Is there a Ford in your future?

written by Jack Lifton | March 12, 2022

The American Ford Motor Company, in its domestic operations, has now adopted the current business operations model of the Chinese OEM automotive industry, but lags far behind on the Chinese approach to critical materials supply security.

The Chinese like to emphasize that their approach to politics and economics cannot be wholly understood as just an example or even a simple variant of these disciplines as practiced in the West and applied to China. They refer to their economic system as Socialism with Chinese Characteristics and say that the operating focus of their domestic economy is now dual circulation, the emphasis of domestic consumption leading to a declining importance of exports.

Nonetheless, foreign analysts continue to view China with a Western academic definitions filter.

This has allowed analysts to miss almost entirely the critical details of the growth of the business operations model of the (now world's largest) Chinese OEM automotive industry as it has adapted to what the Chinese call the production of "New Energy Vehicles " (NEVs).

To avoid internal conflict and increase efficiency, large Chinese auto companies now usually set up a separate NEV unit that runs independently from the traditional ICE car business.

I don't know James Farley, the CEO of the Ford Motor Company, personally, but I do know that he is among the most perceptive and far-seeing of American OEM automotive top managers, and one

who actually understands the business of manufacturing of cars and trucks and the markets for those vehicles. How do I know this? By the action he announced last week that reveals his financial and market acumen. The Ford Motor Company has announced that it will separate its EV operations and its ICE operations into two separately managed and organized internal units, each of which will focus on a powertrain. There will be the Ford Model-e Division and the Ford Blue Division. The Presidents of both divisions will report directly to the CEO, now Jim Farley.

As Farley states: “We still think that more than half our customers are going to be ICE, and they’re going to be ICE for a long time,” Farley said. “It’s almost like our industry’s kind of given up on that business. Even if the unit volume starts to fall over when mass adoption of electrification happens, in a lot of segments that’s not going to happen, and we want to have a dedicated team to run that business with passion.”

So, now, at least, one of America’s remaining, “Big Two” automotive OEMs have caught up with Chinese management “style” in product development.

But, there’s one more area where Capitalism with Chinese characteristics has outpaced the rest of the world. That is in security of supply of critical raw materials. China has an industrial policy that supports key industrial development, and it has had that policy for a long time.

When the Chinese domestic OEM automotive industry was in its infancy a generation ago China rapidly developed the domestic capability and capacity to produce a secure supply of raw materials to make ICE powered vehicles. Those main materials were steel, aluminum, copper and plastics. China soon overtook the USA and indeed the rest of the world combined in the

production of those critical industrial materials.

About 6 years ago the Chinese government decided that the electrification of land transportation was critical to hedge against China’s dependence on foreign fossil fuels and to reduce pollution in its rapidly advancing urbanization. Accordingly, the government set out to determine what materials would be critical for such developments. Lithium-ion battery and rare earth permanent magnet motor construction materials were determined to be priorities, and a national program to find them, extract them, process them, and manufacture end-use products dependent upon them for their function was added to the five-year plan system of formulating and carrying out industrial policy. Today, China has sufficient domestic secure supplies of materials and processes already in place to build all of the BEVs it plans to build through most of this decade.

This is where America and Europe are woefully far behind.

Neither the Ford Motor Company nor anyone else can afford to wait for their national governments to catch up with China’s industrial policy planning and execution.

There is nowhere near enough non-Chinese production and processing of the critical materials for batteries and electric motors to fulfill any but a small part of the planned non-Chinese production of BEVs, wind turbines, energy storage, aircraft and ship components, and consumer goods.

It’s going to be every company for itself. I am hoping that the non-Chinese OEM automobile industry learns from the chart below what it will take to survive.

I am not optimistic.