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BUSINESS | AUTOS

What Scared Ford's CEO in China

Jim Farley is changing strategy to combat what he calls an 'existential threat' from China's electric carmakers

By *Mike Colias* [Follow](#)

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Jim Farley had just returned from China. What the Ford Motor F **0.66%** ▲ chief executive found during the May visit made him anxious: The local automakers were pulling away in the electric-vehicle race.

In an early-morning call with fellow board member John Thornton, an exasperated Farley unloaded.

The Chinese carmakers are moving at light speed, he told Thornton, a former Goldman Sachs executive who spent years as a senior banker in China. They are using artificial intelligence and other tech in cars that is unlike anything available in the U.S. These Chinese EV makers are using a low-cost supply base to undercut the competition on price, offering slick digital features and aggressively expanding to overseas markets.

“John, this is an existential threat,” Farley said.

For years, Tesla was the main source of consternation for auto CEOs trying to tackle a transition to electric vehicles. Now, it is the rapid rise of nimble automakers in China that have rattled executives from Detroit to Germany and Japan. Even Tesla's Elon Musk recently called the Chinese the “most competitive” carmakers in the world.



Chinese smartphone giant Xiaomi’s SU7 EV has drawn comparisons to a Porsche, and costs far less than Ford’s similarly sized Mustang Mach-E SUV. PHOTO: CFOTO/DDP/ZUMA PRESS

In the span of a few years, Chinese EV maker BYD, backed by Warren Buffett, and other domestic brands have clawed away gobs of market share in China from once-dominant foreign rivals, through a combination of lower prices, high-tech interiors and rapid vehicle updates. Today, they are quickly expanding in Europe, the Middle East and other Asian markets.

In the U.S., carmakers see EVs as their future, but for now, EV sales growth has slowed, as high prices and charging hassles turn off some shoppers.

Shortly after the trip, Farley arranged to have Chinese EVs shipped to Michigan for executives and directors to check out and sit in. The models were displayed in a Ford conference center near its headquarters. During board-meeting coffee breaks, directors took turns fiddling with cars.

EV Face-off: Ford v. BYD

Ford Mustang Mach-E



BYD Sea Lion 07



| | | |
|---------------|--|---|
| MARKETS | U.S., Europe, South America, Australia | China, Europe, Australia |
| PRICE | \$39,995-\$58,995 | \$26,700-\$33,200 |
| RANGE | 320 miles | 379 miles |
| COOL FEATURES | Hands-free highway driving; a front trunk that doubles as a cooler | Ambient interior lights with 128 colors; ventilated massage seats |

One was the first EV from smartphone giant Xiaomi, which has drawn comparisons to a Porsche and sells for \$30,000 to \$40,000, below Ford's similarly sized Mustang Mach-E SUV. The Xiaomi has a fragrance diffuser and an infotainment system that can connect to devices inside the home when the car approaches—turning on the home lights or air conditioner, for example.

There was also a \$77,000 futuristic-looking electric minivan from Li Auto. The plush seats in the rear rows have heated arm and leg rests, and massive multimedia screens controlled by hand gestures. Ford brass compared the setup to business-class air travel or a home theater.

“Executing to a Chinese standard is going to be the most important priority,” Farley said.

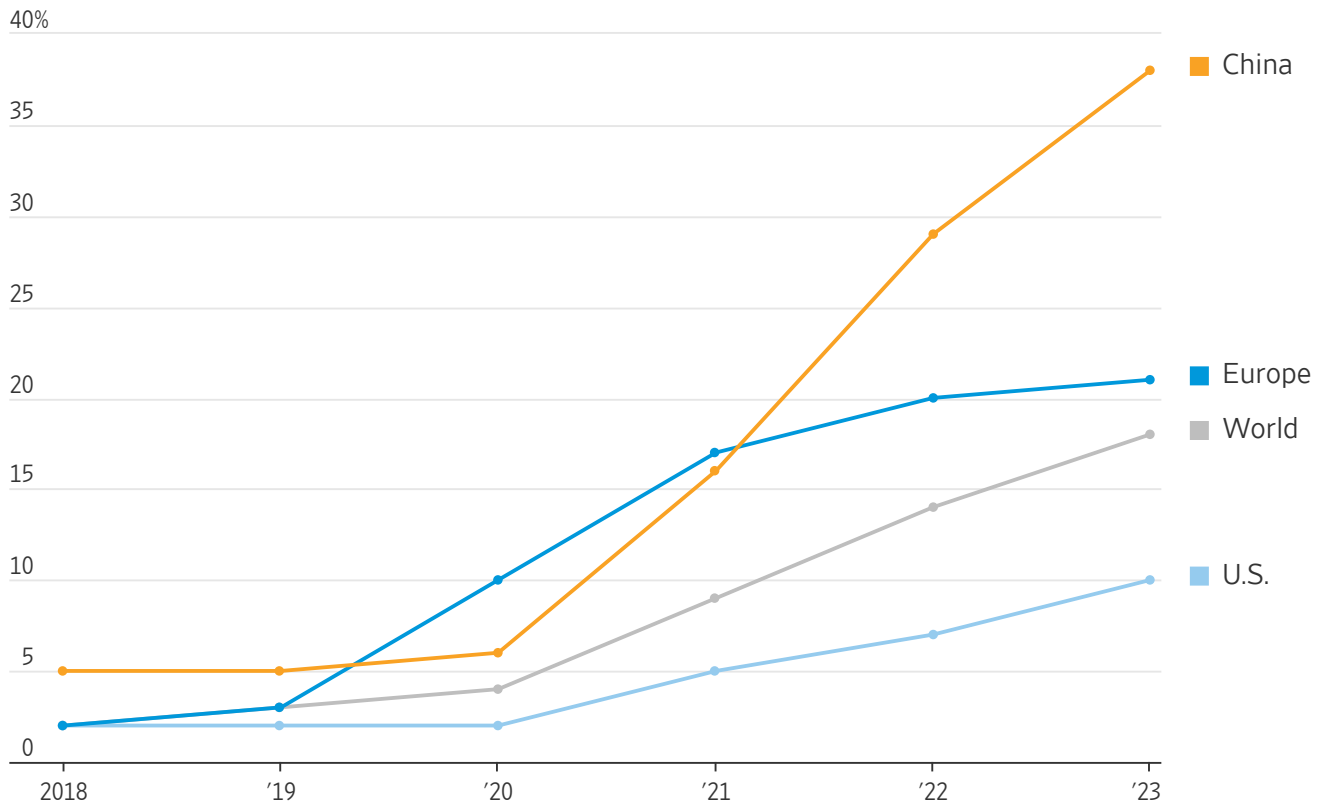
Humbling trips

Chinese brands have so far been kept out of the U.S. by steep tariffs, geopolitical tensions and regulatory hurdles. But some have established a toehold in Mexico, where China-built vehicles—both EVs and combustion-engine vehicles—now account for about 20% of sales.

Governments around the world are worried about China's EV expansion, citing everything from potential job losses to data-security concerns. In the European Union, where Chinese imports make up about one-fifth of electric sales, regulators recently disclosed plans for tariffs up to nearly 50%. The Biden administration went further with a roughly 100% tariff.

Farley, a 62-year-old, blunt-talking car fanatic who spent the early part of his career in marketing at Toyota Motor, sees Chinese EVs as an immediate threat in Europe and other overseas markets, and a long-term risk in Ford's profit engine of North America, regardless of protectionist measures.

Electric vehicles share of all auto sales



Note: Includes plug-in hybrids

Source: International Energy Agency

Farley often reminds his executive team of how Toyota and other Japanese car companies grabbed market share from the U.S. automakers in the 1980s and 1990s, followed in recent decades by Korea's Hyundai and Kia, which have found success with EVs.

"I've seen this movie before," said Farley, who has been Ford's CEO for four years.

A few humbling trips to China in the past 18 months prompted Farley to alter his EV strategy.

On a visit to China last year, he watched engineers dissect an electric car from Chinese juggernaut BYD to reveal elegant, low-cost engineering. A spin around a test track in another China-branded EV left him blown away by the car's ride quality and high-tech features.

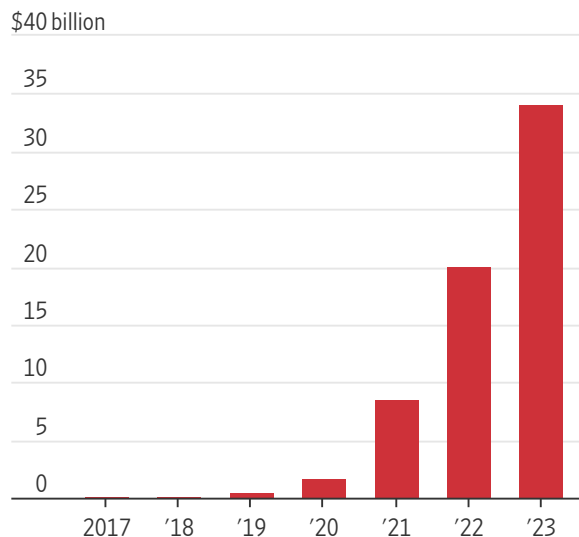
Those experiences persuaded Farley to narrow Ford's focus in China to commercial vehicles, rather than trying to compete with local manufacturers in its consumer market. Now, he is racing to fend off the threat of Chinese EVs elsewhere—in part by borrowing from them.

The CEO has a team exploring ways to contract with some of the same low-cost parts suppliers that have given Chinese EV makers such a big edge. He has pivoted Ford's strategy toward smaller EVs, because for now the huge batteries needed for big pickups and SUVs are too expensive. That strategic shift resulted in the recent, high-profile cancellation of a future

Ford Explorer-size electric SUV.

Lightning Pace

Electric-vehicle exports from China



Note: Includes passenger vehicles that only use an electric motor for propulsion

Source: U.N. Comtrade database

Ford is developing a low-cost mechanical layout to serve as the foundation for several future EVs.

Among the first will be a midsize pickup truck due to arrive in 2027.

Farley sees the China threat as a test of his efforts to change Ford's culture and make his people move faster.

“Either he can make us uncomfortable, or we can wait, and the Chinese can make us uncomfortable,” said Doug Field, a former Tesla and Apple executive hired in 2021 to lead Ford's technical transformation.

‘These guys are ahead’

For decades, Ford and other global carmakers did not view Chinese automakers as much of a threat.

China opened its auto market to foreign companies in the 1980s under the condition that they enter joint ventures with fledgling state-owned carmakers. The local manufacturers mostly played little-sibling roles to their foreign JV partners, helping them to navigate red tape and providing some capital to build factories.

Meanwhile, Beijing was methodically investing in a plan to leapfrog global carmakers through a move to electric cars. The government offered generous subsidies for car companies to build EVs, and for consumers to buy them. Huge investment into car chargers also nurtured the EV market.

BYD's \$10,000 Seagull features a rotating touch screen and a range of more than 300 miles. PHOTO: PEERAPON BOONYAKIAT/ZUMA PRESS

By early this decade, those once-shaky Chinese companies—joined by a few hundred startups—had begun churning out stylish, affordable EVs. BYD in particular pulled away from the pack, selling more than three million electric and plug-in-hybrid cars last year, nearly seven times higher than in 2019.

BYD's cheapest EV, the Seagull, starts around \$10,000 and features a fashionable cabin; a rotating, iPad-like touch screen; and more than 300 miles of driving range, comparable to EVs from legacy automakers that are priced three times higher. It is currently for sale in China and Latin America and BYD plans to start selling it in Europe next year for around \$20,000.

In early 2023, Farley made his first trip to China since it reopened after years of pandemic restrictions. He sat in the driver seat of an electric SUV from Ford's longtime joint-venture partner, Changan Automobile, which for years had been a middling player in China, its market share hovering around 5%.

Farley, who races vintage cars and has an encyclopedic knowledge of car models, thrashed the EV around Changan's sprawling test track in central China, as Ford Chief Financial Officer John Lawler rode shotgun. Afterward the executives sat silently, stunned at the progress Changan had made. The ride was smooth and quiet and the cabin upscale, with easy-to-use technology.

"Jim, this is nothing like before," Lawler told Farley after the drive. "These guys are ahead of us."

Scanning the market

Farley was born in Buenos Aires. His father was a banker, and the family relocated many times. He also had some Detroit roots: His grandfather joined Ford in 1913 as a factory worker.

A big Steve Jobs fan, Farley says his favorite photo of the Apple founder shows him crouched and peering into an office to watch a worker on a Macintosh computer in the 1980s.

As a young marketer at Toyota, Farley spent a year on the road doing research for a new Camry sedan, chatting up car owners in store parking lots.

“He’s just constantly scanning the market,” said Ted Cannis, the head of Ford’s commercial-vehicle business. Cannis said last year he was caught off guard when Farley asked him about a new, China-built commercial van that had barely registered on the U.K. sales charts.

“I’m completely distrusting of research,” Farley said in a recent interview. “I like watching what people do. See where they spend their money.”

A first cousin of the late comedian Chris Farley, he has embraced the limelight during his four years as CEO. He hosts a podcast that has featured Tom Brady and Sydney Sweeney, and has taken Jimmy Fallon out on the racetrack. He is prolific on social media, sometimes bantering with Elon Musk.

‘I’m completely distrusting of research,’ said Farley. ‘I like watching what people do.’ PHOTO: NIC ANTAYA FOR WSJ

He can be brusque and intense in meetings. Farley has been known to interrupt people midsentence and tell them to “stop admiring the problem” and come up with a solution, executives who have worked with him say.

Jon Huntsman, a longtime Ford director, said Farley is not a polished glad-hander or a “prototypical CEO.” “He’s distrustful until you earn his trust,” Huntsman said. “He’s brutally honest, to the point of being offensive.”

During a Morgan Stanley investor conference last year, Farley was asked what superpower he would choose.

“Kindness,” Farley said. “I’d like to be more kind.”

Ford's EV transition has been made more challenging by quality problems and costly recalls. Farley said things have improved recently after Ford tied worker bonuses to vehicle-quality metrics.

Following early buzz for the F-150 Lightning pickup, which lifted the stock price, fading consumer interest in EVs led to pricing pressure and heavy red ink. Ford is on pace to lose about \$5 billion on EVs this year, equal to as much as half of its projected operating profit.

Farley says erasing those losses is his top priority. "The sense of urgency is so high because the \$5 billion loss is so visible," Farley said.

How to save \$800

That test-track run in early 2023 convinced Farley and Lawler to give up on trying to reclaim Ford's status as a major player in China. Ford is using China primarily to export vehicles to other markets. Farley has vowed to apply lessons from China elsewhere before the Chinese pull ahead again.

Farley said he is confident that the team working on the new EV tech—led by another former Tesla engineer—can erase the cost gap with the Chinese EV makers. If that effort is successful, Farley said he believes Ford's expertise in trucks, off-road vehicles and the commercial market will give it an edge.

For a company that sells huge pickups and SUVs for \$70,000, offering an EV for a fraction of that price requires some tough calls to keep costs in check.

One day this past summer, Farley walked through Ford's design studio near the company's headquarters to check the status of several future EVs. One prototype seemed like it would be at home in China's family-centric car market. It featured a configurable rear seating area with seats that can swivel to create a meeting space.

Farley and Field huddled around a laptop, looking at a spreadsheet of line items for the future midsize electric pickup. The goal: figure out how to extract \$800 in cost.

The team had overachieved on the driving range by 16 miles, Field explained, which meant they could wring out about \$500 by shrinking the battery. Finding the rest of the savings would be a slog. Would it really need a heated steering wheel? Maybe the front trunk was expendable, one of the execs suggested.

Before long, Farley worried aloud that they might be cutting too many corners, and that "the product could end up being really sh—y." He suggested to Field an informal process: How

about they slap sticky notes all over the prototype to hash out what should go?

“Then let’s get 20 people who we all trust in a room,” Farley said. “And we argue about it.”

—*Ben Glickman contributed to this article.*

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