Ford’s Bumpy Market Share: A Marketing Makeover?

“You must have mindshare before you can have market share.”– Christopher M. Knight “If you’re trying to persuade people to do something, or buy something, it seems to me you should use their language, the language in which they think.”– David Ogilvy.

Ford Motor Company tallied the financial impact on Thursday (July 24th 2008) of falling sales of its big pickups and sport utility vehicles (SUVs), which contributed to the worst quarterly loss in its 105-year history, reported The New York Times. Ford reported a historic loss of $8.5 billion in the second quarter of 2008. This underpins the rapidly changing customer demand from gas-guzzling SUVs and trucks to small efficient models, which the US automakers found difficult to meet. Over the years, the ‘Big Three’ were certain that demand for Sports Utility Vehicles (SUVs) and trucks in the US would never end. But, after 2006, with gas prices hovering around $4 per gallon, consumers became more at ease with fuel-efficient cars. Ford spent billions of dollars on advertising to promote what they can offer to customers, but that has not proved fruitful as the company’s offerings could not match consumers’ expectations. Gone are the days, when Henry Ford believed “to hell with the customer, you can have any colour as long as it’s black.” since its inception.

Ford’s marketing strategies, mostly never focused on customer needs. With fuel prices soaring high and fluctuating periodically, how are Ford’s marketing strategies going to compete with the Japanese fuel-efficient automobiles? Ford’s Marketing: From 1920–1980 Automobiles have greatly influenced all walks of American life in the early 20th century, as they became instruments of social change. With the advent of mechanically reliable transportation, people of the US – women in particular, especially those living in rural areas – escaped from homebound existence and took advantage of new employment opportunities, without foregoing their traditional domestic responsibilities. With these advantages over horse-drawn carriages, people demanded cars without intended marketing efforts from the manufacturers. Further, automobile became more popular and generated its own market with road races, reliability runs and cross-country tours in the early 20th century. Races such as Vanderbilt Cup road races of1904–1916; reliability runs like Glidden Tours6 held between 1905 and 1913, successful cross-country trips beginning in 1903 with Dr. H. Nelson Jackson, stirred interest among customers and helped to establish the reliability of the automobile as well as promoted its superiority in many respects to horse-drawn carts. Besides, automobile was viewed to be environmental friendly during that period. In New York City, where 2.5 million pounds of horse manure had to be removed daily, citizens hailed the modern transport, which seemingly left nothing but a little evaporating smoke in its wake. This demand led to the rise of several hundred auto manufacturers. Among them, Henry Ford succeeded in leaving a lasting impression by bringing revolutionary changes in the manufacturing process of automobile. Henry Ford’s greatest strength was the manufacturing process – not invention.7 His ‘moving assembly-line’ along with scientific management techniques during early 20th century revolutionized manufacturing in the automobile industry, and other industries of the time as well, by paving way to mass production. “The hallmark of mass production was standardisation – standardised components, standardised manufacturing process, and a simple easy to manufacture (and repair) standard product.” Ford said, “We want the man who buys one of our products never to have to buy another. We never make an

improvement that renders any previous model obsolete. You can take a car of ten years ago and, buying today's parts, make it with very little expense into a car of to-day. The central idea of Ford's marketing strategy was to outrun the competition by reducing the manufacturing costs and steadily lowering prices. Charles J. Glidden, a millionaire automobile enthusiast, conducted the first Glidden tour in July 1905, which took eleven days and covered an 870-mile route through New York City and New England, to demonstrate the reliability of the various motor cars on the market.

On the marketing front, Ford formulated dealer-franchise networks to sell and service cars. By 1910, there were about 7,000 Ford dealers across the country. Ford was the first to promote a 'push marketing' strategy with increased production volumes using automatic conveyor belt that could churn out a car every 93 minutes. ' Fordist' production needed a large supply of low-skilled laborers. Ford transformed the production patterns into easily learned, executed and supervised to impose rigid control over the manufacturing process. A Ford employee in 1926 spoke, 'My work was to put on bolt no. 46.'Often it would take only 15 or 20 minutes to learn how to perform his little job efficiently. With mass production techniques, Ford captured more than half of the automobile market share till mid-1920s. Mass production of automobiles narrowed down the gap between the demand and supply and by 1930s supply exceeded the demand. During most of the 20th century, marketing played a supplementary role to manufacturing by creating sales reports and sales forecasts, as there was a great demand for automobile. Ford used yearly sales estimates that were used to guide production volumes. "Thirty-day production schedules were set at the beginning of the month and then modified based on sales reports received from dealers every 10 days." The need for a reliable and convenient mode of transportation enabled smooth and easier marketing function during that period. Marketers used radio as an advertising tool and employment of large sales forces to reach prospective customers. By 1940s, introduction of television enabled marketers to expand sales efforts even further. In order to outreach the vast geographical area Ford effectively utilised dealerships and to increase the visibility of Model 'T's it used print media. From the very beginning, Ford's advertising existed on two fronts. Dealers assumed much of the front-line sales promotion through local newspapers and at the corporate level advertising, the company hired two advertising agencies – the Charles H. Fuller Agency and O.J Mulford Advertising Co. During the first year of business, it spent about $13,500 through its agencies and the fiscal year 1905 saw ad spending reach $39,513.13 Slogans became a part of auto advertising and some tags continued for decades. 'Watch the Fords go by' became a famous slogan during 1910s and remained into the TV era, as part of Ford advertising as well as an American cultural reference. Ford's ad campaign also included famous slogans such as, 'Ford has a better idea' and 'At Ford quality is job one'. Ford'sprint ads carried its reliability and low prices as unique selling propositions in magazines like Automobile Trade Journal, Life and Ford's own magazines

Ford's marketing efforts focused on reduced prices with high volume of production that helped it to gobble higher market share when the industry was in infant stage. From the marketing point of view, the Tin Lizzie, as the Model 'T' was affectionately called, was cheap – an affordable car at $850 in the first year (1908) and became cheaper as the years passed, eventually reaching to $290.Many observers of that time opined that Model 'T' needed no advertising. Its visibility itself was enough. Between 1917 and 1923 Model 'T' was so successful that Ford did not even have to spend any amount on advertising,

and in 1918 half of the cars in US were Model 'T's. Ford boasted, "Everytime I lower the price a dollar, we gain a thousand new buyers." Mass production made such prices possible that compelled competitors to follow Fordism to gain market share. The severity of 1920–1921 economic downturn, took most of the businesses in the country by surprise. During mid-1920s fortunes of automakers were tied to their abilities to design and market products than to their ability to adopt the latest techniques for controlling production costs. During 1920s General Motors (GM) and Ford held about two-third of the automobile market share with Ford leading with more than half of the market share at the beginning of the decade. Ford sales hit a peak of 61% in 1921. Unable to undersell Model 'T', Alfred P. Sloan Jr. of GM introduced a series of calculated innovations to grab the market share. GM launched an array of cars at various selected price segments and differentiated the market into the luxury, semi-luxury, mid-range and lower mid-range buyers and it also introduced annual model changes in car designs. To attract buyers, GM offered and popularised the installment or time payment mode through its General Motors Acceptance Corporation (GMAC) subsidiary, thus widening the scope of market and introducing a new source of revenue for the manufacturer through interest from loans. GM emerged as a potential competitor to Ford, with Chevrolet positioned in the low-priced segment. "At the peak of its success in 1924, more than six times as many Model 'T's were sold as Chevrolets, its leading competitor among low-priced cars." After about two decades of Model 'T's inception, it ceased to appeal and draw customers. Despite suggestions from executives, Henry Ford was reluctant to diversify the product line. He insisted on sticking on a single model for far too long. Despite several marketing efforts, Ford was forced to abandon the production of Model 'T' in 1927. With the end of the famous Model 'T' production in 1927, its market share fell to 17% and rebounded to 41% in 1930, declined to 20% in the 1940s and recovered to 25% during 1950s where it remained for the rest of the 20th century

Edsel Ford, who succeeded Henry Ford (in 1919), strived during late 1920s, to expand the market and push Ford's offerings, when there was a high demand for stylish and elegant looking models. Sloanism became a predominant feature by late 1920s that replaced Fordism. Ford expanded its reach into the luxury segment through its acquisition of the Lincoln Motor Company. During 1927, Ford mostly stayed out of production, while Model 'A' was being manufactured and GM surpassed Ford in sales for the first time. But, Model 'A' became a sensation and recovered the lead in 1928. Henry Ford did not like the new approach of GM's annual model changes in car design, but had to follow the same strategy in the subsequent years. Ford expanded to the international markets and the British Ford Co., was formed the same year and shortly thereafter the German Ford Co., was founded. But, in the US auto sales dropped in 1929 indicating the upcoming Depression. The loss of market share since late 1920s was due to lack of flexibility in manufacturing process. Henry Ford believed that Model 'T' would last forever and majority of customers would always prefer cheaper and basic products. Though Henry Ford was a genius of process manufacturing, he failed to understand that products need to be upgraded and diversification is an essential element of marketing strategy when its life cycle changes. Had Henry Ford displayed the vision in understanding the changes in product life cycle strategy, the company would have never given an opportunity to GM to surpass. Henry Ford did not bring out a new design until the Model 'A' in 1927, and by then GM was gaining. Henry Ford, in a sense, was trapped as a prisoner of his own success. In the early 1930s, due to Great Depression, auto output fell by 37% and the auto industry fell from first place to fourth place, in terms of revenue generation, creating ripple effect throughout the nation's economic

infrastructure. However, the auto industry was the first to recover from the Great Depression years, GM surpassed Ford in sales in 1931 and Ford never regained the lead. As most of the small players during 1930s went bankrupt, only three companies accounted for 85% of the market with Chrysler joining GM and Ford to form the 'Big Three'. "In 1933 Chrysler Corporation also passed Ford in Sales. The sales race was on."18 GM redefined the market by assessing each dealer's performance relative to the potential to sell cars in the respective territory. GM by 1936, posted profits equivalent to pre-depression years. Ford overlooked the changing marketing trends and relied heavily on 'the more dealers automatically meant more sales' approach. This resulted into competition among dealers and often inventories accumulated at weak dealerships. Ford had finally modified its approach in 1938 by educating and organising the dealerships with regular supervision. During the Second World War, in 1942, the federal government ordered automakers to convert passenger car production to wartime production, following the bombing of Pearl Harbour. Thus automobile production halted with auto companies producing war equipment like shells, bombs, fuses, bombers, etc. Ford supported the war cause by manufacturing B-24 Liberator Bombers and War Planes. After World War II in 1948, the 'Big Three's hold on US market had become so secured that they struck a deal with United Auto Workers (UAW) that added a new component to the automobile business; high wages, generous healthcare and pension benefits. Automobile design entered into a new era by 1949 from the shadow of World War II. The 'Big Three' during mid-20th century designed automobiles using jet-and rocket-inspired features such as twin-toning, the use of light and bright colours, wrap around windscreens in imitation of the glass-domed airplane cockpit that displayed highly powered and masculine image for the automobiles. "The car-making business had become a tight oligopoly, with investment barriers for entry so high that no domestic firm could afford to join the club."19 The post war period witnessed tremendous growth in disposable income throughout the nation and a jump in births popularly known as 'babyboomers'. The growth in population and income level caused huge pent-up demand for automobiles, which the automakers found difficult to meet. The 'Big Three's all time high market share was 94%in 1955, 1956 and 1959. To meet the pent-up demand for stylish and powered for automobiles, Ford engineers revamped the structure of its product line by eliminating problems like loosey-goosey structure and thin frames of previous models. Its line-up of new models included four-door sedans, business coupes, convertibles and station wagons. Though Ford did not advertise in any noticeable way, its brands were about $200more expensive than its rivals. The number of dealerships reached its peak and by 1953, there were over 47,184 franchised automobile dealers in US. "How could over 47,000 dealers survive in 1953when we had one hundred million less people and sold seven million fewer vehicles?"

Ford Thunderbird, introduced in 1954 won the hearts of millions of people who appreciated innovative styling and design. Impressed by the design, the then newly elected President John F.Kennedy in 1961 showed his passion for the car by including 50 of them in his inaugural procession. Despite creating a lot of interest by dealer networks, the model Edsel Ford which was introduced in1957 performed disastrous and marketing professors termed it as 'the titanic of automobiles'.21 In1957, Ford unveiled a nuclear powered automobile – the concept car– Ford Nucleon, which had a sleek futuristic look, emitted no harmful vapours and offered incredible fuel mileage far beyond that of the most efficient gasoline cars ever built. The production of Ford Nucleon did not materialise, but it remained as an icon of the atomic age of the 1950s. Ford's Mustang a 'muscle car' introduced in 1964 at the New York's World's Fair drew

throngs to showrooms across the country. Lee Iacocca, the then general manager of Ford Division personally convinced Henry Ford II and a sceptical financial division of the company to approve the plan of relatively inexpensive sports car concept targeted to win younger customers. The initial start-up costs were a mere $75 million due to the incorporation of the existing Falcon engine, transmission and axle which expected to give a high return on investment. Before the launch of Mustang, a huge amount of market research had been carried out examining the mood of the buyer and the pay-off for this attentiveness to market trends was an all-time sales record. The car had a price tag of $2,320 about half the price of Chevrolet Corvette and was offered in six colours. Mustang featured in several James Bond thriller movies like Goldfinger (1964), Thunderball (1965) and Diamonds are Forever (1971). In its 35 years of history, more than 6.9 million Mustangs were sold in the US. US automobile industry, in particular Sloanism consciously steered the automobile design, production and marketing strategies from core product to augment level, optimally utilising the economical and cultural changes of US society. Ford found no alternative but to follow the market leader since late1920s. US automakers augmented automobiles with features like added power, electric starters, air-conditioners, power steering, V8 engines, and so on. The price of gasoline was so affordable that customers cheered powered and stylistic automobiles. High profitability and huge pent-up demand for automobiles during mid- 20th century attracted European and Asian automakers to enter the US market. Responding to the new breed of compact cars imported by foreign automakers, in particular the Japanese automakers, the 'Big Three' quickly changed their designs. In retaliation to Japanese small efficient cars, Ford along with GM and Chrysler launched compacts as '60s models – Ford Falcon, Plymouth Valiant and Chevrolet Corvair'. But the quality and reliability problems (Exhibit III) of the 'Big Three' compacts were so severe that it resulted in a consumer backlash embodied by Ralph Nader's book, Unsafe at any Speed. Despite the growing concern for small efficient automobiles, the 'Big Three' were convinced that Americans would always love big and powered vehicles. Though the scale of operation was limited, the sales growth rate of Honda,Toyota and Nissan surpassed the 'Big Three'.

In the 1970s, as the oil price quadrupled, the industry found itself under attack from environmentalists outraged by its products' gas-guzzling habits. The aftermath of gulf crisis during 1970s pushed Americans into buying cars based on fuel efficiency rather than social class appeal. As the oil crisis ended, demand pattern witnessed a swift change and it was the Japanese automakers who were best positioned to take advantage of the need for smaller cars, because of their quality and fuel-efficiency. The need for small, efficient cars compelled US automakers to quicklyre-tool their strategies in order to meet new demand. Ford, which had a 19.6% of world market share in 1965 declined to 12.4% in 1975.

Poor quality and safety concerns clubbed with two disastrous oil shocks changed the perceptions and buying patterns of US customers during late 1970s and Americans started avoiding big and heavy cars. "When the gas lines reappeared, and Americans shifted to small cars, Ford was still offering its decade-old Pinto."23 The need to retain market share compelled Ford to study Japanese methods of industrial management and worked close with Toyo Kogyo, the Japanese manufacturer of Mazda automobiles. Ford acquired 25% stake in Mazda Motors in 1979. It imported Mazda cars as a smallcar division of Ford until it manufactured Escort to succeed Pinto. During 1970s and 1980s, US automakers had to face a double blow on their marketing and production. The squeeze of market share by imports was troubling

on one hand, and on the other hand they were increasingly encumbered by government regulations with regard to vehicle emissions, fuel efficiency and safety norms. The Corporate Average Fuel Efficiency (CAFE) doubled fuel economy between 1974 and 1990 to 27.5 miles per gallon (mpg). Safety regulations enforced automakers in including seatbelts, airbags, antilock brakes, bumpers, and other parts. Thus, the automakers needed to redesign the models with improved parts and components or sometimes the whole systems. Finding it difficult to compete with Japanese fuel-efficient models, US automakers increasingly lobbied federal government to impose restrictions on imports. To help the US automobile industry, federal government imposed restrictions on imports to 2.1million per year, which was further lowered to 1.6 million as the Japanese began producing large volumes of vehicles in American plants. However, the import restrictions proved of little help, “The most successful businesses will be those that respond to market forces most quickly, not those that use legal barriers to turn themselves into dinosaurs.” Automobile industry witnessed a swift change in customer perception and domestic models were perceived to be poor and inferior to Japanese brands in terms of design, quality, reliability and fuel-economy. The wave of information revolution of 1980s changed the face of traditional marketing habits of dealers and manufacturers. With improvements taking place in quality, safety, and reliability of automobiles, quality and performance surveys by reporting agencies supported the marketing efforts of automobile manufacturers. JD Power’s automobile quality surveys provided one of the first independent systems for ranking vehicles’ quality and reliability. Marketing channels found more avenues to reach customers through company’s own web sites. As demand for Japanese brands posed a serious threat to domestic automakers, the total supply exceeded demand. Inventories piled up at dealer networks and dealers competed with the same brands and makes in a specified geographic area. Another reason for the failure of Ford’s marketing efforts during 1980s was high showroom age of models and poor planning and co-ordination between marketing and manufacturing divisions.

Henry Ford II conceded poor planning at Ford. “Four years ago, he said no to arguments that Ford should build a front-wheel-drive subcompact for the 1979 model year.” Ford, that withdrew no models before 1979, was compelled to drop eight of its compact car models during 1979–1984. High showroom age of Ford models indicated poor R&D efforts, which resulted into high pressure sales at dealer networks. Ford’s average market life of compact car models longer than 10 years was 8 years, just below 9 years of GM (Exhibit V). Ford encountered steady loss of market share in US after 1970s due to high costs incurred in development of automobiles to meet federal standards and labour contracts. By October 1997 “Ford’s share of the US auto market has dropped from 23.5% at the end of 1978 to 20.9%, its lowest in adecade.”26 Despite having an established European operation and, strong sales in truck division, its market share in passenger cars fell to 17% and posted a loss of $1.54 billion in 1980. Further, it posted a loss of $1.06 billion in 1981 and $658 million loss in 1982.27 With costs reduced in 1984, Ford launched Taurus, which resulted into a highly successful model and won a number of awards for its design and safety.

AMC/Jeep was acquired by Chrysler in 1987, but is not included in Chrysler’s share to maintain consistency over time. Ford’s marketing suffered severe set backs during 1980s due to relative changes in the most basic attributes such as price, size, power, operating cost, transmission type, reliability and body type. The other reasons that affected are crippling pension costs, discount reliance,

mismanagement etc. Japanese companies, in particular Toyota, were widely credited with introduction of lean and flexible production motivated by constraints in adopting US style of mass production. During the 1980s, Japanese moved on to upscale brands such as Lexus, Acura and Infiniti, which competed directly with established players of the US and European manufacturers. Ford acquired Aston Martin and Jaguar as its luxury brands of its Premier Auto Group (PAG) brands. Aston Martin's price in the US started at $110,000.

The top V12 Vanquish model reached $300,000 with various options. Ford introduced a marketing slogan 'Quality is Job 1' with a view to introduce new products and drive down the costs. Though the slogan helped in improving customer perceptions about Ford products in 1990s, its quality remained far behind Toyota and Honda. Despite making achievements, on the whole, US automakers suffered from decline in passenger car sales due to strict government regulations. Finding loopholes in the CAFE standards, US automakers quickly popularised a new class of vehicles called SUVs as a way to improve profits. US Congress established CAFE in 1975, largely in response to the oil embargo of 1973. Cars and light trucks during early 1970s were bulky and inefficient with cars averaging 13.5 mpg and trucks averaging 11.6 mpg. US Congress established new fuel economy standards that specified cars up to 27.5 mpg. Congress delegated the responsibility of setting standards of light trucks to Department of Transportation (DOT). The fuel economy standard for SUVs, minivans and pickups was set at 20.7 mpg. When the government passed the CAFE law, light trucks (primarily used as work vehicles) which constituted only 20% of the total vehicle market, were allowed to meet lower fuel economy standards. The inability of US automakers to enhance the fuel-efficient models resulted in manufacturing a new version of huge cars called as SUVs with low mileage. Prof. Levitt Theodore in his article Marketing Myopia opined, "Detroit really never researched customer's wants – It only researched their preferences between the kind of things it had already decided to offer them. For Detroit is mainly product oriented, not customer oriented."28 Though such an escape from improving engine efficiencies could yield short-term benefits, the need to manufacture fuel-efficient vehicles became inescapable as gasoline prices fluctuated periodically and fuel-emissions became a standard of measuring engine quality. Guided by profitability, almost every automaker manufactured and sold SUVS, as they supported the existing manufacturing facilities of US automakers. Ford manufactured Bronco II which boosted the company's profits, selling about 760,000 in 7 years. However, Consumer Reports Study in 1989 reported that the Bronco is so unstable that recommended against buying the vehicle. From 1983 to1999, 1,742 persons were killed in Bronco II rollovers, according to federal data analysed by Alice and Randy Whitfield, consultants for plaintiff attorneys. Ford had settled 334 Bronco II rollover cases for a total of $113,385,504.60.29 Ford marketing efforts focused more on delivering products to life-style customers during 1990s.Ford Explorer was the first SUV of its kind, to offer comfort, versatility, affordability and style than a station wagon or minivan. For most of '90s, Explorer sales were more than 400,000 units per year. As oil prices stabilised, customers viewed SUVs as safe, rugged, spacious and large. Advertising on SUVs increased nine fold from $172.5 million in 1990 to $1.5 billion in 2000. Advertising targeted 'baby boomers' in re-launching the F-150s pickup in 1990s.30 Getting away from the traditional approach, the design team concentrated on styles, needs and values rather than the product features. Competition intensified and dealers along with manufacturers suffered poor profit margins.

To stay profitable, dealers resorted to 'filler businesses' like spares, services and used car sales. In order to increase the dealer profitability and allow more attention to service and help boost brand image, Ford and GM reduced the number of dealerships. The number of total dealerships, which totalled almost 50,000 in late 1940s shrunk to 24,825 in 1990, which further fell to 20,770 by 2007. During the late 20th century, Ford relied heavily on price hikes with new model launches. To attract customers and push inventories, it offered cut prices along with rebates, cut-rate loans and discounted leases. Passenger cars, in 1998, reached most affordable level in 18 years. The average vehicle priced about $20,000 and big luxury SUVs priced at $30,000–$40,000. "It took 24.6 weeks of median pre-tax family income to buy an average-priced new vehicle in 1998, compared with 25.5weeks a year earlier." Consumer's bargaining power increased fourfold as plenty of models were available with various options. Automobile competition had intensified due to high production capacities of automakers. "In North America, there is 25% more production capacity than demand warrants, Merrill Lynch &Co. Estimates." Overproduction increased competition and compelled automakers to reduce prices. For instance, when Toyota lowered the price of Camry by $1,600 in 1997, Ford lowered its Taurus LX sedan by $1,000 to about $18,000 in 1999. The decline in sales compelled automakers to find new ways to improve marketing strategies. With vehicle quality increasing among all brands brand loyalty started diminishing. Pricing became a major factor that separated the winners and losers where maintaining market share was an important factor. Ford reported a record profit of $7.2 billion in 1999 with a market share of 24.8%. Since 1999 its market share declined steadily from20.5% in 2003 to 15.6% in 2007

Ford's central marketing theme mostly revolved around the key issue of sales management rather than identifying the importance of marketing management. Prof. Theodore Levitt stated, "The difference between selling and marketing is more than semantic. A truly marketing minded firm tries to create value satisfying goods and services, which the consumers will want to buy. What is offered for sale is determined not by the seller but by the buyers. The seller takes his cues from the buyer and the product becomes the consequence of the marketing effort, not vice versa. Ford had mostly been product-oriented rather than customer-oriented. The successor of Bronco II, named as Explorer caused ripple effect due to fatal accidents in Venezuela, Gulf and several parts of the world. Explorer with Firestone tyres had been linked to about 200 deaths and more than 700 injuries. Ford's CEO Jacques Nasser (Nasser) announced, "Ford would replace an additional 13 million Firestone tyres on its pickups and sport-utility vehicles. The cost: a staggering $3 billion."35 Due to the recall of Firestone tyres on its vehicles, the company lost $5.5 billion in 2001. During the same period, a survey by JD Power & Associates stated, "Ford ranked worst of the top seven global auto companies in quality and suffered from 162 problems per 100 vehicles, compared with just 115 for Toyota."36 Many of its models were recalled due to various quality problems. For example, Focus that made its debut in 1999 had six recalls, Escape, a small SUV had five recalls and even the re-launched 2002 Explorer was recalled twice. In another humiliating marketing blunder, Ford was forced to cancel the entire 2000-year model Mustang Cobra brand because of its inability to generate 320 horsepower as advertised. It took one complete year to resolve the problem and get the vehicle back to dealer showrooms. Poor quality resulted in higher warranty costs. Deutsche Bank estimates "Ford's average warranty cost per vehicle at $650 versus $550 at GM and only $400 forToyota."37 Nasser transformed Ford into a dynamic and Web-savvy consumer-marketing firm by making striking alliances throughout the high-tech world. It teamed up with

Internet media company Yahoo!Inc, through its Yahoo! Autos (http://autos.yahoo.com). According to a survey by JD Power, out of 27,000 new vehicle buyers, 60% used internet while shopping, 88% visited automobile websites before arriving at a dealership for a test drive. Ford formed FordDirect and launched its first 15 dealers in New Jersey in August 2000, and subsequently expanded to more than 4,200 dealers. FordDirect generates more than 150,000 Internet referrals every month for new vehicles with a web presence that exceeds over 15 million Internet shoppers. Dealers who had an antagonistic relationship with the company resisted to establish direct relationships with customers. But Nasser wanted to create a system that responded to what customers wanted to buy. To distinguish luxury brands of Ford, Nasser formed Premier Auto Group (PAG) by including Lincoln, Jaguar, Aston Martin, LandRover and Volvo into it, but Lincoln brand was withdrawn in 2002. William Clay Ford succeeded Nasser and he initiated measures to re-establish the credibility of the brand. Critics pointed out that Ford has high environmental pollution and the lowest average fuel economy of any full-line automaker. To improve the brand image, Ford launched a turnaround plan to make sure that it is producing products that people want to buy. Its turnaround plan included closure of five production plants, 12,000 hourly and 5,000 salaried job layoffs, discontinuing low-profit models, reducing material costs and getting rid of non-automotive businesses. Due to weakening of US dollar and poor performance of the Jaguar brand, Europe based PAG performed badly in 2004. PAG reported a pre-tax loss of $740 million – down from 2003's pre-taxprofit of $171 million. Despite this, Ford reported a net income of $495 million, $3.5 billion and $2billion in 2003, 2004 and 2005 respectively. Its performance in automotive sector fell steadily, but sustained due to profits resulted by its financing arm. Ford reported a historic loss of $12.7 billion in its 103-year history in 2006. Ford's new CEO Alan Mulally, who succeeded William Clay Ford in October 2006, initiated aggressive measures in 2006 in restructuring automotive business, naming it as 'The Way Forward' to operate profitably at lower volumes with a product mix that reflects consumer demand for smaller and more fuel-efficient vehicles. Ford in 2007, fell behind Toyota in total sales from its long retained fortress of second position to occupy third place. It continued to transform into a lean, globally integrated and customer-driven automaker. Alan Mulally brought Toyota's Jim Farley as chief marketing officer and programmed a new 'Drive One' campaign to aggressively compete with Japanese brands, in particular Toyota. After a comprehensive analysis of consumer attitudes and values of US automarket, Ford's president of Americas, Mark Field remarked, "One of the most important findings from this research is that Americans really do want to buy American brands, as long as they are competitive with the imports." Consumer durables, such as automobiles and other expensive items can result into wonders only when it is supported by the key strategies of identification of customer needs, selection of appropriate production patterns, pricing strategies, promotional methods and availability of the product. Neglecting or overlooking any of these elements of marketing strategy nose-lands the product sales. Buying an automobile is not buying a beer or cereal. It is a second major investment of a common buyer during his life time and involves an extensive decision process. For most of the 20th century, Ford along with other US automakers concentrated on what they could offer to customers rather than what actually customers wanted. Even after two disastrous oil shocks, Detroit automakers failed to realise the need of fuel-efficient automobiles as Ford along with other two companies incurred high labour costs and lost market share. Eventually Ford suffered from poor customer perception mostly due to catastrophic performance of Bronco II and Explorer causalities during the late 20thcentury. Realising the importance of improving performance with quality and safety,

Ford initiated several measures to narrow down the parameters that Japanese automakers possessed. Despite several efforts, Ford still lags behind Japanese automakers in improving fuel-efficiency. For example Ford Escape, a hybrid SUV, launched in 2004, has a fuel economy estimates of 29 mpg city/31 mpg on highway, while the leader in hybrid models is Toyota Prius with fuel economy estimates of 48 mpg city/45 mpg highway.

Ford's major marketing problem is poor brand perception compared with Asian automakers. The Auto Pulse Survey conducted by the Consumer Reports National Research Centre, in January 2008, reported that Toyota and Honda ranked first and second respectively by a dominant margin over others. The survey focused on how consumers perceive and rank car brands in seven crucial parameters including safety, quality, value, performance, environmental friendliness, design and technological innovation.

Ford's primary task is changing the minds and perceptions of US customers about its quality gains and safety concerns. Understanding consumer perception in automobile marketing is an essential feature as perception makes or breaks the entire brand image. "Customers also have a sophisticated understanding of product cost. They recognise that vehicles differ not only in their initial purchase price, but also in their expected maintenance and operating costs, as well as their ultimate resale value." Consumers form perceptions through their accumulated experience with product, both firsthand and indirect. They use several objective sources of information to supplement their own product experience such as word of mouth, published safety ratings, product reviews and articles. Thus, perception-forming process is long and very difficult to manipulate through advertising. Automobiles are durable goods and while consumers make purchase decisions on what brand or model to buy, they rely more on their financial condition and be less influenced by advertisements. Though marketing communications play a vital role in changing consumer perceptions, the only way to improve brand perception is by ensuring consistent changes in the underlying product experience and significantly improving the entire product range faster than competitors. As a measure to improve the entire product range, Ford plans to bring six models to the US from Europe, including the Ford Fiesta, a fuel-efficient subcompact. Ford plans to rollout a seven-seat, car-based SUV, Flex, to woo the dissatisfied owners of gas-thirsty Ford Explorers and minivans. To improve struggling sales, Alan Mulally with chief marketing officer, Jim Farley launched a new campaign 'Drive One' in April 2008. "Ford announced the biggest quarterly loss in its 105-year history – a gag-inducing $8.7 billion – as well as plans to turbocharge its move away from gas-guzzling SUVs." Farley is tasked to alter consumer perception about Ford's new products, particularly its Flex SUV, in order to support and boost sales. Ford spends about $1.5 billion each year on advertising in the US and dealers control 75% of the entire budget. Farley strongly believes that dealer networks are vital to auto business, and no relationship is more important in auto industry than the one between the company making the cars and the people selling them. Earlier dealers had little role with company's advertising and creative process. During the dealer network meeting, only two-thirds of Ford's dealers participated in 'Bold Moves' a short-lived campaign that was launched in 2006. To build close coordination with dealer networks, Farley invited a group of 30 influential dealers to a marketing meeting in January 2008 to finalise new marketing strategies. Ford's marketing division is working overtime to generate huge hype in the market to its new FlexSUV. Ford's marketing focused on creating four new applications for iPhone, Xbox, Dish and Yahoo! Its marketing executive of US operations, Usha

Raghavachary with 'Team Detroit' created a Flex Brand Book. Ford believes that the book spells out every attribute of the Flex, Scion and Minibrands. The book instructs dealers and ad makers about the precautions to be taken while advertising Flex brand to create an impact on customers. Ford is aware of its weakness that it still relies heavily on SUV sales. "There is one thing Farley can't change: the vehicles Ford is rolling out now." Ford's marketing failures are largely due to lack of understanding or ignoring consumer demand." Marketing's ultimate assignment is to serve customers' real needs and communicate the substance of the company – not to introduce the kinds of cosmetics that used to typify the auto industry's annual model changes. 45 According to a national opinion survey commissioned by Consumer Federation of America (CFA) and undertaken by Opinion Research Corporation (ORC) in July 2007, public concern about fuel economy is very high. In response to the question, "'Thinking about the next 5 years, how concerned, personally, are you about gasoline prices, US dependency on Mid-Eastern oil, and global warming?' large majorities expressed concern — 82% for prices, 74% for oil import dependency, and 61% for global warming." About 91% of US moderate-income citizens with income level between $25,000 and $35,000 expressed their greatest concern about soaring gas prices, about 83% older Americans, especially those aged between 55 and 64, expressed their greatest concern about oil dependency and 76% young Americans aged 18–24 expressed their greatest concern for global warming.47 Ford's problems are mostly product related rather than marketing related. Its eight of 14 plants in US, manufacture trucks, SUVs and full sized vans, while there is a growing demand for compact cars.

Faced with continuous decline in market share, CEO Alan Mulally is trying to reduce Ford's dependence on pick-up trucks, SUVs and vans that made up of 63% of its first-half of US sales in 2008. Reacting to the growing demand for compact cars, the company in July 2008 announced its plans to convert the Michigan Truck Plant in Wayne, which produces Lincoln Navigator and Ford Expedition SUVs to small cars by 2010. During the first half of 2008, Ford Focus retail sales increased to 64%, while industry wide retail sales of small cars increased by 10%. Ford plans to meet the growing demand for small cars by rapidly moving away from trucks and SUVs with gas prices hovering around $4 per gallon. Automakers are reluctant to produce small cars, as they cannot offer big profits. As SUV sales are a major source of revenue, Ford, along with GM and Chrysler intend to publicise the sporty and Americanness of SUVs to restrain customers to shifting to small cars. Despite spending huge amounts on advertising each year, its marketing efforts are failing to convince once-loyal customers of Ford. Advertising is near to saturation and the amount spent beyond the saturation point is not likely to generate any benefits. Though Ford narrowed down the aspects of quality, safety and performance with Japanese brands, its sales are declining due to its excessive dependence on its SUVs and trucks. The main reason for declining sales is lack of desire to adopt flexible manufacturing processes. Ford, along with other US automakers, displayed a historic ability to quickly convert the manufacturing plants to wartime products during World War II. The future of the automobile industry lies with those automakers that are quick to understand the changes in consumer demand and adopt lean and flexible manufacturing methods. Addressing a group of Executive MBA Program students at Gleacher Centre, the then CEO of Ford Canada, Bill Osborne said, "There really is no basis for differentiation for product quality anymore. The life cycle of products in the industry is shrinking. Product competition is based on innovation, features, styling and newness. The future is going to belong to those who are fast and furious."