

INNOVATION

Strategizing for the Electrification Era: How the Ford Story is Unfolding

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Unfolding the electrification strategy at Ford Motor Company

✔ **INSIGHT** | NOTE 28 Nov 2022

Electrification, the new darling of the automotive industry. Not only has it become a strategic priority for most global automakers seeking growth, but it is shifting their competitive landscape. With a radical departure from the design and manufacturing of

traditional combustion engines, Electric Vehicles (EVs) present opportunities for growth as well as real strategic challenge to automakers in order to remain competitive. That's because at the core of any effective strategy are building blocks of competitive advantages that enable companies to make tradeoffs, successfully. Ford's playbook in the electrification space seems to unfold a classic story of strategy development & deployment. But to appreciate Ford's story, we must first get acquainted with 1) strategy and 2) electrification.

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Strategy

To strategize is to make tradeoffs, this is the consensus among academics and industry experts. Knowing that developing a strategy is not a single event nor does it happen randomly, the process of formulating and deploying strategies is rather a structured one. Despite challenges and the inherited risk in changing the direction of the company, some senior leadership teams realize the need to make that change and persuade their organizations to follow suit. Strategy is formulated at three levels: corporate-level, business-level, and functional-level (sometimes referred to as ‘tactical-level’). At the corporate-level, the focus is on growth and the business model. This is typically the conversation to have with members of the board. Once growth has been imagined, the business model to enable that growth is formed. At the business-level, strategy then revolves around selecting between differentiation or cost leadership (sometimes referred to as ‘low cost’) as the approach to deploy the business model and therefore, to realize the

imagined growth. In practice, many companies are along a spectrum between both ends, called the Efficiency Frontier. Finally, at the functional-level, the focus is typically on defining the competitive advantages needed to support the selected position identified at the business-level. The key to success is strategic alignment throughout the three tiers. In terms of the competitive advantages, once again, consensus among academic scholars and industry experts suggest four building blocks in which competitive advantages are developed: innovation, efficiency, quality, and customer responsiveness. In other words, in order for any company to create (and sustain) competitive advantages, it needs to focus on one or more of these building blocks.

Electrification

A recent 2021 study by McKinesy has suggested that the future of the automotive industry is *electric*, a future informed by changes in three areas: more stringent emission regulations, a shift in consumer behavior towards sustainability awareness, and accelerated speed of automotive technology innovation to develop new concepts of EVs. Collectively, this creates the perfect storm for a fierce competition among automakers in their race towards electrification (and let's not forget to thank Tesla for igniting the making of EVs among those players!). Despite the Adrenaline rush of the race, the challenge to automakers is daunting. It is confronting their traditional ways of thinking, operating, and making decisions...nonetheless, they have been responding similarly. Take for example Ford's neighbor, General Motors (GM). The company has reacted by announcing its intent to be part of the solution to climate change by putting 'everyone' in an EV. To realize this vision, GM committed to a \$35 billion investment in EV and Autonomous Vehicle (AV) development between 2020 and 2025. Other automakers are taking more aggressive steps like Volkswagen with its \$100 billion commitment to increase EV production to 25% of total units by 2026 and Toyota's announcement of \$70 billion investment to accelerate EV production to 3.5 million units by 2030. So where and how does Ford stand in this space?

Following similar steps, the company has announced an increase of its EV investment to \$50 billion through 2026, up from \$30 billion by 2025 (previously announced by the company). The unpacking of such announcement starts to tell the strategy story at Ford.

A Classic Story in Strategy Development Unfolds at Ford

Ford's response to electrification is summed into the Ford Electric Vehicle Strategy: a transformative playbook where strategy development is played out. At the corporate-level, the company has imagined its growth, a production exceeding 2 million EVs by 2026 (a third of its annual global production ramping up to 50% by 2030). To enable this growth, Ford's business model pivots on electrifying three iconic models of its product line including Mustang, F-150, and Transit. This is in addition to designing charging services to complement the electrified products. At the business-level, Ford is leaning towards *focus differentiation* (vs. *broad differentiation* which targets wider segment) with clear focus on appealing to specific customer segments in retail market (the futuristic modern and outdoor spirited for Mustang Mach-E and F-150 Lightning, respectively) and commercial market (the efficiency-minded fleet buyers for E-Transit). Finally, at the functional-level, the company realizes the need for those four building blocks in order to create and sustain its competitive advantages. To this extent, Ford has taken steps towards:

- **Innovation.** As a hive of technical innovation, the company kicked off development of BlueOval City, its first mega campus in over a generation with the vision to be a sustainable ecosystem for automotive manufacturing to build next-generation electric vehicles. Built on 3600 acres outside Memphis, Tennessee, the \$11B investment is a hub center for battery and vehicle manufacturing.
- **Efficiency.** To achieve operational fitness, the company has recently reorganized its structure to align with the new shift towards electrification by segregating the traditional business (named Ford Blue) from the new EV business (named Model e) in addition to downsizing of manpower (elimination of 3,000 jobs in 2022) and execution of a wave of internal structural cost reduction initiatives. The formation of distinct auto units is designed to strengthen operations while streamlining business processes to unlock value and to optimize operations efficiency.

- **Quality.** With 46 safety recalls on 6.8 million vehicles in the first 7 months of 2022 alone (including 49,000 Mustang Mach-Es), Ford realized the urgency to prioritize quality and shifting its perspective on it to being a driver for organizational culture. Positioning quality at the front and center of business meetings, it has become a strategic priority and a mechanism to transform the company by challenging the way it has historically approached defects and root cause analysis. The company has redesigned business processes to re-imagine how quality problems are identified; a shift in mindset that enables cross-functional teams to address quality concerns sooner and incorporate learnings into the engineering design process in an accelerated fashion.
- **Customer Responsiveness.** The company is re-imagining the customer experience with the introduction of its electrified vehicles. The Ford Electric Vehicle Strategy has been developed as a holistic approach to electrification, one that brings the benefits of EVs to customers with an accessible price point, improved productivity, lower cost of ownership, and a variety of home charging solutions. For example, the E-Transit promises an ‘unmatched customer experience’ and maximum productivity by offering a targeted range up to 380 km, full towing capability, and DC fast charging making it among the leading commercial EV on the market.

Meeting the electrification challenge is not an easy task, so far it has shifted corporate-level strategies as auto makers strive to stay current and competitive. At Ford, this is no different. Only time will tell whether or not Ford’s playbook will yield a successful story in electrification.



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