

Chrysler-fiat strategic alliance essay sample

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The Chrysler Company was founded by Walter Chrysler on June 6, 1925, when the Maxwell Motor Company (est. 1904) was re-organized into the Chrysler Corporation. Later Fiat S. P. A was merged into the company following a board approval and become Fiat Chrysler Automobiles NV (FCA). FCA became the owner of the Fiat Group, the holding company that consists most of the company's brands, like Ferrari, Maserati, Fiat Group Automobiles, and Chrysler Group Automobiles. Fiat rose the most in almost five years in Milan trading after Sergio Marchionne, chief executive officer of Chrysler and its Italian parent, struck an accord to buy a 41.5 percent stake from a United Auto Workers retiree health-care trust. The No. 3 U. S. carmaker will put up most of the funding for the transaction, underscoring the CEO's reputation as a dealmaker.

The agreement limits the amount of money that Turin-based Fiat must spend to take over and merge with Chrysler, which it helped rescue from bankruptcy almost five years ago. That puts the Italian company in a position to gain financial resources from the U. S. unit to help turn around unprofitable European operations. Marchionne has sought since taking the helm at Fiat in 2004 to combine the company with another carmaker to challenge Toyota Motor Corp., GM and Volkswagen AG (VOW) in sales. This was vital since Chrysler has a tremendous loss in 2008 and had to lay off many of their workers where strategic alliance was defiantly needed. They were also going bankrupt, so this was the best option to keep them afloat. They could not update themselves with the current economy and required to get assistance elsewhere. This deal was sensual for Fiat, since they could get the firm at a low price and re-venture North America. They also have a good

thing going in that fact that they own 21 percent since 2009, then can get it increased to 35 percent this year and eventually might have 51 percent of the company.

This was not the most ideal thing for Chrysler, but it was necessary. Chrysler has a brand name in North America, where Fiat lacks the visibility. Fiat has been very successful in Europe, where Chrysler does not have a strong dealer network there. Chrysler finds new markets by developing new range of vehicles. After the merger, Chrysler emerges from the bankruptcy and starts to restructure and Fiat gains a brand in North America and technology from here. Chrysler had always been behind Ford and GM and was known as the “number three.” Since the merger, they were able to gain more in Europe and new technology. As they are still not the number one company they have bettered themselves and are on the rise. The other five companies are still on the rise as well, so Chrysler-Fiat will have to work extra hard to compete with all of the technology, market share and consumer satisfaction. Chrysler’s strength has been in sport utility vehicles, pickup trucks and minivans.

We do not know a great deal of Fiat’s degree of interest in these businesses. Nissan has an agreement with Chrysler whereby Nissan is to get a version of the Dodge Ram and Nissan is to build small cars destined for Chrysler. This will be hard to do in the short term. The alignment between Fiat and Chrysler does not exactly save Chrysler. It gives Fiat an entry into the U. S. In short, Fiat is to get 35% of Chrysler, will not pay any cash for the stake, and it will give Chrysler access to its technology. Fiat had publicly said it wanted a

production base in North America for its Alfa Romeo brand and presumably the Fiat brand, too. Through its 35% interest that it is getting in Chrysler, it would presumably have access to a U. S. plant to build its cars. The case is intended to have students look at the 2009 Chrysler-Fiat strategic alliance, its current issues, and future viability in the global auto industry. The new landscape of the American auto industry and the role of Fiat is analyzed in the cross-border tie-up.

After de-merging with Daimler in 2007, Chrysler did not do well because of the 2008-2009 global financial crises and its bankruptcy filing. Chrysler's other problems included its financial constraints and heightened competition in North America. The company had no choice but to look for a partner. During this process, Chrysler explored the possibility of a tie-up with GM, Ford, Volkswagen, Tata Motors, Nissan and Fiat. Eventually Chrysler decided on creating a strategic alliance where Fiat agreed on taking a 20 percent stake in Chrysler. In the next five years, the tie-up may increase Fiat's ownership of Chrysler to 35 percent. Both companies show compatibility in their product portfolios, global operations, and technology sharing areas.

For Chrysler, it was a major setback when Daimler decided to withdraw its partnership and give its 80 per cent stake to Cerberus for less than 1/4th of the price they bought it for. Chrysler was doing badly, and although known as the “ Number Three” car in North America, it was not able to keep up and had to declare bankruptcy and was told to form a strategic alliance with a company as a part of the Obama Administration rescue plan. Fiat has had its own share of ups and downs, but in the European market it has proven to be

successful. It withdrew itself from the North American market in the nineteen eighties as it could not keep up there. But now, with its strategic alliance with Chrysler, it can benefit by entering into the North American market without having to push too much as Chrysler is already a well-known brand there.

The Strategic Alliance was definitely very important for Chrysler as it had huge losses in 2006, had to lay off over 13000 people, and was going bankrupt. It could not keep up with the turbulent economy and needed to be bailed out. For Fiat it made sense over GM, Toyota or Volkswagen to form an alliance with Chrysler, as it fit in the long term plans of the new CEO, Sergio Marchioness of re-entering the North American market. For Fiat it also made sense as the alliance meant that in 2009, Fiat would own 20% of the stake without cash. While this was not the most ideal situation for Chrysler, I think the alliance with Fiat was a necessity. Chrysler had a tremendous loss in profits, had to lay off many workers, and was going to have to file for bankruptcy. This was a great option to help them stay afloat and get help from an outside source. Obviously for Fiat this was a good move.

They did take a risk since Chrysler was going into bankruptcy, but they were able to acquire it for a reasonable price and also help themselves to re-enter into North America with a company that already had a solid market share. Fiat most recently purchased the 41% of Chrysler they did not own. The company is definitely on the upswing and will be able to better compete with GM and Ford. Strengths of Chrysler were they have a strong brand name and recognition within North America. In addition, their Jeep and minivan lines

are very popular. They were one of the top three recognized auto brands in North America. Weaknesses were there was no presence in overseas in Europe, they were going into bankruptcy, and their de-merger with DaimlerChrysler hurt them financially. They also remained behind the other manufactures for quality and satisfaction with consumers and had little or no sub-compact cars.

Fiat – Strengths of Fiat were they had reinvented themselves overseas in the European markets and are one of the most visible brands of small brand cars in Europe and quality is very high in the cars. They also provide technologies in R&D on a global level with a good learning curve. Some weakness of Fiat was they had no existence in North America and had not been successful previously. They also had a limited global product portfolio. Strategic alliances that bring organizations together promise unique opportunities for partners. The reality is often otherwise. Successful strategic alliances manage the partnership, not just the agreement, for collaborative advantage. Above all, they also pay attention to learning priorities in alliance evolution. The resource-based view of Chrysler considered that the competitive advantage of an organization rests on the application of the strategic resources at its disposal.

These days, orthodoxy recognizes the merits of the dynamic, knowledge-based capabilities under pinning the positions organizations occupy in a sector or market. Strategic alliances—meaning cooperative agreements between two or more organizations—are a means to enhance strategic resources: self-sufficiency is becoming increasingly difficult in a complex,

uncertain, and discontinuous external environment that calls for focus and flexibility in equal measure. Everywhere, organizations are discovering that they cannot “ go” it alone and must now often turn to others to survive. This has made Chrysler able to explore and have a presence in Europe and the overseas market, their Jeep brand and minivan continue to be popular.

Conclusion

When it comes to dealing with worldwide economic recession, grave steps have to be taken in order to ensure the survival of businesses, as too many livelihoods depend on it. Also, due to the investments that shareholders make, and the wide array of other businesses that the company would affect, it puts a lot of pressure on the board or the people running the company to make sure that they survive the bad times and emerge victorious.

Work cited

Thomas L. Wheelen and J. David Hunger.” Strategic Management and Business Policy” (13th ed.). Case 17: Chysler in Trouble