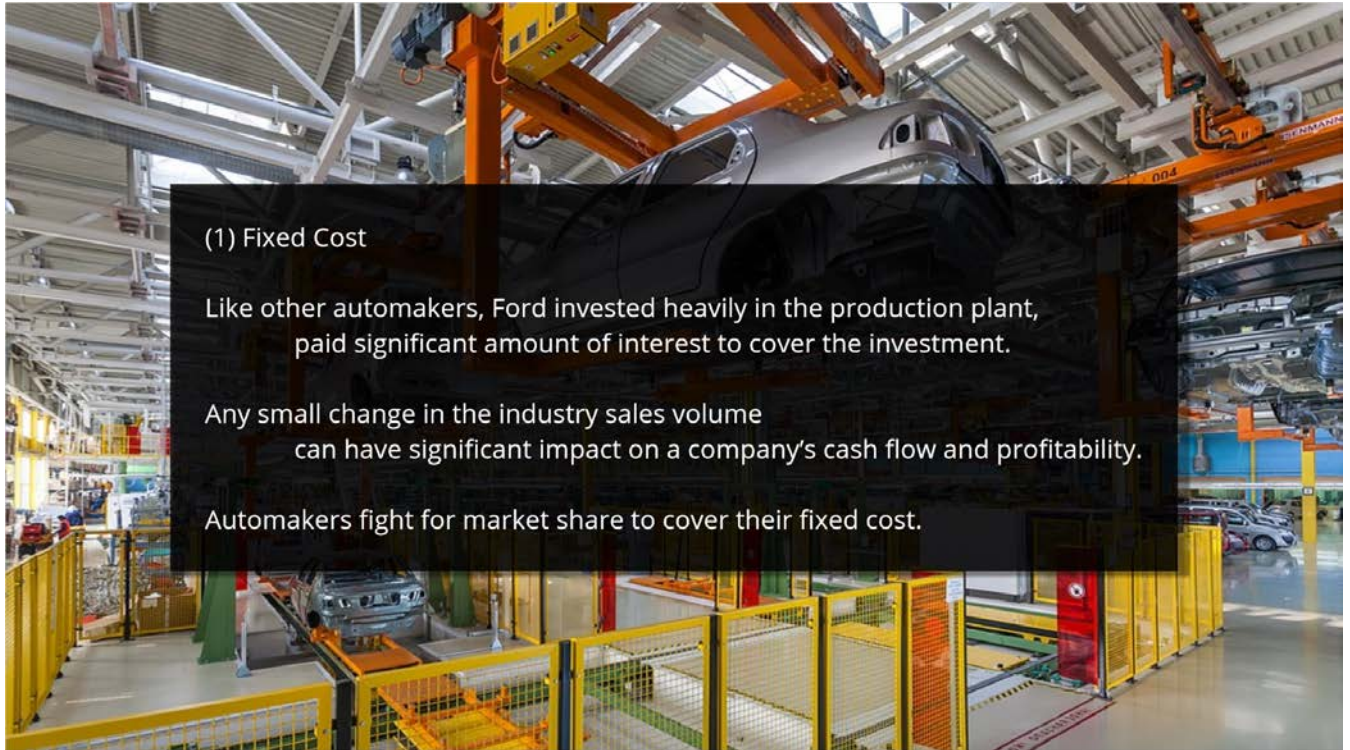
1.6 Industry rivalry



Notes:

The internal competition of the auto industry is very strong, and three factors contribute to the competition.

1.7 Fixed cost



(1) Fixed Cost

Like other automakers, Ford invested heavily in the production plant, paid significant amount of interest to cover the investment.

Any small change in the industry sales volume can have significant impact on a company's cash flow and profitability.

Automakers fight for market share to cover their fixed cost.

Notes:

The first factor is the fixed cost.

Like other automakers, Ford invested heavily in the production plant and also the company paid a significant amount of interest to cover the investment.

So, any small change in the industry sales volume can have a significant impact on a company's cash flow and profitability.

Automakers fight for market share to cover their fixed cost.

1.8 Manufacturing capacity



(2) Manufacturing Capacity

Intensely competitive with manufacturing capacity far exceeding current demand.

December 2016 report issued by IHS Markit Automotive, global automotive industry estimated excess capacity of 32 million units.

Automakers have to fight fiercely to claim market share, to steal sales from each other, to fill the over-capacity of their production plants.

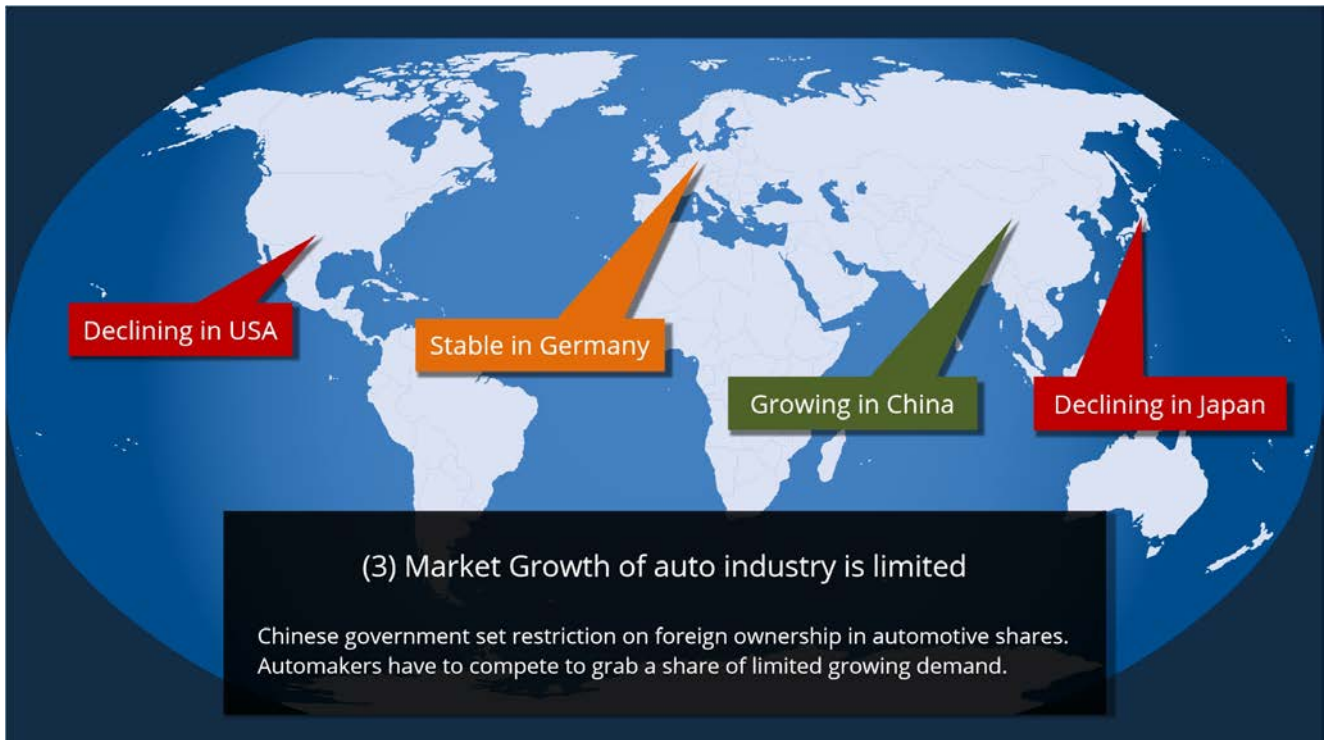
Notes:

Second, the global automotive industry is intensely competitive with manufacturing capacity far exceeding current demand.

According to the December 2016 report issued by IHS Automotive (https://en.wikipedia.org/wiki/IHS_Markit), the global automotive industry is estimated to have excess capacity of 32 million units in 2016.

So, the automaker's have to fight fiercely to claim market share, to steal sales from each other, to fill the over-capacity of their production plants.

1.9 Market growth

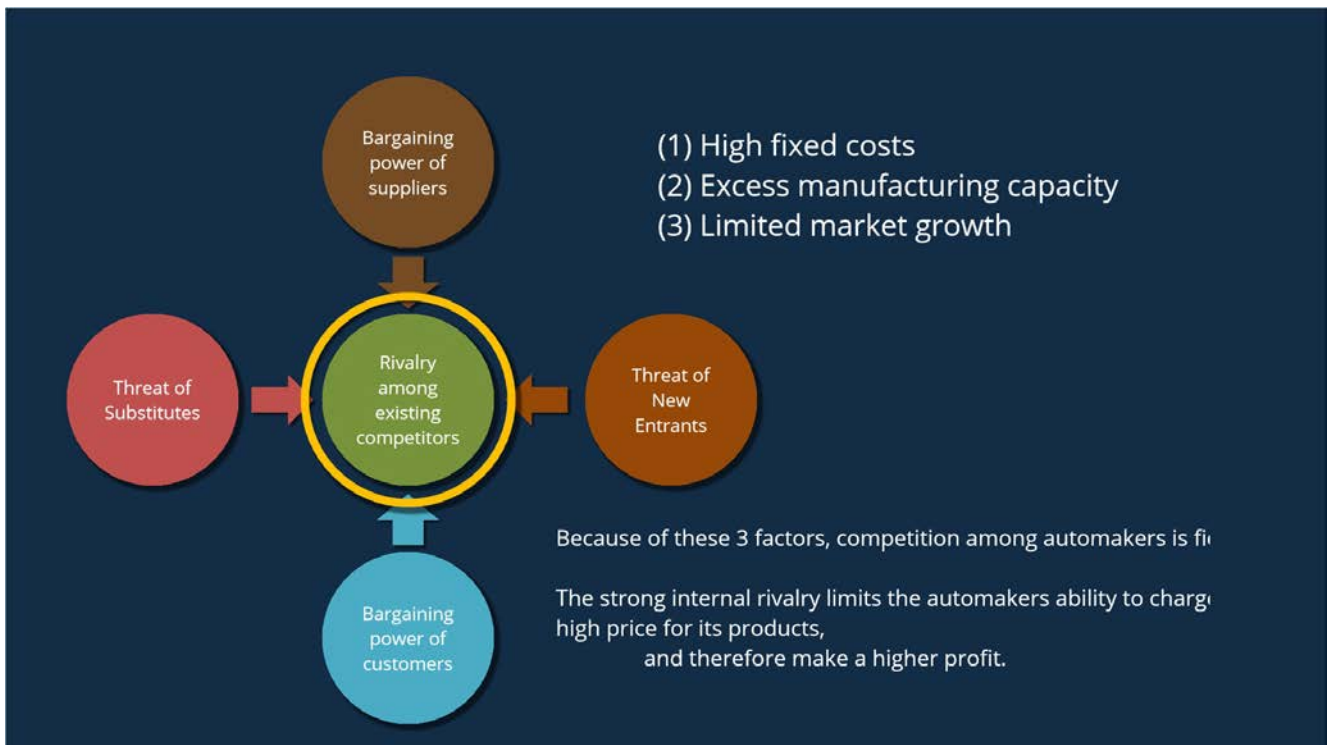


Notes:

The third, market growth of auto industry is limited. The other vehicle market is declining in the US and Japan, stable in Germany and growing in China.

Chinese government set restriction on foreign ownership in automotive shares. Automakers have to compete with each other to grab a share of limited growing demand.

1.10 Industry rivalry



Notes:

Because of these three factors, the competition among automakers is fierce.

The strong internal rivalry limits the automakers ability to charge a high price for its products, and therefore make a higher profit.

1.11 New entrants



Notes:

The threat of new entrants force is weak for the auto industry.

1.12 Capital investments

Barrier #1 ~ Capital Investment

The industry requires heavy capital investment.

Significant capital investment is required to build a manufacturing plant.

Ford operates:
9 regional engineering R&D centers,
62 manufacturing plants.

It takes billions of dollars of investment to build up the manufacturing capacity.



Notes:

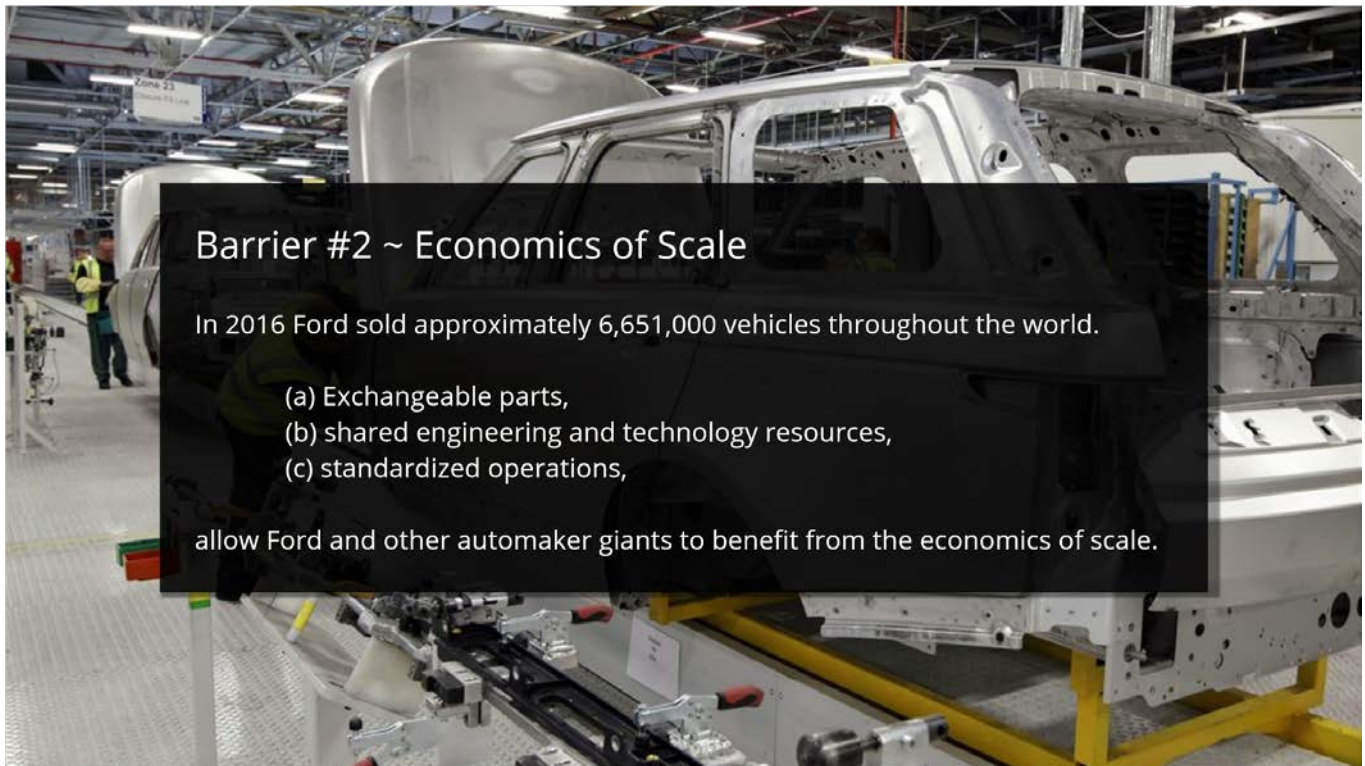
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Significant capital investment is required to build a manufacturing plant.

Ford operates nine regional engineering research and development centers, also sixty two manufacturing plants.

It takes billions of dollars of investment to build up the manufacturing capacity.

1.13 Economics of scale



Notes:

Second is the economics of scale.

In 2016 Ford sold approximately 6,651,000 vehicles at wholesale throughout the world.

Exchangeable parts, shared engineering and technology resources, as well as standardized operations allow Ford and other automaker giants to benefit from the economies of scale.

1.14 Distribution



Notes:

The third is the automakers access to distribution.

Approximately 12,000 dealerships worldwide distribute Ford vehicles.

Dealers dominate the sales of new vehicles in most of the countries.

1.15 Distribution

Barrier #4 ~ Brand Development

Brand development takes time and money.
Ford Motor Company was incorporated in 1919.

The company has developed a strong brand value since then.

The brand value of most of the auto giants is \$13 billion.

It will take significant time and effort for new entrants to build up their brand.



Automaker	Brand value (billion US dollars)
Toyota	28.70
BMW	24.60
Mercedes-Benz	23.50
Ford	13.10
Honda	12.10
Nissan	11.34

Notes:

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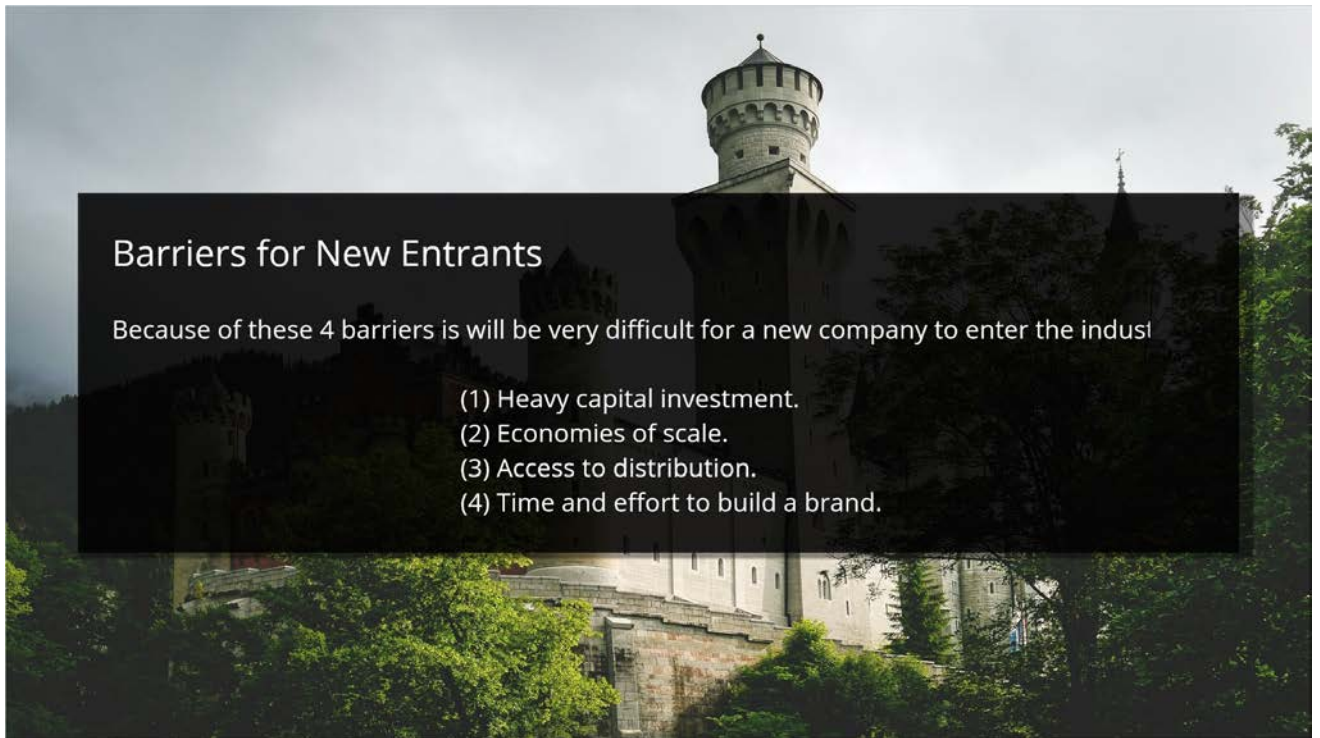
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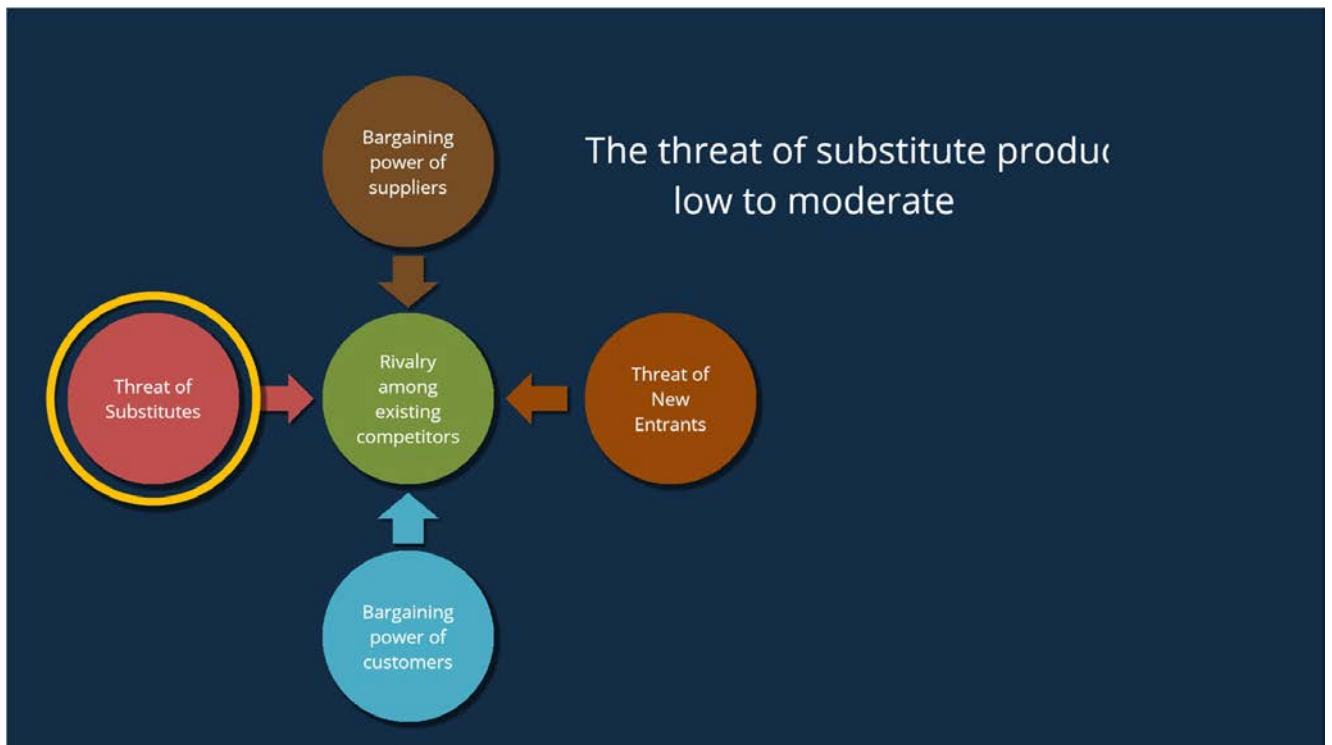
1.16 Barriers



Notes:

Because of the four barriers it will be very difficult for a new company to enter the industry.

1.17 Substitutes



Notes:

The threat of substitute product is low to moderate.

1.18 Switching cost

Factor #1 – Switching Cost

Switching cost is moderate.

The substitute products are mainly electric cars, which are marketed at a high price point.

So, customers have to pay actually to switch to substitute vehicles.



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1.19 Availability of substitution



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1.20 Performance of substitutes

Factor #3 – Performance of Substitutes

Performance of substitutes is not satisfying yet.

Powertrain performance of electric cars and hybrid vehicles is generally less impressive than that of fossil fuel vehicles.

The mileage limit of electric cars also constraints their uses to urban areas.



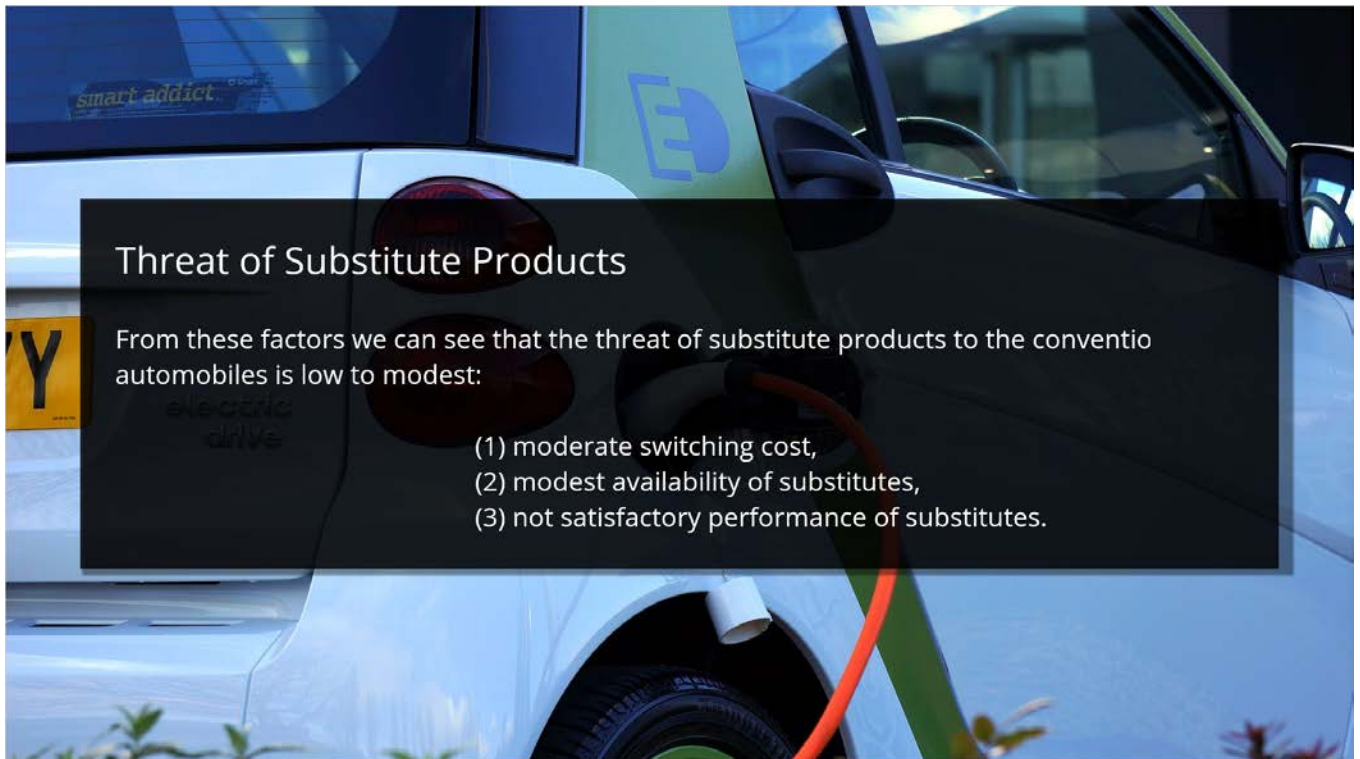
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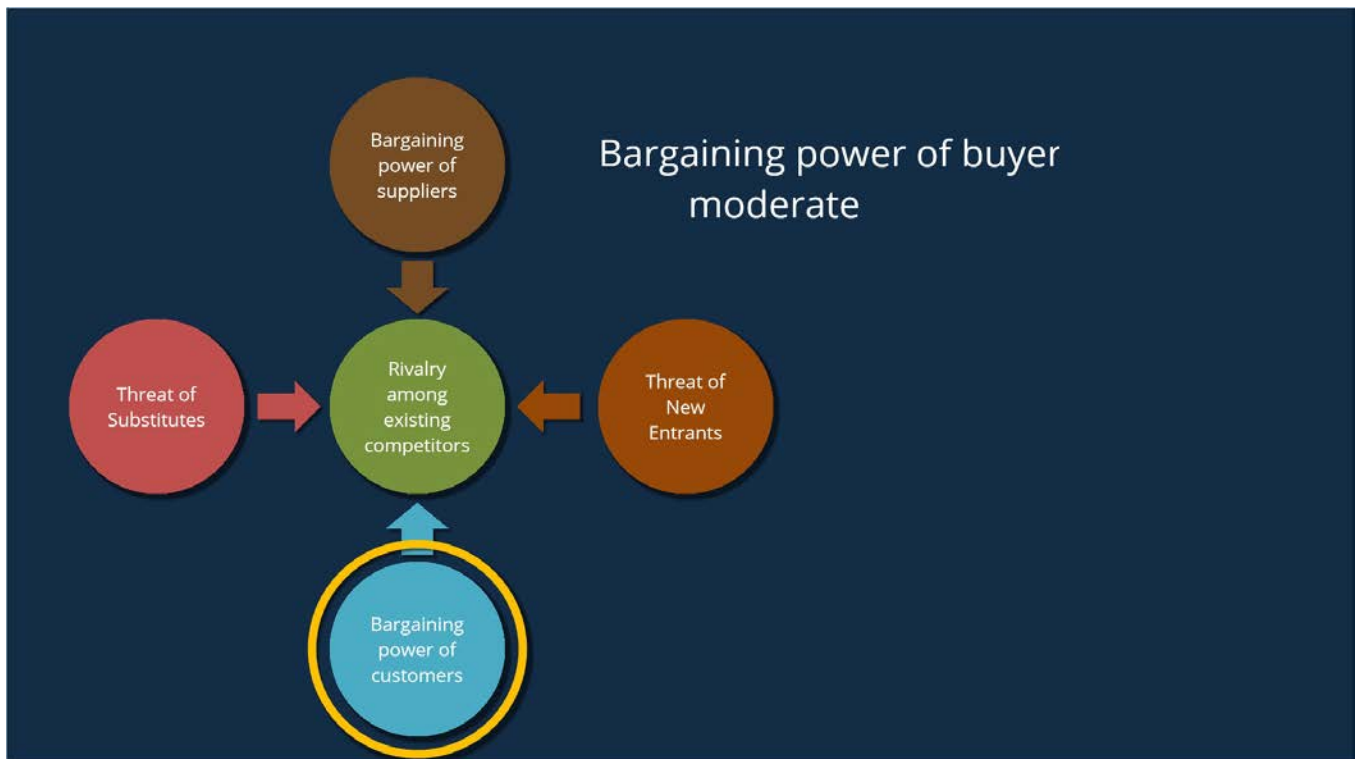
1.21 Threat of substitutes



Notes:

From those factors, we can see the threat of substitute products to the conventional automobile is low to modest.

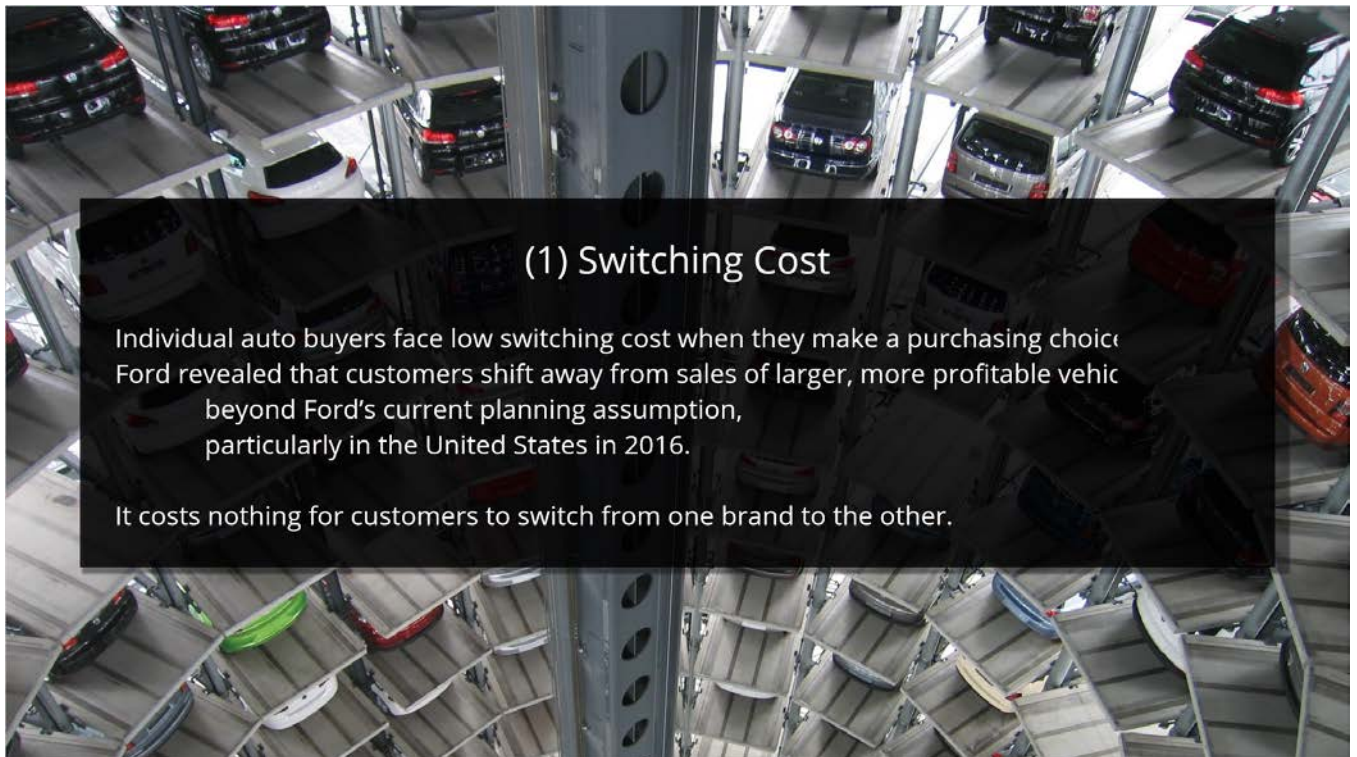
1.22 Buyers



Notes:

The bargaining power of buyers is moderate.

1.23 Buyer switching cost



(1) Switching Cost

Individual auto buyers face low switching cost when they make a purchasing choice. Ford revealed that customers shift away from sales of larger, more profitable vehicles beyond Ford's current planning assumption, particularly in the United States in 2016.

It costs nothing for customers to switch from one brand to the other.

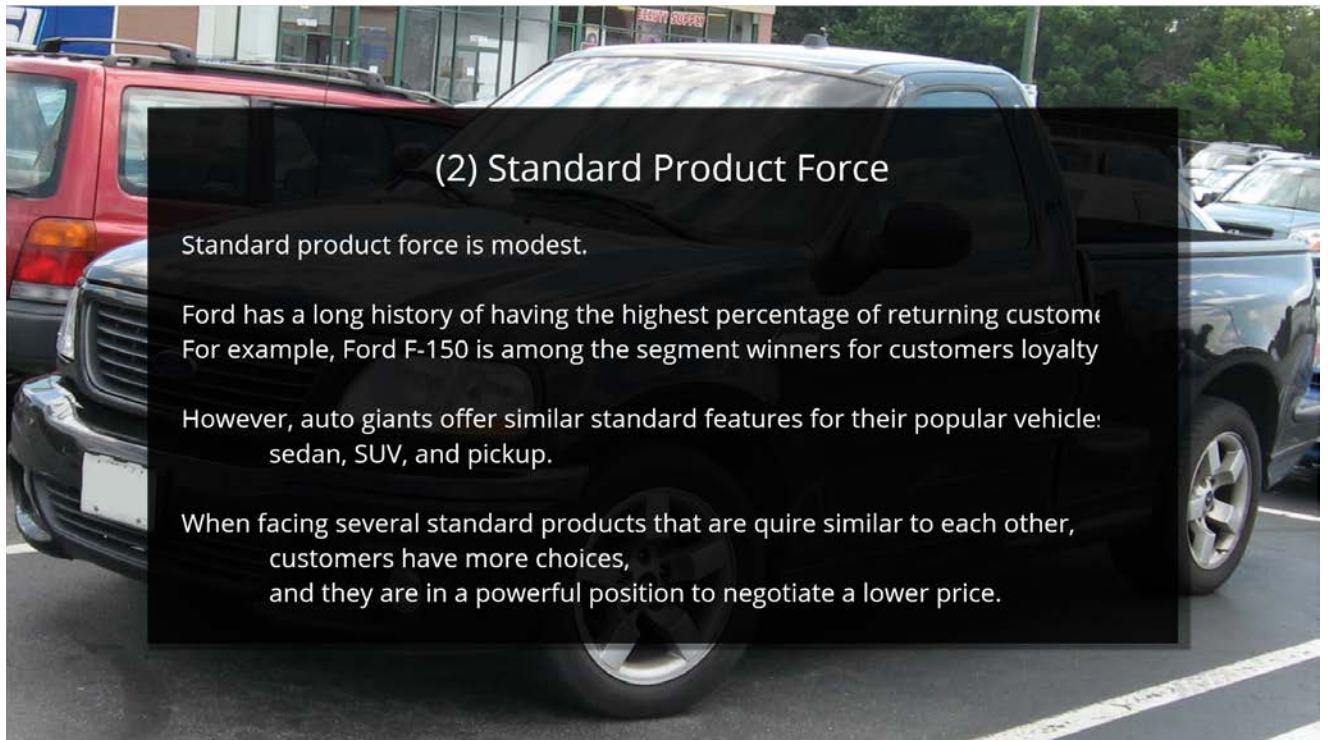
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1.24 Standard product force



Notes:

Second, the standard product force is modest.

Ford has a long history of having the highest percentage of returning customers.

For example, Ford F-150 is among the segment winners for customer loyalty.

1.25 Information to compare



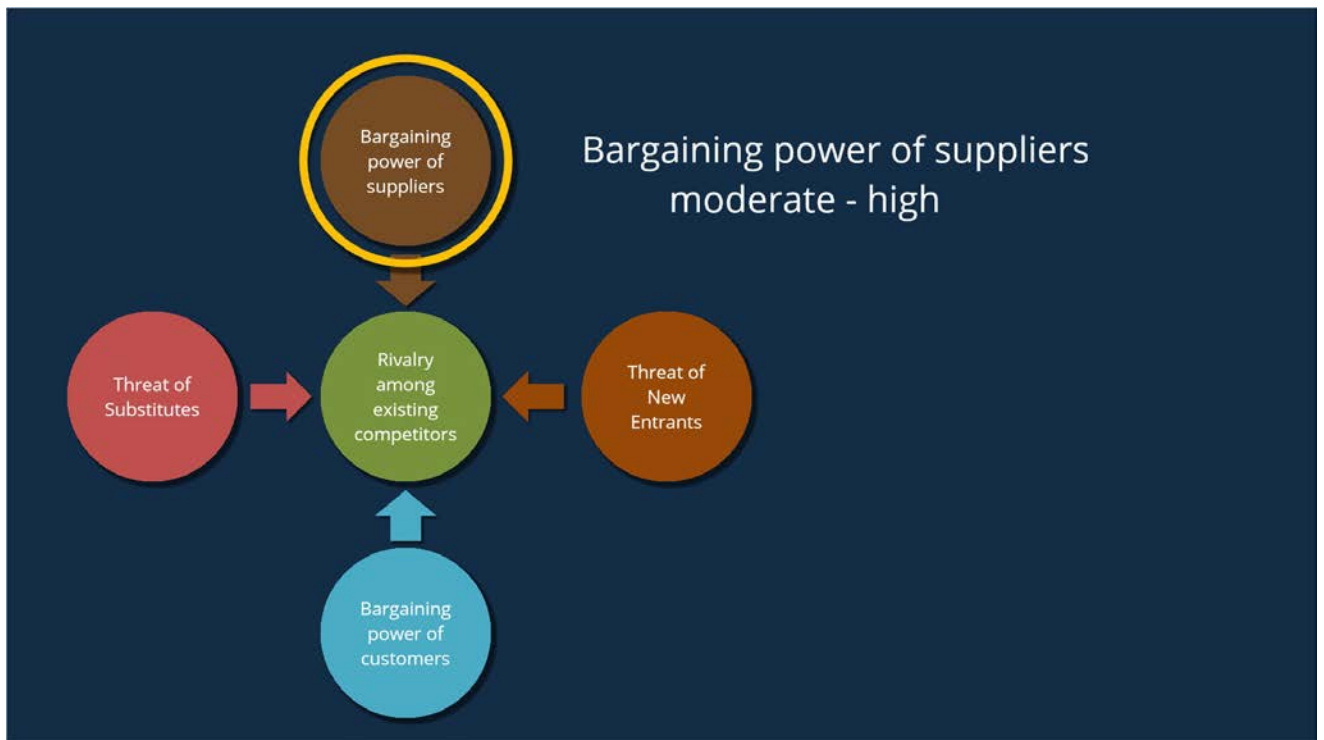
Notes:

Also, auto websites report detailed auto information, such as features, manufacturer recommended price, invoice price, and so on.

Auto buyers are in a knowledgeable position to compare vehicles.

This is evidenced in Ford's experience of lower than anticipated market acceptance of Ford's new or existing products, even though the company conducted extensive market research before launching these vehicles.

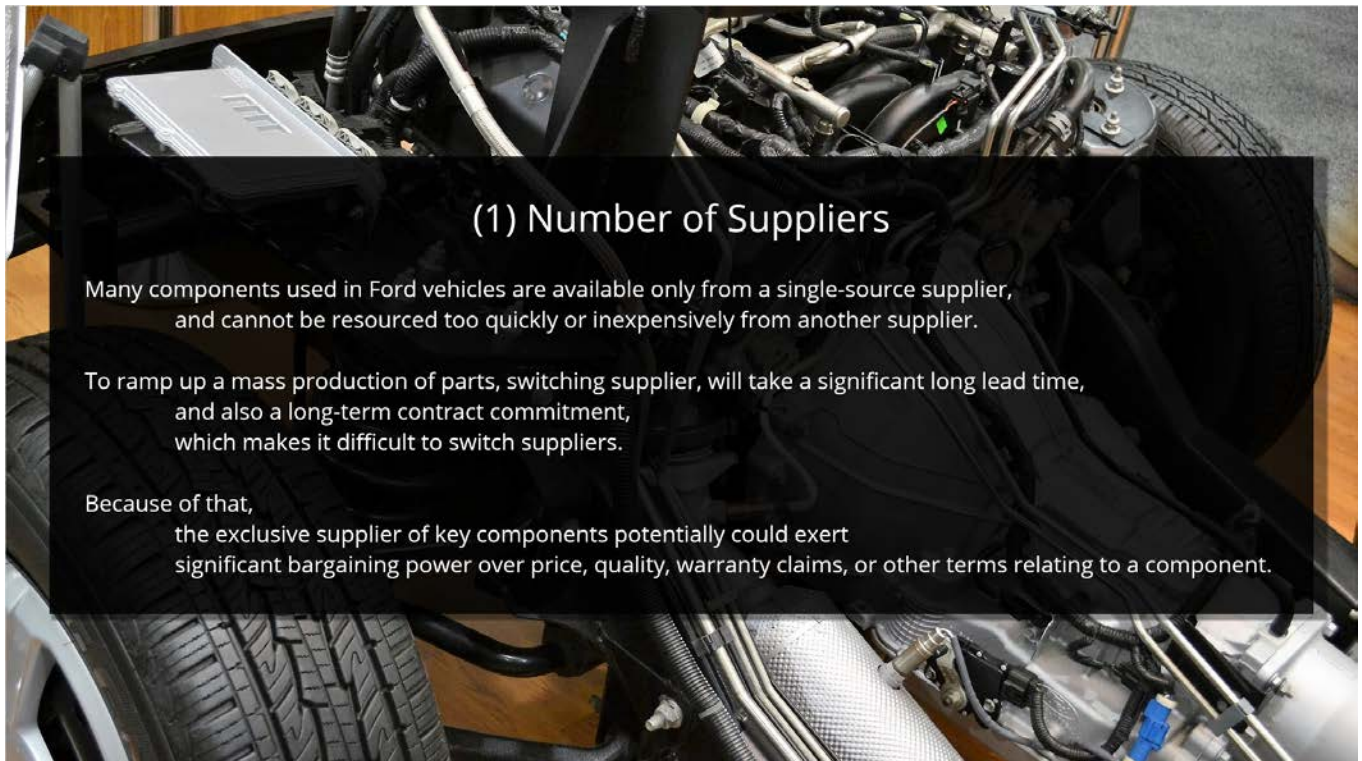
1.26 Buyers



Notes:

Considering all the supplier factors as a whole, the bargaining power of suppliers is ranked as moderate to high for auto industry and Ford.

1.27 Number of suppliers



Notes:

Many components used in Ford vehicles are available only from a single source supplier, and cannot be resourced too quickly or inexpensively from another supplier.

To ramp up a mass production of parts switching supplier will take a significant long lead time, and also a long-term contract commitment, which make it difficult to switch suppliers.

Because of that, the exclusive supplier of key components potentially could exert significant bargaining power over price, quality, warrant claims, or other terms relating to a component.

1.28 Unions

(2) Labor Unions

Union employee constraint is very high.

Substantially, all of hourly employees in Ford operations in the USA and Canada are represented by unions, and covered by collective bargaining agreements.

Substantial number of Ford employees in other regions are represented by unions or government councils.

So, basically these unions are exclusive suppliers of Ford human capital, and these unions are in a very powerful position when negotiating new labor contracts with Ford and other automakers.



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1.29 Forward integration

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Fortunately, auto part suppliers do not have the resource and capab to become major automakers.

So, the potential of forward integration is weak for auto industry.



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