

FORD DISCOVERS THE FIESTA

John Cole notices this article in the NYT—announcing Ford’s decision to refocus its production on smaller, more efficient cars, and asks a few questions. My answers to his questions—speaking as someone who used to consult in this industry—follow.

1.) Isn’t this long overdue? Wouldn’t a responsible company that was actually concerned with the long-term health of the organization have made a shift like this a long, long time ago? If companies were concerned with long-term stability and profitability, rather than focusing on the rather short-term earnings reports, it would seem to me they would have, but as they are beholden to the shareholders who demand a dividend every quarter, they probably produced their cash cow trucks and SUV’s for far longer than they should have. Possibly a situation where capitalism works against itself.

Yes, this is long overdue, and not just a long overdue addiction to the American SUV. Remember, both GM and Ford have what success they have had recently because they are competitive in Europe and because they have significant chunks of the hugely growing markets in China and India, respectfully. That is, their global success has depended in recent years on staving their losses in the US, but also on building competitive cars for Europe and Asia.

But the decision is also belated because of some real short-sightedness on the part of company management that—I have long suspected—resulted from a relative lack of diversity at higher levels of management (that is, they’ve got really diverse staffs on a global basis, but the really smart people in India or Brazil aren’t

getting mainstreamed into global, as opposed to local, management quickly enough). Take one example. A number of years ago, I was meeting with a VP of one of these companies in a region of the world that was experiencing huge growth. However, that same week, three of the high-population, growing middle class countries in the region had just announced they were going to end subsidies for auto fuel. The VP, ignoring the fact that in these three countries the end of subsidies would severely limit the ability of the middle class in the country to own and operate their own car, told me about the growth he expected in the region—he basically predicted the same astronomical growth the auto industry has experienced in the region in recent years. I sat there, knowing of the end of subsidies, knowing that expanding Chinese and Indian economies coupled with diminishing supplies were going to send oil prices sky high, and knowing that Bush's monetary policies and his little Iraq debacle were going to further destabilize the world economy, and I couldn't believe my ears. This guy wanted to sell SUVs to this growing region, rather than adapting the company's successful subcompact to the region ahead of what was certain to be decelerating growth in the market. Dumb. Very dumb. Nevertheless, last I checked this guy is one of the guys that has survived the turmoil of recent years.

2.) If Congress had acted responsibly over the past few decades and raised CAFE standards appropriately, rather than modest changes pushed off for decades in to the future, would this change have come earlier and left Ford in a much better position on the global market?

On the global market, only to a limited degree. Remember, a lot of what US car makers are selling—or at least ought to sell but aren't—on the global market are based on their more efficient, smaller European models. That said,

even in Europe they have not always prioritized efficiency as much as some of their European or Japanese competitors.

Where it matters, though, is in the US. Domestically, cars have almost no margin, and in the absence of anything forcing auto companies to invest more in something, it's not going to happen. So no CAFE standards, no design commitment to fuel efficiency in **most** classes. (That said, did you know that the Ford Focus—which was of course adapted from a European model—is close to the top of its class in both fuel efficiency and quality? I didn't think so, but Ford's marketing failures are a completely different issue entirely.)

Incidentally, what I think should have been done is a trade—some plan for the government to help out on legacy costs (preferably by crafting a business/government partnership that took the first steps towards government-provided universal healthcare), in exchange for radical changes in CAFE standards. If auto companies didn't have to pay \$1,500 and more in legacy costs for each car they build, they wouldn't be pushing higher priced SUVs so much and they would be more willing to invest in efficient technologies.

That said, I recently challenged a MI politician about what pains MI politicians are for others nationally trying to push efficiency. I said, our intransigence on CAFE standards make us terrible coalition partners. And the MI politician said, "CAFE standards are moot. Consumers are spoken." So hopefully MI's stupid intransigence on CAFE standards is over once and for all.

3.) Is it too late for Ford? Have they spent so much money marketing SUV's and big trucks, creating an artificial "need" for giant vehicle penises so ingrained in the American public that the consumer is not going to be willing to make the shift to smaller vehicles as readily as they might have been

otherwise? Or are gas prices enough to get people to shift quite quickly and happily?

I live in MI. Several months ago, I drove my Honda Fit to the mecca of vehicle penises, a big box home improvement store. When I came out two men were ogling my car. They wanted to know about my gas mileage, about how much space the Fit has (the answer, incidentally, is a lot). That was several months ago, when I had one of the few Fits in Ann Arbor. But now I'm seeing them everywhere, and not just in Ann Arbor anymore (damnit, now I feel like I'm driving that most generic of cars, a Camry, except that my Fit is purple). If union-loving Michiganders are buying Fits in large numbers, then I can assure you, those who can buy such cars across the country are going to certainly consider doing so.

That said, it's one thing to say Michiganders are going to buy Fits and another thing to say they're going to buy Ford subcompacts—and here's the other area where the US automakers are hurting. First, the Japanese auto makers are much better at packaging their cars. Buy a Fit, and you've got two choices: Standard or Sport, and color. That simplicity of model line allows Honda to sell Fits relatively cheaply—you get a Honda with front and side airbags, a decent radio, and electric windows for \$17,000. Compare that to a Ford Focus, which starts out much cheaper, but by the time you throw in all the things adults with some cash might want—like airbags—you're up around \$19,000. Also, American auto makers have a real psychological block to building cars that adults who like small cars would want. For a long time, they assumed if you bought a hatchback, that must have meant you were a college kid who didn't want to pay for electric windows. Which was fine if all you wanted to do was sell to college kids, but not if you wanted adults to buy your car.

All of which—all of it—still comes down to an inability to understand the market, both as it

exists now, and as it's going to exist in about 3 years (because that's how much lead time you really need to tweak model lines to meet market need—and on that lead time, too, the Japanese are still better than the Americans). Mind you, both GM and Ford are getting better. In particular, they're slowly realizing they should be selling their European models not just in Asia, but in the US too. They've got good, efficient small cars in Europe which could be—relatively quickly—adapted to the US.

They're getting much better than they were at anticipating market trends. The question is, have they gotten better too late to make the difference?