

## The 2009 Chrysler-Fiat Strategic Alliance

Chrysler LLC witnessed difficulty in establishing its financial stability in the spring of 2007. In which, Daimler completely traded its 80 percent ownership to Cerberus Capital Management LP. Daimler was shortchanged in the stake tradeoff. Unfortunately, Daimler loss \$29 billion of its previously made investment to acquire Chrysler. However, Cerberus' repurchase deal was seemingly foolish. The miscalculation of the profitability in the automobile industry caused Cerberus great frustration. No tangible benefits were available to the company because of its role in the global financial crisis in 2008-09.

Cost problems, high oil prices, and the recession aided Chrysler's ruin. Soon after, Chrysler partnered with Fabbrica Italiana Automobili Torino or FIAT SPA (henceforth FIAT). The alliance with FIAT looked more stable regarding the companies' global operations, corporate compatibility, and long-term synergies. FIAT as well as, other European automobile makers saw Chrysler as a great market asset and opportunity. Undervalued stocks were sold under distress from the financial crisis of 2008-09.

After the formation of Chrysler and FIAT's strategic alliance, new ownership restructuring plans were enforced for Chrysler. Also, FIAT made alterations to fit Italian labor laws, change negative perceptions, and solve market share problems. During World War II, FIAT manufactured military equipment and vehicles for the government. Subsequent to the death of its founder, FIAT was the largest automobile firm in Italy. But, Chrysler was lower on the "food chain" after the introduction of Japanese companies

in North America. FIAT's cruelty of workers caused massive strikes and labor disruptions. General Motors (GM) acquired 20 percent of FIAT. However, the affiliation was short lived. Since, Chrysler and FIAT adjusted its structure, leadership, cost, target market, strategies to remain a relevant in the automobile industry. Each partner continues to have high expectations in the future.

#### Case Questions

**1.) What are your views of the 2009 Chrysler-Fiat strategic alliance and its future prospects in the auto industry?**

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.

**2.) Analyze and evaluate Chrysler and Fiat's strengths and weaknesses before and after their 2009 strategic alliance (see Tables II and III).**

Fiat is strong in small cars and in their engines and transmissions, as well as in luxury cars and diesel engines. Getting the technology could be a huge help for Chrysler, but the American company will still need the money and ability to create new cars even with Fiat technology. The alliance might help Chrysler if it needs to get more money from the American government in its battle to survive. Fiat needs a manufacturing base if it intends to reenter the American market. It makes no sense to import small or low-priced cars, or even mid-level cars from Europe, as the strong European currency makes that a

money-losing proposition. If Fiat could manufacture in the U.S., it could build some variations of its cars for Chrysler. How this would fit with the cars scheduled to come from Nissan is another question. The problem is that it could take years for Fiat to pass on technology and build engines and transmissions for new Chrysler products, or even to build Fiats here and badge them as Chryslers.

Chrysler and Fiat’s strengths and weaknesses before and after their 2009 strategic alliance (see tables II and III).

	Chrysler		Fiats	
	Strengths	Weaknesses	Strengths	Weaknesses
Before 2009	<ul style="list-style-type: none"> <li>➤ Established brand in North America; sells sub-contract vehicles and utility trucks.</li> <li>➤ Established distribution and sales network in North America.</li> <li>➤ Major manufacturer of utility trucks.</li> <li>➤ Jeep brand and minivans re popular in North America.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The de-merger of DaimlerChrysler has created problems for the company.</li> <li>➤ Viable synergy is limited because of quality issues.</li> <li>➤ Chrysler has limited models in sub-compact cars; did not receive good quality ratings.</li> <li>➤ In 2008-2009, Chrysler’s global strategy stalled because of losses.</li> <li>➤ Alliances with Mitsubishi and Hyundai were unproductive.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Fiat has made tremendous recovery under the leadership of Sergio Marchionne.</li> <li>➤ Fiat has been reinvigorated in Europe</li> <li>➤ One of the most visible brands in small cars in Europe.</li> <li>➤ Many new small car models have been introduced by Fiat.</li> <li>➤ Quality has improved; turnaround strategy is in progress.</li> <li>➤ Fiat alliances with other auto companies have paid-off.</li> <li>➤ Fiat’s corporate culture and</li> </ul>	<ul style="list-style-type: none"> <li>➤ In global markets, Fiats still lacks marketing charisma to compete with other auto manufacturers.</li> <li>➤ The company has a limited product portfolio in global markets.</li> </ul>

			business practices have improved under the new management.	
After 2009	<ul style="list-style-type: none"> <li>➤ The company is on the road to recovery after its bankruptcy in June 2009 by launching new models with Fiat's technology platforms and R&amp;D resources.</li> <li>➤ Since June 2009, Sergio Marchionne became the CEO of Chrysler and he implemented various short-term and long-term plans.</li> <li>➤ Chrysler is also expected to be a totally different auto company with its new plans and global strategy.</li> </ul>	<ul style="list-style-type: none"> <li>➤ In late September 2009, idled some of its manufacturing facilities and a big chunk of sales by closing dealerships.</li> <li>➤ Chrysler previously suffered from its leadership vacuum.</li> <li>➤ Chrysler's financial problem has weakened its corporate structure, Marchionne's aggressive leadership style, and his ambitious agenda.</li> </ul>	<ul style="list-style-type: none"> <li>➤ After 2009, Fiat took ownership of Chrysler that emerged from its bankruptcy.</li> <li>➤ If all goes well in the Chrysler-Fiat strategic alliance, Fiat may own 35 percent of Chrysler by 2013 and possibly acquire 51 percent of the company.</li> <li>➤ In the next four years, if Chrysler and Fiat achieve their alliances objectives by cutting cost, technology sharing, global integration, product rationalization, and R&amp;D, the tie-up would be a major achievement.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Chrysler and Fiat need a stronger global presence, efficient technology platforms, and brand name.</li> <li>➤ Both companies brand portfolios can be reinvigorated in the alliance structure.</li> </ul>

**2.) 3. Compare and contrast Chrysler and Fiat with five other global auto manufacturers (GM, Ford, Toyota, Volkswagen, and Daimler) in the areas of global operations and manufacturing issues (see Tables II and III).**

When talking about GM, Ford, Toyota, Volkswagen, and Daimler, Chrysler-Fiat can compete with all of the 5 car manufacturers mentioned; however, it could take years for

Fiat to pass on technology and build engines and transmissions for new Chrysler products, or even to build Fiats here and badge them as Chryslers.

**4. Analyze Chrysler and Fiat's brand portfolios in the world auto industry. How do you see both companies revamping and overhauling their brands in the short and long terms?**

Chrysler's strength has been in sport utility vehicles, pickup trucks and minivans. We do not know Fiat's degree of interest in these businesses. Meanwhile, another foreign maker, Nissan (which is part of the Renault/Nissan alliance) has an agreement with Chrysler whereby Nissan is to get a version of the Dodge Ram, a big pickup, and Nissan is to build small cars destined for Chrysler.

**5. What did you learn from the Chrysler-Fiat Strategic Alliance regarding managing multinationals in the changing global business? What role did the U.S. government play in the formation of this alliance?**

A Chrysler/Fiat partnership is a great fit as it creates the potential for a powerful, new global competitor, offering Chrysler a number of strategic benefits, including access to products that complement their current portfolio; a distribution network outside North America; and cost savings in design, engineering, manufacturing, purchasing and sales and marketing. This transaction will enable Chrysler to offer a broader competitive line-up of vehicles their dealers and customers that meet emissions and fuel efficiency standards, while adhering to conditions of the Government Loan. The partnership would also provide a return on investment for the American taxpayer by securing the long-term viability of Chrysler brands in the marketplace, sustaining future product and technology

development for our country and building renewed consumer confidence, while preserving American jobs.

**6. What has happened to the company since this case was written as the alliance was being formed?**

Give an update as of the time of your reading this case. Chrysler's sales are falling faster than the other Detroit manufacturers. Its December sales were off 53% from a year before, but the company still had 10% of the U.S. market that month. Chrysler is suffering because of its past emphasis on trucks, its weak front-drive car entries and perhaps because of a weak reputation for quality. All the negative news of the past several months may have scared away potential customers, too. Right now, Fiat sells Ferrari and Maserati cars in the U.S., but in tiny numbers. Last year's Maserati sale number was only 2,509, and there are plans to sell a few dozen very expensive Alfa models here in the near future.

A few years ago, Fiat had a partnership with General Motors. GM had bought 20% of the Fiat auto business, but then paid Fiat \$2 billion to get out of the deal. That \$2 billion helped jump-start Fiat's recovery. Fiat is not a global competitor like Volkswagen. It is strong in Italy, of course, and is the leading seller there, and it is also the leader in Brazil. Fiat's European sales were down only 5% after 11 months last year, while the industry was down 7%, but its November sales crashed 24%. Others dropped sharply too, too, but Fiat's CEO seemed particularly worried. Yet Chrysler, which is weak outside North America, does not seem to gain any global trading advantages in the alliance. The Chrysler-Fiat deal might--just might--stir interest in Chrysler from Nissan, which still needs those pickup trucks from Chrysler, and maybe minivans, too.

