Workshop

“ Transnational strategies in the automotive industry “

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Fiat Chrysler:

transnational trajectories and integration

Giovanni Balcet

(University of Turin, Italy)

Multinational strategies in the car industry

Multi-domestic strategies

- Foreign affiliates oriented to serve domestic markets, as an alternative to exports and licensing ➔ local assembling of imported components, or locally integrated manufacturing.

- Strategic functions, such as product design, R&D and finance, centralised in the home country ➔ one way technology flows from the centre to the periphery,

- <u>Main motivations</u>:
- access to attractive (large and/or emerging) markets
- need to overcome protectionist barriers.

➔Regional strategies

An intra-group division of labour developed within a macro-region

- Integrated activities, specialised and increasingly export-oriented foreign affiliates

- The range of products tends to be unified on a regional basis.

- Strategic functions, such as R&D and finance, may be partly decentralised to the regional headquarters.

- <u>Main motivations</u>:
- access to integrated markets and cost advantages, through economies of scale, specialization and sourcing in low wage areas.

➔ Multi-regional strategies

- The same intra-firm division of labour is developed within two or three macro-regions of the world economy.
- The regional divisions benefit from autonomy

➔ Trans-regional or global strategies

- Intra-group division of labour, integrating corporate activities on an enlarged geographical scale, involving two or more macro-regions.
- Purchasing strategies to create a worldwide component sourcing network ➔Global Sourcing
- Global engineering. Each region tends to specialise in R&D, design and manufacturing of a specific range of models, which is then produced on a world scale.
- Interdependence between regions within the multinational organisation.

Fiat Auto: history matters. Multi-domestic strategies and industrial cooperation

➔ **1950s - 1970s: local market-oriented subsidiaries …**

Spain, 1953
Argentina, 1960
Brazil, 1973

➔ **… joint ventures and long term industrial cooperation agreements**

Yugoslavia, 1954
USSR, 1966
Poland, 1971
Turkey, 1972

Fiat in the years 1970s and 1980s: reacting to social conflicts

➔ 1968-1980: labour conflicts, strong bargaining power of workers

➔ Fiat reacted through:

- organizational fragmentation: externalization, outsourcing
- geographical fragmentation:
  - internal ➔ new plants in Southern Italy
  - international ➔ FDIs in Turkey, Poland and Brazil
- process innovation, automation

➔ 1979 - 1995: divestments

- from Spain
- from Latin American affiliates except Brazil

➔ 1990s: local assembly of mature models in several countries

Turkey, Brazil, Venezuela, Morocco, India ..

➘ Low volumes, old technology

Policy drivers:

- **Protectionism ➔Tariff-jumping**
- **Local incentives**

Regional strategies of Fiat Auto (I)

➔ **Poland in the European production network**

1980: relocation from Italy of the production of an obsolete car (model 126) in cooperation with the State-owned FSM company. Export to Italy.

1987: agreement for an export-oriented product (Cinquecento sub-compact car)

1991: production starting, along with the privatization

1992: Fiat Auto Poland

➔ **Expanding the European network**

- 2000s: Turkey exporting commercial light vehicles towards Europe
- 2012: Serbia integrating the European production network

Regional strategies of Fiat Auto (II)

➔ <u>Mercosur</u>

1995: new greenfield investment in Argentina

1996-98: integration of production networks in Brazil and Argentina

1998: crisis of Mercosur

➔ Policies matter :

- regional integration ➔ specializing foreign affiliates
- incentives, subsidies

➔ Transnational advantages from a fragmented labour within a macro-region ➔ relational power

Main features of the Fiat project of focused globalisation (1994-2005)

- **Production of the same family of car models and standardisation of the components worldwide, through a single platform, located in Turin.**

- **Maximisation of the economies of scale through the target of producing one million vehicles in 2000.**

- **Frontier technology of the new product, low prices, adaptability to the local conditions of demand (roads, fuel, regulations).**

- **Product differentiation through a range of versions and motorisations of the models Palio and Siena, to respond to the various segments of local markets.**

A flexible network of global sourcing.

- **<u>Trade-offs</u>:**

- between scale economies and product differentiation

- between global sourcing and proximity of main suppliers

➔ Hierarchy, specialisation and integration of the production units at three levels:

a) <u>general direction</u>, finance, R&D and product development located in Italy: key components, technology and knowledge flow to the whole system;

b) <u>production poles,</u> in Brasil, Argentina, Poland and Turkey, are exporting both vehicles and components to the rest of the system;

<u>c) assembly plants</u> in Morocco, Egypt, South Africa and India importing, components and serving domestic markets

Fiat Auto. Production of Palio and Siena Models, 1996 – 2003

	1996	1997	1998	1999	2000	2001	2002	2003
Brasil	**157,570**	**375,169**	**265,865**	**254,504**	**259,681**	**271,219**	**242,375**	**223879**
Argentina		48,141	60,544	26,139	25,736	31,315	676	--
Poland		9,006	28,521	21,957	10,945	6,168	4,911	
Venezuela *		9,766	8,858	1,867				
Morocco		98	5,393	8,361	6,190	6,407	5,129	5088
Turkey			20,095	23,964	43,892	13,835	10,491	27,297
India				3,766	2,701	8,990	30,003	6,683
South Africa				137	6,822	8,161	5,531	4,931
Egypt					3,201	3,375	1,903	1,457
China						70	23,089	36,916
World	**157,570**	**442,180**	**389,266**	**340,696**	**359,168**	**349,540**	**324,108**	**306,251**

(*) disinvested in 1999

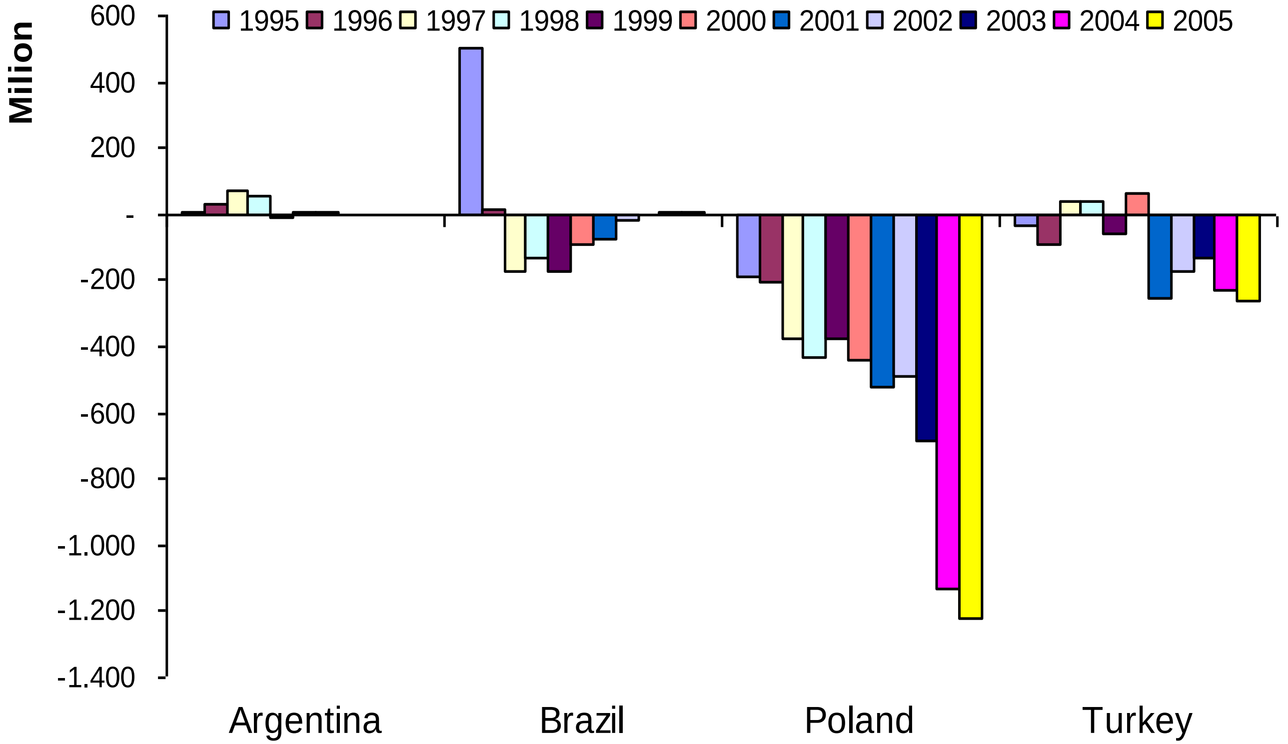
Source: Fiat Auto

The impact of regional and global strategies on Italian trade with Poland, Turkey and Brazil

A two-stages pattern:

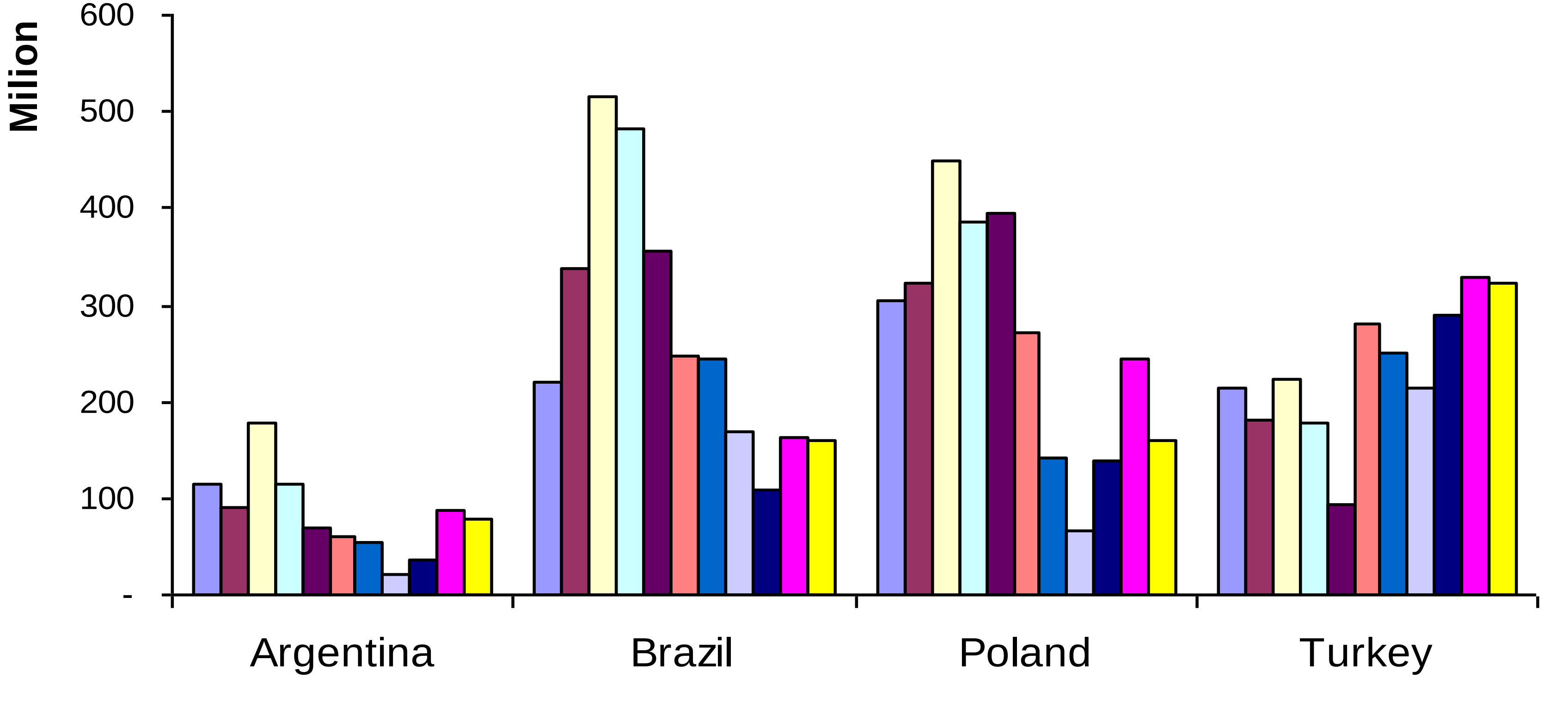
- ➔ The launching of the World Car project
- ➔ The maturing of foreign affiliates

Italy: bilateral car trade balances (€)



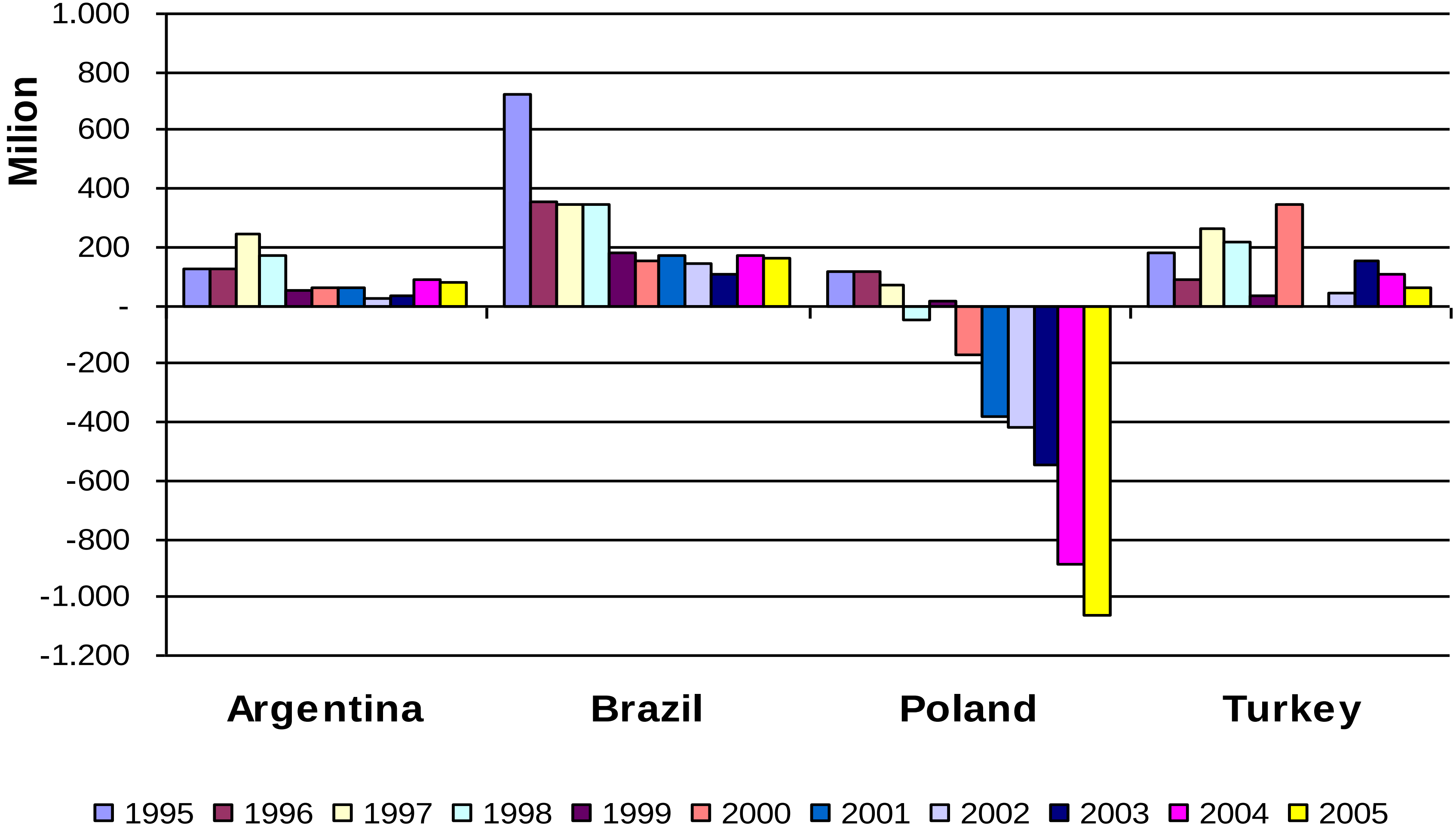
Source: Elaboration from Istat national statistics of trade

Italy: bilateral car component trade balances (€)



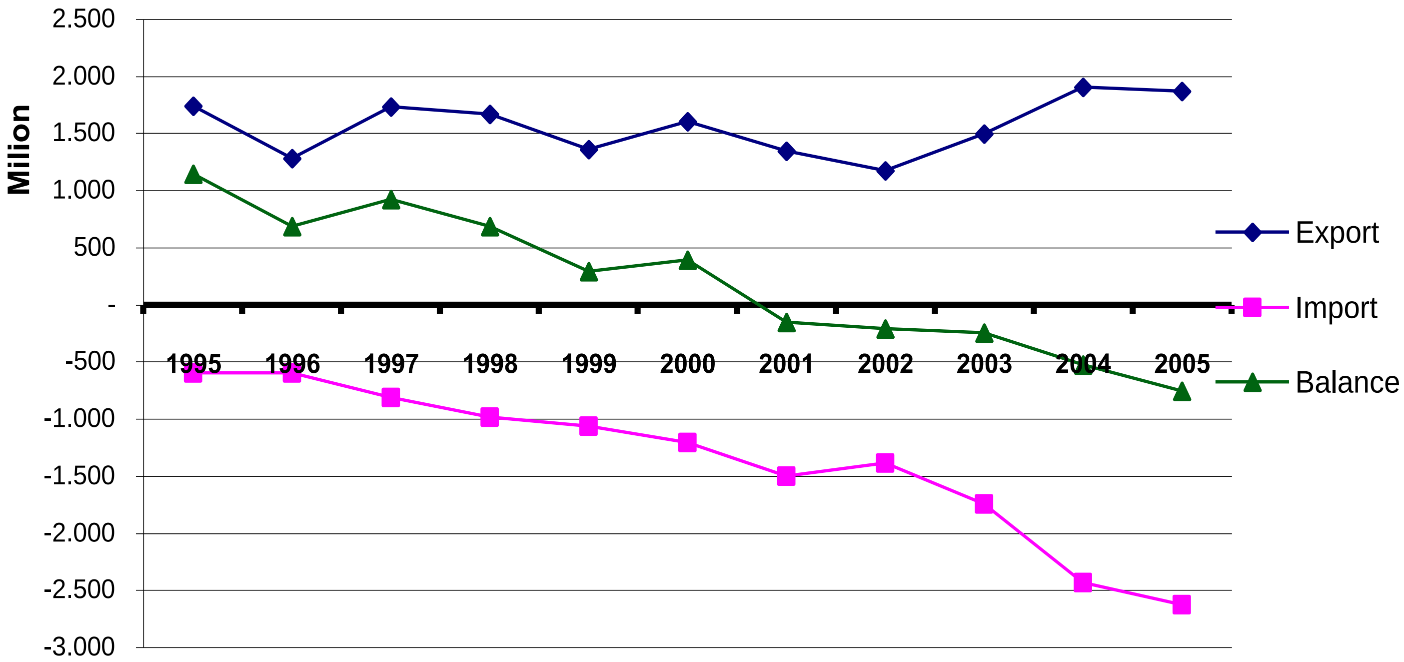
Source: Elaboration from Istat national statistics of trade

Italy: bilateral trade balances in total car industry (€)



Source: Elaboration from Istat national statistics of trade

Italy: Evolution of total trade flows in the car industry with selected countries (€)



Source: Elaboration from Istat national statistics of trade

Product Development in global strategies: from adaptive innovation to the building of specific technological competencies

➔ Creating a global PD and enginnering network integrating the Italian, Brasilian and Turkish units.

- **Step 1: adaptation of the products to local needs and requirements**
- **Step 2: accumulation of competencies and knowledge over time. Affiliate-specific technological trajectory**
- **Step 3: emerging areas of excellence**
- **Step 4: export of technology to other affiliates of the multinational corporation**
- **Interaction: MNC-local environment**
- **Country-specific resources (e.g. Brazil: development of hybrid engines) ➔ <u>Asset-seeking strategies</u>**

Why Fiat's strategy of focused globalisation failed ?

- Optimistic forecasts on growth rates of automotive demand in some emerging markets (e.g., CEECs used car imports disrupting markets)

- Industry and finance diverged and conflicted ➔ The case of of the Brasilian Real in 1998
- Trade and industrial policies: did the focused globalisation need protectionism?

➘ **<u>Huge negative impact on Fiat's industrial and financial global performances</u>**

➘ Critical situation since mid-2001.

Fiat close to bankrupt in 2001-2002

Early 2004: Fiat losing 2 mln Euros a day

Comparing Fiat Palio (1995-2005) with Renault Dacia Logan (2004-2014): common starting point, diverging performances

- **Common starting idea: producing low cost but new technology models for emerging and developing countries. Focused global cars. New platforms, international projects.**

- **Dacia Logan models: a success story**

- **What went wrong with Fiat's Palio and Siena? (disappointing results, except in Brazil)**

- **Corporate culture, excess of centralized control, organizational rigidities, technology, supplier networks, timing, trade issues (e.g., Mercosur implosion in 1998)**

Looking for global size and competitiveness: the Fiat - GM Alliance (2000 - 2005)

➔ **<u>Main goals:</u>**

- **Economies of scale. Reducing costs**
- **Synergies and learning**
- **Common R&D and technological convergence➔Platform convergence**

➔ **<u>A financial Agreement</u>**

- **Share swap (20 % of Fiat Auto shares against 5.6 % of GM shares)**
- **Put Option on the remaining Fiat Auto share (to be exerted between 2004 and 2009)**

➔ **<u>An industrial inter-group cooperation</u>**

- **Purchasing Joint Venture**
- **Powertrain Joint Venture**

Why the Fiat - GM Alliance did not work.
A difficult divorce

➔ <u>The alliance collapsed in 2005</u>, due to the losses of Fiat Auto and the financial crisis of the Fiat Group.

- Fiat's hands were tied towards new agreements
- However, relevant savings via economies of scale for both the partners
- Technological convergence process.
- Technology acquisition for GM (small diesel engine). Success story: the small 1.3 16v diesel Multijet engine

➔ GM obliged to cash USD 2 billion as an exit fee (due to a Put Option in the hands of Fiat) ➔ Financial benefits for Fiat.

➘ After the divorce: <u>GM new R&D Powertrain Centre created in Turin in 2005</u> (asset-seeking investment) ➔ European and global missions.

Fiat's unexpected recovery and new multinational strategies in the years 2000s

➔ Fiat Auto recovered to profits in 2005. New top management appointed in June, 2004: Marchionne era. In a first stage (2004-2009) non conflicting industrial relations

- Heavy impact of the 2008 crisis in Europe➔Conflicting relations with trade unions, mainly on flexibility issues

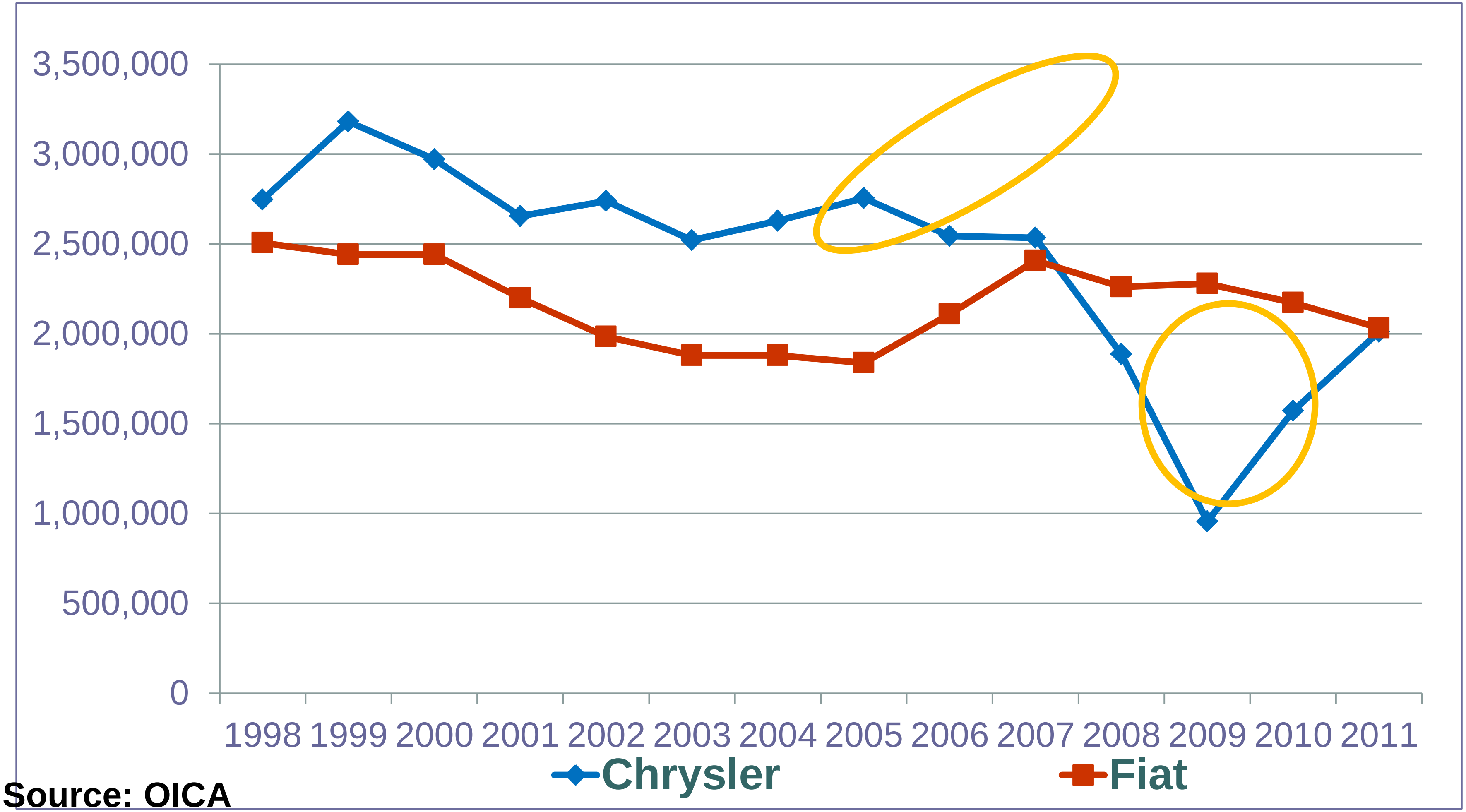
➔ New multinational strategies (2004 – 2009)

- Exit from non strategic assembly affiliates (e.g., Morocco, Egypt, Thailand)
- Full integration of Poland within the European region
- Mercosur: effort for restarting production in Argentina, expanding production in Brazil ➔ good performances
- Efforts on India and China, but poor performances
- New strategies of focused alliances and joint production: with Ford in Poland; with PSA in Turkey.

In the global crisis: agreement with Chrysler (April 30, 2009)

- Deep impact of the world crisis on the automotive industry
- Volumes and technologies are crucial
- A concentration process in the world oligopoly was under way
- US Administration new policies: an opportunity for Fiat to enter the American market
- Strategic assets: smaller-sized car platforms, new generation energy-saving engines

Before the merger: production of cars and LCVs by Chrysler and Fiat



Source: OICA

Integrating Fiat-Chrysler car assembly plants (2011)

Chrysler	Plant	Employees	FIAT	Plant	Employees
Canada	Windsor	4,400	Italy	Torino	5,480
Canada	Brampton	2,700	**Italy**	**Grugliasco**	**1,000**
Mexico	Toluca	2,000	Italy	Cassino	3,939
USA	Detroit	12,018	Italy	Pomigliano	4,730
USA	Toledo	4,950	**Italy**	**Modena**	**620**
USA	Belvidere	4,500	Italy	Melfi	5,280
			Italy	Val di Sangro	6,217
			Poland	Tychy	6,113
			Serbia	**Kragujevac**	**2,400**
			Turkey	Tofas	5,831
			Brazil	Betim	9,673
			Brazil	**Goiana**	**4,500**
			Argentina	Cordoba	1,211
			India	Ranjangaon	1,389
			China	**Changsha**	**2,500**
	TOTAL	**30,568**		**TOTAL**	**60,883**

Making Fiat-Chrysler a viable carmaker

- Achieving economies of scales/cost reduction
  - Integrating product strategies
  - Coordinating platforms/architectures
  - Increased productivity
  - Supply chain integration
    - Global sourcing with tier 1 suppliers
  - Integrating sales network
- Efforts to improve performances in emerging markets

New emphasis on the premium cars

➔ Reacting to:

- the declining market shares in Italy and in Europe;
- the global crisis since 2009
- the failure of the Palio Siena 178 project of focused globalisation
- the poor performances in Asian emerging economies.

➔ Moving away from Fiat's competitive advantages in Segments A and B ➔ A risky challenge.

➔ Premiumization of an A Segment car: Cinquecento

➔ However: strong competitors (German carmakers)

➔ How about medium income consumers?

➔ How about the Renault-Dacia success?

Reshaping multinational strategies

Integrating the European macro-region: new mission for production poles in Poland, Turkey and Serbia

➔ New agreement with the Serbian government (2008). Huge public incentives for Fiat. Production started in April, 2012

- Brownfield investment: rebuilt factory in Kragujevac: 2400 employees; capacity 200.000 vehicles
- Production of new Cinquecento L (segment B)
- Export orientation to the European macro-region

➔ Turkey (JV, Fiat share 40 %) as an export platform towards Europe for LCVs . Agreement with PSA and Opel.

➔ Segment A (subcompact cars) production in Europe:

- until 2010 concentrated in Poland. Rationalized (one plant one segment)
- now both in Poland and Pomigliano (Italy). Political reasons?

Reshaping multinational strategies

Fiat in Emerging Economies: strengths and (many) weaknesses

➔ Brazil: consolidating strength and market leadership (22.3 % market share).

New investment for assembly, suppliers park, R&D and test, training centre in Pernambuco State

Production capacity: 250.000 vehicles

Production started in 2014

➔ weakness in China, India and Russia

➔ Mexico: Cinquecento to be exported from a Chrysler plant not only towards NAFTA, but also to Latina America (Brazil)

Asian Alliance Strategies:
the partnership with Tata Motors

• **Strategic asset: small diesel engine technology**

• **Strategic complementarity : Tata for entry level cars, Fiat for upper segment cars**

➔ **Poor performances (less than 1% mkt share), few models**

➘ **Fiat dependent on the partner.**

Looking for new strategies in China

- **Latecomer in car industry, marginal role, poor performances.**

- **However: long term IVECO presence in light trucks and buses sector**

- **JV with GAIC started production in 2012.**

- **"Partnerships are not a second best option for us. However the first-best option would be: partnership with majority ownership (60 / 40) " (Fiat manager, Turin, december 2010)**

Architecture convergence in Segment C: towards a new world car?

➔ **A common platform, as a result of the technological convergence between Fiat and Chrysler**

- **Alfa Romeo Giulietta (2010), Europe**
- **Dodge new Dart (2012), North America.**
- **Fiat Viaggio (2012), China**

Achieving economies of scale and cost reduction


Coordinating platforms/architectures

Concluding remarks

- Fiat: a long trajectory of transnational growth
- History matters: from multi-domestic to macro-regional strategies in Europe and Latin America
- The focused globalisation failed, producing losses. Poor performances in emerging economies, except Brazil.
- Policies matter: protectionism, regional integration, incentives.
- Failed alliance with GM, merger with Chrysler
- Strategic behaviour, transnational growth and relational power in labour issues

  ➘ to be further explored ➔new research project

Thank you for your attention