

THREE'S A COUPLE: THE STRATEGIC ALLIANCE BETWEEN RENAULT-NISSAN AND DAIMLER

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Ever since the global crisis erupted, the car manufacturing sector has been immersed in a vast restructuring process. The sector has witnessed a plethora of mergers, takeovers and strategic alliances, in response to the demands of global markets. Within this crisis scenario, car manufacturers are under enormous pressure due mainly to the collapse in demand, the credit crunch and the need to develop new and more efficient products and invest massively in new technologies, such as those required to reduce CO₂ emissions or develop electric motors.

In April 2010 in Brussels, the Chairman of Daimler, Dieter Zetsche, and the Chairman of the Renault-Nissan alliance, Carlos Ghosn, subscribed a strategic cooperation agreement between the three companies. The Chairman of Renault-Nissan explained "this is not a merger but rather an alliance", in other words, the midway point between a merger and a corporate takeover. In this case, none of the three companies forgoes their legal status, whereby they continue to be fully separate companies, maintaining their independence and brand identity.

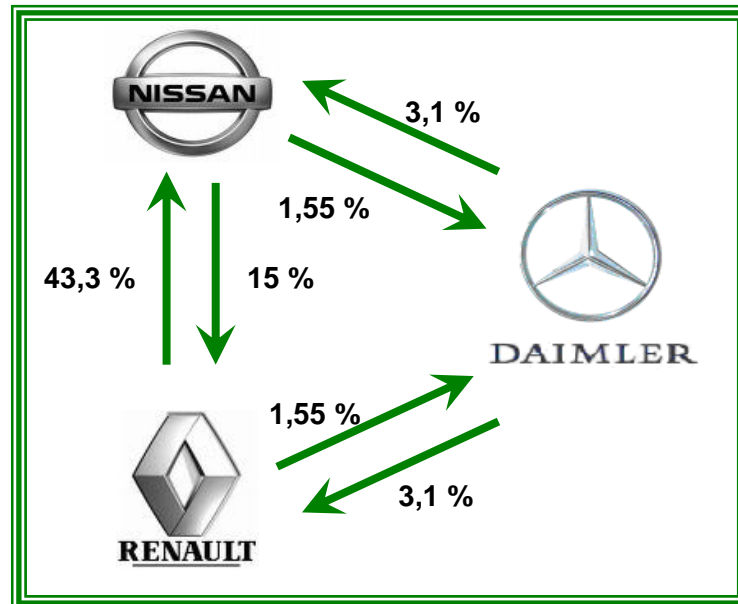
Yet this is not the only movement that has taken place in the global car sector. Manufacturers are facing concentration or grouping processes through different methods of external development. Towards the end of 2009, Volkswagen bought 19.9% of the shares in Japan's Suzuki car maker for the sum of 1.7 billion euros. In order to secure this alliance, Suzuki agreed to invest half of the amount received in stock in the German company. In addition, Volkswagen holds 49.9% of Porsche and aims to take full control of the company by 2011. Elsewhere, in June 2009, Fiat entered into a partnership agreement with the US car maker Chrysler by acquiring 20% of the company's stock, thereby providing it with a gateway into the US market.

The crisis is driving operations of this nature. The aim pursued by companies in the car manufacturing sector is to bulk up in size in order to better withstand the downturn in sales. Furthermore, thanks to these partnership agreements, companies in the sector can reduce costs through the joint development of new technologies, new products and production platforms, or by sharing production processes, components between the different brands, investments in R&D projects... These agreements increase the efficiency of partner companies through the generation of synergies and economies of scale. Testifying to this is the success of the first alliance established in 1999 between Renault and Nissan. The agreement involved Renault acquiring 44.4% of Nissan, whilst the Japanese company purchased 15% of its French counterpart. By 2009, ten years into the alliance, synergies had been generated to the tune of 1.5 billion euros in different areas, such as marketing, procurement, research and technology, information systems, etc.

Now, this alliance has decided to join forces with Germany's Daimler. In order to seal the partnership agreement between Renault-Nissan and Daimler, and with a view to reaffirming and stressing the importance both parties give to this long-term strategic alliance, they have announced a "symbolic" exchange of shares. This operation was undertaken as follows: Daimler received 3.1% of newly issued shares in Renault, and 3.1% of already existing stock in Nissan that was previously held by Renault. On the other hand, the French company acquired 3.1% of Daimler's stock, and conveyed half of its investment in

the German group (1.55%) to Nissan, in exchange for 2% of the shares in the Japanese company. Following this share exchange, Renault reduced its investment in Nissan from 44.4% to 43.3%, whereas the Japanese firm's investment in the French one was not affected and remained at 15%. The aforementioned swap is shown in figure 1 below.

Figure 1: Share swap



Furthermore, in order to guarantee the alignment of interests and the availability of internal information between the partners, the alliance is managed and supervised by a cooperation committee representing all the parties concerned. This body's co-chairs are Carlos Ghosn and Dieter Zetsche, and its members are drawn from senior management in all three companies.

Renault, Nissan and Daimler have reached agreement on specific projects, such as:

- Design of a common architecture for the manufacture of a new Smart four-seater and the next-generation Renault Twingo. One main characteristic of the new architecture will be the unique rear wheel drive concept used by current Smart vehicles. The Smart plant in Hambach (France) will be the production location for the two-seater versions, while the Renault plant in Novo Mesto (Slovenia) will be the production location for the four-seater versions. The two models will differ in terms of design, and the launch date is planned for 2013 onwards, for both the petrol and electric versions.
- Joint development and use of diesel and petrol engines. The Renault-Nissan alliance will supply Daimler with the new 1.6 litre and 130 hp diesel engine to be mounted in the new A-Class and B-Class Mercedes once it has been "adapted" by the German firm. In addition, the German group will supply 4 cylinder and 2 litre diesel and petrol engines and 6 and 8 cylinder V engines, which will be mounted on executive saloons and the more powerful models made by Renault and Nissan. The joint use of engines will enable the two companies to streamline their production capacity.
- Daimler will be responsible for designing 3 and 4 cylinder engines ranging between 1.2 and 1.8 litres and Renault and Nissan will then take charge of their manufacture. Daimler will use these

engines in the compact A-Class and B-Class Mercedes as well as in future Smart designs. For their part, Nissan and Renault will use these engines in forthcoming versions of the Clio and Megane.

- Collaboration on light commercial vehicles. As from 2012, a new version of the Mercedes-Benz Vito model is to be developed. This model will be made by Renault at the Maubeuge plant (France), providing the necessary technology for its manufacture, small diesel engines and transmissions. This agreement will enable Daimler to expand its range of commercial vehicles and increase its sales figures, whilst Renault will be able to fine-tune its production capacity.
- Cooperation in the joint development of projects in the United States, China and Japan. Moreover, there will be a further analysis of the possible sharing of modules and components between the different vehicles and the development of technologies associated with electric vehicles and batteries.

Logic dictates that this tripartite will gain by mutually benefiting from their complementary capacities and skills. Over the next 5 years, this alliance is expected to generate synergies valued at 2 billion euros. However, this agreement will be successful only if it creates a win-win situation in which everyone benefits.

Question: Identify the type of alliance forged between Renault-Nissan and Daimler and the advantages and disadvantages it has for each partner.