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Ford's Shift in Strategy

May, 2018

Ford's Portfolio Strategy



After winning 3 consecutive championships with the Chicago Bulls from 1991-1993, Michael Jordan decided to retire from basketball and focus on baseball. Jordan played for the minor leagues, pursuing dreams of making it to the MLB. After an unsuccessful stint, Jordan stated, "I'm back," going on to win a second 3-peat in the NBA and focusing on the sport he excelled at.

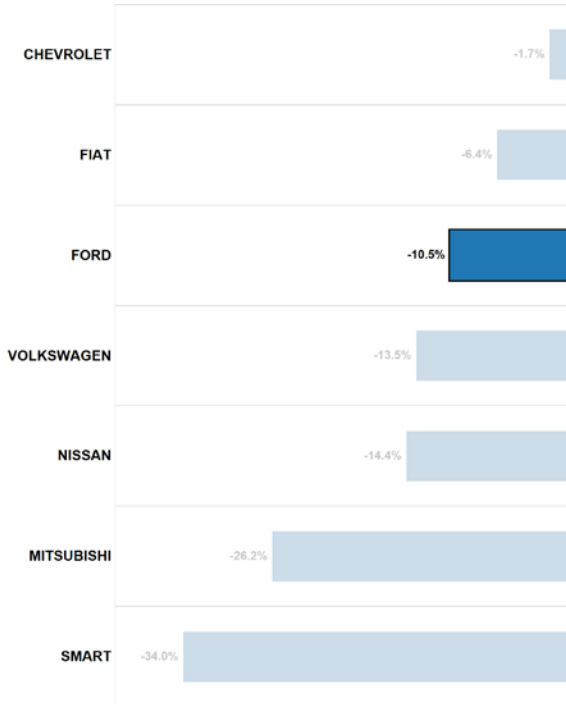
In their Q1 2018 quarterly financial report, Ford announced it will no longer invest in sedans in their next-generation portfolio. The Fusion, Taurus, Fiesta, and Focus (except an all-new Focus Active crossover), will be eliminated from the North American market. The company states that it is investing heavily in their SUVs, trucks, and commercial vans while exploring "white space" vehicles that combine attributes of cars and utilities. The Mustang is safe from the ax.

Just like MJ, Ford realized that it needs to focus and play on its strengths: SUVs and trucks. Ford dominated these segments in the late '90s and early 2000s and is now looking to expand beyond the Escape, Explorer and F-150 3-Peat with the return of the Ranger and the all new EcoSport. Perhaps Ford's recent announcement should be interpreted as, "I'm back."

Brand Pricing Score- New, Super Segments

BPS measures the inherent value of a brand versus other brands within its competitive sector and super segment by analyzing average transaction prices for new vehicles and holding measurable factors constant.

Mainstream Cars



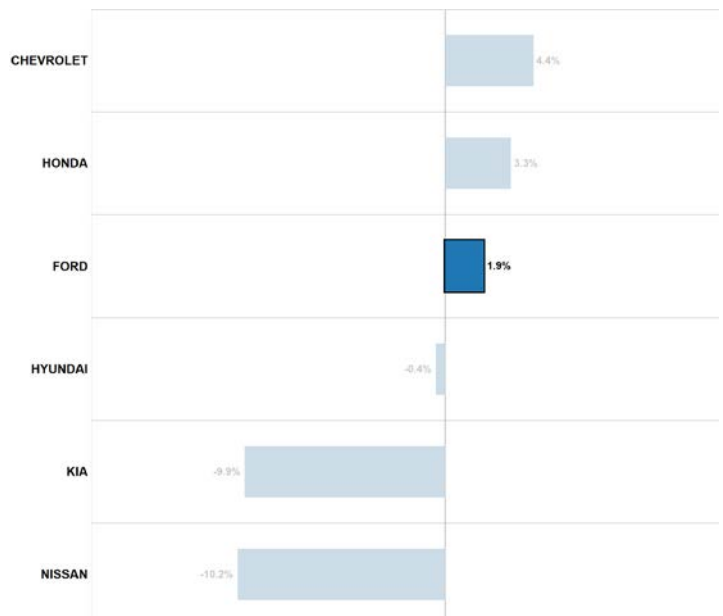
Key Insights

- Currently, Ford's Mainstream Cars sit at -10.5% below the average.
- Ford's cars struggle against the competition, requiring more incentives, therefore bringing down its position within the segment.

Key Insights

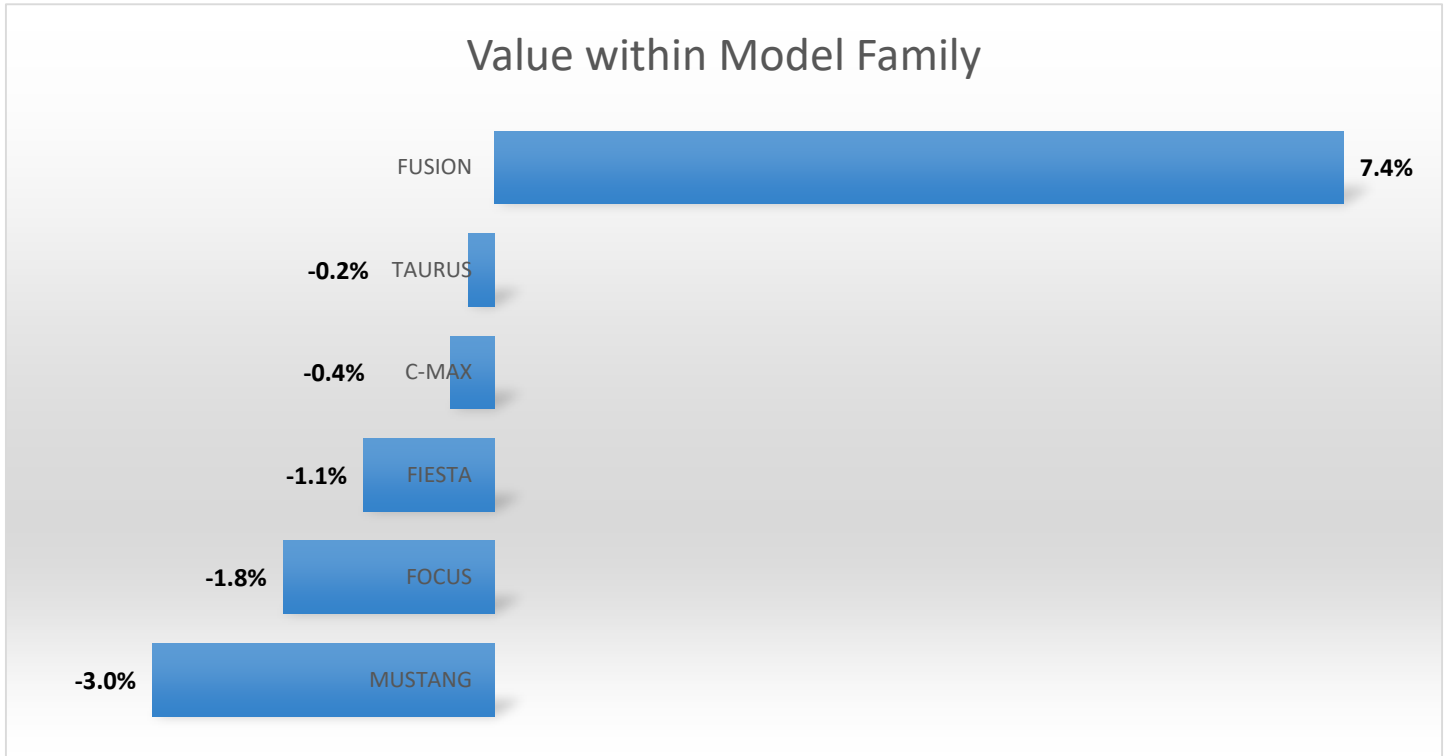
- The decision to focus on their Utility lineup is sensible given their BPS-N score within the Mainstream Utilities segment.
- Relative to the competition, Ford's Utility Vehicles transact higher compared to their cars, aligning with Ford's plan on increasing their product profitability.
- Therefore, Ford's pivot to an all Utility and Truck lineup makes sense given the current climate of consumer preference.

Mainstream Utilities



Anchors & Oars

Anchors and Oars calculates the impact to BPS-N for every brand after removing each model one at a time. The resulting difference in the BPS-N score isolates the impact each individual model has on the overall brand.



Key Takeaways

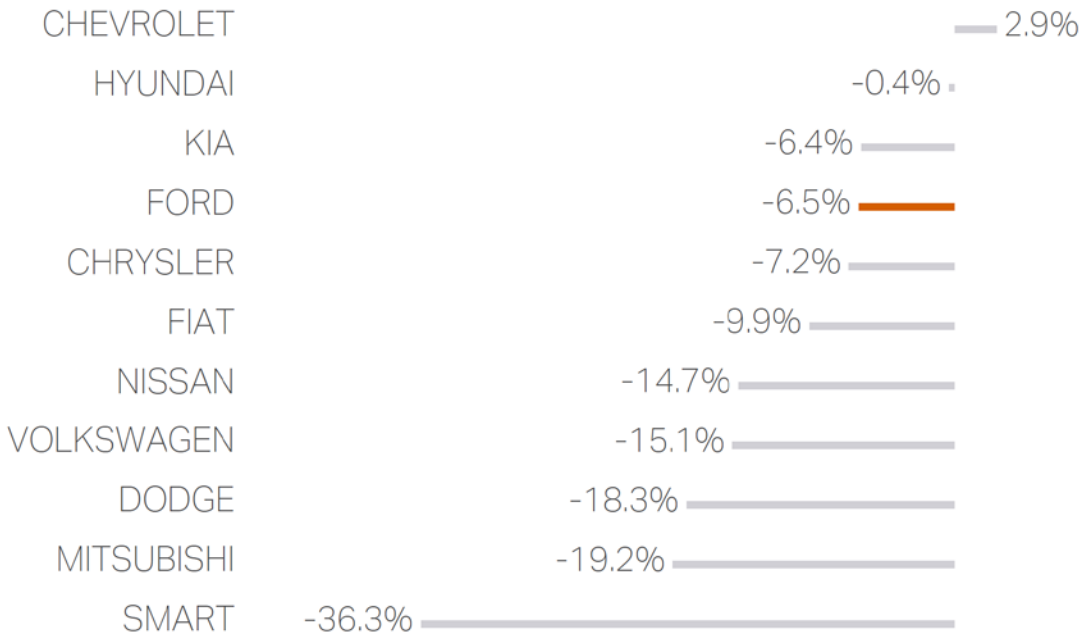
- The majority of Ford's car lineup are anchors, meaning they bring down Ford's overall BPS-N score. The Fusion is their only oar, lifting their score significantly.
- Ford's decision to delete all vehicles except the Mustang, their biggest anchor, brings down Ford's overall BPS-N score in the passenger car super segment.
- Given the nostalgia and name recognition of the Mustang, it is a natural decision for Ford to continue to offer the legendary pony car.

Brand Pricing Score – New

Current BPS-N Score



Adjusted BPS-N Score

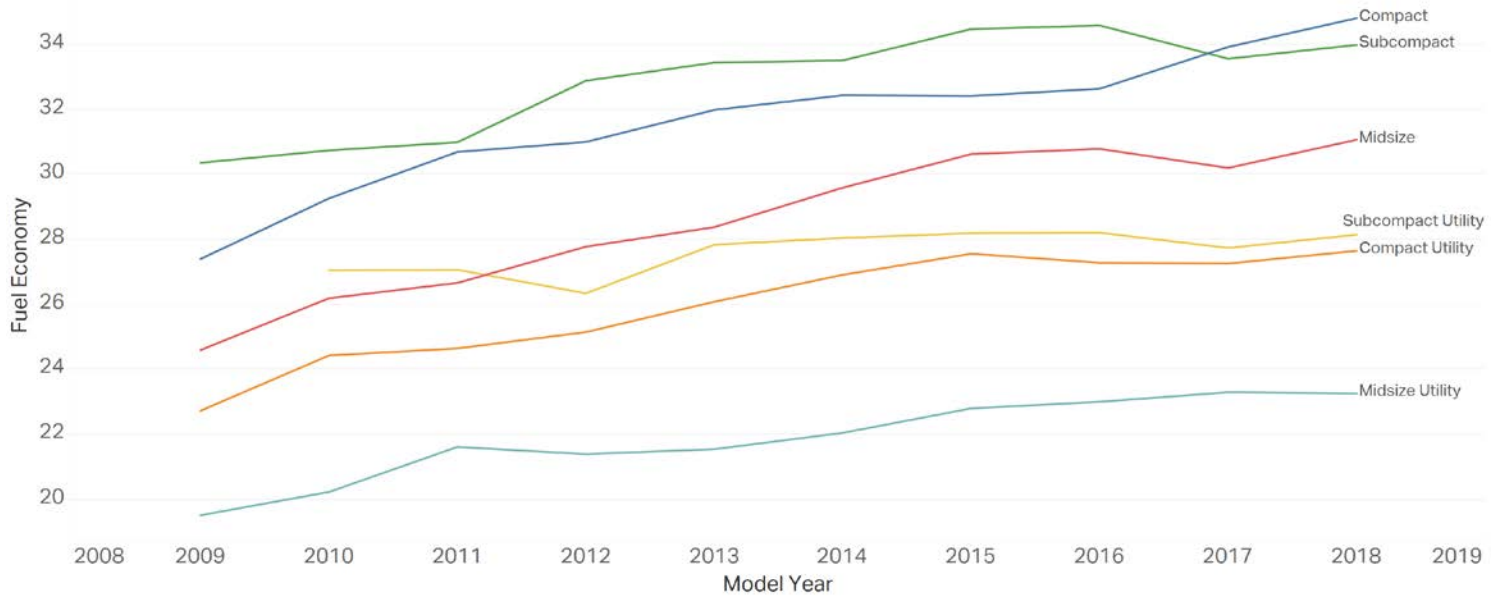


Key Insights

- Ford currently resides at -6.8% below average in the Mainstream segment for Q4 2017.
- Eliminating Ford's car models and only including the Mustang results in a negligible increase of ~0.3-ppt.
- Average transaction prices for vehicles have been steadily rising and is due in part to expensive trucks and SUVs. If there is a market downturn, such as the one in 2008, will Ford's portfolio meet the needs of the customer?

Gas Price Impact

Combined Average MPG by Segment



Key Insights

- During the Great Recession of 2008-2009, many consumers abandoned their large SUVs and trucks in favor of more fuel efficient vehicles, which were predominantly sedans and small cars.
- Since 2009, manufacturers have increased their combined MPG for all segments, thus reducing the risk of consumers abandoning their SUVs and trucks if a recession were to happen anytime soon.
- Ford's plan also involves adding hybrid models to the F-150, Mustang, Explorer, Escape, and Bronco and producing an EV model around 2020.
- For example, the Ford Fusion AWD 2.0L and Escape AWD 2.0L have the same combined MPG. Consumers do not have to sacrifice MPG over cargo space in 2018.
- The risk further diminishes comparing MSRPs. A base Fusion starts around \$22,215 while the Escape starts around \$23,940. The ~\$1,700 difference would not sway most buyers to choose the sedan.

Summary

Just as Michael Jordan realized his skillset was better served in the NBA, so too has Ford realized their focus should be on SUVs, trucks, and commercial vans. Nonetheless, any strategic shift in product strategy bears some element of risk.

In 2017, Ford sold 345,981 passenger cars excluding the Mustang. In the same year, Ford sold approximately 1,521,048 SUV and truck units. Ford is hedging that consumer's preferences for larger, more versatile vehicles will not wane even if gas prices take a turn upward or another recession hits. As gas prices inevitably rise, Ford hopes their safety net of hybridized vehicles and an EV model will catch the sales once occupied by small cars and sedans.

Although the Fusion sedan is a bright spot for Ford, the Mustang is undoubtedly a more recognizable nameplate, known the world over. Ford's cars in general are negatively impacting their brand score and Fusion wasn't able to move them into positive territory. Allocating resources to better improve their existing trucks and SUVs in accordance with consumer demand is a logical but bold strategy for Ford.

Additionally, without the distraction of needing to develop future passenger sedans, Ford can focus exclusively on the development of trucks and utilities. Conventional wisdom would lead us to conclude that the blue oval brand should be able to produce more competitive vehicles in those segments given a more dedicated "fusion" and "focus" in product planning, research and development towards these segments.