

**Collaboration is the future for Jaguar and Land Rover.....a great opportunity?  
Iain Graham of Birmingham-based strategy implementation consultants PDS examines the current and future state of the automotive industry and what that means for Jaguar and Land Rover and the UK supply chain.**

Here in the UK, the automotive industry eagerly awaits the announcement of Jaguar's and Land Rover's (JLR's) new owners. Hundreds of businesses and tens of thousands of jobs depend on the sustainability of these brands.

Everyone has an opinion on which of the prospective candidates would be the best new owner with the attention focused on the short term. It is accepted the new owners have to somehow generate the cash to fund desirable new models, technologies to meet increasingly demanding consumer and legislative requirements and the manufacturing, marketing and distribution to maximize global sales. The concern is over how this cash will be generated, over what period and at what cost to the UK economy. How long will Ford's dowry last? How quickly must the new owners turn it around?

Hot favourite to win the prize is Tata whose friendly, unhurried approach to the acquisition and integration of the Korean Daewoo Truck company in 2004 and more recently the relatively painless takeover of Corus Steels is contrasted by the aggressive reputation of the feared private equity bidders. The UK has bitter memories of Phoenix Venture Holdings' failure to revive MG-Rover whilst appearing to profit from the proceeds of its restructuring. But does Tata have deep enough pockets to take a characteristically relaxed approach on this particular deal?

As seen in the case of MG-Rover; the severity of the short term pain, or the lack of it during restructuring does not predict long term success or survival. Regardless of which bidder is successful and their approach to stem losses and generate cash; it is inconceivable that JLR's engineering, manufacturing and supply chain will not remain substantially in the UK in the short term. In the long-run the winning strategy will be based on collaboration, consolidation and excellence in producing and selling new models in profitable volumes. That seems quite logical and straight forward, but it has been an enigma for most of the world's largest car manufacturers over the last 10 years or so, except of course the extra-ordinary Toyota. But it is a strategy JLR's new owners must implement successfully.

All car manufacturers chase increased market share through differentiation, believing increased total volume is the best strategy for success. New product niches are continually identified or imagined and the proliferation of new brands, models and variants and the rate at which these are replaced has become an epidemic. But because sales in the largest, established markets are more or less static and new models are produced specifically for developing markets, volumes per variant and economies of scale are decreasing whilst complexity is increasing.

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Meanwhile the market and legislation places ever-increasing demands on quality, safety, economy, emissions, specification and value. So price pressure is cascaded throughout the entire supply chain and we have seen extensive use of Chapter 11 and restructuring in the first tier suppliers. Common powertrain, platform and architecture strategies have not yet produced the savings necessary to offset the cost of new model proliferation and car manufacturers' profits have been weakened.

More collaboration and consolidation (parts and plant sharing) will be necessary and manufacturers and first tier suppliers must co-operate to produce cars profitably in lower volumes at various global locations to access developing markets, reduce costs and the impact of currency exchange rates fluctuation.

Continued Ford support and revenues from the existing product range and the promising Jaguar XF should provide JLR's new owners with a reasonably sustainable business in the short term. Cash generation for investment in new lightweight, lower emissions models will be the first priority. Avoidance of short term pain and consequences of restructuring will remain in the headlines but critically it will be the implementation of a long term winning strategy based on collaboration, consolidation and excellence in producing and selling new models in profitable volumes that will determine JLR's long term success.

Tata (already collaborating with Fiat), Mahindra and Mahindra and Cerberus (private equity owners of Chrysler) are all established car manufacturers reported to be JLR bidders offering synergies of collaboration and consolidation that other private equity bidders would need to establish. Alternatively new private equity owners could focus JLR on fewer, higher value models with long life-cycles (like Porsche) but this would mean the subsequent sale or deletion of models, putting jobs at risk and damaging Ford's position with the labour unions whose support it so badly needs right now, so this is unlikely. Perhaps Ford would also consider a potential turnaround of JLR by Cerberus assisting a strengthening of Chrysler in North America and Europe to be an intolerable and avoidable humiliation. Mahindra and Mahindra are reported to be only interested in Land Rover and are working with private equity firm Apollo Management which would take on the Jaguar brand post deal. Again Ford would choose to avoid immediate separation of the JLR brands leaving Tata as favourites at this time.

So what does this mean for JLR's UK supply chain in the long-run? Well, it depends on whether one sees opportunities or threats. Is your organization ambitious or passive? Collaboration could mean more competition from JLR's new owner's or partners' suppliers and consolidation could mean more parts and plant sharing so there will be fewer unique parts and plants to be supplied. Does that paint a bleak picture for the future? Or will you use these external forces in your organization to inform your strategy and internal actions. The opportunity is to be a collaborator and consolidator, to be a key part of JLR's future and to expand your horizons and penetration into JLR's new owners' and partners' organizations. You have limited time to work-out your winning strategy, but it can be done.

The real question is: Do you have the ambition?

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