

---

# Restructuring Ford Europe

---

*Tom Donnelly and  
David Morris*

---

## The authors

**Tom Donnelly** is Principal Lecturer and **David Morris** is Dean, both at the Motor Industry Observatory, Coventry Business School, Coventry, UK.

---

## Keywords

Motor industry, Organizational restructuring, Globalization, Rationalization, Strategy

---

## Abstract

Within the contexts of globalization, rationalization and modularization, this article seeks to explore why Ford Europe performed so badly in the second half of the 1990s, sustaining heavy losses and falling market share. The causes of this are deep-rooted and are traced to poor model development and a failure to realise that the market for cars was fragmenting with the emergence of new segments such as people carriers, sports utility vehicles and premium brand cars, etc. This was made worse by high costs due to excess capacity and a crucial weakness in diesel engine technology. Moreover, the European scene of operations appeared to be marginalized compared with developments in other parts of the world in *Ford 2000*. Ford's response was a reorganization of its European management structure, the development of new models, an attack on its excess capacity and costs through plant closure and redundancies, the forming of strategic alliances to improve its position in diesel engine technology and transmissions and, finally, the development of its Premier Automotive Group.

---

## Electronic access

The Emerald Research Register for this journal is available at  
<http://www.emeraldinsight.com/researchregister>  
The current issue and full text archive of this journal is available at  
<http://www.emeraldinsight.com/0955-534X.htm>

## Introduction

Ford is normally considered one of the most successful motor companies in the world. Its blue oval badge appears on vehicles produced in 19 countries. In recent years, though, the company has had to come to terms with the forces of globalization, the challenges posed by Japanese producers, the consequences of lean production in supply chain management and the emergence of new segments as the market for cars becomes increasingly fragmented (Piquard, 2000). Ford's difficulties are not confined to any one part of its empire - they are prevalent in its operations in the USA but especially Europe where it has lost market share and, after years of profit, tumbled into losses in the late 1990s that cannot be sustained even in the medium term (Feast, 2000).

It is in Europe where Ford operates 35 plants employing 100,000 people, though, that Ford faces its toughest problems. The European market is the most competitive market in the world with as many as 30 companies contesting it. Profits are hard to come by, and at the volume end of the trade margins are thin. Moreover, the region suffers from excess capacity, estimated at between three to five million units. Effectively, this has an adverse impact on costs, which is worsened by growing market fragmentation as demand moves increasingly towards sports utility vehicles (SUVs), premium brands, small city cars and what might be termed novelty vehicles such as Ford's own forthcoming SportsKa. Overall, Europe is a difficult market in which to compete and this paper intends examining, first, why Ford has performed so badly when European majors such as Volkswagen, Renault and Peugeot have enjoyed relatively buoyant fortunes. Second, it will assess the impact of Ford's own structural problems in Europe and, lastly, evaluate its recovery plans in terms of both attempts to restructure, overcome its long-running cost problems and model development and its attempts to move up-market through its premium brands of Jaguar, Volvo, Aston Martin and Land Rover.

## Globalization and lean production

Of all world industries, the automobile industry is among the most globalized

(Dicken, 1998). It is dominated by a handful of giants such as Ford, General Motors (GM), Toyota, Volkswagen and Renault/Nissan. Such an oligopolistic structure makes it highly competitive as firms seek to expand their market, partly by taking share from one another and partly by entering new segments, cutting their costs, rationalizing and swinging away from Fordist mass production to lean production and modularization (Donnelly *et al.*, 2002). The literature on globalization is large and diffuse and space permits only the briefest summary of what is entailed. Martin and Sunley argue that globalization is a concept that conveys an impression of economic activity that enables a free flow of capital, trade and information that is not constrained by national boundaries and point to the term “borderless world”, coined by Ohmae, as succinctly summarizing this viewpoint (Martin and Sunley, 1997). If globalization is accepted as a driver in the world economy, then firms need to manage their subsidiaries carefully in an integrated manner and this brings into play the debate between centralization and decentralization or globalization and national responsiveness. It has been argued that, if an integrated globalized entity is to succeed, then a balance needs to be struck between overall strategic aims of the company and the needs of consumers and the requirements of government regulations in regional markets (Bartlett and Goshal, 1989).

The drive for global power has led to a considerable amount of merger activity in the industry. A clear way of increasing market share or of entering new segments or markets as part of a globalization growth strategy is to acquire or buy stakes in similar businesses (Cottrill, 1998). Firms are caught by consumer demand for products and services and, unless these can be satisfied, they may find their market shares squeezed by the inroads made by others. Mergers and acquisitions are, therefore, thought to allow a widening focus of core competencies, permit access to diverse and perhaps newer technologies and open complementary markets and distribution channels (Cottrill, 1998). Dicken, among others, predicted that ultimately the industry would rationalize into six major units: two US, two European and two Japanese, offering an equal triad balance (Dicken, 1998; Naughton, 1999). So far this

theory has not quite worked out as forecast. Important mergers and acquisitions have taken place across continents. Nissan has been taken over by Renault of France, for example, and Chrysler of the USA has been subsumed inside Daimler of Germany. Thus, the structure of the world automobile industry has become increasingly complex and not easily disentangled (Belis-Bergouignan *et al.*, 2000). A second major dynamic in merger activity has been the increasing fragmentation of the market. The emergence of a growing market for premium brands at the luxury end of the trade has encouraged major firms to buy up small, high quality companies to add to their brand portfolio and so gain a presence in areas where they had been previously absent. Moreover, brand acquisition is much cheaper than organic growth, is financially less risky and saves enormous development costs (Tully and Donnelly, 2001).

Running parallel to globalization and, indeed, as part of it has been a revolution in production methods over the past 20 or so years. Competition in the automobile industry is fierce and the dog-fighting taking place is not simply between the European companies and US subsidiaries, but also against the Japanese who not only export to Europe, but have transplant factories in the UK, Spain, Portugal, The Netherlands and France. Added to this are small but nevertheless rising imports from newly emerging nations such as Korea and Malaysia through the Hyundai, Daewoo, Kia and Proton marques (Feast, 2000).

It was the Japanese who also developed the process of what is now called lean production which has now been adopted in a hybrid form by virtually every company in Europe. In essence this form of production differs significantly from Fordism. Its main constituent parts have been identified as:

- the application of simultaneous engineering;
- the zero buffer principle;
- total quality control;
- continuous incremental improvement;
- integrated teamwork; and
- the use of the *kanban* or “pull” system of production (Womack *et al.*, 1990; Kochan and Lansbury, 1995).

Although there are ongoing debates over what is understood by the pure system of lean

production, the system has progressed significantly over the last 15 years to the extent that it now incorporates the concept of modularization. The latter, involving heavy outsourcing and the creation of supplier parks, necessitates the interchanging of modules such as platforms, engines, transmissions and other key parts of a vehicle between models in attempt to reduce production costs on a global scale and yet at the same time allow a diversity of cars to be spun off from virtually the same generic origin. The implications of supply chains are that everyone involved must participate actively rather than passively to make them work properly right down to the bottom tier (Bowen, 1993). If successful there are enormous opportunities for economies of scale and of scope to be reaped (Green, 1999). The consequences of such advanced methods of production so far have been enormous. They include:

- improvements in design and quality;
- technical flexibility;
- heavy cost reductions; and
- a shortening of the time in getting cars from the design stage to market as a means of gaining competitive advantage.

In the past cars took six or even seven years to develop, whereas, today, firms are vying to bring a model to market in under three years (Feast, 2001). These production principles are now virtually universal in the automobile industry and much of the debate inside the industry centres now not just on maintaining a high level of technical and logistical excellence, but on being able to develop new models and manage brand portfolios to maintain a competitive edge.

Finally, any company that has accumulated losses for almost a decade and a serious drop in market share needs to arrest the situation by turning itself around through a recovery strategy. Ford is in precisely this sort of position. Recovery strategies are not easily implemented and call for swift and even ruthless action. This might include changes in top management and organizational structure through rationalization of both plants and products, cost and asset reduction strategies as well as revenue-generating strategies both to satisfy the markets on the continued viability of the company and to win back customers through new product development (Slatter, 1984).

## Ford Europe's problems

The Ford Motor Corporation is often considered the archetypal global company. Shortly after its foundation it became an early pioneer of US overseas direct foreign investment and was one of the first companies to build car assembly plants outside its domestic base. Today Ford plants can be found in countries as diverse as Argentina, Brazil, the UK, Belgium, Spain, Sweden, South Africa and China. Its annual output is around 6.9 million units a year and it employs some 220,000 people directly, making it the second largest car company in the world following General Motors (Tully and Donnelly, 2001). Until the 1960s, Ford's UK and its European operations functioned separately but, in 1967, were united to form Ford Europe, giving a strong regional identification. Over the following two decades Ford Europe performed well and in the 1980s until 1986 its profitability helped offset the losses being sustained in the US market. After this Ford Europe began to struggle, market share gradually diminished to c.8 per cent in 1999-2000 and between 1992 and 2000 annual losses accumulated to \$2.6 milliard dollars (Piquard, 2000).

Ford's performance must be judged within an overall European context. By the mid-1990s, the European car market was almost in a state of virtual saturation with an annual growth rate of only 2 per cent. New capacity was coming on stream faster than old facilities were being eliminated. Fiat, for instance, opened a new state-of-the-art factory at Melfi with a capacity of 750,000 units a year, Chrysler raised output from its Austrian plant to over 100,000 cars per annum and this does not take into account output from new factories in Eastern Europe, especially by Fiat and Volkswagen (Milner and Gow, 1999). Matters were made worse by the heavy competition both from Japanese imports and from vehicles produced in Japanese transplant factories within Europe (Monk, 1999). Indeed, Japanese European-produced output rose from 500,000 units in 1995 to 650,000 four years later. Additionally, in 1995, imports from newly industrializing countries had topped 180,000 vehicles (Milner and Gow, 1999).

Ford's own specific difficulties are deep-rooted and can be traced to poor model development, excess capacity, a failure to

recognize the emergence of new market segments, an inability to control costs and in the relative failure of *Ford 2000* (Karnitschig, 2000; Feast, 2000). The adverse effects of excess capacity on unit costs in the European automobile industry are well documented and there is little doubt that these affected Ford as much as any other concern. Ford's build capacity in Europe until recently was in the order of 2.25 million vehicles yet its sales in 1999 were only 1.7 million units (Feast, 2000). The problem of costs is also reflected in the fact, that on sales of \$30 billion in the same year, Ford earned a return of no more than \$28 million (Karnitschig, 2000). In 2000 Jacques Nasser, Ford's chairman, described the firm's financial performance in Europe as near disastrous as return on sales was no more than 0.1 per cent and decreed that this figure be raised to 5 per cent by increasing market share and by extensive cost-cutting measures throughout the company (Burt, 2000b).

Ford's poor financial performance was mirrored by an equally dismal decline in market share. At the end of the 1980s annual demand for new cars in Western Europe stood around 10 million units and Ford regularly took second place in the market share league with around 10-11 per cent. Since then the market has expanded by nearly 50 per cent, but Ford's market share has grown by only 5 per cent, giving it an overall share of between 8 and 9 per cent. In Eastern Europe the position was even worse; Ford in 2000 achieved a market share of a mere 6 per cent, making it seventh in the share league, while both Fiat and Volkswagen enjoyed rates of c.18 per cent each and caused Nick Scheele, Ford's chief executive in Europe, to bewail: "Our European business situation was lamentable" (Feast, 2000; Burt, 2000b).

The reasons behind this poor performance are complex, bound up with a lack of model development and the fall-out from *Ford 2000*. The latter originated in an attempt in 1995 by the then Ford chairman, Alex Trottman, to turn Ford America and Ford Europe into an integrated global company by the year 2000 by merging the US and European operations in 1996 with the Latin-American and Asian facilities joining the next year. The intention was to slash Ford's annual costs by \$3 billion by eliminating duplication in product development and letting Ford turn to fewer suppliers and improving productivity. Allied to this was cutting bureaucracy by:

- getting rid of 20 per cent of top managers;
- instituting no-fault meetings; and
- creating multifunctional teams.

Trottman intended breaking Ford's rigid bureaucratic procedures and reducing the time to approve new projects to less than a month. *Ford 2000* envisaged geographical expansion in markets such as China, Vietnam, India and Poland and a complete restructuring in South America in the hope of fuelling sales in fast-growing emerging markets. Such aspirations presented challenges. There was a necessity for the USA and Europeans to share power, learn to work more closely and so avoid power struggles that might inhibit the flow of new models. Trottman had to prove that the new system speeded up model development rather than retard it. Pricing strategy, too, had to change. Ford had for several years relied heavily on discounts on sales when demand slackened to maintain its market share. It was, therefore, vital to get a proper pricing structure and so raise the profit per unit of output. Finally, in *Ford 2000*, the company admitted that it lagged behind the Japanese in developing markets (Teece, 1995).

Reference has already been made to Ford's excess capacity, but more important than this were the centralising tendencies of *Ford 2000* which further compounded poor model development. For the second half of the 1990s Ford found itself struggling in Europe. Under the terms of *Ford 2000*, all decision making on model design and market development was located in Dearborn. The company's desire to expand in Latin America and Asia seemed to relegate Europe to a position of secondary importance. This could not have happened at a worse time. European consumers were demanding more "car" for less money, becoming less nationalistic and were prepared to drive sharply priced imports from the Far East. Ford found that it could no longer hike prices as it did in previous years to raise its revenue as customers simply switched to other brands (Feast, 2000).

This situation was further complicated by the fact that by the late 1990s Ford's volume models were ageing rapidly, looking tired against their more sharply styled and better performing Renault, Volkswagen and even Fiat counterparts (Karnitschig, 2000). This was further compounded by the fact that, in key emerging sectors such as MPV, sports

models, convertibles or the monospace Ford had no presence. Indeed, Ford did embark on developing such a vehicle, but just nine months from launch aborted it without giving a convincing reason and so will have no presence in this segment until 2003 (Karnitschig, 2000; Piquard, 2000). Moreover, cars such as the Scorpio, the Cougar, the Puma and the Ka failed to make a significant impact and it is not without accident that these have been or are in the process of being phased out of production. Even in the 4×4 class Ford had nothing to match the Toyota Rav4 in quality. The only recent success has been the Focus which almost from its launch became Ford's best-selling European model. Between January and July 2000, 500,000 Focuses were sold world-wide and 300,000 of these sales were in Europe (Ford, 2000a, b). The failure of the Scorpio at the top end of the market was perhaps indicative of Ford's failure to break into the premium brand segment, while at the bottom end its declining Fiesta models found it hard to compete against economy models from outwith Europe (Burton, 2000). Finally, Ford's financial plight was not eased by plant specialization with each plant capable of producing only one particular model, thus denying itself any flexibility in its production mix to take account of any shifts in demand.

An important additional factor was the failure to realize the growing importance of diesel engines in Europe where 33 per cent of all cars fall into that category. In France, for example, diesels account for 40 per cent of all engines sold and for 49 per cent in Spain. In comparison with European diesels Ford's own products were considered poor quality (Piquard, 2000). Similarly, there was an equally significant failure to adopt turbo-powered or fuel pump injection technology. Even as late as 1998 neither the Focus nor the Ka came with automatic transmission (Feast, 2000; Piquard, 2000). Even the company's premium brands were failing to live up to expectations. Aston Martin which had been bought in 1987 had never shown a profit, while Jaguar's profits were fairly insignificant and in no way compensated for the relative failure of volume models to generate cash (Tully and Donnell, 2001). Essentially, Ford became a weak brand and, as Nick Scheele, who was appointed senior vice president, Europe in 1999, said:

The cost of not having an effective brand is that you become a commodity car . . . . We have got to be a relevant global brand (Burt, 2000c).

## Restructuring Ford

Eventually Ford realized the seriousness of its situation in Europe and in 1998 Alex Trottman promised 45 new models over the following five years, which in itself was a savage indictment of the serious deficiencies in *Ford 2000* (Feast, 2000). What the company required was almost a complete restructuring in Europe, a revitalized management team and the implementation of policies to enable the company to:

- reduce costs;
- get rid of excess capacity;
- change relationships with suppliers;
- develop new models; and
- compete across all market segments.

In other words a complete turnaround. The spark for such policies came essentially when the Lebanese, Australian, Jacques Nasser, succeeded Trottman in late 1998. Nasser changed his senior Europe management team. Nick Scheele was transferred from Jaguar in the UK to become senior European vice president under the tutelage of David Thrusfield. Mike Beasley replaced Scheele at Jaguar with Ulrich Bez being recruited from Daewoo to take over at Aston Martin. Of particular significance was the recruitment of Wolfgang Reitzle, a former BMW director, to lead Ford's newly created Premier Automotive Group in 1999. Overall Ford created a new strong management team with sufficient experience and credibility to impress the markets and provide necessary leadership (Burt, 2000a; Tully and Donnelly, 2001).

Nasser differed from Trottman. In *Ford 2000* the latter had tried to deal with the nuts and bolts issues affecting the firm, whereas Nasser's intention was to change Ford from being simply a car company into a "consumer product and service company pursuing profit right down the value chain" (*The Economist*, 1999). Crucial to this, though, was the necessity of cost cutting. Nick Scheele described the problem in blunt terms:

It is clearly an untenable situation. The only way we're going to get out of it is to get product and costs under control (Burt, 2000d).

As Feast has argued, most of the excess capacity that existed in the European auto industry belonged primarily to two firms, Rover and Ford, with Volvo and GM being lesser culprits. In contrast virtually every other major concern was working at near full capacity. Audi, Mercedes, BMW and Porsche, for example, were actually meeting capacity bottle-necks and the Japanese were actually increasing theirs as they believed they were short (Feast, 2000). The initial option was the closure of two less productive plants at Plansk in Poland and Obchuk in Belarus. The joint venture with Volkswagen Auto Europa in Portugal where its Galaxy models were made was ended. Redundancy programmes were effected in plants in Belgium and Germany reducing the workforce by 2000 (Piquard, 2000; Burt, 2000b). More controversial was the decision to close the Dagenham plant in the UK. Situated in east London, Dagenham had long been a problem child and not aided Ford's image in the UK. It had a record of strikes and even racial tension and bullying that demanded Nasser's attention, which did its image no favours (*BBC Business News*, 2000). At the outset of Ford's restructuring, though, its future looked reasonably secure. At the end of 1999 both Ford and the local authority were talking of committing £425 million for expansion and growth with the likelihood of the new Fiesta being assembled there (Guthrie, 2000). Dagenham, though, like other Ford factories, made only the Fiesta with 45 per cent of production exported to Europe. Even though its productivity compared favourably with several other European plants - including those belonging to other firms - standing at 62 cars per worker, it took 25 hours to assemble a vehicle there compared with 19 in other Ford plants and it became vulnerable, especially as it had spare capacity and demand for the Fiesta generally in Europe was softening. Gradually, uncertainty emerged particularly when Ford rather dramatically ended Scorpio production in Cologne (which also produced the Fiesta), thereby releasing spare capacity in the German plant, and it virtually became a straight fight between the two plants as to which would be chosen to build the Fiesta's replacement. The Essex factory's plight was not helped by the fact that the pound had risen so far against other currencies, making it expensive to export to Europe, a point

emphasized at length by Scheele (Guthrie, 2000). In the end the decision went in Cologne's favour primarily because it offered more potential in being more capital-intensive than Dagenham and enjoyed higher productivity, so offsetting the higher cost of German labour. Moreover, Cologne was also a major centre for engine and transmission manufacture which added to its strength (*EIU*, 2000). Given the situation, the demise of Dagenham as an assembly plant had an air of inevitability about it. As Rhys said in April 2000:

Any move to close the plant could have been predicted in the past three months, since Dagenham switched to one shift due to overcapacity and falling demand (*BBC Business News*, 2000).

Finally, in an attempt to reduce fixed costs further Mazda will produce Fiesta clones at Ford's Valencia plant (*Just Auto*, 2001c).

Factory closures were only a palliative and considerable plant reorganization of production was required if Ford was to avoid future plant inflexibility, plants that had so damaged its unit costs in the late 1990s. By mid-2000 Ford's five major assembly plants were subjected to stringent business review. The outcome did not end complete specialization but did offer a degree of flexibility. Genk in Belgium, for example, will remain the main factory for Mondeo vehicles transits. The transfer of some of Genk's facilities elsewhere was so prohibitively expensive that basically the other plants' functions remain unchanged. The other four existing plants were all capable of producing both B (Fiesta size) and C (Focus size) cars, but one of these would become a "flex" plant, giving the company the option of swinging between B and C platforms to take account of shifts in demand. Saarlouis, for example, will continue to be the lead plant for C segment vehicles such as the Focus, but could become a B/C "flex" plant if required. The intention is that this is only a short-term strategy and that ultimately all vehicle operations plants will become flexible bodyshops, based on modular assembly, located near supplier parks and operating on a three-shift pattern if required (*Automotive Intelligence News*, 2000). Restructuring, it is hoped, will reduce Ford's fixed costs by \$2 billion between 2000 and 2003 (Burt, 2000d).

Closures and reorganization were only one facet in Ford's attempts to prune its costs. It is

also attacking its variable costs. Between 2001 and 2004 raw materials costs will be reduced by 10 per cent from their current 2000 figure of \$18 billion and spending on facilities - tooling and equipment will be reduced by \$1.2 billion a year over the same period. Concurrent will be an annual 10 per cent reduction in the workforce. Indeed, over the year 2000-2001 alone expenditure will be reduced by over \$2 billion (Burt, 2001b).

Ford's approach, though, is not all negative. It is well aware of the need for new investment if new models are to be produced. Recently, Halewood has been almost entirely rebuilt after the cessation of Escort production there at a cost of \$450 million to facilitate production of the new Jaguar X Type. Similarly, the revamping of Cologne to accommodate the new Fiesta has cost \$275 million. Finally, Land Rover's ageing plant at Solihull has already been on the receiving end of new investment with up to \$130 million with another \$500 million to follow to improve assembly facilities and above all quality, which even under BMW was described by Garel Rhys as "lamentable". Indeed, Ford executives were shocked at what they found there on taking over. The place was dimly lit, cramped with far-from-conducive working conditions. New flooring has been installed in parts of the plant as has new lighting. Such is the scale of improvement within less than a year that "they [the workers] don't call this the Bat Cave any more" (Burt, 2000e; Parsley, 2001a).

Despite the ending of car production at Dagenham the site is poised to become a major world centre for engine development and production. The press shop alone is scheduled to receive an injection of \$26 million between 2001 and 2002 with the wheel plant receiving \$10 million of investment to re-equip and retool for the production of high strength, lightweight steel wheels for new models. The most important feature as far as Dagenham is concerned is that it will become Ford's major source of diesel engines necessitating around \$500 million in new investment to produce three engine families. This will also involve some 240 engineers from Ford's Dunton plant moving to Dagenham as part of a new totally integrated diesel engineering and manufacturing team. Bridgend, too, is set to expand. In February 2000, the plant in a

depressed area of Wales, received a boost when Ford announced new investment plans of \$236 million and the creation of 600 new jobs to facilitate production of the new V6 and V8 engines to power the S Type, XJ and XK Jaguars as well as other PAG products including US Lincoln models, thereby lessening the need for UK factories to import high powered engines from Detroit (*Just Auto*, 2001a).

A major strand in Ford's new strategy centres on its ability to spread its costs across models, in forging new relationships with suppliers and entering into joint ventures. Ford's weakness in diesel engine production led to its forming a partnership with Peugeot to produce a new series of state-of-the-art small diesels, called the Gemini family, to allow it to get back into the mainstream in this area of technology in Europe. The first of these, the Duratorq at 1,398cc, will deliver advanced fuel economy, drivability and low emissions, while its new generation common rail combustion and fuel injection technology is designed to enhance performance. This engine will first be used in both the Focus and the new Fiesta. Future engines will be in the 3-4 litre class. More powerful V6 engines with their high technology piezo-electric injectors will be used in Jaguars from 2004 onwards, and, when at full capacity, this will give Ford an extra 750,000 new diesel engines a year, which, in addition to the current diesels used in its recently acquired Volvo and Land Rover models, will provide a greatly enhanced presence in this market (Rendell, 2001). Ford and Peugeot have gone as far as saying that this "new family of engines will be the motor industry's first cross-platform, multicompany volume power plant". Finally, Ford and Daimler-Chrysler have agreed an engine-sharing deal for European versions of the Ford Explorer (*Automotive World*, 2001).

In addition to the Peugeot joint venture, Ford has begun to increasingly outsource its non-core activities. Perhaps the best example of the company's new-found spirit is its decision to enter into a joint venture with Getrag, the German transmissions company. The new \$5 billion venture, known as Getrag Ford Transmissions GmbH and formed in February 2000, will see Getrag assume responsibility for producing all of Ford's manual transmissions in Ford's European plants at Halewood, Bordeaux and Cologne. This will allow Ford to benefit from Getrag's

world-wide expertise in this area. It already works with Daimler-Chrysler and enjoys an extremely close relationship with its major customer, BMW. Moreover, this will allow Ford to make better use of its own already stretched resources in this area, producing 1.6 million manual gear boxes per annum. A joint headquarters will be built in Cologne and between 2001 and 2006 a new generation of transmission systems will be developed for Ford, putting it at the forefront of power train technology, including both manual and six-speed designs in addition to high efficiency automated transmissions systems (*Just Auto*, 2001b).

Amortizing costs across models means that Ford is embracing modularization. For example, the new Mondeo is being launched on a CDW 132 platform and of these Ford intends making 400,000 per annum, a volume viable only if shared with other models. Therefore, this platform will support the Jaguar X-400 and Ford's proposed MPV. Indeed, there is an intended 20 per cent carry-over from the Mondeo to the "Baby Jag". There is no doubt that the carry-over componentry and the experience gained in bringing the new Mondeo to market were of considerable benefit to Jaguar as the X-Type was developed within 24 months and therefore demonstrated how the PAG can benefit from the resources of the whole group (Lewin, 2001). Increasingly, Ford parts will also be used in both Land Rover and Volvo products. There is, however, a serious caveat if Ford wishes to exercise commonality across its volume blue oval-badged models and its premier automotive group (PAG) vehicles. In following this route Ford might be in danger of diluting the brand image of PAG cars. For instance, when the rumour broke that the Jaguar X-400 was to share the same platform, engine and transmission as the new Mondeo, one correspondent postulated that the X-400 could turn out to be "a Mondeo with steroids" (IMI, 2000). Indicative of this was the halting of the launch of the much-vaunted Aston Martin Avanti when it transpired that this expensive luxury model shared the same air vents as the humble Ka (Tully and Donnelly, 2001). Clearly, Ford has to ensure that PAG products convey the right image or risk losing customers.

In pursuing modularization, Ford is pressing heavily on its suppliers to improve their efficiency, effectiveness and also lower

their prices, a policy very much in line with motor industry practice over the past decade. In other words, the suppliers are being invited to help improve Ford's position and to an extent help finance it. The argument being that what is good for Ford in the long run will be of obvious benefit to the suppliers. In keeping up with rivals such as Volkswagen, Renault and Fiat, Ford has created supplier parks at Genk, Cologne, Saarlouis and Valencia. Taking the first of these as an example of Ford's current thinking and practice, Ford has teamed up in a joint venture with two conveyor and logistics suppliers to form Conveyor Services Genk to supply the plant for the new Mondeo. The idea of a supplier park is by no means novel, but it is the sheer scope of this project which emphasizes its novelty. All parts for the car are supplied by a conveyor bridge from the park to the assembly lines and include modules/sub-assemblies as varied as doors, engines, front corners, cooling modules, headliners, door panels and seats from suppliers such as Lear, Textron, SMD and TSD Essors. Each supplier had to purchase space on the park and, as part of the purchasing agreement, had to agree to sell its spot in the park in the event of Ford cancelling its contract. The system at Cologne is near identical.

But as a first for Ford, two equipment suppliers, the body work machinery makers, Comau and Kuka, who are bearing the brunt of the up-front investment, will own and maintain the equipment. Ford's own workers, though, will staff the line. In the past suppliers of manufacturing equipment were paid up-front for equipment installation, but at both Cologne and Genk Ford has reversed this and suppliers will not be paid until the line is actually working. The partners will be reimbursed on a per unit basis for each body they build-Ford call this POP (pay on production). The beauty of this system as far as Ford is concerned is that the decision to build a conveyor bridge system does not cost Ford any initial capital outlay. The company is protected from investment risk and if new vehicles are successful Ford's partners will, no doubt, welcome ensuing profitability cash cows.

Questions have been raised as to whether the conveyor belt concept flies in the face of the logic of lean production with its emphasis on JIT and in-sequence with less costly truck

delivery to the point of line-side delivery. Ford refutes this by arguing that it is in the process of consolidating its supply base to reduce storage space, inventory and materials handling, while at the same time allowing better utilization of capacity and quality issues. The conveyor system, it is argued, is more disciplined than JIT systems and is best suited to older plants such as Genk and Cologne, neither of which was designed for line-side delivery like newer plants such as Fiat's Melfi complex. In the last analysis Ford claims that the conveyor system has reduced investment in the bodyshop by between 20 and 30 per cent and that further savings will emanate from increased modularization. Indeed, it could be suggested that, given its problems, this solution is the best that Ford could do in the circumstances without razing Cologne and Genk to the ground and beginning afresh. Whether or not this interim solution will work in the long term, though, remains to be seen (Sabatini, 2001; Wernle and Chew, 2001).

As discussed earlier, Ford has laid considerable stress on improving its brand image through new models. Whether these either are beginning to appear or are in the pipeline, Ford is intent on not making the mistakes it did with earlier vehicles such as the Escort, Mondeo or Fiesta; that is making too many models and then being forced to sell these at a discount when demand faded because there were too many three-year old models still kicking around in the market. It fully intends to match supply with demand with the new Mondeo, for example, and so avoid discounting and devaluing the brand (Sabatini, 2001).

This is particularly true of its PAG products, which are being targeted at specific market segments and which will be produced in increasing numbers. Jaguar's output will rise to c.200,000 units a year, Aston Martin to 2,500, Volvo to 600,000 and Land Rover to 220,000 cars per annum (*The Economist*, 2000). Each of these will bear a specific image designed to appeal to different types of customer. Jaguar will carry the sleek, sporty image, designed to appeal to a different clientele from Volvo which is promoted for its safety and environmental friendliness. Land Rover represents "British ruggedness" while Aston Martin is aimed at luxury customers such as the Sultan of Brunei, the pop-star Elton John and aspiring James

Bonds. Though technically there may be overlaps between PAG products, Ford intends promoting each as a separate brand while at the same time seeking synergies across the range. Each model will have a separate brand manager, but these will be expected to cooperate with one another so that best practices may be shared as each seeks to be the leader in its own specific niche market.

## Conclusion

The objective of Ford's restructuring is to turn itself round from the ravages of the late 1990s and *Ford 2000* through a reconfiguration of its organizational and managerial structures, new model development, controlling costs and entering into partnerships/joint ventures with suppliers to produce a range of models that can compete in every market segment. At the volume end of the trade where the market is virtually stagnant this means being able to take share from major rivals such as Volkswagen and Renault and, given the quality of their offerings in the market, this will be far from easy. At the opposite end of the scale the market is expanding and this poses a different range of problems when competing against BMW, Mercedes and Lexus. Great care will have to be taken to ensure that PAG products are "genuine" and not simply "tarted up" Fords, especially if there is too much of a perceived commonality between them and volume models. Similarly, there is a risk that expanding production of the PAG models too quickly may lead to a dilution of their relative scarcity value, but volume expansion does not appear to have harmed either BMW or Mercedes. It is to be hoped that Ford's strategy here is a carefully calculated risk rather than a foolish gamble that may backfire. A final word of caution is essential. Although there are claims that Scheele's decisive actions have managed to turn round Ford's reputation, the current drop of 5.5 per cent in European car sales expected in 2001 and the further anticipated drop of 4.1 per cent in 2002 may put a break on Ford's overall financial recovery even if its cost-cutting and restructuring exercises have in themselves been successful (Parsley, 2001b; Reuters, 2001).

## References

- Automotive Intelligence News* (2000), *Automotive Intelligence News*, "Major restructuring for Ford", 16 May.
- Automotive World* (2001), "D/C, Ford to announce engine deal", *Automotive World*, May, p. 8.
- Bartlett, C. and Ghoshal, S. (1989), *Managing across Borders: The Transnational Solution*, Harvard Business School Press, Boston, MA.
- BBC Business News* (2000), "Ford to end production at Dagenham", *BBC Business News*, 22 April.
- Belis-Bergouignan, M.C., Bordenave, G. and Lung, Y. (2000), "Global strategies in the automobile industry", *Regional Studies*, Vol. 32 No. 1, pp. 41-53.
- Bowen, D. (1993), "Driven by lean production", *The Independent on Sunday*, 24 January.
- Burt, T. (2000a), "Scheele takes wheel for Ford's European drive", *Financial Times*, 3 February.
- Burt, T. (2000b), "Ford cuts European costs", *Financial Times*, 12 May.
- Burt, T. (2000c), "Ford to announce sales growth at Jaguar", *Financial Times*, 14 June.
- Burt, T. (2000d), "Inside track: Land Rover frees its creative assets", *Financial Times*, 27 October.
- Burt, T. (2000e), "Ford to rebuild brand in Europe", *Financial Times*, 20 June.
- Burt, T. (2001a), "Ford rebuilding brand strategy", *Financial Times*, 22 February.
- Burt, T. (2001b), "Ford set to slash European expenditure by \$2 billion", *Financial Times*, 27 February.
- Burton, J. (2000), "South Korean car industry faces foreign domination", *Financial Times*, 26 June.
- Cottrill, K. (1998), "Strategies for world domination", *Journal of Business Strategy*, May-June, pp. 1-4.
- Dicken, P. (1998), *Global Shift*, Paul Chapman, London.
- Donnelly, T., Mellahi, K. and Morris, D. (2002), "The European automobile industry: escape from parochialism", *European Business Review*, Vol. 14 No. 1.
- (The Economist (1999), "Herr luxury", *The Economist*, 7 August.
- (The Economist (2000), "Herr luxury", *The Economist*, 4 November.
- EIU (2000), "Ford under pressure to restructure in Europe", *EIU*, 4 February.
- Feast, R. (2000), "Why Ford is rebuilding in Europe", *Automotive World*, June, pp. 6-7.
- Feast, R. (2001), "What's holding back Uncle Sam?", *Automotive World*, February, pp. 30-4.
- Ford (2000a), "Ford Focus motors into 2001 as world's most popular car", company press release, 28 September.
- Ford (2000b), "Performance models help shape Ford's European transformation", company press release, 15 November.
- Green, A. (1999), "Modular globalisation", *Just Auto*, 23 September.
- Guthrie, J. (2000), "Ford factory in cloud of uncertainty", *Financial Times*, 3 February.
- Institute of the Motor Industry (IMI) (2000), "Land Rover's future in the premier league", *IMI*, 11 November.
- Just Auto* (2001a), "Ford to expand Bridgend plant", *Just Auto*, 5 February.
- Just Auto* (2001b), "Getrag and Ford: working together on transmissions", *Just Auto*, 19 February.
- Just Auto* (2001c), "Mazda becomes a European citizen", *Just Auto*, 13 March.
- Karnitschig, M. (2000), "Giants in the slow lane", *Business Week*, 6 March.
- Kochan, T. and Lansbury, R. (1995), "Employment relations in the international automotive industry: an era of global change", *IMVP*, Toronto.
- Lewin, T. (2001), "New product: Jaguar X-type", *Automotive World*, May, pp. 56-9.
- Martin, R. and Sunley, P. (1997), "The post-Keynesian state and the space economy", in Lee, R. and Willis, J. (Eds), *Geographies of Economies*, Arnold, London, pp. 276-89.
- Milner, M. and Gow, D. (1999), "Predators circling at the great boot sale", *The Guardian*.
- Monk, C. (1999), "Unsteady hands on the tiller", *Eurobusiness*, October, pp. 39-40.
- Naughton, K. (1999), "The global six", *Business Week*, 25 January, pp. 16-24.
- Parsley, D. (2001a), "Ford's Scheele in line for No. 2 job in Detroit", *The Sunday Times*, 17 June.
- Parsley, D. (2001b), "Land Rover and Mini leave MG standing in the pits", *The Sunday Times*, 13 May.
- Piquard, P. (2000), "Ford: le champion dégringolé", *Capital*, May, pp. 40-4.
- Rendell, J. (2001), "Ford, PSA boost diesel capacity", *Automotive World*, May, pp. 6-7.
- Reuters (2001), "UK: sales slide means cut for European car makers", *Reuters*, 8 June.
- Sabatini, J. (2001), "Conveying importance", *Just Auto*, 16 January.
- Slatter, T. (1984), *Corporate Recovery*, Penguin, Harmondsworth.
- Teece, J. (1995), "Ford: Alex Trotman's daring global strategy", *Business Week*, 3 April, pp. 38-44.
- Tully, J. and Donnelly, T. (2001), "Ford: premium brands in the English midlands", *Proceedings of the 28th Conference of the Academy of International Business*, Manchester Metropolitan University, Manchester, 6-7 April.
- Wernle, B. and Chew, E. (2001), "Ford's revolution at Cologne", *Automotive News, Europe*, 1 January.
- Womack, J., Roos, J. and Jones, D. (1990), *The Machine that Changed the World*, Macmillan, New York, NY.

## Further reading

- Burt, T. (2001), "Ford set to expand in Spain", *Financial Times*, 4 March.
- Burt, T. and Griffiths, J. (2001), "UK car industry, but not as we know it", *Financial Times*, 26 January.
- Just Auto* (2000), "Ford Mondeo – sell less to make more", *Just Auto*, 14 November.
- Levitt, T. (1983), "The globalization of markets", *Harvard Business Review*, May/June, pp. 92-102.
- Stonehouse, G., Hamill, J., Campbell, D. and Purdie, T. (2000), *Global and Transnational Business*, John Wiley, Chichester.
- Walters, J. (1997), "A tricky lesson for Europe's car makers", *The Observer*, 14 September.
- Wernle, B. (2000), "Ford team takes Rover's reins", *Automotive News*, 5 June.