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RENAULT 1985-2000 : FROM BANKRUPTCY TO PROFIT

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1. Introduction

In 1997, an article appeared in the French periodical *L'Expansion* lamenting the fact that in the early 1980s Renault and Volkswagen (VW), two of Europe's largest automobile manufacturers, were approximately the same size, but that by the mid nineties, VW had become a world player, leaving Renault far behind in output and world market share (Gallard, 1997). The first half of the eighties were years of crisis for Renault as it teetered on the edge of bankruptcy with mounting losses, a lack-lustre range of models and falling market share, whereas VW expanded successfully. In many ways this article was a commentary on how the two firms had diverged over a relatively short period of time. While VW had grown primarily by increasing volume through its acquisitions of Skoda and Seat (Audi having been bought much earlier) and by expansion in China and Latin America, Renault's approach was different. Overseas expansion was halted and the firm tried to achieve success through creative model development, raising quality, acute marketing and gaining share in its Northern European heartland. where it found that competition was tough and profit margins thin. (Gallard, 1997).

In the late nineties Renault changed tack and by 2000, it, too, had entered the ranks of globalised companies. Following VW's example, this was achieved through acquisition rather than by organic growth. Apart from opening a plant at Curitiba in Brazil in 1998, Renault in the following year became the major shareholder in Nissan of Japan, Dacia of Romania and Samsung of Korea, making it the fifth largest automobile company in the world. It had seemingly escaped from its European enclave (MIRA, 2000), These ventures are in their early stages and a great deal of work is required, particularly in the cases of Samsung and Dacia, to raise their levels of quality and competitiveness to world standards. With Nissan the situation is different. It is a mature concern. Renault views the relationship more of one between equals that can generate synergies to their mutual benefit in the long term even if painful reforms have to be undertaken by the Japanese to rescue their company from its difficulties (Fortin, 2001).

The purpose of this paper is not to compare Renault with VW, but to delineate how Renault, from a state of near bankruptcy in the years 1984-85, managed to survive and eventually catapult itself from being the tenth to the fifth largest automotive manufacturer in the world. In essence this involves inquiring into how Renault turned itself round from near insolvency through cost cutting, very precise model development and carefully targeted marketing in the late 1980s and early 1990s. It also involves discussing how even in the early nineties it recognised that future independent survival would be difficult without a long-term partner. This necessitates analysing its failed attempted merger with Sweden's Volvo when the two seemed a perfect match for each other. Discussion will also focus on how Renault has tried to reform itself internally through improving work practices, opening a state of the art Technocentre and in keeping to the forefront in model development. Finally, there will only be passing references to the company's attempts to globalise. That subject is too large to be discussed adequately in a paper of this size. Much of what has happened to Renault, however,

needs to be contextualised within recent structural and process developments in the automotive industry as a whole and it is to this that discussion turns briefly.

2. Structural and Technical Change in the World Automotive Industry.

Over the past thirty years the automotive industry has undergone significant changes. These can be encapsulated under three precise headings: globalisation, the switch from Fordism to lean production methods and, finally, consolidation. (Dicken, 1998; Womack, Roos and Jones, 1990). As each of these topics is vast in itself and are relatively well known, only the briefest outlines will be given to facilitate an understanding of the setting within which Renault's growth and development can be evaluated.

Of all the world's major industries the automobile industry is probably the most globalised, providing either direct or indirect employment to over 20 million people across the continents. Until the mid 1960s, production was concentrated in the United States and Europe and the industry was dominated by the three American multinational firms of Ford, General Motors (GM) and Chrysler. In comparison, the main European producers, Volkswagen, Peugeot, Citroen, British Motor Holdings, British Motor Corporation and Fiat were small with their activities concentrated in their domestic and proximate markets (Dicken 1998). The 1960s and 1970s saw the emergence of Japan as a major world player and since then, many developing nations have viewed the automotive industry as a key factor in their economic modernisation programmes. Countries such as Malaysia, Indonesia, Korea, China and Taiwan in the East, Poland, Czechoslovakia, Russia and Hungary in Eastern and Central Europe and, latterly, Brazil and Argentina in Latin America have encouraged the development of their automotive industries through either local initiatives or inwards Foreign Direct Investment (FDI). These trends have led to many firms from both the developed and emerging countries establishing themselves across the globe. An alternative to setting up wholly owned subsidiaries was implantation through either joint ventures or strategic alliances as is the case in China where VW, GM, Toyota, Ford, BMW, Citroen and Chrysler, to name but a few, have joined forces with Chinese firms to stimulate the development process there (Donnelly and Morris, 2002a). The outcome is that in global terms the industry has become extremely competitive, especially in the saturated markets of North-West Europe where demand tends to be for replacement vehicles rather than new (Donnelly and Morris 2002b).

Critical to an understanding of the changes that have affected the industry world-wide has been the rise of Japan both as a producer and in its working practices of lean production which has generally led to the demise of Fordism as the dominant method of production. Lean production differs significantly from Fordism in that it offers economies of both scale and scope as necessary. Its key elements centre on high quality products, built by flexible machines and polyvalent workers under strict cost control. In addition to shortening product development cycles this entails an increasing emphasis on building to order by pulling the product through a just-in-time system so that stockpiling is largely avoided and waste is almost totally eliminated in the production system (Womack, Roos and Jones, 1990). The

success that Japanese firms enjoyed in penetrating Western markets led to most American and European firms adopting variants of lean production to suit their own specific requirements in preference to Fordism from the late 1980s onwards. If anything, the shift in production methods served only to intensify competition because almost all the major firms were attacking the same targets in relation to design, development cycles, costs, technology and operative training at the same time (Boyer and Freyssenet, 1998).

Concurrent with the adoption of lean manufacturing was the advent of modularisation as firms increasingly sought to share platforms, power trains and other major components across models or even carry over major parts from older to new models in attempts to restrain their costs, while still being able to offer a wide range of vehicles at competitive prices. Of the European firms Volkswagen, for example, has proved the most successful in using its 'A' platform in a variety of vehicles across the Audi, VW, Skoda and Seat ranges. In Britain even the luxury S Type Jaguar shares its platform with the Ford Mondeo (Donnelly and Morris 2002b).

The third element of change, though very much a feature of the nineties, has been the growing levels of consolidation in both the assembly and components sides of the industry. Indeed, it has been estimated that by 2020 the assembly side of the industry will be dominated by no more than six firms and the component side by around twenty. The reasons for consolidation are not hard to seek. In addition to the search for economies of scale and scope by firms, the market for cars has been changing rapidly since the mid 1980s due to growing affluence in the West and changing consumer tastes. This has manifested itself in different ways. Firstly, consumers are no longer satisfied with straightforward volume models and so seek vehicles for specific purposes, the production of which is made easier by lean manufacturing. This has led to demand for a range cars such as small, economy city cars, 4 x 4 off-road vehicles, multi-purpose vehicles and fun cars like the Smart. Secondly, there has been an increasing demand for luxury cars such as BMWs, Mercedes, Saabs and Jaguars from increasingly wealthy and information rich middle and professional class customers. Thirdly, these factors have led to an increasing fragmentation of the market. No longer can manufacturers expect to sell up to a million models of any one vehicle in a calendar year and must content themselves with figures well under 500,000 per annum (Donnelly and Morris, 2002b).

In consequence, the major producers sought to broaden their offerings initially by attempting to sell their own top-of-the-range models in the luxury segment. When this failed there was little alternative but to enter this market by acquisition. This explains Ford's purchases of Aston Martin, Jaguar and Land Rover as well as GM's of Saab. An alternative to acquisition was gaining scale by either strategic alliance or joint venture. A good example of the former is Nissan and Ford in Spain where their respective 4 x 4 vehicles are produced for the European market. Similarly, until recently Ford and Volkswagen shared a facility in Portugal where their MPVs were constructed. Such examples could be multiplied, but it must suffice to say that since the late 1980s the pace of consolidation in the auto industry has intensified as firms have sought entry into different market segments, while at the same time trying to preserve their ability to reap economies of both scale and scope by changing their modes of production.

3. Renault: from bankruptcy to recovery 1984-95

In the early 1980s Renault's automotive division attained a leading position in the European market place, but this was achieved only by heavily discounted sales. The inevitable outcome was that the firm found itself in serious financial difficulties and was almost bankrupt in 1984 when annual losses amounted to FFr 17.5 billion with its debt equivalent to 46 per cent of annual turnover (Freyssenet, 2003). In the following year overall debt levels rose to FFr 62 billion, equal to 50 per cent of annual turnover. This was not helped by low productivity levels, poor model quality and falling customer loyalty which dropped to a new low of 50 per cent in 1985. Illustrative of this decline was Renault's share of the French market which plunged from 38.9 in 1982 to 28.7 per cent in less than three years. In the European market, the decline over the same period was from 14.6 to 10.7 per cent (Lebault, 1995; Genet, P, 1992). Matters were made worse by Renault's attempts to expand in America. In 1979 it acquired American Motors, but within five years this had turned into a billion dollar loss. Of the four major American producers American Motors was by far the weakest in terms of volume, quality and market share which by the early eighties had dwindled to 0.3 per cent. As this venture had been debt financed, its failure left Renault facing heavy financial charges (Lebeault, 1995).

Renault's near disastrous position was not helped by its image. Following the Second World War it had been nationalised for alleged collaboration with the occupying German forces and became part of France's social fabric. Its task was not simply to produce cars, but to provide employment even if this had an adverse effect on labour productivity and consequently on costs. These were exacerbated in the period 1982-84 when the company acceded to demands for higher wages which reduced profitability due to increased payroll costs. In other words, there was a tension that required resolution. Being state controlled and subsidised, Renault was considered almost as an arm of France's social services through excessive overmanning at the taxpayer's expense. Under such circumstances, it was caught up in the state bureaucratic machinery and could not act independently. All major decisions had to be approved by the government and, as the wheels of government moved slowly, the firm lacked the agility to respond quickly to crises (Lebeault, 1995; Gallard 1997). Renault's position in the mid-eighties was so serious that had it been in the private sector it might well have been allowed to wither on the vine. Finally, it needs stressing that Peugeot, too, suffered in the downturn in the automotive market in 1984-85. In contrast to state-owned Renault, however, it was able to effect redundancies as part of a cost cutting exercise, but only after its Chief executive Jacques Calvet exerted pressure on the government.

Closure of Renault was politically unacceptable to the government, leaving little alternative but to attempt a turnaround policy. Normally, turnaround strategies lead to a change of management, a halt to the haemorrhage of capital, reductions in costs, facilities and staffing to realistic levels, new model development, the brand image of the company being revamped and hopefully in time a return to profit and an improved market position (Slatter, 1984).

As a first step Raymond Hannon was sacked as PDG in 1985 by the Minister for Industry and replaced by Georges Besse who was later assassinated by left wing extremists in 1986. He, in turn, was succeeded by Raymond Lévy until 1992 when Louis Schweitzer took control of the firm. In attempting to reverse Renault's position harsh decisions had to be taken. To raise cash non-core activities were sold off as quickly as possible. Ironically, one of the first items sold was Renault's 9 per cent holding in Volvo to raise much needed capital only for Renault to buy 25 per cent of Volvo five years later. Within three years of the Volvo share sale, however, Renault approached the Swedes and established a new rapprochement which ultimately benefited Renault's recovery in three ways. Firstly, platform sharing helped reduce Renault's costs at the top of the range. Secondly, it strengthened Raymond Lévy's hand in forcing the government to consider Renault's privatisation so that its relationship with Volvo could be ratified and so allow another 5 milliard francs of state funding to be invested. Thirdly, Renault was able to use steel from Volvo's Olofstrom complex for platforms in its first Clio model in its Flins factory. Also sold off at the time were Renix, Bernard Moteurs, Gitane Cycles, Eurocar and American Motors which was sold to Chrysler of America for FFR4 billion. Important, too, in easing the financial position was the decision by the Ministry of Industry to write off nearly FFr 12 billion of company debt (Lebeault, 1995).

One of the quickest ways of cutting costs quickly in the auto industry is to reduce the work force. Initially, Lévy wanted to reduce the work force by 21,000, a figure that did not impress the Minister of Industry, Laurent Fabius. Redundancies on such a scale he thought could damage France socially, but he had no option but to accept the logic. In the event between 1984 and 1991 the work force was cut from 98,150 to 63,150 (Genet, 1992).

Simply cutting the work force in itself would not have been enough to overcome Renault's difficulties. Serious thought had to be given to dealing with other cost problems and upgrading the model range. A major plank in this were attempts to reduce both indirect and direct costs, especially development cycle costs, where subsequent improvements reduced the design to market time for the Renault 19 by three months. Of equal importance were the introduction of specific aspects of Japanese management practices to reduce stocks and inventory levels. Twenty days stockholding was the norm, but this figure was cut ruthlessly with two days stocks being the target set. Similarly, capacity utilisation had to be raised if only because several factories were operating at a usage of only 55 per cent which had serious adverse effects on unit costs. At Sandouville, for example, it proved possible to raise utilisation from 75 per cent to 90 per cent. Fundamental to these efforts was a determination to speed up production, simplify design and an increased usage of sub-assemblies, which resulted in the Safrane taking eight hours less to produce than the R25's twenty six hours, allowing a price reduction to the customer of 10 per cent. Matters were also aided by an increased use of the Minitel system to relay communications on orders and delivery times between the factories, the suppliers and the dealers.

Externally, Renault through its relationship with Volvo was able to drive tougher bargains with suppliers and because of their joint volume purchasing power forced prices down. The search for economies by this centime by centime approach meant that the company withdrew from Formula 1 racing and it was insisted that the Supercinq was no longer sold at a loss

simply to gain market share. The axe also fell on future projects whose profitability was in doubt, including a possible replacement for the R4 simply because there was a lack of development capital, and at that time it was necessary to give priority to the Clio whose development almost too far advanced to stop (Genet, 1992). The outcome of this activity was a twenty per cent reduction in stocks and a financial gain of FFr 3 milliard francs a year by the end of the eighties (Genet, 1992).

Little could have been achieved without trying to change managerial structures and break the power of what was termed the 'baronies' and try to achieve a 'cultural revolution'. More than symbolic of this was a reduction in the number of management layers from eight to five. This called for a spirit of cooperation from both workers and management. Critical to it was easing the access of shop floor operatives to their superiors and of the need to pay more serious attention to suggestions from workers on work processes. Vested interests in delaying suggestions or progress were no longer tolerated. More importantly, in the long run, the work force was divided into interdisciplinary teams of fifteen or so workers under the supervisions of a project leader so marking a break with Fordist type divisions of labour (Freyssenet, 2003).

Finally, and, perhaps most importantly, besides attacking costs there was a well recognised need to change strategy. This meant abandoning what was termed the 'volume and diversity strategy' and to concentrate on raising quality under the banner of Total Quality Control and Zero Faults even at the expense of reducing output and of delaying launches such as that of the R19 (Freyssenet, 2003). Additionally, it must be stressed that Renault's new approach to quality control was based on recovering from the poor reputation its vehicles had in the early eighties when customers deserted the marque in droves. Even Schweitzer himself was less than impressed with the quality of his own Renault 25 when he first joined the company. The image and brand reputation of the cars needed a thorough overhaul. To satisfy this, suppliers were selected only after careful evaluation of their quality. The approach towards suppliers was no longer adversarial, but much more one of partnership, of mutual learning and shared experience. In the factories quality standards were measured through a series of indicators and benchmarks which gave rise to a range of acronyms which became part of received wisdom: PAP (Plans d'Accélération du Progrès), les UETs (Unités Élémentaires de Travail), les AQR, (Action Qualité Renault) and an unofficial one, le BSP, (le Bons Sens Populaire) (Genet 1992).

The result of such activities was positive. The firm's break-even point was reduced to 1.2 million vehicles and Renault gradually hauled itself back from the edge of disaster and rebuilt its reputation. In 1986 there was a return to profitability which peaked in 1989 when a net profit of FFr9.3 billion francs was recorded. Apart from a brief drop in profits in 1992 overall Renault remained in profit until 1996 when the first group loss in ten years was declared (Genet, 1992 and 1996; Annual Reports 1997). Market share in Europe stabilised at around 10 per cent in 1991, but in France remained stubbornly at around 26-27 per cent. Nevertheless, the prospects looked sound. Debt had been reduced from FFr54.3 billion francs in 1986 to only 15.5 milliard five years later with turnover up from 122 milliard francs to 166 milliard francs over roughly the same period. (Annual Reports 1981-91) Beyond France sales went

well in Germany, especially after the collapse of the Berlin Wall and in 1991 alone they actually doubled to 230,000 units with Spain and Italy accounting for a further 200,000 each. Even in France the Clio, the R19 and the R21 headed their respective classes (Genet, 1992).

Much of Renault's success was due not just to getting much of its basic operations right, but to careful model development, target marketing and successful advertising; all of which revamped its somewhat staid image. Coming out of a stage of near bankruptcy and loss of customer confidence, Renault had to alter its marketing strategy radically. Repositioning its products in a difficult market involved a high element of risk, especially as other dominant European manufacturers enjoyed sound reputations for quality, reliability, safety, technology and customer services. It was not enough for Renault to follow simply in the wake of the others, it had to differentiate itself substantially, while trying to match its rivals' functionality. The strategy chosen was to shift the emphasis away from Renault itself and to focus on the products, which were designed to meet customer expectations, while at the same time promoting their 'Frenchness' as a quintessential lifestyle and de facto that they were 'Renaults.'

Consequently an umbrella theme was chosen with the philosophy that Renault products were 'voitures à vivre'. This phrase was simple enough and could be translated reasonably accurately into different European languages even if there were subtle differences in exact translation. The important fact was that it was easy to relate to the cars and lifestyle. Until the 1980s Renault was the Regie's sole brand, but with market failure it did not evoke positive connotations. Therefore, Renault's response was to create a range of sub brands, give the vehicles identifiable names and dispense with the tradition of numbering models. The proposed new models were not conceived as belonging to any of the traditional vehicle classifications, but tried to clothe each brand with a discrete personality. The Twingo, for instance, was a bubble shape, for example, and came in a range of strident, bright colours. Despite its small size it was spacious inside and fun to drive and surprisingly appealed principally to middle aged customers who, however, preferred more discrete colours.. Similarly, the Clio, named after a Greek goddess of poetry, was an intended replacement for the R5 and so successful was it that in 1991 it was voted Automobile of the Year. Others to fall under the umbrella theme were the Laguna, Safrane and the Espace, but space precludes a full discussion of these. The only new vehicle to retain a number designation was the conservatively styled R19, but, surprisingly, its sales went well in Europe, especially in Germany.

The new models were backed by clever advertising campaigns such as that for the Clio in the UK where the adventures of the two main characters 'Papa and Nicole' achieved almost mini series status. Similar success was had elsewhere in Europe, using different scenarios, but which conveyed the same message. Additional lively and daring advertising campaigns centred on the Twingo which in Germany enjoyed considerable pre-launch advertising with the phrase "Sind Sie reif für den Twingo?" (Are you ready for the Twingo?). The net result was that Renault successfully changed its image from almost universal boring drabness to a firm capable of producing distinctive cars, which emanated a 'joie de vivre', which were fun to drive and, most importantly, a brand that people wanted to buy (Lebeault, 1995).

4. Renault and Volvo

Mention has already been made of Renault's relationship with Volvo and of the fact that Renault was a nationalised entity. The growth and development of the firm particularly in the latter of the 1990s cannot really be understood without discussion of the reasons why the proposed merger with Volvo failed and why the French government gradually loosened its grip on the company to allow it eventually to compete globally. Renault was in danger of isolation and needed to expand beyond its immediate European markets and to do this a partner was required.

The deepening of the Renault-Volvo relationship began essentially in 1990 with an agreement that year for the two companies to co-operate on the joint purchase of components, R&D and quality control with the objective of reducing costs, achieving economies of scale and scope and so improving competitiveness. Moreover, the firms' products were complementary. Coming together would allow Volvo access to Renault's medium and small cars and conversely access for Renault to Volvo's upper market segment vehicles and technology. Ultimately, it was intended that there would be coordination in component and product development. For three years the two companies drew closer together and a series of coordinating committees were established as well as the taking of shares in each other through minority cross-capital participations (Savary 1995). Initially the cooperation proved fruitful. In 1992, it was agreed to develop a common platform for top of the range products such as the successors of the Renault Safrane and the Volvo 900. Similarly, in the same year Renault delivered circa 100,000 engines and a similar number of gearboxes to Volvo who in turn delivered approximately a near identical number of car bodies for the Renault Clio, for instance (Savary 1995).

Increasingly, this evolved as a relationship between two seemingly equal partners and eventually in 1993 the two companies announced a full merger as their mutual business developments became too difficult to manage through a complex series of committees (Williams, Haslam and Johal 1994). The timing of the announcement was propitious. Firstly, because it took place against the growing spate of consolidation in the industry which was already suffering heavily from excess capacity and falling demand in Europe in 1993 when 2 million fewer cars were sold than in the previous year. Ford had recently acquired Aston Martin and Jaguar, GM had more or less taken control of Saab through its 50 per cent investment, VW had captured Seat and Skoda, while Fiat had brought Lancia within its network. The trend was for small firms to be taken over by their larger rivals. Refuge was being sought in size precisely at a time when other industries were dismantling and serious doubts were being cast on the continuing validity of economies of scale in manufacturing generally. Moreover, the coming on stream of Japanese transplants in Europe served to intensify existing levels of harsh competition. Secondly, in the light of this Volvo looked vulnerable to a predator, especially as it had suffered three years of losses and also decline in its domestic market, where sales had fallen by 52 per cent between 1988 and 1992. Thirdly, Renault, too, was vulnerable despite its turnaround. Its strength lay in small cars and Volvo seemed an ideal partner to assist it in its drive to penetrate the luxury segment. Fourthly, as

noted above, Renault needed to widen its horizons as it realised that its over concentration in its northern and southern European markets (France, Germany, Spain and the UK) could be detrimental to its remaining a major player in the industry and a partner was essential if further growth was to be achieved. Volvo's profile fitted well. This was a marriage of necessity for both partners (The Economist 11 Sept 1993; Echikson, 1993).

Basically it was the struggle for mutual survival that drove the merger. Coming together on 1 January 1994 would have made Renault-Volvo the sixth largest car producer in the world just behind Nissan, but ahead of Fiat. Merging their truck division would have elevated them jointly to third position globally behind Mercedes and Isuzu, but ahead of Toyota (Done, Ridding and Carnegie 1993; Done, 1993).

Under the terms of the agreement the proposed structure was a 65-35 per cent shareholding in Renault's favour which was said to reflect the relative worth of each firm at the time of the agreement. It must be remembered whereas Renault in its entirety was involved in the deal, parts of Volvo such as its marine, aero engines divisions, food processing and pharmaceutical were specifically excluded. The shareholding arrangements were complicated, but had at their core two distinct entities. The first was a holding company RVC and the second, Renault-Volvo Automotive (RVA) which was meant to drive the project by pooling all the automotive interests and financial subsidiaries of both groups and to assume responsibility for business operations and management decisions. RVC with its six member board and chairman, nominated by Renault SA, was charged with protecting the shareholders' interests.

The French were to dominate both bodies. The French government was to hold 51 per cent of RVC through its 100 per cent holding in Renault SA. Equally the French state was to control 46.3 per cent of RVA. AB Volvo was left with 49 per cent of RVC and 17.85 per cent of RVA. In other words, such a structure gave the French a distinct controlling interest (Ridding 1993). On top of this precarious structure was to be a German Style supervisory board, headed by Pehr Gyllenhammer, Volvo's chairman and a management board, led by Louis Schweitzer who was to become chief executive (The Economist, 11 Sept 1993).

Superficially the Swedes looked very much the junior partners. However, to protect Swedish sensitivities there was an attempt to use the supervisory board as a counterbalance to French financial and managerial domination. Under Gyllenhammer's expected chairmanship, the supervisory board, consisting of eighteen members, was instructed to appoint RVA's management board. The eighteen members were to comprise of six from the French state, three from Volvo and three from the international business community and employee representatives from both firms. This was perceived as a means of limiting Renault's power and trying to ensure that the post-merger phase had a safe and assured passage (Ridding, 1993).

What were the potential gains from the merger? In theory these looked convincing through respective complementarities, especially on the truck side as already noted above. In marketing, Volvo had a steady clientele for its large luxury cars which complemented Renault's flair in the small car segments. Similarly, Renault's strengths lay in Western Europe where it sold 1.4 Million cars in 1992 compared to Volvo's 200,000. Additionally, Renault

had several overseas operations outside of France including Spain, Morocco, Turkey and Latin America, but no presence in the United States. Despite a decline in sales of roughly two per cent between 1990 and 1992, Volvo still sold 68,000 vehicles in the US in the last mentioned year – approximately the same number as Mercedes Benz . Coupling with Volvo thus provided an opportunity for Renault to return to the US market in due course (The Economist, 11 Sept 1993). There were also predictions that savings of FF30 billion could be saved through economies of scale in joint production strategies by the year 2000 as costs were shared over larger production volumes and concurrent synergies in purchasing. Both looked to rationalising and integrating their manufacturing processes and their products, even though they would be sold under separate marques to protect brand names. Greater use would be made of common suppliers, logistics, transport, computer systems, common media buying for advertising and common offices for marketing and distribution. It was recognised that none of this would be easy and that it might take years before any fruit was borne (Done 1993).

While the French appeared happy with the deal, the Swedes were much more sanguine in their reaction, which ranged from grudging welcome to total opposition even though neither side from the outset tried to impose its culture on the other. Because of language difficulties, for instance, English was the accepted medium of communication. By the 6th of November Swedish opposition among both major institutional and small shareholders was hardening. Several major complaints were voiced. The first was France's failure to set a firm date for Renault's expected privatisation. To be fair, the French government had reason to be careful. It preferred not to set a date simply because of the merger, arguing that the timing of privatisation should depend on the state of the French stock market and the European car market, which in late 1993 was in virtual freefall. It also feared that any floatation around the time of the merger could go badly as investors might harbour doubts on how to value the company and would have had no time to assess whether or not the merger was on the right track. Secondly, there was anxiety in Sweden over the retention by the French government of its 'golden share' through its 51 per cent holding in RVC which would allow it to intervene in the company when it felt necessary; This led to a third fear, based on simple xenophobia. This was that, in the event of any market downswing, French domination could lead to the suppression of Swedish plants and jobs to protect French interests (The Economist, 18 Nov 1993).

Prior to the crucial vote by Volvo's shareholders in December 1993, the French government tried to allay the above fears particularly as on 25 November the Fourth Fund, a Swedish state pension fund which held 7.5 per cent of Volvo's voting capital, had come out in favour of the merger, whereas the Fifth Fund which held only 1.3 per cent of the company's voting rights came out against. The French were forced to mount a charm offensive. On 23 November, the French Prime Minister, Edouard Balladur, had announced that France would privatise its 65 per cent holding in the new company in late 1994 and that it would not use its golden share to reduce Volvo's 35 per cent stake, provided Volvo itself made no move to increase its own holding. Volvo's acceptance of this new accord was written into a revised merger document (The Economist, 27 Nov 1993). Many Swedes remained unconvinced and when the crucial vote came the small shareholders and several larger ones, including the Wallenberg's

Skandinaviska Enskilda Banken, mustered enough votes to defeat the merger proposal (Klebinkov, 1994).

The merger plans were subsequently dropped leaving both firms to think again about finding a partner. Opinion was expressed that had Renault been privatised before the merger then the vote might well have gone the other way. Nevertheless, the decision concentrated Renault's and the government's intent to press on with privatisation in the hope that loosening the state's grip might ease the way for the Regie to find a partner and so possibly become a world player (The Economist, Nov 27 1993).

5. Privatisation

The plans for Renault's privatisation were not announced until September 1994. Not surprisingly, because of Renault's symbolic role in French society, only a partial privatisation with a mere 28 per cent of the total shareholding being offered for sale. Additionally, the flotation was accompanied by a FFfr 2 billion capital increase for development purposes. The timing was good. Renault had declared a profit for the previous seven years and the European car market was expected to take off in 1995 and so investing in Renault looked an attractive proposition (Sage, A. 1994). The flotation came in the wake of an agreement with Volvo which had agreed to reduce its 20 per cent stake in Renault to 12 per cent immediately with the option of selling a further 4 per cent when the shares were ultimately issued. This, of course, was part of the unravelling of the extremely complex system of cross-shareholding between the two companies following the cancellation of their proposed merger. There was some opposition to the privatisation from the Communist led trade union, La Confédération Générale du Travail (CGT), but this was diffused quickly when Prime Minister Balladur insisted that the company would remain in French hands and that the government would not drop its shareholding below 50 per cent, which is thought, however, to have scared off some international investors (Ridding, J and Brown-Humes, C, 1994). In the event, the issue to institutional shareholders such as Elf Aquitaine, Banque National de Paris and the media company, Groupe Lagardère, was 15.5 times oversubscribed and the public issue 1.4 times oversubscribed as more than a million applications were received (Christie and Milner 1994). Following the flotation Schwietzer was buoyant about Renault's future and looked forward to a bright future.

From the middle 1990s it was clear that globally the automotive industry was changing. Consolidation was progressing, competition intensifying and that any firm without a global configuration would struggle to survive (Donnelly and Morris, 2001b). As a result, Renault found it was being squeezed as it struggled to maintain its position and this led ultimately to the decision to expand overseas beyond Europe and to compete even more vigorously in defending its home market. Indeed, this proved a period of considerable change: new work practices were introduced, the Technocentre was opened and Renault expanded into Romania, Brazil, South Korea, Russia and Japan.

6. Renault: the second turnaround

Schweitzer's buoyancy following privatisation was short lived because within two years Renault announced its first losses in nine years and had to face another turnaround to enable the company to survive, though admittedly the problems were not as serious as those in the previous decade. Profitability was regained quickly with record profits being declared in 1998 after which profits tended to stabilise (Renault, Annual Accounts 1996-2000).

The 1996 losses of FFr 5,356 billion were due to a number of reasons. More than 50 per cent of the losses were accounted for sums set aside to cover the cost of closing the Vilvoorde plant in Belgium and for future lay-offs in France. The demise of Vilvoorde was contentious to say the least and was part of Renault's rationalisation plan as it tried to cut its costs. The plant was considered efficient, but overall was too small to render the economies of scale Renault sought. Nevertheless, the loss of just over 3,000 Belgian jobs evoked the charge that Renault was prepared to sacrifice Belgian jobs to preserve French ones (Webster and Wolf, 1997; Crumley, 1997).

Renault's European market share had fallen to 9.7 per cent in 1996. A major reason for that was the intense competition from domestic and foreign rival concerns, especially in the small car segment which was highly attractive to women buyers. In 1986, foreign car makers had only 37 per cent of the French market, but by 1996 had raised this to 44 per cent, a process facilitated by the advent of the Single European Market. VW had revamped its model line up and fierce competition was felt from Fiat with its Polish and Italian built models with the latter in particular benefiting from a weak lira. Similarly, both Ford and GM took advantage of the weak peseta to penetrate the French market from their Spanish bases. Renault's position was not helped by that fact that its labour costs were swollen due to overmanning. For instance, it employed 16 per cent more people than Peugeot, a similar sized firm. To offset this Renault was forced to slash its prices or else load its products with 'extras' to maintain its market position and keep the factories running. Renault was losing FFr1,000 on every car produced. This situation was not helped by the fact that unlike VW Renault did not have a platform strategy and so suffered from poor economies of scale which had a further adverse impact on costs. Moreover, despite its activities in emerging markets, Renault was weak compared to Volkswagen and Fiat and suffered from having 85 per cent of its output sold in Northern Europe. In other words, Renault's market was too narrowly focussed. A further problem lay in the fact that Renault's model line-up was ageing. Its only recent new product was the Megane which had been launched in 1995, while the Twingos and Clios faced strong competition from not only imports but from Peugeot-Citroen's more recently launched products, the Saxo and the 106. Apart from the age of its products there were serious deficiencies in Renault's entire product range. For instance, it lacked a 4x4 all terrain vehicle, it did not have a small car coupe such as the Opel Tigra nor even a 'fun' car such as the Toyota Rav 4. Renault was clearly in need of a second turnaround (Barberi, 1992; Javetski B and Woodruff, D,1997). Finally, to aid French car makers Prime Minister Balludur granted subsidies, known as 'Balldurettes' to new car buyers to help keep the market moving,

particularly in the case of small models in which the French manufacturers specialised, but this was less than a satisfactory solution to the deeper problems that ailed French car makers.

Louis Schweitzer was acutely aware of Renault's problems and charged his recently recruited deputy, Carlos Ghosn, with turning the firm round. Within two years Renault had recovered with record profits of FF8.8 billion (€1.49 billion), an increase of 63 per cent over the previous year and enjoyed a European market share of 11 per cent for passenger cars and light commercial vehicles where it remained until 2002 (*Les Echos*, 2 March 1999; Renault, Annual Accounts 1997-2002). How then was this effected?

The task facing Schweitzer and Ghosn evolved round a number of issues. Production costs had to be reduced, productivity raised and economies of scale achieved, but even these would have been to no avail without changes in work organisation and processes as well as new model development. The initial step taken was to embark on a three year (1998-2000) programme of cost reductions to save FF20 billion. At first this meant decontenting vehicles by taking a centime by centime approach, such as reducing the quality of carpeting in the Laguna 2, for example, to save a total of FF 3000 per vehicle. Additionally, the work force was reduced in 1997 by 2,400 with the intention of further reductions of 3,000 per annum for the foreseeable future as part of the attack on overmaning (Toy and Woodruff, 1996).

The initial three year cost reduction programme was renewed for a further three years in 2000 with the intention of gaining a further €3 billion (FFr 20 billion) in savings. Of the total intended savings between 2000 and 2003, purchasing was targeted for 51 per cent and these were intended to accrue from closer partnerships with suppliers as well as from economies of scale thanks to the alliance with Nissan and the development of business-to-business activities through, for example, membership of Covisint. On the distribution side cost reductions were effected by enhancing network competitiveness through rationalising the number of main dealerships, but not of total outlets through what has been called the New Distribution System. Further savings emanated from economies in advertising and logistics. In production costs savings of more than 40 per cent were achieved between 1997 and 2002 through the streamlining of plant and equipment and the inauguration of a third shift. The ongoing target is to reduce assembly time per vehicle to an overall average of 12 hours, representing a productivity gain of more than 20 per cent between 2000 and 2003 with much of this being aided by assistance from Nissan. Other savings achieved came from shortening development times, the increased use of local content in the Mercosur with the rest coming from reductions in warranty costs, computer costs and administrative expenses (Renault; Annual Accounts 2001-2002).

These were, however, typical short-term measures. Much more important in the medium term was the increasing standardisation of parts and reductions in manufacturing time. For instance, the time taken to construct a Megane was only 16 hours compared to 20 for the outgoing R19. Vehicle development times were similarly cut back with that for the Safrane reduced to 36 months. Additionally, manufacturing facilities were increasingly rationalised. The general principle was to assign a single vehicle segment to each plant. For example, in 2000 the Laguna 2 was launched at the Sandouville facility which will eventually become the main manufacturing plant for the entire high end product range including the Vel Satis.

Alongside this is the creation of supplier parks to feed individual plants as has happened at Sandouville. However, it is only the large Tier 1 and Tier 0.5 firms who can afford to follow the manufacturers and take up residence on supplier parks. In the case of Sandouville, these include Antolin, Faurecia, Inoplast, Lear, Solvay and Sommer Alibert. This type of arrangement is beneficial in terms of costs and quality mainly due to the fact that, as suppliers are located close to the plant, a just-in-time and in-sequence supply system can be operated, product diversity can be managed close to the assembly line itself and continuity of supplies can be safeguarded (Renault Annual Report, 2000).

Running parallel to improvement in cost performance was the introduction of new models with eventually six emanating through the Megane/Scenic range and the new Clio in 1998. The Megane proved an extremely successful car and in some ways went a long way to restoring Renault's fortunes by becoming the best selling car in Europe (*Les Echos*, 2 March 1998). In total annual production of the Megane/Scenic family topped 600,000 units a year which gave the company the necessary economies of scale it had long been seeking as well as the beginnings of a platform strategy which is being developed through increasing modularisation of key components such as engines and transmissions in cooperation with Nissan (Edmondson and Miller, 1998). Finally, Renault had been faulted for paying insufficient attention to engine development in the 1980s and it was not until the early 1990s that the pace of engine development accelerated to meet the demands of changing markets and consumer tastes. However, this did not bear fruit until the middle 1990s and beyond when the new engines such as the V6, which was developed in partnership with Peugeot, were installed in models such as the Laguna and Megane ranges (*Les Echos*, 20 February 1996).

7. Organisational Change

It has been argued that one of Renault's problems was that it was late in adopting lean production and that would have been difficult to effect this without organisational change. Eventually, this difficulty was addressed in particular through the development of the Technocentre, the introduction of the Renault Production Way (RPW) and reformed methods of working (Edmondson and Miller, 1998).

The concept of the Technocentre dates back to 1988 when the project was first mooted within the company. The idea behind it was "to design better, faster and at less cost" (Renault Press Release, May 1998), but it took a decade before the centre was operational. Operating on a cross functional basis, it brings together vehicle design and development specialists at a single location, making it feasible to conduct four or five projects simultaneously. The Centre's essential function is to keep Renault at the leading edge of technological development as cars become increasingly complex and product life cycles shorter. For instance, between 1945 and 1965 Renault launched eight passenger cars, 17 between 1965 and 1985, and 14 between 1985 and 1997. This ever faster renewal of model ranges imposes a need for shorter development times. This necessitates more cross functional relationships and an increasing resort to simultaneous product and process engineering. Renault's objective is to reduce

development times to 36 months by the year 2000 and, thereafter, to 24 months. Above all there was (and still is) a need to match the best practice of the Japanese and effect a saving of FFr 1 billion per new vehicle development. The Centre itself employs 8,500 people, but a unique feature is that nearly 2,000 come from outside suppliers and they work alongside their Renault counterparts in design and product development. This in itself is indicative how the company is not only increasingly outsourcing but is trying to work closer with equipment manufacturers and suppliers.

As part of modernising its work practices and human resource management, Renault in 1998 introduced what was known as the Renault Production Way (RPW) which followed on from earlier attempts to introduce aspects of Japanese management concepts involving teamwork and delegating responsibility to the shop floor but the actual roll out of the programme was not effective until 2001. The difference this time is that the RPW was to be implemented world-wide and not just in Europe. At the heart of this was the drawing up of clear targets, principles and rules to unite all involved in the production process – buyers, suppliers, logisticians, product engineers, process engineers and manufacturing personnel - in a common purpose: the achievement of world class performance under two broad initiatives:

- sustained acceleration of progress in Renault's industrial system, concentrating on quality, costs, delivery times and human resources;
- sustained support for Renault's profitable growth policy through knowledge building and transfer of methods, organisations, tools and training.

Development of the system got under way in 1998 with the formation of the Industrial System Performance Department (ISPD), which was boosted the following year with an input from Nissan on whose experience Renault was able to draw. Crucial to the success of this is improvements in work station performance or grassroots management practice in the standardisation of workstation operations, problem identification/solving, improvement techniques, knowledge building and subsequent dissemination. So important is this initiative considered that approximately 150 instructors are implementing the RPW through a world-wide network. At the time of writing it is still too early to evaluate the success or failure of the RPW and all one can say is that it appears to be a step in the right direction (Renault Press Release January 23, 2003). Finally, as part of its revised approach to labour organisation the company was able to strike a deal with the unions in 2000 to introduce flexible shift work including Saturday work to allow for two/three shifts as well as a weekend shift. Finally, the agreement includes a 'bank system' to allow for variations in demand similar to that operated by BMW at Regensburg. By implementing such a policy, Renault has enhanced the flexibility and demand responsiveness of the labour force both in France and in all group subsidiaries.

On the surface Renault appeared to have got over the problems it faced in the middle 1990s, but by 2001 doubts were again being cast on the company's health. Much of this centred around its falling market share in France which had slipped from 28.4 per cent to 26.6 per cent, the age of its model 1 range and the delays in launching new models such as the Avantime. Beginning with the model range, Chabert (2001) argued that in a highly competitive market Renault was again lagging compared to other car makers such as Peugeot-

Citroen. The Twingo was eight years old, the Megane six and the Scenic five, the latter in particular coming under heavy competition from the Citroen Picasso and the Opel Zafira, with the Megane being pressed hard by the Peugeot 307. In addition, Renault appeared to almost ignore the increasing trend towards diesel engines at a time when these accounted for 40 per cent of all vehicles sold in Europe.

Matters were made worse by the lateness of bringing the Avantime to market. This extremely advanced and daringly styled vehicle, which brought with it a new Renault slogan, 'createur d'automobiles,' was seen as Renault's attempt to challenge the domination of BMW and Mercedes in the luxury market. (Chabert, 2001) In the event the car was a year late in its launch and at no time did it reach its intended sales target of 80 cars a day, averaging only between 15-30. Indeed, over the 17 months between 2001 and 2003 only around 5,000 models were sold. The outcome was that car was a commercial failure – perhaps because its design was too advanced – and was withdrawn from the market (*Les Echos* 28 Feb 2003). The Avantime's fate was to a degree sealed by its lateness. Potential customers were disappointed and simply bought alternatives rather than wait and this did not do much good for the car's reputation even before it hit the market (Chabert, 2001). Finally, following close on the heels of the Avantime was a second car, the Vel Satis. Targetted at the upper echelons of the market, it, too, disappointed initially with sales being less than hoped for. The end result was that by 2002-2003, Renault's position in Europe was faltering and had it not been for Nissan's taking an 11 per cent shareholding in Renault and its own early return to profitability Renault's financial position might well have deteriorated again.

8. Conclusion

The history of Renault from the middle 1980s until the turn of the century is complex and fraught with difficulties. Nevertheless several conclusions can be drawn. Firstly, it represents the problems involved in effecting a turnaround strategy in the mid 1980s and 1990s and of the need to design and implement stringent policies on rationalisation of the work force, facilities, markets and achieve the basic requirement of financial stability. Secondly, the role of new model development proved essential not only to reinvigorate market position at repeated intervals, but also the brand image of the company itself, despite the disaster of the Avantime. Thirdly, there is evidence of the importance of continuity in senior management and of policy from the days of Raymond Lévy right through to the Schweitzer years which provided a necessary stability. Fourthly, the case indicates the need to invest in modern technology and research centres as well demonstrating the importance of involving supplier partners at the very heart of technical developments. Fifthly, there remains the problem of merger failure when one partner is evidently stronger than the other, especially if the stronger partner is firmly under state control, which in this instance shows how what looked a sensible merger was scuppered for political and nationally motivated reasons by the shareholders in the smaller concern.

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