Car firms’ strategies and practices in Europe

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The automobile sector is often presented as the archetypal global industry. In this view, car business is one of the main driving forces behind the homogenisation of the world, both because of the firms’ internationalisation strategies (mergers-acquisitions, establishment of facilities in emerging countries, world cars, international division of labour, etc.) and as a result of the social practices enacted by them via their organisation of work and their influence upon lifestyle (automobile civilisation).

Regarding the case of Europe, the present article is an attempt to deconstruct a representation that neglects the heterogeneity of firms and spaces, the great diversity of strategies pursued, and the inherent contradictions of the competitive process. For doing that, we will use the analytical approach of firms’ trajectories elaborated by us during the first and second international programs of GERPISA (Boyer, Freyssenet, 2000).

Growth modes, profit strategies and productive models

Analysing car makers’ trajectories and performances over the course of the 20th century allowed us to renew our understanding of the two essential conditions that are prerequisites for profitability. The first is the relevancy of the “profit strategy” to the “growth mode” that typifies the countries in which the firm is deploying its activities. The second is the “company government compromise” between a firm’s principal protagonists, a meeting of the minds that enables actors to implement means coherent with the profit strategy pursued—in other words, to invent or adopt a “productive model.”

Profit strategies are combinations of profit sources in compatible proportions. Basically there are six sources of profit: economies of scale, diverse offerings, guarantee of quality, innovation, productive flexibility and permanent cost reduction. Up to now, no firms have been known to exploit all of these profit sources simultaneously and at the same level of intensity. This is due to the contradictory nature of the sources’ pre-conditions and means of implementation. For this reason, firms must choose amongst possible combinations of profit sources unless they are able to invent ways to overcome contradictions as General

The present paper draws from the findings of GERPISA’s first and second research programs (Boyer, Freyssenet, 2000; Freyssenet, Lung, 2000), both of which were co-directed by Michel Freyssenet, working together with Robert Boyer and Yannick Lung, respectively.


Motors did during the Inter-War period, creating compatibility of volume and diversity. Today four different profit strategies are observed in the European automobile sector: volume and diversity; quality; permanent cost reduction; and innovation and flexibility.

Profit strategies do not all possess the same degree of relevancy in time and in space. Their appropriateness depends on the product and labour markets' structures that characterise the different national modes of growth. These growth modes are not infinite in number and several countries may be applying the same one at any moment in time. They are divided into three main categories: growth modes with a national income distribution that is nationally co-ordinated and moderately hierarchised; growth modes with a competitive type of distribution; and growth modes with an inegalitarian type of distribution. These categories are subsequently subdivided according to the main driving force of the growth: investment, consumption or export. The success of an internationalisation policy is therefore predicated first and foremost on the relevancy of the firm’s profit strategy to the growth mode(s) of the new countries which it is entering (Boyer, Charron, Jürgens, Tolliday, 1998; Boyer, Freyssenet, 1999; Freyssenet, Lung, 2000).

Profit strategies cannot be implemented by just any available means. Each has certain requirements that the firm’s actors must satisfy by means of a product policy, productive organisation, and employment relationship, all of which are coherent with each other and acceptable to them. Creating an acceptable type of coherence between these instruments infers the building of a company government compromise between the firm’s main actors (executives, shareholders, banks, employees, labour unions, suppliers, etc.). The instruments used to implement one and the same profit strategy may therefore differ from one another as far as it is necessary in order to satisfy the aforementioned requirements. An internationalised company may have a variety of compromises, depending on the host country—provided that the firm’s subsidiaries are each in control and in charge of their own production systems and markets.

Internationalisation in a new century: between globalisation and regionalisation?

In terms of car manufacturers’ internationalisation strategies, the process of regional integration may be understood as a set of decisions intended as a way of articulating the two conditions that are prerequisites to profitability at a supranational level: on one hand, the relevancy of a particular profit strategy to the modes of growth and distributions of income existing at a macro-economic level; on the other, the establishment of an enterprise government compromise.

During the Post-war boom years, this coherence was primarily manifested at a national level. Export may have constituted an indispensable complement to the development of an automobile industry, but a manufacturer would design and develop a range of product models mainly with his domestic market in mind.

From the Treaty of Rome (1957) on, car makers moulded themselves to the extant process of European integration in order to benefit from its opportunities of localisation. European car makers were in fact very timid in pursuing regional strategies, usually limiting themselves to market access issues. With the exception of Renault (Belgium, Spain-Portugal, Turkey), most of the European automobile firms’ productive bases
remained concentrated in their respective countries of origin. Even in terms of the commercial internationalisation that had taken place, integration of markets was still unfinished business. It is true that the product ranges offered in the different countries had already converged to a certain extent. Still, significant disparities remained in new vehicle prices, and a high percentage of automobile sales were still being achieved in the car makers’ respective countries of origin when the 1980s came to an end.

At the dawn of a new century, a new and different approach should be taken to the issue of regionalisation. It must now be analysed against an overall backdrop of economic globalisation. The opening of markets to international competition and the interpenetration of the world’s economies have exacerbated automobile firms’ competitive rivalry. Pressure from the financial markets also contributes to the acceleration of these trends, especially in view of increased mergers and acquisitions activity. Anglo-Saxon capitalism’s revenge upon the more corporatist forms of organisation of the Japanese and German economies, a reflection of the difficult mutations these economies have gone through, caused a reversal in nations’ fortunes as to the question who played the part of the locomotive of growth now: North America was going through an exceptional phase of expansion, whereas Japan has now had more than a decade of stagnation, and still cannot see the light at the end of the tunnel. In this changing environment, automobile manufacturers have set off on two possible paths to internationalisation: globalisation on one hand, and regionalisation on the other. However, the implementation of internationalisation strategies has revealed configurations even more complex. In fact, car makers in Europe are pursuing three different profit strategies that require different conditions and modalities to be developed at international level.

The “volume and diversity” strategy: a possible multi-regionalisation

Three European automobile firms and three foreign car makers are pursuing the profit strategy we called “volume and diversity” in Europe: Volkswagen, PSA, Fiat on one hand, Opel, Ford and Nissan on the other hand. Only one of them has succeeded in building a “productive model” that was apt to implement this profit strategy durably in a profitable way: Volkswagen (Freyssenet, Mair, Shimizu, Volpato, 1998).

This strategy combines two sources of profits that at first glimpse appear to be contradictory—volume and diversity. What General Motors had invented during the Inter-War period was a way to overcome this contradiction by designing car models of different marques on the basis of a single platform (at that time, the chassis) and by setting up a productive organisation and employment relationship suited to manage ostensible diversity (body, internal fittings and equipment) in an economic manner (Lung, Chanaron, Fujimoto, Raff, 1999). The volume and diversity strategy thus precludes all specific or conceptually innovative car models as far as they are not compatible to a commonisation of many parts with models of the traditional product range.

This strategy requires a growing and moderately hierarchised market as well as a copious, polyvalent, and promotable work force. In actual fact, if the potential clienteles are to accept this superficial differentiation and deep-seated commonisation, there mustn’t exist any excessive economic and social differentiation between the various social categories, and social and professional mobility must have attained a certain level. Growth modes that
feature a national income distribution which is nationally co-ordinated and moderately hierarchised are the ones that best fulfil such conditions. This is why a volume and diversity strategy was the most pervasive (albeit not the only) strategy during the post-war boom years. It ran into difficulties when the market entered into a product renewal phase in the countries where firms were pursuing this strategy. No longer could the indispensable economies of scale be obtained as a result of an extension of the market. Now they could be achieved, however, by penetrating those markets that found themselves in an initial equipment phase, or else by means of mergers and alliances with other firms. Still, certain pre-conditions had to be fulfilled for this to occur. Internationalisation, for example, had to involve moving into countries that possessed the same types of growth mode, and designing local models that shared the same platforms as those produced in the car company’s country of origin. Mergers and alliances had to lead to a quick commonisation of the platforms of the relevant brands/marques. Car makers who had developed a volume and diversity strategy during the post-war boom years, American, French and Italian manufacturers in particular, found it difficult to make this change (Freyssenet, Mair, Shimizu and Volpato, 1998).

Volkswagen: external growth and commonalisation

Lastcomer in the group of car makers pursuing the “volume and diversity” strategy, Volkswagen was the only one to succeed in finding a profitable way to implement it durably after 1974. Volkswagen resolutely and immediately commonised the platforms used for the car models produced by the marques (Audi, Seat and Skoda) that it successively acquired (Jürgens, 1998; Pries, 2003). The firm emphasised job preservation and reduced working hours rather than wage increases. For this reason, and due to the appropriateness of the choices made, Volkswagen’s employees could have the best of both worlds. This success was largely facilitated by the export-oriented growth mode of the FRG. Wages were linked to external competitiveness rather than to internal productivity for a long time.

The volume and diversity strategy became less relevant when the distribution of national income began to take up modalities that were more competitive in nature, which is to say, more individualised, based on “merit,” with a local and category-specific balance of power and an emphasis on financial opportunism. However, the growing demand for distinctive products rendered the product policy less commercially palatable. Internationalisation and/or mergers/alliances became all the more essential for capturing this moderately hierarchised demand wherever it could be found (Boyer, Freyssenet, 2000).

It is true that Volkswagen systematised its platform policy, but since the mid-nineties the firm apparently intends to make all types of vehicles. The four generalist marques (Audi, Seat, Skoda, Volkswagen) have built up model ranges with shared platforms. In order to achieve this, they positioned themselves in a variety of market segments (each marque being associated with a specific brand image), and broadened their individual ranges: Audi has moved downscale towards the A2 small car market, whereas, inversely, the Volkswagen marque will soon be marketing a deluxe model.

By combining economies of scale with a product variety adapted to the specific offering that is to be made, this strategy would appear to be highly coherent. At the moment, it

would be premature to judge its overall relevancy. We can, however, discuss various ways how it might fail, as well as its limitations. Past implementations of a “volume and variety” strategy show that there is a permanent risk of cannibalism between marques, due to an excessive coverage of markets and to an insufficient differentiation of products. VW’s success in China and in South America is based on the models adapted by the firm to each of these markets (VW Santana and VW Golf). The Brazilian example teaches significant lessons: in this country, VW was unable to benefit from an automobile policy aimed at encouraging the development of “carros poulaires”, i.e., popular cars, the vehicles with motors of less than one litre that had caused the explosion of the Brazilian market during the 1990s. This inability to adapt explains the decline in VW’s market share in Brazil. This market’s specificity ultimately convinced Volkswagen to preserve a specifically Brazilian model (Humphrey, Leclerc, Salerno, 2000).

PSA: internal growth and punctual cooperation

After fifteen years of difficulties, Peugeot finally succeeded in obtaining the use of the same platforms from Citroën, its subsidiary. Now PSA is systematically implementing the “volume and diversity” strategy. After absorbing Citroën and Chrysler-Europe which was a rather painful experience, PSA is now convinced that the cautious way to develop economies of scale and scope consists in internal growth and punctual cooperations with other car makers. The firm signed a number of ad hoc co-operative arrangements: with Fiat for the production of passenger vans aimed at the upper segments of the market; with Toyota for the production of a small car; and with Renault and Ford for engine production. PSA is now one of the most profitable automobile producers.

Fiat: emerging markets were not enough...

For a long time Fiat has been the most nationally-oriented of all European car makers, broadening its brand portfolio on its domestic market (Fiat, Alfa Romeo, Lancia, Maserati, Ferrari) without setting up operations in the European Union’s other countries (except for a brief experience in Spain, following an association with Seat). However, there have long been links with countries now deemed to be “emerging” (the USSR, Turkey, Yugoslavia, Brazil).

At the beginning of the nineties, Fiat hoped to durably find new volumes in the emerging markets. As a result, Fiat has designed a specific model targeting these new markets: the Fiat 178, which is still at the project stage (Volpato, 2003). This product offers good value for money and will in all likelihood be able to conquer the first time buyers’ market in the emerging countries. The production of this vehicle (known as the Palio) has been organised according to a division of labour between the main protagonists (Turkey, Brazil, Poland and Morocco) in a trade of components (i.e., body parts) which has become wide-spread and feeds assembly and kitting plants around the planet to the tune of 700,000 to 900,000 units per annum.

However, this focus on penetrating emerging markets where high levels of market volatility have added to firms’ vulnerability, has been offset by a slump in Fiat’s fortunes on its domestic market, and more generally, throughout Europe (Lung, 2000). Here the
Italian firm has lost a great deal of market share as a result of its ageing product range (despite its major efforts to increase the competitiveness of its process). Fiat’s alliance with GM, which effectively paves the way for a takeover of the Italian firm by the American giant, seems to sanction a failure to a certain extent—but it also opens new directions. Opel and Fiat have the same range of products, and they can commonise their platforms. This history hasn’t finished yet.

From failure of trans-regionalisation to multi-regionalisation

It is worthwhile studying how the two American car makers’ strategies (Ford and General Motors) have changed, in that this allows us to grasp firms’ uncertainties about which global strategies to follow. From the mid-1980s onwards, Ford pursued a strategy based on the concept of “centers of excellence”, delegating and dividing the responsibility for the renewal of its models and main mechanical systems between three poles, according to the set of competencies that each had acquired: Ford North America for large cylinder vehicles (V6 and V8 engines), automatic transmissions, and electronic components; Ford Europe for small and medium-sized cars, for four-cylinder engines, and for manual transmissions; and with Mazda, in which Ford has a 25 % stake, the company had started up a production of small subcompact cars for the North American market (with the Escort being renovated in such a way as to approximate the 323). In the countries of the Southern Hemisphere (markets that had not “emerged” as yet), Ford arranged local collaborations, most particularly with VW in the Autolatina joint venture (Bordenave, Lung, 2003; Carillo, Lung, van Tulder, forthcoming).

These initiatives were subsequently altered or abandoned en route. The Ford 2000 project, first announced in 1993, has been an attempt to overcome Ford’s regional structures (FoE in Europe and NAAO in North America) through a global integration of activities. It is true that the initial results of the global platforms concept, developed as an extension of the poles of responsibility strategy, have been unsatisfactory, certainly as far as the small car market is concerned.

All in all, the outcome of Ford’s internationalisation strategy, as implemented over the past decade, has been far from brilliant. Market share in Europe has slumped; Mazda has continued to decline in Japan and across the world; and a leading position has been lost in both the Australian and Brazilian markets. Far from generating additional profits, Ford’s international activities have damaged the Group’s profitability. Ford’s record earnings are essentially due to two explanatory factors: the Group’s financial activities; and its light trucks sales on its domestic market (Froud et al., 2000). In such an environment Ford's executives had to take strong actions, re-creating Ford Europe, and cutting costs dramatically. The race to globalise has been a failure, and regionalisation is again becoming the core of the American firm’s policy.

Regionalisation is also at the heart of the strategy that the market leader, General Motors, has been following. One of the major reasons of this turnaround is the confusion that reigned for a while between GM Europe (Opel) and GM International—a conflict that caused the Group’s senior management a great deal of distress. GM International was transferred to Detroit; GM Europe/Opel refocused upon the European market; and everyone was able to get a clearer picture of their own role. A certain cross-flow began to take place.
between the two sides of the Atlantic, and the newer platforms (first launched in 1996) have finally reached maturity. This should allow the Group to devise specific models for its three market categories: North America, Europe and the emerging countries. The design of a platform for the production of a medium-sized car (the Epsilon) appears to have achieved the results that had been hoped for; about a dozen models are going to be developed from this base and will be marketed from 2001 on. However, it should be noted that GM somewhere along the way has abandoned its Delta project platform for the production of a global small car, the Group having decided to fall back on less ambitious local solutions.

Cross shareholdings between GM and Fiat should lead to a rationalisation of Fiat’s and Opel’s activities in Europe, with mechanical systems (mostly engines), purchasing, and even platforms being shared in an effort to devise a range of specific models for the Groups’ various marques. In the United States, GM is used to creating a range of models for its different marques (Buick, Cadillac, Oldsmobile, etc.), and a question must be raised as to the reasons for this policy’s lack of success in Europe. In any event, these alliances cast doubts on the role of GM’s German subsidiary, Opel, which finds itself in direct competition with its Japanese cousins in the emerging countries (having been market leader there before); and which is now a rival of its Italian cousin (Fiat) in the European market.

A menace for “volume and diversity” firms: the second market generated by the introduction of “competitive” modalities of national income distribution

Finally the finely hierarchised market of the post-war boom years was replaced by a much more heterogeneous type of market. Starting in the 1980s in the United States and in the 1990s in Europe and Japan, those segments of the population that had benefited from a more “competitive” and decentralised distribution of income showed great demand for conceptually innovative models: pickup trucks, recreational vehicles, minivans, off-road vehicles, sports utility vehicles, etc. By 2001, market share for these sorts of vehicles had risen to between 25 and 50 %, depending on the Triad country concerned. However, it was difficult to use traditional car platforms as a basis for the new vehicles’ design. Their technical and commercial requirements are very different from one another, and will become even more so if economic and social inequalities continue to rise. A “superficial” differentiation, in and of itself, will not satisfy people who want to display their own good fortune and original lifestyle through the motor vehicle they own.

General Motors, Ford, Fiat, PSA and Nissan unsurprisingly copied (as per the tenets of the “volume and diversity” strategy they still pursue) the conceptually innovative models that Chrysler, Renault and Honda launched once they felt secure that these models would be a durable success. This copying has even allowed General Motors and Ford to become profitable again, in an environment of economic recovery.

The “volume and diversity” car makers are still facing a dilemma. The models they copied have become mundane, and will no longer offer the same sorts of profit margins in the future. Moreover, such models do not create economies of scale significant enough to compensate for the fact that their profit margins are lower than is usual with a novelty product—a consequence of firms’ difficulty in commonising their platforms with the platforms of traditionally hierarchised cars.

Is it now the turn of the “volume and diversity” car makers to take up the gauntlet of conceptual innovation, so as to benefit from the considerable rent it offers for a while? Since the birth of automobile industry, no one has ever succeeded in carrying out two different profit strategies for a significant period of time. The requirements are far too contradictory.

Still we should envisage the possibility that the current coexistence between the “competitive and decentralised” distribution of income that tends to dominate in the private sector and the “co-ordinated and moderately hierarchised” distribution that is mainly preserved in the State sector might last. Are car makers now facing the challenge of having to create compatibility between sources of profit that would on the surface appear to be incompatible (i.e., “volume and diversity” vs. “innovation and flexibility”)? Has the time come for a major new strategic invention? The other path is to auto-center the growth of Europe and to develop a general “coordinated and moderately hierarchised” income distribution again.

**The divergence of trajectories of "specialist" European carmakers**

One of the important characteristics of European car industry is the presence of big and independent top-of-the-range and luxury car makers. Their profit strategy is the “quality” strategy. Here the word quality means not only reliability and finishing, but also, and above all, the social distinctiveness that the product’s style, utilisation of certain materials, emphasis on finishing and marque-related prestige are offering in the opinion of a privileged clientele that looks for such factors and is in a position to pay for them. This strategy induces the firms adopting it to specialise in the top of the range. A quality strategy is the one that features the greatest relevancy in time and in space. There are very few societies in which a small well-off section of the population is not ready to pay a high price in order to possess products symbolising their economic and social position. For this reason, the top-of-the-range market has been international in nature from the very outset.

Yet it is not an easy strategy to carry out, since the social position of the well-off and privileged classes changes over time and varies from one country to the other. In growth modes that feature a co-ordinated and moderately hierarchised national income distribution, the top-of-the-range clientele is not totally cut off from other types of customers. In modes that feature a competitive type of national income distribution, part of the top-of-the-range clientele is in fact unstable due to the reversals in fortune that it may have experienced, so this sub-section does not have the same expectations as the well-entrenched clienteles who are completely distinct from all other market segments. In those modes that feature a highly inequalitarian type of distribution, top-of-the-range clients are basically the only customers for new vehicles, and they are very devoted to the marque’s international renown and to demonstrations of their own wealth.

It is primarily for these reasons that since the War specialist car makers have found it difficult to put together a "productive model" that is durable, meaning one that continually finds the right balance between large series production methods and other methods emphasising the product’s "hand finishing" and customised qualities (Ellegard, 1995; Freyssenet, 1995).
Furthermore, a “quality” strategy infers the availability of a work force that is highly skilled for the most part (and which is reputed as such). Certain aspects of quality can in fact only be obtained by using the services of traditional professional workers (or, inversely, of technicians and even engineers who are graduates of the top universities) for manufacturing parts in small series on highly sophisticated machinery. The reputation of a top-of-the-range brand is often related to the renown of its country of origin or of the region in which it is established, if this country or region is famed for the personnel’s seriousness and professionalism. In general, a “quality” strategy is reinforced if the workers are interested in maintaining the international specialisation of the national output because this enables them to benefit from high salary levels, social protection systems and stable perspectives of employments, advantages that are only possible due to a production of specialised products that remain without rivals.

Regarding the product market or the labour, the “co-ordinated and specialised export-oriented” growth mode (Germany and Sweden) is the one that affords the greatest visibility to the “quality” strategy. Competitive distribution modes do not stand in the way of this strategy. These distribution modes allow many actors to seek their fortune, but at the same time they are less stable. In such societies the relevancy of this profit strategy depends on the availability of suitable workers who might be very skilled but also less attached to their firms than in co-ordinated growth modes.

The 1990s were characterised by a sea change in the general environment of “specialist” carmakers. With the distribution of income having become more “competitive”, the top-of-the-range segment tended to become more heterogeneous. Demand for very top-of-the-range saloon cars (which had become marginal products) rose again. Above all, “top-of-the-range” demand cropped up for small and medium-sized cars and for recreational vehicles. In consequence of these developments, the “specialist” manufacturers were presented with a new situation. On one hand, in order to cover the new top-of-the-range sub-segments they must substantially increase their efforts and spendings regarding design, productive capacities and distribution network. On the other, they must fight off ambitious “generalists” who also want to benefit from the new situation. In order to cope they have adopted a variety of different paths. Now their trajectories are completely diverging.

Saab, Aston Martin, Jaguar, Volvo, Land Rover, Bentley, Bugatti, Lamborghini ultimately opted to be integrated into a large automobile group: General Motors for the first brand, Ford for the four following ones, Volkswagen for the three last ones. By so doing, they hope to avail themselves of the resources they need. GM’s global platform, with its code name Epsilon, should support the development of one Saab model, two Opels, and several American models (ranging from Chevrolet to Saturn) that are going to hit the market from 2001 on. However, the “volume and diversity” strategy General Motors has been pursuing runs the risk that the top-of-the-range cars will lose their essential “quality”, i.e., their specificity. Ford grouped all of the marques involved in its corporate “quality” strategy into a separate entity, called Premier Automotive. The objectives are: rationalised purchasing of components, shared R&D investments (i.e., Volvo’s safety competency) and the “commonisation” of a certain number of electronic or mechanical components, and even the sharing of platforms. Although the commonisation seems to be limited to cars of top-range, the risk implied by this strategy is not so different from General Motor’s. The consumers of top-range cars require very specific cars, including, maybe even above all, the
invisible parts. Finally, the decision of Volkswagen to be present in the very high top-range segment (Bentley, Lamborghini, Bugatti) is so strange that we ought to wait a little to see whether this orientation is permanent.

A second path for which a number of firms have opted is that of external growth. This involves acquiring other car makers who are already covering, or else who are likely to cover, the new sub-markets of the top-of-the-range category. This was BMW’s path when purchasing Rover in 1994 and Rolls-Royce in 1999. But this policy could only have succeeded if it had been carried out energetically and without wasting time. In order to avoid a catastrophe, BMW had to sell Rover to an English consortium for a token sum in 2000. On the other hand, the firm was able to sell Land Rover to Ford at a good price. All that BMW has retained from this adventure is the world-famous Mini, which was turned into a small top-of-the-range urban vehicle.

Daimler (Mercedes) has chosen yet another path. In truth, its trajectory is relatively opaque and may even turn out to be full of danger. By successively creating Smart and Maybach, acquiring Chrysler and Mitsubishi, and taking a stake in Hyundai, Daimler has been embarking on two possible trajectories. Either it may develop into an automobile giant, turning out all kinds of vehicles for all sorts of clients, or else it may remain a top-of-the-range car maker but for all types of vehicles. The difficulty is that neither Chrysler nor Mitsubishi are “generalist” manufacturers, even though they regularly tried to achieve this status. Nor are they top-of-the-range car makers. The only time that either of them has been profitable was when they reverted to their original strategy, that is, to a strategy based on “innovation and flexibility.” Yet the requirements of this strategy are such that it is almost totally incompatible with any other.

Finally, some top-of-the-range car makers prefer to remain small and independent, as Porsche and Pininfarina. They are only cooperating with “generalist” car makers as far as some products are concerned. And they have always been profitable.

Industrial history is full of paradoxes. The paradox that we are focusing on at present is that the main “specialist” car makers have either lost their independence or else thought it necessary to change their strategy at the very moment the international market for top-of-the-range products is most likely to launch them into a new phase of expansion. But this history hasn’t finished yet. Some brands can become independent again.

Innovation and flexibility strategy: the regional renewal of Renault endangered by the global alliance with Nissan?

The “innovation and flexibility” strategy consists of designing products that respond to new expectations and/or emerging demands; manufacturing them massively and immediately if actual orders match forecasts; or inversely abandoning them rapidly and at as little cost as possible if they fail commercially. Profits actually stem from an innovation rent that is derived from commercial relevancy—as long as this innovation is not copied. The best way of delaying this outcome is to be able to satisfy the newly created market segment in as short a period of time as possible. An innovation and flexibility strategy is reinforced if the needs or lifestyles of the social categories targeted change periodically, or if new categories emerge, with people who are distinct at an economic and social level. This is generally what occurs in those growth modes that are marked by a competitive type of national

income distribution. And this is the reason why this strategy, which had become the bane of many car makers during the post-war boom years, has now become a winner again, as witnessed by the good performances of Honda, Renault and Chrysler (before the latter fell into the hands of Daimler, paradoxically with the intention to avoid a hostile takeover by American financiers).

This episode once again corroborates the necessity to be financially independent for firms pursuing this strategy. They must be entirely free to take the risks that are inherent to conceptual innovation. They must also be free of any medium/long-term commitment to their suppliers so as to be able to change production rapidly if need be. They need at their disposal an easily re-convertible production tool and a work force which enables them to be innovative both at the product and the production process levels. Finally they must possess an extremely in-depth knowledge of which customer expectations are unsatisfied and unexpressed, so as to be able to offer innovative vehicles that are commercially appropriate.

The relevancy of the “innovation and flexibility” strategy has been reinforced by certain countries’ recent tendency to develop a “competitive” distribution of national income. This explains the extremely rapid renaissance of manufacturers such as Chrysler and Renault who have reverted to this strategy (or adopted it for the first time). Chrysler did this in the 1980s with its new line of SUV’s—products that accounted for one-third of the American market in 1999. Renault adopted this strategy during the 1990s, launching a complete range of passenger vans after noting the success of its initial top-of-the-range model. However, neither Chrysler nor Renault have been able so far to procure coherent means which will enable them to durably and profitably pursue an “innovation and flexibility” strategy.

Chrysler in particular was not quick enough to acquire the indispensable financial independence, i.e., it could not lock up its shareholder structure. An attempted takeover in which Chrysler was a target for Kirk Kerkorian, a financier associated with one of the firm’s former CEO’s (Lee Iacocca), induced the firm’s executives to agree to a merger with Daimler. However, the expected complementarities between the two firms turned out to be incompatibilities—due to the fact that they had been pursuing different profit strategies. For the time being, not only has Chrysler gained nothing out of what has purely and simply turned into a takeover, but many projects involving innovative models have been abandoned and the company’s main innovators, who found themselves in a weakened position, have left it. By the beginning of 2002, Chrysler’s strategy had lost all visibility.

Renault, somewhat surprised by the success of its innovative models (which ended up accounting for most of the firm’s profits even though they were only meant to be the icing on the cake), preferred to prioritise productive and commercial internationalization, taking over Nissan, Dacia and Samsung instead of confirming its strategy and devising suitable models. Is Renault’s present orientation compatible with that of Nissan? Indeed, Nissan pursues a totally different profit strategy: a volume and diversity strategy.

For the time being, Renault-Nissan appears to be moving towards a regionalisation scheme that reproduces its precursors: a division of roles amongst the world’s various regions according to the competencies and advantages that each partner has acquired. Renault is to be leader in Europe (absorbing the Japanese firm’s activities there) and in the emerging countries (outside of Asia); and it will find shelter behind its partner in Asia-Pacific and in North America. Renault’s potential conflicts with its other partners are being kept under wraps for the moment, with the Korean firm Samsung relying on Nissan’s

technologies, and with Dacia in Romania undergoing a thorough restructuring. The new configuration might allow the Group to finally complete a project first announced in the early 1990s, when Nissan attempted to offer a specific product range in each of the Triad’s three poles. This product range is based on variants of three basic models, and on the development of a specific model in the emerging markets. For Nissan, as for the two major Americans, a “volume and diversity” strategy, when extended to an international level, has had problems taking root.

Up to now, Honda has kept well away from any acquisitions or mergers. In order to further its development, the firm has to be able to pursue its strategy in each of the world’s regions, meaning that it would have to design models satisfying the expectations of new populations sections with these regions in mind. It might decide to do this on its own or by arranging an alliance with a manufacturer that has proved capable of doing this, i.e., who is already pursuing the same strategy. Honda has chosen to follow the first path, one with which it has already been successful in North America.

Conclusion

Although a logic of production (economies of scale) has induced automobile manufacturers to extend their area of commercialisation on a global scale, it is in their articulation with a market, their getting into sync with a demand, that they have incorporated the regional tier as a level at which they are able to achieve a certain coherence. With the exception of prestige automobiles, there are limits to the homogenisation of global demand, and the failure of Ford’s attempt to integrate its activities globally shows that automobile firms should be looking for more appropriate strategies—and, above all, for models or innovative forms of organisation that are better adapted to a particular regional space. It is not at all certain that the real challenge is who will be the first to globalise—mono-regional strategies (such as the one that PSA has been pursuing), bi-regional, multi-regional, even trans-regional strategies, all of them may be relevant at a certain time, and in a given space.

References


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