

The Automobile Industry in Japan and Germany
Strategic Challenges and New Perspectives in the Age of Globalization

Symposium, Tokyo 12 October 2004

Renault-Nissan and DaimlerChrysler
What are the Lessons to be Learned?

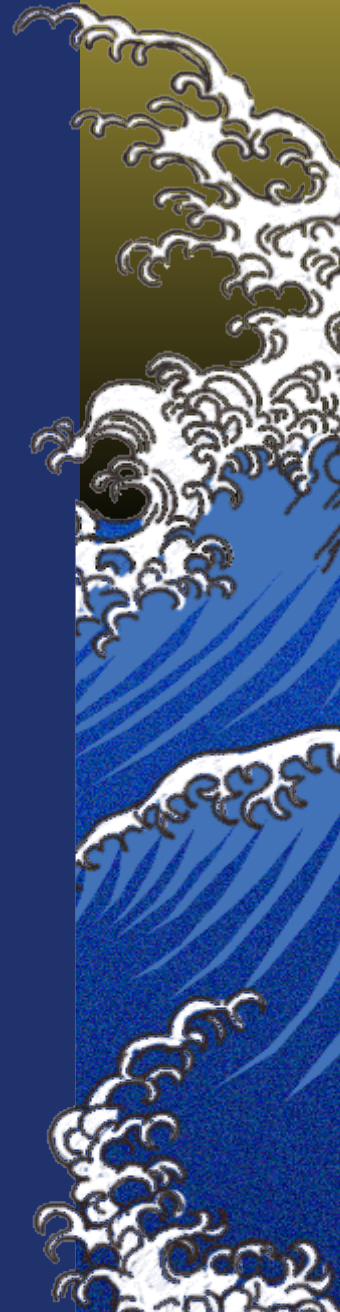
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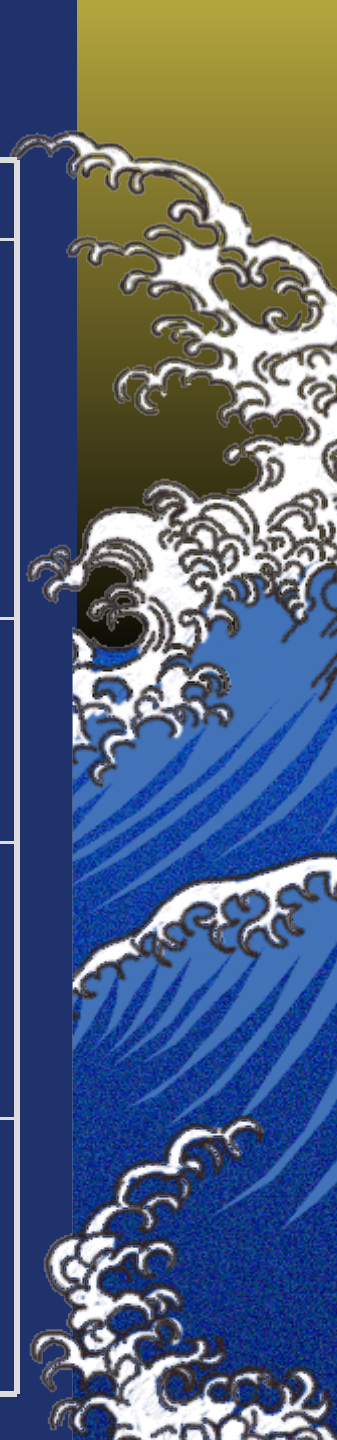
Expectations and Outcome

	Expectations	Outcome
Daimler Chrysler	+	-
Renault Nissan	-	+



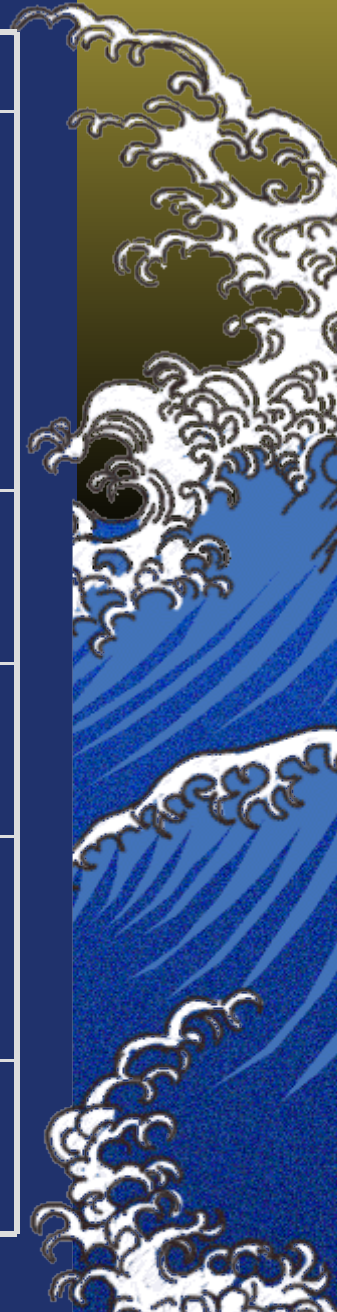
Differences in Strategies I

Strategy	DaimlerChrysler	Renault-Nissan
Product	Daimler luxury producer, Chrysler mass market producer; no overlap preventing cannibalization, but limiting cost reduction potential; aim: complementary engineering without sharing platforms	Both mass market producers, competing in same segments; threat of cannibalization, but allowing for common platforms (10 instead of 34), allowing for huge economies of scale
Geographic	Each strong where other is weak; Daimler in Europe, Chrysler in America; both weak in Asia	Renault strong in Europe, Nissan strong in Asia and US; product overlap offset by geographic complement
Technical	Chrysler low-cost innovator with fast product development cycle, but limited R&D capabilities; Daimler strong R&D, but will benefit from higher volume	Renault's strengths in RD and flair for design; Nissan's known for bland but reliable models and strong engineering skills
Sourcing	Chrysler is an effective purchaser from which Daimler can lean	Nissan's can reduce number of suppliers by 50% to match Renault's cheaper streamlined supply chain; purchasing to be fully coordinated



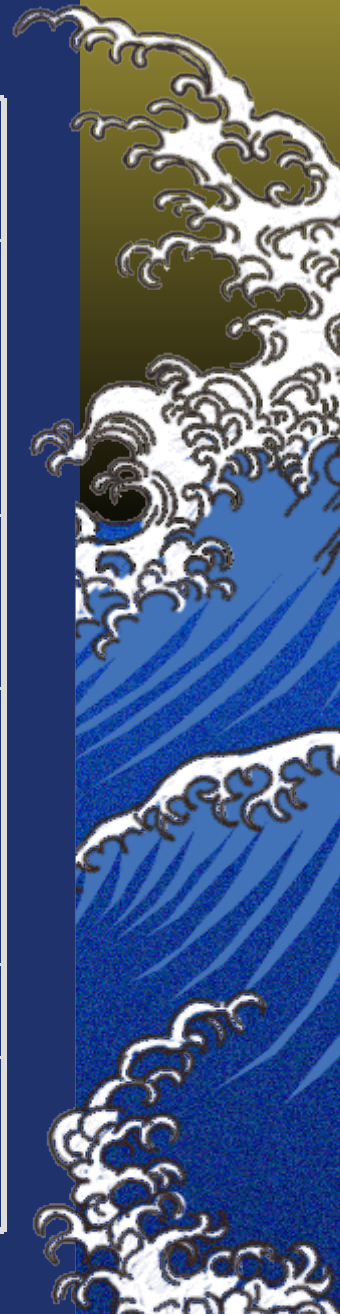
Differences in Strategies II

Strategy	DaimlerChrysler	Renault-Nissan
Manu- facturing	Both manufacture in completely different ways; Daimler produces tailored vehicles on a pull system, whereas Chrysler pushes out mass produced cars on a lean low-cost basis; scope for mutual learning	Each can produce where the other has plant and spare capacity, especially important for Nissan which struggles with overcapacity
Organi- zation	Daimler was a conglomerate; Chrysler was purely an automotive manufacturer	Both purely automotive manufacturers
Corporate Culture	Daimler very bureaucratic; Chrysler freewheeling	Both bureaucratic and highly hierarchical with an historic lifelong employment system
Sales & Distribution	No intention of combining sales operations, but scope to benefit from shared distribution	Geographic fit allows for each to benefit from the other's distribution network through common hubs
Finance	Daimler's limited scope for growth but big financial resources, Chrysler the opposite	Renault provided the cash for Nissan to survive



Strategic Overlays?

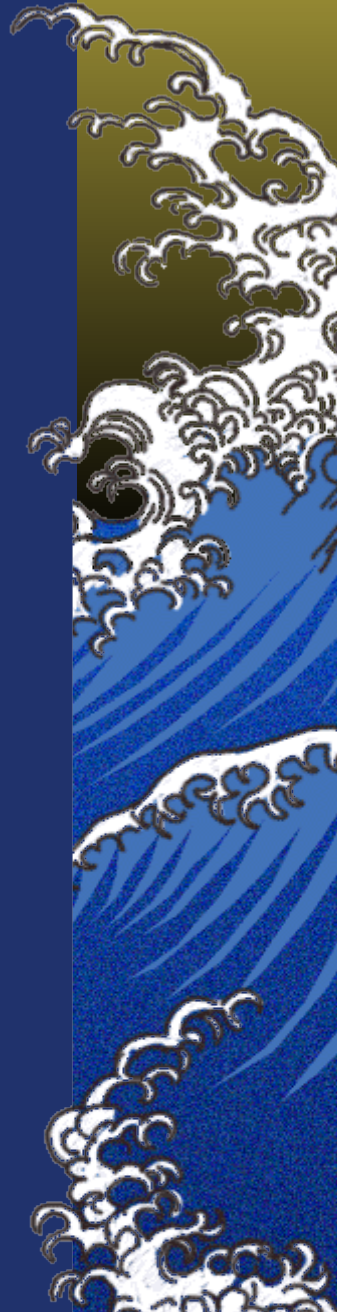
Opportunities	DaimlerChrysler	Renault-Nissan
People	Yes. Daimler can benefit from marketing expertise and Chrysler can benefit from engineering and quality management	Yes. Transfer of Carlos Ghosn was a major boost to Nissan. Nissan can also benefit from design expertise and Renault from reliability expertise
Products	Yes. Daimler's growth was limited in maturing markets	No. The two companies were generally involved in the same segments
Processes	Yes. R&D transfer very important for Chrysler; Daimler can learn from quick product development and purchasing skills	Limited as both produce largely in the same way
Markets	Yes	Yes
Customers	Yes. Customers have different demographics and psychographics	No, as largely sold in the same segments



Benefits

DaimlerChrysler emerged as primarily a revenue-enhancing merger for long-term growth.

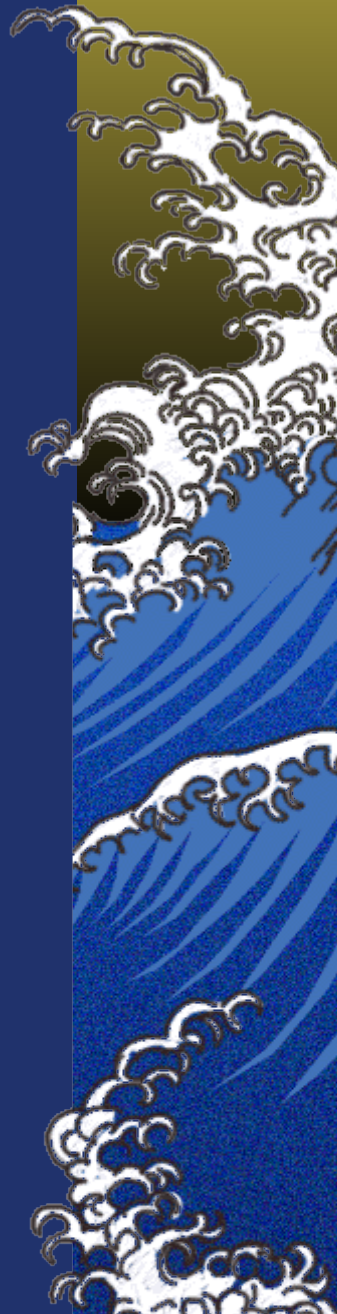
Renault-Nissan's core benefit is from cost reduction through duplicated activities.



Timing

The timing of the DaimlerChrysler merger was poor, in that Daimler bought Chrysler at the top of the market and paid a 28% premium for the honour.

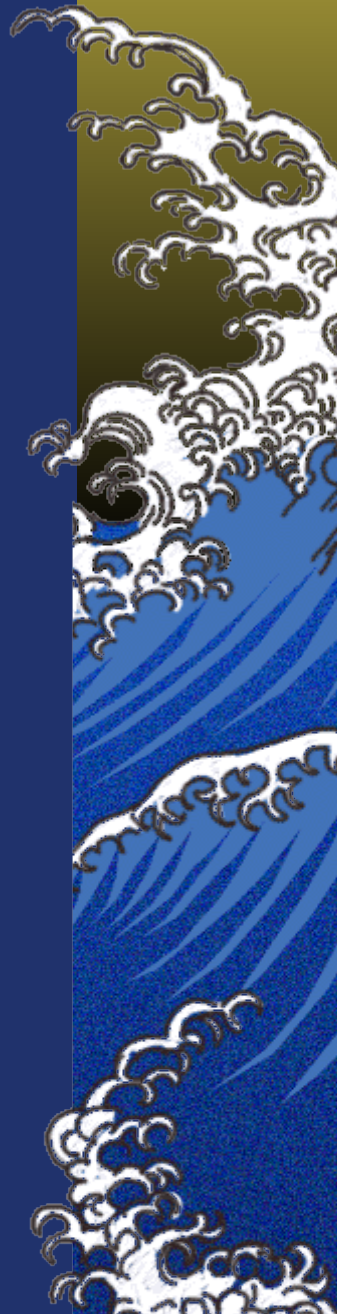
The Renault-Nissan timing was perfect, with Nissan at the bottom of an eight-year dip in profits.



Negotiations

Renault who intended to enter into a long-term relationship, did not exploit its short-term bargaining advantage.

With DaimlerChrysler both parties were deceived. Daimler tricked Chrysler into a takeover, but paid a premium that was not deserved.



Deal Structure

The DaimlerChrysler deal had to come from a friendly approach and resulted in a 'merger of equals'. As a result, expectations and the potential for disappointment were high. Daimler was not able to dominate the integration process fully from the start as it would have liked. This led to delays, uncertainty and confrontation in initial integration.

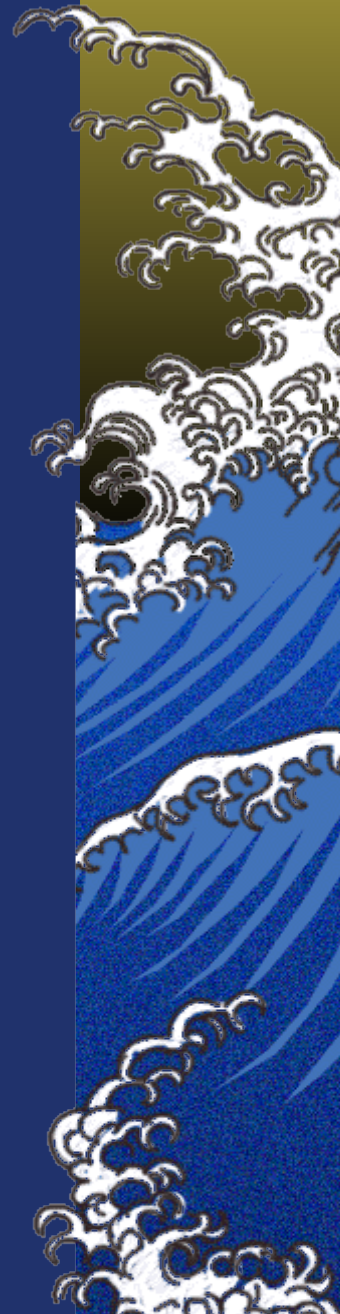
Renault dominated in early stages as Nissan needed money and managers to transform its operations. This insured compliance.



Integration

DaimlerChrysler's integration can be seen as a two-stage process. The initial phase following immediately the merger was operated with precision and speed, but did little to integrate the companies. The second phase emerged as Chrysler was about to go under.

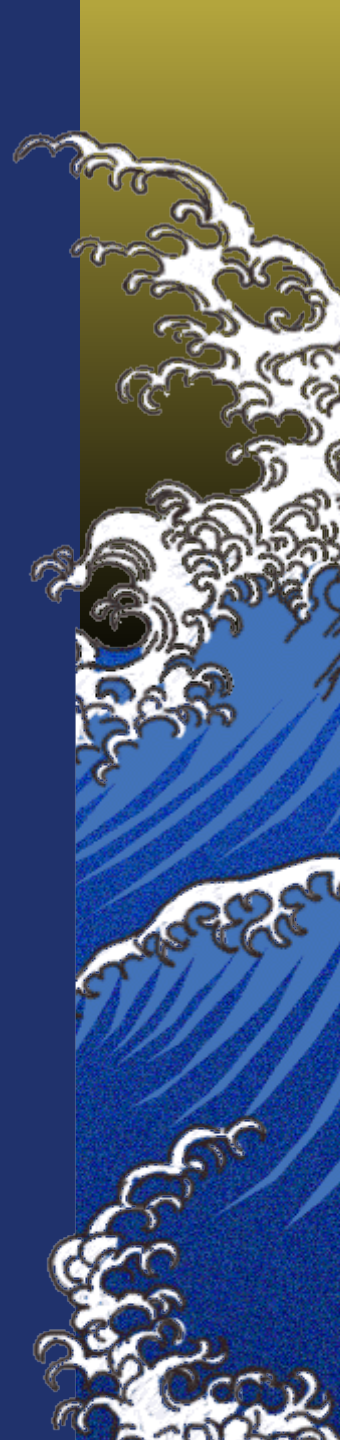
It is the second phase which can be likened to Renault-Nissan's integration under the Nissan Revival Plan. Chrysler, like Nissan had become the weaker partner and had no choice but to comply.



Skill transfer

Daimler and Chrysler had no commonalities in their value chains ('marriage of opposites'). Skill transfer was difficult and proved only possible once one party clearly dominated.

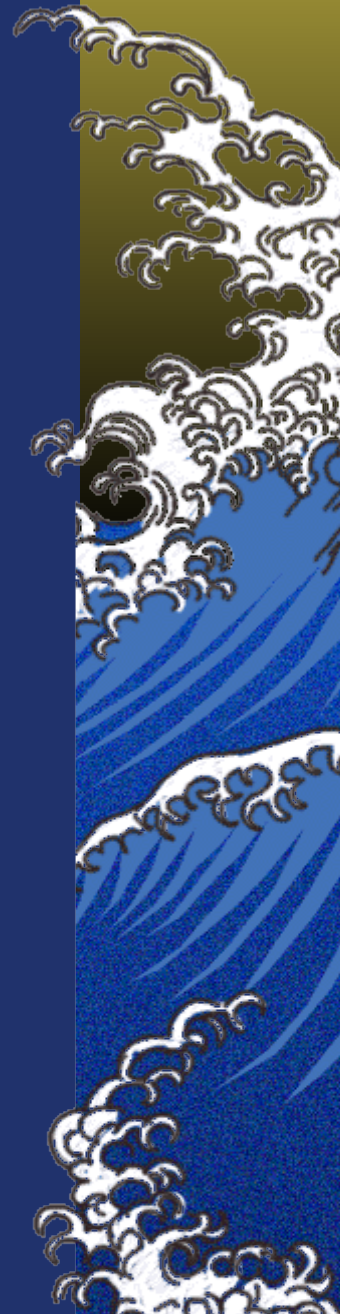
Skill transfer in the Renault-Nissan alliance has been easier as their value chains operate along similar lines as their products are alike.



Sharing activities

DaimlerChrysler's determination to keep their brands separate has a substantial impact on integration. Potential for cost savings has constantly to be weighted against the risk to delude Mercedes' image.

The similarity of value chains in the Renault-Nissan combination allows cost savings and revenue benefits to occur relatively quickly.



Value chains

DAIMLER-BENZ

CHRYSLER

Firm Infrastructure	Firm Infrastructure
Hierarchical	Freewheeling
HRM	HRM
Not much pay differences	Huge differences in pay
Technology	Technology
Engineering oriented, slow product development for luxury cars	Design oriented, quick product development for mass market
Procurement	Procurement
Engineers design every 'nut and bolt', preserving the uniqueness of the brand	Efficient, sources most components from outside
Production	Production
Pull system for tailored vehicles	Lean, low-cost mass production
Distribution	Distribution
Worldwide (incl. the US)	Mainly US, exports elsewhere
Marketing	Marketing
'Sober gentlemen'	Funky streetwise

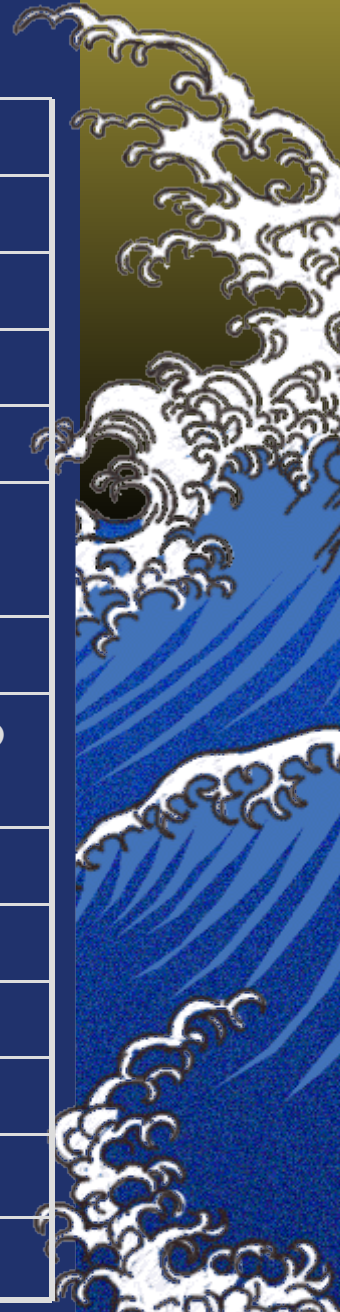


Value chains

RENAULT

NISSAN

Firm Infrastructure	Firm Infrastructure
Bureaucratic	Bureaucratic
HRM	HRM
Individuality	Group
Technology	Technology
Known for good design for the mass market	Known for reliability, but lacking good design for the mass market
Procurement	Procurement
Recently reorganised supply chain to cut costs	Need to reorganise supply chain to cut costs
Production	Production
Mass production	Mass production
Distribution	Distribution
Good system in Europe, less so elsewhere	Good system in Asia and the US
Marketing	Marketing
Performance, value for money	Quality, value for money



Value chain DaimlerChrysler

Firm Infrastructure

Finance and PR first departments to be fully integrated, but clash in PR

HRM

Concerted efforts to harmonize very different pay systems; global HRM strategy implemented in 2001

Technology

Daimler engineers initially accused to refuse to share technology, has changed; Daimler has adopted Chrysler's product development technology

Procurement

Initial problems in deciding how to share components without damaging Daimler's brand image start to get resolved

Production

Now starting to develop common processes and best practices

Distribution

Some integration

Marketing

Chrysler's international sales operations were melded into Daimler's



Value chain Renault-Nissan

Firm Infrastructure

Integration of back office and administrative functions around the world

HRM

Effect on HRM changes has been more marked with Nissan; executive exchanges across the board

Technology

Developing common platforms is key to the progress in economies of scale and faster product development; move towards joint product development

Procurement

One third of cost savings coming from coordinated procurement and improvement of Nissan's costly supply chain

Production

Decrease of number of platforms in order to generate substantial cost savings

Distribution

Use of common hubs

Marketing

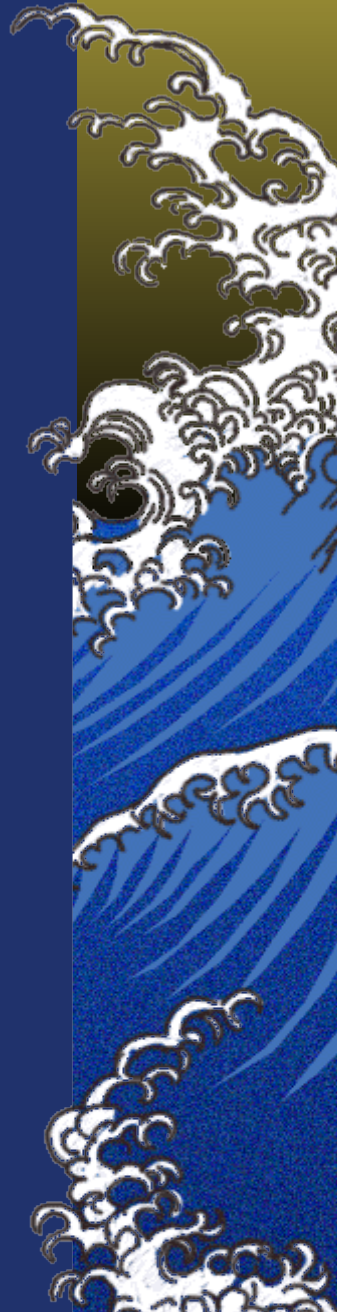
Separate brands will be maintained



Leadership

Chrysler suffered after the merger from a dramatic loss of leadership.

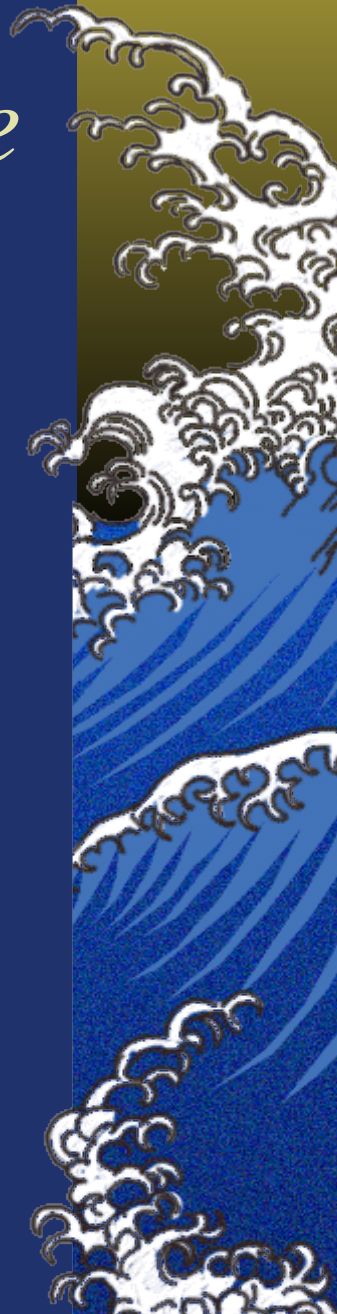
Nissan benefited from the immediate leadership of Carlos Ghosn, who has become a national icon in Japan.



Corporate and National Culture

Germany and the USA have comparatively less distinct cultures, but this effect seems to have been superseded by different corporate cultures of Daimler and Chrysler.

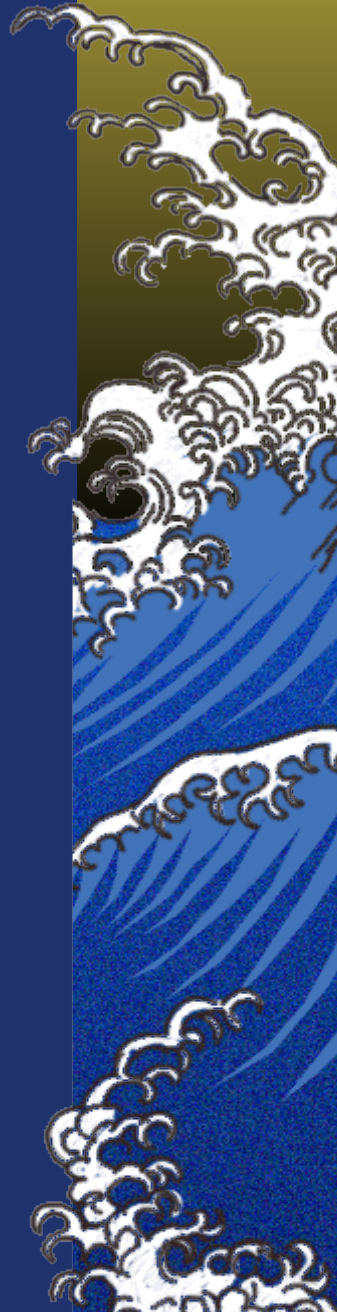
France and Japan are culturally rather distinct, but similarities in the corporate cultures between Renault and Nissan seem to have helped the integration process.



Circumstances

At DaimlerChrysler, the merger of equals notion was instrumental in the clash to come.

Nissan's desperation played an important part for a successful integration process.



Outlook

DaimlerChrysler clearly fits the 'symbiosis' approach to integration. This approach is considered to have the best long-run rewards, albeit with the greatest short-term complexity.

Renault-Nissan appears to be moving towards absorption in the long run, but the result of the integration process is still unclear.

