Automakers, Don’t Listen to Henry Ford

By Boris Liedtke , INSEAD Emerging Markets Institute Distinguished Executive Fellow

Car manufacturers would be wise to invest in multiple alternatives to the conventional car in order to succeed in diverse markets.

“Any customer can have a car painted any colour that he wants,” so said **Henry Ford** in 1909. “So long as it is black.” Ford’s strategy of standardisation and efficiency made a runaway success of the Model T car and built Ford Motor Company into one of the world’s biggest automakers. But 110 years on, it does not make for a successful strategy in the face of emerging transportation technologies.

For one thing, it is unclear where technological progress is headed. Whether it is self-driving or electric cars, fuel-cell-powered vehicles or something else entirely to replace the polluting combustion engine, no one knows for sure. It is likewise hard to predict the speed of advancement, such as faster battery charging and longer range of electric cars.

Political considerations, customer behaviours, cultures and market characteristics further muddle the picture. In the political realm, regulations under different systems are triggering change at vastly different speeds. Centralised city states like Singapore are pushing ahead forcefully with electric car mobility and driverless technology. In China, more than 300 million electric bicycles and scooters roam city streets. Annual sales of the e-vehicles in the country surpassed 36 million units in recent years but barely 2 million in Western Europe and fewer than 300,000 in the United States in 2016.

Meanwhile in Western Europe, a political discussion favouring investment in public transportation and banning of certain combustion engines in inner cities simmers. The picture couldn’t be more different in the US: Washington appears to have thrown out all environmental considerations for a highly disruptive and protective stance towards the American automobile industry.

Dual-lane strategy

Global automakers and their suppliers therefore need to face up to a much greater level of uncertainty. For start-ups or regional players, the business model can be adapted relatively easily to prevailing political, technological and consumption trends. For global automobile behemoths accustomed to globalisation and free trade and having gone through years of consolidation to control costs and increase margins, adjusting to upheaval is an almost insurmountable challenge.

Automakers are consequently mired in dilemma. On the one hand they wish to maintain the status quo; at risk are tens of billions of dollars' worth of patents and production know-how as well as supply chains. On the other, inaction would endanger shareholder value and the company. Yet investing in the wrong technology would only accelerate the financial decline.

There appears to be only two sensible strategic paths forward to avoid ending up as scrap: Either break up the company into regional firms and possibly along technological lines, or reallocate resources to a broad, diversified range of technologies catering to different markets and future contingencies.

Some major automakers are already turning towards the latter, diversified road. Ford Motor Company, long removed from Henry Ford’s counsel, has plunged deep into developing diverse technologies. It promises to **invest**

US$11 billion in electric vehicle production by 2022 even as it positions itself as a big operating system for the future of mobility with the help of start-ups. The company has also set up a tech incubator.

“The key here is to get the ideas processed really quickly and fail on some and win on others,” says Ford Mobility CFO Neil Schloss.

Toyota Motor, like Ford, is putting its bet on a few nascent technologies as it works to kick-start more. The Japanese giant is investing hundreds of millions of dollars in **autonomous-driving and robotic technologies**, including a US$500 million infusion in **Uber** to develop self-driving minivans. Closer to home, Toyota – long known for its hybrid vehicles – is partnering **Panasonic** to produce electric cars that will rev up its presence in China. Toyota’s pivot from hybrid to electric vehicles in line with Chinese government policies underscores the importance of a diversified technology strategy for automakers.

Choice through diversification

On the demand side of the equation, customers might well be satisfied only if they have a range of transport options to match their lifestyle. For short city commutes, they might opt for e-bikes and e-scooters, before switching to public transportation or shared smart cars. For the weekend drive with family in the countryside, they might choose a hybrid vehicle or a fuel-cell-powered electric car.

In the meantime, their online purchases would sail across the ocean in wind-powered cargo ships. At ports, parcels would be loaded onto large diesel-powered lorries to be conveyed to warehouses. Smaller, electric lorries would then deliver the goods across the city with zero carbon emission.

Diversification makes sense in a world that is anything but homogeneous. Whether it’s from the perspective of manufacturers or consumers, developing and adapting to diversified transportation technologies presents a reliable roadmap to the highway of transportation of the future.

*This post is based on an essay originally published in **The European Business Review**.*

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