

How Ford Is Thinking About the Future

by Mark W. Johnson

MAY 29, 2018



BLOOMBERG/CONTRIBUTOR/GETTY IMAGES

Everyone's talking about a future in which vehicles are shared rather than owned, autonomous rather than driven, and where car companies make large shares of their profits on digital "mobility services." But if you are the Ford Motor Company and face the prospect of investing billions in new technology while your century-old business model is overturned, you might first have a few questions. How are consumers going to react to all of this? What do they really want? How can you tell which opportunities are real and which are science fiction?

How to make your company more nimble and responsive.

To help test drive the future, in 2016 Ford paid about \$50 million to acquire Chariot, a startup mobility service. Incubated at Y Combinator, the venture was aimed squarely at the most important, most reliable, most consistent

mobility need that consumers have every day: getting to and from work. While this seemed like a small bet for a \$165 billion company built on the mass production of vehicles, the deal was scouted, in part, by Jim Hackett, then head of Ford Smart Mobility who has since been elevated to CEO.

All this makes the early lessons from the Chariot venture worth heeding as it gains traction in the market. Here are five to learn from Ford thus far, about mobility services in particular, and more broadly, about how to deal with the uncertainty of new business models in new markets by testing and learning one's way forward. (*Full disclosure: my company, Innosight, has advised Ford on strategy*).

Each of these lessons deals with a different aspect of creating and scaling a new business model, defined as a way of growing in new markets via four components that must work together as a system: the customer value proposition, the profit formula, as well as key resources, and key organizational processes.

1. Be ambitious but start small

As a so-called "micro-transit solution," Chariot began life in one of the world's most high-tech and commute-challenged regions, the San Francisco Bay area, with a small fleet of 14-passenger vans equipped with Wi-Fi, electric outlets, and overhead storage. Using the Chariot phone app, riders could sign up for existing routes and also propose new ones under a crowdsourcing model.

Only when the service was successfully operating did Ford begin to expand it, adding dozens of new routes and growing its local fleet to more than 200 vehicles. Ford's next market was Austin, where it has grown to more than 50 vans. Seattle and Columbus were next, followed by a set of strategically chosen routes in London and New York.

Now that Chariot is scaling up, the scope of its ambition has become clearer. Ford is also introducing a specially designed vehicle especially built for urban micro-transit: the zero-emission, plug-in hybrid electric Transit Custom. This van is currently being tested in London ahead of volume production in 2019.

2. Satisfy social, emotional, and functional “jobs”

While getting people to and from work seems on the surface to be an exercise in cold logistics, it's all a very human effort. If people are going to be spending an hour or more in a Chariot van every day, it has to work as an experience in and of itself.

That's where the concept of jobs-to-be-done comes in. A customer “job” is a higher purpose that people have for making progress toward a satisfying life, incorporating deeper needs that go beyond just the functional aspects of a product or a service.

That's why Ford, in its advertising and marketing, shows people getting on the van with smiles on their faces, making eye contact with their fellow passengers, and engaging in conversation. Meeting new people and flirting is an especially key job-to-be-done for the younger crowd that is the core demographic for the service.

Other emotional jobs involve how consumers feel about the environmental impact of their commute. The shared model lowers urban congestion and carbon emissions. Moving to a fleet of plug-in electric vehicles caters to this desire.

3. Examine the profit formula

Ultimately, Ford has to create a business that's profitable, and part of that involves designing route maps in which certain customers willingly pay more for rides. That effort is crucial because Ford is targeting a future in which the margins on mobility services are 20% to 30%, versus about 10% at best for selling cars.

Early on, the market demanded highly flexible payment options, either pay-as-you-go, multi-ride packs of credits, or an all-access monthly pass for \$119 that got the price of a single journey down to an average of about \$4. There are also cheaper packages for morning-only riders and off-peak commuters.

The profit model is also highly dependent on costs, which came into play when Ford encountered a logistical bottleneck—not in picking people up, but rather in delivering them to their final destinations. The campuses where many of Chariot’s customers work are large and spread out, and dropping off each passenger at their door wastes time for passengers and Chariot alike.

“We are getting pull from enterprises,” Ford Mobility head Marcy Klevorn said recently on a media conference call. As a result of company needs, hubs are being established where passengers can switch to another shuttle that moves them around the campuses.

4. Establish new rules, norms, and metrics

Ford’s core business of designing, manufacturing, and selling cars and trucks is governed by long-established business rules, behavioral norms, and success metrics. Since it takes several years for a new model to go from the drawing board to the marketplace, Ford’s ROI formulas are mapped out according to historical precedents.

But as Barclay’s CEO Ashok Vaswani says, don’t let the mother ship kill the pirate ship. If Ford applied those same ROI expectations to its new logistics business, it would likely kill it before it has a chance to thrive. Instead, Ford has had to develop new norms and new competencies to meet its new challenges.

For example, the Chariot service encountered an early glitch in San Francisco when it bumped up against city rules on how to manage routes and stop at crosswalks. As a result, it had to relocate some of its stop locations to fully-reserved curb spaces marked with paint. To smooth its relations with other municipalities, Ford has begun to share its GPS and passenger data with them. All of this is a far cry from setting up assembly lines.

5. Develop a portfolio of new business models

Any new venture or business model is risky. While Ford has mitigated much of the risk by starting small and testing, learning, and pivoting along the way, Chariot certainly isn’t the only business model in its new growth space. Indeed, the Dearborn, Michigan company is assembling a broad portfolio of ventures led by teams organized into four groups:

- *Ford X* is charged with discovering and developing new business ideas and managing the Transportation Mobility Cloud, which is aimed at enabling vehicles, objects, and city infrastructure to communicate. These services are expected to be offered for use outside of Ford later this year.
- *The Mobility Business Group* is tasked with scaling up new business models such as Chariot and other vehicle and bicycle-sharing services, future package and product delivery services, and non-emergency medical transportation.
- *Mobility Platforms and Products* is designing and developing the technology Ford needs for its planned mobility services.
- *Mobility Marketing and Growth* is tasked with promoting and selling the company's mobility services.

Under the strategic framework we call “Dual Transformation,” all of these Smart Mobility efforts are part of Ford’s “Transformation B,” the new growth areas fueled by new business models.

But it’s also vital that the core franchise adapt to market changes. This “Transformation A” is already well underway as well. Ford is discontinuing domestic production of the Fiesta, Focus, Fusion and Taurus. By 2020, nearly 90% of Ford’s North American lineup will be trucks, SUVs, and commercial vehicles.

The future is arriving much faster than had been expected even just a couple years ago. By conducting small tests with consumers first, piloting early concepts in the market before investments reach the billion-dollar threshold, Ford is positioning itself to take advantage of new opportunities, rather than be disrupted by them.



Mark W. Johnson is co-founder and senior partner of the strategy consulting firm Innosight and author of the new book, *Reinvent Your Business Model: Seizing the White Space for Transformative Growth* (HBR Press, 2018).

This article is about INNOVATION

 FOLLOW THIS TOPIC

