

# The 2009 chrysler-fiat strategic alliance

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The 2009 Chrysler-Fiat Strategic Alliance was formed in order to not only revive Chrysler back to the auto company it had been in the past, but also to better Fiat as a whole. The case study begins with a lengthy introduction introducing us to both Chrysler and Fiat from their inception to their current states. Following that is an introduction to the terms of the alliance. After some additional research I have here summarized the terms of what would become the Chrysler-Fiat Strategic Alliance:

- Chrysler and Fiat have announced a non-binding strategic alliance to allow Chrysler access to Fiat vehicle and powertrain technologies for the North American market. Resolution of Daimler's 19.9 percent share of Chrysler Corporation is a prerequisite for this alliance.
- Fiat would at this point offer no cash for the opportunity for Chrysler to utilize Fiat technologies for future small and compact car products for Chrysler. Fiat receives a 35 percent equity stake of Chrysler Corporation as part of this arrangement. This is described as an equity starting point for both companies.
- Fiat would gain access to Chrysler's North American distribution network while Chrysler could access Fiat's distribution capabilities in Europe, South America and parts of Asia.
- Chrysler is in dire need of new small/compact platforms to meet stiffening US CAFE regulations as well as an intensely competitive passenger car market focused on global scale economies.
- The fate of scale economies improvement with Chrysler's larger platforms is still uncertain.

While both companies originate and maintain the majority of their business in very different areas, (from an automotive perspective) they have glaring similarities:

Both companies have a higher focus on the lower-middle class spectrum of the market. Both have a tainted reputation for a weak quality control and reliability with their consumer. Both needed a vast revamping of their companies in order to stay competitive in the market.

Out of these points the last is the most critical. In 2004 Fiat was experiencing equivalent difficulties to that of Chrysler in 2008. Fiat accomplished this company turn around with the assistance of a well known turn around executive: Sergio Marchionne to become CEO. Under his leadership and the reintroduction of the Fiat 500 in 2007 led to a much stronger brand. Chrysler on the other hand did not fair so well on its own. With the bailout money from the US government and the required long term partnership with Fiat Chrysler is well on its way to reemerging back into the auto industry.

This makes Fiat the perfect candidate to buy up Chrysler and fully reorganize their business, seeing as it mirrors Fiat's reconstruction of only a few years ago. During my research outside of the book I found an excellent article that not only fully laid out the plan, but dissected it into the positives and negatives that would come about from the alliance for both companies I will begin with a summary of the alliance from the perspective of a car magazine that I frequent and then follow up with the positives and negatives:

Fiat will share with Chrysler its platforms and powertrain technology, including engines, transmissions, and fuel-saving tech. The announcement

specifically mentions city and compact vehicles, products Chrysler will need should American consumers actually decide to buy the small, fuel-efficient cars U. S. lawmakers claim they want.

Chrysler will also get better distribution of its products, certainly in Europe, but also in places such as India—Fiat has a partnership with Tata Motors—and Brazil. Fiat also has a deal with Chery, the Chinese automaker with which Chrysler had been trying to partner. Both Chrysler and Fiat will also be able to better leverage their global supplier ties and therefore see cost savings in larger volume.

For Fiat, the reward is simple: distribution channels. Currently, Fiat only sells Maserati and Ferrari in the U. S. If Fiat wants to become a truly global entity, a foothold in North America would be most helpful. Alfa Romeo has been promising a proper return to the U. S. market for some time, and Chrysler's distribution network could ease that brand's return to our shores.

Fiat will also likely be able to use excess global production capacity to assemble Chrysler-badged variants of its products. With worldwide auto sales slowing, that would help Fiat to continue manufacturing at pre-slowdown levels; Chrysler could potentially build Fiats in its plants, as well.

Chrysler

Positives

Chrysler will have to continue to pare down its portfolio over the next 24-36 months to prepare for new Fiat based offerings in North America. Another positive could be the ability to execute joint purchasing activities, offering some scale opportunities for the supply base. Some Chrysler dealers may

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distribute Fiat/Alfa Romeo badged products in the future and have access to A and B-segment Fiat products for the North American market. Despite some possible "foreign owner" resistance in Washington, Chrysler can show real progress on the transformation plan requirements due at the end of March 2009.

### Negatives

Chrysler still has a cash flow issue. While the possibility to utilize Fiat platforms for Chrysler offerings in the next 12-36 months is appealing, build will have to be located in North America to lower/stabilize production costs - this retooling will require billions in capital in and resource requirements. In 2008, Chrysler built 1.9 million vehicles which were primarily sold in North America. Chrysler still has scale and technology issues in larger offerings - other partners/divestitures are certainly possible as Chrysler reshapes the company. In play are the Minivan Jeep offerings, Ram Pickup and mid-2010 large rear wheel drive offerings. Fiat's non-North America distribution network offers Chrysler access to new markets, though this benefit is limited in that Chrysler requires better small/compact unibody offerings to be a player outside of North America. A major wildcard is Daimler's 19.9 percent share of Chrysler Corporation. The Fiat development offers a new dynamic for the eventual owner of this share.

### Fiat

### Positives

Fiat has several joint ventures/sharing arrangements to assist with scale economies, technology access and geographic deficiencies. Associated

companies include BMW, Tata, Ford, PSA and Chery. The sharing affiliation with Chrysler is another extension of their ongoing expansion/risk diversification strategy. The OEM gains access to the lucrative US market - a market slated to rise 18 percent in 2010 from a low point of 11.5 million light vehicle units this year (2009). Distribution of Alfa Romeo and Fiat-branded products in North America is possible - offering greater volume to Fiat going forward. Fiat is able to expand scale economies in core A-, B- and C/D-segments where it is a leader in both platforms and powertrain technologies. Chrysler's use of Fiat platforms would aid in covering Engineering, Research and Development (ER&D) costs at Fiat. The OEM would now have increased global sourcing possibilities to meet demand. Fiat may have a conduit for South American-built offerings which can be channeled through Mexico and vice versa.

### Negatives

Fiat had cash on hand of 3 billion euros as of September 2008. As was the case with all global OEMs, the fourth quarter of 2008 offered financing challenges. It has an aggressive capital plan over the next 36 months which drives the OEM to re-invest in core B-, C- and /D segments - channeling resources to North America is an aggressive move. The European sales market is slated to decline a further 14 percent in 2009 to 18.1 million units and only rise 5 percent in 2010 to 19 million units. Fiat still has several challenges in its home European market, which will offer cash burn challenges. As a sales parent (vehicles built with a Fiat Group brand badge), Fiat built 2.5 million vehicles in 2008. The primary markets were Europe, South America and select parts of Asia. Ownership of the other 55 percent of

Chrysler is uncertain. If other OEMs (outside of Daimler, which wants to divest its 19.9 percent share) could become involved and cause complications.

Next I will analyze Fiat and Chrysler in comparison with the other competitors in the auto industry. Because both companies compete in very separate markets I will break them down individually: Chrysler's competitors in terms of car sales lie in the North American car market. Chrysler's vehicle fleet competes directly with GM and Ford. Chrysler has always been seen as the weakest of the big three American car manufactures and is looking to change that image with its full reintroduction of its vehicle lineup. Until the year 2014, the Dodge Charger and Chrysler 300 hold a unique position of a large family sedan with a rear wheel drive set up focusing on performance. It is no doubt that this is the reason why these vehicles are the bread and butter of Chrysler's line up. In addition, Chrysler's Town and Country is known for going above and beyond its competitors in terms of technology and styling.

Fiat, on the other hand, has its greatest sales in Europe. Specifically Italy where many of its roads require the small cars that Fiat specializes in. Fiat has had little success in reaching customers outside of its home continent before this alliance. With the strategic alliance with Chrysler, Fiat hopes to branch out its global brand image to the United States, which inevitably is a large player in the automotive industry. Compared to other small cars offered in America the Fiat 500 has many visual cues of a sports car that give a greater appeal over that of the general bland look of vehicles such as the Scion iQ.

In terms of global competition the following chart gives another reason as to why Fiat took such a great interest in forming an alliance with Chrysler. Besides Chrysler, Fiat had the lowest number of global vehicle sales in the prior year. If they wanted to remain competitive they would need to increase their global outreach and the auto industry continues to move towards a worldwide scale for all manufacture. [pic]

This alliance sets the stage for the upcoming years for both Chrysler and Fiat. Four years later is it apparent that the plans originally stated have been set in motion. As a car enthusiast I keep up to date with general car knowledge and what is being introduced by each company. So I was interested to see if this alliance had actually provided any real world evidence that production had increased from both companies.

On Chrysler's side it was noticeable in 2009 that Chrysler's entire fleet needed to be either refreshed or develop a new model altogether. 2012 was the year, on the consumer side of things, where the majority of their vehicles did receive this change. Many elegant Italian stylings are incorporated into the brash/boxy nature of American cars (as seen in the new Dodge Charger and Chrysler 300). Also, the 2013 Dodge Dart is the first vehicle to ride upon a Fiat platform.

On Fiat's side it can be seen that various Chrysler dealerships now additionally carry Fiat vehicles. This marks the first time Fiat vehicles are being sold in North America in many years. The highly successful marketing campaign of Fiat combined with the recent consumer shift in America for smaller cars has led the Fiat 500 (the only current Fiat available in America). In addition, as was recently revealed to the car world, Alfa-Romeo will be <https://assignbuster.com/the-2009-chrysler-fiat-strategic-alliance/>



making a return to America with its new sports car: the 4C, meant to compete with Porsche's 911 in terms of performance and luxury.

This image below outlays a general path for the trading of innovation between the two companies in the upcoming years: [pic]

In conclusion, it is clear that the alliance between Fiat and Chrysler was a necessary one to occur. Both companies, for separate reasons, needed this event to take place for them to survive in the industry. As the case study in the book noted:

“ Auto analysts believe that in the coming years, only a small number of auto manufacturers will be left at the global level because of consolidations and mergers. Companies maintaining strong brand identities with competitive technologies and quality will be able to compete effectively.

This case study gave me the advantage to supplement my conclusions with real world figures as the article was written four years ago, giving me a time frame full of research that depicts if either company has improved from the alliance.

To me it is clear that direction that both Fiat and Chrysler have taken in terms of the goals they set has been excellent. The only downside that I have seen so far is the slow sales of the newly introduced Dodge Dart, however the segment it lies in is very competitive and this is natural for a newcomer to the market.

The alliance may have its drawbacks, but seem to be good fit for both. Chrysler needed the alliance due to bankruptcy and conditions of bailout and a partner to bring innovation, R&D, low-cost tech and access to EU market;

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Fiat will have access to North Am market and distribution. Synergies may not all work due to issues of culture and integration, however opportunities exist to reduce costs, and provide low-priced fuel-efficient automobiles.

In the short run, Chrysler will have gain new platform for fuel efficient vehicles. Fiat will gain entry to American market. In the long run, new technologies may result from partnership. Chrysler can increase market share in mid and low size segments.