



**A Strategic Analysis of the
Jaguar X-Type**

April 30, 2003

**Mark Ganaway
Cindy Sammy
Christopher Smith**

Executive Summary

Jaguar has entered the low-price luxury segment with its new X-Type vehicle. Jaguar's strategy is twofold: 1) Jaguar hopes to capture its traditional customers at a younger age (up to 20 years younger) and engender life-long loyalty to its brand. 2) Jaguar hopes to increase revenues and margins through an aggressive growth strategy.

Jaguar has run into a few problems with its strategy including poor reviews for quality of the new X-type, production that far exceeded demand, and aggressive pricing that may adversely affect the brand image.

However, the core strategy is sound, and we would like to recommend the following:

- Maintain autonomy of Jaguar unit to ensure differentiation.
- Continue to offer high value to price features while improving production problems to attract customers and leave a luxurious impression.
- Pursue growth in line with demand to limit discounting and sales based on price.

If these measures are enacted, Jaguar will be successful in increasing sales volume, attracting new, younger customers and maintaining its brand image.

Introduction

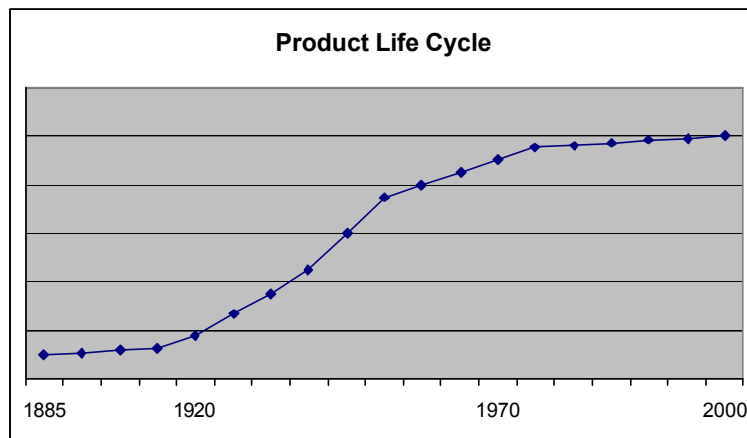
Towards the end of World War II, Sir William Lyons began building the first Jaguars. Since that time, the distinctively British automobile has been synonymous with style, elegance, and impressive performance engineering. In 1989, Jaguar was brought under the Ford Motor Company umbrella, and this brand now also strives to be "... (an) excellent value for money for that level of luxury car."¹ A key component of this new strategy is the introduction in 2001 of the X-Type into the low-price luxury vehicle segment. This decision was viewed by many analysts as a huge shift from Jaguar's historic positioning and had the potential to greatly undermine the Jaguar brand. However, BMW and Lexus had proven extremely successful at introducing low-price

¹ <http://www.ford.com/en/company/about/brands/jaguar.htm>

luxury cars and using these products as a means of obtaining future customers for their higher-end vehicles. This paper will analyze the strategic choice of introducing the X-Type and analyze Ford's effectiveness in implementing this strategy.

Analysis of the Entry-Level Luxury Car Industry

Automobile Product Life Cycle



In order to understand the low-price luxury automobile category it is first important to understand the state of the overall automobile industry. The automobile industry is a mature industry that is experiencing only moderate growth. The industry's growth phase began in the 1920's with the introduction of the assembly line, which lowered the cost of cars and made them more affordable. Growth continued through the 1970s as adoption extended to every family and then extended to multiple cars in every family. Factors influencing this growth included more women working in the US and Europe and declining car prices in real terms.

As the automobile industry has become more mature, product lines have grown and the market has been segmented further, which is characteristic of a mature market trying to sustain healthy profit margins². In the 1920s the market was characterized by one vehicle, Ford Motor Company's Model T. Today there are multiple product

² McAfee, R. Preston. Competitive Solutions: The Strategist's Toolkit. P99.

offerings in a variety of categories and cars positioned to appeal to teens, young adults, families, soccer moms, executives, yuppies, outdoor enthusiasts, cost conscience customers, environmental conscience customers and many other groups (Exhibit 2). This proliferation has led to more satisfied customers but also more demanding customers. In this environment, rivalry is intense and it is difficult to have a sustainable advantage in a customer segment for very long.

Porter's Five Forces

In order to analyze the attractiveness of the low-priced luxury car industry, we utilized a Porter's five forces framework.

Barriers to Entry: Moderate (to low)

Reputation - Because the luxury car is often sold on its brand name as much as its features, the brand name of an existing luxury car company is extremely valuable. Specifically, an automobile brand's value is derived from a reputation of quality and other attributes that are confirmed through the repeated experience of the car's buyers³. It is, therefore, hard to imagine a cost-conscious brand, such as Kia, entering the luxury car market.

Product Differentiation – Even the person in search of something as specific as an entry-level luxury car will have many options to choose from, ranging from a pure luxury offering (Lexus or Mercedes Benz) to a serious performance automobile (BMW). Even features such as leather seats, engine types, coupe models, dealer services, and so on tend to differentiate the cars further. With such a large product variety that essentially spans the entire spectrum of the low-price luxury car market, a new competitor may be hard pressed to find sufficient space for itself.

Consumer Switching Costs – Customer switching costs are low to moderate, since customers need only to bring his/her old car into a dealer to trade in for a new one. However, luxury car dealers tend to offer slightly different service agreements and

³ McAfee, R. Preston. Competitive Solutions: The Strategist's Toolkit. P14

warranties (for instance, some dealers will drop off a loaner car for you at your location, instead of providing you with the loaner car only if you drive to the dealership first), which may make it difficult for some consumers, who value the service greatly, to switch to another car company.

Conclusion – The overall threat of new entrants is moderate to low since brand names are so important to this industry, there is a good amount of product differentiation, and customer-switching costs are not consistently high. Additionally, as cars are deemed a mature product (see the discussion regarding Product Life Cycle), entrants are generally rare.⁴

Buyer Bargaining Power: Moderate

Buyer power is moderate as there are no large buying groups. However, the wealth of information available over the Internet provides car buyers with large amounts of knowledge concerning competing offerings. Threats by the buyer to switch (trade in an entry model luxury car for another, for example) or to not buy a luxury car at all are credible due to the variety of car types, models, and brands that consumers have to choose. Also, the recent prevalence of price promotions by the luxury carmakers to lure customers is evidence that buyers have an enormous amount of power⁵.

Supplier Bargaining Power: Low

There is relatively little supplier power in the entry-level luxury car industry, mainly because suppliers are plentiful, substitutes are becoming more available due to technological innovations, and switching costs for the buyers are not high. (Also, suppliers have no credible threat of forward integration.) With globalization, there are many options regarding the sourcing of supplies (and locations for manufacturing and assembly). This variety of choices decreases supplier power significantly.

Substitute Products: High

⁴ McAfee, R. Preston. Competitive Solutions: The Strategist's Toolkit. P106.

⁵ Eldridge, Earle. "For Yuppies, BMW is Better." *USA Today*. February 12, 2003:p. 3B.

There are many substitutes for entry-level luxury cars. For instance, with cars alone, there are higher end cars or cars that are sold on value. Substitutes may even be found in the market for used cars, luxury and economy models. The sport utility vehicle and other non-car models (such as a modernized station wagon) are substitutes for cars and are available throughout the entire automotive price spectrum. Public transportation, bicycles, motorcycles, scooters, skateboards, rollerblades, walking, and even the new invention, termed the Segway Human Transporter, all offer a viable substitute to an entry-level luxury car (see Exhibit 2 for products in same price range). More far-fetched substitutes include any type of transportation device (i.e. a train, airplane, hot air balloon, etc.) and automobiles that encompass new technology, such as hybrid cars that run on electricity and gasoline.

Rivalry: High

Rivalry in this industry is notoriously high. Although luxury cars, even the low-price luxury models, have historically competed on quality and features, lately, they have been competing on incentives such as leasing deals⁶. This intensifies the rivalry among the car companies even more. However, it is important to note that the product differentiation that is available in the low-price luxury car market, as described previously, does tend to offset the intense rivalry slightly⁷.

Complements: Low

With the current unstable economic situation and uncertainty surrounding the political situations in the Middle East and Venezuela, the threat of higher oil prices will have an impact on the sale of luxury automobiles, whose gas mileage is less efficient than lower priced vehicles. This conclusion has a negative effect on entry model luxury car sales. Auto financing is also a complement and the large amount of financing available to car buyers encourages the purchase of luxury cars.

⁶ Kerwin, Kathleen. "Ford: Luxury is Job One." *BusinessWeek*. November 11, 2002:p. 116.

⁷ McAfee, R. Preston. Competitive Solutions: The Strategist's Toolkit. P21.

Company Analysis of Jaguar

Organizational Design:

Jaguar is part of the Ford Motor Company's Premiere Auto Group (PAG), which also includes Volvo, Land Rover and Aston Martin. Ford has established PAG as a separate entity in order to distinguish the luxury brands from Ford's value brands. Ford has a reputation as a cost cutting company and the PAG was established as a separate division so that the focus of these brands could be more about luxury and prestige.

Jaguar has always been renowned for its unique style and refinement, but was generally seen as a brand with questionable quality and reliability. Ford's specialty lies in mass production of quality automobiles. The goal of Jaguar is to retain its unique and prestigious image while it improves quality and reliability with its association with Ford.

The X-Type is a perfect opportunity to accomplish this goal. To decrease development costs, the X-Type shares a chassis and powertrain with Ford's Mondeo model. Jaguar then tunes the chassis to produce a sporty feel and tweaks the engine to give a throaty growl, both traditional Jaguar characteristics. All of these modifications are made at Jaguars plant in Halewood, U.K.

Previously, all companies within the PAG shared headquarters in one building in London, England. This was in order to give a cohesive feel to the luxury line of cars. Problems arose when divisions began to share more and more components and ideas amongst themselves. This shared knowledge certainly reduced costs but tended to diminish the individuality of each brand. This problem has recently been corrected and the divisional heads and staffs have been relocated back to their separate offices.

Product Design & Differentiation:

A key element to competition within a mature market is the ability to differentiate a company's product from rivals. Differentiation lowers cost competition and reduces rivalry by focusing the competition on features instead of price. In the automobile industry differentiation is achieved by investing in brand image, having unique styling, engine performance and other features. It is very hard to sustain a strong differentiation because very successful products are copied by the competition.

The BMW 3 series was the first car introduced in the low-priced luxury car segment. Over time this car became very successful and today is the leader in sales in this segment. However, its success has resulted in the introduction of many new competing products. These include the Jaguar X, Lexus IS 300, Mercedes C-class, Acura 3.2L, and Audi A4. The BMW 3 series consistently rates the strongest in engine performance of all the cars in this segment. The differentiation chart points out that the BMW3 is the only base model with 0-60 time under 7 seconds (the Jaguar X with a 3.0L also reaches 60 under 7 seconds).

Jaguar attempted to differentiate the X-Type from other low-priced luxury vehicles by providing a unique style that captured the traditional Jaguar image and by offering more standard features at comparable prices. The reviews of this strategy have been strong despite initial concerns from many industry analysts that this “Baby Jag” would be a Ford with a Jaguar logo on it. *Autoweek* stated that, “From its head-mounted leaper to its arched back and tucked tail, there’s no doubt that this is a Jag.”⁸ *Motortrend* magazine also gave the car high reviews for its look, feature to value ratio, and fine handling suspension. The X-Type clearly leads the way among its rivals in standard features at the lowest price. Among the six competitors in the differentiation chart the X-Type is the only vehicle that comes standard with a CD, sunroof and leather. In addition the X-Type and BMW 3 are the only vehicles in this class with all wheel drive (this is standard on the X-Type, though). However, the X-Type has consistently rated below the BMW 3 in terms of engine performance.

The Jaguar X-Type has also had a range of moderate complaints. For instance, a *Forbes* review found that a few of the controls feel like plastic. The review went on to say that the controls “...aren't as refined in look or feel as you'll find in an Audi or BMW or Mercedes. That may make zero difference in whether the fan speed can be set with the X-Type switch, but if you pay \$30,000 for a car, you expect these most basic actions to feel refined, not rudimentary.” Additionally, Jaguar has experienced some minor quality problems. The new model has had a series of production faux pas, such as a hesitating engines and faulty trunk latches. These faults pushed up warranty costs and dragged

⁸ Gritzinger, Bob. “Everyman’s kitty” *Autoweek*. February 10, 2003.

Jaguar down 17 notches in the latest J.D. Power & Associates Inc. initial quality survey, to 19th place.⁹

Pricing:

Out of the gates, it was Jaguar's goal to sell 100,000 units of the X-Type worldwide per year. In the previous year, Jaguar only sold 100,000 total units of all models, so this was a lofty goal. Whether it was due to the stagnant economy or the lukewarm reviews of the vehicle, Jaguar was unable to meet these sales goals. In an effort to make the Halewood facility operate at an efficient capacity (75,000 units per year), Jaguar reduced prices, offered incentives and began to discount leases on the X-Type. Other competitors in this class were in the same situation and offered much the same price reductions, but only Jaguar advertised these incentives. Jaguar was basically advertising the existence of a surplus of X-Types and added to any perceptions about lack of quality of its cars.

Jaguar has begun to curtail production under its efficient capacity and stopped relying on heavy leasing incentives. This will result in fewer vehicles sold, but will ultimately be in the best interest of the brand.

After pursuing an "ambitious growth strategy", Jaguar has learned a valuable lesson about pricing products to meet an arbitrary sales target. Heavy price discounts may be necessary to achieve sales targets, and these discounts could hurt the brand image. Jaguar's new strategy is based on selling cars with superior performance, agile handling, technology, and luxury, attributes the car company associates with its brand.¹⁰

Apparently, even Mark Fields, head of Ford's Premium Auto Group (PAG), has learned the lesson, "Our target is profitability, not just blindly pursuing volume... We have to be careful about how fast and how far we grow Jaguar...because you can do unnatural things like discounting, which hurts residual values. Then you make the whole brand less valuable."¹¹

⁹ Kerwin, Kathleen. "Ford: Luxury is Job One." *BusinessWeek*. November 11, 2002:p. 116.

¹⁰ <http://supercars.ifn.cx/news/10022001.shtml>

¹¹ Kiley, David. "Fields Steers Ford Luxury on Precarious Road." *USA TODAY*. February 10, 2003:p. 4B.
Kerwin, Kathleen. "Ford: Luxury is Job One." *BusinessWeek*. November 11, 2002:p. 116

Market Segmentation:

The X-Type is positioned in the low-price luxury segment. Vehicles are positioned in this category to attract younger customers that will one day purchase the traditional luxury vehicles. Luxury automakers hope to engender brand loyalty at an early age. Although the margins in this segment are lower than Jaguar is accustomed to, the hope is that the higher profits will be gained in the future when the customers are more affluent and ready to move up to the flagships of the brand.

"Customers for the X-TYPE typically will be younger than traditional Jaguar buyers with notably different needs. We also expect X-TYPE to attract far more female buyers," said Jonathan Browning, Jaguar's Managing Director. *"They may be young professionals, perhaps starting a family, whose cars have to fulfill a multitude of different roles - lengthy motorway trips on business, energetic leisure activities with friends and even the weekly supermarket run. But these are people who require a car to have discernible style and individuality too. With its unique blend of style and practicality, the X-TYPE fulfils all these needs."*

The average customer in the luxury car segment is around 50 years of age, while the average customer in the low-price luxury segment is around 30 years of age.

Conclusion & Recommendation:

Analysis of Entry Decision:

The low-price segment of the automobile industry is not attractive. This segment has many substitutes and suffers from intense rivalry with many competing brands and companies.

- Profits for the X-Type are not expected to be strong, as Jaguar does not have a sustainable competitive advantage within this segment.
- The decision to enter this market was advisable only if it enables the company to capture new customers and ultimately move these customers in to higher end, higher margin vehicles thus growing the profitable segment.

Analysis of Strategy Implementation:

In order to move customers from the low-priced segment to the upper level luxury car, Jaguar must offer its customers a unique Jag experience that leaves them wanting more. The strategy succeeded only partially in achieving this goal.

- Jaguar did achieve strong reviews for positioning the product with extensive features, a very good suspension and unique Jaguar looks. Jaguar also seems to have overcome concerns about the Jaguar being built on a Ford frame.
- The strong design was possible because Ford left much of the design and production to Jaguar staff. This autonomy helped to ensure that the X-Type was true to the historic Jaguar image.
- Quick production resulted in several flaws and a low reliability rating.
- The push for sales volume resulted in heavy discounting and a targeting of price conscience individuals. This step probably lowered the brand image and attracted customers that are less likely to move into the high end of the luxury class in the future.

Recommendations:

Based on these mixed reviews of the current strategy our recommendations for Ford and Jaguar are as follows:

- Slow down the volume push with the X-Type and have more modest sales goals. Production problems need to be fixed to ensure a higher quality rating that reinforces the luxury appeal.
- The X-Type should be sold on its merits and brand image, not on heavy discounting that appeals to the cost conscience consumers.
- Finally, Ford should ensure that the design of new models continues to be an autonomous process at Jaguar so that the traditional Jaguar design continues.

If these steps are followed, Ford and Jaguar can be successful in attracting new customers to its Jaguar brand and moving them from the lower priced X-Type model upwards to the more profitable lines.

Exhibit 1

Product Characteristics

<u>Characteristics:</u>	<u>Jaguar X</u>	<u>BMW 3</u>	<u>Lexus IS 300</u>
Price	\$29,305	\$35,740	\$31,305
Engine Size	2.5L 6 cyl	3.0L 6 cyl	3.0L 6cyl
Horsepower	192	225	220
Speed 0-60	7+	6.3	7+
Drive	AWD	AWD optional	FWD
<u>Standard Features:</u>			
CD	Yes	No	No
Sunroof	Yes	No	No
Leather	Yes	No	No

<u>Characteristics:</u>	<u>Mercedes C240</u>	<u>Acura 3.2 CL</u>	<u>Audi A4</u>
List Price	\$30,550	\$31,230	\$26,050
Engine Size	2.6L 6 cyl	3.2L 6 cyl	1.8L 4cyl
Horsepower	168	260	170
Speed	8+	7+	8+
Drive	RWD	AWD	FWD
<u>Standard Features:</u>			
CD	No	No	Yes
Sunroof	No	No	No
Leather	Yes	No	Yes

Exhibit 2 Hotelling Line for Automobiles

Compact:	Sedan	Sedan	Sedan	Sedan
Chevy Cavalier	Buick Regal	Acura 3.2 TL	Acura 3.5	Sedan
Dodge Neon	Chevy Impala	Jaguar X	BMW 5	Benz SL
Ford Focus	Honda Accord	Lincoln Ls	Cadillac Deville	Jaguar XJ
Kia Rio	Toyota Camry	Toyota Avalon	Jaguar S	Sport:
Toyota Echo	Truck:	Buick LeSabre	Sport:	Porsche 911
Small Car:	Chevy Silverado	Sport:	Porsche Boxter	Ferrari
Honda Civic	Ford F150	Audi TT	Corvette	Lotus
Pontiac Sunfire	Van:	BMW 3	Ford Thunderbird	SUV:
VW Jetta	Chrysler Voyager	Honda S2000	SUV:	Benz G
Light Truck:	Toyota Sienna	Saab 9-3	Land Rover	Hummer
Chevy S10	Sport:	SUV:	Discovery	
Ford Ranger	Ford Mustang	Chevy Tahoe	Lincoln Aviator	
Mazda B2300	Chevy Camaro	Ford Expedition	Benz M	
	Mazda Miata	Toyota Sequoia		
	SUV:			
	Chevy Blazer			
	Ford Escape			
	Nissan X-Terra			
	Toyota Highlander			

\$10-\$20K

\$20-\$30K

\$30-\$40K

\$40-\$60K

\$60K+

*This line is not comprehensive but serves to indicate the proliferation of products and market segments. It should be noted that there are far fewer competitors in the upper end segments than the lower price segments.