# For GM and Ford

## The Answer Lies Within

Kelvin Lin

THE NORTH AMERICAN AUTO MARKET WAS ONCE dominated by gas guzzlers, with five of the top 10 best-selling vehicles in the U.S. being either a truck or an SUV. Eight years later, in 2008, that number had fallen to three, as fuel-efficient foreign midsize and compact cars have gained popularity. Furthermore, the perennial best-selling Ford F-150 and Chevrolet Silverado have seen their sales cut in half over the last decade, a clear sign that Ford and GM must sell cars to sustain profitability – cars that are currently missing from their North American lineup.

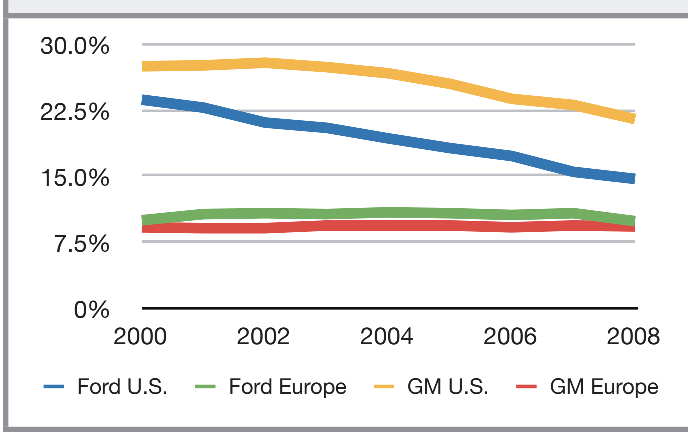
Developing a successful car to compete against the top five best-selling cars in the U.S. of 2009 (all of which are Japanese) takes time and money, luxuries which neither Ford nor GM have. What they do have are European divisions already producing top selling cars that also have the potential to quickly become popular in North America. In addition to existing models that can facilitate rapid recovery in North America, GM and Ford's divisions have the knowledge and resources to ensure long term global profitability.

### Regional Focus

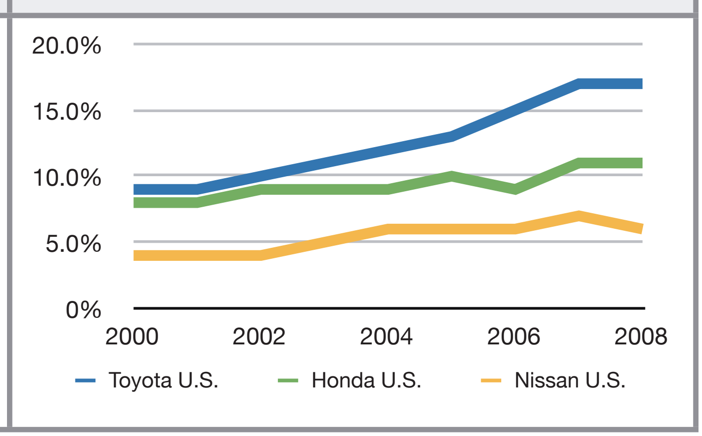
Ford and GM each pursued different strategies in the U.S. versus Europe. The strategy in Europe was one centered on building highly innovative small to medium sized cars. The strategy in the US was centered on building high margin SUVs and Trucks. Two different regions, two different strategies, two markedly different sets of competencies.

Because of these differences, Ford and GM separated their operations regionally, including North America, South America, Europe, Africa and Asia Pacific. These regional organizations have allowed Ford and GM to adjust their product offerings in differentiated markets according to specific needs, though their limited resources also meant they emphasized product and process development for high margin categories at the expense of low margin categories.

Market Share By Region




US Market Share



The result of multiple product offerings for the same customer in different markets at varying levels of quality is exemplified by Ford's strategy for the Focus. The attempt to develop a product to capture maximum value in each specific market resulted in the cutting edge Mark 2 Focus being developed and sold Europe, a cheaper revised but inferior Mark 1 developed and sold in North America, and the original Mark 1 being sold alongside the advanced Mark 2 in Latin America.

Though desirable for highly differentiated markets, there are unavoidable downsides to regional compartmentalization: automakers incur product and process development costs for the same category multiple times, they sacrifice revenue potential by selling inferior cars and leave the door open for substitutes with superior products to steal market share. With regional markets being defined by increasingly similar trends, the specificity and redundancies provided by the organization of Ford and GM into regional subsidiaries are no longer justifiable.

## Global Consolidation

Consolidating all regional product offerings into one set of global product offerings has the potential to make both Ford and GM much leaner organizations. Reducing product and process development to a single model per category simultaneously eliminates the redundant fixed costs required to develop multiple models for each category while making more effective use of physical and human capital by reallocating them to further enhance already bestselling models. They can also replace the subpar products with the best available to greatly enhance potential revenues and reduce the threat of substitutes. Furthermore, competing with the same outstanding products in every region should increase volume per model, increasing revenue potential and economies of scale.

It's important to note that a consolidated global portfolio does not reduce their ability to compete effectively in regional markets. A global portfolio will still include models for all of the profit generating categories required in each region. The biggest difference is that when a product mix is established for a region, all of the required models will be drawn from a single global portfolio, rather than being uniquely developed for that region.

To a small extent, Ford and GM are beginning to adopt this approach by introducing more European based cars, like the 2011 Buick Regal, to North America. While a step in the right direction, introducing European cars to North America captures just a fraction of the benefits that a global consolidation can provide. Ford CEO Alan Mulally demonstrated some awareness of these benefits when he was appointed in 2006, having begun to consolidate the Ford brand through a series of divestitures, but he failed to exploit the benefits of rapidly consolidating car models. Compared to Ford, GM's much more fragmented portfolio of brands presents significantly more challenges to accomplishing an effective consolidation – but also significantly more opportunities to improve.

The public at large seems to believe that Ford and GM are failing companies. In fact, Ford and GM are global companies with robust capabilities not just in Europe, but Asia Pacific, Latin America, and in certain aspects, North America. Leveraging these capabilities across a global market is a difficult task, but the reward of long term global profitability far outweighs the challenges that Ford and GM can expect to be faced with.

The 2011 Buick Regal is based on the European 2008 Opel Insignia