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Ford Cuts Profit Outlook on Higher Incentive, Warranty Costs

By Keith Naughton (excerpt)
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Ford Motor Co. cut its full-year forecast by $500 million in the latest sign an $11 billion restructuring by Chief Executive Officer Jim Hackett will take more time before a promised payoff.

The profit warning comes after a rocky quarter for the automaker, with North American profit margins edging down due in part to plunging sales of its cash cow Explorer sport-utility vehicle following a bungled launch. That's the latest headache for Hackett, who is aiming to reverse Ford's fortunes by cutting thousands of jobs, refreshing an aging SUV lineup and ditching sedans.

Higher warranty costs, elevated incentive spending in North America and lower China sales prompted Ford to slash its outlook for 2019 earnings before interest and taxes to a range between $6.5 billion and $7 billion, down from an earlier estimate of $7 billion to $7.5 billion. …

…SUV competition

The automaker's third-quarter profit margin in the all-important North American market, which accounts for more than two-thirds of Ford's revenue, slipped 0.2 percentage points from a year ago to 8.6%. That stemmed from higher incentive spending needed to move more metal out of its showrooms.

"It's a competitive environment," Stone said. "And there are some new entrants in the environment in the SUV space and certainly in trucks as well. In that environment, we want to provide outstanding value to customers."

The intense rivalry for SUV buyers loyalty comes at a time when Ford is relying more on sales of these vehicles -- and its best-selling F-Series pickup. The automaker is ending U.S. production and sales of sedans, which have fallen out of favor with many American drivers, but that makes it more dependent on strong SUV sales to pick up the slack.

"Ford's SUV sales suffered due to the 'ambitious' ramp up of its new 2020 Explorer, Lincoln Aviator and Escape," David Kudla, chief investment strategist at Mainstay Capital Management, said in an Oct. 21 note to investors. "That is not a vehicle segment you want to lose ground in in the U.S. market." …