New Ford COO Sees Profit Margin Pressure

Tom Krisher, AP Auto Writer

DETROIT (AP) — Ford Motor Co. said Wednesday that a switch to smaller cars and an increase in incentives will narrow the profit margins in its core North American business.

Mark Fields, who becomes chief operating officer on Dec. 1, said higher inventories will force some automakers to raise rebates and other incentives, and that is likely to cut into what has been stable pricing for Ford. Fields said U.S. car and truck inventories rose to 3.1 million at the end of October, the highest number since December of 2008.

"Even in the last couple of months the competitive environment has gotten tougher," he told analysts at the Barclays Global Automotive Conference. "We've seen incentives go up."

Some unnamed manufacturers are discounting vehicles after a year on the market at levels not normally seen until three years after launch, said Fields, currently Ford's president of the Americas.

Ford's North American operating profit margin, the portion of its revenue left after production costs, was 12 percent last quarter, aided by strong prices for new products such as the Ford Escape SUV and Fusion midsize car. Ford predicts that will drop to 8 to 10 percent by the middle of the decade, squeezed by competition and an ongoing shift from higher-profit trucks to lower-profit cars.

The Edmunds.com automotive pricing site says U.S. incentives grew only 1 percent from September to October and now average $2,180 per vehicle. But it's difficult to track payments that manufacturers make to dealers for hitting sales targets, so those figures may not be included.

Ford raised its average incentives 3.5 percent from September to October, to $2,810 per vehicle. Its main competitors, General Motors and Chrysler, cut their incentives during the same period. Chrysler incentives are down almost 6 percent to an average of $2,671, while GM's are down 3 percent to $3,145, according to Edmunds.

Fields also said there's potential for growth in full-size pickup truck sales, even with competition from a new Ram pickup and new Chevrolet and GMC trucks coming out early next year. Almost 53 percent of the full-size pickups on the road now are above 10 years old; 27 percent are over 15 years old and nearly 13 percent are more than 20 years old, Fields told the analysts.

"You can see there's a lot of pent-up demand out there," he said. "There could be a lot of opportunity."

He wouldn't comment on reports that Ford plans to refresh its top-selling F-Series trucks in 2014, but said the company takes leadership in the truck market seriously. "We also know that as a leader you have a target on your back," he said.

Fields, 51, was named chief operating officer on Nov. 1, a new post under iconic CEO Alan Mulally. As COO, the entire company will report to Fields. Mulally will stay with the company at least through 2014. The promotion of Fields is a strong sign that he will replace Mulally when he leaves.

Ford shares fell with the broader market Wednesday, dropping 32 cents, or 2.9 percent, to $10.68.

Rising U.S. car and truck inventories, price cuts through incentives and a continuing switch from big vehicles to smaller ones will put pressure on Ford Motor Co.'s North American profit margins through the middle of the decade, the company's soon-to-be chief operating officer said Wednesday.

Mark Fields, Ford's president of the Americas who becomes COO on Dec. 1, said U.S. car and truck inventories rose to 3.1 million at the end of October, the highest number since December of 2008. Higher inventories will force some automakers to raise rebates and other incentives, and that is likely to cut into what was stable pricing for Ford, Fields said.

Some manufacturers, which he did not identify, are discounting vehicles that have been on the market for only a year as much as they used to discount after three years on the market, Fields said.

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Ford shares fell with the broader market in Wednesday afternoon trading, dropping 28 cents, or 2.6 percent, to $10.72.