

MSc. in Economics and Business Administration
Cand. merc. Strategy, Organization and Leadership

“From International to Global” – FIAT S.P.A. case study

Student: Marco Marinozzi

05/09/2014

Supervisor: Christer Karlsson Ph.D.

Number of pages: 87

Number of characters: 237,861

Copenhagen Business School – 2014

Abstract

We live in a World of uncertainty, where business cycles are shortening and competition is increasing, requiring companies and their strategies to be suitable to continuous changes and adaptations. Just like it happened in other sectors, the economic crisis Western economies have been experiencing in these years heavily influenced the Automotive Industry's dynamics. The Car Industry is in fact strongly linked to the business cycles, as showed also by Haugh et al. (2010). The sector has always been characterized by a high intensity of rivalry, and such rivalry and increasing concentration will inevitably lead to a struggle for survival out of which only a few groups will emerge. The industry is capital intensive and with a high capital-to-labor ratio. In the past years production has been moving increasingly towards emerging countries particularly due to decentralization processes and outsourcing. The outsourcing phenomenon is also provoking shifts and changes along the industry's value chain, with suppliers gaining more and more power. The saturation of traditional markets, accompanied with an overall negative business cycle, is pushing car-makers to look for new ways to sustain their production, currently affected by over-capacity problems in many regions of the World. Many Automotive Industry's CEOs are aware of the fact that change has to take place within companies in order to face the Globalization of Markets, but the majority of them don't believe such transformation should include activities like mergers, acquisitions or alliances, as showed by a study conducted by Price Waterhouse Cooper (2014). The Italian car-manufacturer FIAT S.p.a. constitutes an exception in this context, and this is the reason why it got involved in a complex M&A deal with Chrysler LLC.

The present work has a speculative nature and exploratory purpose. It is grounded on a network perspective and it takes into account the economic landscape described above, including social and political elements in order to better understand and describe the process of strategic and organizational change which arises from a M&A agreement in crisis time. The study analyzes FIAT Spa's process of Globalization through the acquisition and successive merger with Chrysler LLC, an operation that led to the creation of the 7th biggest group in the car industry, with a production volume of about 4.5 Million vehicles.

Data come from three direct interviews with people involved in the Auto-industry at different levels and with different roles. Moreover three indirect interviews have been used, the interviewee being FIAT's CEO, Sergio Marchionne. Other sources of information come from documentaries and the internet.

The case is interesting because of the size of the deal and its actual and potential influence on the industry; moreover it represents one of the most remarkable examples of recent reorganization attempts.

In particular, the focus is on the strategic and organizational challenges faced by FIAT from the network point of view and the consequences for the value-chain during the company's process of globalization. The case study considers the way change originated, was supported and enacted through time.

Table of Contents

1. Introduction	6
2. Literature review	8
3. Methodology	11
3.1 Research Design	11
3.2 Data Collection	12
3.3 Validity and reliability	3
3.4 Delimitations	14
4. Theoretical Framework	14
4.1 Value chain and Network paradigm	14
4.2 Business strategies in the Automotive Industry	18
5. Data	25
5.1 Automotive Industry: World production, Suppliers, Car-makers, M&A, main markets	25
5.1.1 World production	25
5.1.2 Suppliers	26
5.1.3 Car-makers	29
5.1.4 M&A in the Automotive Industry	31
5.1.5 Market analysis and Dealership results	33
5.2 FIAT: History, Production, Brand portfolios, Market shares	44
5.2.1 Brief history of FIAT	44
5.2.2 FIAT's target: Brief history of Chrysler	47
5.2.3 Production: Facilities' worldwide distribution and performance	49
5.2.4 Brand portfolios	54
5.2.5 Market shares	55
6. Analysis	59
6.1 Global Automotive industry's structure	59
6.1.1 Recent M&A deals	65
6.2 FIAT S.p.a. strategy: brand portfolio and operations	66
6.2.1 A diversified strategy	66
6.2.2 Reasons behind the deal and synergies	68
6.2.3 The acquisition process and the 2010-2014 Business Plan	74
6.2.4 The merger and the 2014-2018 Business Plan	77
6.2.5 A "good" or a "bad" deal?	79
7. The network around FIAT	82
7.1 Relationship with suppliers	83
7.2 Relationship with Trade Unions	86

7.3 Alliances and Joint Ventures	86
7.4 Dealers	86
8. Conclusion	88
9. Discussion	89
10. Bibliography and references	90
11. Appendices	

List of Tables and Figures

Table 1 - Strategies to face unfavorable conditions during M&A

Table 2 - World car production in 2012 and 2013

Table 3 - Global Mega-suppliers

Table 4 - Car manufacturers 2012 ranking by production volumes

Table 5 - Top 15 car manufacturers in 2013 by sales

Table 6 - Top 15 car markets by sales

Table 7 - Brazilian Automotive industry's market shares

Table 8 - : Volumes of production in Germany between 2007 and 2013

Table 9 - Registrations in Italy from 2008 to 2014 – Passenger vehicles

Table 10 - : Market shares' distribution in Italy - 2013

Table 11 - : Vehicles' sales in Italy – Forecast

Table 12 - Vehicles' production in Italy – Forecast

Table 13 - FIAT brand-portfolio in Passenger-cars

Table 14 - Chrysler brand-portfolio in Passenger-cars

Figure 1- Automobile manufacturers' typical production stages

Figure 2 - Basic types of configuration strategies

Figure 3 - Light vehicle assembly volumes outlook and M&A deal volumes (2001-2019)

Figure 4 - PwC survey's results about CEOs restructuring plans for the next 12 months

Figure 5 - Vehicles (PC + CV) per capita and vehicle density

Figure 6 - Total sales of new-car dealership in the US (2002-2012)

Figure 7 - NAFTA facilities' distribution and affiliate suppliers

Figure 8 - NAFTA plants' capacity utilization

Figure 9 - LATAM facilities' distribution and affiliate suppliers

Figure 10 - LATAM plants' capacity utilization

Figure 11 - EMEA facilities' distribution and affiliate suppliers

Figure 12 - PwC survey's results about CEOs restructuring plans for the next 12 months

Figure 13 - APAC facilities' distribution and affiliate suppliers

Figure 14- Brazil competitive scenario

Figure 15 - Figure 15: FCA in the World as of June 2014

1. Introduction

We live in a World of uncertainty, where business cycles are shortening and competition is increasing, requiring companies and their strategies to be suitable to continuous changes and adaptations. Just like it happened in other sectors, the economic crisis Western economies have been experiencing in these years heavily influenced the Automotive Industry's dynamics. The Car Industry is in fact strongly intertwined with the business cycles, as showed also by Haugh et al. (2010).

The sector has always been characterized by a high intensity of rivalry, and such rivalry and increasing concentration will inevitably lead to a struggle for survival out of which only a few groups will emerge. Possibly, as stated by both FIAT's former President Umberto Agnelli (1985) and the current CEO Sergio Marchionne ¹only six huge manufacturers will emerge. The Agnelli family, owner of FIAT, several times expressed the desire to create a company with a global mindset and global aspirations in order to face the fast-growing changes brought by globalization.

It is reasonable to believe the recent crisis accelerated such process and the last ones to adapt their strategies to changing conditions will be out of competition. In fact, at the moment, the competition is not anymore on production volumes, but on quality and sales, since car manufacturers are facing over-capacity problems. Outsourcing, de-verticalization processes, strategic alliances, organizational changes and M&A today have to be seen not only as a way to increase volumes but also to acquire know-how and influence directly the supply chain and the distribution channels.

Many Automotive Industry's CEOs are aware of the fact that change has to take place within companies in order to face the Globalization of the Markets, but the majority of them don't believe such transformation should include activities like mergers, acquisitions or alliances, as showed by a study conducted by Price Waterhouse Cooper (2014) among 87 CEOs in the Automotive Industry. This belief is mainly due to the current economic situation, in fact, among the various aspects of their Business which might need change in order to address the new global trends, only 30% of the CEOs interviewed by PWC declared to have concrete plans or completed programs related to M&A strategies and only 22% identified the location of key operations and headquarters as a fundamental issue, while much more attention was paid to Customer retention, Talent Strategies and Technology Investments. Therefore,

. Its major owner and former chairman, Giovanni Agnelli, always claimed that FIAT was born and conceived to be an international player with a central role, an industrial giant. Such view testifies the constant need and desire of the company to expand, although it has always been characterized by a size paradox, i.e. being too small and financially instable to acquire and too big to be easily acquired. The expansion view of Agnelli has been brought forward by Sergio Marchionne, who took the lead in 2009 and immediately started to look around in search for possible ways to enter new markets and realize the global dream of FIAT. Differently

¹ *Il Sole 24 ore*, 2008

from the majority of CEOs in the Automotive Industry, Marchionne identified as critical drivers to face the new global trends the position of the Headquarters and the involvement in M&A. Such belief was backed by these fundamental needs of FIAT: Achieving fiscal and bureaucratic advantages; Accessing new markets exploiting existing sales channels; Accessing know-how; Increasing the value of the products' portfolio through the acquisitions of the brands owned by Chrysler.

The present work has a speculative nature and exploratory purpose. It takes into account the economic landscape described above, including social and political elements in order to better understand and describe the process of strategic and organizational change which arises from a M&A agreement in crisis time. The study will analyze FIAT Spa's process of Globalization through the acquisition and successive merger with Chrysler LLC, an operation that led to the creation of the 7th biggest group in the car industry, with a production volume of about 4.5 Million vehicles. The case is interesting because of the size of the deal and its actual and potential influence on the industry; moreover it represents one of the most remarkable examples of recent reorganization attempts.

In particular, the focus will be on the strategic and organizational challenges faced by FIAT from the network point of view and the consequences for the value-chain during the company's process of globalization. The case study will consider the way change originated, was supported and enacted through time.

At this point it is necessary to clarify a semantic doubt and define what it is meant by "international" and "global". The two terms are often used as synonyms but considering the topic of this study it is important and useful to make a distinction. In this study the meaning given to "becoming a global producer" consists of developing an Organizational Strategy which aims at creating subsidiaries in every continent and having the possibility to enter markets on a worldwide scale, addressing entire regions of the world and not only a number of countries. In my conception an international producer usually retains a great focus in its own home country while a global one has its offices distributed on a worldwide basis. In order to have a complete and deep analysis, attention will be paid to the different actors involved, the production network and the industry's value chain.

It will be important to analyze the origins of change, the environmental and organizational context and how change is managed through structural reorganization. The fact the focus is on one case only assures in-depth analysis, nonetheless there will be a comparison with other cases in the industry, treated *ad-hoc* to consider only those aspects which are relevant to answer the research questions and provide useful theoretical insights.

The study of the issue presented above is facilitated through the definition of the following research question, further structured into three sub-questions:

What are, from a network perspective, the strategic and organizational consequences and challenges faced by FIAT in its process of change in order to move from being an International car manufacturer to being Global?

- *Under which “environmental” conditions did change take place?*
- *How did change originate and how was it carried out?*
- *What are the consequences of this change for the new Group?*

Each sub-question will introduce elements of the analysis useful to answer. Three *statements*, during the analysis, will answer each one of the three sub-questions. The final answer to the overall research question is presented in the conclusion.

2. Literature review

Different topics influenced this work and can be generally organized in three areas: macro-economic influences on the industry; changes in the value chain; strategies in the car sector . First of all, the changes characterizing the automotive industry are surrounded and partially boosted by the global economic crisis, which hit the car industry more than other sectors because of the fact it is strongly linked to the global business cycles and influenced by factors such as oil prices, governmental support, international trade agreements and environmental regulations (Dieter, 2007; Haugh et al., 2010; OECD, 2011; Rothenberg & Ettlie, 2011).

Several studies have been made on the globalization of the automotive industry and its effects (Carson, 1998; Humphrey & Memedovic, 2003; Karlsson, 2003; Layan and Lung 2004: 70; Heneric et al. 2005; Balcet & Consoni, 2007; Karlsson & Sköld, 2007; Schmid & Grosche, 2008; Spatz & Nunnenkamp, 2004; Sturgeon et al., 2008; Naor et al., 2009; Sturgeon & Memedovic, 2009). In particular, the value chain (Porter, 1986) and the production network have received great attention because of the remarkable changes brought by companies' increasing decentralization, outsourcing and consequential de-verticalization of activities (Feenstra, 1998; Fujimoto, 2011; OECD, 2011; Bacchiocchi et al. 2012; Bacchiocchi et al. 2014; Cabigiosu, Camuffo, Zirpoli, 2010; Castelli, Florio, Giunta, 2011; Dieter, 2007; Karlsson, 2003; Karlsson & Sköld, 2007; Schmid & Grosche, 2008; Türkcan, 2011).

Karlsson (2003) and Karlsson & Sköld (2007) describe the phenomenon of “flattening” of the traditional value chain, introducing the network paradigm as a partially alternative view through which it is possible to understand the dynamics taking place in the sector. The network perspective in a global production system is described by them as a triangular system of relationships linking actors, resources and activities; in such system the companies' real dimension becomes the network, and we can talk about a shift from *enterprise* to *extraprise*. In a similar fashion, also Balcet and Enrietti (2002) talk about *extended enterprise*. Karlsson (2003) and Karlsson & Sköld (2007) use the distinction between *horizontal* and *vertical* technologies to show the process through which companies are outsourcing non-core competences in order to focus on key

features which are instead developed internally to achieve quality and performance that render the product competitive. In fact, being the industry affected by over-capacity, competition has moved even more towards quality and the ability of managing the sales and distribution channels. Another relevant concept, developed still by referring to changes in the value chain, is the one defined by Gereffi (1994) as the *global value chain*. Other contributions to theory have followed in the same direction (Gereffi and Korzeniewicz, 1994; Henderson et al., 2002; Humphrey and Schmitz, 2002; Navas-Aleman, 2002; Sturgeon et al., 2008). The global value chain is seen as producer-driven, “characterized by a leading company with coordinating and controlling functions, hosting several *global production networks* consisting of subsidiaries, affiliates, subcontractors, suppliers, partners in strategic alliances located in different countries” (Bacchiocchi et al., 2012). Sturgeon et al. (2009) argue that a peculiarity of the automotive industry consists of its chain governance, characterized by a relational or captive nature. During the years, three main types of chain governance have been described by literature: modular; relational and captive. Findings about this classification come from Bair and Gereffi (2001); Gereffi (2005); Galvin and Morkel (2001); Sturgeon (2002); Humphrey (2003); Sturgeon and Florid (2004); Pietrobelli and Rabelotti (2008). Bacchiocchi et al. (2012) summarize the features of the three governance types as follows: In a modular value chain firms give specifications to suppliers, that produce components or modules accordingly. In relational value chains there is a close relationship between firms and suppliers, which are involved also in strategic stages like design and product development. In captive value chains many suppliers provide the same good, this way being involved in strong price competition.

Support to the fact modularity does not fully pertain to the automotive industry comes also from Cabigiosu, Camuffo and Zirpoli (2010). Modularity implies a clear division of knowledge, competences and activities between the firm and the supplier. It can be defined in general terms as the way companies can detach their product’s design from its components’ production and it is supposed to simplify the integration of the different components in the final product, achieving higher quality if compared to a fully verticalized system of production and also higher innovation capability. Several studies testify the interest in modularization on the part of the automotive industry (Camuffo, 2004; Fourcade & Midler, 2004; Frigant & Talbot, 2005; Fujimoto & Dongsheng, 2006; Ro, Lieker & Fixson, 2007). The interest in modularity is due to the fact companies started to outsource not only production but also the development of some components, as expressed by Takeishi (2001). This choice led to an increase in the size of many suppliers, defined by Sturgeon & Florida (2004) as *global mega-suppliers*. Looking specifically at the automotive industry, the modularization strategy has several advantages, identified by McDuffie (2008): (1) The independence of the different components being produced by different suppliers can lead to an increase in incremental innovations; (2) innovation costs decrease because of the involvement of many different actors that work independently; (3) the sharing of information between car-maker and supplier decreases, facilitating a *black box* approach, i.e. the clear division of expertise and knowledge. Notwithstanding the advantages, modularity strategies in the car industry are still underdeveloped if compared to other industries; this aspect has been treated by Zirpoli & Becker (2009) and Cabigiosu, Camuffo and Zirpoli (2010). These studies show that the

car industry probably presents some structural limitations that mark the border with a complete modularity. Such limits are identified as the extreme complexity of the final product, the lack of complete independence among components and the need for companies to exploit their economies of experience, which could be undermined by a black box approach. Considering the different car manufacturers, McDuffie (2008) showed that the OEMs² which make the greatest use of modularity are Chinese producers, and this is due to their lack of specific competence and knowledge.

The core of this study is the analysis of the strategic and organizational challenges brought by an M&A agreement in a time of economic crisis. Such agreement has been reached by two companies, FIAT and Chrysler, with very peculiar characteristics that render the operation even more attractive to researchers. A recent study that analyzed the characteristics of this agreement from different points of view is the one by Balcet et al.(2013). Moreover data and inputs useful to explore this M&A case come from the report of Business Monitor International (2014) about the Italian auto industry and the one about the US auto industry (2013). Bacchiocchi et al. (2012) and Bacchiocchi et al. (2014) analyzed FIAT and the Italian supply chain providing conclusions which will be helpful during the study to understand both social and economic dynamics taking place in Italy and in the company as well. In particular they focused on FIAT's process of decentralization and globalization which affected also its network of suppliers, i.e. suppliers "followed" the company abroad either to stay close to their client or to leverage on the quality provided to FIAT in order to conclude deals also with other car makers. Among the number of contributions concerning Chrysler some of the most important are those of Begley and Donnelly (2011) and Meyer et al. (2005) where it is discussed the M&A deal between Chrysler and Daimler, a deal that eventually failed but is emblematic of the risks inherent M&A but also very useful to understand the differences with the FIAT-Chrysler agreement and try to imagine possible future scenarios.

Concerning general features, the strategic analysis in this work builds on literature coming from Porter's (1986) value chain and Porter's concept of competitive advantage, cost-leadership strategy, differentiation strategy and focus strategy (Porter,1986). Regarding the specific characteristics of strategy-making in the automotive industry relevant findings are present in Cabigiosu, Camuffo, Zirpoli (2010); Quadros & Consoni (2009); Schmid & Grosche (2008). Talking about strategy we will refer also to M&A. M&A-related strategy in the automotive industry has always been a very popular topic among scholars, although there is a lack of recent literature that refers to M&A not only from a strictly financial point of view but also from an organizational one that takes into account external influences such as the company's network, political relations and macroeconomic factors. Meaningful works in this sense are the ones coming from Badrtalei & Bates (2007); Deloitte Development LLC (2013); Dinc & Erel (2013); Faktorovich (2008); Leepsa & Mishra (2013); Price Waterhouse Coopers (2014); Rottig (2007). Finally, still concerning M&A, an interesting model and point of view to analyze the deals was provided by Deloitte (2013).

² Original Equipment Makers, e.g. Car-Manufacturers

3. Methodology

This part describes the way data were gathered and the analysis was carried out. It is divided into four parts: Research design; Data collection; Validity and Reliability; Delimitations.

3.1 Research Design:

The research's unit of analysis is a case study whose drivers are a speculative and constructivist approach. It possesses a *longitudinal* character, in fact it considers the development of events over time. The work is planned in order to investigate the challenges and consequences of a globalization process faced by FIAT from a strategic and reorganizational point of view and the influences of different agents on such process. The analysis is structured in order to answer the three sub-questions, while the general research question will be answered to in the Conclusion. First of all I will consider the Automotive industry as a whole, focusing on the current situation, its trends and dynamics. Afterwards I will proceed with considering FIAT's position within the industry and how its strategy, and consequently its role, changed over time. The position of Chrysler and its history will also be briefly discussed, in particular when looking at synergies between the two companies and the conditions which enabled the M&A to be realized. Therefore also the relationship between Chrysler and politics in the US will be looked at. Part of the analysis will focus narrowly on the M&A deal and its comparison with other examples in the industry (in particular Daimler-Chrysler's failed deal) to clarify the peculiarity of this case.

In order to analyze the issues presented in this work it is necessary to include considerations on the relationship between macroeconomic, socio-political and organizational pressures and needs, and how these contribute to determine change. In a nutshell, the different agents are considered *in function* of the change-related organizational issues.

A number of studies have addressed the topics and concepts treated in this work. Some regard the effects of globalization on the automotive industry, its value-chain and the companies' network (for instance Robertson & Langlois, 1995; Vickery, 1996; Spatz & Nunnenkamp, 2004; Karlsson & Sköld, 2007; Schmid & Grosche, 2008; Sturgeon & Memedovic 2009, Naor et al. 2010), other contributions regard the influence of politics and macroeconomic variables on the industry (for example Dieter, 2007; Haug et al., 2010; OECD, 2011) and finally a number of researches involve M&A in the automotive industry, the governments' role and the consequences of these operations (among them we can mention Badrtalei & Bates, 2007; Dinc & Erel, 2013).

Generally speaking, the recent contents developed by scholars address mainly two kinds of problems: (1) Globalization effects on the value chain, (2) Consequences of the decentralization of production.

Very often literature studies regarding M&A focus strictly on the financial aspects, moreover in recent literature the unit of analysis is usually the industry as a whole or several case studies, and the elements included are alternatively organizational, political or macroeconomic. Seldom can we find a study which

integrates organizational, political and macroeconomic aspects to apply them to the study of one single case, in order to reach what I consider a *broad deepness*, meaning that many elements are analyzed broadly and simultaneously in function of the final goal of the research, which is narrower.

This research builds on some of the concepts previously developed by scholars, in particular Karlsson (2006), Karlsson & Sköld (2007), Schmid & Grosche (2008). Nonetheless the study differentiates itself from precedent works for several reasons: (1) It focuses on one case only and unifies organizational, political and macroeconomic components. In this way the study acquires a broad deepness; (2) FIAT country of origin is Italy, whose peculiarities make so that the case acquires elements of novelty, in fact works about the automotive industry make more often reference to Germany, Japan and the US, countries which do not present the same political and economic characteristics that are important to understand FIAT's M&A deal. (3) It considers national and local elements together with external influences, i.e. globalization processes. While usually globalization is seen as something that "pulls" companies out of their usual markets or home countries, in this work internal national factors have an important role as well and are seen as something that "pushes" companies out, contributing to their internationalization. (4) It describes events which take place during the economic crisis. The size of the deal and the economic situation differentiate this work from most of the studies of the last years.

Furthermore, this study adds important material to the analysis of M&A in general, since the amount of works about cross-border M&A doesn't keep up with the increasing relevance of such deals.

3.2 Data collection:

Data come from both primary and secondary sources. The information and concepts used have been gathered according to four orders of necessities:

- Describing the Automotive Industry's current situation
- Understanding FIAT's situation ex-ante (i.e. before the change was enacted);
- Finding evidences and motivations that help to understand the strategic rationale behind a risky M&A operation in economic crisis time;
- Analyzing the different influences on the strategic and organizational change and the perspectives of the main actors (e.g. FIAT's CEO, Suppliers, Trade Unions, the Italian and American Governments) in order to have a multi-dimensional and more complete view on the matter, being aware of the socially constructed nature of reality;

This study evolves through both a quantitative and qualitative approach, using numerical data as much as constructivism and interpretation. Quantitative data have been mainly gathered thanks to studies from different institutions, consulting groups and confidential information provided by contacts involved in car sales' channels. In the analysis I will also strive to unify such data and compare them, elaborating my on results and conclusions. Qualitative data come from interviews, speeches and press releases. Three direct

interviews have been conducted: One with a FIAT IT Specialist in Frankfurt (GER), Mr. Willy Bajak; one with the responsible of a dealership centre in Italy, Mr. Di Filippo; and one with a member of the biggest and most important Trade Union in Italy, FIOM-CGIL and director of the office which takes care of the relationship between workers and FIAT Mirafiori³, Mr. Lamendola. Mr. Lamendola worked with Iveco, Finmeccanica, and for several years has also been involved in the Automotive supply-chain in Italy. Interviews were semi-structured in order to give more freedom of expression to the Interviewees and allow them to address various issues and give personal insights which couldn't have been reached through a strictly structured interview. Talk-generative questions are the basis for the interviews. Thus, the direction of the interview became specific to the individual Interviewee, allowing the use of Czerniawska's (2000) concept of narrative approach, although under a slightly different perspective (i.e. within the general frames the author provided). The interviews were recorded upon the interviewees' agreement. One interview was conducted in English while the other two in Italian. All interviews have been transcribed and an English transcript of every interview is available in the appendices.

Apart from direct interviews, another important source of information comes from "indirect" original interviews, i.e. interviews conducted by journalists and filmed or recorded, this way being available. Four indirect interviews have been used, the interviewees being in three of them FIAT CEO, Mr. Marchionne^{4,5,6} and in the last one Giovanni Agnelli⁷, former Chairman of FIAT. Indirect interviews have been summarized and their transcript is available in the appendices.

Going deeper in the matter and referring to Bushe and Marshak (2009) the method chosen to collect the data resembles a combination of "diagnostic" and "dialogic" elements. The Diagnostic approach to research in Organizational Development is characterized by the fact it is "data-based [in order] to produce valid data and information" (Bushe and Marshak, 2009: 350). On the other side, in the Dialogic approach, "useful data for an organization analysis derive from narratives" (Bushe and Marshak, 2009:352). The author strived to balance the dualism between a classical approach to research and the narrative one. Sampling and the interpretive approach to data followed the same pattern presented above, i.e. the elements selected are those that allowed different perspectives to emerge when discussing different topics related to the diverse actors in the network. Of course, when similarities or clear contradictions were found, they were noted and used for the analysis as further explained in the next paragraph.

3.3 Validity and Reliability

Validity of the research is assured by the fact multiple sources of evidence have been used. Materials come from documentaries, newspapers, indirect and direct interviews. Direct and indirect interviews addressed

³ Mirafiori, located in Turin, is one of the most important productive centers in Italy and Europe. It is the oldest in Europe and the biggest in Italy. An automotive cluster has always been present there since the end of the '30s

⁴ *Che tempo che fa*, RAI, 2010

⁵ *60 Minutes*, CBS, 2012

⁶ *Festival dell'Economia di Trento*, 2014

⁷ *Mixer*, RAI, 1984

people involved at different levels and with different roles in order to give a wide perspective on the matter. Considering the fact this study looks at the case from a Network perspective, it is relevant to underline that interviews come not only from people appointed with different roles in FIAT (i.e. CEO, Chairman, IT specialist) but also people involved in Dealership, Trade Unions and Supply-Chain. Reliability was achieved through data-triangulation and the comparison between the point of view of the different interviewees and the information coming from other sources such as official statistics, previous studies or documentaries. An example of this approach can be one case when an interviewee said FIAT borrowed \$10 Billion from the US Government, but during the research in other internet sources it came out the amount of money was actually \$6Billion. In another case one interviewee stated FIAT 500L was being produced in Ukraine, but another one said FIAT 500L was being made in Serbia, the final check through FIAT Group's website and other sources revealed the second interviewee to be right. Every information has been double-checked to ensure reliability.

3.4 Delimitations:

Because of the fact the unit of analysis is one single case, the study might lack generalizability. In fact, when looking at a particular company in a specific context, some elements might not be present or reproducible elsewhere. The borders of this study consist of the Automotive Industry, FIAT and its strategic and organizational change during a process of globalization. The fact I take an "external" perspective considering the network around the company makes so that aspects such as organizational culture and some internal dynamics are willingly not explored. Therefore the research design is very much focused on structures and external dynamics and not on culture, sense-making or HR.

4. Theoretical Framework

In this section I introduce the theories upon which I will build my research. The description follows the shape of the analysis, meaning that I selected theories according to the elements which will be the drivers of my analysis. Therefore, considering the reorganization processes, the strategies and the influences on them, I identified two core topics through which I could define my optics: (1) Value chain and Network paradigm; (2) Strategies in the Automotive Industry. These aspects are discussed *in function* of the research question and referred to by using different sources. Although the core of the study is the reorganizational process from a network perspective, the integration of theories concerning M&A, the Value chain and business strategies is useful and necessary for a complete picture.

4.1 Value chain and Network paradigm

The Value Chain model (Porter, 1986) shows the linkages between the different actors of an industry and the activities involving these actors. In particular, Porter differentiates between Primary and Secondary activities along the chain (see also Appendices). When looking at the model and applying it to a specific industry it is important to understand where the greatest value is created, i.e. the way it is distributed among the actors,

being aware that changes in the strategies they implement will lead to shifts along the value chain, increasing and decreasing also the bargaining powers.

The globalization processes which are taking place nowadays are contributing to modeling the chain in several ways, probably changing the perspective we have on various industries. Globalization and decentralization are expanding networks and moving the value chain from being sequential to being multi-integrated at the same time by different actors. The value chain is becoming more complex and, in a figurative manner, changing from being a sequential “line” of activities to being a “cloud” including the company itself. This concepts have been clearly described by Karlsson (2003) and Karlsson & Sköld (2007), who talk about the importance of the industrial network and a shift from enterprise to *extraprise*, in fact “in this perspective, the classic concept of an organization fades away and a new unit of analysis emerges, the manufacturing extraprise. The network becomes the prime unit of management, not the company” (Karlsson & Sköld, 2007: 923) .

Karlsson (2003) and Karlsson & Sköld (2007) define the network perspective in a global production system as a triangular system of relationships linking actors, resources and activities (see also Appendices). The dynamics taking place in this model result in the different use of vertical and horizontal technologies. Vertical technologies relate to the general production activities (e.g. production of brakes) while horizontal technologies represent the *core competences* which differentiate the product (e.g. efficiency in braking). We could say that vertical technologies are the tool to develop a variety of horizontal technologies. The quality of the offering (expressed through horizontal technologies) is increasingly becoming more important due to high competition. “Companies move from product level to the level of selling functions that create customer value” (Kotler, 1976, in Karlsson, 2003: 47) [...] Manufacturers may cover more and more product functions horizontally while keeping only core vertical technologies for offering this function. The vertical technologies can increasingly be sourced externally” (Karlsson, 2003: 47).

As said, companies are moving towards outsourcing, in fact nowadays “not having the globally best production system creates competitive disadvantages in comparison to other actors who take advantage of the best sources” (Karlsson, 2003). Not only outsourcing is a trend, but also decentralization. The causes and effects of decentralization on the value chain have been carefully analyzed by Schmid & Grosche (2008). Schmid & Grosche share the same idea expressed by Karlsson (2003) that competition is changing the rules of the game, moving the focus on brand, quality of the offering and ability to adapt it to the characteristics of the market which is being addressed.

In their work, Schmid & Grosche (ibid.) identify three alternative configuration strategies (further described also in the next section): (1) centralization (2) combination (3) decentralization. *Centralization* implies that all activities stay in the home-country and the company relies mainly on exportations and domestic channels. In a *combined* strategy some activities are decentralized while others are not. Finally, *decentralization* implements all the value chain’s activities in the different countries, creating subsidiaries which are replicas of the original company in the home-country. “A decentralized configuration of values activities requires a

high level of integrative skills from those in corporate management. Such activities need to be integrated into the corporate network and coordinated” (Martinez & Jarillo, 1991, in Schmid & Grosche, 2008: 22).

Schmid & Grosche (ibid.) introduce different forms and levels of coordination and different decentralized configuration strategies with their strategic, structural and cultural implications. They use the term “*decentralized centralization*, in which a variety of activities are bundled together in different countries” (Schmid & Grosche, 2008: 135). The ultimate goal of a decentralization strategy is “globalizing value creation” (Schmid & Grosche, 2008: 136) and this requires investments on the corporate network, as overproduction in the automotive industry compels companies to focus on aspects other than volumes.

The configuration of value activities is called *value configuration* and it consists of their distribution among different countries. “It characterizes the degrees of [the value activities’] geographical dispersion (decentralization) or concentration (centralization). Centralization exists if comparable activities are carried out only at a certain central location; decentralization means that comparable activities are geographically dispersed and take place parallel to one another at a variety of corporate units” (Porter 1986a: 25, Kutschker/Schmid 2008: 996 in Schmid & Grosche, 2008: 17).

As also expressed by Porter (1986), choices about centralization and decentralization are very much influenced by whether the activities are primary or secondary and whether they are upstream or downstream. In Porter’s Value Chain model activities such as “service” and “marketing and sales” are downstream activities that require a certain degree of proximity to the customer and therefore are more likely to be decentralized in the different markets. Upstream secondary activities like “infrastructure” or “R&D” are instead usually centralized in one place or a few locations.

In the Automotive industry usually assembly plants put together components which are being produced elsewhere, therefore the different stages of production are rarely related to one site or a few plants. As a matter of fact, the different stages of production in the car industry can be separated as stamping of sheet metal components, body construction, painting of the vehicle’s skeleton, components’ production and final assembly. Nowadays these stages are developed in different plants and different countries. A general representation of the different stages in cars’ production is provided in **Figure 1**.

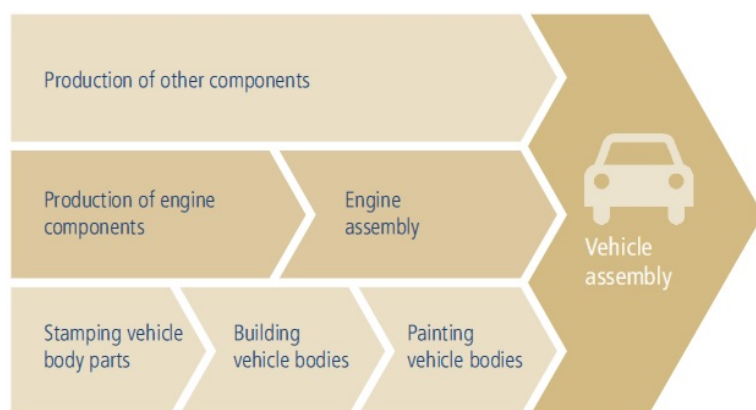


Figure 1: Automobile manufacturers’ typical production stages

Source: Schmid & Grosche (2008: 20)

Fundamental, when looking at the current network's dynamics and expansion, is also the role of Governments, their policies and regulations. Dieter (2007) shows for example that trade policies "have an important influence on commercial decisions of car manufacturers. [...] Without trade liberalizing measures, the creation of transnational production networks probably would not have happened, at least not that quickly" (Dieter, 2007: 55). The Automotive industry is emblematic of the importance of politics and agreements in the development and expansion of the Industry. "Developments in the car industry [...] demonstrate the changing nature of production processes [...]. In that sense, the automotive industry can be identified as the archetypical global industry, which contributes significantly to the homogenization of the global economy" (Dieter, 2007: 2).

Recent changes in the global economy refer mainly to two spheres: an "horizontal widening" of the value chain reflected in the transnational expansion of production networks, and an increasing number of regional trade agreements. "Trans-nationalization of production networks results in the relocation of production to other countries, and these changes affect the economic prospects for workers in many parts of the world" (Ibid. : 3).

According to Dieter (2007) and Dicken (2005) the Automotive industry is characterized mainly by regional networks (e.g. European network, Asian network). Such networks are more efficient in addressing the global expansion of the markets than national or global ones. "Firstly, regional networks are likely to exploit the limits of economies of scale, an advantage over national networks. Secondly, regional production networks reduce the costs of logistics and allow faster delivery. Thirdly, regional approaches permit greater customization of products and smaller inventories when compared with global production networks" (Dicken, 2005: 12, in Dieter, 2007: 4). In this fashion, the companies' approach to global production is constituted by a series of integrated regional networks. Trade agreements and public regulations can influence the private sector and its development, leading companies to strategic changes, both from the production point of view and the localization of the Headquarters. In particular, an "important characteristic of the automotive industry is the continuing change. A number of factors contribute to this: the geographical structure of demand, changing competitive interactions as well as variations in the institutional framework. Firms are continuously trying to transform these changes into a competitive advantage. In particular, the inclusion of Europe's automobile system and the ability of car manufacturers to deepen the division of labor across national boundaries have improved the competitive position of European producers (Layan/Lung 2004: 70; Heneric et al. 2005).

Car producers can now benefit from a workforce that is flexible and inexpensive, and are pulled towards externalization, concerning the development of vertical technologies. A relevant aspect, when looking at European producers and therefore considering also FIAT, is that modularization of production is characterized by widely distributed responsibilities. "European manufacturers tend to increase responsibilities of suppliers [...] consequently [they] tend to give suppliers responsibilities for the

development of new products and delegate the organization of supply chains to the producers of modules” (Jürgens 2003: 20).

4.2 Business strategies in the Automotive industry

The development of an effective strategy in order to be competitive in the Car Industry requires companies to consider many different aspects which are interlinked and extremely dynamic. Technology, Innovation, Financial and Organizational elements are all parts of a bigger system. “The decision making for these companies is not clear cut; business must often make decisions about these technical, financial and organizational resources in an uncertain political, economic and technological environment. Firms need to balance demands, threats and opportunities from multiple stakeholders, and there is no obvious decision making matrix for indentifying an optimum path to satisfy them all at minimum cost in the face of multiple contingencies” (Rothenberg & Ettlie, 2011: 127). Decision makers in the automotive industry have to deal with issues such as volatile fuel prices, changing economic conditions, customers’ demands, changing technologies depending on environmental reasons or consumption needs. Rothenberg & Ettlie (ibid.) address the problem by focusing mainly on two types of external uncertainty that affect decision-making processes: *Regulatory uncertainty*, especially regarding R&D influenced by environmental regulations, *Market uncertainty*, primarily considering customers’ needs and demands. Nonetheless, other important aspects affecting strategy-making in the Car Industry refer to Social, Political and Economic events but also to Organizational culture. In fact, also Haugh et al.(2010) state that the automotive industry’s business cycle is strongly interlinked to the general business cycles. “The rise in oil prices up to mid-2008 drove material costs higher and also shifted consumer preferences towards smaller vehicles. High debt burdens, the fixed capital and labor costs, as well as sizable pension and health care commitments to retirees added to their difficulties. Finally, strong vehicle sales in the previous decade, fuelled by discounts, created saturated markets, especially in the United States” (Haugh et al. 2010: 8). Financial markets’ conditions are also proved to be one of the elements affecting the results in the car industry and therefore the elaboration of strategies and pricing-policies. “Over the short-term, sales growth is driven by growth of *gdp per capita*, real oil prices and financial markets’ conditions as well as the gradual level of adjustment of sales to their long-term trend. [...] A significant effect of financial conditions was found in all G7 countries, except France. [...] The high cost of credit and the inability to obtain auto loans on affordable terms prompted buyers to postpone purchases they might have otherwise made” (ibid: 14-15).

In many industries, the trend of the last decades has been characterized by a process of outsourcing and de-verticalization. The strategy of auto-makers changed accordingly to the social and economic changes of our time, therefore production has been moved to different sites in order to exploit favorable economic conditions (e.g. employees’ salaries) or new distribution channels. Modularization and outsourcing are one of the results of such changing conditions. As said when we were looking at the network perspective, Schmid & Grosche (2008) identified three strategies through which a company can develop its configuration and

control the way it will manage its business along the value chain. In **Figure 2** it is possible to have a visual clarification of the differences between them.

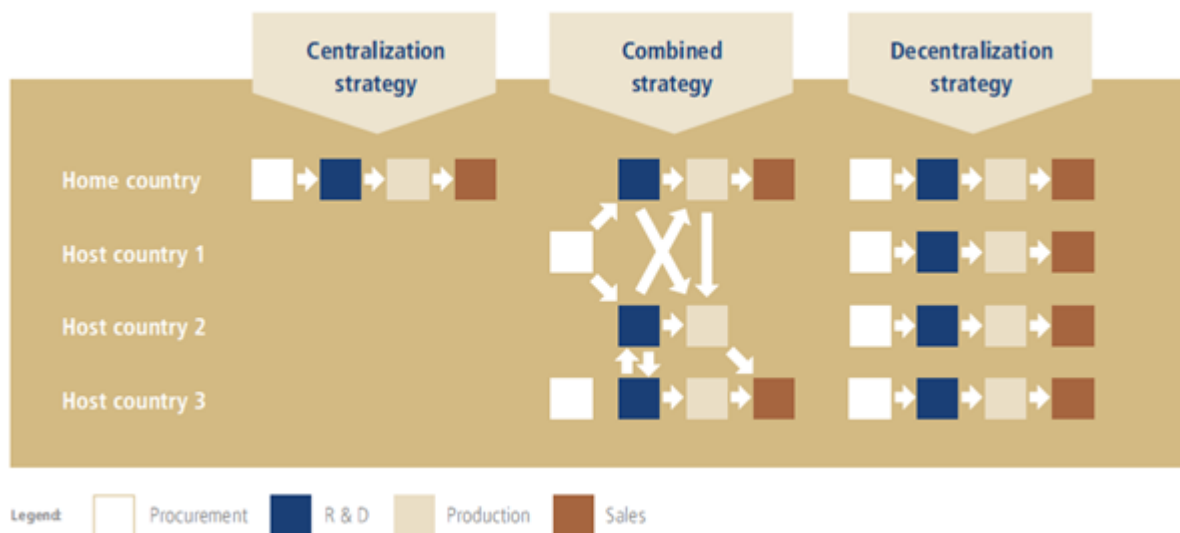


Figure 2: Basic types of configuration strategies

Source: Kutschker / Schmid (2008: 999)

While a centralization strategy is a rarity in the automotive industry (except for a few niche car manufacturers, e.g. Bristol or Wiesmann), the typical configuration of major groups is either combination or decentralization.

There are several reasons for choosing a centralization strategy, decentralization or a mix of the two. According to Porter (1986), Schmid (2000), Zentes et al. (2004) and Schmid & Grosche (2008) some of the most relevant motives to choose *centralization* are:

- To achieve a critical mass;
- To take advantage of economies of scale and learning effects;
- To take advantage of economies of scope;
- To simplify the organization;
- To simplify management and interactions between people;
- To facilitate the coordination of value activities;
- Easier access to information and communication;
- To prevent duplication of efforts;
- Easier to maintain confidentiality;
- Easier to transfer information;
- Easier to establish a uniform culture;
- To avoid conflicts between employees at different locations.

Possible reasons to opt for *decentralization* can be:

- To avoid legal restrictions (e.g. import restrictions);
- To take advantage of direct or indirect support provided by the Government of a host country;
- To overcome logistics barriers and reduce transportation costs;
- To ensure market access;
- To enter markets with little competition;
- To increase customer satisfaction by adapting the product to local needs;
- To take advantage of cultural proximity;
- To locate in important innovative clusters;
- To enter local communication networks;
- To access local know-how and expertise;
- To acquire international experience.

If a company decides to decentralize activities, it is important for it to decentralize decision-making processes as well (Schmid & Grosche, 2008), this means to adapt the vehicle to the tastes of different customers in different markets. Therefore, delegation of some power to personnel abroad becomes fundamental. A positive example in the Automotive industry is offered by Toyota and its most sold vehicle in history, i.e. Toyota Corolla (ibid.). The model is sold in countries where customers have different needs, priorities and interests, therefore it is adapted according to where it is sold. Some markets give more importance to fuel efficiency or design (e.g. Japan), others to comfort (e.g. USA), others to safety and performance (e.g. Europe). Around ninety-five percent of the corolla's components are identical, but five percent is produced according to the regional preferences of the customer base. Production of the specific models takes place in the respective regions, consequently the model is produced in 16 countries with slightly different characteristics. As said, this is a clear example of successful decentralization but also "glocalization".

That said concerning the activities' configuration, another element which is often included in a car maker's business strategy is the achievement of M&A agreements."Mergers and takeovers have not by any means proved a panacea for solving industrial problems as many fail to achieve the goals initially envisaged (Cartwright and Shoenberg, 2006, in Balcet et al. 2013)". Very often it happens that synergies eventually fail, moreover as argued by Capron (1999) in Balcet et al. (2013) "it is probably easier to achieve synergies in marketing than in innovatory capabilities or in manufacturing and production, due to [the fact] products are at different stages in the development cycles". Nonetheless companies in many sectors, and particularly in very concentrated ones, keep on relying on M&A deals as a way to expand in a massive and faster way.

There are different types of M&A deals, e.g. vertical, horizontal, co-generic or conglomerate (Balcet et al. 2013). In *vertical* mergers two or more companies in the same industries but from different fields combine together. In this form, it is like encompassing all the requirements and products of a single industry segment.

Horizontal mergers are characterized by the fact two companies compete in the same industry segment. The two companies combine their operations and gain strength in terms of improved performance, increased capital, and enhanced profits. This kind substantially reduces the number of competitors in the segment and gives a higher edge over competition. *Co-generic* merger is a kind in which two or more companies in association are some way or the other related to the production processes, business markets, or basic required technologies. It includes the extension of the product line or acquiring components that are required in the daily operations. Finally, *conglomerate* mergers are a type in which two or more companies belonging to different industrial sectors combine their operations.

Globalization is strongly interlinked with M&A operations, in fact “Large firms often enter into a new market through acquisitions of local firms” (Dinc & Erel, 2013: 2471). M&A can be seen at the same time as one of the causes and one of the consequences of globalization.

The automotive industry is characterized by over-capacity. Excessive capacity usually leads to a situation where “weak firms often exit the economy, not necessarily through bankruptcy, but being acquired by another firm. When such mergers take place between companies from different countries, national economies become more integrated” (ibid.).

A recent study made by Deloitte (2013) concerning M&A of companies producing Consumer and Industrial products underlines the difference between conducting such operations in favorable and less favorable conditions, defining the terms of the matter not as “good” or “bad” deals but as good or bad decisions which make deals more or less risky. In particular, Deloitte’s study identifies four “leading drivers of value creation in M&A” (ibid.): (1) Acquiring at the correct time (i.e. M&A activity cycle); (2) Applying accumulated experience; (3) Pursuing deals of an appropriate size relative to the acquirer (i.e. target’s size); (4) Funding transactions with equity or a mix of equity and cash.

Referring to the four drivers, it is necessary to define what is considered to be an unfavorable position, especially because this is very much related to FIAT’s deal:

(1) Concerning the acquisition time, a moment of high M&A activity is generally considered less favorable because of competition; (2) Being an ad-hoc acquirer with low experience is clearly to be regarded as unfavorable element; (3) If the two companies involved have a very similar size, this makes it harder to predict the final result of the agreement; (4) Funding the transaction completely with cash is an unfavorable action, mainly because of the fact it increases a company’s structural weakness and implies a huge decrease in liquidity with its repercussions on capability to face present and future debts but also possible inconveniences.

Deloitte’s analysis constitutes a partial change of perspective, as it shows that even under unfavorable conditions, or in moments when the majority of the competitors don’t invest in M&A, a company can reach a good and outstanding result thanks to a well balanced strategy and organizational change management that take into consideration the risks of the deal. Some strategies and solutions (**Table 1**) can be implemented in

order to reduce or at least control the risk in such situations, these refer to the four drivers of value creation in M&A identified by Deloitte, considering the case when the company is in the most unfavorable position regarding all the four of them. It will be useful for the reader to consider such aspects when we will look at the case study, as some of them refer precisely to the FIAT-Chrysler deal.

Table 1: Strategies to face unfavorable conditions during M&A

	High M&A activity	Ad-hoc acquirer	Large target size	Cash financing
Deal identification	Avoid dilution of value due to competitive action by choosing a target that provides differentiated advantage over the peers	Develop a program for quick and private target scanning to reduce the need to participate in auctions	Develop strategic objectives; assess the attractiveness of those objectives during critical decision-making points during the deal process	Evaluate economics of the deal and expected value-generation by assessing financing options for the transaction and mid/long-range plan
Deal process	Know your “walk-away” price; prepare alternative strategies if the deal fails	Be a buyer that the seller can trust despite the lack of experience	Set timelines, avoid long deal processes	Secure fundings for the transaction
Due diligence	Be objective, stay true to your strategy	Spend time to carefully frame the investment opportunity	Analyze the points of failure (e.g. loss of specific suppliers; technology; cultural differences) and assess if mitigation is possible	Understand the degree of leverage you have from a negotiations point of view, use it to arrange favorable financing conditions
Pre-close planning	Create flexible and agile strategies to achieve performance objectives in changing environments	Complete integration planning before close	Know the integration challenges and plan for mitigation ahead of time	Establish a proactive cash-flow monitoring and management process

Source: Adapted from Deloitte (2013)

Apart from the aspects considered by Deloitte, another pillar for M&A to be planned and implemented is the identification of synergies between the two actors (PwC, 2010: 1). “Synergy means both companies win [...]”. Synergies are fundamentally the only tangible justification for making an acquisition” (ibid.). PwC classifies synergies into two macro segments: *positive synergies* and *negative synergies*. Positive synergies are divided into cost-synergies and revenue-synergies. Cost-synergies can be “headcount reductions, elimination of surplus facilities, reduced overhead, increased purchasing power” (ibid.: 3). Revenue synergies relate to

“marketing and selling complementary products, cross-selling into a new customer base or channel, access to new markets, reduced competition[...] Revenue synergies also depend highly on the behavior of third parties including customers, resellers and even competitors” (ibid.). The fact revenue-synergies depend on many actors makes so that “[Cost-synergies] are the things you can really count on. You feel a lot more comfortable about the synergy projections” (ibid: 4). Negative synergies instead, can be for example the negative effects of conforming accounting policies or practices, additional infrastructure or sales and marketing investments and more generous employees’ salaries (ibid.:4).

Finally, when considering M&A it is necessary to include also other variables which are “external” to the dynamics involving the relationship between the companies and their network of suppliers and resellers. Among them the most important are probably the national influences which could put pressure on the deal, in one direction or the other. Dinc & Erel (2013) documented *economic nationalism* where the Governments prefer that the acquired company stays domestically owned. Such trend appears to be stronger in countries with far-right and weak governments. These results can be useful when looking at the reasons why the American Government supported the operation enacted by FIAT.

A fundamental model that will be used to look more broadly at the car manufacturers’ strategies and at FCA in particular is Porter’s Five Forces. Porter (1986) developed a model that explains the competitive dynamics taking place within an industry. The model presents the forces determining the state of competition in an industry. “The collective strength of these forces determines the ultimate profit potential of an industry. [...] The weaker the forces collectively, however, the greater the opportunity for superior performance” (Porter, 1986: 1).

Threat of entry: “New entrants to an industry bring new capacity, the desire to gain market share, and often substantial resources. [...] The seriousness of the threat of entry depends on the barriers present and on the reaction from existing competitors that entrants can expect” (Ibid: 2). Six major barriers to entry have been identified by Porter, which are: Economies of scale; Product differentiation; Capital requirements; Cost disadvantages independent of size (i.e. dependent on learning curve and experience curve); Access to distribution channels; Government policy.

Power of Suppliers: “Suppliers can exert bargaining power on participants in an industry by raising prices or reducing the quality of purchased goods and services. Powerful suppliers can thereby squeeze profitability out of an industry unable to recover cost increases in its own prices” (Ibid: 5). In general, suppliers are powerful when their number is more concentrated than the number of companies in the industry they sell to. Moreover the uniqueness of the product and possible switching costs contribute to increase their power. Finally, other two aspects are important: the economic relevance of the industry they sell to, i.e. how important that is in their business, and the credible threat suppliers pose to integrate more into the industry (e.g. differentiation of activities).

Power of Buyers (i.e. Customers): Buyers' power depends on elements such as their concentration, on the volume of their purchases, on the level of product differentiation (i.e. the more the product is standardized, the more buyers have power) and finally on their purchasing power.

Threat of substitutes: The presence of substitute products might endanger a company's position. "The more attractive the price performance trade-off offered by substitute products, the firmer the lid placed on the industry's profit potential" (Ibid: 7).

Intensity of competition (i.e. industry rivalry): The rivalry's intensity is the result of several factors, and its intensity is higher if there is a high number of competitors with similar size and power, slow growth (which causes strong fights for market shares and expansion strategies), low product differentiation, high fixed costs, capacity is augmented in large increments and there are periods of over-capacity, exit barriers are high (e.g. if there are very specialized assets), rivals are different in strategies, mentality and origin.

Companies can deal with the 5 Forces in three ways: 1) Adapting to the *status quo*, i.e. the Value-chain as it is; 2) Influencing directly the Value-chain; 3) Predicting and anticipating changes along the Value-chain to gain a dominant position when changes will happen (Porter, 1986).

Porter (ibid.) also elaborated a classification of product strategies adopted by companies. Three generic strategies have been described: *cost-leadership* strategy, *differentiation* strategy and *focus* strategy (i.e. cost-focus and differentiation-focus). According to Porter a company pursues competitive advantage through one of these strategies after determining its market-scope, which can be either a focus on selected segments or industry-wide. Obviously, if we consider big Multinational Groups we must also include the possibility that more than one strategy-type is used at the same time depending on the company's brand-portfolio. Moreover Porter's generic strategies have been criticized due to their extreme simplification. Being aware of such elements the author points out that such classification has been used only regarding the product portfolio, as a basis, and then critically adapted to the context of FCA. Furthermore, considering the purpose of this study, which is broader than a mere strategic analysis of product portfolios, the classification has been judged as satisfying.

Cost-leadership strategy – This strategy is applied by firms trying to win market share by leveraging on demand's elasticity to price, i.e. customers' sensitivity to price variations. Cost-conscious customers are the target of such strategy. To offer the lowest price will keep on being profitable the company needs to have lower costs than competitors and this goal can be achieved in three ways: 1) Developing economies of scale (i.e. reaching high volumes); 2) Achieving low direct and indirect operating costs (e.g. by offering standardized products, by outsourcing production stages and by using standardized components for different products); 3) Controlling the value-chain (e.g. control on the supply-chain or procurement of raw materials). In the Automotive Industry FIAT Punto and Volkswagen Golf are examples of products that rely on a cost-strategy

Differentiation strategy – A differentiation strategy is appropriate for a target that is not price-sensitive, in a highly competitive environment where the level of market-saturation is very high. It can be based on characteristics such as technology, design, performance, technical expertise. Uniqueness or perceived uniqueness of the product are the key to success for this strategy. Considering the Automotive Industry we can identify BMW and Mercedes-Benz as typical car-makers applying a differentiation strategy based on technological development, technical expertise and guarantee of quality.

Focus strategies – There are two directions a company can choose to focus its strategy on a smaller and selected segment of the market: *Cost-focus* and *Differentiation-focus*. In both cases companies that rely on such strategies are generally small and their success depends on how hard it is to copy their product and the lack of substitutes for it. Examples in the Car Industry are Bristol, Wiesmann or Ferrari for the *Differentiation-focus* and TATA for *Cost-focus* as it produces one of the less expensive cars in the World and such product was mainly created for Indian customers with very low purchasing power.

5. Data

In this section the author presents the data and information which form the basis for the study. The dataset consists of both primary and secondary sources which have been selected according to their relevance and the need to achieve validity and reliability for the topic discussed. The structure of this section is divided into two parts, one dedicated to the Industry as a whole, in its general characteristics, and one specifically focused on FIAT and the new FCA Group.

5.1 Automotive Industry: World production, Suppliers, Car-makers, M&A, Main markets

This part focuses on the Industry's global production, the main markets, i.e. the most important by production volumes, sales and customer-base, and the two most important actors: Suppliers and car-makers.

5.1.1 World production

The Automotive industry is emblematic of the shifts and changes occurring on a global scale at every level and in every sector of the economy. Business cycles, political instability and lack of adaptation to changing market rules are pushing production and value creation year after year towards the so-called “emerging countries”. In **Table 2** some interesting elements emerge. First of all Europe is experiencing a production *impasse*, with Germany being the leading country and Italy very much below the production volumes of the other main European countries. Also France experienced a decrease in production by almost 14%. By growth, MERCOSUR countries, of which Brazil is the most relevant one by production volumes and sales, are overcoming NAFTA countries while in the APAC region China is not only the leader in that area but worldwide, with an impressive increase in production by 24%. China's growth itself can almost match the overall one of NAFTA, MERCOSUR and the major European countries which registered a growth (i.e. Germany, Spain, UK).

Table 2: World car production in 2012 and 2013

	2012	2013	Variation in %
EMEA	17,246,660	17,289,262	0.2
EU-27	14,659,824	14,716,765	0.4
of which:			
Germany	5,388,459	4,439,904	1.0
France	1,682,814	1,454,166	-13.6
Italy	396,817	388,465	-2.1
Spain	1,595,178	1,754,668	10.0
United Kingdom	1,464,906	1,509,762	3.1
NAFTA*	15,380,715	16,074,821	4.5
of which: USA	10,064,682	10,793,923	7.2
MERCOSUR*	3,976,388	4,274,164	7.5
of which: Brazil	3,232,925	3,510,003	8.6
APAC	31,658,791	34,612,331	9.3
of which:			
China	13,257,833	16,448,392	24.1
Japan	8,554,503	8,189,323	-4.3
Rest of the world	2,250,000	2,250,000	0.0
Total	70,512,554	74,500,578	5.7

Source: Adapted from www.vda.de

*EMEA is the region including Europe

*NAFTA is the North American Free Trade Association, which includes the US, Mexico and Canada

*MERCOSUR is a free-trade agreement between Argentina, Brazil, Paraguay, Uruguay, Venezuela and Bolivia

*APAC is the Asia Pacific region

5.1.2 Suppliers

This part contains data referring to both big international suppliers, i.e. *mega-suppliers*, and small suppliers in the Italian supply-chain.

Mega-suppliers

Globalization of markets, economic crisis and the increasing need to become cost-efficient are pushing car manufacturers towards outsourcing of production, delocalization and modularization. As a result, some suppliers in the Automotive Industry have gained more power in the value chain and increased their size, becoming “mega-suppliers” (Sturgeon & Florida, 2004). According to a conjunct study by Automotive News and PwC (2013) the term *mega-suppliers* applies to the 20 largest companies among the latest list of the top 100 suppliers published by Automotive News. The top 20 global suppliers in the Automotive industry are

available in **Table 3**. The Table is interesting because it shows the size reached by mega-suppliers in terms of sales and distribution around the World, and therefore their bargaining power and relevance along the value – chain.

Table3: Global Mega-suppliers

Rank	Company	Headquarters	Total global OEM automotive parts sales (dollars in Millions) 2012	Percentage North America 2012	Percentage Europe 2012	Percentage Asia 2012	Percentage rest of the World 2012
1	Robert Bosch GmbH	Germany	36,787	17	52	27	4
2	Denso Corp.	Japan	34,200	16	11	71	2
3	Continental AG	Germany	32,800	21	50	25	4
4	Magna International	Canada	30,428	53	40		7
5	Aisin Seiki Co.	Japan	30,080	14	10	76	
6	Johnson Control Inc.	USA	22,515	41	47	12	
7	Faurecia	France	22,500	27	56	10	7
8	Hyundai Mobis	South Korea	21,351	22	11	67	
9	ZF Friedrichshafen AG	Germany	18,614	19	58	18	5
10	Yazaki Corp.	Japan	15,801	22			
11	Lear Corp.	USA	14,567	39	35	17	9
12	Delphi Automotive PLC	USA	14,432	34	42	18	6
13	TRW Automotive Holdings Corp.	USA	14,141	36	43	17	4
14	BASF SE	Germany	13,168	18	58	18	6
15	Valeo SA	France	12,816	17	51	25	7
16	Sumitomo Industries	Japan	11,232	21			
17	Toyota Bashoku Corp.	Japan	10,484	16	5	77	2
18	JTEK Corp.	Japan	9,793	17	14	67	2
19	Hitachi Automotive Systems	Japan	9,613	21			
20	Cummins Inc.	USA	9,025	53	15	22	10

Source: Adapted from Automotive News, 2013, sponsored by PWC, Top Suppliers – North America, Europe and the World

N.B.: Underlined in green are the main suppliers of FIAT Chrysler Automobiles Group.

“In the Automotive industry there is less and less room these days for small, regional suppliers. Mega-suppliers have the deep pockets to build factories anywhere, support worldwide R&D and ride out recession in key markets such as Europe. That’s why they are positioned to exploit the auto industry’s growing use of global platforms. By 2019 global platforms are expected to account for 74 percent of the world’s light-

vehicle production” (Automotive News, 2013). According to Automotive News and PwC “big is better” and the condition of mega-suppliers allows those companies to: build plants around the world; maintain long term R&D; support high-volume vehicle platforms; borrow technology from non-automotive divisions. Globalization and growing networks are influencing the balance of power along the value chain. As stated by Karlsson & Sköld (2007), “in the global competition it has been important to manage or at least have some control over the value chain all the way to the customer. The OEM⁸ has been threatened from both directions in the value chain. First-tier suppliers⁹ are becoming bigger and stronger than the OEM”.

“Suppliers are moving to fundamentally recast the automobile value chain by building and assembling entire systems of the car rather than providing a ménage of piece-meal parts” (Donovan, 1999:1). “As well as technological transformation, the automotive industry is undergoing a continuous value shift from OEMs to suppliers. According to a study conducted by Oliver Wyman and the German Automotive Industry Association (VDA), OEMs’ share of global R&D value creation will decline from 60% today to 47% in 2025. Strategic alliances between OEMs and suppliers - as well as within the supplying industry - will grow in importance and offer significant growth potential”¹⁰.

Italian supply-chain:

“In Italy, the expansion of foreign markets for the firms operating in the Automotive supply-chain accelerated at the end of the 1990s. This trend is the result of two effects. On the one hand, it was a reaction to the decreasing weight of Italian supplier firms in the strategies of FIAT auto, the key player in the Italian automotive industry. On the other hand, FIAT auto encouraged some preferred suppliers to relocate near to their foreign factories to ensure that FIAT could maintain its quality standards. Thus we observe a parallel internationalization process: that of FIAT itself and that of its suppliers” (Bacchiocchi et al., 2012: 272). Two mechanisms are identified by Bacchiocchi et al. (ibid.) guiding such internationalization: *complementary internationalization* and *substitutive internationalization*. The first characterizes suppliers that follow the “hub” abroad, the second refers to suppliers adopting “a more aggressive strategy by offering production and knowledge to foreign competitors of the “hub” firm. [...] The change of FIAT from a vertically integrated Turin-based company into a post-Fordist multinational had a dramatic impact on the Turin area. Gradually, the industrial district evolved from a quasi-monopolistic relationship between the firm and its suppliers to a more complex pattern” (ibid.).

“If the FCA Business Plan is completely realized, in 2018 we get back to the production of 700,000 cars in Italy, just like before the crisis.. these are the numbers, numbers. In the last two years in Italy less than 400,000 cars have been produced. If you compare this to what has been happening in Germany and other countries there is no match. Consequently the supply-chain was influenced as well. Those suppliers whose

⁸ Original Equipment Maker, e.g. Car-makers

⁹ First-tier suppliers are direct suppliers of the OEMs and generally multinationals (see also <http://smallbusiness.chron.com/difference-between-tier-1-tier-2-companies-25430.html>)













¹⁰ <http://www.gtai.de/GTAI/Navigation/EN/Invest/Industries/Mobility/automotive,did=248004.html>

great part of revenues was coming FIAT are not there anymore. All the components of the network of small and medium suppliers that was born around FIAT either disappeared or they reduced their personnel. Two years ago, only two years ago, we made a research among those suppliers where our Trade Union was present and found out that in the spring of 2012 there had already been 5,000 people fired and 18,000 were at risk. So if we look at this picture there is no doubt that, while before 280,000 cars were made every year in Turin, now if everything goes right by the end of the year 70,000 cars will be produced. [...]The industrial district got smaller, but then there are some suppliers which, between the '80s and the '90s started to produce and work also for other car-manufacturers, French and German. (Mr. Lamendola, Director of FIOM office for Mirafiori affairs).

5.1.3 Car Makers:













On the side of car makers, the Automotive industry is characterized by a process of agglomeration and consolidation which is leading to the creation of macro-groups. It is believed in the industry that, in order to stay competitive and survive, car manufacturers will need to reach at least a production volume of six Million cars per year. FIAT's CEO stated several times that "As far as mass-producers are concerned, we're going to end up with one American company, one German of big size; one French-Japanese, maybe with an extension in the U.S.; one in Japan; one in China and one other potential European player"¹¹. This was also the belief of FIAT's former President Umberto Agnelli (1985) and it is useful to consider such view when looking at the changes which are taking place among the different competitors. In **Table 4** it is possible to see a ranking of car manufacturers by production volumes¹².

Table 4: Car manufacturers 2012 ranking by production volumes

Rank	Group	Country	Total Volumes
1	Toyota	 Japan	10,104,424
2	GM	 United States	9,285,425
3	Volkswagen	 Germany	9,254,742
4	Hyundai	 South Korea	7,126,413
5	Ford	 United States	5,595,483
6	Nissan	 Japan	4,889,379
7	Honda	 Japan	4,110,857
8	PSA	 France	2,911,764
9	Suzuki	 Japan	2,893,602
10	Renault	 France	2,676,226
11	Chrysler	 United States	2,371,427
12	Daimler AG	 Germany	2,195,152

¹¹ Reuters, 2008

¹²The chart shows the top 20 car-manufacturers because of space and opportunity needs. Nonetheless it is possible to see included also Geely Automobile (#21), Volvo (#34), GA (#41) and Porsche (#43). Porsche and Volvo are present due to their historical importance although not central when looking at volumes. Geely and GA are included because of the important Joint Ventures they have with foreign OEMs in China.

Rank	Group	Country	Total Volumes
13	FIAT	 Italy	2,127,295
14	BMW	 Germany	2,065,477
15	SAIC	 China	1,783,548
16	Tata	 India	1,241,239
17	Mazda	 Japan	1,189,283
18	Dongfeng Motor	 China	1,137,950
19	Mitsubishi	 Japan	1,109,731
20	Changan	 China	1,063,721
21	Geely	 China	922,906
34	Volvo	 Sweden	234,680
41	Guangzhou Auto Industry	 China	114,157
43	Porsche	 Germany	86,083

Source: Adapted from Organisation Internationale des Constructeurs d'Automobiles (OICA)

The ranking presented in **Table 4** is from the end of 2012. At that time FIAT and Chrysler were not a single group under the name FCA yet. As it is possible to notice, after the merger, FIAT and Chrysler together reached a production volume of roughly 4.5 Million cars, getting to number 7th in the Ranking (held by Honda in 2012). Another important aspect emerging from this ranking is that the top three groups were already close to or beyond 10 Million vehicles produced.

To be the best producer by volumes doesn't necessarily mean to be the best at sales, moreover, as expressed by Porter (1986), competition is about profitability and not only size. Nonetheless the top 15 car manufacturers by volumes seem to follow the same trend in sales, and Toyota even set a record as it got extremely close to 10 Million sales (**Table 5**). FCA is n. 7 not only by volumes but also by sales.

Table 5: Top 15 car manufacturers in 2013 by sales

Rank	Brand	2013	Variation from 2012
1	Toyota	9.98 Million	+3%
2	Volkswagen	9.73 Million	+5%
3	General Motors	9.71 Million	+4%
4	Renault-Nissan	8.26 Million	+2%
5	Hyundai-Kia	7.56 Million	+6%
6	Ford	6.25 Million	+10%
7	FIAT-Chrysler	4.35 Million	+4%
8	Honda	4.10 Million	+7%
9	PSA-Peugeot-Citroen	2.82 Million	-5%
10	Suzuki	2.66 Million	-1%
11	Bmw	1.92 Million	+6%
12	Daimler	1.56 Million	+10%
13	Mazda	1.32 Million	n/a
14	Mitsubishi	1.28 Million	+12%
15	Tata Motors	1.04 Million	n/a

Source: www.carsitaly.net

N.B In 2013 FIAT-Chrysler hadn't completed the merger yet, nonetheless, being the alliance at an advanced stage, data are cumulative for both.

5.1.4 M&A in the Automotive industry

The industry is one of the most characterized by mergers, acquisitions, alliances and joint ventures. Therefore the fate of car-makers is very often entangled. Several aspects have to be taken into account when considering M&A agreements in particular, and such elements have been clearly summed up by the Deloitte (2013) study presented in the Theory section. As shown in **Figure 3**, the number of M&A deals in the Automotive industry is strongly decreased in the last years and particularly since 2008, especially if we look for deals of a certain size (i.e. involving companies with a market capitalization above \$1Billion). Apart from a noteworthy activity in 2011, the negative trend has been maintained also in 2012 and 2013.

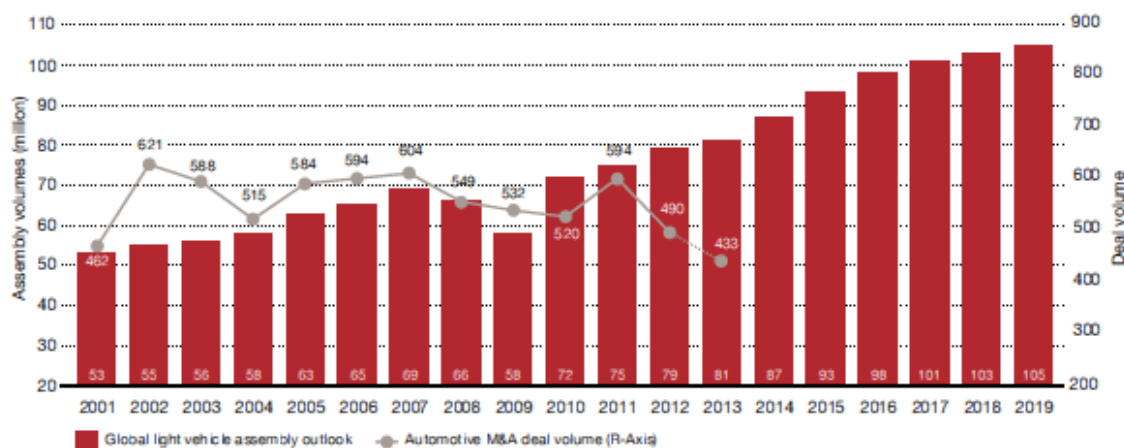


Figure 3: Light vehicle assembly volumes outlook and M&A deal volumes (2001-2019)

Source: PwC (2013)

The first half of 2014 opened with the conclusion of the deal between FIAT and Chrysler, the most relevant deal both by size of the two players and relevance of their brand-portfolios. Nevertheless, the industry as a whole is not showing remarkable increases in activity from this point of view, especially if we consider car-makers only and the size of their deals. The activity of automotive suppliers, instead, is recently much more intense and characterized by deals of greater size. Compared to M&A activity in sectors such as Technology, Energy and Telecommunications, the Automotive industry has minor importance (PwC, 2013).

A study by PWC (2014) showed that CEOs optimism about the industry's conditions and their beliefs about which strategy to implement are at the basis of the decrease or increase of such deals. In particular, if compared to the past years, CEOs' confidence about industry's growth is increased but nonetheless the majority of them considers alliances and internal reorganization a wiser and more viable option than going for M&A, mainly due to the negative business cycle the World (and primarily Western economies) is facing. "Fewer automotive CEOs report having completed a domestic M&A in the past 12 months [...]. Only 11% of Automotive CEOs are planning a domestic M&A for the coming 23 months [...] and few plan to outsource a

business process or function – 13%” (PWC, 2014: 15). In **Figure 12** we can see the result of one of PWC’s surveys among CEOs and the comparison between CEOs from the Automotive industry and the overall sample of CEOs.

Q: Which, if any, of the following restructuring activities do you plan to initiate in the coming 12 months? (cost reduction not listed)

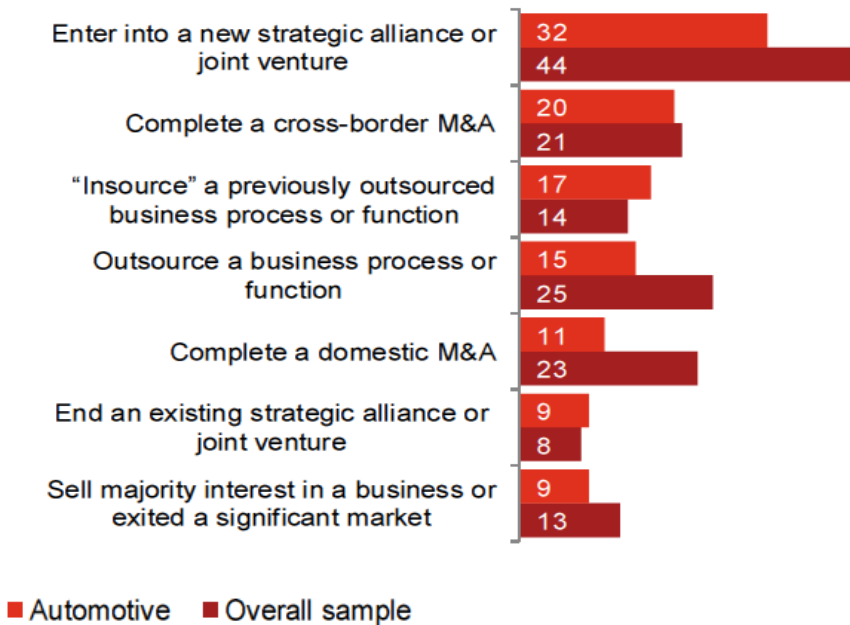


Figure 4: PwC survey’s results about CEOs restructuring plans for the next 12 months

Source: PwC 17th Annual Global CEO Survey 2014

Base: All respondents (Overall sample, 1344, Automotive, 87)

Considering CEOs’ strategic choices but also the general economic landscape, it is clear that two strategic views about how to face Globalization emerged which are opposed: One that still considers M&A the best move and the other which does not consider M&A the best move right now (although everybody agrees that, especially in this industry, M&A will ultimately lead to a strong decrease in the number of players). Currently, alliances and joint ventures are preferred to a direct involvement, moreover it is important to underline the fact many car-manufacturers hold shares in other groups (e.g. GM in Peugeot – until 2013 – or Daimler in Renault-Nissan) therefore there are already links at different levels among the biggest OEMs.

Two of the three interviews made by the author address these topics by proposing arguments sustaining the absolute need for a merger even in negative economic circumstances. One interview was with the director of a FIAT Dealership centre in Italy, Mr. Di Filippo, and one with a FIAT IT Specialist in the company’s subsidiary in Frankfurt (GER), Mr. Bajak. When looking at the future of the Italian market and the effects of the FIAT-Chrysler merger on it, Mr. Di Filippo stated: “I think it’s positive, because nowadays mass production and big commercial centers are the trend. Whatever is big works and you don’t really look at what’s behind. It’s also [positive] from the production plants’ point of view because many models, even if

sold in the US, will be produced in Italy so all the plants should be active again”. Also Mr. Bajak, in his statements, considers mergers the only real way to stay competitive, although he admits in the beginning there was quite some pessimism among employees in Germany, particularly due to the recent failure of the Daimler-Chrysler merger in 2007: “For me and also for my colleagues it was a big surprise. It’s really.. a big thing, a big deal. In the first moment I think the situation was a little pessimistic.. but up to now it has changed into a really optimistic [one] because we see all that happens and we see all the new structures so it’s really very good. [...] You see, we’re in Germany and the first company to make a deal like this was Daimler and you know what Daimler means in Germany, it’s not only a car manufacturer, it has a high level [of importance] and [its merger] was not successful so.. it was a surprise”. When asked about the way the deal was communicated to them and the reasons brought forward to it, Mr. Bajak stated: “Well, the reasons.. [...] the reason is the same for all car manufacturers. There is a global play in the whole World and if you look at the others, the strategy is always the same, you must grow and get bigger otherwise you get no chance”.

5.1.5 Market analysis and Dealership results:

The role of dealers and their efficiency level (i.e. how successful they are at selling) is critical to companies’ performance. Dealers are the bridge between the car manufacturers and the consumers and they are usually involved not only in selling but also in providing side-services such as repairs, substitution of components or accessories and retail of used cars. Generally the most widespread types of dealers are 4S stores and 3S stores. 4S stores refer to four main businesses: sales, spare parts, service and surveys of one particular car brand. Obviously a 3S store provides only three of those services.¹³ “Combined, these stores account for about 55.0% of the industry revenue and offer consumers a long-term vehicle buying and service relationship”¹⁴. Dealers can be either owned directly by the company or privately owned (i.e. independent). Some markets are characterized by strong growth (**Table 6**); in particular there is a striking difference between the first two markets, China and the US, and the rest. Investments on the part of car manufacturers follow the direction of emerging markets, therefore the number of dealers is increasing in those markets more than in the “traditional” and consolidated ones. Data about dealership results, e.g. sales or market shares, have been gathered with a rationale based on the need to consider only the biggest and most fundamental markets, i.e. those showing the greatest margins of growth and the widest customer base. **Table 6** and **Figure 5**, that shows the vehicles per capita and their density in the different countries, have been useful to choose which markets to analyze, these being: China, USA, Japan, Brazil, Germany, India, Russia and Italy.

Italy was chosen due to its relevance in FIAT case, this being the Company’s country of origin. For this reason and also due to easier access to data, more time is spent on the Italian market than others, although its economic relevance in terms of numbers on a worldwide scale is limited.

¹³ <http://www.ibisworld.com/industry/china/car-dealers.html>

¹⁴ Ibid.

Table 6: Top 15 car markets by sales

Rank	Market	2013	Variation from 2012
1	China	21,984,100	+14%
2	USA	15,883,969	+7%
3	Japan	5,375,513	0%
4	Brazil	3,767,370	-1%
5	Germany	3,257,718	-4%
6	India	3,241,209	-10%
7	Russia	2,950,483	-6%
8	UK	2,585,713	+11%
9	France	2,201,068	-6%
10	Canada	1,779,860	+4%
11	South Korea	1,543,564	-1%
12	Italy	1,419,494	-8%
13	Thailand	1,324,722	-8%
14	Indonesia	1,225,199	+10%
15	Australia	1,136,227	+3%

Source: www.carsitaly.net

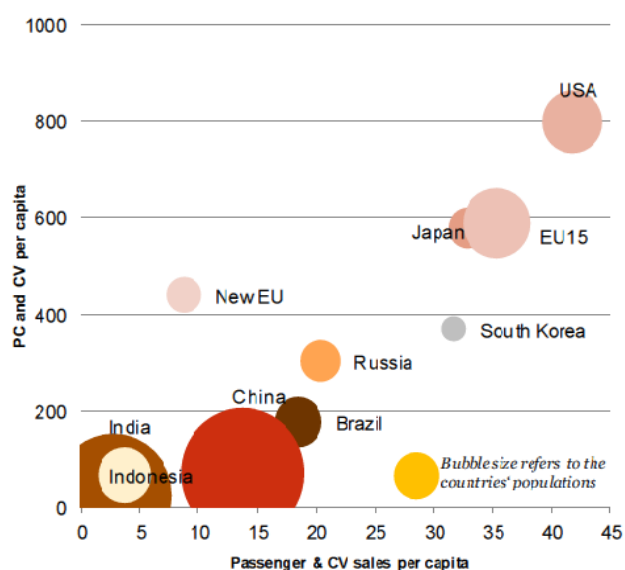


Figure 5: Vehicles (PC + CV) per capita and vehicle density

Source: VDA in PWC, August 2013

N.B. PC= Passenger Cars; CV= Commercial Vehicles

Chinese Market:

In 2013 the Chinese market was the first by sales and also by growth. This trend has been going on with no interruption since 2009¹⁵¹⁶¹⁷. The number of registered cars, buses, vans, and trucks in China is expected to exceed 200 Million by 2020¹⁸. The consultancy company McKinsey & Co. estimates that China's car market will grow by ten times by 2030¹⁹. In five years from 2009 to 2014, “the Car Dealer industry in China has been growing at an annualized rate of 18.5% to reach \$472.7 Billion. After a boom in car sales in 2009 and 2010 – driven by favorable government policies – industry revenue growth slowed down in 2011 and 2012. In 2013, benefiting from passenger car replacements in first- and second-tier cities and first purchases in third- and forth- tier cities, China's automobile sector resumed growth”²⁰ As showed in **Table 6**, Almost 22 Million cars were sold in 2013 and the industry grew by 14.0%. “Car Dealers in China developed faster in 2013 compared with 2011 and 2012. In 2014, the industry revenue is expected to increase to \$472.7 Billion”²¹. 4S and 3S Dealers were introduced from Europe to China starting in the ‘90s and their scale in China has become one of the largest in the World. “Shanghai General Motors and Guangzhou Honda were the first companies to establish 4S stores in China. Many other car-makers followed this trend to establish 4S stores of their own brands. On average, each car brand has about 100 4S stores in China”²².

American Market

Car dealers in the US felt the impact of the global economic crisis and the automotive industry's recession. “As new vehicle sales slowed, new car dealers increasingly looked to their parts and service departments for revenue. Over the five years to 2019, new car dealers will continue to shift to parts-and-service-oriented business models to revive revenue. Additionally, the introduction of new European-based models that cater to consumer preferences of fuel efficiency will encourage drivers to trade in for new cars”²³. In 2013 the US industry was the second in the World by sales, getting close to 16 Million models sold, and by growth, reaching +7% (**Table 6**). Dealers' expectations about profits have been increasing constantly in the last years after a period, between 2006 and 2009, of deep pessimism (NADA, 2013).

Figure 6 represents the trend of sales from 2002, and it is possible to notice that sales reached a negative pick in 2009, possibly the worst year for the world economy, and started to rise up from 2012, showing encouraging results for the overall performance of the industry.

¹⁵ <http://en.ria.ru/world/20090206/120007709.html>

¹⁶ <http://www.nbcnews.com/id/30802161/>

¹⁷ <http://www.economist.com/node/14732026>

¹⁸ <http://chinaautoweb.com/2010/09/how-many-cars-are-there-in-china/>

¹⁹ <http://www.businessgreen.com/bg/news/1801462/chinas-e6-electric-car-were-trying-save-world-trying-money>

²⁰ <http://www.ibisworld.com/industry/china/car-dealers.html>

²¹ Ibid.

²² Ibid.

²³ Ibid.

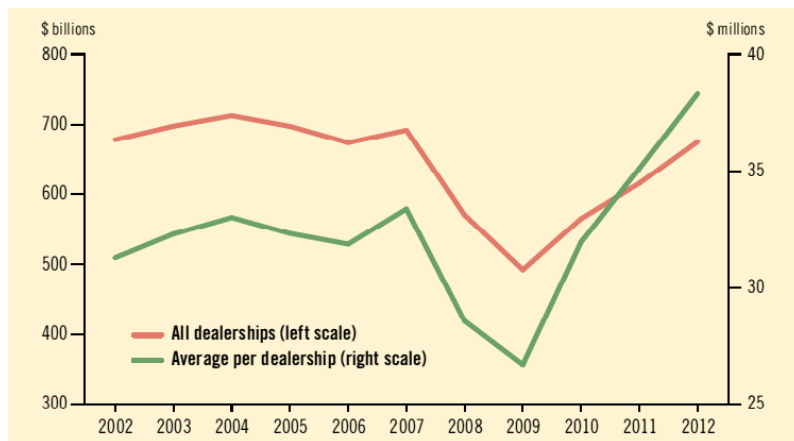


Figure 6: Total sales of new-car dealership in the US (2002-2012)

Source: NADA Industry Analysis Division; NADA 20 Group; NADA Membership Department; U.S. Census Bureau

Japanese Market

Japan's car market is one of the most important and at the same time one of the hardest to enter for outsiders. The market holds a stable third place in the ranking by sales. "More than 90% of cars sold in Japan are Japanese brands. A third of them (ultra-light mini-cars) are sold nowhere else. Originally developed to fill Japan's need for cheap cars after World War II, they are too small or too expensive for other markets. [...] Japanese auto executives say the country's unique tastes are a big reason for global auto makers' failure to thrive in the world's third largest auto-buying country, after China and the US. Foreign auto executives say the country's preferential tax treatment for mini-cars and its unique safety and environmental regulations are nontariff barriers that protect the country from foreign competition"²⁴. In general, the Japanese market is a very "customized" one, meaning that products have characteristics which address directly the tastes of Japanese people, with little space for changes or adaptations to other International tastes. Therefore people involved in the business coined the term "Galápagos" to describe the market. Shigeru Shoji, Chief Executive of Volkswagen Group Japan KK, on the sidelines of the Tokyo Motor Show said that "The Japanese market is 'Galápagos' [...] You can test things in Japan. But even if it turns out to be an attractive product in Japan, it would be hard to make it a universal and global product". Investments in Japan from outsiders have to be very targeted with little possibilities of extending the same products to other markets. Also Sumito Ishii, managing director of General Motors Japan, shares the same believes about Japan's market: "Japan is a unique market. For those operating globally, that could present a barrier" (Motor Show, Tokyo, 2013).

Brazilian market:

Sales' results from 2013 in Brazil show a slight decrease of 1% (**Table 6**); it was the first time in 10 years that registrations had a negative result. Nonetheless the market is still the 4th by relevance.

²⁴ <http://online.wsj.com/news/articles/SB10001424052702304202204579255840627993218>

Four major players control most of the Brazilian Market: General Motors, Volkswagen, FIAT and Ford. Interestingly FIAT and Volkswagen are the only ones not coming from NAFTA countries and the only European manufacturers to be competitive in the market, moreover Chrysler is the only one of the American “Big three” which never imposed itself in Brazil. As to 2014, FIAT is the leading car manufacturer in Brazil (**Table 7**), a market the company entered at a very early stage of its history.

Table 7: Brazilian Automotive industry’s market shares

Car Manufacturer	Market share
FIAT	21.85%
Volkswagen	17.71%
General Motors	17.49%
Ford	9.09%
Renault	6.94%
Hyundai	6.75%
Toyota	5.23%
Honda	3.84%
Nissan	1.91%
Citroën	1.91%
Others	7.28%

Source: Fenabrave, May 2014

N.B. Market shares include commercial vehicles

About twenty years ago the Brazilian market was not even close to the levels of development we talk about nowadays. “Brazilian consumers did not have the wide range of models and their various versions which are now available in thousands of dealerships located throughout the country. Instead, at that time Brazil was only the 12th largest automobile market in the world and was far from being a priority for the industry multinationals. In that environment, some industry innovations, such as automatic transmission, took over 30 years to reach the country. [...] Today Brazilians have an array of options that include more than 1000 models. [...] The cycle of investments in [the] Brazilian Automotive industry [...] is expected to reach R\$73.1 Billion by 2017. [...] Many things conspired in favor of the development of the Brazilian market. The 2008 crisis which took the United States and the recession which still affects Europe toppled car sales in these markets by 25%. To continue to grow, assemblers have been forced to look harder emerging countries. [...] Income expansion and credit access made car sales grow by 37% in the country in the last five years” (Dealer 2013, Ed. 45).

German market:

“The Automotive industry is the largest industry sector in Germany. In 2013, the auto sector listed a turnover of € 361 Billion, around 20% of total German industry revenue”²⁵. Germany is the 5th market in the world and the 1st in Europe. Like all other European markets it got heavily affected by the general economic situation and at the end of 2013 sales decreased by 4% (**Table 6**). At the end of 2013 German brands controlled 72% of market shares and Volkswagen was n.1 car-manufacturer.

In **Table 8** we can notice a drastic decrease in production in the period between 2008 and 2009 (i.e. when the consequences of the financial crisis hit Europe), nonetheless Germany reacted better to the crisis than many other European countries, and we can see that production went back to its standards in about one year.

Table 8: Volumes of production in Germany between 2007 and 2013

Year	Production Volume	Variation in %
2007	5,709,139	5.8
2008	5,532,030	-3.1
2009	4,964,523	-10.3
2010	5,552,409	11.8
2011	5,871,918	5.8
2012	5,388,459	-3.7
2013	5,439,904	1.0

Source: www.vda.de

Indian Market:

Market size and cheap labor cost are the main strengths of the Indian market, just like in the Chinese one. India is n.7 worldwide by sales (**Table 6**) and it's endangering the position of Germany as n.6 although sales decreased by 10% during 2013; it was the first time in 11 years that sales showed a negative trend. According to a study by PwC (August, 2013) over-capacity reached a record of 2.5 Million, with capacity utilization at 57%, the lowest level in more than 10 years. “Despite OEMs launching 22 special editions in the previous months, giving interest-free repayment and discounts up to 20% to catch customers and dealerships, the car industry faces the decade's worst slowdown (PwC, August 2013: 11).

India is home of one of the biggest Multinational Conglomerates in the World, TATA Group, which includes 32 companies whose businesses include the Automotive industry, chemicals, energy, technology, consulting and assurance services. TATA Motors ranks 15th worldwide by production and sales and it controls important European brands like Jaguar and Rover. Car manufacturers operating in India very often conclude

²⁵ <http://www.gtai.de/GTAI/Navigation/EN/Invest/Industries/Mobility/automotive.html>

deals with TATA either regarding production or distribution due to the strength and know-how of the company in that market.

Russian Market:

The market is the 7th worldwide (**Table 6**) and it is dominated by Renault-Lada with 25% of market shares²⁶. Hyundai and General Motors come as second. In 2013 sales in Russia went down by 6% but still, the country counts 147 Million people and it is one of the most important emergent economies (i.e. BRIC countries) therefore it deserves attention. Several car-makers have been trying to create Joint Ventures in this market, one of the most recent is the Joint Venture between the Russian Sollers and Ford. Also FIAT negotiated for a long time with Sollers but in 2011 the agreement failed and Ford succeeded. To date, sales in the Russian market show a negative variation of 9.9%²⁷.

Italian Market:

The Italian market is the 12th in the world by sales (**Table 6**). Among the top 15 countries by sales Italy shows the second worst result, with a 8% negative variation. By production, Italy is far behind Germany, the leading European country (**Table 2**). As it emerges in **Table 9** the whole car sector was heavily hit starting from 2009, when the crisis arrived in Europe. Sales decreased by more than 300,000 units between 2009 and 2010 and maintained a negative trend reaching the negative peak in 2012. Registrations between 2009 and 2012 decreased by almost 800,000 units.

Table 9: Registrations in Italy from 2008 to 2014 – Passenger vehicles

2008	1,719,256 (100%)
2009	1,925,710 (100%)
2010	1,588,242 (100%)
2011	1,472,499 (100%)
2012	1,159,135 (100%)
2013	1,405,346 (100%)
2014*	534,932 (100%)

Source: The author. Adapted from InfoSmart –Urban Science (2008-2012) and Dealerplus.unraeservizi.com (for the years 2013 and 2014)

* 2014 data refer to the first 5 months of the year only. Market size is expressed in thousand.

²⁶ http://www.carsitaly.net/fiat-car-sales_russia.htm

²⁷ Ibid.

Table 10: Market shares' distribution in Italy - 2013

Car manufacturer	Market share
FIAT	28.90%
Volkswagen	11.90%
PSA	9.70%
Nissan-Renault	8.80%
Ford	6.60%
Opel*	5.30%
Toyota	3.90%
Daimler-Benz	3.50%
BMW	3.00%

Source: The author, Adapted from InfoSmart –Urban Science (2008-2012) and Dealerplus.unraeservizi.com (for the years 2013 and 2014)

* Opel is owned by General Motors Group

The Italian market started to recover only in 2013, very late and much slower if compared to the German one. Moreover, according to data coming from the Centro Studi Subalpino (January 2014), an observatory of European and World car markets, the level of registrations in Italy is still 47.7% less than 2007, which was the best year for the Italian market. “With no special action on the part of the Government for the current year the market is expected to increase by no more than 2/3%” [ibid.] The crisis in the auto market is paradigmatic of the crisis that hit the Italian economy. The GDP fell by almost 2% and unemployment raised to 13%, with a current level among young people of 43%. “The purchasing power of households [fell] by another 5% [in 2013] after -4.8% in 2012, going back, according to Nomisma, to the level of 25 years ago. Industrial production [declined] in the first 11 months [of 2013] of another 31%, tax burden growing still. To this must be added, as far as the car in particular, a specific tax burden completely out of control (17% of total fiscal revenues), cost of fuel at the highest levels in Europe, rising costs for insurance and tolls and VAT (Value Added Tax n.a.) increased to 22%” (ibid.). Business Monitor International (2014) provides a detailed analysis of the Italian market made by a SWOT analysis addressing the industry from four points of view: Autos, Economy, Politics, Business Environment²⁸. Such analysis is available below:

Autos:

Strengths – FIAT has an established presence and dominates local production; An increase in FIAT’s alliances with strong foreign car-makers is extending the company’s global reach and is likely to benefit its finances.

²⁸ When looking at the study by BMI, it is important to consider that in the Italian case we have a very interesting peculiarity, i.e. FIAT is the only real actor in the market to be involved in production, distribution and sales, as Governmental support through the years made it very hard for competitors to actually become fully operative on this market; therefore many perspectives emerging in BMI study take into consideration specifically FIAT’s position.

Weaknesses – High labor costs and historic government protection for FIAT have discouraged foreign operators from establishing significant auto manufacturing operations; Very low economic recovery which could have a knock-on effect on vehicle sales.

Opportunities – The resurgence of new-model investment and sales has succeeded in reinvigorating the fortunes of FIAT and its suppliers; Labor agreements reached between FIAT and the workers' union will help secure future autos production in the country, at least temporarily.

Threats – Any decline in FIAT's local production will adversely affect demand for components from the local parts industry; Eastern European countries, particularly Slovakia and the Czech Republic are attracting massive investments from global car-makers, further eroding Italy's competitive position; State enthusiasm for supporting FIAT is currently uncertain.

Politics:

Strengths – Italy remains part of the EU, which implies a level of commitment to democratic and transparent government; Italy has a democratic political culture which, despite frequent crises in the governments of the day, has lasted for nearly six decades; Italy is an active and influential member of many multinational organizations.

Weaknesses – The rise of the Five Stars Movement²⁹ has put mainstream parties under pressure to renounce austerity and increasingly support populist agendas; Strong and entrenched pressure groups, from Trade Unions to corporate lobbies, have the power to resist reforms, creating a high level of inertia.

Opportunities – Italy's strategic importance as a key euro-zone member implies the EU/IMF will want to ensure relative political stability in the country.

Threats – A strong anti-politicians movement is gathering pace in the Italian society across the ideological spectrum, leading to a progressive empowerment of populist apolitical figures; In a period of fiscal austerity, the political drive for independence in certain northern regions of Italy may gather stream.

Economy:

Strengths – Although Italy's real GDP growth will remain low, we highlight that per capita wealth remains very high by European standards, and household debt is relatively low by euro-zone standards; Notwithstanding a poor competitiveness record, Italy remains the World's seventh largest economy, with a comparative advantage in a number of areas including industrial design and innovation, fashion and clothing.

Weaknesses – Italy lags behind the 'de-industrialization' curve, the process by which other OECD economies acknowledge that manufacturing is migrating to lower-cost economies in Asia and other regions, hence a need to build up a competitive advantage in alternative sectors; Around 30% of Italy's workforce is

²⁹ The Five Stars Movement is a political movement which was initially born as a form of protest against the traditional political parties, which were seen as unable or unwilling to respond to Italians' needs and claims (n.a.).

still employed in manufacturing, compared to around 15% in the US and the UK. Relatively high levels of corruption and cronyism in certain areas of the economy have led to inefficiency and insufficient allocation of resources.

Opportunities – Reforms of labor market, the university system, public examinations and a general simplification of bureaucracy could induce a reversal of trend in the brain drain that has characterized the country over the past 30 years; Although Italy's manufacturing sector has suffered through competition from China and other low-cost centers, the country does have the human capital and capital resources to move higher-up the value-added chain. Doing so would open up new markets, especially in emerging countries.

Threats – Fiscal consolidation and economic contraction could lead to an expansion of the grey economy; A period of trade unions unrest, following deep reforms of the social security system, could disrupt economic operations and weigh on Italy's attractiveness to foreign investors.

Business Environment:

Strengths – Membership of the EU implies a substantial degree of market transparency and relatively strong economic and political institutions; Italy benefits from a skilled workforce, which is attractive for greenfield investment.

Weaknesses – Corruption and cronyism have long been a weakness of the business environment; An ageing and underfunded infrastructure grid represents a large obstacle to business development.

Opportunities – A strong presence in many expanding Eastern European and Balkan markets provides a sui platform from which to increase exports; Due to the predominance of small and medium enterprises, many of whom have significant innovation potential and rely on relationships with local banks for funding, there is scope for the expansion of venture capital or private equity industries.

Threats – Fiscal consolidation and weak economic growth are set to limit domestic demand growth, reducing the palatability of the Italian market.

Table 11: Vehicles' sales in Italy – Forecast

	2014f	2015f	2016f	2017f	2018f
Vehicles, units	1,349,358	1,304,208	1,272,647	1,334,857	1,257,663
Vehicles, % chg y-o-y	-4.8	-3.3	-2.4	4.9	-5.8
Passenger cars, units	1,237,054	1,193,951	1,162,601	1,209,105	1,147,272
Passenger cars, % chg y-o-y	-5.1	-3.5	-2.6	4.0	-5.1
Commercial vehicles, units	112,305	110,257	110,406	125,752	110,392
Commercial vehicles, % chg y-o-y	-1.8	-1.8	-0.2	14.3	-12.2
Motorbikes, units	144,631	153,743	160,815	168,052	175,446
Motorbikes, % chg y-o-y	-6.0	6.3	4.6	4.5	4.4

Source: Adapted from BMI forecasts; ACEA; ANFIA

N.B. f= forecast

Table 12: Vehicles' production in Italy – Forecast

	2014f	2015f	2016f	2017f	2018f
Vehicles, units	644,713	645,965	650,350	659,223	684,807
Vehicles, units, % chg y-o-y	0.1	0.2	0.7	1.4	3.9
Passenger cars, units	388,944	394,392	402,279	414,348	443,352
Passenger cars, units, % chg y-o-y	2.0	1.5	2.0	3.0	7.0
Commercial vehicles, units	256,150	251,574	248,070	244,875	241,455
Commercial vehicles, units, % chg y-o-y	-2.6	-1.8	-1.4	-1.3	-1.4
Motorbikes, units	266,818	273,488	278,958	280,985	283,072
Motorbikes, units, % chg y-o-y	3.8	2.5	2.0	0.7	0.7

Source: BMI, ANFIA

N.B. f= forecast

Concerning the Italian market, one of the interviews conducted revealed to be very useful to get an understanding of the situation: the one with Mr. Lamendola. “In the last two years in Italy less than 400,000 vehicles were produced. If you compare this to what is being done in Germany and other European countries

there is no match [...]. You need to explain me how come in Germany the product's cost and manufacturing cost per unit is much higher but 75% of German groups' autos are produced in Germany. Investments on product innovation and process innovation are critical otherwise it is obvious that you cannot compete with the salary of a worker from Eastern Europe, but the capabilities and technology we have here they don't have them in Eastern Europe. Let's make an example, every year in Turin tens of engineers get out of the Politecnico³⁰, it's not the same in Eastern Europe; that to say these people have the right capabilities [to work in the Industry] and this is fundamental. After all, even [...] Marchionne said the real problem is not the labor cost, which matters by 7% or 8% in the final cost. [...] The problem is, in a nutshell, the amount of added costs weighing on the industrial system which make you less competitive. Again, in Germany and France the cost per hour is higher than in Italy but what matters is what is around that, for example if materials can move regularly in a [well functioning] system.” (Mr. Lamendola, Director of FIOM office for Mirafiori affairs).

5.2 FIAT Chrysler Automobiles: History, Production, Brand Portfolios, Market shares

This part of Data is specific to FIAT and FCA Group. Notwithstanding the fact FIAT is the object of the study, also data about Chrysler are presented as it is important to know the background of FIAT's target before the deal and its evolution together with the Italian company. The markets analyzed in this part are only those which represent the very core of FIAT's sales and future strategy.

5.2.1 Brief history of FIAT

It was in Turin in 1899 when Giovanni Agnelli founded the Fabbrica Italiana Automobili Torino, its initials composing the name FIAT. The company is the third oldest Car manufacturer in the World and one of the few, among the oldest, to be still independent. Italy was a country where the middle class, the bourgeoisie, was starting to raise, and with that also people's purchasing power and products' demand. In that period Italy was still deeply immersed in agriculture and the industrial revolution hadn't spread much yet, its effects being generally limited to the northern part of Italy. FIAT's growth was steady and through the years the company increased its product-portfolio by producing trucks, trams, marine engines and commercial vehicles. In Europe the beginning of '900 was characterized by fast-growing technological progress but also by World War I, which forced industries to convert their plants to military production. FIAT had a critical role and supplied the Italian army with its vehicles and military-related products. In 1915 the construction of a new plant in Turin was started, which would become the biggest in Europe, the “Lingotto” plant. Such facility was characterized also by the presence of a test-track on the roof, where cars could be immediately tested. The Lingotto was the first plant in Europe to be built according to *Taylorism* and *Fordism* principles and in 1923 it was presented as “a new great plant with an American style” (Castronovo, 1978).

The period between the '20s and the '40s is marked in Italy by the Fascists' raise to power. FIAT's relationship with the new Government is also witnessed by a new model for the middle class, the 508

³⁰ Politecnico di Torino is a Top University specialized in engineering

presented in 1932 and named “Balilla”, a youth organization created by the Fascists. Manufacturers all over the World built the Balilla under license.

FIAT also aimed at addressing a potential market that had been left untouched so far and whose need had been overlooked, i.e. the need for a small and cheap car. No car company considered the need for a smaller and cheap car till that moment, moreover Italy was still behind the other European countries by number of cars. In the ‘20s, around 735,000 cars were circulating in Europe, but only 32,000 were in Italy. In the ‘30s Italy had six times more cars and space became the real problem in cities. FIAT understood that what people needed was a two seats small car, and so the new 500 Topolino went under production to address that segment. The new product paid off also because of its cheap price and the Italian society benefited in the way many families could now afford a car. In 1937 the company started to build a new plant in Mirafiori (Turin). To date the plant is the biggest in Italy and the oldest functioning plant in Europe. During World War II FIAT had to convert again its plants to military production and almost abandon car production, focusing mainly on trucks, aircraft-engines and submarines.

After WWII Italy was a country to rebuild. The years between the ‘50s and the ‘60s are often referred to as the years of the “economic boom” and the “Italian miracle”. The Automotive industry is among the main players in this reconstruction phase; FIAT’s production in this decade grew by six times and the number of its employees reached 85,000. It was in this period, exactly in 1957, that FIAT gave birth to its most worldwide known model, the New FIAT 500, a city-car which represented a breakthrough in the industry from the conceptual point of view. Between the ‘60s and the ‘70s the positive economic spin kept on going. Optimism was pervading the Italian society and products’ consumption was increasing. FIAT mirrored this change as it also started to produce a range of non-car related products (e.g. refrigerators and washing machines). In 1966 Giovanni Agnelli, the nephew of the founder, became the new President of the company and several agreements were concluded, for example the deal for the construction of a production plant in Russia but also the acquisition of Lancia, the purchase of half of the shares in Sefac-Ferrari and the majority control in Magneti Marelli, that is still a World-leading manufacturer of components for the Automotive Industry. At the end of the ‘60s there were several protests on the part of workers and contrasts between the company and Trade Unions that influenced the economic results. Notwithstanding this, the company invested in the construction of several new plants in the south of Italy: Termini Imerese, Cassino, Termoli, Sulmona, Vasto, Bari, Lecce and Brindisi. Still between the ‘60s and the ‘70s FIAT started a process of internal reorganization of activities, becoming a Holding. Among the first branches to be created there were Iveco, FIAT Macchine Movimento Terra (focused on agriculture-related production) and FIAT Engineering. In the end of the ‘70s other investments were made in Italy and Brazil and FIAT created two groups: Teksid, an Iron Foundries’ group, and Comau, a group specialized in manufacturing and automation, which now has branches in Brazil, USA, Mexico, Russia, China and several European countries.

In the ‘80s the focus of the industry moved towards electronic components, new materials and attention to environment and emissions. FIAT followed this trend in its R&D efforts. In 1980 the Panda was created and

immediately became one of the most successful models. In 1986 Alfa Romeo, a brand globally famous for the quality of its cars, was acquired by FIAT from the State, which had owned the company since 1933 through the Institute for Industrial Reconstruction (IRI).

During the '90s FIAT focused on a multiple strategy based on product innovation, expansion in new markets outside Europe and internal reorganization. In 1993 FIAT acquired the luxury car manufacturer Maserati, reinforcing the offer available to the upper segment of the market. In the beginning of 2000 FIAT was in a deep crisis and Agnelli was persuaded that the company couldn't possibly face the international competition by standing alone. Therefore FIAT made a deal with General Motors. The American company acquired 20% of FIAT, which kept the right to sell the remaining 80% to GM whenever they wanted to. Nonetheless such agreement revealed to be a failure after only four years as both companies were in a very hard economic situation. GM paid FIAT in order for the company not to use its right to sell the remaining 80% and gave back its 20% shares.

The company was very close to bankruptcy. Product innovation was lacking, market penetration abroad was very low, except for the Brazilian market where FIAT has always been a leader. "FIAT was considered too small in comparison to competitors and overburdened of elevated structural costs above all with regards Italian plants" (Balcet et al. 2013). A slow recovery started in 2004, after a change in leadership at the top and the arrival of Luca Cordero di Montezemolo as Chairman, John Elkann as vice-Chairman and Sergio Marchionne as CEO. The years after 2004 are the years of FIAT's rebirth. The sudden death of Umberto Agnelli had left the company in complete uncertainty. The 2003 balance had closed in red with a loss of €2 Billion and the company was still surviving only thanks to loans coming from a group of banks in 2002. Nonetheless these loans would have led potentially to the complete control of FIAT on the part of creditors in September 2005. The company needed to find a solution and it needed to find it quickly. Back then Marchionne had been in the Board of Directors for a little more than one year. Umberto Agnelli had chosen him personally after a successful career in SGS (Société Générale de Surveillance). As said, the 2003 balance had a €2 Billion loss, with €49 Billion in sales and 162,000 employees, of whom, 80,000 were Italian. FIAT's rebirth started thanks to Marchionne's financial capabilities (in particular when dealing with General Motors, which controlled 20% of FIAT) and the company's new models. In fact, all Brands launched new successful models.

Soon after his arrival at FIAT, Marchionne started to analyze the Industry looking for possible partners to create an alliance. His first idea was to go for an alliance with GM and its European brand, Opel, while at the same time making a deal for the control of a stake in Chrysler. The negotiations with GM Europe eventually didn't end up well mainly due to the opposition of the German Government and thus FIAT decided to change its target and focus on Chrysler only, from 2009 on. Looking at FIAT nowadays, after ten years of Marchionne's leadership, the difference is astonishing. Without considering Chrysler, now the company is divided into two entities: FIAT S.p.a. and CNH Industrial, a Group producing agricultural vehicles,

commercial vehicles, trucks and buses. Considering FCA, sales are more than doubled (€112 Billion) and the net revenue is €2 Billion; moreover now the company has 300,000 employees, among them only 81,000 are Italian³¹. Considering the ten balances of FIAT under Marchionne, only two of them were in red, the first in 2004 because of the fact the company was being restructured and the second in 2009 when global economic contingences affected every sector of the economy in Europe. Concerning the value of FIAT's shares, in these years it increased by 174%, a value higher than the one of the European index *Stoxx* of the Car industry (169%)³². The deal with Chrysler remains the most remarkable event of the last years and possibly of FIAT's history. In 2003 the company was selling around 1.8 Million vehicles, 2.3 Million in 2007, but together with Chrysler, as FCA group, it is now the 7th in the World by sales, with around 4.4 Million vehicles sold in 2013 and strong potential for growth.³³

5.2.2 FIAT's target: Brief history of Chrysler

Chrysler is one of the three big American car manufacturers and the youngest of the three, being Ford founded in 1901 and GM in 1908. In fact, the company was founded in 1920 by Walter P. Chrysler. Chrysler's history is a "rise and fall" one. Several financial up and down characterized the company, which had to rely on Governmental intervention more than once. Its role as a pioneer in technological development and innovation was not followed by a successful expansion in markets other than the NAFTA one, where all its facilities are located. The '70s were one of the worst moments for Chrysler, which suffered environmental regulation and oil prices. The company always strived to achieve fuel-efficiency and its technology, from the '70s on, has never kept up with competition. Debts and a strong decrease in sales led to the collapse of the Company's main foreign subsidiaries. In 1977 Chrysler Europe collapsed and was offloaded to Peugeot in 1978. In 1980 Chrysler Australia was sold to Mitsubishi Motors and its name was changed to Mitsubishi Motors Australia Limited. In 1978 Lee Iacocca became the new CEO. Under his leadership and reorganization strategy the company managed to overcome its crisis, although it remained extremely weak from the financial point of view. Governmental support was fundamental to save Chrysler in this case, with a \$1.5 Billion loan and the signing of a contract between Chrysler and the military for the furniture of trucks. In 1987 the Company acquired American Motors Corporation (AMC), and this allowed it to control the Jeep brand. Thanks to this acquisition the firm's size increased but such agreement was also backed by a US \$900 Million debt. Chrysler kept on being the weakest of the big three American producers. Between the end of the '80s and the beginning of the '90s heavy talks took place between Iacocca and Giovanni Agnelli concerning a FIAT-Chrysler Joint Venture in the US and Europe but eventually failed. In the same period Chrysler and FIAT reached an agreement regarding the distribution of Alfa Romeo. Chrysler became the exclusive distributor for Alfa Romeo in North America and Chrysler dealers were allowed to distribute Alfa Romeo products. Such agreement lasted till 1994, when Alfa Romeo left the US market. The success of Jeep

³¹ <http://www.ilsole24ore.com/art/impresa-e-territori/2014-05-31/dieci-anni-marchionne-come-e-cambiata-fiat-multinazionale-italiana-gruppo-globale-200143.shtml?uuid=ABfgLkMB>

³² Ibid.

³³ Ibid.

and models like Dodge Ram and Dodge Viper put the company in a strong position by the end of the '90s. Nonetheless, Chrysler's strategy was risky due to the fact it was still focused on the North American market and for this reason probably not sustainable in the long run. "Chrysler and Daimler products were for the most part complementary with a model in every product segment for the key European and North American markets, Chrysler would concentrate on the volume market and Daimler on the luxury" (Balcet et al. 2013). Notwithstanding the terms of the agreement, the Germans were the dominant part since the beginning. The stock evaluation of Daimler was almost the double of Chrysler, moreover concerning engineering and purchasing the new Group assimilated Daimler procedures, which were very different from Chrysler ones. Last but not least, the decision to establish the Headquarters in Germany influenced in a negative way the relationship between the two parts of the deals. "The focus at Chrysler was always on developing new, exciting products quickly and within cost targets, whereas Daimler's goal was to increase the level of technology and product sophistication" (Belzowski, 2009 in Balcet et al. 2013). Also the relationship with suppliers changed, moving from collaborative to transactional (Balcet et al. 2013). Differences in strategy (cost-strategy for Chrysler vs differentiation-strategy for Daimler) and relationship with suppliers reflected an even deeper difference in corporate cultures. Hollman et al. (2010) defined the failure of the merger as a "clash of cultures"; while "decision making at Daimler-Benz [...] was approached very methodical, at Chrysler [...] creativity in the decision making process was asked for and strongly encouraged. Among Chrysler's values you find efficiency, empowerment of employees and equal rights among all staff; Daimler-Benz ' culture is more based on authority, bureaucracy and centralized decision making " (ibid.: 435).

A flat hierarchy in Chrysler was faced by top-down management in Daimler. High salaries of Chrysler management were not matched by those of Germans, whose salary base was lower with high-performance based incentives. Finally, Chrysler's employees were used to work with a trial-and-error approach while Germans were following detailed plans followed by a precise implementation. The two companies failed to unify the cultures and the co-management between the two companies' CEOs, Jürgen Schrempp (from Daimler-Benz) and Robert Eaton (from Chrysler) failed as well due to divergent views and the fact the Headquarters was established in Germany. In 2000 and 2001 the successors of Eaton, James P. Holden and Thomas T. Stallkamp were substituted by the German Dieter Zetsche. The Top-Management came to be constituted mainly by Germans, who took the lead. In 2000 Daimler CEO Schrempp stated that he never intended to realize a "merger of equals" and added that the merger would have never taken place, had the real intentions of Daimler been known since the beginning (ibid.: 438). That was the beginning of the end for Daimler-Chrysler.

"After the merger Chrysler ran into troubles due to Daimler not being able to incorporate the thinking of a volume-oriented brand such as Chrysler into its corporate thinking which was based on developing expensive vehicles" (Belzowski, 2009 in Balcet et al. 2013). From being a top car-manufacturer in 1998 Chrysler moved to having a marginal role and facing a deep crisis, with \$4.7 Billion in operating losses by 2001. "In spite of Daimler cut 26000 operatives, \$4 Billion from internal and external costs and six idled

plants to improve capacity utilization, in 2007 and 2009 Daimler sold Chrysler to the US private equity company Cerberus Capital that was awarded the deal against other interested equity funds and automakers and suppliers” (Balcet et al. 2013). In 2008 the financial crisis hit the American economy and Chrysler, which was already in a bad position, was forced to cut 25% of its workforce in the US. The company’s sales decreased by almost 35% by the end of 2008. The company’s CEO at the time, Robert Nardelli, stated that the only way for Chrysler to survive was to create an alliance with either a domestic or global car manufacturer. The firm was very close to bankruptcy and many didn’t believe it would see the end of 2009.

5.2.3 Production: Facilities’ worldwide distribution and performance

Changes in production following a merger may refer to technology, the location of plants and their mission, i.e. the models they produce. FIAT S.p.a. was a company with divisions in almost 50 countries, on the other side Chrysler never managed to really make it in Europe, and its divisions were mainly located in the US, Canada, Mexico (i.e. members of the NAFTA³⁴) and Venezuela. As said in the Theory section, different stages are performed in different plants and countries before the final product is assembled (**Figure 1**). This is more clear when looking at FCA facilities’ distribution. Stampings, engines and transmissions are made in different plants, and eventually assembled in other facilities³⁵. In FCA Business Plan for the period 2014-2018 several insights emerged concerning the actual and potential use of the different plants and the investments which are being made. To have a clear and wholesome view, data coming from the Business Plan are presented by dividing the production into regions, i.e. NAFTA, LATAM, EMEA, APAC³⁶.

NAFTA Region:

This region includes three countries, i.e. Canada, USA and Mexico. FCA plants in the NAFTA Region are located in three areas: Ontario (Canada), Michigan (US) and central Mexico (**Figure 7**). Since 2009 (year of the establishment of the alliance between FIAT and Chrysler) \$4.2 Billion have been invested in NAFTA assembly plants³⁷. Investments were made with two main purposes: 1) add shifts and increase capacity (in the plants of Jefferson North, Sterling Heights, Belvedere, Warren Truck, Toledo North, Saltillo Van); 2) Intervene on state-of-the-art body shops to allow production of multiple nameplates from the same architecture. In particular, Sterling Heights received \$1.1 Billion in investments in 5 years, Toledo North \$700 Million, Saltillo Van \$600 Million and Belvedere \$550 Million. That said about assembly plant, \$3.8 Billion have been invested in the manufacturing infrastructure; capacity was increased in 11 power-train plants. The production plants of FCA in the NAFTA region are supported not only by “external” suppliers but also by “internal” suppliers, i.e. companies which were owned by FIAT and now property of FCA (e.g.

³⁴ North American Free Trade Agreement

³⁵ For additional information and details regarding production plants see also Appendices

³⁶ NAFTA (North American Free Trade Agreement); LATAM (Latino America); EMEA (Europe and Eastern Europe); APAC (Asia Pacific). This classification is commonly used in the Automotive Industry to identify the regions in which the different markets are located.

³⁷ FCA 2014 Business Plan

Magneti Marelli, Comau, Teksid)³⁸. Assembly plants' actual capacity utilization in the NAFTA Region and FCA forecast for the period 2014-2018 are shown in **Figure 8**.

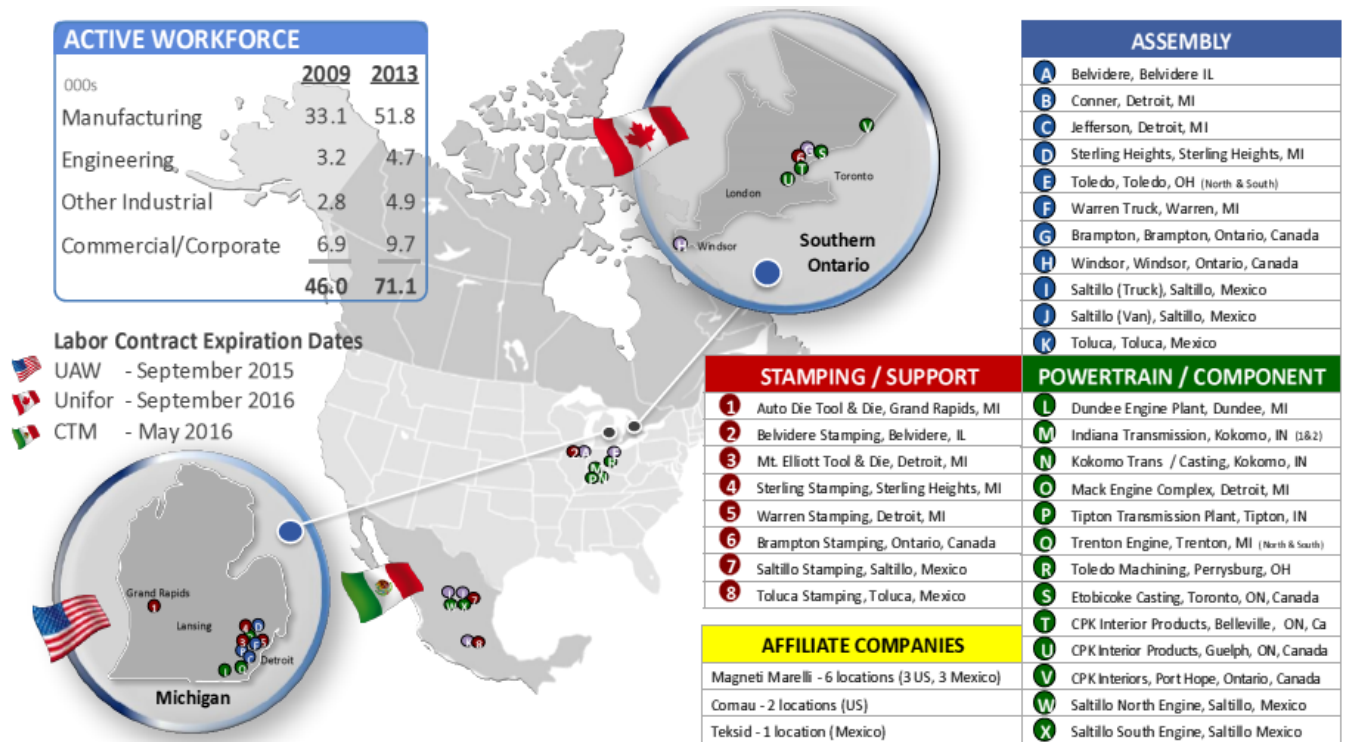


Figure 7: NAFTA facilities' distribution and affiliate suppliers

Source: FCA 2014 Business Plan

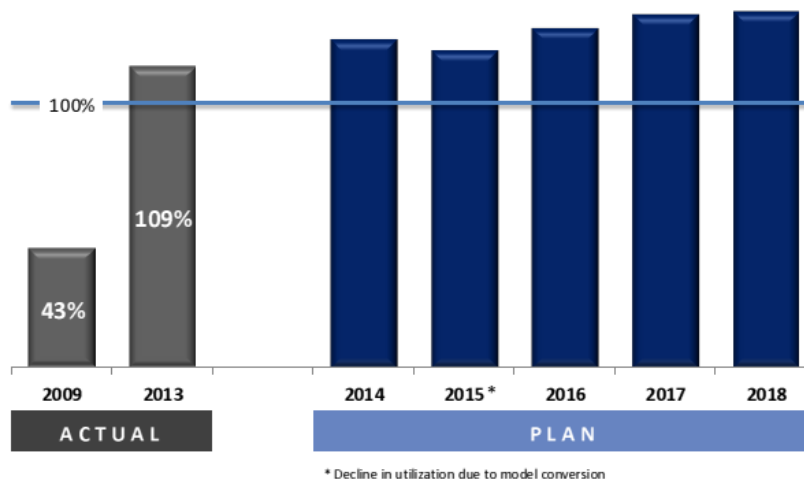


Figure 8: NAFTA plants' capacity utilization

Source: FCA 2014 Business Plan

³⁸ Ibid.

LATAM Region:

FCA facilities in South America are concentrated in two countries, Brazil (which is historically one of the most profitable markets for FIAT) and Argentina (**Figure 9**). The plants' activity is supported also by suppliers owned by FCA (e.g. Magneti Marelli, Comau and Teksid). Assembly plants in Betim (Brazil) and Córdoba (Argentina) produce 3,000 unites daily, 1 vehicle every 20 seconds³⁹. Investments have been made for the creation of another facility in Goiana (brazil) by 2015. **Figure 10** shows the capacity utilization of the two assembly plants in Brazil and Argentina; it also forecasts capacity utilization till 2018 including the expected performance of the plant in Goiana, opening in 2015.

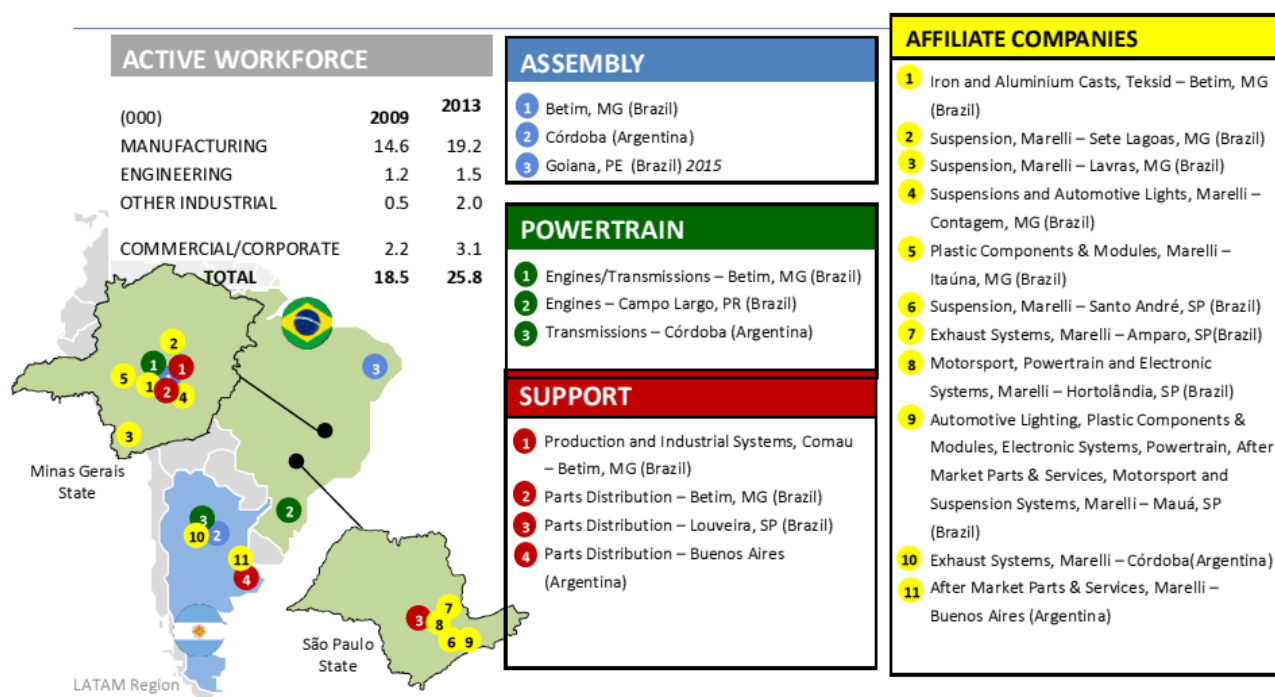
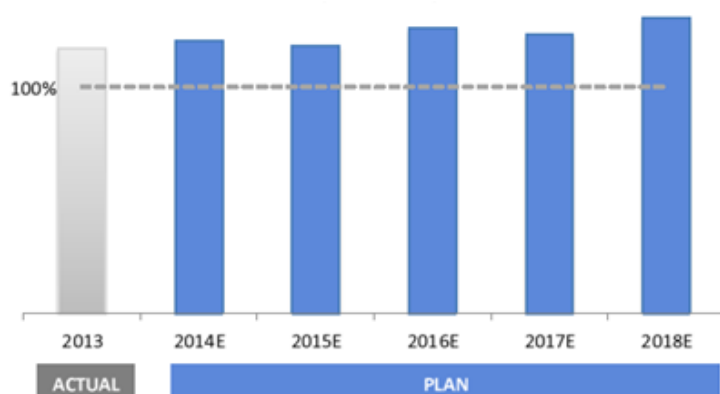


Figure 9: LATAM facilities' distribution and affiliate suppliers

Source: FCA 2014 Business Plan



³⁹ FCA 2014 Business Plan

Figure 10: LATAM plants' capacity utilization

Source: FCA 2014 Business Plan

E= Expected

EMEA Region:

FCA facilities are located in Italy, Poland, Serbia, Hungary and Turkey (**Figure 11**). The EMEA region, together with the NAFTA one, is the most characterized by strategic changes⁴⁰, and also the most relevant when looking at FIAT's political relations, strategy-making process, and its decision to go for a merger. Unlike NAFTA and LATAM, plants in the EMEA region suffer over-capacity problems, as their overall capacity utilization is right now around 66% (**Figure 12**) and if we look at Italy only, capacity utilization decreases to 53%⁴¹. Moreover, according to Mr. Lamendola, an important plant like the one in Mirafiori, which is also the biggest in Italy and the oldest in Europe, is currently working with a capacity utilization of about 10%. FCA's goal is to reach 100% capacity utilization by 2018⁴².



Figure 11: EMEA facilities' distribution and affiliate suppliers

Source: FCA 2014 Business Plan

N.B. The Hungarian facility is owned by Magyar Suzuki, therefore it doesn't appear in the Figure above. The platform is used to produce Suzuki models but also FIAT "Sedici" (see Appendices).

⁴⁰ FCA 2014 Business Plan

⁴¹ Ibid.

⁴² Ibid.

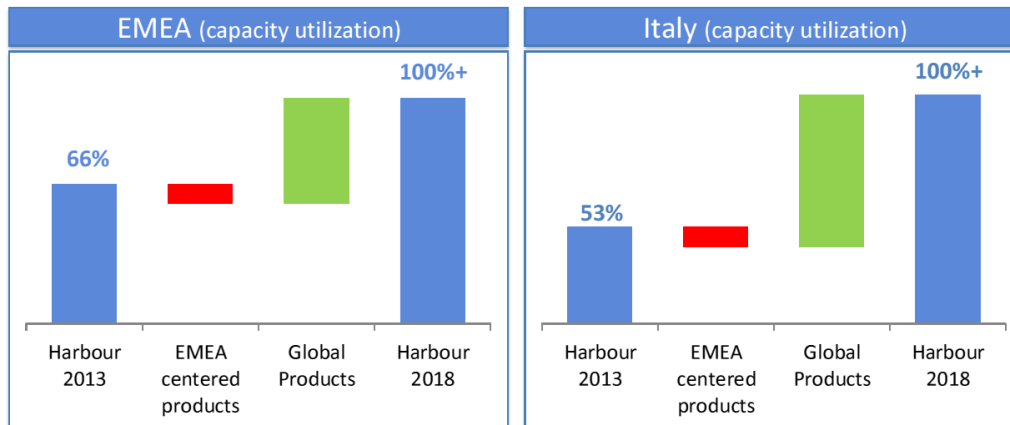


Figure 12: EMEA plants' capacity utilization – comparison with Italy

Source: FCA 2014-2018 Business Plan

N.B. Harbour definition: 235 days p.a. / 16 hours per day

To sustain such a strong increase in capacity utilization, there will be need for an increase in EMEA exports by 40%⁴³. Some actions are already taking place, such as the re-organization of the production of the main plants in Italy. An investment in Melfi plant of more than \$1 Billion has been made also to implement the modification of existing production processes to accommodate a new modular architecture and produce the Fiat 500 X and Jeep Renegade. Moreover £700 Million will be invested in Sevel plant in the next 5 years and there is a plan for the refurbishment of Mirafiori for the production of new models, including a new Maserati luxury SUV⁴⁴.

APAC Region:

FCA facilities are located in the two biggest markets of the APAC region, China and India (**Figure 13**). Low cost of labor and weak Trade Unions are features of China and India. In China FCA has established a Joint Venture with Guangzhou Automobile Group for the production and distribution of Viaggio and Ottimo, while in India the Group has a strong ally in TATA Motors, the 15th car-manufacturer in the World, one of the leaders in the Indian market and owner of Jaguar and Rover. While in the previous years the Joint Venture with TATA included not only the production of FIAT Punto but also distribution and sales, since 2012 the Companies changed their agreement as FIAT is now seeking to establish its own sales and distribution channel in order to increase market shares, since in such a big country controlling the distribution channel is critical⁴⁵. Therefore the joint venture is now only focused on production, in the plant of Ranjangaon.

⁴³ FCA 2014 Business Plan

⁴⁴ Ibid.

⁴⁵ <http://www.ilsole24ore.com/art/impresa-e-territori/2013-05-29/fiat-tata-alleanza-anche-084943.shtml?uuid=AbtpeF0H>

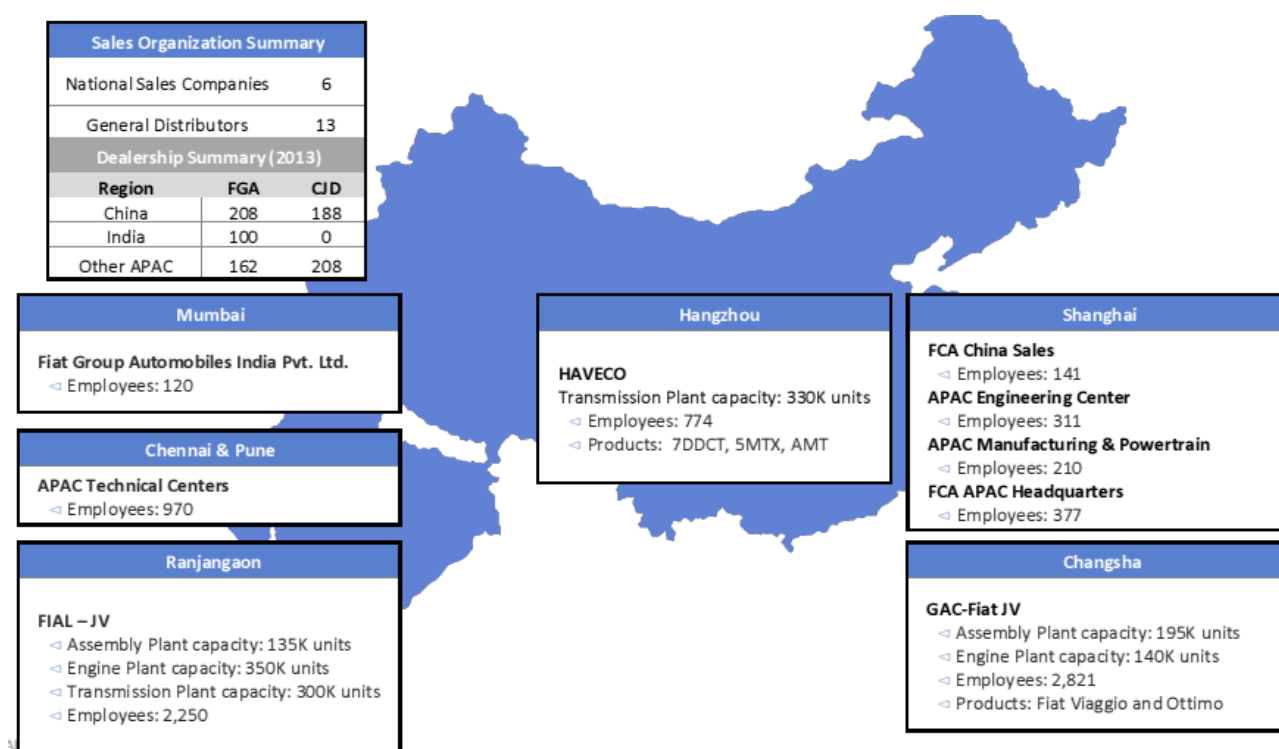


Figure 13: APAC facilities' distribution and affiliate suppliers

Source: FCA 2014 Business Plan

5.2.4 Brand-portfolios

Below a general classification of FIAT and Chrysler brands is made available. The type of classification used is the one generally adopted in Europe by journalists and people working in the Automotive Industry⁴⁶. The European Commission made reference to such classification as well^{47,48}.

Table 13: FIAT brand-portfolio in Passenger-cars

Brand	Segment	Definition
FIAT	A, B, C, D, M	Low- and medium-end cars
Lancia	B, C, D	Low- and medium-end cars
Alfa Romeo	C, D	Medium-end cars
Maserati	F, S	High-end cars
Ferrari	S	High-end cars
Abarth	S	Tuned cars

Source: The author, from FIAT Group

N.B. A=City-cars; B=Small cars; C=Medium cars; D=Large cars; F=Luxury cars; S= Sports cars

Aside from passenger cars, it is noteworthy the presence of Iveco in FIAT's brand-portfolio, which is a LCV producer.

⁴⁶ <http://www.quintamarcia.org/segmenti-auto/>

⁴⁷ http://ec.europa.eu/enterprise/sectors/automotive/files/projects/report_fta_india_asean_en.pdf

⁴⁸ http://ec.europa.eu/competition/mergers/cases/decisions/m1406_en.pdf

Table 14: Chrysler brand-portfolio in Passenger-cars

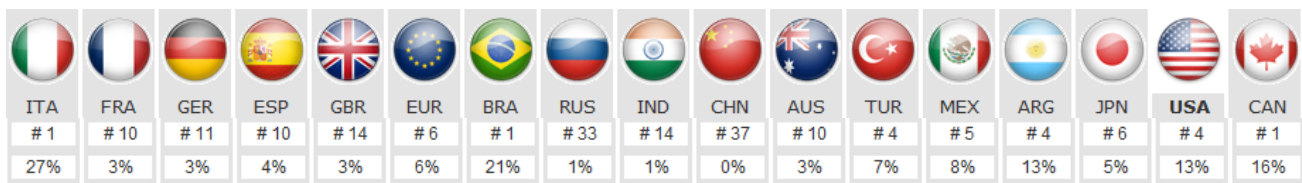
Brand	Segment	Definition
Chrysler	D, E, M	Medium- and high-end cars
Jeep	J (SUV or Crossover)	Medium-end cars
Dodge	Pick-up, S, M	Medium- and high-end cars
SRT	S	Tuned cars

Source: The author, from Chrysler LLC Group

N.B. M= Multi-purpose cars; E=Executive cars; J= SUV; Crossover

5.2.5 Market shares

Following the fashion of the first part concerning which markets to analyze, the focus of this part is on the position of FCA in some of the top markets worldwide plus the Italian market for obvious reasons of opportunity. In order to have a broad view before looking at the selected markets, **Figure 15** provides a synthetic picture of FCA market shares in Europe and in the other most important markets worldwide.

**Figure 15: FCA in the World as of June 2014**

Source: Adapted from www.carsitaly.net

N.B. # = rank; % = Market share

China:

As already seen, the Chinese market is the world leader by both sales and production. “The world's largest car market became Fiat-Chrysler's 11th market in 2012. Chinese continue to buy new cars and foreign auto makers such as VW, GM, Ford, Toyota and Hyundai control the market thanks to their successful joint ventures”⁴⁹. Chinese consumers prefer C-segment cars, which count for almost 50% of local manufactured cars. The C-segment is followed in preferences by the SUV-segment.⁵⁰ “Small cars aren't quite appreciated in China, as the car is still conceived as status symbol, and that's why many people prefer sedans”.⁵¹

Jeep brand is FCA best seller in China and counts for the great majority of sales. FIAT Viaggio is another model, a sedan, showing good results.. The car is being produced by the Joint Venture between FIAT and GAC in the plant in Changsha. The same Joint Venture has doubled production in 2014 also by adding the

⁴⁹ http://www.carsitaly.net/fiat-car-sales_china.htm

⁵⁰ Ibid.

⁵¹ Ibid.

launch of FIAT Ottimo, a new compact car based on the Viaggio model. In 2012 the Joint Venture could count on 120 dealers while at the end of 2013 it reached 200 dealers covering 216 cities across the country⁵².

USA:

“While in 2012 [the] overall American car market jumped [by]13%, Chrysler managed to increase its sales registrations by 21%. Then it was the best performer of the 3 from Detroit, gaining 0,68 basis points of market share. It means that sales of Chrysler Group [and] Fiat Brand advanced 77% compared to 2009 when [the] financial crisis started. The good result is mainly explained by two facts: Americans are buying cars again, and Chrysler improved the quality of its cars. The group sold more SUVs, MPVs⁵³ and trucks, which counted for 70% of total sales, and is particularly strong in MPV segment. The Fiat 500 became the best-selling city car in USA counting for 58% of sales of that segment.”⁵⁴ FCA is currently ranked 4th by sales in the US. The leading groups in the market are the other two big American car-makers General Motors and Ford, while the third place is held by Toyota. **Table 16** shows the top 5 manufacturers in the US by sales.

Table 16: Top 5 car-makers in the US by sales

Car manufacturer	2013 sales	Sales growth
General Motors	2,786,078	+7.3%
Ford	2,485,236	+10.8%
Toyota	2,236,042	+7.4%
FIAT-Chrysler Automobiles	1,800,368	+9.0%
Honda	1,525,312	+7.2%

Source: Adapted from www.carsitaly.net

FCA’s new Business Plan considers the US market (and the NAFTA region, which includes also Mexico and Canada) as a pillar sustaining the Group’s sales and as a critical area where to grow. Therefore the Group invested \$4.2 Billion over the last five years in assembly plants in the NAFTA region, moreover, in the same period, \$3.8 Billion have been invested in power-train plants. Since 2009 over 30 new or refreshed products have been launched. In particular, looking at the US, one of the Group’s brand is expected to reach great results: Alfa Romeo⁵⁵. Alfa Romeo presence in the US came to an end in 1994. Through the years the brand faced hard times and a continuous de-evaluation mainly due to poor technical quality and design. FCA aims at re-establishing Alfa Romeo as a Top-brand, a synonymous of quality and fascinating design. In particular

⁵² Ibid.

⁵³ Multi-Purpose Vehicles, e.g. mini-vans

⁵⁴ http://www.carsitaly.net/fiat-car-sales_unitedstates.htm

⁵⁵ FCA 2014 Business Plan

there is a plan to reintroduce the brand in the US in the upper segments. FCA's forecast concerning Alfa Romeo's sales in the NAFTA region is for about 150,000 cars⁵⁶.

Brazil:

FIAT has been the leader of the market for many years and keeps consolidating its position (**Table 7**). “As it happens in Italy, B-Segment cars are the most favorite, followed by city-cars. Government measures against poverty result in more people with more power purchase, and then more and more people buy cars. That's why 42% of total market correspond to B-Segment cars, and it had an increase of 16% in [2012-2011], the highest among segments. FIAT is the leader of this important market since 2001. It has a strong position over there thanks to a big and competitive range of products, most of them built locally”⁵⁷ (e.g. FIAT Siena, FIAT Palio, FIAT Strada, which are also the company's best-sellers).

Considering the LATAM (Latino America) region as a whole, Brazil is the most important market for FCA with 3.6 Million units sold in 2013, in front of Argentina, where 0.9 Million units were sold, while all other countries in the LATAM region accounted for 1.4 Million vehicles⁵⁸. The Brazilian Automotive industry is still very attractive for newcomers, as shown in 43 where can notice how the market shares of the Top 4 car-makers in the industry have been eroded through the years.

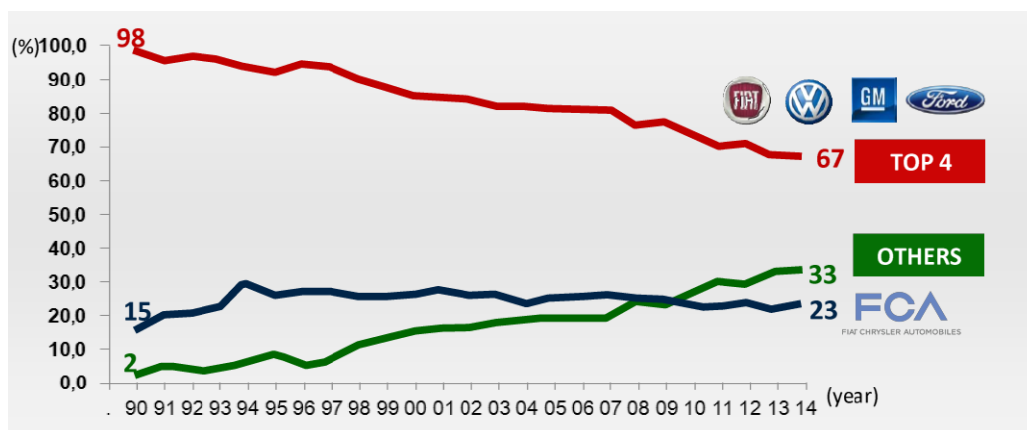


Figure 14: Brazil competitive scenario

Source: DENATRAN in FCA 2014 Business Plan

India:

India is a huge markets which always showed good results, nonetheless in 2013 it suffered a big decrease in sales (...). In general, the country is still far from realizing its real potential (it is the second most populated country but 7th market by sales). “Suzuki is the absolute leader of the market [...]. Other Indians and Koreans are also very strong. Western auto makers are still away from the podium, but Volkswagen Group has made

⁵⁶ Ibid.

⁵⁷ www.carsitaly.net

⁵⁸ FCA 2014 Business Plan

a big jump in the last years. Americans and French don't have the leadership they use to have in other markets”⁵⁹. FCA only sells two models in India: FIAT Linea and FIAT Punto (both produced locally). Since 1997 the two models have been produced, distributed and sold through a Joint Venture with TATA Motors, a leading car-manufacturer, the 15th in the World by sales. “According to Fiat, the fact of sharing showrooms with Tata (as it was part of the Joint Venture with this important car maker), made consumers not consider the two Fiat models”⁶⁰. For these reasons, and according to the new optics for becoming a more globalized entity, in 2012 FIAT decided to re-define the terms of the agreement with TATA and consequently started a process of detachment regarding distribution and sales channels, while the production side was left untouched. Such process ended in 2013 and as a result FIAT has now its own channels of distribution and sales, while the Joint Venture in production goes on in the plant of Ranjangaon (Pune). “In 2014, Fiat will introduce two new models in India: the Fiat Adventure Concept, a contemporary urban vehicle (Cuv) dedicated specifically to young people and the Fiat 500 Abarth, as well as new versions of the Fiat Punto and Fiat Linea. Contrary to what was announced in the past, Fiat Group does not intend to now lead the Indian market instead Jeep and other American SUVs. Both new models will be manufactured at the plant in Pune belonging to the joint venture with Tata Motors”⁶¹. FCA aims at reaching 1% market share by 2014 and it currently covers 0.56% of market shares, with a remarkable increase if compared to 2013.

Italy:

As seen in **Table 9** the Italian market went through hard times during the economic crisis and was one of the slowest to recover. “European debt crisis has had a direct impact on Italian economy and its car industry. In 2012, total market registrations went back to 1970's levels at 1,4 Million units, down a shocking 20%. It was the worst fall among major European markets, and is the result of government austerity measures, more taxes, and a population afraid of immediate future. Italians continue to buy small cars (A and B segment), counting for 54% of total sales. However the segments to have the biggest jump in terms of sales growth were MPV and SUV. Italy is the market where Fiat-Chrysler has the largest market share”⁶². FCA market share in Italy is between 27% and 28%.

The Italian market is the 12th in the World by sales and “home” of FIAT S.p.a. and all brands in its portfolio, namely FIAT, Ferrari, Maserati, Alfa Romeo, Lancia, Abarth. With the announcement of the merger and the creation of the FCA group, the Headquarters was moved partially to England (the financial one) and partially to The Netherlands (the legal one). Therefore, from an administrative and managerial point of view, the importance of Italy has decreased compared to the previous years. Nonetheless FCA announced strong investments in this market for the period 2014-2018⁶³ and the Group has high expectations about both sales and production. Chrysler doesn't hold a relevant market share, although among its brands Jeep is quite

⁵⁹ http://www.carsitaly.net/fiat-car-sales_india.htm

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² http://www.carsitaly.net/fiat-car-sales_italy.htm

⁶³ FCA 2014 Business Plan

strong. FIAT, Alfa Romeo, Lancia, Maserati and Ferrari are best sellers brands in passenger-vehicles while the Iveco brand is specialized in industrial vehicles and buses.

Table 17: FIAT market shares in Italy between 2008-2014

Year	Market share
2008	29.30%
2009	31.46%
2010	28.42%
2011	27.47%
2012	27.41%
2013	28.90%
2014*	28.30%

Source: The author, Adapted from InfoSmart –Urban Science (2008-2012) and Dealerplus.unraeservizi.com (for the years 2013 and 2014)

* Data for 2014 refer to the first five months of the year only

6. Analysis

1st sub-question: Under which environmental conditions did change take place?

6.1 Global Automotive Industry's structure

The Car Sector's structure has always been characterized by strong competition (Dieter, 2007; Fujimoto, 2013; Haugh et al., 2010; Kamp & Tözün, 2010; OECD, 2011) . Historically, the three leading groups by production are Toyota, Volkswagen and General Motors Groups, which currently produce per year between 9 and 10 Million vehicles each (Table 4). Competition has been focusing for a long time on volumes but nowadays, due to the economic crisis, fast globalization and over-capacity issues the key aspects of strategy-making in the Automotive Industry regard mainly quality, investments on the establishment of a global production network and attention to cost-efficiency achieved through strategic choices such as outsourcing and modularization. Suppliers are becoming stronger than OEMs and some of them, for example Bosch, the world leading supplier, are bigger than many car manufacturers in terms of revenues and market capitalization ⁶⁴. The Automotive Industry's economic cycles are strongly connected to the World's business cycles (Haugh et al., 2010). Such interdependence was the cause of a strong recession in the Industry during the economic crisis, whose damages can be evaluated by looking at **Tables 2, 6, 8, 9** and **Figures 3** and **6**. The Automotive Industry and business cycles “move in line with each other but the amplitude of the cycle is

⁶⁴ www.Bloomberg.com

higher in the automobile industry” (Haugh et al., 2010: 5), moreover the volatility of the industry is higher if compared to other sectors in the manufacturing industry. Haugh et al. (ibid.) also show that car sales during the economic crisis have been negatively influenced in the US and Canada by a lack of access to credit and in general by a decrease in private savings and private consumption.

Looking closer at the specific features of the industry it emerges that it is capital intensive and with a high capital-to-labor ratio. In the past years production has been moving increasingly towards non-OECD countries⁶⁵, mainly to Asia (**Table 2**), which is also the biggest market and the one showing the best results in terms of sales and growth-potential (**Table 6** and **Figure 5**). The value chain is producer-driven and the balance of power is moving, as said, towards mega-suppliers (**Table 3**). Considering OECD countries, the relocation of production sites from those countries to others has been influenced (and still is) by factors such as market saturation, high shipping costs and the need to locate production in places where the vehicles are ultimately sold. Outsourcing, but also combination and decentralization of activities (Schmid & Grosche, 2008) are the result of a change in competition, which is based more and more on staying close to the market, cutting costs and increase quality by keeping the main activities inside, in a fashion that can be referred to as *focused verticalization*, where only horizontal technologies are developed “in house”(Karlsson, 2003 and Karlsson & Sköld, 2007). As also underlined by Haugh et al. (2010) “the minimum efficient scale of production has increased over time”, an aspect which is strongly linked to one of the main problems affecting the Automotive Industry, i.e. over-capacity. An over-capacity crisis characterizes those industries where facilities have the potential to produce much more compared to what is being done (i.e. capacity utilization) and therefore they cannot work at 100% of their capability. Decline in sales and markets’ saturation are among the main reasons behind over-capacity problems, the EMEA region is an example of this (**Figure 12**). It is also due to this increase in minimum efficient scale of production that many Joint Venture deals have been concluded over the years in emerging markets (e.g. Toyota, FIAT and Honda have a partnership with GAC in China; FIAT has a partnership with TATA in India) involving car manufacturers in a race to conquer new markets with a wide customer-base. Looking closer at the industry’s structure we can identify four macro-regions or “regional networks” (Dicken, 2005; Dieter, 2007) whose general description and analysis is now necessary to understand the recent dynamics in the sector. These four regions, already met before in the Data part, are: NAFTA, LATAM, EMEA, APAC. In a nutshell, from the point of view of global Groups such as Toyota, VW or GM, they refer to four areas where development, production, distribution and sales are coordinated in a separate way, although communications, exchange of data but also links in the production network connect the companies’ facilities in the different regions. While NAFTA and EMEA are right now considered declining markets or anyway markets characterized by strong saturation and intensity of rivalry, LATAM and especially APAC are huge markets with much potential to discover. In particular, APAC is the most interesting region when looking at production costs and sales. Marchionne

⁶⁵ The Organisation for Economic Co-operation and Development (OECD) is an international economic organization composed by 34 countries. Current members are: EU community; Canada; USA; Mexico; Chile; Turkey; Israel; Japan and South Korea.

often stated: “I prefer to have a 1% market share in China than 30% in Italy”⁶⁶. The APAC region includes the two biggest markets in the World by number of potential customers: China and India, but also Japan, which is the third market worldwide by sales (**Table 6**) and home of many important car-makers, above all Honda, Nissan and especially Toyota, that is currently the World leader both by production volumes and sales (**Tables 4 and 5**).

The fit between OEMs’ outsourcing needs and favorable conditions in the APAC region made so that it became the region most of the companies look at, in order to grow in a massive and fast way. Among the car-makers, Volkswagen Group and Toyota are those that control the majority of market shares in the APAC. The LATAM region has been historically dominated by FIAT, Volkswagen and General Motors, particularly in its main market, Brazil (**Table 7 and Figure 15**). Brazil is the most important market both because of the number of potential customers but also due to its fast-growing economy, the fastest in the LATAM⁶⁷. The increasing purchasing-power of customers in the APAC and LATAM regions makes so that the customer-base is expanding and therefore the potential for sales-growth is very attractive to car-makers, which nonetheless had to respond to the need in those markets for cheaper versions of the models they sell in EMEA and NAFTA⁶⁹; moreover *ad-hoc* models have been developed to address precisely some countries of APAC and LATAM (e.g. FIAT Ottimo and Viaggio in China and FIAT Strada in Brazil⁷⁰). Looking at production and distribution strategies, the path taken by OEMs relies on Joint Ventures and Alliances with domestic producers (especially in the APAC) and the relationship with them is the key to gain market shares also due to the political situation that characterizes some countries, e.g. in China State intervention is still extremely high, moreover the country is only partially open to foreign investments, meaning that foreign investments are always welcome but on a *do-ut-des* basis⁷¹ where know-how sharing and the establishment of joint ventures with local companies are required in order to access the market

The industry’s dynamics and balance of power are obviously not independent from external elements that deserve attention such as environmental regulations, oil price and of course customer needs. In particular, a general loss in wealth and purchase-power in several Western countries together with difficulties in accessing credit and loans paradoxically increased the importance of consumers’ position as companies are forced to find alternative ways to make it easy and affordable for a customer to buy a new car. “The rise in oil prices up to mid-2008 drove material costs higher and also shifted consumer preferences towards smaller vehicles. High debt burdens, huge fixed capital and labor costs, as well as sizable pension and healthcare commitments to retirees added to their difficulties” (Haugh et al., 2010: 5). It is not by chance that, as we saw above and also in the Data section, the NAFTA and particularly EMEA regions have been (or still are) characterized by low sales, as they were heavily hit by a general economic crisis involving the entire socio-

⁶⁶ Fabio Fazio for *Che tempo che fa* (RAI), Oct. 2010

⁶⁷ FCA 2014 Business Plan

⁶⁸ www.carsitaly.net

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ The so called *guanxi* structure of relationship; http://mpr.ub.uni-muenchen.de/31642/1/MPRA_paper_31642.pdf

economic systems of the countries they consist of. Finally, considering the aforementioned aspects, dealers are the group in the weakest position along the Value-chain, as they are caught between the bargaining power of car manufacturers' and customers' power.

After what has been said, a "Five Forces" analysis (Porter, 1986) applied to the Automotive industry at Global level is helpful to identify its general features and define its structure.

Risk of potential Entrants

(low)

- Few new players and market saturation
- Economies of scale matter too much
- Chinese car-makers can constitute a threat
- Mergers and Alliances are the real threat of new players, i.e. new entities

Power of Suppliers

(High)

- Mega-suppliers are becoming very strong and even bigger than many car-makers
- Car-makers' need for outsourcing and modularization gives Suppliers much power

Power Of customers

(Medium)

- Purchasing power in EMEA and NAFTA region is decreasing
- Access to loans is very limited especially in Western Economies
- Wide choice among brands and models

**Intensity
of
Rivalry
(High)**

Risk of substitutes

(Medium)

- High costs of fuel might boost the use of alternative means of transportation
- Vehicles that use different kinds of alternative energy might outdate current vehicles

Source: The author

Risk of potential Entrants:

The risk of potential entrants in the Automotive industry is quite low, both from the point of view of car-makers and the suppliers' one. The globalization process of the industry and the importance to grow fast by production volumes and sales make so that economies of scale and experience create very high barriers to entry. Nonetheless, if we consider as potential entrants also existing Groups in the sector which might be the result of a merger and therefore lead to a new entity, then the risk of potential new players becomes high, as the industry will very likely face in the next years a compression in the number of players due to mergers and acquisitions. Finally, apart from the top 10 car-manufacturers, only the Chinese ones have the potential to create massive Groups and change the balance of forces by creating new entities or entering the industry by covering all its segments.

Risk of Substitutes:

The threat of substitute products is to be considered as medium due to the fact several technologies are being developed that could drastically change the industry by offering new or better products (e.g. new developments in hybrid engines, electric engines, solar-power based engines, Hydrogen-based engines). Moreover the constantly rising cost of fuel, the need for space in metropolis and small means of transportation to avoid traffic could push customers towards an even greater use of alternative means (e.g. public transportation, bicycles). Possibly electric city-cars are a substitute that could outdate the existing vehicles. Nevertheless car manufacturers have already started to develop such models and many other solutions which are either on the market or being studied and developed at the moment. For these reasons, while substitute products are to be accounted for, companies are already dealing with counter measures and the threat is at medium level.

Power of Suppliers:

The ever-increasing shift towards outsourcing and modularization and the need for massive and faster production, in order to reach the optimum and efficient level of volumes, are pushing power towards Suppliers and a consistent part of the value along the value chain is being created by them. Such changes have made so that the sequence of production stages is not as linear as it used to be; rather, the role of Car-makers and Suppliers is becoming closer, with the latter widening their range of products and activities they can perform. Sturgeon & Florida (2004) describe the top Suppliers in terms of production and sales as "mega-suppliers", whose size is even bigger than many car-makers. While car manufacturers are moving towards modularization and outsourcing strategies, focusing only on "horizontal technologies" (Karlsson, 2003; Karlsson & Sköld, 2007) to develop their unique product characteristics, suppliers are filling the gaps left in the value chain by providing a big range of components to integrate the systems. Several years ago tens of suppliers were contributing to the development of a vehicle but nowadays, as economy is moving

very fast towards globalization, suppliers are developing a wide set of components, providing an integrated system coming entirely from one company which comes to assume the characteristics of a mega-supplier. Automotive News and PwC (2013) consider as suitable to the term “mega-suppliers” only the top twenty in the World. Among them we can mention Bosch GmbH (the world leader), Denso, Continental, Johnson Control, Lear, Valeo and Hitachi. The condition of mega-suppliers allows those companies to: build plants around the world; maintain long term R&D; support high-volume vehicle platforms; borrow technology from non-automotive divisions. As stated by Karlsson & Sköld (2007), “in the global competition it has been important to manage or at least have some control over the value chain all the way to the customer. The OEM has been threatened from both directions in the value chain. First-tier suppliers are becoming bigger and stronger than the OEM”.

Power of Customers:

Consumers’ bargaining power is decreasing due to the overall economic situation, the difficult access to loans, credit and a general diminishment of purchasing-power. For these reasons the majority of the top 15 markets worldwide registered negative results in sales (**Table 6**) and especially the European market suffered. On the other side, while all these aspects might lead to judge customers’ power as very low, it is belief of the author that it would be a too fast conclusion, as customers’ and producers are linked by the purchasing-power but also by needs linked to the cost of fuel and therefore consumption. If we look at these aspects it becomes clear that the weakness of customers makes so that companies have to find alternative solutions to sell their products, either by creating new forms of delayed payment or by investing in the development of segments A (i.e. city cars) and B (i.e. small size cars), which are already the leading ones because of the need for high fuel-efficiency and space in over-crowded cities. Moreover, the brand offer is widening as the majority of top car-makers cover every segment, therefore customers have much choice. Due to a diminished purchasing-power switching costs are nevertheless high for consumers. From this point of view it is reasonable to conclude customers’ power is definitely not high but can be labeled as medium, as their needs force somehow companies to adapt their approach to the market and find suitable solutions.

Intensity of Rivalry:

The industry is highly competitive. Profit margins in EMEA region are lower than in the NAFTA, and much lower than in LATAM and especially APAC. Both Car-makers and Suppliers are getting closer to each other and although M&A deals are low among Car-makers and higher among Suppliers, the general conclusion is that the future of the industry will be shaped by M&A in a fashion that will ultimately lead to few massive Groups. Entry barriers are very high due to economies of scale and experience, exit barriers are very high as well because of intensive investments in plants, R&D and difficulty in facilities’ conversion to different production. Market saturation and over-capacity are the main challenges facing car-makers together with environmental policies and fuel-efficiency needs. The overall result is that high concentration leads to high competition.

6.1.1 Recent M&A deals

The current economic situation makes so that companies prefer to opt for internal re-organization or Joint Ventures (**Figure 3**) while M&A activity recently decreased (**Figure 4**). Nevertheless such deals have been and will be a critical strategic factor for the control of market shares and fast expansion in a highly competitive environment such as the Car-sector (PwC, 2010). Therefore the industry analysis wouldn't be complete without a summary of the most important M&A deals of the last years.

Considering only the most relevant and recent M&A deals (either by size⁷² or by brand value of the companies involved), the main ones of the last 15 years are:

- Daimler-Chrysler – Merged in 1998 (demerged in 2007)
- Bentley – Acquired by Volkswagen in 1998
- Bugatti – Acquired by Volkswagen in 1998
- Lamborghini – Acquired by Volkswagen in 1998
- Renault-Nissan – Alliance created in 1999 and still standing
- Volvo – Acquired in 1999 by Ford
- Land Rover – Acquired in 2000 by Ford from BMW
- Rover – Acquired in 2006 by Ford from BMW⁷³
- Jaguar Land Rover – Acquired in 2008 by TATA Motors from Ford
- Scania AB – Acquired in 2008 by Volkswagen
- Volvo – Acquired in 2010 by Geely Automobile from Ford⁷⁴
- Ducati – Acquired in 2012 by Audi (controlled by Volkswagen Group)
- Porsche – 100% Acquired by Volkswagen in 2012 (its acquisition had started already in 2008)
- Indomobil Sukses Internasional – acquired in 2013 by Gallant Venture Ltd
- FIAT Chrysler Automobiles – merged in 2014

Looking at the deals above, two trends are worth being underlined. On one side Volkswagen, the second car-manufacturer in the World, has been involved in M&A deals in a consistent way, as it has been striving to cover every segment of the market and increase volumes to become the first producer worldwide; in particular VW deals involved brands that addressed the luxury segment. On the other side Ford, which is the second car-manufacturer in the US, after being involved in several important deals went through re-organization activities, and its cost-efficiency needs led the company to sell non-profitable brands.

⁷² Due to the fact several small or medium-sized M&A happen every year, the author chose to consider as “relevant” by size only agreements whose overall transactional value is close to or beyond \$1Billion while “relevant” by brand are those M&A involving brands with a particular historical value.

⁷³ The Rover brand and Land Rover brand were separated in 2000 because of the acquisition of the Land Rover brand alone on the part of Ford. After 2006 the two brands were together, as part of TATA Motors, joining Jaguar (already owned by Ford since 1989 and sold to TATA Motors).

⁷⁴ GA is one of the main Chinese car-makers, recently ranked 21st in the World by production. It also has a joint venture with FCA in China.

FCA deal is the most relevant of the last years both by size, meaning the two companies' market capitalization and production volumes, and by importance of the brand portfolios involved. It had been since Daimler-Chrysler deal and Renault-Nissan alliance that the industry hadn't seen a deal of such proportions.

Statement 1: The Automotive Industry is characterized by consolidation among OEMs, over-capacity issues, a power shift from car-makers to suppliers, saturated markets in the EMEA region, partially also in the NAFTA one and strong emerging markets in the LATAM and APAC regions (particularly the Chinese market). Car-makers are outsourcing activities more and more and adopting decentralization strategies to face globalization and intensity of rivalry. M&A activity is low if compared to pre-crisis levels and the FCA deal is the most relevant of the last 15 years both by size and brand-portfolios involved. Contingencies such as difficult access to credit, oil prices, environmental regulations and the general economic crisis have negatively influenced both sales and production in Western countries.

2nd sub-question: How did change originate and how was it carried out?

6.2 FIAT S.p.a. strategy: Brand-portfolio and Operations

After having described the competitive environment surrounding FIAT, let's now take a look at the way FIAT dealt with competition so far, the way it strived to build a competitive advantage and the strategic motives behind its interest in a deal with Chrysler.

6.2.1 A diversified strategy

The company's product portfolio is potentially one of the most complete and multiform in the Industry thanks to the presence of different brands acquired through time. Its range goes from brands addressing the low-ends to the higher ones, till the very top of the luxury segment (**Table 13**). The product-portfolio covers segments A, B, C, D, E, F and S⁷⁵ but it has two relevant lacks: 1) a strong brand in the Pick-up and M segments; 2) a successful brand in SUV⁷⁶ segment (i.e. J segment). In a nutshell, the company never possessed know-how in rear-wheel technology, SUVs and off-road vehicles' production.

FIAT Group's product-strategy can be generally referred to as a *cost*-strategy (Porter, 1986) but it greatly varies depending on the brand we are considering. FIAT brand itself relies on a cost-strategy, where rationalization of production and cost-containment are the pillars. Small cars are the core-product of the company and its knowledge in R&D for fuel-efficient engines constitutes a competitive advantage⁷⁷. Brands

⁷⁵ The segment classification by letters is widely used by specialized journalists and people involved in the Automotive Industry to divide the market and address customers' different needs and purchasing power.

⁷⁶ Sport Utility Vehicle, i.e. Crossover

⁷⁷ FCA 2014 Business Plan;

http://www.fiatspa.com/en-us/investor_relations/investors/presentations/pages/2014_investor_day_presentations.aspx

like Alfa Romeo and Lancia are backed as well by a cost-strategy, although the new FCA Group has already started, since Marchionne's arrival, to work on the re-positioning of Alfa Romeo in customers' mind, to bring it back to the original idea of the brand as a top one, synonymous of quality and high performance⁷⁸, therefore relying on a differentiation-strategy. Maserati and particularly Ferrari adopt a differentiation strategy also exploiting an important synergy, i.e. Ferrari's engine and technology is used in Maserati cars⁷⁹⁸⁰. Thanks to this the Maserati brand was successfully re-launched. Considering Ferrari more specifically, the strategy used to address the market is very much close to a *focus*-strategy (although less than other brands competing for the same customers, like Bugatti), as the product addresses a very limited segment, even more limited due to a contained number of cars produced every year, 7,000 models. The choice to produce a very limited number of vehicles was confirmed also during the presentation of FIAT-Chrysler' Business Plan for the period 2014-2018⁸¹.

The model developed by Schmid & Grosche (2008) to describe a company's configuration strategy is helpful to understand FIAT's rationale. When describing the Industry as a whole we said decentralization of activities is the trend together with outsourcing of production stages, but more precisely many groups choose a "compromise" between centralization and decentralization, i.e. combination (**Figure 2**). FIAT case is emblematic. The company's administrative activities before the merger were mainly centralized in Turin. Production of components was outsourced primarily to Italian suppliers in northern Italy and a few Global suppliers (e.g. Bosch, Valeo or Lear) while architectures, power-trains and transmission (which could be referred to as FIAT's horizontal technologies) were kept inside the company and initially made in FIAT's Italian plants. With market expansion the company needed to stay close to local customers and opened production plants in South America and Eastern Europe. The implementation of a combination-strategy allowed FIAT to exploit good sides of both decentralization and centralization (see Theory section). The organization's guidance stayed stable and centralized in Turin, while ensuring flexibility at the same time. In fact, when asked about the handling of information and management of IT systems at FCA, Mr. Bajak, IT specialist for FIAT in Frankfurt stated: "We had to put the two [IT systems of FIAT and Chrysler] together [...] but not here in Germany, because our applications are all developed in the Headquarters in Italy. But we had to contact the dealers and DMS⁸² providers to involve them in our system [...]. [The Headquarters] checked all the systems and decided to take out the best systems of both". Furthermore, FIAT acquired control over Magneti Marelli, one of its most important suppliers, and it created two other supplier companies, Teksid and Comau. Reliance on its own suppliers ensured the company relatively less dependence on external ones, unless they had very specific capabilities. The company's strategy followed the same path after the acquisition of Chrysler although the balance has been moved more towards a

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ <http://www.autoguide.com/auto-news/2013/01/2014-maserati-quattroporte-gets-twin-turbo-ferrari-engines-2013-detroit-auto-show.html>

⁸¹ Ibid.

⁸² A Dealership Management System is a software used by dealers to measure performance, gather information and share data with the Car-maker.

decentralization strategy. This is clear if we consider the following: Before 2009 FIAT attention was already divided among four regions: NAFTA, LATAM, EMEA and APAC and in order to maintain control over these areas and organize production, distribution and sales channels, four regional headquarters were created, one in each area, in a fashion resembling a *decentralized centralization* (Schmid & Grosche, 2008). In general, downstream primary activities along the value chain (Porter, 1986), like marketing and sales, have been decentralized completely, while upstream secondary activities like R&D have been kept partially centralized in Italy, and partially moved to Detroit (Chrysler's hometown). Turin has slowly been moving from being central worldwide to having a more limited role. Particularly, after 2009, Turin's decision-power has started to be shared with the headquarters in Detroit. Therefore Marchionne, the CEO of FCA, has to divide his time between Turin and Detroit⁸³. Turin kept a fully central role for the EMEA region only. Last but not least, from a legal point of view the new headquarters will be in Amsterdam, while the financial one will be in London. Such changes, due to need for bureaucratic flexibility and fiscal advantages for shareholders (i.e. there is a much lower taxation on dividends in England compared to Italy) will diminish Turin's relevance and increase decentralization.

6.2.2 Reasons behind the deal and synergies

"FIAT and Chrysler, from a product point of view, were the other half of the coin. When you put the two together you come up with a product portfolio that is absolutely complete" (Sergio Marchionne, FIAT-Chrysler Automobiles CEO)⁸⁴. This sentence sums up the very core of the two companies' merger. However, FIAT's interest in Chrysler was backed by several factors which can be looked at from the Historical and Political point of view.

History:

Commonalities or complementary elements between FIAT and Chrysler from an historical point of view can be found when looking at their previous collaboration but also at their orientation towards becoming global car-makers. For different reasons, during the years none of the two achieved its own goal, i.e. entering the American market for FIAT and conquering the European one for Chrysler, which didn't succeed in following the other two members of the "Big 3", General Motors and Ford, that successfully expanded in Europe. Both FIAT and Chrysler were historically volume-oriented and focused on cost-reduction more than high technological developments and the production of expensive vehicles, nonetheless through acquisitions they widened their product portfolio. Chrysler, thanks to Dodge, RAM and Jeep, was able to address the typical needs and desires of the American market for muscle cars, rear-wheel vehicles and big SUVs with high performances. FIAT instead, through the acquisition of Alfa Romeo, Maserati and above all Ferrari, aimed at addressing higher ends of the market and improve technological R&D. Still looking at history, notwithstanding their assets and the value of the brands originally owned or acquired through the years, both

⁸³ From an interview released to Steve Kroft in 2012 for CBS 60 Minutes

⁸⁴ Ibid.

companies seemed to lack something that would allow them to make the big step towards being global leaders rather than strong competitors localized only in some markets. Furthermore, even the strongest brands they possessed were not used at the top of their potential, especially in FIAT case, with the consequence of loss in brand value (e.g. Alfa Romeo case). In the beginning of 2000 both FIAT and Chrysler found themselves in a critical situation, needing financial aid, the achievement of economies of scale and scope and platforms in other continents in order to grow globally. They were both too small to expand and too big to be acquired. Although they had complementary strengths (e.g. product portfolio), more importantly, from this study point of view they found themselves with complementary needs and weaknesses.

Politics:

Politics and National interests are always entrenched with Companies whose history and relevance for the labor market are critical (Dinc & Erel, 2013). The nature of a political and social system influences the way Governments intervene (or choose not to do so) in order to help companies in financial need (Ibid.). FIAT relationship with the Italian Government has always been very strong, sometimes characterized by contrasts. Many times it happened that FIAT received financial aid, facilitated access to the market or even defense and support against competitors in Italy regarding both sales and production plants. “For many years, till the ‘90s, FIAT could count on Italian import barriers and facilitations in production, being the only car-maker to have plants in Italy. [...] In the last 10 years FIAT used social support systems [granted by the State] for € 2 Billion. [...] It is more convenient to them to use that than closing plants. [...]” (Mr. Lamendola, Director of FIOM Office for Mirafiori affairs).

The European concept of “Welfare-State” makes so that Government’s presence in a country’s economic life is particularly strong and devoted to the creation of new work places and the reduction of unemployment. This is even more true for Italy, whose very Constitution begins with the words “Italy is a Democratic Republic founded on labor”⁸⁵, and where one of the main expectations people have towards Government is that it is able to financially sustain companies with critical national importance in order to support workers and prevent unemployment. A different fashion can be found in the US, where a totally different business-culture but also de-regulation and the so called “invisible hand” of the market make so that it is the private individual (or company) to produce value for the benefit of society, with little or no intervention and help coming from the State. From this point of view Chrysler case constitutes a very important exception in the history of the US. Although it is necessary to mention that also GM and Ford received help from the Government, among the “Big Three” Chrysler has always been the weakest and the one which received the greatest support. After the presentation of the new Business Plan Marchionne said that back in 2009 not only Chrysler but also GM needed Governmental support, but while the latter had certainty of receiving it, the former needed to prove it deserved it. It was thanks to a long bargain between FIAT, the Canadian and the

⁸⁵ https://www.senato.it/documenti/repository/istituzione/costituzione_inglese.pdf

US Government that the alliance was possible⁸⁶⁸⁷, as the outcome of negotiations was that on one side the American Government, in order to prevent Chrysler from going bankrupt and save tens of thousands of work places, agreed to lend about \$ 6 Billion to FIAT, a foreign company, and finance Chrysler's reorganization and recovery, an *unicum* in the US automotive industry. On the other side the Canadian Government gave FIAT financial aids for \$1.6 Billion.

As said, through the years the Italian Government heavily supported FIAT but a deep political crisis, accompanied by the global economic crisis, rendered the Government very weak, and so also its economic policy and intervention. Political uncertainty and economic breakdown in Italy pushed companies (including FIAT) to look at other countries in order to grow but also to move their headquarters. Marchionne stated many times that if the Italian Government wasn't willing to help FIAT then the company would move away from Italy⁸⁸⁸⁹. At the same time, the risk of bankruptcy for Chrysler and the exceptional (although long discussed) availability of the US Government to finance FIAT's intervention made so that the political-economic ground for the deal was created.

After such premises we can now consider the opportunities for synergies which motivated the companies to finally make a deal. Such synergies have been classified following PwC (2010) criteria of cost-synergy and revenue-synergy.

Cost synergies:

During the study these synergies appeared to be mainly related to *Production*, as they favored the rationalization of production plants' distribution and allowed to cut the cost of logistics and fixed costs due to the achievement of economies of scale.

The location and focus of production plants and the relationship with suppliers are heavily influenced by the deal. Chrysler production sites' distribution⁹⁰ is centered in the NAFTA region (**Figure 7**) while FIAT's main sites are in the EMEA but also in the LATAM region (**Figure 9 and 11**). Facilities' in the APAC region are shared by FIAT with its Joint Venture partners (**Figure13**). From a global point of view FIAT is much more international than Chrysler, as it also established Joint Ventures in China and India for the production of models available in those markets only. The locations of production plants of FIAT-Chrysler are complementary and allow the new FCA Group to cover widely (although with great margins of improvement) all four regions.. Globalization and the increase in competition make so that three factors are very important when looking at production and the geographical distribution of facilities: the achievement of economies of scale, the closeness to the market and labor costs. Therefore, in order to become truly global a company needs to have production close to the final market it addresses and facilities which allow it to reach

⁸⁶ <http://www.ilsole24ore.com/art/finanza-e-mercati/2013-12-20/fiat-veba-riparte-trattativa-175350.shtml?uuiid=ABLhKLI>

⁸⁷ http://www.lettera43.it/economia/aziende/fiat-chrysler-le-tappe-della-scalata-di-marchionne_43675118972.htm

⁸⁸ www.unita.it

⁸⁹ From an interview by Fabio Fazio for *Che tempo che fa* (RAI), Oct. 2010

⁹⁰ For more detailed information about FIAT and Chrysler facilities' distribution see also Appendices.

the optimal volumes of production and take advantage of those countries where labor cost is very low. Talking about labor costs, there is an aspect worth noticing that is sometimes overlooked in literature or by some analysts, i.e. very often companies choose to move production or some administrative activities to other countries not so much due to labor cost itself (e.g. the wages of workers) but mainly due to bureaucracy costs which ultimately lead to increases in labor costs. Therefore it is interesting to notice that, as stated by Mr. Lamendola (see Data section), countries like France or Germany allow companies to produce with lower costs than Italy notwithstanding the fact workers' salaries are higher than Italy, whose bureaucratic system is outdated and very slow, and therefore causes high costs to companies.

Let's now take a look at the focus of production, i.e. product portfolio and the technologies shared by FIAT and Chrysler. FCA possesses "the most diverse brand portfolio [together with] VW Group, from the FIAT 500 mini-car to the Ferrari FF supercar to the Chrysler Town & Country, FIAT-Chrysler has products for just about every need in just about every [market segment]" (Balcet et al. 2013: 188). On one side FIAT was lacking models that could fully cover the segments C and D, and in general the SUV segment. Chrysler owned brands Jeep, Ram and Dodge filled this gap; in particular Jeep is the most valuable brand and one of those upon which FCA will try to build its success during the next years. On the other side Chrysler had developed only models mainly suitable to the needs and tastes of customers in the NAFTA region but lacking, apart from Jeep case, the right appeal for the European market and other regions. Moreover the lack of platforms in the EMEA region had prevented the company from entering that market in a stable and consistent fashion. Finally, FIAT experience in the construction of small cars was matching Chrysler weaknesses but also the changes happening in the North American market, where the economic crisis and rising fuel price are moving the market towards the purchase of smaller and fuel-efficient vehicles (Haugh et al., 2010). FIAT's technologies and know-how in the field of fuel-efficient engines were therefore covering Chrysler's lacks.

The achievement of economies of scale is fundamental to: increase volumes; cover every segment of the market; reduce costs by using the same architecture for different models. Balcet et al. (2013) made several important considerations regarding this aspect: "The main area of savings regards the coordination of platforms and architectures between models of the company brands. In the case of FIAT-Chrysler, each automotive segment will be supplied with a dedicated platform following the specific national competences. The smaller vehicles will be developed by FIAT (mini, small and compact segments) and the other ones by Chrysler. Each platform should represent, on average, one Million vehicles, the same as Volkswagen, Ford and Renault-Nissan, and ensure more bargaining power with suppliers" (ibid.:188). The fact architectures and components are common to more models reduces the power suppliers have on the company as the same input can be used for different outputs. It is possible to notice similarities in architectures also from the "outside", for example between the new FIAT 500L and some Jeep models, as also confirmed by Mr. Di Filippo: "It's a middle way [Between FIAT characteristics and Chrysler's ones]" (Mr. Di Filippo, Director of a FIAT Dealership centre in Ascoli, Italy).

As an example of what previously said we can mention that engineers in FCA adapted the compact platform in the US from the one of Alfa Romeo Giulietta⁹¹, which was lengthened and widened. This modified platform was called the CUSW⁹² and is able to produce a range of different vehicles for Chrysler, Jeep and Dodge. Drive-train systems developed by FIAT or Chrysler are being preserved but, as said before, FIAT know-how in rear-wheel drive vehicles is very scarce and Jeep is worldwide leader in four-wheels systems. Ultimately, capabilities on automatic and dual-clutch transmission are shared between the two. As we can see, synergies from the production point of view address both vertical and horizontal technologies because they refer to both standard processes and core competences of FIAT and Chrysler. Such approach will be maintained by FCA through the next years, as it emerges from the 2014 Business Plan.

Revenue synergies:

As seen in the Theory section, these synergies are the less reliable in terms of future returns. Regarding FCA, they refer to the possible increase in market shares thanks to the strategic moves presented in the 2010 and 2014 Business Plans. The synergies identified in this field are mainly *Product* and *Market-related*:

When talking about synergies related to market dynamics here we refer to distribution channels and sales channels while product-related synergies regard strategies to reach customer satisfaction by responding to the different markets' needs and tastes. As seen above, the fact Chrysler's activities are almost completely in the NAFTA region makes so that the deal gives the opportunity to FIAT to exploit a well developed system of distribution and sales, which the company alone had never been able to establish before (let's remember that in the '90s FIAT strived to gain market shares in the US with Alfa Romeo but eventually abandoned the market). Marchionne himself stated several times that the deal with Chrysler could allow FIAT to access a sales channel which consisted of 2,400 dealers in the NAFTA region⁹³. Customers' attention is moving towards fuel-efficiency even in the US, where traditionally consumers look at other features such as comfort, size and performance of the vehicle. FIAT know-how allowed Chrysler to face changing market conditions in the NAFTA region.

It is interesting to underline the cost-strategy adopted by Lancia and Chrysler in NAFTA and EMEA regions, where the same model is being sold with different brands⁹⁴. This logic takes into account the different relevance the two brands have in the two regions and the fact that at least half of FCA global sales take place in mature markets (i.e. Europe and the US), where margins are very low and competition is tough. The integration between Lancia and Chrysler and the realignment of their product strategies are at a very advanced stage if compared to other activities of realignment and integration such as the one between Jeep, FIAT 500 L and 500 X, that will share the same platform and be based on the same architectures⁹⁵.

⁹¹ FCA 2014 Business Plan

⁹² Compact US Wide

⁹³ Festival dell'Economia di Trento, 2014

⁹⁴ FCA 2010 Business Plan

⁹⁵ FCA 2014 Business Plan

Considering the product portfolio of FCA, it is plain that FIAT and Chrysler represented indeed the “other half of the coin”, since Chrysler’s portfolio (**Table 14**) covered the lacks FIAT had in the M and J segments. According to the 2014 Business Plan, three brands will be the core of the Group’s strategy for the next five years: Jeep, Alfa Romeo and Maserati. Jeep will cover FIAT weakness in the SUV segment, rear-wheel technology and off-road vehicles while Alfa Romeo and Maserati will increase the Group’s competitiveness in the NAFTA region for the luxury segment. In particular, while Maserati has already consolidated its position in the mind of customers as a high-quality and top-performance car, Alfa Romeo is still recovering from many years of losses in brand value and will need to change the way it is perceived in customers’ mind, getting back to the original image the brand possessed, well described by a famous statement of Henry Ford: “When I hear an Alfa Romeo in the street I take off my hat”⁹⁶. Of course, talking about luxury brands we must not forget Ferrari, which is nonetheless well positioned in the NAFTA region and globally recognized as one of the most valuable brands. In a nutshell, Chrysler, through Jeep, will bring technical know-how to FIAT and brand value to market new rear-wheel vehicles; FIAT, through its luxury brands, will allow FCA to conquer and fully cover every part of the luxury segment in the NAFTA region but not only.

Finally, a very important result achieved through the deal from the market point of view is the fact the two companies together acquired a worldwide relevance and a bargaining power they never had before, as also stated by Marchionne⁹⁷, allowing FCA to re-define actual agreements from a stronger position or to create new Joint Ventures in the EMEA or APAC region (a market which is considered the future of the car-industry in terms of production volumes and sales).

Negative synergies:

Negative synergies emerge through time and can hardly be foreseen *ex-ante* (PwC, 2010). Nonetheless two negative synergies have been identified during this work. To be more clear, one is a “potential” negative synergy while the other is an actual one. The potentially negative synergy might come from the integration process of the IT systems. As Mr. Bajak said during the interview: “I have the feeling [Chrysler’s IT system was better], but [...] the Headquarters told us that they checked all the systems and decided to take out the best systems of both. So for example the system for car testing is from Chrysler and they took it, so step by step they put [the systems] together.. but if I look at it I can see that more FIAT-systems are “alive” than Chrysler systems”. Potentially, such situation might lead to efficiency problems in case the system is not fully embraced by both and integration of practices is not good (PwC, 2010). Coming to the more concrete and actual negative synergy, this is well explained by the CEO, Marchionne himself: “We announced in 2010 we will have revenues for 2 Billion Euros. Not even one Euro of these 2 Billion was made in Italy. If I had to take away from the Group the Italian part, FIAT would be more successful. FIAT realized more last year and it’s doing the same now so, you cannot deal forever with a situation that is negative”⁹⁸. The

⁹⁶ Ibid.

⁹⁷ Festival dell’Economia di Trento, 2014

⁹⁸ From an interview by Fabio Fazio for *Che tempo che fa* (RAI), Oct. 2010

structural problems affecting the Italian economic systems (BMI, 2014) influence FIAT's production plants' capability to work 100% of their capacity. This element represents a burden for the new FCA Group and will remain as such if the Italian economy, supported by political measures, won't react.

6.2.3 The acquisition process and the 2010-2014 Business Plan

In early 2009 FIAT began negotiating with the Federal Government over a controlled bankruptcy of Chrysler that would allow FIAT to take over the company. Steve Rathner, Head of the Presidential task-force on the Automobile Industry stated: "If Sergio [Marchionne] had not appeared I think it's very likely that Chrysler would have been allowed to liquidate"⁹⁹, he even added that Chrysler's demise would have cost 300,000 jobs along the supply-chain. After negotiations defined by Rathner as "brutally tough", FIAT acquired 20% of Chrysler shares and received \$ 6 Billion dollars funding from the US Government.

The Business Plan presented in 2010 was delineating the strategies which have already been implemented in these years (e.g. the close integration between Lancia and Chrysler and the focus on Joint Ventures in emerging markets) but also some of the future goals FCA set for 2018 (e.g. re-evaluation of Alfa Romeo brand and strong investments on Jeep brand) as they were not met or anyway not completely before 2014. Looking at the 2010 Business Plan with the knowledge we have now about events that followed it is quite clear that FIAT immediately started a process of strong integration and rationalization between the two companies in order to prepare the ground for a 360° collaboration and possibly a merger. In particular the following aspects deserve attention:

The Plan had six pillars: 1)The fact European volumes were gradually going back to pre-crisis levels; 2)The need to have optimal allocation of production between FIAT and Chrysler; 3)The full integration of the two companies' product portfolios; 4)The development of Alfa Romeo as a premium full-liner brand; 5)Strong growth in the LATAM region; 6)Product development work to be allocated to FIAT and Chrysler to yield optimal costs.

Great part of the business plan was already focused on integration and the creation of synergies between FIAT and Chrysler from the engineering and manufacturing point of view. The global strategy for the Jeep brand was already developed in this period just like the integration strategy between Chrysler and Lancia in the European market. Finally, the development and production of compact-segment and larger models were established mainly in the NAFTA region; this is a good example of exploitation of Chrysler's know-how in this field, since FIAT's core capabilities have always been related to small or mid-size vehicles. While on one hand integration of systems and product portfolios with Chrysler started successfully, the goal of more than 5 Million cars produced yearly by 2014 was not reached. The Plan stated that FIAT-Chrysler alliance would eventually be able to reach even volumes of 6 Million vehicles but as shown in **Table 4** the FCA Group's production volumes are currently not higher than 4.5 Million and sales accounted for 4.35 Million

⁹⁹ *60 Minutes* (CBS), 2012

last year, results which consolidate the Group's rank at the 7th place worldwide but are very far from expectations. The 2010-2014 Business Plan presented many positive aspects and elements of integration between the two companies which were successfully realized through synergies. Nonetheless the weakness in this plan (and its very optimistic nature) was proved by time, and it was not related to the integration between the two companies or even not so much linked to the Group's volumes, but rather to FIAT itself and its performance in Italy from the production point of view and, as a consequence, from the point of view of the relationship with Trade Unions and the workers they represent. A very important part of the Business Plan included a clear intention to re-launch the Italian market and FIAT's activity in it. This part of the Business Plan was famously called "Piano Fabbrica-Italia" ("Italy-Plant Plan"). The projected results of "Fabbrica-Italia" Plan were the achievement of full capacity utilization in Italian production plants and the increase of volumes by more than the double, i.e. 1.65 Million units produced in Italy by 2014 (including both passenger cars and LCV). Approximately 300,000 vehicles were expected to be exported to the US market. Such an ambitious Plan required an investment of € 20 Billion between 2010 and 2014. As it emerged during an interview with Mr. Lamendola (see also Data part), an expert in the Italian Automotive Industry's supply chain and currently director of FIOM-CGIL¹⁰⁰ office in Turin that takes care of work relationships at Mirafiori Plant¹⁰¹, the mismatch between projections and results is quite clear, almost astonishing. "From the beginning of the Fabbrica Italia Plan there were conflicts with FIOM-CGIL in particular. The reason was we said 'no' to some aspects of that Plan [...], i.e. the disappearance of the possibility for workers [...] to negotiate their position. [...] We didn't share some parts of that Plan, other Trade Unions did because of the possibility to realize the Fabbrica Italia Plan that included an investment of 20 Billion Euros. When the Plan was presented, in Italy around 680,000 vehicles were being produced; the Plan aimed at doubling production, reaching 1,400,000. We had great doubts about the investments needed. 20 Billion Euros means you have to create in four years twenty new plants, because to create a new line you need roughly an investment of 1 Billion Euros. We thought the plan was not reliable. Marchionne himself said, after one year and a half, that plan was a mistake. [...] Right now, if you look at FIAT investments [...] 1 Billion Euros have been invested in Pomigliano, around 1 Billion in Grugliasco and around 1 Billion will be invested in Melfi¹⁰². That's it, so from 20 Billion we have [only] three. [...] We didn't accept that plan and relationships were broken [...] because of the doubts we had about that plan we didn't believe in. [...] When the plan was launched we were in April 2010, in the middle of the crisis in Europe, which started in the US in the second semester of 2008 and in Europe in 2009. Marchionne wanted to overcome the crisis through that plan, which was not reliable, but [we had doubts] also because of the amount of debts FIAT had and the amount of investments required. [...] The "Fabbrica Italia" Plan predicted the production of about 500,000 Alfa Romeo in 2014, [...] currently 70,000 are being produced, so they didn't realize anything of what was said" (Mr. Lamendola, Director of FIOM Office for Mirafiori affairs). The "Fabbrica Italia" Plan was changed several times through the years and such modifies didn't prove to be successful. According to

¹⁰⁰ FIOM-CGIL is the biggest and politically most influential Trade Union in Italy

¹⁰¹ As seen also in the data part, FIAT's plant in Mirafiori is the biggest in Italy and the oldest functioning one in Europe

¹⁰² Pomigliano, Grugliasco and Melfi are the other main production sites of FIAT in Italy (see also FCA 2014 Business Plan)

FIAT¹⁰³, capacity utilization in Italian plants was on average around 60% in 2009, with the Cassino plant showing the most negative performance due to its 25% capacity utilization. Currently, the capacity utilization of FIAT plants in Italy is on average around 50%¹⁰⁴. According to Fiom-Cgil capacity utilization is even lower, and Melfi in particular is producing much less, with a capacity utilization around 10%. The plant only produces Alfa Mito and last year 20,000 cars were produced. As also stated by Mr. Lamendola (see data part) Mirafiori is “a plant that should produce roughly 1000 cars per day to justify its number of employees, therefore to produce only 20,000 per year means you are working at 10% [of capacity]”. Employees at Mirafiori work only on a 1-shift base, four days per month, and also this aspect gives a good measure for capacity utilization in the plant.

Of course it is important to say that some incongruence exists between Fiom-Cgil reports and FIAT data presented during the 2010 Business Plan. Nonetheless, if we consider that the expected increase in volumes at Mirafiori in 2014 was 100,000 while last year total production was 20,000 cars it is obvious that Fiom-Cgil analysis is probably closer to reality. The fact the 2014-2018 Business Plan evaluates current capacity utilization in Italy around 53% (while it was more than 60% in 2009) is enough to show that, exact numbers and percentages aside, there was anyway no improvement but rather a strong decrease in performance. Finally, still looking at numbers and expectations, FCA Group is missing between 1 Million and 1.5 Million vehicles in order to achieve its goal of 6 Million vehicles per year, more than a half of such amount should have come from the investments in Italy and the improvements in capacity utilization. While it is not accurate and fair to attribute the partial failure of the Plan only to Italian plants, from an analytical point of view their poor results compared to the other sites abroad are one of the main reasons behind the failure. FIAT Business Plan was way too optimistic, not only ambitious but probably misestimated. The high amount of debts, the fact the company chose to repay immediately, six years ahead, the loan given by the US Government and the difficult political-economic situation in Italy (including the relationship with Trade Unions) didn't allow the company to make the investments needed. Moreover much more attention was granted to foreign markets and foreign production sites, above all the American market and the Brazilian one, which had become the first market for FIAT in 2009. Taking in example the Chrysler production sites, investments made by FIAT with the support of the American Government made so that the current capacity utilization in the majority of plants is 100% (**Figure 8**) and the same stands for Brazilian plants (**Figure 10**). Not only didn't Italian plants reach 100% capacity utilization but the plan also implied the shut down, in 2011, of the Termini Imerese plant, a very important one, due to high costs and low productivity. Finally, emerging markets other than Brazil were given much attention, particularly Russia, India and China. Although the “Fabbrica Italia” Plan was supposed to be, “on the paper”, a pillar in the company's strategy for the period 2010-2014, facts prove this was not the case, since out of €20 Billion of expected investments in Italy, FIAT's real commitment accounted for €3 Billion only.

¹⁰³ FIAT 2010 Business Plan

¹⁰⁴ FCA 2014 Business Plan

6.2.4 The merger and the 2014-2018 Business Plan

In the theory section we saw there are different types of mergers, e.g. horizontal, vertical or conglomerate (Balcet et al., 2013). “FIAT-Chrysler falls within the horizontal type since they are seeking to gain access to products and market segments, new or different technologies, skills and distribution channels in order to increase economies of scale, scope and competitive power” (Ibid.: 184).

Between 2013 and 2014 FIAT completed the acquisition of the remaining 41.5% shares in Chrysler, paying around €4.35 Billion. € 1.75 Billion were paid in cash, € 1.9 in equity and another € 700 Million will be paid in the next four years by Chrysler Group to the VEBA¹⁰⁵. After the announcement of the merger in January 2014, the two companies went on with their process of activity integration. The management foresees the completion of the merger, i.e. the rationalization and integration of every activity, by the end of this year. Officially the merger was confirmed and ratified after voting on August 1st during the shareholders’ meeting in Turin, the last to take place in Italy as the next will be in The Netherlands.

The Business Plan for the period 2014-2018 is much more composite and structurally complex than the previous one. As a new entity, FCA needed to show investors the possibilities the merger offered in every market, the synergies and the positioning or re-positioning of the different products in its portfolio. As showed in the Data section the Business Plan focuses, like the previous one, on all four worldwide “macro-markets”: NAFTA, LATAM, EMEA and APAC. It is fair enough to make the following assumptions and considerations when looking at the new strategies and re-organization activities presented:

- The NAFTA and APAC regions are central for strong, massive growth. The LATAM region is seen as a consolidated pillar, where FCA has to strengthen its position in order to defend its market shares from Volkswagen. EMEA region, a mature market just like the NAFTA one, is nonetheless still facing recession and its reaction is much lower than what can be found in the US, therefore, being margins of growth very low and competition extremely high, EMEA appears to be more important for FCA production-wise than sales-wise. This means production sites in Italy and Eastern Europe will produce more models to be exported to other regions while FCA, through FIAT’s product portfolio, will strive to keep its market shares in Europe and increase them in Italy, where it still possesses a prominent role that needs to be consolidated.
- In the NAFTA region, considering the US market only, the goal is to become the 3rd car-maker and overcome Toyota. Moreover strong investments in brands like Maserati and Alfa Romeo will allow to cover the full range of products in the luxury segment, although the Alfa Romeo brand will need much effort to be positioned again as a top-segment brand.
- The APAC region is still to be penetrated by FCA. FIAT holds less than 1% market shares in China, roughly 1% in India and 5% in Japan (**Figure 15**). While China and India together are an incredibly

¹⁰⁵ The Voluntary Employee Beneficiary Association is a trust fund which provides benefits for employees. It is part of the United Automobile Workers (UAW).

huge market where margins of growth are outstanding, Japan, though being the 3rd market worldwide (**Table 6**) is very hard to penetrate and its margins of growth for non-Japanese companies are extremely low. Therefore the Plan focuses mainly on growth in China and India, particularly through Joint Ventures related to distribution and production in China, and a Joint Venture centered only on production in India, where the Group is already striving to create and expand its own distribution channels and network of dealers. The greater support to expansion in the APAC region will come from the Chrysler owned Jeep brand, therefore while in the NAFTA region the Group will count on FIAT products and Chrysler's distribution channels, in the APAC one, Chrysler's most famous brand worldwide (i.e. Jeep) will be supported by FIAT's distribution channels and Joint Ventures.

- Alfa Romeo re-birth will be critical to FCA success and to stay competitive in the D segment, just like Maserati will be fundamental to build leadership in the E segment. Currently Ferrari is the only true and unmatched leader FCA possesses in the luxury segment (Figure...), therefore the company's strategy is to keep on producing only 7,000 cars per year without increasing volumes in order to preserve the brand's uniqueness.
- The high product differentiation in the Group's portfolio allows to pursue a mix of strategies that varies greatly from one brand to the other, from cost-leadership strategy to differentiation-strategy (Porter, 1986).
- Sharing of architecture among many models is a pillar for a competitive strategy. It allows to save costs, increase speed and quality and maximize the outcome of investments. The same platforms and plants produce standard components and systems which will be used for different products whose distinctive characteristics won't be affected due to the specific modules that will be installed later on. (Figure...) As seen in the Data section several FCA models share the same components and systems, e.g. Alfa Romeo Giulietta, FIAT Viaggio, Dodge Dart, Chrysler 200 and Jeep Cherokee. FCA aims to reduce component families 54% by 2018; to make this possible it is necessary to improve the relationship and collaboration with suppliers, granting their commitment to achieve the same goals the company has.
- The future of competition will be based more and more on engine-efficiency, low emissions and particularly low CO2 emissions. Governmental regulations, inter-Governmental agreements and customers' demands are pushing (and will keep on pushing) companies to develop new engines with low emissions, hybrid systems and fully electric models. The Group or Groups that will invest and have a positive return on investment in R&D related to such technologies will develop a *competitive advantage* which could be also *sustainable* in the mid-term and therefore allow to gain a relevant amount of market shares. FCA will pursue this goals, following other companies that are already very much ahead in this field, such as Toyota and particularly TESLA Motors, which is being very closely observed by many OEMs.
- Last but not least comes the FCA Group's involvement in financial services. As we said in the beginning of this study, several companies have strived to find alternative ways and solutions to

finance their customers in this moment of difficult access to loans and general recession, where purchasing power is heavily affected particularly in the EMEA region. The relationship between companies and financial institutions is important not only because it affects their level of debts but also because it determines the services dealers can provide and the purchasing-solutions which constitute part of the product offer. Concerning this aspect the role of FIAT Group was critical, as it historically had tied relationships with several banks and institutions (see Appendices).

6.2.5 A “good” or a “bad” deal?

As we saw in the Theory section, a study by Deloitte (2013) identified several core characteristics that can define a deal’s probability of success depending on the fact it takes place in favorable or less favorable conditions and how such conditions are faced. Still according to Deloitte (Ibid.) there are four leading drivers to value creation in an M&A deal: (1) Acquiring at the correct time (i.e. M&A activity cycle); (2) Applying accumulated experience; (3) Pursuing deals of an appropriate size relative to the acquirer (i.e. target’s size); (4) Funding transactions with equity or a mix of equity and cash. The aforementioned drivers are the ones used in this study to describe the deal and evaluate the merger ex-ante, being aware of the fact only future events will show whether or not it brought good results. Let’s first try to evaluate the conditions under which the deal took place, i.e. whether they were favorable or not; in order to do so, it is necessary to look at the four drivers separately:

- 1) *Acquiring at the correct time* – M&A activities take generally place in positive business cycles¹⁰⁶. Currently the business cycle is negative on a quite wide scale (i.e. NAFTA region and particularly EMEA region are still recovering from the economic crisis), and therefore also M&A activity in the Automotive Industry is much lower than in other periods, as also showed by PwC (2013) and PwC (2014). According to Deloitte (2013) high M&A activity is to be considered a negative or unfavorable factor, due to strong competition. Although M&A activity is currently lower than standards, the fact it is due to an economic crisis and negative business cycles makes to that “timing-conditions” can’t be considered totally favorable.
- 2) *Applying accumulated experience* – The acquirer’s experience in M&A and particularly in deals of a relevant size is fundamental to evaluate the probability of success of a merger or acquisition. FIAT’s experience in acquisitions is limited to the national level and its deal have always been heavily influenced and supported by Governmental intervention, therefore it doesn’t possess a consolidated history in M&A deals on a global scale. Lack of experience is to be considered, from Deloitte study’s perspective, as a weakness and unfavorable factor.
- 3) *Pursuing deals of an appropriate size* – Acquirer and target size matter. Generally in M&A the acquirer or promoter of the merger is bigger and we can find few examples of deals between two parts of similar size. Looking at the recent M&A deals presented above, it is possible to see that all

¹⁰⁶ By positive business cycles we refer to those cycles not characterized by recession, with good access to loans and credits, and good levels of customers’ demand (i.e. product consumption).

of them, apart from Daimler-Chrysler alliance and Nissan-Renault, involved two parts of very different size. Even considering Daimler-Chrysler and Nissan-Renault, only the latter eventually succeeded and consolidated through the years, however it is features some peculiarities that distinguish it from FIAT-Chrysler, e.g. it is a 50/50 alliance. At the time of the deal FIAT's market capitalization was around € 9 Billion while Chrysler's one was about € 10 Billion¹⁰⁷, that means there was a situation where the acquirer was even smaller than the acquired and its financial stability was not such as to create a reliable ground for a deal. FIAT and Chrysler were both facing the paradox of being too small to acquire and too big to get acquired.

- 4) *Funding transactions with equity or a mix of equity and cash* – The nature of transactions is important to understand the new links created between the companies but also the reliability of the deal, as a company's solvability and its amount of debts influence the performance of the Group on the stock exchange and expectations coming from analysts. In general, financing a deal only through liquidity increases the structural weakness of a company and represents an unfavorable condition (Deloitte, 2013). FIAT's action was backed by a mix of equity and cash and it was criticized by analysts¹⁰⁸¹⁰⁹ due to the high level of debts FIAT, the use of a great amount of cash and Chrysler's past failures. In a note that followed the announcement of FIAT purchase of 100% shares in Chrysler, Citigroup said:

“Group net debt will rise to around 10 Billion euros (US\$13.8 Billion) upon completion of this transaction [...] leaving it the most indebted OEM (original equipment manufacturer) in Europe”¹¹⁰.

Considering the four drivers it is plain that on one side timing and financing of transaction are not unfavorable although they present elements of strong risk, on the other side the lack of experience and the target's size are to be considered unfavorable factors. The deal between FIAT and Chrysler acquires more relevance now that we look at it through this optic as it clearly stands out of M&A deals' standards in the Industry. Using Deloitte's (2013) model in **Table 1** we can now define the way FIAT strived to control the risk in such conditions; the analysis will follow the criteria expressed in the table: Deal identification; Deal process; Due diligence; Pre-close planning. Such criteria will be applied mainly to the two unfavorable conditions we previously defined, i.e. *target size* and *experience in acquisition*, being *Timing* and the *Nature of Funding* not necessarily unfavorable.

Deal identification: Marchionne's first idea was to create an alliance with Opel (owned by GM) while acquiring minority shares in Chrysler. M&A activity in the Industry was very low if compared to previous years and Opel was a potential source of competitive advantage which would allow FIAT to expand in the EMEA region. As the deal failed mainly due to Governmental opposition in Germany, Marchionne and FIAT started to focus on Chrysler, whose financial weakness and closeness to bankruptcy had rendered the

¹⁰⁷ www.bloomberg.com

¹⁰⁸ <http://www.forbes.com/sites/halahtouryalai/2014/01/07/the-story-behind-chrysler-and-fiat-and-why-the-stock-is-so-cheap/>

¹⁰⁹ <http://business.financialpost.com/2014/01/02/fiat-chrysler-deal-boosts-shares-but-worries-remain/>

¹¹⁰ Ibid.

company a prey for many car-makers, even those which, like FIAT, wouldn't normally have been able to acquire it.

Deal process: FIAT was strategically clever to prepare a second option in case negotiations with Opel would fail. Nonetheless Chrysler was its last resort and vice-versa, in fact also Marchionne stated that there was no plan B¹¹¹. Had negotiations failed Chrysler would have probably gone bankrupt and FIAT would have had to face competition standing alone or accepting less favorable agreements with major car-makers. Under these circumstances FIAT needed to prove its reliability to the American Government and the Trade Union owning Chrysler's majority shares, the VEBA. The company faced long negotiations with both the American Government and Trade Unions and eventually acquired the remaining 41.5% of shares, becoming the only share-holder .

Due diligence: FIAT spent much time to inform its employees about the conditions under which the agreement was being made and its consequences. "[...] The first information was long time ago. We got a lot of information and I had the feeling, and also my colleagues, that it was an open information from the Headquarters. They told us a lot, we got official information and also material which comes from the press and the media" (Mr. Bajak, IT Specialist at FIAT in Frankfurt). As it emerges from press releases¹¹² and the recent Business Plans¹¹³, FIAT considered carefully the complementary aspects of technological know-how and culture between the two companies and used its bargaining power in negotiations to arrange good financing conditions; in particular time-constraints for Chrysler (i.e. the risk of bankruptcy) were a critical factor in directing the deal towards a positive conclusion.

Pre-close planning: Still considering the Business Plans from 2010 and 2014 it is possible to argue that FIAT started immediately the integration process between activities, therefore its planning was very much ahead the conclusion of the deal as the FCA Group is now almost done with the actual integration of every system and strategy, only a few months after the official communication of the merger.

Statement 2: The general environmental conditions, FIAT's historical need to become more International, its lack of competitiveness and the very peculiar political-economic situation of Italy pushed FIAT towards Globalization and stronger decentralization (e.g. by moving both its financial and legal Headquarters. The target, Chrysler, was chosen according to the identification of both cost- and revenue-synergies, mainly related to production, brand-portfolio complementariness and access to new markets. After succeeding at borrowing money from the American and Canadian Governments, FIAT managed to restructure Chrysler and slowly gain shares, at the same time starting a process of integration between activities and products which created a stable ground for the completion of the merger in 2014, notwithstanding the unfavorable conditions surrounding the deal.

¹¹¹ FCA 2014 Business Plan

¹¹² [http://www.autonews.com/article/20140121/OEM/140129980/fiat-completes-chrysler-acquisition-in-\\$4.35-Billion-deal#disqus_thread](http://www.autonews.com/article/20140121/OEM/140129980/fiat-completes-chrysler-acquisition-in-$4.35-Billion-deal#disqus_thread)

¹¹³ 2010 Business Plan and 2014 Business Plan

3rd sub-question: What are the consequences of this change for FIAT and the new Group?

7. The network around FIAT

The term “network” can assume very specific meanings as much as very broad ones. A comprehensive use of the theories presented before, added to the author’s own view on the matter, led this study to define the network not as something surrounding the company, but as something the company is an integrated part of. From this perspective the value-chain paradigm is flattened and less linear, more similar to a cloud consisting of different elements. We can then see the company’s transformation from enterprise to “extraprise” (Karlsson, 2003; Karlsson and Sköld, 2007). What is not present in the network paradigm described in the Theory section is the influence of Governments and Trade Unions, as actors determining the efficient and effective use of resources to perform activities. Since the role of Governments has already been described above, this section will focus on the other actors composing the network, i.e. Suppliers, Trade Unions, Competitors.

7.1 Relationship with Suppliers

Suppliers’ position is stronger than ever along the Value-chain and OEMs make use of their know-how more and more (Jürgens, 2003; Karlsson, 2003; Karlsson & Sköld, 2007). The relationship between FCA and suppliers has a dual nature. As also stated in the 2014 Business Plan, the Group sees collaboration as critical, especially in order to increase components’ standardization (their aim is to reduce components’ variety by 54% before 2018¹¹⁴). If compared to what Chrysler had at the time of the alliance with Daimler, the relationship is now more collaborative and less transactional (Balcet et al. 2013; FCA Business Plan, 2014). These elements are true on an international level and regarding *mega-suppliers* or FIAT’s “internal” suppliers (i.e. Magneti Marelli, Teksid, Comau). If we move to consider suppliers of smaller size, e.g. second and third tier suppliers¹¹⁵, things are different. Furthermore, on a strictly national level, in Italy, the organizational change and expansion enacted by FIAT brought heavy changes in the supply-chain and in the relationship the company has with historical suppliers, some of which have always been working for many decades for FIAT only (Bacchiocchi et al., 2012; Bacchiocchi et al., 2014). Small suppliers do not have a wide range of customers and very often the strategic choices of the OEM they work for may imply very important consequences, either positive or negative, in terms of revenue, employment levels and possibly the very survival of the supplier. For these reasons the consequences of the merger for the supply-chain will be analyzed in two directions, one referring to *mega-suppliers* and internal suppliers, the other to small suppliers with focus on Italy.

¹¹⁴ FCA 2014 Business Plan

¹¹⁵ <http://smallbusiness.chron.com/difference-between-tier-1-tier-2-companies-25430.html>

Mega-suppliers and internal suppliers:

FIAT process of change did not influence the agreements the company had with *mega-suppliers* since they are the same Chrysler had, which are also shared by the majority of car-makers. Therefore *mega-suppliers* were integrated between the two companies. On the other side there has been a very important consequence for FIAT's internal suppliers, i.e. Magneti Marelli, Teksid and Comau, since their range of activities expanded as they support the Company's activities all over the World (see **Figure 7, 9, 11**). These suppliers are present in all the four regions, NAFTA, LATAM, EMEA and APAC, although Comau and Teksid have a less consolidated position in the APAC compared to Magneti Marelli¹¹⁶ (see also appendices).

Italian supply-chain:

As showed by Bacchiocchi et al. (2012), Bacchiocchi et al. (2014) and by what Mr. Lamendola said during the interview, the Italian supply chain, characterized by small and medium size suppliers, was heavily affected by FIAT's process of globalization. FIAT's expansion and outsourcing also provoked contrasts with some small Italian suppliers, e.g. with Selmac that went on strike in 2011, endangering FIAT's production in Turin. In general, the network around the company was damaged. Some suppliers were forced to stop their activity or reduce it while others adopted either complementary internationalization or substitutive internationalization. It is worth mentioning one case of complementary internationalization, i.e. Poltrona Frau's case. The company, a Global leader in working leather, is famous worldwide for covering the internal parts (e.g. seats) of Ferrari, Maserati and other luxury cars. FIAT's globalization process made so that Poltrona Frau took the chance to expand in the US and start collaborating with Chrysler as well, aiming at addressing not anymore the luxury segment only, but also the mass market¹¹⁷.

7.2 Relationship with Trade Unions

The dualism Company-Trade Union is very much influenced by the specific political, legal, social and economic conditions existing in a country, as also said by Mr. Lamendola. In the case of a multinational it is therefore useless to talk about a general system of relations that can be extended to every different group of workers represented during negotiations of contracts. In FCA case it is useful to address such topic from two points of view: 1) Generalized regional scale; 2) Specific national scale with focus on US and Italy only.

- 1) A generalized regional scale is useful to have some steady reference upon which we can make assumptions and considerations. The aforementioned differences among countries' conditions are summed up and mirrored by corresponding differences among the NAFTA, LATAM, EMEA and APAC regions. NAFTA regions (excluding Mexico) have better working conditions and terms in the work-contracts much stricter than what we can find for example in LATAM region. Moreover LATAM region has a labor-cost generally lower than NAFTA. Both the NAFTA and LATAM

¹¹⁶ FCA 2014 Business Plan

¹¹⁷ http://www.italiaoggi.it/news/dettaglio_news.asp?id=201112071206001490&chkAgenzie=PMFNW&sez=news&testo=&titolo=P.Frau:%20attesa%20crescita%20doppia%20cifra%20ricavi%20residenziale%20Usa%2011/12

region plants have a capacity utilization of 100% or above (**Figure 8 and 10**) therefore contrasts between workers and company concerning unemployment of shift-reduction are limited if compared to EMEA. In fact, FIAT is not even close to 100% capacity utilization in this region (**Figure 12**). The Group's facilities are almost entirely located in Italy and Eastern Europe (**Figure 11**) and relationships with Trade Unions are very bad in Italy and Poland, less so in Serbia and Turkey, which nonetheless present different characteristics, e.g. very limited rights for workers and very little attention to their demands. The US Trade Unions are characterized by different peculiarities and different rights so that the Company has always been forced to negotiate with them on a much more equal level. These elements emerged during the interview with Mr. Lamendola: "Every year we have a meeting with the other Trade Unions [around the World]. Apart from the very specific regulations in every country, which are obviously different, the relationship with the Polish Trade Union is very bad, just like it's not good at all in Serbia, even considering the regulations of Serbia, where Trade Unions' freedom is non-existent. The relationship is bad even in Turkey. They have a different kind of relationship in the US, but there are some features in the American model which render this possible.. [...] As I said we must take into account also the differences among countries. But in general, considering Trade Unions, in FIAT's world their role is merely marginal, not the one of a relevant part in negotiations that negotiates on the part of workers. In fact, among the pillars of FIAT agreements there is the assumption that the Company consists solely of the Company itself, and they introduced sanctions in case of strike, against the right of going on strike".

The APAC region is characterized by features such as the generally lowest labor-cost, extremely limited rights for workers, access to market depending on Joint Ventures or Alliances. Considering China, the biggest market in the World and the main one in APAC, access to market relies almost entirely on the creation of Joint Ventures with local car-makers, therefore the interaction between FCA and Worker-Unions is reduced.

- 2) After the general considerations regarding the four regions, due to the diverse peculiarities of each country and opportunity reasons the present work will focus only on the two countries of origin of FIAT and Chrysler. Such countries are also the most interesting in terms of relationship between Company and Trade Unions because of the recent events involving them. Furthermore the critical and long debated position of Italian plants in FIAT's global production network and in the EMEA region in particular is fundamental to describe the case study. We will now look at the relationship between FIAT and the American and Italian Trade Unions.

FIAT in USA:

The main obstacle FIAT had to overcome when it started to increase its shares in Chrysler was opposition coming from Trade Unions in the US. A small parenthesis needs to be open regarding Trade Unions in Canada, where Chrysler had decentralized many activities. The CAW¹¹⁸ was the first Trade Union to sign the

¹¹⁸ Canadian Automobile Workers

contract with FIAT for restructuring Chrysler, and it was backed by the Canadian Government, which supported the company by lending \$1.6 Billion. Nonetheless, the UAW¹¹⁹ and the VEBA, which is part of the former and represents the sanitary fund for workers, have been the two main interlocutors of FIAT together with the US Government, which lent \$6 Billion. Several conflicts arose during negotiations, FIAT and VEBA faced each other in front of the Federal Court even in 2013 where the matter was the acquisition of a call option consisting of 3.3% of the whole Company¹²⁰. The role played by Trade Unions was extremely central and, although FIAT imposed heavy changes such as the strong reduction in the number of employees, the Trade Unions demanded and obtained some important conditions for FIAT to take-over Chrysler. “When they (FIAT,n.a.) made an agreement with Chrysler [...] Americans imposed some conditions during the deal. First of all they demanded engines’ technology to reduce emissions and become fuel-efficient. Let’s make an example: It’s true you will produce a vehicle with the Jeep brand for the first time in Europe, in Melfi, but engines will come from the US nonetheless. What we asked in Italy is the same exact thing. The Government should have required FIAT to guarantee a minimum level of production in Italy, just like Obama did in the US” (Mr. Lamendola, Director of FIOM Office for Mirafiori affairs).

FIAT in Italy:

This work has already showed the Company’s importance in the Italian history, the fact Governments supported it through time, even facilitating its competitive environment by guaranteeing some sort of competitive advantage thanks to entry barriers in Italy, demonstrate the key role FIAT played and keeps on playing. The organizational change enacted by FIAT, its globalizing-vocation and the process of decentralization and outsourcing of activities have fostered a strong debate whether FCA will be more American or Italian, whether the roots in the Italian culture and in the city of Turin will be preserved or endangered by a never-ending internationalization. The economic and political crisis in Italy made so that Companies cannot find a proper ground upon which they can build or expand their business. The country’s *impasse* and the changing market rules caused many companies to re-elaborate new strategies and FIAT’s strategy concerning production plants created several contrasts with Trade Unions and also with politicians, being the company the first “employer” in Italy. Giovanni Agnelli stated during an interview: “What’s good for FIAT is also good for Italy”¹²¹. Here it is possible to understand how important negotiations are between the company, the workers and the Government. FIOM-CGIL, the most important Trade Union in Italy, with a strong political influence, has always been very critical towards the Company’s management. The relationship between workers and FCA was not built on mutual trust and respect but rather on a transactional basis where the Trade Union doesn’t have much saying in the decision-making process. As also said by Mr. Lamendola, FIOM-CGIL considers FCA 2014 Business Plan to be extremely ambitious and not reliable. Finally, the attention given to the American side of the company, to relations with Trade Unions there, the

¹¹⁹ United Automobile Workers

¹²⁰ <http://www.ilfattoquotidiano.it/2013/04/25/flat-sindacati-usa-potrebbero-far-pagare-cara-chrysler-a-marchionne/575490/>

¹²¹ Interview by Gianni Minoli for the TV show *Mixer* (RAI), 1984

investments made to reach 100% capacity utilization in the NAFTA and LATAM region, made Italian workers feel overlooked and marginal in an expanding international galaxy.

7.3 Alliances and Joint Ventures

Thanks to the merger FIAT became part of a Group, FCA, with a strong bargaining power and financial strength which allowed (and will allow) it to create new Joint Ventures, re-define existing agreements and possibly make new alliances in the future (there are non-confirmed rumors about an alliance with PSA Group coming in the next years^{122,123}). Regarding existing Joint Ventures, an example of what has been said is the change in agreements undertaken by FIAT and TATA Motors in India. While till 2012 FIAT was sharing the production plants with TATA and depending on the Indian company for distribution and sales channels, now the two only share the production plant in Ranjangaon (India) but distribution and sales channels are independent, as FIAT aims to establish its own network of dealers also planning a future entrance in the Indian market with the Jeep brand, which will compete with Land Rover and Range Rover, owned by TATA. A very important upcoming deal is a new Joint Venture with GAC in China¹²⁴. FIAT already produces some models together with the Chinese car-maker, but this new agreement will concern the sharing of distribution and sales channels with the Jeep brand. The Chinese market is still the one with the highest margins of growth and the widest customer-base (**Table 6** and **Figure 5**). Entering this market with a strong brand like Jeep might allow FCA Group to achieve the 1% market share FIAT has always dreamt of. To conclude this part it is worth saying that other existing Joint Ventures are the ones with PSA Group in Italy and France, the one with Magyar Suzuki in Hungary and the one with Koç Group in Turkey.

7.4 Dealers

Thanks to the merger FIAT could access a sales channel, Chrysler's, consisting of more than 2,400 dealers. In the US, 82 dealers have already been given the mandate to sell Alfa Romeo cars^{125,126}. The US market overcame its crisis (**Figure 6**) and it is still the second worldwide by sales (**Table 6**). The EMEA region will be characterized by reduction and rationalization of dealership centers¹²⁷. FIAT and Lancia will reduce their POS¹²⁸ by 15%¹²⁹ to increase network sustainability and Jeep will increase its network by 25%. In the LATAM region investments in the dealer network have been confirmed¹³⁰ and Jeep is seen as the strategically most important brand. In the APAC region the most important results are expected from China and India thanks to FIAT's Joint Ventures for distribution and sales in China, and its investment in

¹²² <http://www.motori.it/attualita/599/fiat-e-psa-peugeot-citroen-vicini-alla-fusione.html>

¹²³ <http://www.motori24.ilsole24ore.com/Industria-Protagonisti/2014/07/fiat-psa.php>

¹²⁴ <http://www.ilsole24ore.com/art/impresa-e-territori/2013-01-16/fiat-accordo-jeep-cina-064253.shtml?uuid=Abzq2mKH>

¹²⁵ <http://blogs.cars.com/kickingtires/2014/06/fiat-chrysler-announces-alfa-romeo-dealer-network.html>

¹²⁶ <http://online.wsj.com/articles/fiat-chrysler-signs-up-alfa-romeo-dealers-in-the-u-s-1402415597>

¹²⁷ FCA 2014 Business Plan

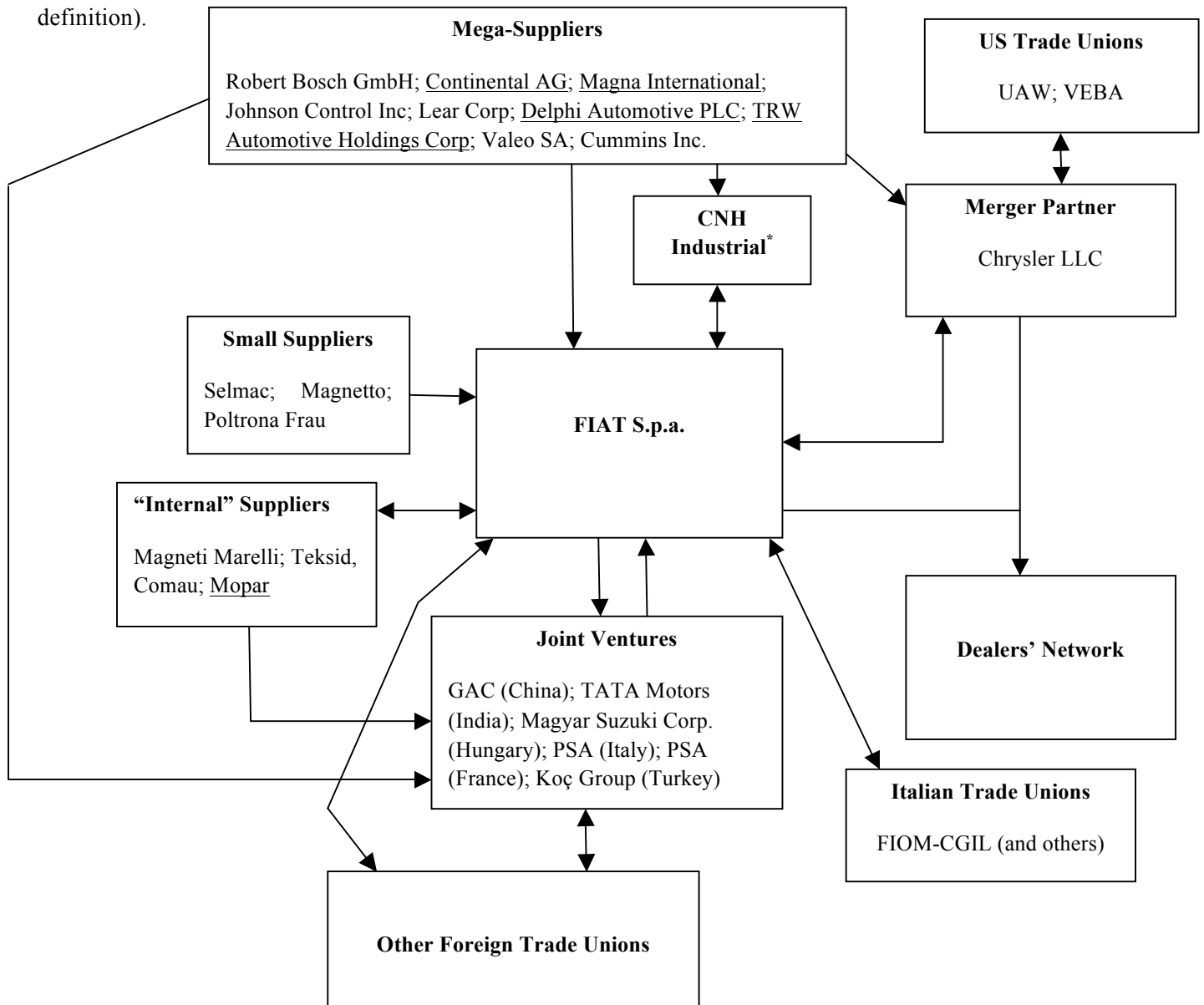
¹²⁸ Point Of Sales

¹²⁹ FCA 2014 Business Plan

¹³⁰ Ibid.

establishing its own sales channel in India, counting already more than 200 dealers. Even in the APAC region Jeep is seen as critical to growth.

Now that all the main actors have been described and briefly analyzed, it is possible to use the network-based view and the conceptual models in Karlsson & Sköld (2007: 915, 916, 923) to define the network FIAT became part of, after the merger with Chrysler¹³¹. These concepts have been adapted by the authors considering the elements emerged during the study but also other concepts (e.g. the *mega-suppliers* definition).



Source: The author, adapted from Karlsson & Sköld (2007: 923)

N.B. Among “internal” suppliers and *mega-suppliers*, the ones underlined are those which were previously suppliers of Chrysler and therefore “gained” by FIAT after the merger.

*As we saw during the Analysis, CNH Industrial is the branch of the Group dedicated to the production of commercial vehicles (e.g. Iveco brand), buses and agriculture-related products.

FIAT develops “in-house” its horizontal technologies, such as fuel-efficiency and low emission. Moreover, the fact it can rely on first- and second-tier internal suppliers (i.e. fully owned by FIAT) makes so that also some technologies which are considered as vertical in Karlsson (2003) remain relatively horizontal in FIAT case. The merger with Chrysler allowed the Company to access horizontal technologies in rear-wheel drive and in general technologies related to off-road vehicles. In general, we can say that the merger implied a broadening and sometimes a unification of the horizontal technologies available to the Group as a whole. Resources to perform activities come from every actor in the network, including Trade Unions, since we also saw that FIOM-CGIL contributed financially in saving FIAT during its recent crisis; moreover from the author’s point of view workers are to be considered both actors and resources.

Statement 3: The consequences of the Globalization process enacted regard every actor in the network..The relationship with mega-suppliers hasn’t been affected due to the fact FIAT and Chrysler already shared the majority of them. In general the Group shows a collaborating attitude towards mega suppliers, aiming at standardizing components. FIAT’s internal suppliers widened their activities. The Italian supply-chain was heavily hit by FIAT’s outsourcing of activities to foreign countries. Several small and medium suppliers were forced to either move, change customer, reduce or even stop their activity. Trade Unions in the US had to accept hard conditions in the new contract with FIAT but also managed to keep production in the US and protect work-places primarily due to Governmental support. Together with Chrysler, FIAT gained much bargaining power allowing it to re-think its global strategy and create new Joint Ventures or change the terms of old contracts. Furthermore, a complete brand-portfolio is now available to FCA, which can sell its products in every region relying on the distribution and sales channels of either FIAT (EMEA, LATAM, APAC regions) or Chrysler (NAFTA region).Considering the production side, the merger caused a widening of the horizontal technologies available to the FCA Group as a whole, and thus to FIAT as well.

8. Conclusion

According to what has been said and to the data gathered, the general process of consolidation and outsourcing of operations in the Automotive Industry will continue. Emerging markets, particularly those in the APAC, will be the decisive ground to determine who will survive the competition. To answer the main research question in an all inclusive way, we can conclude the challenges faced by FIAT in its process of globalization have been (and still are) several: 1)Expanding while its home-country was facing the worst political-economic crisis ever seen in Italy¹³²; 2)Handling an extremely difficult merger under unfavorable conditions; 3)Re-structuring Chrysler and paying back the loans taken within the time-constraints; 4)Dealing with demands and pressures coming from trade Unions, particularly in the US and Italy; 5)Integrating FIAT and Chrysler’s activities, product-portfolios and production processes (e.g. by unifying the IT systems or

¹³² <http://www.ilsole24ore.com/art/notizie/2013-04-13/crisi-peggiore-storia-081143.shtml?uuid=AbOU2nmH>

sharing more architectures); 6) Re-organizing the network of dealers. Regarding the consequences of this deal, they affected the supply-chain, particularly leading to a reduction in the number of small and medium suppliers FIAT had in Italy or forcing such suppliers to “internationalize” themselves as well. Furthermore, the new Group can now benefit from stronger internal suppliers whose know-how represents a competitive advantage, especially in a time when fuel-efficient engines and low emissions are unavoidable requirements. Other consequences related to the merger refer to the fact FIAT can now finally enter the NAFTA and access a huge distribution and sales channel to re-launch Alfa Romeo. Moreover the Jeep brand represents the most valuable resource which can now be used to address the APAC, where the future of the industry will be decided. Finally, the bargaining power acquired through the merger will give the new Group a strong position when negotiating new alliances and Joint Ventures.

9. Discussion

Concerning the Research Design, the fact the study’s unit of analysis is one single case makes so that it might lack generalizability, i.e. some elements might not be present or reproducible elsewhere. Being aware of this, I argue this aspect gives deepness to the research, exactly because it focuses on one specific case only. Moreover the goal was not to discover some sort of universal rule or theory but to participate in opening the way to new ideas and studies which might build also on some of the results and perspectives presented here. The peculiarities of such case represent its main strength. The holistic approach of this research, grounded on the network perspective, does not affect the achievement of relevant and specific results because it does not have any negative effect on the depth of the case study. I argue instead that it adds important elements which contribute to the completeness of the picture and foster interest for researchers in deepening one or more of them. During the analysis it was sometimes necessary to refer to FCA instead of FIAT only, this should not raise doubts about the object of this work, i.e. FIAT. References to Chrysler or the FCA Group were made *in function of* FIAT, to clarify some dynamics. We must also remember the two Companies are now integrated into one single entity and therefore some activities, procedures or agreements regard them both, just like some sources of data encountered during the data collection consider the Group as a whole and not the two companies, making it harder to distinguish. Talking about data and data collection it is relevant to say that some of them have been presented during the analysis and not before, in the Data section, due to two reasons: 1) The amount of data was too high to be included into one section only; 2) The author became aware of such data later on, while the study was already at an advanced stage. Therefore, in order to preserve linearity and balance in the research, it was chosen to maintain such order. I argue the structure chosen guarantees clarity and the possibility to clearly distinguish data from the analysis, even when used within it, as in the case of the 2010 and 2014 Business Plans’ analysis or as it happened with some quotations coming from the interviews gathered. An important remark as to be made concerning the interpretive approach. The author is aware that *coding* might have been an option but it was not used since this study was not looking for commonalities or trends (apart from the ones emerging from other studies) but for different perspectives coming from the diverse actors in the network. Moreover, *coding* is generally

useful when complex and mixed data are to be analyzed and introduced into quantitative methods, but in this case thanks to the high amount of clearly distinct information and the quality of the sources, such need didn't emerge.

Looking at Theory, many concepts come from Porter. The 5 Forces Model is widely recognized as one of the most complete and influent models although criticisms and alternatives to the original concepts are not missing, e.g. the "resource based view" (Mwailu & Mercer, 1983; Penrose, 1959; Rumelt, 1984; Wernerfelt, 1984). Porter focuses on the market as the source of all interactions and the aspect on which companies have to focus in order to develop a sustainable competitive advantage. Other views maintain that the elements identified by Porter are only some of the influences present in an industry. The resource based view instead considers the internal part of the company as the most relevant to build a sustainable competitive advantage. Considering the external perspective taken by this study, Porter's model was chosen as the most suitable and easily applicable nonetheless. Also the generic strategies applied to product-portfolios present limits of which the author is well aware (e.g. lack in accuracy), but they seemed suitable enough to the purpose of the study.

Regarding the very content of this work, much research has to be done to explore other aspects of this deal which haven't been described by the present work (e.g. Chrysler's specific situation or the organizational culture). Furthermore, the events described are still ongoing and suitable to changes in the next years. Therefore such study aims at being a basis for future research. In general, FIAT's case shows how sometimes it is necessary to conclude an M&A deal under (very) unfavorable conditions, because of both medium/long-term strategic reasons, it also shows in practice how a company has to deal with different forces and actors surrounding its decision-making process. Finally, the present study briefly mentioned Italy's political and economic problems, which are one of the causes of FIAT's need for globalization. As emerged from the interview with Mr. Lamendola, the need Italian companies have to become international is probably more due to structural costs and a not-well-functioning system than to concrete outsourcing needs. Also these elements might be a good object of future researches.

10. Bibliography

- Bacchiocchi E., Florio M., Giunta A. (2012), *Internationalization and agglomeration effect in the global value chain: the case of Italian automotive suppliers*, International Journal of Technological Learning, Innovation and Development, Vol. 5, No. 3, Inderscience Enterprises Ltd.
- Bacchiocchi E., Florio M., Giunta A. (2014), *Internationalization and industrial districts: Evidence from the Italian automotive supply chain*, International Review of Applied Economics, 28:1, 1-21, DOI
- Badrtalei & Bates (2007), *Effect of Organizational culture on Mergers and Acquisitions: The case of DaimlerChrysler*, International Journal of Management.
- Balcer G., Commissio G., Calabrese G. (2013), *Structuring and restructuring FIAT-Chrysler: can two weak carmakers jointly survive in the new automotive arena?*, International Journal of Automotive Technology

- and Management, Vol. 13, No. 2, Inderscience Ltd.
- Balcet G. and Enrietti A. (2002), *The impact of focused Globalization in the Italian Automotive Industry*, AITEG European Network.
 - Bates D. L. (2007), *Effect of Organizational Cultures on Mergers and Acquisitions: The case of DaimlerChrysler*, International Journal of Management, Vol. 24, No.2
 - Business Monitor International (2013), *USA Autos Report Q4 2013*, BMI.
 - Cabigiosu, Camuffo, Zirpoli (2013), *Modularity interfaces definition and the integration of external sources of innovation in the automotive industry*, Research Policy, Vol. 42, issue 3, 662-675
 - Castelli, Florio, Giunta, 2011;
 - Centro Studi Subalpino (2014), *Economic Observatory of Italian and European car market*
 - Czerniawska B. (2000), *The uses of Narrative in Organization Research*, Gothenburg Research Institute.
 - Deloitte (2013), *Beating the Odds – How companies can improve value through M&A*, Deloitte Development LLC.
 - Dieter H. (2007), *Transnational Production Networks in the Automobile industry*, Notre Europe.
 - Dinc & Erel (2013), *Economic Nationalism in Mergers and Acquisitions*, The Journal of Finance.
 - Donovan D. (1999), *The dawn of the Mega Suppliers*, Bain & Company Inc.
 - Faktorovich M. (2008), *Globalization: How successful are cross-border Mergers and Acquisitions?*, Glucksman Institute for Research in Securities Markets.
 - Feenstra (1998), *Integration of Trade and disintegration of production in the Global Economy*, Journal of Economic Perspective, American Economic Association, vol.12, 31-50
 - Fujimoto T. (2011), *The long tail of the auto industry life cycle*, Journal of Product Innovation Management, Vol.31, issue , 8-16
 - Haugh D., Mourgane A., Chatal O. (2010), *The automobile industry in and beyond the crisis*, OECD Economics Department Working Papers, No. 745, OECD Publishing.
 - Kamp B., Tözün R. (2010), *International Journal of Automotive Technology and Management*, Vol. 10, Nos. 2/3, Inderscience Enterprises Ltd.
 - Karlsson M. (2003), *The development of industrial networks – Challenges to operations management in an extraprise*, International Journal of Operations and Production Management – Emerald Group Publishing Limited.
 - Karlsson C. & Sköld M. (2007), *The manufacturing extraprise: An emerging production network paradigm*, Journal of Manufacturing Technology Management – Emerald Group Publishing Limited.
 - Karlsson C. (2008), *Researching Operations Management*, Routledge.
 - Layan and lung (2004), *The dynamics of regional integration in the European car industry*, Palgrave Mcmillan, 57-74.
 - Leeps & Mishra (2013), *Do Mergers and Acquisitions pay off immediately? Evidence from Mergers and Acquisitions in India*, South Asian Journal of Management.

- Marquardt M. (1999), *The Global Advantage: How world-class Organizations improve performance through Globalization*, Gulf Publishing Company, Houston, TX.
- McCormack A. et al. (1994), *The new dynamics of global manufacturing site location*, Sloan Management Review, Summer, pp. 69-80.
- Meyer R., Rukstad M. G., Coughlan P. J., Jansen S. A., *Daimler-Chrysler post-merger integration* (2005), Harvard Business Review.
- National Automobile Dealers Association (2013), *State of the Industry Report 2013*, NADA.
- Naor M., Linderman K., Schroeder R. (2009), *The Globalization of operations in Eastern and Western countries: Unpacking the relationship between national and organizational culture and its impact on manufacturing performance*, Journal of Operations Management.
- OECD (2011), *Recent developments in the automobile industry*, OECD Economics Department Policy Notes, No. 7.
- Oliver C. (1991), *Strategic responses to institutional processes*, Academy of Management Review, Vol. 16, No. 1, 145-179.
- Orlikowski W. J. (1996), *Improvising Organizational Transformation over time: A situated change perspective*, INFORMS – Institute for Operations Research.
- Pine B.J. (1993), *Mass Customization: The New Frontier in Business Competition*, Harvard University Press, Cambridge, MA.
- Porter M. E. (1986), *How Competitive Forces shape Strategy*, Harvard Business Review.
- Powell W. W. & Grodal S. (2006), *Networks of Innovators*, The Oxford Handbook of Innovation – edited by Fagerberg J., Mowery D. C., Nelson R. R.
- Pricewaterhouse Coopers LLP (2010), *How synergies drive successful acquisitions*, PwC
- Pricewaterhouse Coopers LLP (2013), *Top Suppliers – North America, Europe and the World*, Automotive News, Crain Communications Inc.
- Pricewaterhouse Coopers LLP (2014), *17th Annual Global CEO survey – key findings in the automotive industry*, PwC.
- Robertson P.L. & Langlois R.N. (1995), *Innovation, networks and vertical integration*, Research Policy, No. 24, pp. 543-62.
- Rothenberg S. and Ettlied J.L. (2011), *Strategies to cope with regulatory uncertainty*, University of California, Berkeley, Vol.54, No.1, California Management Review
- Rottig D. (2007), *Successfully managing international Mergers and Acquisitions: A descriptive Framework*, International Business: Research, Teaching and Practice, The Journal of the AIB-SE
- Schmid S., Grosche P. (2008), *Managing the International Value Chain in the Automotive Industry – Strategy, Structure and Culture*, Bertelsmann Stiftung.
- Spatz J., Nunnenkamp P. (2004), *Globalization of the automobile industry: Traditional locations under pressure?*, In: Faust, Michael (Ed.): *European Industrial restructuring in a global economy*, ISBN 3-

88431-007-0, SOFI – Soziologisches Forschungsinst. An der Georg-August-Univ., Göttingen, pp.105-129, ZWB – Leibniz Information Centre for Economics.

- Sturgeon T. J., Memedovic O., Van Bieserbroeck J., Gereffi G. (2009), *International Journal of Technological Learning, Innovation and Development*, Vol.2, Nos. 1/2, Inderscience Enterprises Ltd.
- Türkcan K. (2011), *Vertical intra-industry Trade and Product Fragmentation in the auto-parts industry*, Journal of Independent Competitive Trade, 11:149-186, Springer
- Van de Ven et al. (2008), *The Innovation Journey*, Oxford University Press.

Business Plans:

2010 – 2014 Business Plan, link: http://www.fiatspa.com/it-IT/media_center/FiatDocuments/2010/APRILE/21-04-2010_FIAT%20GROUP%20AUTOMOBILES%20-%20Business%20Plan%20-%20Intervento%20Sergio%20Marchionne.pdf

2014 – 2018 Business Plan, link: http://www.fiatspa.com/en-us/investor_relations/investors/presentations/pages/2014_investor_day_presentations.aspx

Web references:

<http://smallbusiness.chron.com/difference-between-tier-1-tier-2-companies-25430.html>; Date: 20/06/2014 Time: 14.00

<http://en.ria.ru/world/20090206/120007709.html>; Date: 20/06/2014 Time: 13.00

<http://www.nbcnews.com/id/30802161/>; Date: 20/06/2014 Time: 13.00

<http://www.economist.com/node/14732026>; Date: 20/06/2014 Time: 13.30

<http://chinaautoweb.com/2010/09/how-many-cars-are-there-in-china/> Date: 24/06/2014 Time: 11.00

<http://www.businessgreen.com/bg/news/1801462/chinas-e6-electric-car-were-trying-save-world-trying-money>; Date: 15/07/2014 Time: 10.00

<http://www.ibisworld.com/industry/china/car-dealers.html>; Date: 15/07/2014 Time: 10.00

<http://online.wsj.com/news/articles/SB10001424052702304202204579255840627993218>; Date: 15/07/2014 Time: 11.00

<http://www.gtai.de/GTAI/Navigation/EN/Invest/Industries/Mobility/automotive.html>; Date: 16/07/2014 Time 11.00

http://www.carsitaly.net/fiat-car-sales_russia.htm; Date: 16/07/2014 Time: 11.00

<http://www.autoguide.com/auto-news/2013/01/2014-maserati-quattroporte-gets-twin-turbo-ferrari-engines-2013-detroit-auto-show.html>; Date: 17/07/2014 Time: 12.00

<http://www.motori.it/attualita/599/fiat-e-psa-peugeot-citroen-vicini-alla-fusione.html>; Date: 17/07/2014 Time: 16.00

<http://www.motori24.ilsole24ore.com/Industria-Protagonisti/2014/07/fiat-psa.php>; Date: 17/07/2014 Time 16.00

<http://www.ilsole24ore.com/art/impresa-e-territori/2013-01-16/fiat-accordo-jeep-cina-064253.shtml?uuid=Abzq2mKH>; Date: 17/07/2014 Time: 16.20

<http://blogs.cars.com/kickingtires/2014/06/fiat-chrysler-announces-alfa-romeo-dealer-network.html>; Date: 17/07/2014 Time: 16.30

<http://online.wsj.com/articles/fiat-chrysler-signs-up-alfa-romeo-dealers-in-the-u-s-1402415597>; Date: 20/07/2014 Time: 17.00

<http://www.ilfattoquotidiano.it/2013/04/25/flat-sindacati-usa-potrebbero-far-pagare-cara-chrysler-a-marchionne/575490/>; *Date: 20/07/2014 Time: 11.00*

<http://www.ilsole24ore.com/art/notizie/2013-04-13/crisi-peggiore-storia-081143.shtml?uuid=AbOU2nmH>;
Date: 20/07/2014 Time: 12.00

Documentary:

FIAT History – History Channel (Fox Channel International)

Resurrecting Chrysler – *60 minutes* (CBS)

11. Appendices

Transcript 1 – *interview with Mr. Di Filippo, Director of a Dealership centre in Ascoli (Italy)*

Interviewer: Ok, we can start. Good evening, Could you please tell me your name and surname and your role at FIAT?

Interviewee: My name's Luigino Di Filippo and I'm responsible for the sales channel in the area of Ascoli.

Interviewer: Well, in this interview I'm firstly interested in getting to know from you as a responsible of sales for FIAT how are sales right now in your area and then in Italy in general between 2013-2014.

Interviewee: 2013 closed normally, with the same trend of 2012. Till march 2014 we followed the same standard. From the middle of April till now we have a decrease in sales on a local level while on a national level the increase is around 7% or 8%.

Interviewer: So right now FIAT..

Interviewee: Right now in this area we're losing.

Interviewer: Here you are losing then, while on a national level..?

Interviewee: No well, when on a national level we were losing, this area was doing well, we were increasing by 10%. Now that registrations are increasing again [on a national level n.a.] we are suffering in the area. I'm waiting for April's data to make a comparison, I can notice a decrease since middle April.

Interviewer: In particular, which models are sold the most and the least?

Interviewee: What we sell in primis is Panda then.. usually it's Panda, Punto, 500, 500 L and then some Curvo, some Doblò.. but anyway primarily Panda, Punto and the standard version of 500.

Interviewer: And is it this way both on the local level and the national level?

Interviewee: On the national level, Panda and 500 are the top 2.

Interviewer: Mh, I see.. and it seems to me that right now you are paying some attention to the new 500 L, is it correct? Is it a model you're trying to launch?

Interviewee: Yes! It's a model that still has to attract attention.. a model that has some numbers but they need to grow.

Interviewer: Mh, I see.. and talking now about the merger between FIAT and Chrysler.. do you consider this deal to be generally positive or negative for future sales in Italy?

Interviewee: Well.. I think it's positive, because nowadays mass production and big commercial centers are the trend. Whatever is big works and you don't really look at what's behind. It's also [positive] from the production plants' point of view because many models, even if sold in the US, will be produced in Italy so all the plants should be active again and we can say that what he [Marchionne n.a.] said yesterday [on the 05/05 Marchionne presented in Detroit the new Business Plan of FIAT for the period 2014-2018 n.a.] had already been anticipated to us in December and he is staying true to his words so, the Alfa Cross-over, Jeep, the new 500 4x4 that will be released in October, are all going to be made in Italy.

Interviewer: And do you think these models that you just mentioned have been influenced by the relationship with Chrysler? I mean in the design, because for example I can see that 500L is a cross-over with some characteristics which are more "American".

Interviewee: I think it's a middle way, you didn't see wrong. They didn't tell us directly but you didn't see wrong.. but also Panda, it has been brought back to Italy. The new Panda is made in Pomigliano, not in Poland anymore, the old one was in Poland.

Interviewer: Ok, and do you know why they decided to move..?

Interviewee: Just a matter of investments..

Interviewer: They just decided to re-invest in Italy..

Interviewee: Exactly.

Interviewer: So it is not really true what it is being said about the fact that they invest more abroad than in Italy, is it?

Interviewee: No no.. unfortunately we as Italians, me included, are used to complain always about something so, if they made it abroad they would say something, if they made it in Italy they would say something..

Interviewer: So what's being produced in Poland now?

Interviewee: The 500, and in Ukraine the 500L.. we can say that the plants in Italy are all being reactivated. In Italy where they make the Punto, there are four lines, three have been stopped because are being renewed and one will go on making Punto but I don't think there are still many years to go on because it works since 2005.

Interviewer: Ok, I see. Well.. you said you had been already anticipated the plan before.. how did this happen, how was the new direction communicated, through documentation or..?

Interviewee: No, in Christmas there was a meeting among all the commercial directors and I went with my boss so we were presented the models that are out now and will be out soon so we have been explained what would be the re-start plan for the next three or four years. According to what they told us the crisis is over and we are re-starting so that it's possible to reinvest and there will be 40 models out in the next three or four years.

Interviewer: And, in general... in general concerning.. sales and the approach towards sales and maybe advertising, was there a change in mentality compared to the situation before Marchionne arrival also considering the attention towards expansion?

Interviewee: Consider that I "was born" in Renault, I arrived in 2009..

Interviewer: So when Marchionne was already there..

Interviewee: He was already there... but yes looking at that, as an external I noticed it.

Interviewer: So, in general you consider his arrival positive?

Interviewee: Yes, in my opinion yes.. maybe I don't agree with everything he says but yes..

Interviewer: For example what?

Interviewee: I mean.. sometimes he has a behavior that a person in his position shouldn't have.. towards the external environment..

Interviewer: He's very straightforward..

Interviewee: No the fact of being straightforward is not always bad but it has to be done in a proper way..

Interviewer: Yes, yes.. right now there is a lot of talking in general about the asian market as a growing one but also the south american one, and FIAT is already strong in Brazil for example. Marchionne invested in the US instead, and not in Asia. Right now would it have been better to invest in Asia or anyway trying to exploit Chrysler's sales channels can be useful because of the fact it's hard to create a new sales channel from scratch?

Interviewee: In my opinion it's already hard to create a sales channel in normal conditions, I don't think it was a wrong move also because they're creating also new products made for the asian market so they're indirectly investing also there, in particular I know they're investing on a premium car with an Asian brand so in the end there was an alliance also in Asia.

Interviewer: I read the merger will be fully completed by this year and Marchionne said the different brands will stay separate although FCA will be the name. will this affect the sales channel?

Interviewee: Right now, considering what we know, we will keep on selling FIAT.. but then there will be probably other sellers who will sell all the different brands in one place but separately.. as it already is in some places also in Italy.

Interviewer: I see.. one more question is about one of the main aspects of this change, the investments on Alfa Romeo. In particular Marchionne said Alfa Romeo will have to address the highest level of the market, the premium one, where for example also Maserati is present.. in particular this is meant to happen in the US. In your opinion, considering the Alfa Romeo brand, is that a good positioning? Was the brand underestimated?

Interviewee: I believe it lost value, in the past it was [very good]. Looking at some models I've seen, it's not easy it seems.. but anyway it's exaggerated to compare it to Maserati's brand.

Interviewer: Exaggerated.. looking at the design?

Interviewee: No it's not much the design.. you have to work a lot..

Interviewer: Then because of the work that has to be done on the brand?

Interviewee: Yes exactly, in my opinion yes. But anyway so far what has been said has been done so that's just my idea.

Interviewer: Then looking at investments in Italy there isn't a lack of those in your opinion..

Interviewee: No no, the opposite, I know all the plants are restarting. Cassino will start working again, Melfi will start again and I know they will also start hiring.

Interviewer: I see. And.. I don't have many questions left apart from one, concerning the relationship between FIAT and Trade Unions in your opinion.. do you think it worsened after Marchionne's arrival?

Interviewee: Well about this.. it's just my opinion but I agree with Marchionne although he maybe exaggerated in some ways but it's not possible that when Italy plays football 70% of employees get sick. I went to Pomigliano's plant to or three times and honestly I didn't see people working that hard. Usually when somebody is checked while working [performs more].. but they were very slow and calm when working. Probably, like In very company, tones are exaggerated. It's important to give and receive without exaggerating.

Interviewer: Yes, also because very often there is a lot of talk about the financial aids FIAT received in the past from the Government and should give it back as job offers.. that's a criticism often made against FIAT..

Interviewee: Yes sure. Talking to some people at the higher levels, they say all that FIAT owed has been given back but apart from this, that we'll probably never know, it's fair to keep a responsible behavior. I never had problems with Trade Unions but we see every day, if there is a match [people don't work] or when they have to stamp their badge at the entrance and then they go away instead but sometimes get their job back anyway..

Interviewer: So we can say that in general the problem is the Italian mentality..

Interviewee: This is the way I see it. Nowadays Trade Unions have no sense here. They used to fight for rights but now..

Interviewer: It's just about politics..

Interviewee: And money. In this crisis time you cannot look at the 10 minutes of work more if you're a serious employee, otherwise the day I get fired I have to shut up.

Interviewer: So, in general how do you see the idea of moving the legal headquarters to Holland and the financial one to Britain?

Interviewee: Well, when the news came out I thought that's better than moving plants abroad or work abroad. Better to have the headquarters abroad and keep the plants open here, at least they give work to many people, the headquarters doesn't count.

Interviewer: They say the main reason was bureaucracy.

Interviewee: Yes, but anyway even if they stay here and pay more taxes, that money gets taken by politicians not by the country. At least plants can grant a job to many people.. I'm no expert about this though, I left aside politics long time ago.

Interviewer: I see, ok. Well we're done with our interview now, thank you very much.

Transcript 2 – interview with Mr. Bajak, IT Specialist at FIAT subsidiary in Frankfurt (Germany)

Interviewer: We can start, good morning Mr. Bajak, thank you for your time. Could you please tell me your current role at FIAT, what you're doing, what you've been doing for FIAT in these years.

Interviewee: My name is Willy Bajak I work at FIAT Germany in the ICT Department as ICT Process Specialist. This year I will reach 45 working years for FIAT. You can imagine, this is a long time you know? We've had a lot of changes in this time.

Interviewer: So.. what do you think the main changes were lately in your opinion looking at the merger between FIAT and Chrysler. What can you recall about the first time you got to know about this merger?

Interviewee: For me and also for my colleagues it was a big surprise. It's really.. a big thing, a big deal. In the first moment I think the situation was a little pessimistic.. but up to now it has changed into a really optimistic [one] because we see all that happens and we see all the new structures so it's really very good.

Interviewer: Why do you think there was a pessimistic feeling about that in the beginning?

Interviewee: You see we're in Germany and the first company to make a deal like this was Daimler and you know what Daimler means in Germany, it's not only a car manufacturer, it has a high level [of importance] and [its merger] was not successful so.. it was a surprise.

Interviewer: Ok but then, to make you understand better this change did they start to explain you already before or did you have to wait for the new Business Plan in order to understand better?

Interviewee: Well the first information was long time ago. We got a lot of information and I had the feeling, and also my colleagues, that it was an open information from the Headquarters. They told us a lot, we got official information and also material which comes from the press and the media. From one step to the other the meaning changed..

Interviewer: Mm, I see..

Interviewee: Because the Headquarters did a big job and there was a big new structure in the whole Company.

Interviewer: How did they explain to you the need for this change? The need to change the strategy, to go for a merger.. what did they say about that?

Interviewee: Well, the reasons.. I don't know if we're really informed about the [real] reasons but the reason is the same for all car manufacturers. There is a global play in the whole World and if you look at the others the strategy is always the same, you must grow and get bigger otherwise you get no chance so I think this is the reason..

Interviewer: Did this change influence your work at FIAT, what you're doing, what you've been doing.. did something change?

Interviewee: Not in general but the first change was in the amount of work because the ICT and to put the two systems together was a big work. I would say that goals were very high and we had to work a lot but now we see the results, which seem very good.

Interviewer: So, basically you had to put together all the information and data coming from Chrysler and FIAT?

Interviewee: Yes, but not here in Germany, because our applications are all developed in the Headquarters in Italy. But we had to contact the dealers and DMS providers (Dealership Management System n.a.), you have to involve them in our system. We have now a new DMS provider which was working with Chrysler before and now it's working with us.

Interviewer: Do you think Chrysler had a better system, ICT systems? Did FIAT improve from this point of view?

Interviewee: Yes yes, I have the feeling, but this is also what the Headquarters told us, that they checked all the systems and decided to take out the best systems of both. So for example the system for car testing is from Chrysler and they took it, so step by step they put [the systems] together.. but if I look at it I can see that more FIAT-systems are "alive" than Chrysler systems.

Interviewer: Mm, ok.. what was the main problem in unifying these systems? Talking to people from Chrysler was there a problem for example about culture..?

Interviewee: No that was not a problem but you can imagine not all people from Chrysler moved to Frankfurt. Our headquarters (in Germany n.a.) is in Frankfurt, Chrysler's headquarters (in Germany n.a.) is in Berlin so we lost a lot of knowledge in the first step.

Interviewer: Are you unifying the subsidiaries in Germany or will you keep the headquarters separated?

Interviewee: No, our headquarters is in Frankfurt.

Interviewer: Do you also have to deal with information and data coming from suppliers in your job?

Interviewee: I have not much contact with suppliers, I have contacts with DMS suppliers which make the system for our dealers. As I said now we have a new player, a new DMS supplier and we had to explain them our system and so on, but now they're fully integrated in our system. For them it was a chance because from one day to the other they had more many more dealers, which for them means more customers.

Interviewer: You said you spent 45 years at FIAT so I'm sure you can tell about the difference, also through time.. the difference in management, in leadership or in the vision of the company. What can you say about this? How did it change, if it changed, through time.

Interviewee: One big step was the restructuring of the company. Marketing and Sales Department were restructured to integrate Chrysler into FIAT. I will not say we are a completely new company but there is a little change in my feelings.

Interviewer: Do you think Marchionne's leadership is very different from Agnelli's one of previous time?

Interviewee: I think so.. he has a vision you know? If I look at the deal with Chrysler, in my opinion it was a vision of Marchionne and if you look at many years before FIAT faced a period which was very critical and then Marchionne comes and [the company] goes up you know? I don't know where we would be without Marchionne, I think he did a good job to bring FIAT forward.

Interviewer: What I learnt studying FIAT's history is that Agnelli always said FIAT's destiny was to become Global and Marchionne said the same when he arrived, do you agree that FIAT was meant to be like that?

Interviewee: Well in my opinion you have no other chance. If you look at the Global market, all manufacturers try to get together and make new deals to make cars together, you have no other chance. New models cost a lot and you need to make new deals, not only complete integration but deals with Indian companies for example and this kind of stuff.. you have no other chance in my opinion.

Interviewer: As a German do you think FIAT will be more competitive compared to german car manufacturers?

Interviewee: I think so, yes. I think also that they all are a bit surprised about the result, because I don't know if everybody thought FIAT would reach the goal. If we look at the situation, of course we're not at the end but we are in a good position and also the shareholders are satisfied and we'll see what happens on the stock exchange.

Interviewer: When there was the change in Headquarters, because FIAT is moving partially to England and partially to The Netherlands, what was the feeling of employees in Germany about this? In Italy there were problems with Trade Unions and political problems.

Interviewee: We have no production in Germany so no problem with the Trade Unions, which are more related to that in Italy. To go to Netherlands is just a financial decision.

Interviewer: Do you think from this point of view FIAT could be different from Mercedes or other German car manufacturers? I mean, if Mercedes decided to move production or the headquarters far from Germany do you think there would be the same problem with Trade Unions and politicians?

Interviewee: For sure. You know, if somebody moves the headquarters to another country I's not nice for the employees.. [laugh]

Interviewer: I had another interview with a FIAT dealer, he's Italian, he said that in his opinion it's just the Italian mentality that probably is used to criticize everything. He said that after all only the headquarters is being moved, not production, so it's just a political matter..

Interviewee: I think it's a political matter but I can say that also the heart of Italian people is different from Germans' considering FIAT. FIAT is the most successful company in Italy and FIAT is history so as an Italian guy you have different feelings from those of a German. But right now there wasn't a big change, it would be more if they moved to the US but now it's just The Netherlands so it's just a financial matter.

Interviewer: I guess you saw the new Business Plan when they presented it..?

Interviewee: Business Plans are always optimistic, very optimistic. What I see missing is the new models which are postponed to 2016 and 2018.. I think it's not so good.

Interviewer: Because of the fact competitors have more models to offer..

Interviewee: That's it.

Interviewer: As a German working in the Car sector, why do you think Daimler didn't succeed? What has been said about Daimler?

Interviewee: It's very hard to say but I think they were not 100% behind the idea. You must really want it you know? If you see the whole restructuring of FIAT, of the whole company.. I think you see they want this while Daimler, I'm not sure, maybe they considered it only part of the deals they make with others as well.

Interviewer: Do you think maybe that FIAT and Chrysler both needed the merger while Daimler was strong anyway and maybe that's why Daimler didn't go 100% for the deal as you said?

Interviewee: I think Chrysler for sure was in a very difficult position and they needed this. FIAT also needed it, it had no chance to stand alone so also for FIAT it was a good deal. As I said it was a vision from Marchionne and he was right.

Interviewer: So, in general he's appreciated by employees in Germany?

Interviewee: We're in a better position that before so it's also good for us because we don't know what would have happened otherwise.

Interviewer: Did you have the chance to speak with somebody from Chrysler?

Interviewee: Only with a colleague that moved from Chrysler to FIAT. For them the movement was not so fine for them but ok, you have to go on. Also they [at Chrysler] understand it was necessary.

Interviewer: As a final question to conclude, what do you think the result will be? Are there more chances compared to Daimler's case? Of course it's early but what are the feelings?

Interviewee: You mean for the future.. there will be hard years for FIAT, we're not at the end of this merger and I hope our Headquarters will have good ideas to sell the new models and we will see..

Interviewer: You said you were worried about the new models, but what is that you instead liked about the Business Plan?

Interviewee: Investments, the investments they will make, also in Italy.

Interviewer: Did you work in Italy as well for a while?

Interviewee: I had contacts and I went several times to Turin.

Interviewer: Could you see differences between the subsidiary in Germany and the Headquarters in Italy? Difference in culture?

Interviewee: I think we're working for the same goal, we both want result and there is no difference in the way we work, in efficiency.

Interviewer: I see. Well I think we're done.. thank you very much for your time and this interview.

Interviewee: You're welcome.

Transcript 3 – *interview with Mr. Lamendola, Director of FIOM office for Mirafiori affairs in Turin (Italy)*

Interviewer: Mr Lamendola, as a first question, what's your role in FIOM and what have you been doing so far?

Interviewee: Since one year I've been taking care of FIAT Mirafiori (meaning relationship between FIAT-Mirafiori and FIOM n.a.). I am in the secretariat of the province in Turin. Before I was involved in Finmeccanica, in particular in the Aircrafts sector, Iveco but in CNH Industrial which was separated from Iveco some years ago. I was also involved for many years in the Automotive components' supply chain on a regional level.

Interviewer: Since you take care of Mirafiori right now, could you give me some data regarding production, whether it increased or decreased, the number of employees..

Interviewee: Well, usually we talk about Mirafiori as a whole but we should divide it into different parts. Body-shops have around 4,000 employees due to the fact 1,000 were transferred to Grugliasco plant to work at Maserati. I guess they are 4,200 in body-shop. Around 5,000 are working in the "central-entities", which

are divided 50% between those who work on engine design and those who work on models. Then 700 employees work at presses and make components, molds of components. Finally there are the mechanicals, which are around 1,500 and make the transmission for the “Fire” engine, which is a 25 years old transmission. So these are the four parts constituting Mirafiori.

Interviewer: Concerning production?

Interviewee: Since two years there’s only one model left in Mirafiori, Alfa MiTo, of which less than 20,000 were produced last year. Workers work on a single shift base, four days per month on average, that’s it..

Interviewer: Four days per month?

Interviewee: They work four days..one team does the first shift, and four days another shift for another team, so we can say that on average each employee works four days per month, to make around 20,000 Alfa MiTo per year. So we can affirm with no doubt that Mirafiori is not productive.

Interviewer: Then it doesn’t work 100% of its capacity?

Interviewee: No.. its capacity utilization is 10% because Mirafiori, considering the number of employees working there, is a plant that should produce 1,000 cars per day, roughly more than 200,000 per year. To produce 20,000 means to have a capacity utilization around 10%.

Interviewer: Do you have information regarding the other main production plants in Italy, particularly concerning capacity utilization?

Interviewee: Yes, well.. let’s start from the one in Pomigliano, which was at the centre of the first strong debate with FIAT [from the labor-contracts point of view]. Right now around 1,500 employees are de-saturated (not involved in production n.a.). The production of Panda did not meet expectations, from the volumes point of view. Volumes should have been around 280,000 per year to saturate all employees. The production plant in Melfi is changing its productive mission and they’re restructuring. Currently they’re making the FIAT Punto but the predictions for Melfi are to start producing the Jeep Renegade and later on another model of Jeep but under the FIAT brand. The Cassino plant doesn’t have a productive mission assigned. Here we have to make a step back. When Marchionne presented the Fabbrica Italia Plan (included in the 2010 Business Plan n.a.) what he really realized was the division into different productive platforms, “mini”, “small” etc. for the different segments, giving to each plant a different mission depending on its platform. For example he entrusted the platform mini, i.e. segments A and B, to Pomigliano plant; Melfi was given the platform for segment C, after the decision to start producing Jeep there. Cassino right now doesn’t have, from an official point of view, a productive mission. They say it should produce Alfa Giulia, so segment C, but currently it doesn’t have a mission. Mirafiori doesn’t have a mission as well, they say it should produce Maserati SUV, but there is nothing official about it. Here it is worth noticing that in the Fabbrica Italia plan in the beginning the FIAT 500L should have been produced in Mirafiori but then it was

moved to Serbia, in the Kragujevac plant, thanks to a very advantageous agreement between FIAT and the Serbian Government. So Mirafiori ended up without a mission. After about one year the plant got the mission of producing the two new Jeep models but after six months Marchionne changed his mind again, with the new agreement concerning cassa integrazione already made, and in 2013 plans changed again and the two Jeep ended up being given to Melfi plant and Mirafiori remained a “question mark”. In the Fabbrica Italia plan 300,000 cars were to be produced in Turin: 50,000 in the ex-Bertone plant for the E segment, upper scale level, and 250,000 in Mirafiori starting with the FIAT 500L. All this changed also because at the ex-Bertone plant they moved from E platform to luxury segment, with the production of Maserati. The “luxury side” of the plan was born during the enactment of the plan and not before. Currently that’s the situation, there’s nothing official. Of course we can see that they are working and restructuring the plants in Mirafiori but there is no certainty concerning the mission and the platforms to produce the [Maserati] SUV. In Pomigliano you have certainty about volumes with the mini-platform, Melfi has the two jeep, Grugliasco will produce Maserati, but Melfi and Cassino are not official yet.

Interviewer: During an interview with a FIAT dealer I’ve been told Panda’s production will be moved from Poland to Italy..

Interviewee: Yes that’s already been done. Panda is produced in Pomigliano only. That was decided by the Fabbrica Italia plan.

Interviewer: Then which models are currently being produced abroad?

Interviewee: In EMEA, i.e. the European market, they produce the 500L in Serbia and also another model of 500 will be produced there after agreements with the Serbian Government. In Poland they make the 500 and the FIAT Ypsilon, which was previously produced in the Termini Imerese plant (in Italy, n.a.), which was closed. Then in Turkey they produce the FIAT Doblò. Then we have plants in the US and Brazil, but in Brazil they make low-cost models. Then of course we have the Chrysler plants (NAFTA region, n.a.).

Interviewer: How would you define the relationship between FIAT and Trade Unions today, if compared to the situation before Marchionne?

Interviewee: Well we met “two” Marchionne. The first was very open to dialogue and willing to discuss and negotiate. I remember a famous sentence by Marchionne in that period when he said: “Let’s save FIAT together”. Marchionne was good at solving the problem with General Motors, and he managed to get paid by General Motors. We as FIOM-CGIL were good at getting funds from local institutions and particularly from the City of Turin, and we gathered 70 million Euros for FIAT. Relationship with the “first” Marchionne was constructive and positive, even better than what we had with the previous Management. We also signed a

contract with Marchionne to renew a contract where every employee was guaranteed 1,000 Euros per month, even those in Cassa Integrazione¹³³, and we shook our hands. Relationship was positive.

Interviewer: What about afterwards?

Interviewee: Then there is the “second” Marchionne, after the agreements with Chrysler and the failed attempt of an agreement with Opel. This Marchionne is more “American” and less “European”. After the “Fabbrica Italia” plan a conflictual relationship started with FIOM-CGIL as we said “no” to some aspects of the plan regarding Pomigliano that included the disappearance of some rights for workers, i.e. the disappearance of the possibility for workers [...] to negotiate their position. [...] We didn’t share some parts of that Plan, other Trade Unions did because of the possibility to realize the Fabbrica Italia Plan that included an investment of 20 billion Euros. When the Plan was presented, in Italy around 680,000 vehicles were being produced; the Plan aimed at doubling production, reaching 1,400,000. We had great doubts about the investments needed. 20 Billion Euros means you have to create in four years twenty new plants, because to create a new line you need roughly an investment of 1 billion Euros. We thought the plan was not reliable. Marchionne himself said, after one year and a half, that plan was a mistake. [...] Right now, if you look at FIAT investments [...] 1 billion Euros have been invested in Pomigliano, around 1 billion in Grugliasco and around 1 billion will be invested in Melfi¹³⁴. That’s it, so from 20 billion we have [only] three. [...] We didn’t accept that plan and relationships were broken [...] because of the doubts we had about that plan we didn’t believe in. [...] When the plan was launched we were in April 2010, in the middle of the crisis in Europe, which started in the US in the second semester of 2008 and in Europe in 2009. Marchionne wanted to overcome the crisis through that plan, which was not reliable, but [we had doubts] also because of the amount of debts FIAT had and the amount of investments required. [...] The “Fabbrica Italia” Plan predicted the production of about 500,000 Alfa Romeo in 2014, [...] currently 70,000 are being produced, so they didn’t realize anything of what was said.

Interviewee: Do you know anything about relations between FIAT and Trade Unions abroad?

Interviewer: Every year we have a meeting with the other Trade Unions [around the World]. Apart from the very specific regulations in every country, which are obviously different, the relationship with the Polish Trade Union is very bad, just like it’s not good at all in Serbia, even considering the regulations of Serbia, where Trade Unions’ freedom is non-existent. The relationship is bad even in Turkey. They have a different kind of relationship in the US, but there are some features in the American model which render this possible..

Interviewee: Also because they had to negotiate with them to acquire Chrysler..

Interviewer: Yes, of course. As I said we must take into account also the differences among countries. But in general, considering Trade Unions, in FIAT’s world their role is merely marginal, not the one of a relevant

¹³³ In Italy this system is the equivalent of “layoffs”

¹³⁴ Pomigliano, Grugliasco and Melfi are the other main production sites of FIAT in Italy (see also data part)

part in negotiations that negotiates on the part of workers. In fact, among the pillars of FIAT agreements there is the assumption that the Company consists only of the Company itself, and they introduced sanctions in case of strike, against the right of going on strike.

Interviewee: Is it so also in Italy?

Interviewer: Yes, in FIAT system they are included.

Interviewee: In the new Business Plan they foresee the achievement of 100% capacity utilization in every plant [in Italy]. Do you think it's possible?

Interviewer: No. We made some research also with experts and analysts. The plan presented includes investments of about 5 billion Euros in the next years on Alfa Romeo. That means creating five new lines in four years to build about 400,000 Alfa. They say 150,000 will be sold in Europe and 250,000 outside Europe. This is a very, very ambitious plan. We are not the only ones to say that. Plans are made to be presented to financial markets and the day after the presentation they lost 12% on the stock market. This is so both because you need to make reliable plants but also because, as it is in Marchionne's style, they make very attractive announcements, exciting, but they are only announcements because there is nothing concrete in practice. In fact Marchionne himself says that investments have to "finance themselves", i.e. I make a model and then from there, if it is profitable, I go on with other models.

Interviewee: People who met Marchionne say he changes his mind very often..

Interviewer: Yes, that's true. He changes his mind very often, he changes plans very often and.. but this is my own opinion, for him it is always somebody else's fault. It's never his responsibility [when things go wrong]. Of course he's very good from a financial point of view.

Interviewee: Yes, let's talk about that. What are the positive aspects of his management in your opinion?

Interviewer: Well he was very good in the beginning at the financial level, with General Motors, where he succeeded to get paid by them. He concluded a very good agreement with them. Then he succeeded in making a deal with Chrysler and getting funds from the US Government. Moreover he imposed a very tough agreement to Trade Unions. [...] The money was given back but thanks to a decrease in salaries etc. Of course the fact he put together two companies, two companies that were basically almost bankrupt, is remarkable. From the financial point of view he's a very good manager, that's also his background. It is not by chance that every year he manages to give returns to investors. The fact the "second" Marchionne wanted to impose his decisions as a single-man in charge shows that he's never been a "product-man" but a "finance-man". The "Opel deal" failed and so he moved to Chrysler..

Interviewer: Why did it exactly fail?

Interviewee: Well mainly due to the intervention of the German Government. In a nutshell they saw the plan and said “no thanks, we can make it on our own”. It was due to the Merkel’s Government.

Interviewer: You told me you have been involved in the Supply Chain..

Interviewee: Yes..

Interviewer: What’s the current situation in the Italian Supply Chain, between FIAT and its suppliers?

Interviewee: Let’s make a step back first. If the FCA Business Plan is completely realized, in 2018 we get back to the production of 700,000 cars in Italy, just like before the crisis.. these are the numbers, numbers. In the last two years in Italy less than 400,000 cars have been produced. If you compare this to what has been happening in Germany and other countries there is no match. Consequently the supply-chain was influenced as well. Those suppliers whose great part of revenues was coming FIAT are not there anymore. All the components of the network of small and medium suppliers that was born around FIAT either disappeared or they reduced their personnel. Two years ago, only two years ago, we made a research among those suppliers where our Trade Union was present and found out that in the spring of 2012 there had already been 5,000 people fired and 18,000 were at risk. So if we look at this picture there is no doubt that, while before 280,000 cars were made every year in Turin, now if everything goes right by the end of the year 70,000 cars will be produced.

Interviewer: And all this happened since 2008?

Interviewee: Yes. All this means that the supply-chain will vertically fall. Production and employment will fall. Even if 70,000 cars will be Maserati, and you will have high margins of profit on low numbers, but from the employment point of view and the amount of work created your ration will be 280,000:70,000. We must also consider that before 2008 the average production of Bertone and Pininfarina plants was 70,000 per year. [...] “Premium” cars have always been made in Turin, it was not an idea by Marchionne. They were made by Bertone and Pininfarina. Turin was the only city in the World to have three design-signatures, three designers that could sign a car: Bertone, Pininfarina and Giugiaro. A car with a signature, let’s say “Bertone”, had an added value of 1,000 Euros just because of that signature, because they were “craft-made”.

Interviewee: What about the three signatures nowadays?

Interviewer: Now there’s only Giugiaro left, who never was a producer though. Pininfarina is just a design-centre with no production anymore and Bertone has been acquired by FIAT. So today we lack those 200,000 cars.

Interviewee: Let’s assume the Business Plan will be actually realized..

Interviewer: The situation will be that you will be able to produce 70,000 Maserati in Turin, if the sales of the SUV will be as expected, around 30,000 by 2018, but that's all.

Interviewee: What would like to see in that plan that you didn't see?

Interviewer: Well first of all what we saw is not enough to saturate all employees in the different parts of Carrozzeria and ex-Bertone Mirafiori, which are around 6,500 in total, so you would need to have more models. The industrial district got smaller, but then there are some suppliers which, between the '80s and the '90s started to produce and work also for other car-manufacturers, French and German.

Interviewer: What are the main suppliers of FCA?

Interviewee: Well there are several. Some are multinationals like Johnson Control, Lear or Valeo. Then there is Magneti Marelli which is owned by FIAT, then suppliers of components in the mechanical systems, e.g. valves, and these are American and German, like the Mare Group or the American Federal Mob. Then there used to be the Italian suppliers but only a few are left, like the Magnetto Group. The others either closed their activity or limited production. The ones that entered the supply-chain in the French or German Industries faced the crisis as well, also because in Germany for example since 2009 the Government gave aids for 100 billion Euros with the condition that production had to stay in Germany. Merkel used a protectionist policy, while in Italy we did exactly the opposite, they didn't do anything to protect our resources.

Interviewer: They say decentralization is caused also by the labor-cost, and the fact companies leave a country depends on that. What do you think about it?

Interviewee: Yes. Well you need to explain me how come in Germany the product's cost and manufacturing cost per unit is much higher but 75% of German Groups' autos are produced in Germany. Then the problem is a structural one, not the cost per hour but the overall system's productivity and the capability of the system to be competitive. Investments on product innovation and process innovation are critical otherwise it is obvious that you cannot compete with the salary of a worker from Eastern Europe, but the capabilities and technology we have here they don't have them in Eastern Europe. Let's make an example: every year in Turin tens of engineers get out of the Politecnico¹³⁵, it's not the same in Eastern Europe. That to say these people have the right capabilities [to work in the system] and this is fundamental. After all, even the "first" Marchionne said the real problem is not the labor cost, which matters by 7% or 8% in the final cost. Then the "second" Marchionne used the labor-cost as his "mantra". The problem is, in a nutshell, the amount of added costs weighing on the industrial system which make you less competitive. Again, in Germany and France the cost per hour is higher than in Italy but what matters is what is around that, for example if materials can move regularly in a [well functioning] country-system. So you have added costs not directly related to the industrial system that you don't have in other places.

¹³⁵ Politecnico di Torino is a Top University specialized in engineering (n.a.).

Interviewer: It is often said that FIAT took money from the Government and received help as long as they needed and now they are decentralizing activities..

Interviewee: Well they keep on doing it.. (getting money from the Government, n.a.)

Interviewer: And then they decided to move out of the country. But Marchionne said FIAT had the right to use the money as it is a huge company, both from a legal point of view and from the employment point of view as they give a job to many people in Italy..

Interviewer: Well this was true in the past. If you go look for the employment level at FIAT, how it was and how it is, you will see it decreased much [in Italy]. Moreover it is true that FIAT pays taxes in order to use the welfare system for employees. Let me give you some data: In the last ten years they used social safety nets for 2 billion Euros, data coming from Sole 24 Ore. 2 Billion Euros of savings. It costs less to FIAT to use such tools than closing plants. Such system is paid by the community of this country, therefore what we expect is that at least you give back something, which is not linked to the fact you only invest if you're sure you can pay back your share-holders because then there is a lack in collective benefits, the function of the state is missing. From this point of view the responsibility of the Government in this country is extremely big. Merkel gave 100 Billion Euros but with the condition to stay in Germany. [...] This is the "A-B-C" of the market, the basis. If you don't put me in the condition to have money to buy products you will get poor. This is how capitalism works. You have to consume, to consume you need to work and thanks to work you have money to consume.

Interviewer: Do you think this approach might be influenced by the fact an "American" mentality was taken to Italy?

Interviewee: This is also true. If you produce abroad to make more profit, where it costs less, you need nonetheless to sell those products, and you need to sell them also in Italy which is a big market. But if you don't put buyers in the condition to buy you will have a general decrease in wealth. Let me give you some data from the Bank of Italy: In the last 10 years a terrible phenomenon happened. Around 120 Billion Euros, which were "structural", i.e. they were destined to redistribution to employment, so to citizens, were actually given in profits redistribution, invested in the Financial system, not in work and employment. They were re-invested in Financial markets.

Interviewer: Some countries, like England, basically live thanks to finance. Then there are other countries like ours, more based on production of goods, and relying on quality.

Interviewee: Yes such countries made a choice long time ago. Here in Italy we have a country based on Industry mainly in the North. FIAT does have responsibility in these changes. To make an example, if before you were producing 1 million cars in Italy that meant employment, new companies..and now if you produce only 400,000 and the rest is produced abroad, then it is clear that's different.

Interviewer: What do you think about the choice to move the Headquarters? At FIAT they say this does not influence production at all and it's mainly due to bureaucratic needs.

Interviewee: No doubt that, apart from the fiscal side of the matter, the reality is that you are taking away the roots of the company, which were in Italy, to make it become a Multinational, with less and less limitations and bounds, less responsibility towards the country where you were born. This is more meaningful than the bureaucratic reasons. You are a Multinational, independent of the country where you were born and you were helped. We must not forget that FIAT went through many critical moments in its history and this country has always helped the company, even through *ad hoc* laws supporting it. For example when Ford wanted to acquire Alfa Romeo the Government intervention, pressed by FIAT, made so that they couldn't, and preserved FIAT's interest and basically gave it to them as a gift. FIAT is the only producer in Italy. Abroad it's different, in Germany you have three, in the US the same, in France there are two, not to mention Japan and Korea. Paradoxically, in a very competitive industry such as the car industry, FIAT was the only one [in Italy]. You didn't put competitors in your home-country, competitors which would have stimulated competition and improved performance. FIAT has always been protected, therefore they have debt towards the economy of this country. You cannot pretend this never happened, because if you have been able to buy Chrysler it is due to the fact you've always been protected. Till the '90s, before Europe, FIAT was protected by the Government through customs barriers and *ad hoc* laws.

Interviewer: In which period exactly?

Interviewee: From the '60s till the '80s. FIAT even reached 60% of market shares in Italy. It was hard for the others to produce and sell in Italy, and this was a way to protect the Italian market. Nowadays FIAT has around 27% of market shares. If you say you are a free entrepreneur like in the American culture but you were not such till yesterday, you can't behave like that. But this depends on the culture, American and European.

Interviewer: So you think in other countries in Europe like in Germany there would have been the same situation, the same contrasts..

Interviewee: Of course. In Germany Volkswagen has public shares. Just like it was for Alfa Romeo which was State-owned. But we have a different culture from Germany. Anyway in Europe you have a Welfare-based culture, which is typical of here and not of the US or UK, this is a collective culture of redistribution and less individualistic. Nowadays we have a culture more American and less European, with more attention to the individual and less to collectivity. Then of course there are differences, Germany, the first thing they did was to protect themselves, it was protectionism. In Italy we didn't do that probably also because had no resources for that.

Interviewer: I have a couple of questions more. Agnelli and Marchionne often said FIAT was born to be international. Marchionne says that if by 2018 they won't reach about 5.5 or 6 million volumes they will be

out of competition. Now you tell me FIAT was not truthful to its nature, i.e. European company that needs to look at collectivity.. how would you conceal the two aspects?

Interviewee: No, I'm saying something different. Of course the market dynamics nowadays impose such strategies. If FIAT becomes bigger and bigger in the World for me it's ok, but you must not forget where you came from. When they made an agreement with Chrysler, which endangered the rights of many workers, the trade-off should have been 1,400,000 vehicles to be produced in Italy. You may be Volkswagen, but 50% of their production is in Germany. Americans imposed some conditions during the deal. First of all they demanded engines' technology to reduce emissions and become fuel-efficient. Let's make an example: It's true you will produce a vehicle with the Jeep brand for the first time in Europe, in Melfi, but engines will come from the US nonetheless. What we asked in Italy is the same exact thing. The Government should have required FIAT to guarantee a minimum level of production in Italy, just like Obama did in the US.

Interviewer: Do you think the American Trade Unions were "better" than you at negotiating?

Interviewee: No, simply such conditions were backed by the American Government. It is true the American Trade Union was forced to negotiate worse conditions for workers. But they had to do so as in the American model the position of workers in the social safety net was at risk as covers granted by the contracts would have fallen.

Interviewer: Why do you think the Italian Government didn't do the same as the American one.

Interviewee: Fear probably. The political system in the last years has been completely inadequate and unprepared. It's not the same in other countries I remember one episode, at the time of the Berlusconi Government, but let me first say this is not a political problem as it doesn't depend on left or right because no Government was able to handle the situation. When the conflicts about Pomigliano plant started, in June 2010 there was a meeting at the Palace of Piemonte Region and all Institutions were there, FIAT and all Trade Unions. Marchionne, reading his speech, said these exact words: "The plan is mine, and I won't negotiate it with anybody. You have to tell me yes or no". The sentence is "I won't negotiate", but come on, you are the Italian Government, you are the State. Nobody did anything, all said yes apart from FIOM-CGIL. The same thing happened in Germany with the same procedure but they didn't accept the plan. So here the Italian politicians showed their lack of authority and they allowed things that in other European countries are not allowed.

Interviewer: Last question. If you remember there has been already a recent deal involving Chrysler, the Daimler-Chrysler one. Do you think this time the FIAT-Chrysler deal will be more successful? Maybe because FIAT gave more importance to Chrysler than Daimler did?

Interviewee: Surely they had two different managerial approaches. As far as I know the deal didn't succeed due to different cultures. This deal between FIAT and Chrysler is characterized by public intervention in a country, the US, where public intervention is considered generally an abomination. So saving Chrysler was

an American national interest. Chrysler didn't have the technologies of FIAT, nor their know-how in design. The model they are using now imposes hard conditions in Italy, because all resources, financial and non, have been moved to the US. Hundred of engineers moved to the US and now all the engineering is either in the US or in Modena, not in Turin. Since 2009 all FIAT initiatives were mainly addressing Chrysler, which, from the brand value point of view was superior to FIAT. With Chrysler they became a Global car-maker. FIAT didn't succeed at exploiting the brand-value of Alfa Romeo and Lancia, which won the Rally World-championship several times. FIAT in the '70s was competing with Volkswagen to be the first producer in Europe, of course it was a different market and a different World. But while in Italy we didn't support our brands, abroad they did. For example we didn't give Alfa Romeo to Ford.

Interviewer: But before you talked about protecting Italian origins..

Interviewee: No I spoke about protecting employment. You can give it to anybody as long as work is guaranteed, then you can become a Global player and whatever. Ford might have given Alfa its value back and access to the American market. We must remember Alfa was racing in Formula One. Henry Ford said: "When I hear an Alfa in the street I take off my hat".

Interviewer: Now they have new models for Alfa coming in 2016.

Interviewee: Yes there are several but the only one we are sure about is the Alfa Giulia in the Cassino Plant. Marchionne wants to re-launch the brand in the US with this model. Still, notwithstanding problems, Alfa in the World is still Alfa.

Interviewer: Coming back to Daimler-Chrysler, this deal seems to work better than that..?

Interviewee: Yes, no doubt about it. There are different conditions and circumstances. FCA will be in the New York stock exchange and secondarily in Milano stock exchange. The problem will be that in the US you have to be careful with what you say, you can't "fool around" too much.

Interviewer: What is the level of guarantees given by FIAT from the financial point of view?

Interviewee: I can't recall the exact numbers but that's one of the main problems they have. Of course the agreement with Chrysler gives more guarantees. Chrysler was three times FIAT by size but they didn't have technology, which FIAT does have. FIAT is one of the worldwide leaders in engine-technology. FIAT never succeeded at exploiting the value of its brands and several times they were in danger and risked to be acquired. This is one of Marchionne's promises, so far he didn't succeed but we will see in the next years.

Transcript 4 (indirect interview) – Sergio Marchionne at the Trento Economic Festival, 2014

Interviewer: What about the future of Alfa Romeo?

Marchionne: We want to restart it as a true premium brand. [...] Alfa Romeo was acquired by FIAT in 1986 and during our last presentation in Detroit we explained into details a series of mistakes that have been made concerning engineering. The Alfa Romeo brand was taken away from its roots and from what it represented. We lost the Alfa Romeo DNA. Till now we didn't do much to get back to its roots, which would allow it to attack the premium segment, so far dominated by German car-makers. From now till 2018 we aim at developing a series of models and a series of engines which are different from FIAT style and what FIAT did so far. Alfa Romeo is also getting back to Italy, because everything will be developed in Italy and we will be able to reach full capacity utilization. I went personally to test the new Alfa prototype and I can say, also from the test-drive perspective, that we are working well and I hope next year I will be able to present it.. Our engineers are working in secret on this new model. Everything will be developed and produced here in Italy. Such alternatives arrived only after the merger with Chrysler, and this is something people haven't got yet. Apart from the financial strength we acquired, we also acquired a sales channel counting 2,400 dealership centers, and this wouldn't have been possible before. A completely different World. We will try also to share architectures. We made several efforts to increase and use synergies.

Question from the audience: You said Alfa aims at becoming a premium brand, I wonder how and if you look at MiTo as a basis or the new Alfa 4C or 8C.

Marchionne: No.. just look at BMW models, choose all of them and imagine, in five years, an Alfa model in each segment which is able to beat them.

Transcript 4 (indirect interview) – Sergio Marchionne at *Che tempo che fa*(RAI)

Interviewer: What about the problems with Trade Unions in Mirafiori?

Marchionne: We reduced brakes by 10 minutes so we had some conflicts with them. But the real problem is not here. The problem is a structural one. The problem is the Italian industrial system in general. Recent analyses give Italy the 118th place among 139 countries by efficiency at work. So we are behind all European countries, other countries close to Europe etc. So that's not a good result. Our system, historically, lost competitiveness year after year. We never kept up with innovation developments that were being made around the World. FIAT invested much on its employees but we cannot ignore these results, we gotta do something to improve efficiency. No foreign investor comes to Italy to invest for this reason. I consider protests to be wrong and FIAT should be taken in example to increase investors in Italy. Moreover our Business Plan is designed to give back competitiveness to Italy and FIAT's Italian network. If we can achieve this goal we will be able to increase workers' salaries, in case we will be as competitive as others. We had 2 Billion Euros in revenues in 2010 and not even one Euro comes from Italy.

Interviewer: re you saying without Italy you'd do better?

Marchionne: I am saying you cannot deal with a negative situation forever.

Transcript 5 – Sergio Marchionne at 60 Minutes (CBS)

Marchionne: I remember when I came [to Detroit] in 2009.. there's nothing worst than seeing things happening without being able to change them. At Chrysler they were afraid of not surviving. There was no CEO willing to touch Chrysler. It was like being the only guy at the bar.

Interviewer: Was it a long shot?

Marchionne: All these things are long shots. [...] All these things wouldn't have been able without the commitment of Italian workers. [...] When I arrived here at Chrysler I found a very hierarchical structure. The whole management was German. [...] We've been able to pay back the loans we got with 19.7% of interest. [...]

Interviewer: How do you manage to deal with your different jobs?

Marchionne: I share my work between Italy and Chrysler, time zones help me with that.

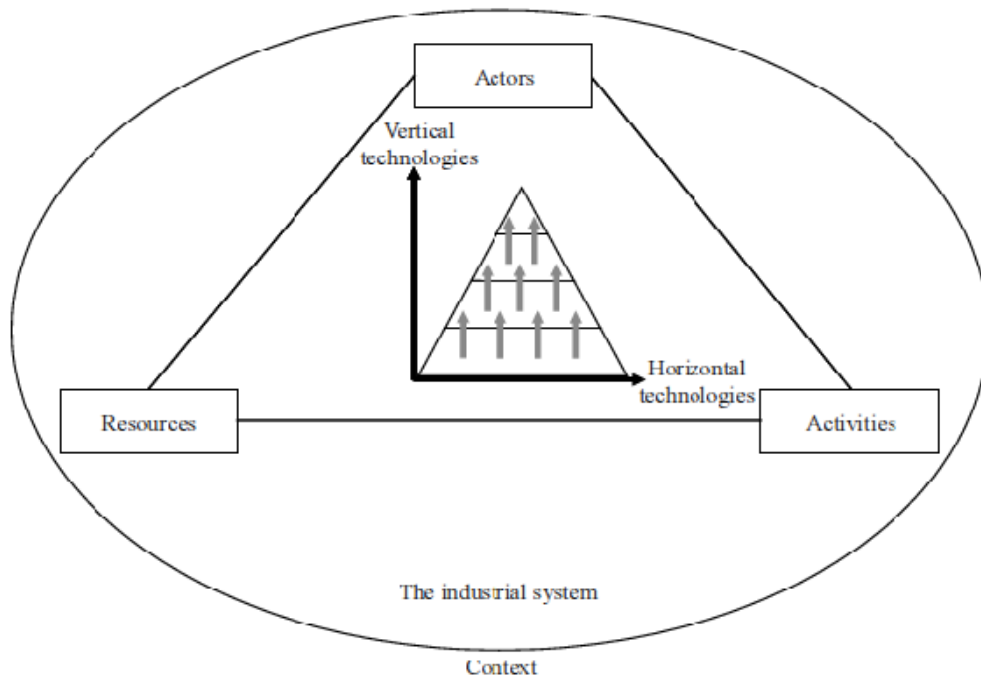
Interviewer: Biggest challenge to Chrysler now?

Marchionne: If we screw up on a car.

Interviewer: Can you afford that?

Marchionne: Now yes, one car yes. Before it would have been a disaster. Now I can take the pain.

Annex A: Network perspectives in a global production system



Source: Karlsson & Sköld, (2007)

Annex B: FIAT production sites worldwide (details)

Fiat S.p.A. assembly plants by model					
Country	Plant	Owner	Location	Date opened	Current products
Italy	Stabilimento Mirafiori	Fabbrica Italia Mirafiori S.p.A. (100% Fiat S.p.A.)	Turin	1939	Alfa Romeo MiTo
Italy	Cassino	Fiat Group Automobiles S.p.A. (100% Fiat S.p.A.)	Piedimonte San Germano	1972	Fiat Bravo Lancia Delta Alfa Romeo Giulietta
Italy	Giambattista Vico	Fabbrica Italia Pomigliano S.p.A. (100% Fiat S.p.A.)	Pomigliano d'Arco, Naples	1968	Fiat Panda, Van, 4x4
Italy	SATA	Società Automobilistica Tecnologie Avanzate S.p.A. (100% Fiat S.p.A.)	Melfi	1993	Fiat Punto 2013 Abarth Punto Jeep Renegade
Italy	Avv. Giovanni Agnelli Plant	Officine Maserati Grugliasco S.p.A. (100% Fiat S.p.A.)	Grugliasco	1959	Maserati Quattroporte Maserati Ghibli

Italy	Modena	Maserati S.p.A. (100% Fiat S.p.A.)	Modena	1940	Maserati GranTurismo Maserati GranCabrio Alfa Romeo 4C, 4C Spider
Italy	Maranello	Ferrari S.p.A. (90% Fiat S.p.A.)	Maranello	1943	Ferrari California, California T Ferrari 458 Italia, 458 Spider, 458 Speciale Ferrari FF Ferrari F12 Berlinetta LaFerrari
Poland	Tychy	Fiat Auto Poland s.a. (100% Fiat S.p.A.)	Tychy	1992	Fiat 500, 500C Abarth 500, 500C, 595, 595C Ford Ka II Lancia Ypsilon
Brazil	Betim, Minas Gerais	Fiat Automóveis s.a. (100% Fiat S.p.A.)	Minas Gerais	1973	Fiat Bravo Fiat Palio Fiat Siena Fiat Palio Weekend Fiat Strada Pick Up Fiat Grand Punto Fiat Linea Fiat Idea Fiat Doblò Fiat Uno Fiat Fiorino Adventure versions of the Palio, Strada, Doblò and Idea
Argentina	Cordoba	Fiat Auto Argentina s.a. (100% Fiat S.p.A.)	Cordoba	1995	Fiat Siena FLP Fiat Palio
Mexico	Toluca Car Assembly	Chrysler Group LLC (100% Fiat S.p.A.)	Toluca	1968	Fiat 500, 500C (US- spec) Fiat Freemont other Chrysler/Dodge models
Canada	Brampton Assembly	Chrysler Group LLC (100% Fiat S.p.A.)	Brampton, Ontario	1986	Lancia Thema other Chrysler/Dodge models

Canada	Windsor Assembly	Chrysler Group LLC (100% Fiat S.p.A.)	Windsor, Ontario	1928	Lancia Voyager other Chrysler/Dodge models
U.S.A.	Sterling Heights Assembly	Chrysler Group LLC (100% Fiat S.p.A.)	Sterling Heights, Michigan	1953	Lancia Flavia other Chrysler/Dodge models
Fiat joint-ventures					
Country	Plant	Owner	Location	Date started	Current products
Italy	Sevel Sud	Sevel S.p.A. 50-50 JV with PSA	Val di Sangro, Atessa		New Ducato Fiat and PSA versions
France	Sevel Nord	Sevelnord S.A. 50-50 JV with PSA	Hordain near Valenciennes		New Scudo Fiat and PSA versions
Turkey	Tofaş	Türk Otomobil Fabrikası A.Ş. 38-38 JV with the Koç Group	Bursa	1968	Fiat Doblò and Opel version Fiat Linea Fiat Fiorino/Qubo and PSA versions
India	FIAL	Fiat India Automobiles Limited 50-50 JV with Tata Motors	Ranjangaon (Pune)	1997	Fiat Linea Fiat Grande Punto
Serbia	FAS (former Zastava)	Fiat Automobiles Serbia 67-33 JV with Government of Serbia	Kragujevac	2008	Fiat Punto Classic Fiat 500L, 500L Living
China	GAC Fiat	GAC Fiat Automobiles Co. Ltd. 50-50 JV with Guangzhou Automobile Group	Changsha	2010	Fiat Viaggio
Other assembly plants					
Country	Plant	Owner	Location	Date opened	Current products
Hungary	Magyar Suzuki plant	Magyar Suzuki Corporation	Esztergom		Fiat Sedici other Suzuki models
Brazil	Sete Lagoas,	IVECO Latin America	Sete Lagoas		Fiat Ducato and PSA

	Minas Gerais				versions Iveco vehicles (Daily, Stralis and Cavallino)
--	--------------	--	--	--	--

Source: FIAT Group Automobiles

Annex B-2 : Chrysler production sites worldwide (details)

Country	Name	Location	Date Opened	Current Products
Canada	Brampton Assembly	Brampton, Ontario	1986	Chrysler 300 Dodge Challenger Dodge Charger
	Etobicoke Casting	Toronto, Ontario	1942	Aluminum Die Castings, Pistons
	Windsor Assembly	Windsor, Ontario	1928	Chrysler Town & Country Dodge Grand Caravan Lancia Voyager Ram C/V Tradesman
Mexico	Saltillo Engine	Ramos Arizpe, Coahuila	1981	Chrysler Hemi engine
	Saltillo South Engine	Saltillo, Coahuila	2010	Chrysler Pentastar engine
	Saltillo Truck Assembly	Saltillo, Coahuila	1995	Ram 1500, 2500/3500, 4500/5500 Ram ProMaster
	Toluca Car Assembly	Toluca, State of Mexico	1978	Dodge Journey Fiat Freemont Fiat Nuova 500
United States	Belvidere Assembly	Belvidere, Illinois	1965	Dodge Dart Jeep Compass Jeep Patriot
	Conner Avenue Assembly	Detroit, Michigan	1966	SRT Viper Viper V10 engine
	Dundee Engine	Dundee, Michigan	2002	World Engine Fiat FIRE engine
	Indiana Transmission I	Kokomo, Indiana	1998	Transmissions
	Indiana Transmission II	Kokomo, Indiana	2003	Transmissions

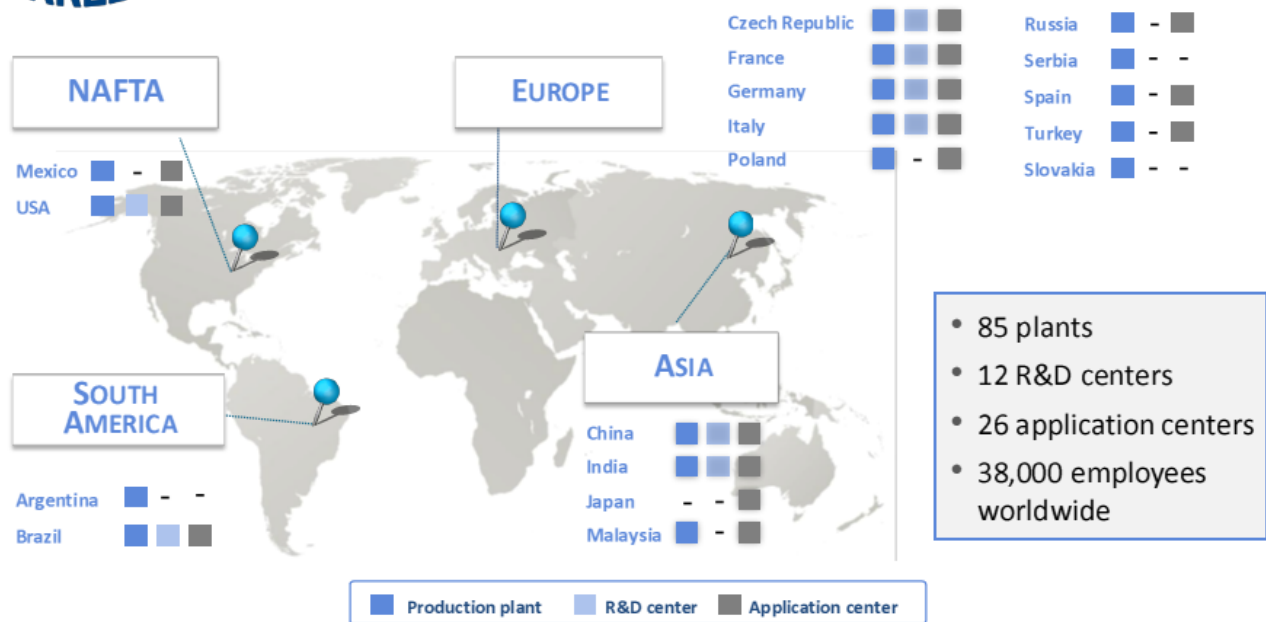
	Jefferson North Assembly	Detroit, Michigan	1991	Jeep Grand Cherokee Dodge Durango
	Kokomo Casting	Kokomo, Indiana	1965	Aluminum parts
	Kokomo Transmission	Kokomo, Indiana	1956	Transmissions, engine block machining
	Mack Avenue Engine Complex	Detroit, Michigan	1953	Chrysler Pentastar engine
	Mount Elliott Tool and Die	Detroit, Michigan	1938	Tools and dies, checking fixtures, stamping fixtures
	Sterling Heights Assembly	Sterling Heights, Michigan	1953	Chrysler 200
	Sterling Stamping	Sterling Heights, Michigan	1965	Metal stampings
	Toledo Machining	Perrysburg, Ohio	1967	Steering columns and torque converters
	Toledo North Assembly	Toledo, Ohio	1997	Jeep Cherokee
	Toledo Supplier Park	Toledo, Ohio	1942	Jeep Wrangler, Jeep Wrangler Unlimited
	Trenton Engine	Trenton, Michigan	1952	Chrysler Pentastar engine
	Warren Stamping	Warren, Michigan	1949	Metal stampings
	Warren Truck Assembly	Warren, Michigan	1938	Ram 1500
Venezuela	Carabobo Assembly	Valencia, Carabobo	1968	Jeep Cherokee Jeep Grand Cherokee Dodge Forza

Source: Chrysler Group LLC

Annex C: FIAT's internal suppliers – Magneti Marelli



An international group committed to design and produce hi-tech systems and components for automotive sector



Source: FCA 2014 Business Plan

Annex D: FIAT's internal suppliers – Comau

Comau
Who we are

FCA
FIAT CHRYSLER AUTOMOBILES



An innovative global leader in automation across a wide range of key technologies, with fully integrated capability in product, process and service solutions

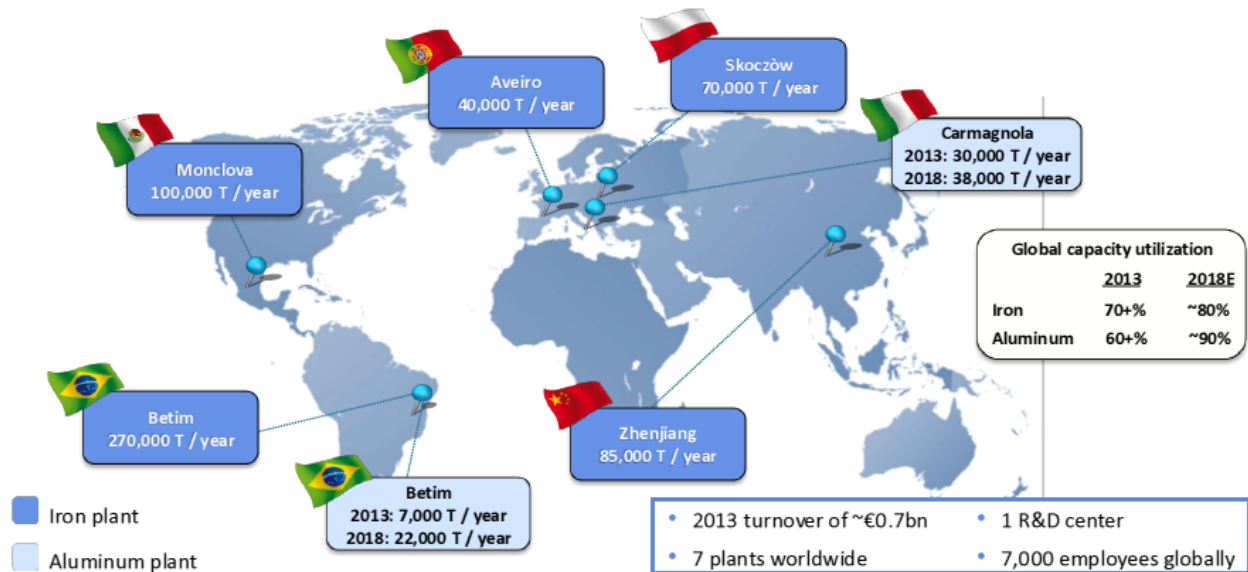


Source: FCA 2014 Business Plan

Annex E: FIAT's internal suppliers – Teksid



A world leader in production of castings for automotive industry with operations spread out in Europe, North & South America and Asia



Source: FCA 2014 Business Plan

Acknowledgements

Many people made so that I could successfully complete this study. Among them I would like to thank my Supervisor, Christer Karlsson, for the time he spent, the support and important suggestions he gave me in order to develop a good research. I also thank the people who accepted to take part in an interview so that I could gather information and data useful to my purpose, these people being Mr. Di Filippo, Mr. Lamendola and Mr. Bajak. Special thanks go to my colleagues Pasquale Santoro and Matteo Musso who supported me in difficult moments.

Finally, I would like to thank Copenhagen Business School, a wonderful University where I learnt a lot about Economics, well-being and friendship.