Note: The following are
the author's perspectives, not
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Case Studies of Automotive M&A

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Case Studies of Automotive M&A: Chrysler/AMC 1987

Glenn Mercer, McKinsey & Company

CHRYSLER/AMC HISTORY

Pre-deal

- American Motors formed in 1954 as merger of failing Hudson and Nash; added Kaiser Willys (which made Jeep) in 1970 - itself a combination of Willys-Overland, Studebaker, Packard, and Kaiser-Frazer

- AMC struggled in the 1970s, and became the natural acquisition target for Renault, seeking a way into the U.S. market, in 1979 ($500 million bought it majority control)

- Renault injected its own designs into AMC but they were not right for the U.S. market (and AMC's weak dealer network); sales of the new models dropped steadily:

	82	83	84	85	86*
Alliance	24	126	100	71	51
Encore		20	69	39	15

Deal development

- Renault was desperate by 1986, as
  - Accumulated losses at AMC were $800 million since acquiring control
  - **Every** Alliance and Encore was recalled for a major fix of thermal components, not up to American winters
  - At home Renault lost $700 million on $22 billion of sales and had $9 billion of debt
  - Socialist- government- owned company was being attacked by unions for supporting AMC even as it laid off French workers
  - Renault was unwilling to invest in designs just for the U.S.

- AMC began the search for a new partner, talking to Fuji, Daihatsu, and Nissan in 1986 alone

- Meanwhile, Chrysler, strapped for capacity, subcontracts AMC to build cars for it in its Kenosha factory

Deal details

- AMC moved to a $100 million profit (due to Jeeps selling well, now 75% of AMC total sales**)

- But Renault was desperate and gave suitor Chrysler a great deal hammered out over several months; Chrysler:
  - Gave Renault a $200 million note
  - Issued $525 million in stock for AMC shares Renault did not own
  - Assumed AMC's $750 million in debt
  - Paid Renault $35 million in cash***

Total: $1.7 billion but only **$35 million** in cash!

- Chrysler got:
  - 1,400 dealers
  - 3 main plants
    - Old Kenosha, Wisconsin
    - Old Toledo, Ohio
    - Brand new $700 million Bramalea plant (Ontario)
  - All brands including Jeep
  - About to be launched new Renault Premier

* Thousands of units per year

** Jeep Grand Wagoneer gross profit was $9,000 per unit!

*** Plus a pledge to pay Renault up to $350 million more in future years according to AMC profitability

CHRYSLER/AMC OBJECTIVES AND OUTCOMES

A = ANNOUNCED BY MANAGEMENT
I = INFERRED BY EXPERTS

Acquisition objectives	Outcomes
Planned	
• Seize a leading position in starting-to-boom sport utility vehicle (SUV) market via strong Jeep brand (A)	• Achieved beyond wildest dreams: U.S. truck sales up 50% 1988-1998, Jeep sales up 80% over same period, all at high profits
• Leverage 1980 turnaround experience to turn around AMC in 1987 (A)	• Achieved: Kenosha closed **one** year later* - despite Iacocca pledge not to! Renegotiated Toledo Jeep plant contract; saw AMC hit $200 million profit by 1988 (buoyed by average $1,000 profit on each of 250,000 Jeeps)
• Drop Renault line as soon as feasible (I)	• Achieved: by end of 1990 Alliance, Encore, Premier all dropped; Eagle (rebadged Renault dealers) closed by 1997
Unplanned	
• Adopt AMC product development practices, for higher speed at lower cost - used first on Jeep and then LH and minivan	• F. Castaing kept his 700 engineers together at Chrysler, as a first "platform team": "We were already operating with teams at AMC, if for no other reason that we didn't have enough money or personnel to do otherwise" *-AMC executive*
• Adopt AMC designs rather than replace them	• New Grand Cherokee was ("96% intact") AMC design (sold 230,000 in 1998)
• See AMC managers permeate and transform Chrysler	• President Cappy stayed on; Castaing too over engineering; Franson QC; Miller large car design; Levine sales; Julow marketing; and Adams Europe

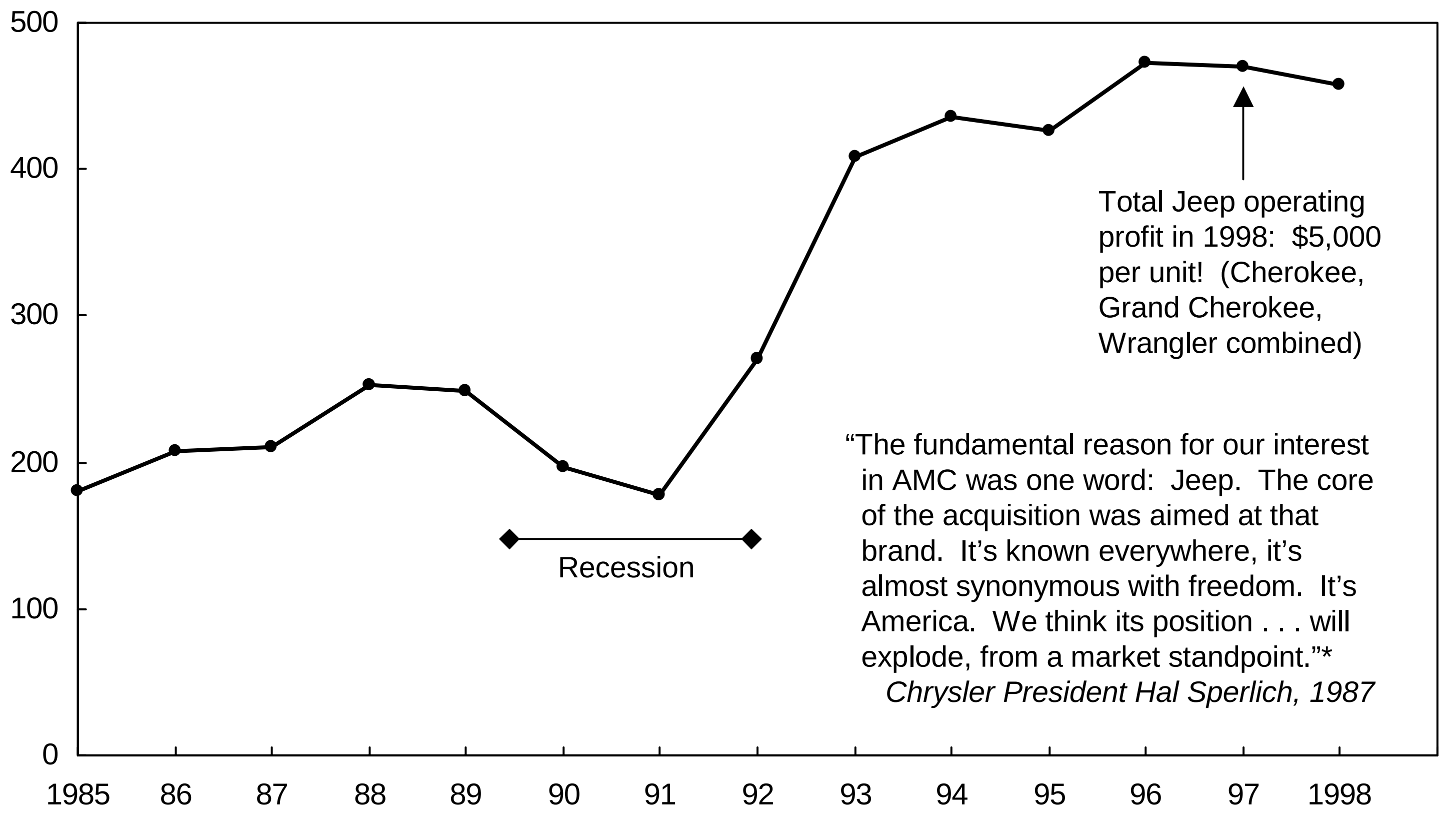
* "We knew how to fix Chrysler in 1980 and we know how to fix AMC now" *-Manufacturing Chief R. Dauch*

** 86-year old plant with hostile union local (losing 5,500 workers and 230,000 units of capacity)

Growing the Jeep franchise . . .

JEEP UNIT U.S. SALES – 1985-1999

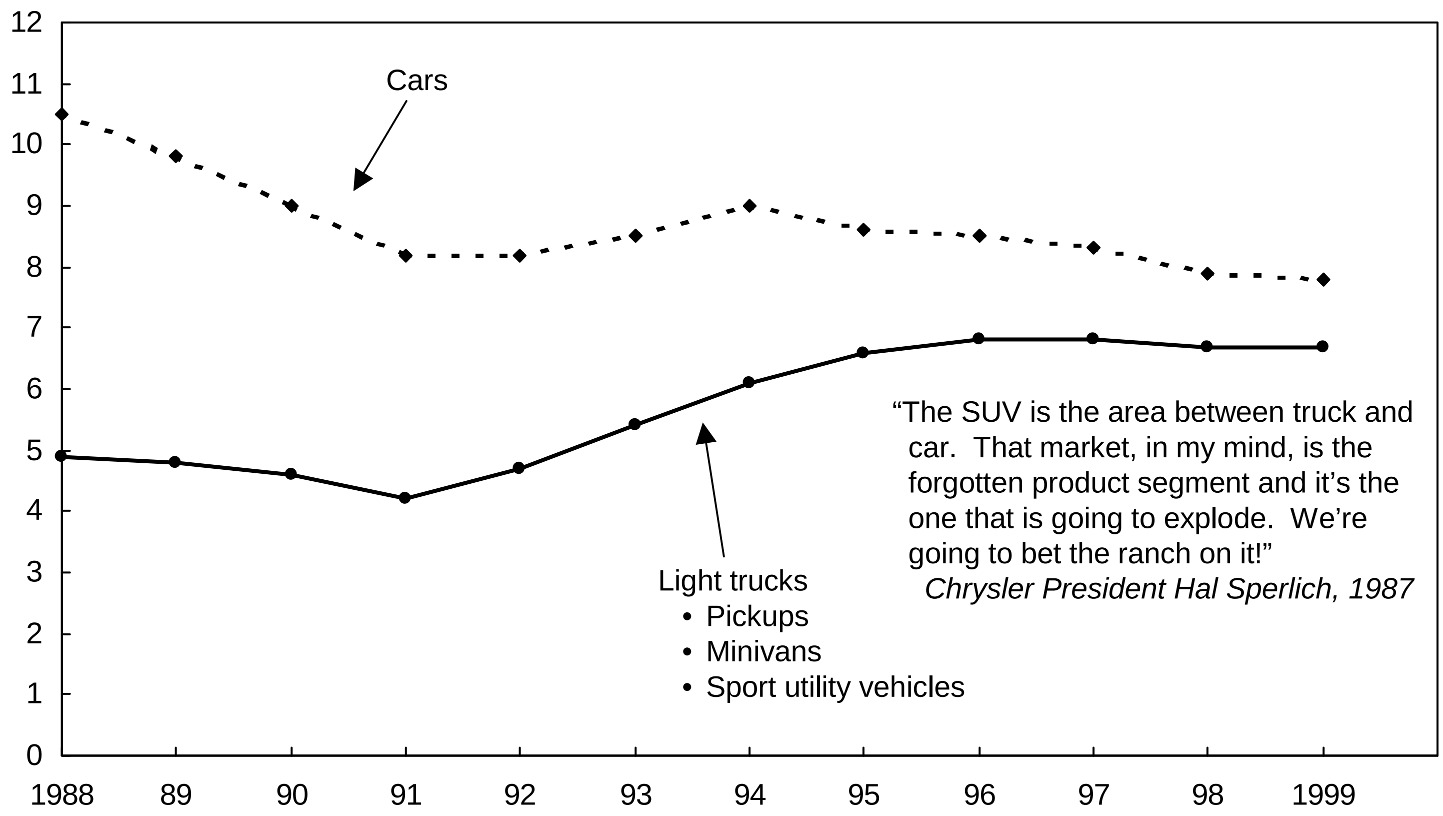
Thousands



* MORI data showed only the Coke brand more recognized than Jeep

. . . by surfing the truck wave

THE RISE OF THE TRUCK: U.S. CAR AND TRUCK SALES – 1988-1999
Millions of units



Source: Ward's

CHRYSLER/AMC LESSONS LEARNED

Discussion

- AMC's return to profit was almost immediate, due to rapid action (dismissing almost 1/3 of workers, closing a plant within a year)
- Position in booming SUV market was achieved, leadership won
- Chrysler's product development engine was transformed by AMC's techniques, and its management overhauled by AMC alumni

> "There is no question that the cultural revolution caused by the AMC purchase generated enormous long-term benefits and, in retrospect, may have been the single most important ingredient in Chrysler's success since."*
>
> *Brock Yates, 1996*

Lessons learned

- Moving quickly to make changes works - even if it is painful
- Knowing the market direction is key
- The "losing" (bought) company can sometimes transform the buyer: much can be learned from an acquired firm
- It does not hurt to be lucky! (Renault was desperate to sell, even though AMC was almost ready to take off)

* Although "initially the small band (of AMC managers) . . . was treated more like refugees from a defeated nation"

Case Studies of Automotive M&A: Fiat/Alfa 1986

Glenn Mercer, McKinsey & Company

FIAT/ALFA ROMEO — 1986

HISTORY

Pre-deal

- Formerly private firm nationalized (under IRI/Finmeccanica) in 1970s
- 13 consecutive years of losses (1978-1985)
- Huge over capacity (building ~175,000 units in 2 factories sized for 450,000)*
- 1.5% West European market share; 4.0% share of D and E segments
- About 2/3 of sales in Italy
- Debts of about $1 billion (hard to calculate in nationalized firm)
- Losing about $150 million in 1986
- Already sharing major platform stampings with Fiat's Lancia division (e.g., Alfa 164 and Lancia Thema)

Deal development

- IRI first asked BMW to buy Alfa; response: "We already took their market!"
- Next Ford, fresh from failed attempt to buy Rover, tries
- Even as Ford is planning press conference to announce purchase, Agnelli calls on Prime Minister Craxi with an "Italian solution"
- Fiat uses leaked Ford bid analysis, plus Arthur D. Little study, to counter bid
- December 1986 deal closes, full merger into Fiat/Lancia occurs 1/1/87

Deal details

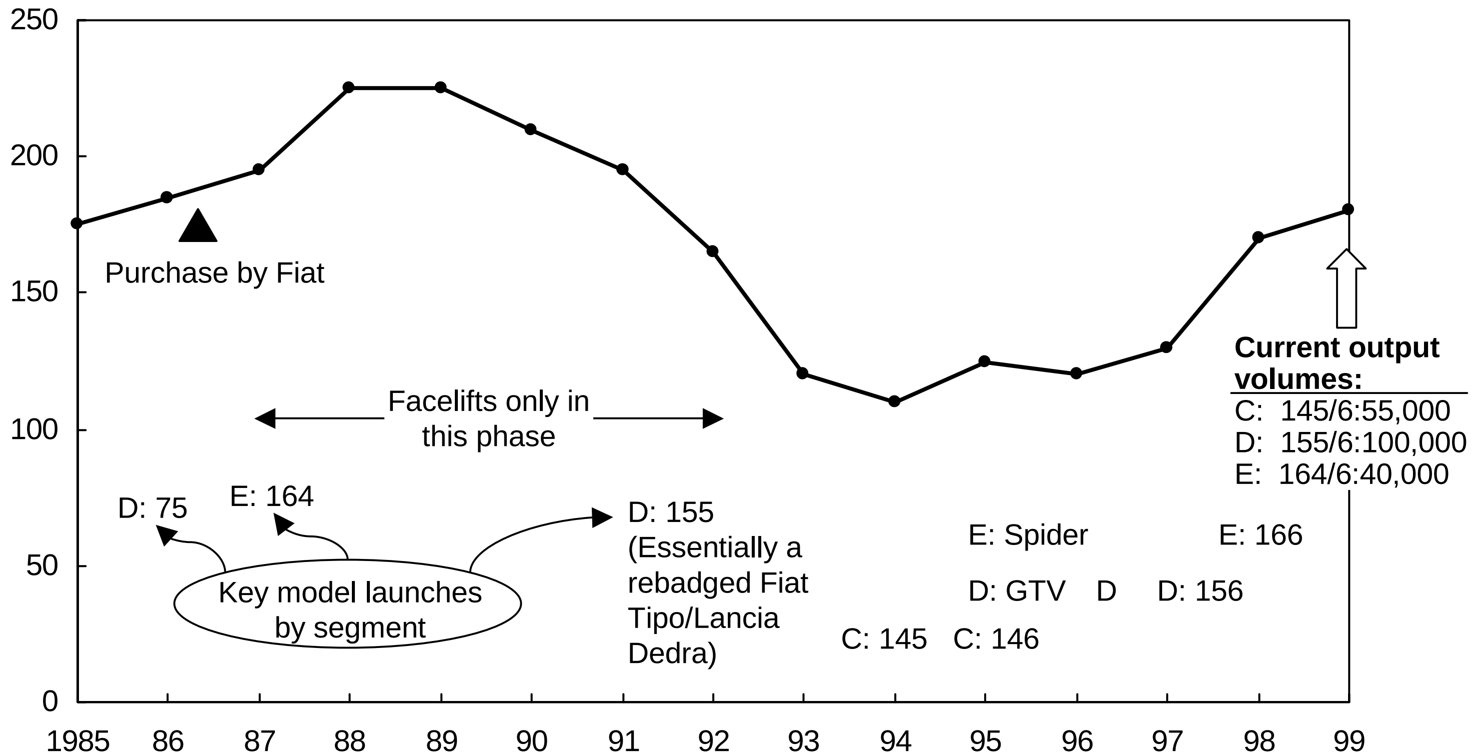
- Never fully disclosed, but best guesses converge on:
  - $1 billion in debt assumption
  - $1 billion to IRI/Finmeccanica
  - $3.6 billion over 5 years in product and plant investments
- Plus "pledges" of:
  - Breakeven by 1991
  - 400,000 units per year sales by 1991
  - "Minimal" workforce disruption

* 33,000 employees. The 2 plants were Pomigliano and Arese (the larger of the 2)

Source: *Automotive News; Financial Times; The Economist; Ward's; DRI*; interviews; stock analysts

ALFA ROMEO UNIT SALES — 1985-1999

Thousands



Share of W. Europe D and E segments Percent	4.1	4.2	4.1	4.6	4.4	4.4	4.1	3.5	3.1	2.6	3.0	2.7	2.8	3.4	(3.5) est.

Source: *Ward's; DRI*, McKinsey

FIAT/ALFA ROMEO — 1986

OBJECTIVES AND OUTCOMES

A = ANNOUNCED BY FIAT
I = INFERRED BY EXPERTS

Acquisition objectives	Outcomes
• To keep Ford out of Italy and out of executive car segment (I)	• Achieved relative to Italy; Ford bought Jaguar to get into executive segment
• To enable Fiat to pursue executive car segment better than Lancia had* (A/I)	• Not yet successful: at acquisition Alfa had about 4% of combined D and E segments in Europe; in 1998 3.5%
• Get Alfa and Lancia to profitability by combining operations for scale (A)	• Figures not disclosed but generally believed to continue at a loss until 156 launch in 1997/98; note that Alfa was already using sourced Lancia platforms before 1986
• To fund Alfa expansion (A):	
– 400,000 units/year by 1991 (A)	• No: Alfa has never exceeded 225,000 units
– 60,000 units/year in U.S. (A)	• No: Alfa sold 8,000 units in U/S. in 1986, then declined to zero and exited in 1993/94
– Alfa Monospace model, 4WD features (A)	• No: not introduced
• To turn Alfa around by injecting capital and management (A)	• Integration into Fiat purchasing and engineering saved costs, but 5 years without a new product (1986-91) crippled sales; Fiat spent this time rationalizing facilities and lowering break-even point
• To expand Fiat sales beyond its Italian base (A/I)**	• Failure to date: percentages of Alfa sales to Italy was 61% at acquisition and 62% in 1997; success of 156 and 166 is changing that now ***

* Lancia had perhaps 5% of combined D and E segments in Europe

** Lancia, owned by Fiat since 1960s, never had more than 25% of its ~210,000 units/year sales outside Italy

*** 156 (winner of European Car of the Year) is the first Alfa to sell >50% outside of Italy

FIAT/ALFA ROMEO — 1986
LESSONS LEARNED

Discussion

Without good product success is elusive: Fiat cut its losses in 1987-92 by letting products age and ignoring quality issues; first post-acquisition model (155) also saved costs but only by being a Fiat Tipo clone . . .

. . . Thus sales collapsed 1992-96 and are only now recovering thanks to major new product investments*: cost cutting (via e.g., excessive commonization) almost killed the brand

"Rush to buy" is never a good idea: $5.6 billion for a money loser of this size is hardly credible, but Ford's moves "stampeded" Fiat into action

. . . From 1986-96 Fiat probably lost $3,000 per Alfa sold!

Turn arounds are very slow and difficult

- Over a decade to profitability
- Still at 1/3 of sales goals
- Minimal impact outside Italy

. . . Due in part to assuming competition would not advance (e.g., BMW, Mercedes, Lexus . . .)

Lessons learned

- Cost cutting one's way to profitability is wrong if the strategy is about brand value and price premiums
- If the brand is what you want, can you buy it and not the factories?
- Projections of gains must be realistic and consider that the competition will not be sleeping!

* E.g., 166 development and tooling cost $450 million

Source: *Financial Times*; McKinsey

Case Studies of Automotive M&A: Ford/Jaguar 1989

Glenn Mercer, McKinsey & Company

FORD/JAGUAR: 1989
HISTORY

Pre-deal

- In 1974 ailing Jaguar was nationalized into British Leyland but continued to run large losses
- Margaret Thatcher installed John Egan as CEO in 1980, with instructions, “Fix Jaguar or kill it”
- Egan works turnaround such that Jaguar is publicly floated in 1984 for £300 million
- But the company is still in very weak state:
  - Aging factory (built during the war to make Spitfire parts)
  - Aging products: XJ5 dated to 1975 and XJ6 was older (but fully updated in 1986)
  - Terrible labor situation (many workers on daily piece quota); in 1981 8,000 employees built 14,000 cars
  - Very poor quality (“Always buy 2 Jags: one to drive and one for parts!”)
  - Nothing good in the product pipeline
  - Running at 60% of 80,000 unit capacity

Deal development

- In late 1980s Egan reluctantly considers alliance with larger car company as Jaguar profits drop (£89 million in 1985, £29 million in 1988), due to strengthening pound chopping export sales* and 1987 U.S. stock market crash cutting demand . . . while the Japanese launched new competition
- GM was approached first, as it wanted to go “up market” in Europe (beyond Opel) and would accept a minority stake in Jaguar (Jaguar also knew GM from parts purchases)
- Ford, desperate for upscale brand as well, is “at the end of its rope” after several failed attempts:
  - Imported German Fords to U.S. as Capri - discontinued
  - Imported DeTomaso Pantera - halted
  - Imported German Fords as Merkur - discontinued
  - Tried to buy Alfa in 1986
  - Got Aston Martin in 1987 but too small
  - Was talking to Saab in 1989
- When Saab talks collapse Ford turns to Jaguar and, fearing GM will win, buys a forestalling 15% of shares in October 1989**

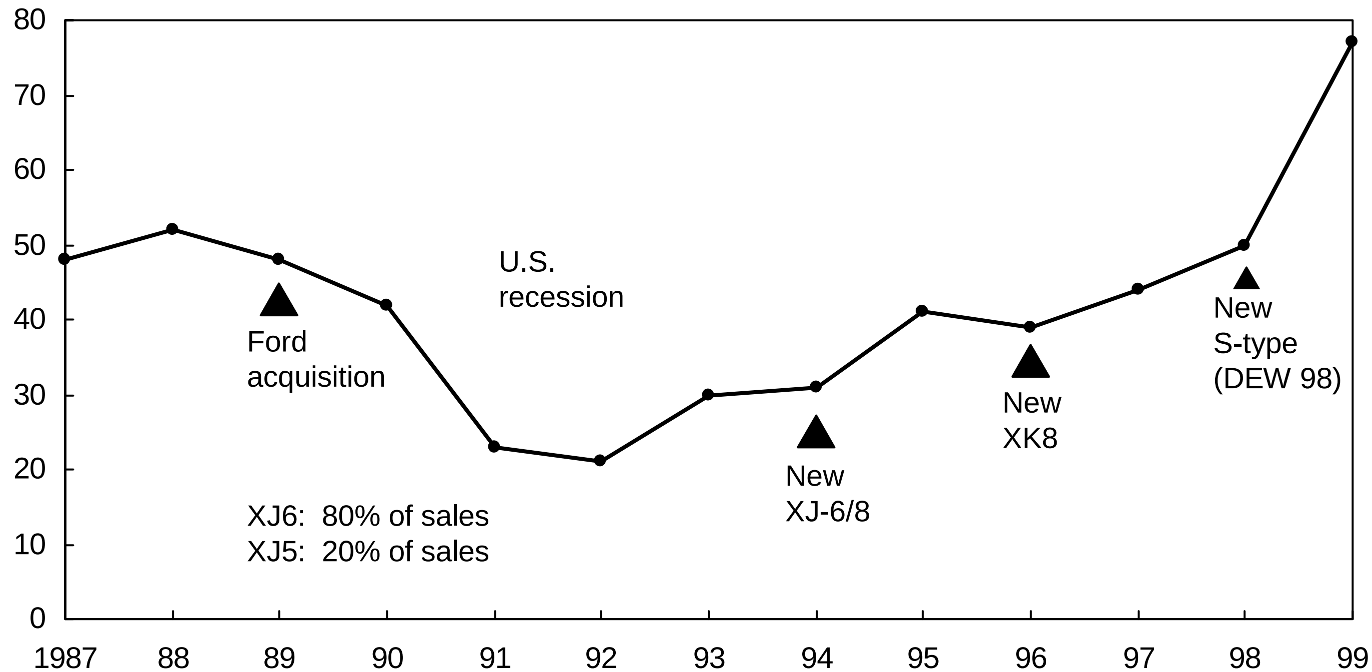
Deal details

- British government (owner of controlling “golden share”) lets Ford proceed to avoid sparking nationalistic crisis between U.S. and UK
- Although GM never buys a Jaguar share, public debate and disclosure pushes Jaguar shares very high
  - £3 in January 1989
  - £8 in October 1989
- Ford hammers out deal with Jaguar board at £8.50: $2.6 billion
- $2.1 billion of price was goodwill, as book value was $500 million
- Compare: Ford MV of $20 billion on sales of $100 billion; Jaguar bought for $2.6 billion on sales of $1.6 billion
- Total cost by 1995: $6.5 billion (acquisition + losses + investments)
- Pledges to Jaguar:
  - Manufacturing stays in UK
  - Headquarters stays in Coventry
  - Cars sold only through Jaguar dealers
  - Separate Board of Directors

* In part due to this exchange rate problem, Jaguars were well over priced by 1989, e.g., in the U.S. the XJ6 was $44,000 vs. an LS400 Lexus at $36,000, an Infiniti Q45 at $38,000, and an Acura Legend V-6 at $29,000 (Mercedes and BMW were also high but had more resources to afford price reductions)

** Ford had approached Jaguar twice earlier, in 1984 and 1988

JAGUAR UNIT SALES — 1987-1999
Thousands



Share of U.S. + Western Europe + Japan E-segments Percent	1987	88	89	90	91	92	93	94	95	96	97	98	99
				1.0	0.5	0.5	0.8	0.8	1.0	1.0	1.2	1.2	1.9

(Increase in part due to collapse of Japanese E-segment)

Source: *DRI; Ward's*; McKinsey

FORD/JAGUAR OBJECTIVES AND OUTCOMES — 1989

A = ANNOUNCED BY FORD
I = INFERRED BY EXPERTS

Acquisition objectives	Outcomes
• Forestall GM purchase of Jaguar (I)	• Accomplished: but GM went on to buy Saab
• To enlarge presence in luxury/executive segment (A)	• Not yet: no improvement in U.S. sales, minimal gains in Europe - slate of new products in next 2-3 years may change that
• To turn Jaguar around by injecting capital and management (A/I)	• Done: – Product pipeline now full – Quality dramatically improved (but still lagging competition)* – Breakeven cut in half, profitable by 1995** – Plants overhauled***, workforce cut by 5,000
• To boost output to 150,000 by 2000 (A)	• Jury is out: hit 85,000 in 1999
• Do not dilute or hurt Jaguar brand (A)	• Successful: MORI poll of Triad countries reports Jaguar **the** most recognized car brand in the world; but now combining Ford and Jaguar platforms after early 1990s pledge not to do so . . . Jaguar SUV hybrid planned for 2000+

* Defects per car 1989: XJ6 = 2.9; Mercedes S-class = 0.9

** But in 1996 UK government gives Ford $120 million to keep production in the UK

*** Alex Trotman, 1989, “There is nothing wrong with Coventry assembly that a bulldozer couldn’t put right.” New Jaguar Chairman Bill Hayden, 1990, “Apart from some Russian factories in Gorky, Jaguar’s factory is the worst I have ever seen.”

FORD/JAGUAR LESSONS LEARNED — 1989

Discussion

Jaguar deal ran into a mixture of bad luck (U.S. recession, oil price hike, Lexus et al. onslaught) and poor due diligence (disastrous factories, empty product pipeline)

Deal terms required substantial Jaguar independence, which it took years for Ford to work around (Jaguar is now just a part of the firm, with little special treatment)

Ford has not until now been sure how to integrate Jaguar, or not (shared platforms or not? Niche models or, recently stated, 350,000 units goal?)

The GM "wet firecracker" stampeded Ford into over payment

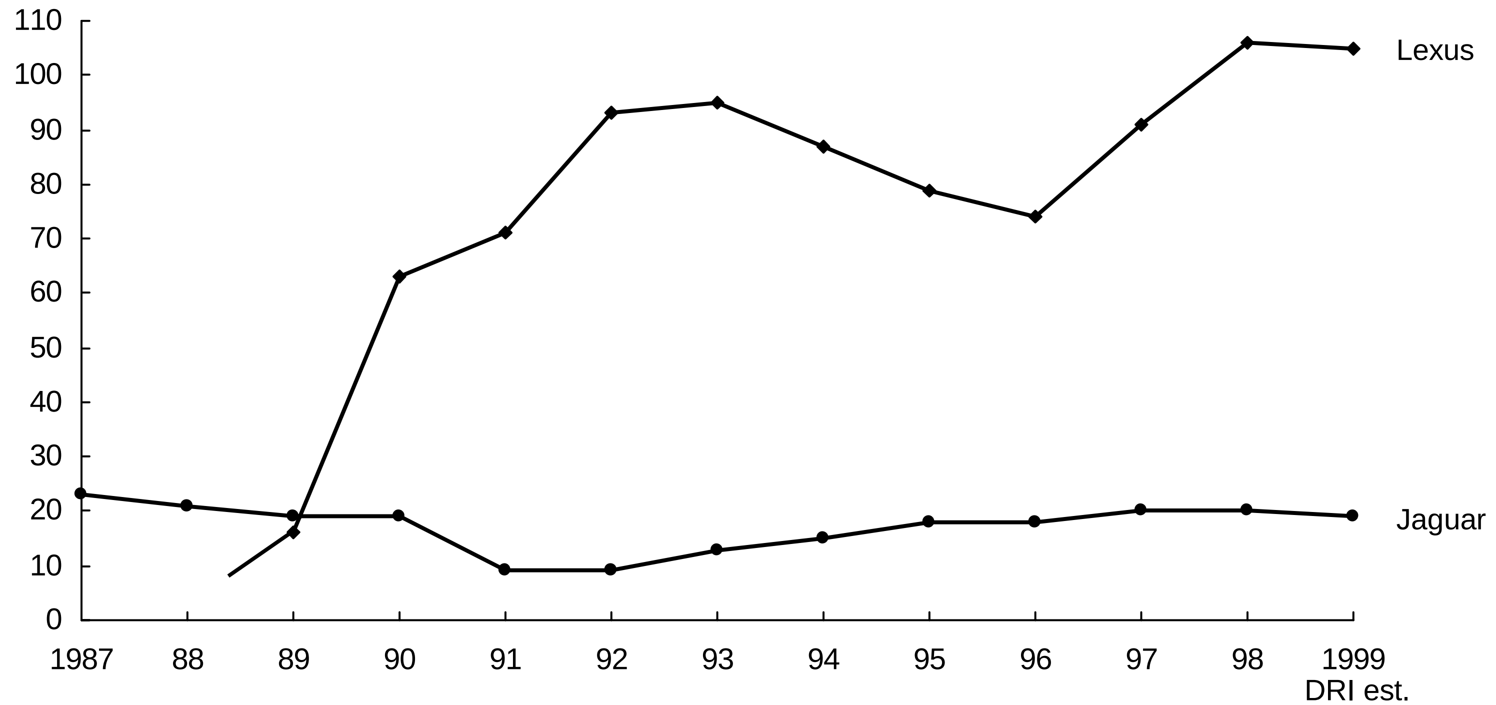
Leaving "potential" aside, $6.5 billion for on average 45,000 cars per year?!

Lessons learned

- Do the due diligence: there was a reason Egan wanted to sell!
- Beware early pledges hard to change later!
- Know your integration plan
- Watch out for being rushed into a deal
- Can you really not grow a brand from scratch, if this is what it costs to buy one?

Can you really not build a brand from scratch?

JAGUAR VS. LEXUS UNIT SALES IN THE U.S. — 1987-1999
Thousands



Source: *Ward's; DRI*

Case Studies of Automotive M&A: GM/Saab 1989

Glenn Mercer, McKinsey & Company

GM/SAAB HISTORY – 1989

Pre-deal

- Saab cars was a division of the large Wallenberg* aerospace and engineering firm Saab-Scania, which also included heavy duty trucks
- Saab cars were never very profitable but had developed a modest export business (primarily to the U.S.) based on Swedish image and some innovative designs
- In the late 1980s Investor saw trouble ahead . . . and opportunity:
  - Aging 2-car lineup would require major product development investment
  - Brand new $500 million Malmo plant was proving inefficient and impossible to utilize
  - OEMs were paying large sums for upscale car makers (e.g., Fiat/Alfa and Ford/Jaguar)
  - Saab's manufacturing model required restructuring Investor was unwilling to tackle on its own, in the Swedish climate (Saab had 3 plants for ~100,000 cars!)

Deal development

- In 1989 Ford looked at Saab but wanted majority control that Saab could not accept, and turned to Jaguar
- Fiat became the front runner next, in part due to prior codevelopment work between Saab and Lancia, and in part due to IVECO's interest in Scania, and came very close; both *Automotive News* and *Expression* ran "Fiat buys Saab" headlines
- But Saab had been holding parallel talks with GM, which they preferred to Fiat, due to the latter's insistence that:
  - It own majority control
  - Most of Saab's senior management be replaced
  - The new entity's headquarters be moved out of Sweden to "neutral turf", such as Amsterdam or London
- In December 1989 GM got the deal

Deal details

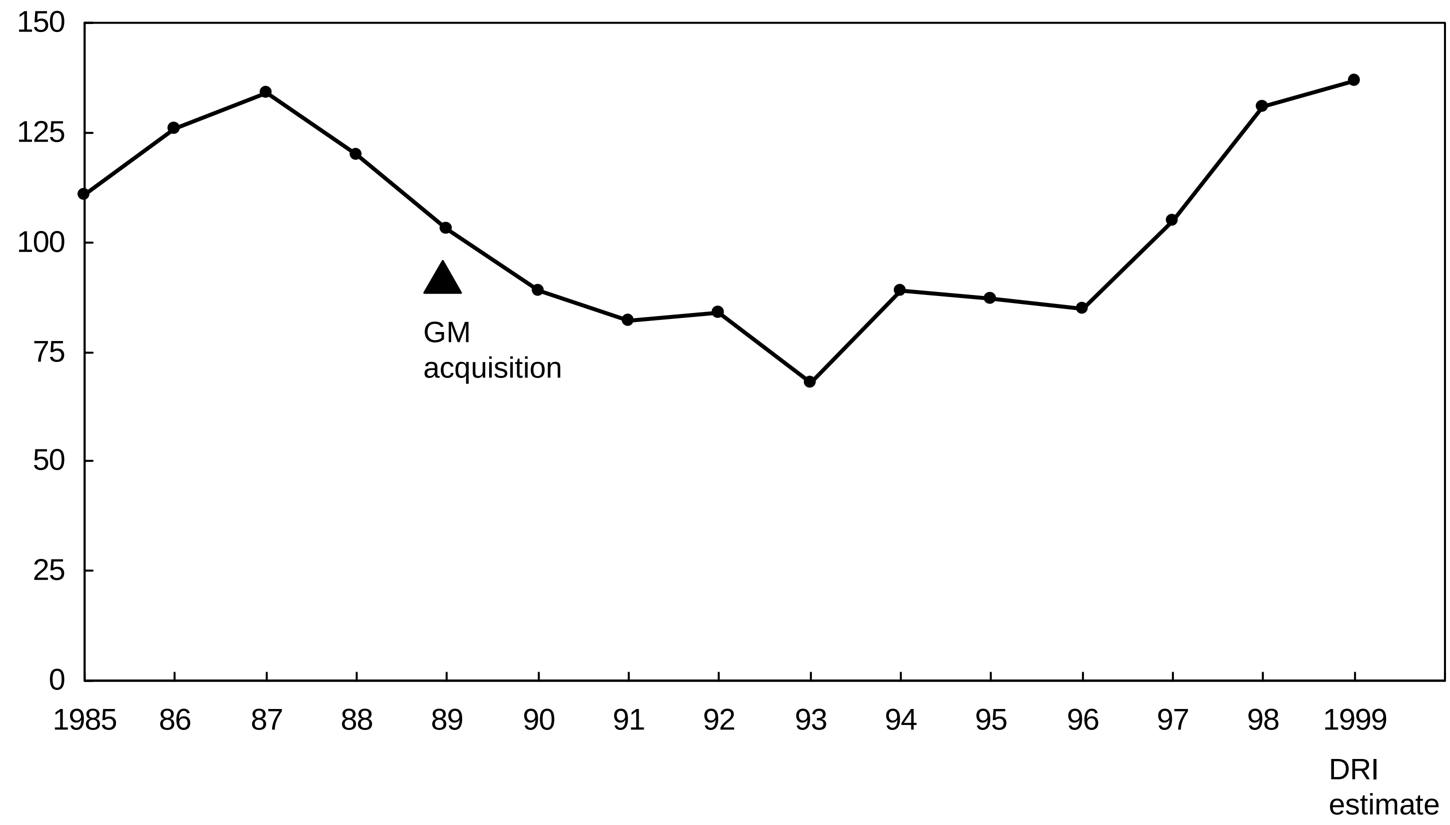
- GM buys 50% of Saab Auto for $500 million cash, and puts in another $100 million in working capital for the financially troubled firm
- GM assumes $500 million in Saab debt
- The venture is set up as 50/50 but GM retains tie breaking vote at the Board level
- Saab occasionally achieves profitability but runs up a cumulative $1.9 billion in losses 1990-1998 (half of which is GM's share), and absorbs $1.5 billion in capital investment over this period (again, half paid by GM)
- the company requires 4 major cash injections in the 1990s, and a major restructuring in 1996:
  - $500 million shared cash infusion for "marketing"
  - GM converts a $175 million loan to equity
  - Investor buys closed Malmo plant from Saab for $50 million
  - GM pays Investor $125 million for right to buy all of Saab by 2000; Investor wins GM agreement to buy at least half its share (25%) by then
- Total cost to GM of Saab probably almost $3 billion by 1998, although exact numbers are unknown

* Via their holding company, Investor

Note: At same time GM and Saab established an automotive electronics JV

GM/SAAB SALES VOLUME – 1985-1999*

Thousands of units



* Passenger cars only; Scania trucks excluded

GM/SAAB OBJECTIVES AND OUTCOMES – 1989

A = ANNOUNCED BY MANAGEMENT
I = INFERRED BY EXPERTS

Objectives	Outcomes
• Grow GM share in lucrative upper/executive segment beyond what Opel could achieve, by adding Saab brand (A)	• Not yet successful: Saab unit sales in 1987 were 134,000 units, and 131,000 in 1998 - although much ground has been gained since early 1990s sales collapse, and third model (beyond 9-3 and 9-5) may help (2000)
• Build scale to cut costs: at acquisition year 2000 volume target was 360,000; by 1995 trimmed to 150,000 for 2000 (A)	• Not yet successful: DRI forecasts sales plateau at about 135,000 through 2003, even with third model
• Preserve Saab brand value, avoid "badge engineering" (A)	• May have been some erosion as Saab was moved 100% to Opel platforms by 1998, and may suffer as current Opel/Saab parts commonality is taken from present 25% to targeted 60%
• Bring Saab GM technology needed to bolster image and brand, notably V6 and AWD (A/I)	• V6: now available but took 8 years to prepare • AWD: not yet, still in discussion
• Profitable by 1991 (A)*	• Failed: only now solidly profitable; severely hurt by weak dollar in early 1990s damaging export business. Very significant operational improvements achieved**
• Bring GM some innovative Saab technology (A)	• Hard to say, but seems in part true, in HVAC, cold start emissions control, some electronics
• Utilize Saab capacity to build Opels (A)	• Achieved: capacity-constrained Opel shifted 60,000 Calibra's annual output to Saab/Valmet Finland

* But note: R&D Manager Per Gillbrand in 1996 says, "GM certainly didn't buy a 50% share of Saab to make a profit!"

** Hours-to-build cut by 50%; total costs down by 1/3; employment cut almost 50%

GM/SAAB LESSONS LEARNED

Discussion

Saab is well positioned now

- Operationally solid
- 100% GM platform (can be built anywhere)
- About to add third model

. . . but it took 9 years **and**

. . . GM says "all that remains to be done now is improve distribution and build brand awareness" (!)

On the other hand, the company is still where it was in 1990: 2 models, about 130,000 unit sales

There has been endless waffling about the now-decided third model:

- Originally a "7-Series/S-Class" fighter
- Then recast as "smaller Saab", below 900/9000
- Now an upscale 9-5

Investor is tired and wants out, which must move to next phase before 2000 - there is some speculation that GM has been "running down" Saab to reduce price GM will pay for the other 50%

Lessons learned

Operations improvement is not enough when the value play is product, marketing, and brand

A very clear action plan is needed early on, to avoid strategic drift

It's no fun being unlucky (the dollar collapse of the 1980s/90s)!

Is Saab perpetually caught in the middle, between the mass market and the upscale segment?

Case Studies of Automotive M&A: VW/SEAT 1986-1990

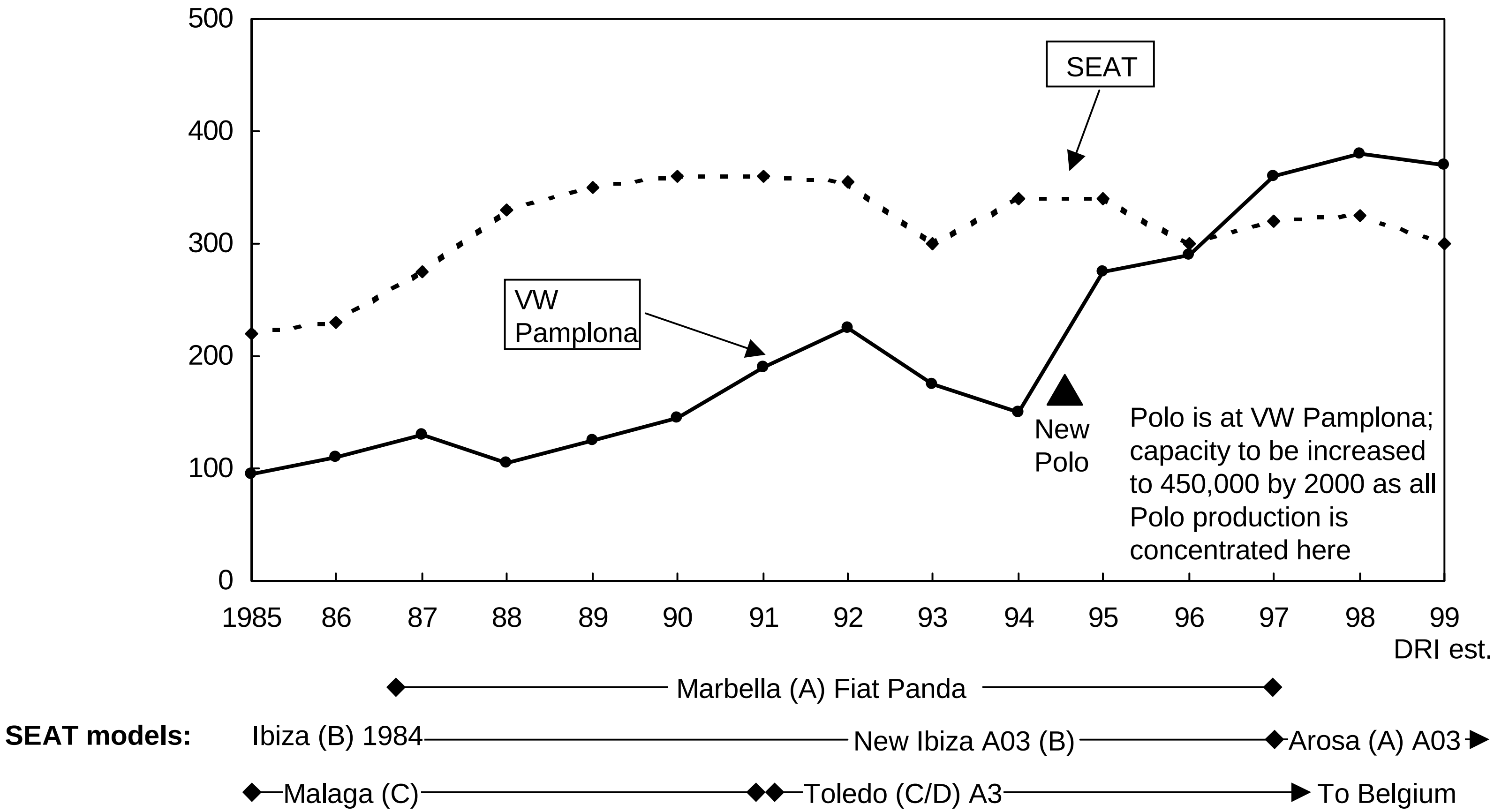
Glenn Mercer, McKinsey & Company

VW/SEAT* HISTORY

Pre-deal	Deal development	Deal details
• 1950s-1981 SEAT was a JV between Fiat and Spanish National Holding Company INI; Fiat provided technology, products, and management • Fiat pulled out in 1981, leaving SEAT to solo operations; the Firm increasingly turned to VW for technical help • The situation was dire: SEAT was losing $200 million per year by 1984 and had not turned a profit since 1976, due to: – Elderly Barcelona ("Zona Franca") plant (built in 1953); 2 others in better shape – Aggressive Socialist unions – Outdated products ("Fiat hand-me-downs") – Increasing competition as Spain opened its markets	• Government could not afford more losses but also could not risk labor unrest of closure, so sought a buyer • VW had "tested the waters" by investing just in SEAT's Pamplona plant in 1984, which was now building Polo's on contract of about 100,000 per year • Given absence of other bidders and difficult political challenges, both sides went slowly, negotiating for all of 1985	• Government paid off about $1.2 billion in accumulated debt • VW paid $560 million for a 51% share in early 1986, bought 30% more later the same year, and completed all 100% in 1990, for a total of about $1 billion • VW received complete managerial control in 1988 • Other pledges: – Both parties to invest $500 million more – Government accepts retirement costs for about 4,500 workers** – VW allowed to cut workforce to 18,000 by 1990** – Aim for 400,000 units by 1990 (SEAT and VW Polos), from 340,000 in 1986 – VW allowed to convert Pamplona to VW (not SEAT) direct ownership (completed in 1994) • SEAT mostly lost money in the 1990s (about $2 billion), which required more capital from VW; the Spanish government and the EU injected several hundred millions in aid, the latter requiring capacity reduction in return (the closing of ZF in 1997)

* Sociedad Española de Automoviles de Turismo
** Out of a total of 24,000

SEAT UNIT PRODUCTION — 1985-1999
Thousands



Note: SEAT sales are greater than SEAT "production" due to SEAT models built by VW in Germany and Spain
Source: DRI; Ward's; McKinsey

VW/SEAT OBJECTIVES AND OUTCOMES

A = ANNOUNCED BY MANAGEMENT
I = INFERRED BY EXPERTS

Acquisition objectives	Outcomes
• Dominate Spanish market, expected to grow dramatically with liberalization (I)	• Not successful: SEAT market share in Spain has run 10-12% since 1985; VW share there has actually grown more, from almost nothing to 6%
• Capture a low-wage-cost production base (A)	• Partly: Spanish wages are lower but rose to near-European average levels faster than expected, and unions have been very aggressive*
• Upgrade SEAT capabilities via capital and management (A/I)	• Successful in part**, but at high cost – $1.2 billion spent to modernize ZF was insufficient and the plant closed in 1997-98 – $2.1 billion spent to develop the very advanced Martorell plant (supplier park, teams, Kaizen, JIT)
• Embed SEAT into the VW European plant network (A)	• Very successful: due to aggressive “platforming” all SEAT cars can be built elsewhere in the network
• Develop SEAT as another brand (low end) in the VW portfolio (I)	• Generally successful: SEAT has had some export success, e.g., in 1985 2% of sales were to Germany; in 1995 19%! . . . did they “cannibalize” VW?

* E.g., headcount reduction did not progress 1986-94, when employees still totaled 22,000; SEAT trimmed 9,000 by 1996 (as it wound down Zona Franca) but only via 7,500 (costly) early retirements and release of 1,500 temporary workers. (In 1993 >50% of ZF’s workers were over 50 years old)

** 22,000 workers built 300,000 cars in 1993; 13,000 built the same in 1996

VW/SEAT LESSONS LEARNED

Discussion

- VW did meet production goals for SEAT as stated, despite issues and costly investments
- Pamplona has become a major plant for VW
- Improvements have been slow (still only marginally profitable), inspiring “tougher” management lately (e.g., by 1996 Board had only 1 Spaniard on it and CEO was non-Spanish VW import)
- Total integration has been achieved (platform interchangeability, high parts commonality, many staff functions moved to Germany, both dealership networks coordinate closely)
- Labor difficulties were almost intractable and could only be worked “around”:
  - ZF could not be saved, only replaced elsewhere
  - Headcount reduction had to be bought via retirement
  - Conversion to VW ownership of Pamplona “unfroze” its capabilities

Lessons learned

- Sedate pace of negotiations allowed VW to drive a hard, lower cost bargain
- Low wages levels are no guarantee of better long term economics
- Understanding labor levers is key:
  - Brownfield ZF had to be abandoned
  - Brownfield Pamplona was revived
  - Greenfield Marborell is wonderful but very expensive

"DOING THE DEAL" – LESSONS LEARNED

1

Don't be panicked into doing a deal

- Fiat bought Alfa to keep Ford out of Italy
- Ford bought Jaguar fearing GM would get it

2

Do your homework, know what you are buying

- AMC was already building cars for Chrysler, SEAT for VW
- VW and Chrysler both negotiated for months, the others for weeks or even just days

3

When ready to move, plan integration immediately and move decisively ("no honeymoon")

- Chrysler closed AMC's worst plant within a year
- VW could only use retirement to reduce headcount at Seat
- Ford waffled for years on Jaguar's "third model"

4

If it is a "brand play", defend the brand

- Fiat hurt Alfa by very visible borrowing of Fiat parts
- Saab may be too "Opel-ized"; Jaguar "Ford-ed"
- Chrysler killed all Renault products in 5 years to focus on Jeep

Overall observations

- **Mixed track record: 2/3 do not reach stated goals**
- **Integration takes long and is costly**

SUMMARY OBSERVATIONS ON THE 5 CASES

☆ = Success evaluation to date

Who	When	Objectives	Outcomes	Investment/car, first 5 years (est.) USD
Fiat/Alfa ☆	1986	Block Ford, pursue executive segment, expand outputs, grow beyond Italy	Ford blocked, executive share stagnant, sales back to 1986 levels only by 1998, half of sales still in Italy	~5,000
Ford/Jaguar ☆	1989	Pursue executive segment, boost output, improve profits	Sales still at same levels (increasing now), profitability good	> 25,000
Volkswagen/ Seat ☆☆	1990	Dominate Spanish market, acquire low-cost production for use across Europe, build SEAT brand	Poor requests in Spain but restructured factories (VW and Seat) running well, share outside Spain growing well	> 1,000
Chrysler/AMC ☆☆☆	1987	Get Jeep brand, to dominate SUV market	Profitable from start, sales increased dramatically, Jeep brand triumphant	>1,000
GM/Saab ☆	1989	Pursue executive segment, greatly increase output, get profitable, protect brand	Sales now same as 1989, still close to break-even, Saab brand eroding as Opel takes over	~5,000

OVERALL RESULTS

Very few clear successes, an average story or two, a flop or two

Good results almost always have taken very, very long to achieve

Internal growth may be a better route

- Lexus case
- CEO Piech of VW:

"Experience shows that it is a lot more costly and takes far longer to integrate a company than to grow one. To integrate a company the size of SEAT once put VW on the borderline of existence . . . It would have been cheaper for VW to grow its own company than to rebuild Audi"

Automotive News Europe, April 12, 1999

So why do it?

Buy brands, dump assets, avoid investment, better use of capital, ego, access lower costs, merge capacity, gain scale economies, cost reduction, access to local markets… and desperation?

Back-up A