

# An Analysis of Strategic Alliance: Evidence from Renault Nissan Group and Daimler AG

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## ABSTRACT

Renault Nissan Group and Daimler formed a strategic alliance in April 2010, which had become the third largest automobile group in the world. They announced joint effort in research and development and production of small cars, engines and trucks. But then the CEO of Daimler Zetsche retired in 2019. After Kang LinSong came to power, he said he would not update the cooperation projects. Renault and Nissan also sold Daimler shares in 2021. Through research, we can draw the following reasons for the failure of the alliance: fail to obtain the expected return leads to the failure of the strategic alliance, changes in the management of both sides of the strategic alliance and changes of strategic objectives among alliance enterprises. Furthermore, we can learn that through selecting of the companies carefully, realizing the resource complementarity of alliance enterprises, learning from each other in the alliance, selecting the appropriate alliance structure can we avoid failure to some extent.

**Keywords:** Renault Nissan Group and Daimler, alliance

## 1. INTRODUCTION

In April 2010, Renault Nissan Alliance joined hands with Daimler group to establish a strategic partnership and become the third largest automobile group in the world. The two groups will share experience in order to quickly maximize the benefits of cooperation, and will conduct extensive strategic cooperation on a series of substantive projects. But after that, the strategic alliance between the two companies gradually went downhill. Renault Nissan Group and Daimler sold each other's shares one after another, which represented the collapse of the strategic alliance. This paper aims to summarize the reasons for the failure of the strategic alliance, and it will figure out how to avoid the failure to some extent.

## 2. BACKGROUND INFORMATION OF THE TWO COMPANIES

The origin and research of strategic alliance can be traced back to the 1980s, it refers to the group established by two or more independent countries or nations in order to defend each other through formal agreements (treaties or contracts) [1]. Enterprise alliance refers to the formation of alliances between enterprises and individuals under the consideration of strategic

objectives, independent exchange of complementary resources, each reaching the phased objectives of target products, and finally obtaining long-term market competitive advantage and forming a continuous and formal relationship. Before the alliance, the industry demand of the automobile industry had changed. In the economic recovery plan issued by the EU in 2008, it was mentioned that efficient and energy-saving green vehicles will be one of the development priorities. The European Parliament adopted the master plan of carbon emission regulations represented by cars in the same year, which will be controlled from 140 g / km in 2008 to 130 g / km in 2012 and reduced to 95 g / km in 2020. Small cars and energy-saving and environmental protection technology have become the focus of automobile manufacturers' development, but the huge investment in the early stage is also easy to make automobile manufacturers retreat. Automobile enterprises tend to seek alliances in order to reduce the cost of research and development.

### 2.1 Renault Automobile Company

Renault automobile company is the oldest automobile company in the world and one of the top ten automobile companies in the world. Renault has powerful industrial

equipment that can produce special, practical and industrial vehicles. It has 54 parts manufacturers or assembly plants all over the world, including 28 in France, 9 in Europe (except France) and 17 outside Europe [2]. In the first World War, guns, aircraft, ammunition, and light tanks were produced. After the war, traditional production activities were resumed, new fields and departments were constantly opened up. The contacts with other industrial companies were also strengthened. At that time, it became one of the largest industrial enterprises in France.

## **2.2 Nissan**

Nissan is a Japanese multinational carmaker which is listed on the Tokyo Stock Exchange. After the 1950s, Nissan gradually took the export business as the pillar of enterprise development. In terms of market development, Nissan is mainly aimed at developed countries. It entered the American market in the late 1950s and the European market in the early 1960s. Since the 1990s, Nissan has started local production in China, and Zhengzhou Nissan and Dongfeng Nissan Automobile Co., Ltd. have been established successively.

## **2.3 Renault Nissan Group**

On May 28, 1999, Renault acquired 36.8% equity of Nissan Motor for us \$5.4 billion at the price of 400 yen per share, became the major shareholder of the company and established the Renault Nissan Alliance. In fact, in the late 1990s, many giants in the automotive industry began to consider bidding for Nissan. However, the huge losses, huge debts and various disadvantages of large enterprises that are almost regarded as hard to return caused Ford, Daimler Chrysler and other companies to withdraw from the bidding one after another. Renault picked up a hot potato, which was seen by others as a huge adventure. Therefore, few people were optimistic about the deal. After the alliance, Nissan not only successfully turned losses into profits, but also realized significant synergy, improved the profitability of both sides, further opened up new markets, consolidated the old markets and formed a win-win situation with the strict integration plan and accurate implementation ability of both sides.

## **2.4 Daimler AG**

Daimler AG is the world's largest manufacturer of commercial vehicles, the world's largest manufacturer of luxury cars and the second largest manufacturer of trucks. Daimler company is the oldest manufacturer in the world and a manufacturer with consistent business style. Since 1926, the company has not pursued the expansion of automobile production, but only the production of high-quality and high-performance high-level automobile products. The group's three major brands - Renault,

Dacia and Renault Samsung, sell well in 118 countries and regions around the world.

## **3. THE DURATION AND THE END OF THE ALLIANCE**

On April 7, 2010, Renault Nissan Alliance officially formed an alliance with Daimler group, stating that it would carry out extensive strategic cooperation on a series of substantive projects in the future, and the two groups will share experience in order to quickly maximize the benefits of cooperation [3]. The three companies will make a one-time contribution to realize cross shareholding, and will carry out extensive cooperation in the development of passenger cars and small commercial vehicles. Nissan's statement shows that as part of the deal, Daimler will hold 3.1% shares of Renault and Nissan respectively, while Nissan Renault will hold 1.55% shares of Daimler respectively [4]. Nissan Renault and Daimler, an alliance formed by the three major automakers of Japan, France and Germany, will become the third largest automobile group in the world after Volkswagen Suzuki alliance and Toyota. In my opinion, this alliance process is a process of getting what they need. Nissan's Infiniti has the potential to cooperate with Daimler's Mercedes Benz. In the luxury car market, Lexus Toyota, Infiniti Nissan, Audi Volkswagen and Acura Honda share the cost with each other. For Infiniti under Nissan, Renault Nissan is not enough to share the cost in large displacement models, and Infiniti's own sales volume is relatively small. Therefore, Mercedes Benz and Infiniti have the potential for cooperation.

On the other hand, in the small car market in the future, Daimler has the demand to cooperate with Renault Nissan. In the small car market, Daimler doesn't have much experience and sufficient sales to support the development and procurement costs, while Renault and Nissan have sales advantages in the field of small cars, which makes it possible for Mercedes Benz's smart brand to cooperate with Renault Nissan. Finally, the three companies reached an alliance of independent operation, small shareholding and cooperation in local fields, with cross shareholding of Renault Nissan and German Daimler group. Daimler is in power by Zetsche, while Renault Nissan is led by Ghosn. They decided to establish a tripartite cooperation alliance to carry out a series of cooperation projects such as equity trading, sharing platform technology and jointly developing energy-saving vehicles. The two sides expressed their cooperation on the new generation of smart fortwo models and Renault Twingo models, as well as the electric versions of these two models, and will enrich these two models. Cooperation in the field of powertrain will focus on high fuel economy diesel and gasoline engines of Renault Nissan and Daimler group. Both sides will improve the capacity utilization of their engines. One

of the main purposes of the cooperation between the two sides is to expand the economies of scale and share the research and development cost level to enhance their competitiveness by significantly increasing sales. Infiniti, a high-end brand of Renault Nissan, and Mercedes Benz brand of Daimler cooperate in the high-end car market. Renault Nissan brand and Smart, a brand of Mercedes Benz, cooperate in the mini car market. Renault Nissan commercial vehicle cooperates with Mercedes Benz commercial vehicle. The combined Daimler Renault Nissan alliance is expected to save billions of euros in costs. The joint development and research and development of model platforms, including the sharing of powertrain technology, will reduce costs.

At the beginning of the alliance, the cooperation between Renault Nissan and Daimler was mainly focused on the European market. In 2014, the cooperation under the alliance was further deepened, from 3 projects to 12 projects, involving vehicle models, engines, transmissions and fuel cell technology [5]; The cooperation market has also expanded from Europe to the world. In addition, the two sides established a joint venture factory in Aguascalientes, Mexico in 2015, and the factory began to produce Infiniti and Mercedes Benz A-class cars in 2017; which is also in 2017, the Mercedes Benz x-class pickup built by Daimler based on Nissan Navara was also launched in Europe, Australia and South Africa, entering the medium-sized pickup market.

However, the momentum stopped suddenly in 2016, after that the three parties had not announced any new cooperation projects since then. From then on to 2018, Carlos Ghosn, the former head of Renault Nissan Alliance, was arrested, and Dieter Zetsche retired from Daimler in 2019. The three parties failed to make substantive progress in cooperation on passenger cars, commercial vehicles, pickup trucks and engines. The market performance of Mercedes Benz GLA, Infiniti, Infiniti qx30, 1.3t engine and other models introduced to the market did not meet the ideal expectations. In addition, in recent years, the joint opening plan of small cars and pickup trucks of both sides has been cancelled or shelved, which makes the cooperative relationship gradually narrow. In March 2021, Renault sold Daimler's shares, and then Nissan sold Daimler's shares in May. Daimler announced the sale of all Renault's shares in November, the alliance eventually ends with failure.

#### **4. THE REASON WHY THEY FAIL**

It seems that the alliance could have a bright future, then why did it fail at last? As an institutional innovation of enterprise organizational relationship, strategic alliance has become an important means for modern enterprises to strengthen their competitive advantage. Strategic alliance can realize the win-win mode of "cooperation in competition and competition in cooperation", and has the characteristics of strategic

cooperation behavior, equality of mutual exchanges, long-term cooperative relationship, openness of organizational form, complementarity of overall interests and so on. Although the strategic alliance may create a win-win opportunity for all partners, its failure rate has been high. Many scholars have studied strategic alliances and found that the failure rate of alliances is between 50% and 60%. Therefore, while we are optimistic about the benefits brought by the success of strategic alliance, it is necessary to calmly think about the reasons for the failure of strategic alliance and take appropriate measures to avoid the failure of strategic alliance [6].

According to relevant data, the average life cycle of enterprise strategic alliance is about 7 years. Many alliance enterprises have encountered various setbacks in their operation, resulting in many failed enterprise alliance cases. The organizational structure and relations of the alliance are unstable in nature. These instabilities are likely to be the main reasons for the failure of the alliance, which are embodied in the following aspects:

#### ***4.1 Fail to Obtain the Expected Return Leads To the Failure of the Strategic Alliance***

The fundamental purpose of enterprise operation is to maximize the profit of the enterprise and ensure the return on investment of shareholders; The purpose of the alliance is to learn from others, make up for their own shortcomings and give play to synergy [7]. In fact, Renault Nissan and Daimler have formed an alliance for 10 years, but few really benefit from their technology sharing. In addition to Smart and Renault Twingo, Daimler and Renault Nissan are most familiar with the technology sharing of Mercedes Benz and Infiniti. In this process, Mercedes Benz's reputation did not bring much support to Infiniti, and Infiniti only regarded it as a transition. What's more, the compact cars Mercedes Benz GLA and Infiniti qx30 launched for the North American market are also acclimatized in the United States. The matching engine factory in Mexico is also affected, the output has shrunk seriously, and the market performance of Smart has always failed to meet Daimler's expectations. Similar shelved projects are not rare.

#### ***4.2 Changes in the Management of Both Sides of the Strategic Alliance***

The implementation of alliance increases the difficulty of organizational management, which makes the alliance management seriously constrained by the lag of management [8]. Both sides have made major changes in personnel: Ghosn, the founder of the Renault Nissan Alliance, is still awaiting trial in a Tokyo prison. Daimler CEO Zetsche will officially retire in May. After Kang LinSong came to power, he said he would not update the cooperation projects. Both sides have new partners and

development directions. Due to the impact of the epidemic, Renault and Nissan suffered serious losses and sold Daimler shares one after another.

### ***4.3 Changes of Strategic Objectives among Alliance Enterprises***

The fundamental reason for the failure is that the Alliance Foundation has not adapted to the industrial reform characterized by intelligent electric vehicles. The earlier combination may not keep up with the pace of industrial reform. With the acceleration of the transformation and upgrading of the automobile industry to the "new three modernizations", whether Nissan, Renault or Daimler, they are more inclined to devote more energy and resources to the development of pure electric vehicles. However, the previous cooperation between the three parties did not focus on this field, and the results of the cooperation between the two sides are mainly displayed in the form of traditional power models.

## **5. COUNTERMEASURES AGAINST ALLIANCE FAILURE**

Under the background of global economic integration and rapid scientific and technological progress, the establishment of enterprise strategic alliance has become an important means and way for enterprises to improve their competitiveness. In the past ten years, scholars have conducted extensive and in-depth research on the alliance between enterprises. Although the importance of strategic alliance has been generally recognized and widely used in theoretical and industrial circles, the success rate of enterprise alliance in real economic activities is not ideal [9]. However, through the research, it is found that there are not no countermeasures to deal with the failure of the alliance.

There are many reasons for the failure of enterprise alliance, among which the most common reasons are often the lack of trust and cooperation between members, the lack of careful selection of partners, or the collapse of the alliance caused by the speculation of alliance members. In addition, the insufficient attention of enterprise management to the alliance is also a very important reason. Through research, I believe that in order to achieve the success of the alliance, enterprises should pay attention to the following points

### ***5.1 Select the Alliance Partners Carefully***

When choosing alliance partners, enterprises should clearly know what capabilities they need to obtain, and evaluate whether partners have such capabilities and whether they are willing to share relevant capabilities. Because the relationship between the parties of the strategic alliance is very scattered, there is a dual mechanism of market and administration inside it, unlike

the management mainly by administrative means in merger and acquisition. therefore, whether the partners can cooperate sincerely has a decisive impact on the success or failure of the strategic alliance. When establishing the strategic alliance, we must choose a partner with real cooperation sincerity.<sup>[8]</sup>The strength gap of enterprises should also be taken into account. There is no doubt that the alliance between the strong and the strong is easier to succeed than that between the weak. However, in order to control the alliance, some powerful enterprises prefer to choose weaker enterprises for alliance. And weak enterprises are also willing to find powerful enterprises to alliance in order to relieve their current difficulties [10]. But according to McKinsey's analysis, the result of these kind of alliances is not good, its success rate is only one-third, because the weak will become an obstacle for alliance companies to improve their competitiveness. Therefore, it is particularly important for the alliance to choose enterprises with equal strength.

### ***5.2 Realize the Resource Complementarity of Alliance Enterprises***

Because some valuable strategic resources are scarce, incomplete liquidity and irreplaceable, an important purpose of enterprise strategic alliance is to obtain strategic resources that enterprises do not have from strategic partners, or strengthen their own strategic resources through resource integration among enterprises. For example, strong research and development capabilities are combined with mature processes, and innovative products are combined with reliable distribution capabilities. If the resources between alliance partners are lack of complementarity, the enterprise strategic alliance will lose the foundation of existence [11].

### ***5.3 Learn From Each Other in the Alliance***

The competition among alliance partners is the competition between learning ability and learning efficiency. Companies in the alliance should always remember that the alliance partners may become their own competitors in the future. They should take learning from each other through the alliance as the primary task of the alliance, and turn each other's advantages into their own competitive advantages to the greatest extent.

### ***5.4 Select the Appropriate Alliance Structure***

Due to their different strategic interests and objectives, there are often some conflicts and frictions in the process of alliance, which requires an institutional arrangement to regulate the alliance partners. The organizational structure of alliance generally includes equal equity joint venture, small equity participation alliance, contract based equal alliance and contract based

unequal alliance. Alliance enterprises should choose the appropriate alliance structure according to their respective resource endowment characteristics and their combination mode, so as to fully mobilize the initiative and enthusiasm of alliance partners.

## 6. CONCLUSION

This paper introduces the process of The beginning, development and ending of the strategic alliance between Renault, Nissan and Daimler, and we can learn that the reason why the fail is that they failed to achieve their desired goal they set up originally. In addition, the changes in the management of both sides and the changes in the product demand of the market finally led to the failure of their strategic alliance. At the same time, we also get some methods to avoid the failure of strategic alliance, mainly including selecting of the companies carefully, realizing the resource complementarity of alliance enterprises. Learning from each other is important too, it enables you to make progress through the alliance and will not lose competitiveness after the end of the alliance. Meanwhile, selecting the appropriate alliance structure is also essential. In order to avoid and solve the failure of strategic alliance, I think there can be the following methods. First of all, we should make sufficient preparations before the alliance, first select the desired alliance objects, and then investigate their company size, operation mode and position in the industry among the selected alliance objects, carefully identify whether the company is the best match for ourselves, and estimate the benefits that the alliance with the company can bring. Personally, I think the further research should focus on how to deal with or recover the situation that the alliance is on the verge of failure, so as to provide solutions for more companies.

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