Ford Europe unveils restructuring strategy

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The Ford Motor Company has set out plans to drastically restructure its entire European operations, including reducing the costs of its supply and distribution network.

Responding to a collapse in profits from its European sales, and over-production in the auto industry generally on the continent, the world's second largest auto producer last week unveiled its “transformation strategy”. The company also announced that it would be extending its penetration into new markets such as Turkey and Russia.

Commenting on Ford Europe's strategy, chairman Nick Scheele said, “We are seeking tough cost reductions across Europe. We have agreed our plan and more importantly the timetable.”

Ford made $1.11 billion profit internationally in the third quarter of last year, up 11 percent compared to 1998. However its European operations saw profits fall from $193 million to $28 million, a return on sales of just 0.09 percent. The new plan envisages that this will increase to 5 percent by 2002-03.

Leading up to the new restructuring plan, Ford has already announced factory closures in Portugal, Poland and Belarus. The “transformation strategy” has earmarked more plants to close, although the company has not specifically named any. Ford's two plants in Belgium, including its Genk factory that produced the Mondeo model, are expected to be hit.

Ford's largest European plant at Dagenham in Essex, England is also thought to be threatened. Sterling is now at its highest for a decade against the German mark, and Ford have identified this as a key problem as they try to cut supply and distribution costs in Britain. Ford Chairman Scheele said, “We are looking to suppliers for cost reductions of major magnitudes; the pound is making it much more difficult for us.” He said that Ford was far more exposed to sterling than any other carmaker because of its large market and cost base in the UK. The company favours Britain adopting the euro, but “no manufacturer would be helped if Britain went in at a rate of DM3.20 to the pound. The right level is DM2.55-DM2.60”.

The Dagenham factory currently produces the Fiesta model, but Ford is seeking to develop its presence within the German market and its Cologne plant could take on production of the new Fiesta. Just three months ago, Ford committed itself to investment of £420 million at Dagenham and said that the plant's future was secure. Dagenham is also Ford's only diesel engine facility within Europe, but the company has declined to comment on whether the additional engine capacity planned to be introduced at Dagenham by 2002 will be implemented.

Britain is still one of Ford's main European markets. The company has 28 percent of its European cost base in the UK and has 18 percent of the UK car market. Despite this, many auto industry analysts believe that Ford has to increase its presence within Germany in order to become a main player in the European car market. The German car market is almost twice the size of the next-largest European markets—Italy, Britain and France. Sales of cars in Germany alone represent about a quarter of total western European car sales. Ford's share of the market in Germany has recently fallen to below 9 percent. Last year Ford took the significant step of transferring its European headquarters from Britain to Germany.

Ford's restructuring strategy follows an announcement by one of its main competitors, BMW-owned Rover, that it was also carrying out large-scale cuts in its UK supplier base in order to reduce costs. A German magazine recently commented that BMW was seeking to abandon the loss-making Rover group entirely in the next period.

Comments on Ford's announcement have also claimed that Dagenham's history of industrial unrest could be significant in determining whether the plant will close. There have been a series of official and unofficial strikes over the last year, and there are now currently 200 separate disputes taking place.

Last year, Ford's global President Jac Nasser flew from Detroit to meet with management and unions at Dagenham over a series of strikes against the racial harassment of black and Asian workers. Three thousand design, computer and office staff recently voted to take strike action across all of the company's British plants for a 15 percent rise to match production workers' wages.

In 1997 the Economist Intelligence Unit listed Dagenham as the most productive Ford plant in Europe. Prior to this there was a 30 percent productivity gap between it and Ford's continental European plants. But during the last year, despite a significant increase in productivity, Dagenham has been unable to meet its production targets.

In a candid comment, BBC Industry correspondent Stephen Evans said in relation to Dagenham, “The desperate talk of closure ... suits both the management at Ford and even, strangely enough, some of the unions. Clearly people running a global company in a highly competitive market find it easier to extract change from a workforce if the workers think their jobs are under threat.”

Ford's decision to cut costs will have a knock-on effect. Scheele said in an interview with the *Financial Times* last week, “We are looking to suppliers for productivity improvements and cost reductions of a major magnitude.” Ford UK suppliers employ some 100,000 in numerous component plants and service companies. Many of these jobs would be threatened by the cost-cutting measures Ford looks set to implement.