UWS UNIVERSITY OF THE WEST of SCOTLAND

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Strategic Management Report 2014/2015:

Renault Case Study

RENAULT

Contents

1. Introduction

In February 1899 Renault was created by The Renault brothers (Louis, Marcel and Fernand) assisted by two friends (Thomas Evert and Julian Wyer). At the end of World War II, the company was nationalized (largely caused by the alleged collaboration with the Nazi enemy). Renault is privatized again in the 1990s in order to revive its brand after the disastrous decade of 1980.

Renault used car racing to promote its products and diversify across many sectors. Its history has been marked by many social conflicts that today represent an act that will remain in the French social history.

The Renault group designs, develops, manufactures and sells private cars. It sells vehicles under three main brands: Renault, Renault Samsung, and Dacia.

Present in the world, Renault sells its vehicles in 118 countries and manufactures these ones in 18 countries, closer to its markets (especially in growth regions such as Russia, India and China). (Renault.com, 2014 a)

In 1999, the Renault group took a participation in the Japan automaker Nissan and gave birth to the Renault-Nissan Alliance. The Nissan group is owner 15% of Renault capital. Conversely, Renault group is also the first shareholder of Nissan group, with 44% of capital.

Should be noted that, within the group, Nissan is both the most efficient (4.9% of global market share, against 4.1% for Renault, Samsung and Dacia), the most productive and the most profitable. It is also presents through all global market, contrary to Renault (mainly in Europe).

With the most dynamic growth happening outside Europe, Renault's competitive edge hinges more than ever on close relations with local customers. (Renault.com, 2014 a)

This report will focus on four areas involved in strategic management; external environment, implementations strategies, the success of these strategies and performance measurement. After critical analysis each sections challenges and trends that have occurred over a period of not more than 10 years, recommendations will be made for future strategies. Academic theory is used throughout to answer questions to support knowledge.

2. History of Renault.

At the end of the 19th century, Louis Renault and his brothers (Marcel and Fernand) made a bright idea and an intelligent entrance into the new world (at the time, automotive was emerging) of the motor car. Due to motor racing and their A-type Voiturette, they launched an outstanding string of wins which allowed brothers to quickly make a name for themselves.

From 1905, the young factory received an order for 205 taxis and adopted mass production techniques. Few years after, the Renault factory was renamed to Louis Renault Automobile Company (due to his death) and embraced Taylorism. (Renault.com, History of Renault - History and Culture - About Renault, 2014 b)

During the First World War, Renault Brothers Company built “trucks, stretchers, ambulances, shells and even the famous FT17 tanks”. Nevertheless, despite their contribution to the final victory, Renault assessed the gap between European automobile manufactures and American factories. The United States, in particular with Ford had already “entered the consumer era”. The mass-production of inexpensive vehicles permitted to more people to buy cars and thus allow repercussions on the national economy: the path for Renault was still long.

During the economic crisis of 1929 and all negative repercussions that it generated, the firm tried to control costs in order to weather this scourge.

Nevertheless, over the Second World War, Louis Renault considered the conflict with Germany as a mistake and decided to join the German cause. Accordingly, the company was nationalized in 1945, becoming “the Régie Nationale des Usines Renault”. (Renault.com, History of Renault - History and Culture - About Renault, 2014 b)

In France, the post war led to the emergency of a fabled competition between Citroen and Renault. From 1945, the Renault brothers company implemented new production sites and modernized its plans. Between 1950 and 1975 Renault failed to conquer the American market. However, the international expansion of Renault was launched. (Renault.com, History of Renault - History and Culture - About Renault, 2014 b)

Their first large success came with the 4CV; the little 'everyman's vehicle' especially discreet and inexpensive. According to Renault, “small cars were the best way to revive the country's automotive industry”. Its mass production which began just after its launch continued up through 1961. (Renault, 2014)

The firm developed both in the automotive market and in rally racing. Renault launched the Renault 16, the first “voiture à vivre” (“car for life” in English) and continued to follow up the victories in motor racing.

The 1980's symbolized the ascension of the company. Renault grown up and launched two new upmarket models: Renault 25 and Espace. The interest of Renault in motorsports grown up and the group entered Formula 1.

Financially, The Renault factory knew a difficult period during which it was losing hugely money. The company put up yet drastic cost-cutting policy and led by Georges Besse returned to profit in 1987.

In mid-1992, at a critical period, Louis Schweitzer took the helm of Renault and relaunched completely Renault by means of major changes. Renault tried a merger with Volvo but this one was dropped in 1993. After this fail, Schweitzer requested the French government to proceed with privatization. The privatization of the company in 1996 marked an important milestone in its history. The French state became a minority shareholder (“The French government's stake in Renault today stands at 15.7%.” (1)), Renault entered in Nissan capital in 1999.

Successes in Formula 1 and the constant launch of innovative vehicle like “Laguna” or “Mégane” raised the Renault brand's profile.

After the Renault-Nissan alliance, the group acquired Samsung Motors and Dacia and was becoming an international leader on the automotive market.

Thanks to Dacia, Renault was able to jump emerging markets. (Renault, 2014)

Carlos Ghosn took over from Louis Schweitzer and, in 2008, soaked Renault in the electric vehicle (“in particular by “presenting a prototype fuel-cell”) positioning the firm in a positive momentum.

In 2011 the first electric vehicles accessible to all are launched: Kangoo ZE and Fluence Z.E. followed by Twizy and ZOE.

3. Analysis of external influences.

3.1 PESTEL

We will use a clear PESTEL in order to analyse the external influences over the last 10 years and see how the organisation has responded to the external changes.

Political Factors: Political decisions have a strong effect on automotive companies and especially a company as Renault.

French public authorities have granted cash for clunkers and Bonus / Malus on low-emission cars which have particularly foster Renault.

In addition, some loans have been granted by the French government to French brands (3 billion for Renault).

Economic factors: Renault's environment is competitive and oligopolistic.

The business climate and the economic situation are unfavourable. We can watch a deterioration of householders' purchasing power and the lower growth market.

The French automotive market suffers from overcapacity.

In terms of economy, the development of emerging countries is an opportunity. Nevertheless, this development corresponds also with the appearance of new competitors.

Sociocultural factors: Customers seem to have modified their attitude against the automobile.

Increasingly European people are ready to buy a low-cost car. The automobile seems to be popularized but expectations have also evaluated. Renowned cars have now less and less looked for and standing, style and comfort are not wanted. Expectations are especially the security and reliability. Customers are looking for reduce their budget in the automotive field.

The search for products more thrifty in terms of energy is also becoming a priority. (Journal, no date)

Technological factors: Technological environment is constantly changing.

R&D takes an important place in this field.

Main evolutions and progresses concern the engine of the future. Renault made the choice of electric cars. These evolutions concern as well as the mode of production than products themselves.

Ecological factors: The environmental deterioration, the crude oil scarcity, the emission of greenhouse gases is problems that Renault and other automotive brands have to confront the situation.

Legal factors: Automobile companies face up to legal constraints relating to safety standards, pollution...

Employment law is also a constraint. However, it may be different according to the country of implantation.

3.2. Renault decisions during the last 10 years

Renault's strategy has changed over the years and external changes. The last 10 years, Renault set up different strategies with various purposes.

In early XXI century, Renault undertook an ambitious policy of internationalization marked by targeted implantations in emerging countries and several alliances.

Concluded in 1999, the Renault-Nissan alliance is surely the better marketing stunt realized by Renault over last 30 years. The alliance is nowadays the third largest global automotive producer. (Ghosn, 2012) (Pollard, 2011)

In 1999, the French firm bought out Dacia, first Romania carmaker, and modernized its facilities. With this takeover, Renault wanted to mix the simplicity, the robustness and the modernity with a very competitive price. And therefore, achieve a long term purpose which aims to continue expand into new markets (especially emerging markets). (Ghosn, 2012)

In 2000, in the same logical that above, the group took over the automotive arm of Samsung Group. Renault Samsung Motors became so the first European manufacturer to break into the South Korean market. Renault group continued and succeeded its objective of global expansion. (Ghosn, 2012)

In 2010, cooperation is put up between Renault-Nissan and Daimler AG (the Smart designer). Therefore, the new four-seat Smart model and the future Renault Twingo will make from architecture developed jointly. The firm aims also a strategy of quality.

– Renault is now turned towards the future. Its strategy named “Renault 2016 – Drive the change”. In his meeting, the 10 February 2011, Carlos Ghosn, the chairman and CEO of Renault-Nissan was discovering new strategies for Renault. “This construction allows us to benefit from long-term strategic prospects ensuring continuity in the operational decisions and to define measurable and precise priorities for the next years” said the CEO. (Ghosn, 2012) (Renault - 2010 Financial results - New strategic plan, 2012)

Renault wants to ensure its leading position on the European car market by two key goals:

- The growth of the group with a sales target of over 3 million vehicles in 2016.
- The generation of free cash flow including by accumulating operational free cash flow of at least € 2 billion. (Renault - 2010 Financial results - New strategic plan, 2012)

4. Strategic approach.

An organisations strategy is “an overall approach, or general pattern of behaviour for achieving an organisations purpose” (Witcher and Chau, 2010, p8). We can use it to describe the Renault strategy by examine three different levels: business level, corporate level and global level.

4.1. Business level strategy

A business level strategy aims to maintain a competitive advantage. The professor Michael Porter shows four strategies: cost leadership, differentiation, cost focus and differentiation focus. By the launch of the low-cost car Logan Dacia, and its internationalization, the Renault’s business level strategy is a cost leadership. For example, Renault has been present in Romania.

Briefly, the Dacia Logan is small family car renowned thanks to its low-cost which is produced jointly by the French brand Renault and its subsidiary Dacia of Romania. Due to the Logan program, it is easier for the middle class to own a car; Renault, by meeting its initial objectives, might establish a position in growth economies.

From 1960s, Renault and Dacia started working together. After forty years of interruption, Renault took the company over in 1999 with a majority stakeholder. In space of a few years, Dacia, which was on one's last legs, has been completely relaunched by Renault. Nowadays, Dacia symbolizes the international success of Renault: “Specializing in robust, economical models, Dacia designs vehicles primarily for new markets”.

Since joining the European Union in 2007, Romania became a mature economy for the automotive market. Indeed, in 2010, there were 5 million passenger cars, in Romania, for 22 million inhabitants. So, this country is at the heart of Renault's international ambitions. (Renault.com, Renault in Romania, 2014 c)

In Romania and in other countries like India, Brazil or Argentina, Dacia gives the middle classes the possibility to buy a new vehicle with more safety and more comfortable mobility.

In 2006, Renault opened design centres in three sites (Bucharest, Pitesti and Titu). These ones permitted to Renault to commercialize the Logan in all European markets, turkey, Algeria, Ukraine, the Middle East and even Central Africa. (Renault.com, Renault in Romania, 2014 c)

Precisely, the Pitesti production site composed of a vehicle plant, a powertrain plant and an International Logistics Network platform is the “conductor” for the Logan program. The factory produces the five models in the Dacia range: Logan, Logan MCV, Logan Van, Logan Pick-up and the latest design of Renault, the Sandero. In 2005, the International Logistics Network set up, became the biggest centre in the auto industry. (Pluyette, 2008)

Dacia Lodgy ***Dacia Duster*** ***Dacia Sandero***

Logan ***Logan MCV*** ***Logan Pick up***

This picture shows the diversity of Dacia models. Indeed, we can see that Logan builds its brand as well as in 4X4 models than in Pick up or city car.

Since few years, Pitesti benefits from the most recent Renault standards. For example, to make assembly operations more reliable, “strike zone” facilities have been introduced. “Every manipulation in which production workers could choose the wrong part is monitored by computer, leaving them free to focus on excellent fit quality.” said the Renault's CEO Carlos Ghosn. (Theautochannel.com, 2011)

Economically, Renault wants to keep the most competitive costs. Competitive manual labour cost is, as frequently in multinational, very low and characterize low-cost Logan car.

Nevertheless, other parts of the Logan's economic model are essential:

- Site flexibility: Indeed, all Dacia models are produced on the same assembly line which is a mile long.

- Unbeatable costs: “50% of purchasing is made from suppliers in the surrounding zone” boasts the Renault's technical director. He has ample reason because the company saves 100 Euros per vehicle. (Theautochannel.com, 2011)

Then, the engineering centre in Romania is complex and specific to Renault. Indeed, with roughly 4000 engineers gather in the same centre, Renault owns the largest international engineering centre: The Renault Technology Romania (RTR). This centre has both a local and international role. Since 2010, the RTR has gained a test centre. (Theautochannel.com, 2011)

As said above, this engineering centre is one of the biggest in Europe. For instance, the site has nine types of track (thirty kilometres combined) and plenty of test benches to enable any tests concerning the resistance of the vehicle and replacement parts to cold, rain and heat.

To conclude, nowadays, expenditures relating to the Pitesti basis are close to € 1 billion. Renault makes of Romania one of its biggest basis. Thanks to the Logan and now Sandero, Renault is positioned on high-growth markets. Henceforth the firm wants to become a world leader on emerging markets. This strategy could be winning but also dangerous. (Renault.com, Renault in Romania, 2014 c)

4.2 Corporate Level strategy

Corporate level strategy is essential for companies that are in different markets. It allows working in the most effective way. According to Ansoff, a company that develops markets and products can take four directions: market penetration, market development, product development and diversification. Renault has already a large range of cars, divided by their use and the customers' expectations, as 4x4, family cars, low-cost cars…

Renault has developed the business using product development through the launch of the electric vehicle ZOE. For Renault, the electric vehicle symbolizes a genuine answer to topical in connection with environmental and noise pollution.

As of 2012, Renault offers a range of electric vehicles:

- Kangoo Z.E. intended for professional
- Fluence Z.E which is intended for family
- Twizy which is a city car destined to two persons
- And from 2012, ZOE, a city car 100% electric

Indeed, for many tabloid, ZOE Preview represents clearly that will be the future electric vehicle in the Renault range. The launch of this city car will symbolize the new face of Renault; in particular with its new logo.

Renault wants to improve its qualities while will broaden its range and multiply its innovations.

4.3 Global Level strategy

A global level strategy is defined as “strategic management of its operations across multi-national borders” (Witcher and Chau, 2010. p206).

The business growth, strongly searched by the multinational is nowadays practically nowhere to be found in industrialized countries and forced automakers to boost sales volume in the emerging markets. “Internationalisation is thus becoming a priority.

In order to reduce transportation costs due to the distance from the usual production centres, and avoid customs duties, vehicle sales in an emerging country also demand local production. It is at this point that the purchasing function comes into play. If the purchasing function can stake out a position in the internationalisation, a “necessary evil” will become an “opportunity”. The purchasing function is thus a driver of the firm’s internationalisation. (CG, 2011)

a) Renault: objective of internationalization in emerging countries…

Renault, throughout the years, sets up a strategy of profitable growth based on, inter alia, internationalisation; trying to sell increasingly vehicles as simultaneously the years go by.

As seen above, Renault was considered as a European company. Nowadays, it wants to grow its sales share made out of Western Europe. This growth will happen essentially in emerging countries; developed countries (United States, Japan, and so on) being overloaded.

b) … Involving a strategy of local industrial facilities…

Renault has to cope with difficulties: the car is a product harder to carry. The local production is thus the best solution found by the multinational.

Renault has thus a manufacturing set up in numerous countries. The map of Renault’s plants worldwide shows a strong concentration of industrial sites in France and Spain.

Nonetheless, it highlights the industrial presence of Renault in countries such as Korea, Turkey, Brazil, China, and so on.

We can see the international industrial device come into support of Renault's growth target.

Components sold to suppliers make up 75 to 80% of the cost price of vehicle manufacturing. Renault currently sells tantamount to € 20 billion of products each year, from 500 suppliers.

Sales are essentially made in developed countries: France (41%), Unites States, Japan, Unites Kingdom, Germany forms the main sources of purchasing pieces. Emerging countries provide only 4% of the Renault sales, even though this percentage tends to increase quickly.

c) … And a growing supplying next to OEM (equipment manufacturer) fitted out on the spot.

The purchasing function has nowadays, a specific mission, within the context of the group strategy: it sells locally in countries where is implanted the French firm with the objective of avoiding transport costs and customs duties in these countries.

For many specialists, this localisation is one of the most important conditions to make industrial implantation profitable. For instance, in Brazil, 80% of the Renault's mass purchasing is made next to European suppliers locally implanted.

5. Level of strategy success.

In a general overview, the global strategy used by Renault has been a real success. Renault commercializes its vehicles through 118 countries and manufactures these ones in 18 countries. The company realised a turnover close to €20,500m.

Indeed, Renault chose to develop its company by having a very high international presence, in the entire world. But sometimes, Renault forgets its own country: the French territory.

Renault has remained constant with its image and strategy up until 2012 with the launching of the electrics vehicles as ZOE. This shows the awareness to the environment and willingness to develop to consider the needs of the costumers.

One of the most important business level strategies used by Renault is the cost leadership with its implantation in Romania. Indeed, the goal of Renault is to develop low-cost vehicles under the brand Dacia. The main strategy of Renault is to associate the good quality to maintain its brand image, and low prices.

In general, as seen above, Dacia is a real success especially with the Logan car.

6. Performance measures.

In order to measure Renault's performance, it is important to identify what tools are available, then select the most appropriate one. When measuring the performance of an organisation the automatic notion is to look at profits. Also the company is very successful globally, therefore other areas must be analysed as well in gaining true measure.

6.1. Performance frameworks.

Porter's five forces is a useful framework. The five competitive forces are: threat of new business; bargaining power of suppliers; bargaining power of customers; threat of substitute products and rivalry among current competitors. When these five forces shows weak forces, the company has the potential for doing profits. However, Witcher and Chau (2010) state that this framework is missing some important elements as technology, government issues, or innovation.

Just below, the Porter's five forces of Renault:

Bargaining power of suppliers:

As shown in the main figures concerning Renault, suppliers represent 80% of total manufacturing cost of a car. An important part of automotive activity is outsourced.

Nevertheless, bargaining power of suppliers is weakened to the extent that Renault and Nissan group together their purchases and reduce their costs. It makes their supplier addicted to the extent that Renault and Nissan represent an important part of turnover of these suppliers.

Bargaining power of buyers:

Renault's buyers are satisfied. Efforts in terms of quality seem to have borne fruit. Nonetheless, bargaining power is going to be dependent on perception of products. Compared to other automakers, Renault is not really well positioned. It is in a favourable position on low cost whose products are not really differentiated. Bargaining power of buyers is so more important than on the premium segment because it is more difficult to establish customer loyalty on the low end.

The bargaining power should grow if Renault launches its fully electric car. Renault will be the first in the automotive market to sell fully electric car and will dispose of competitive advantage.

Threat of substitute products or services:

Renault being an automobile manufacturer, two-wheelers, public transport, and so on, are substitute products. Nevertheless, none of these substitute products seem supplant automobile sector.

Threat of new entrants:

Renault's market in developed countries is saturated. It does not prevent the threat of new entrants and especially new manufacturers from emerging countries; for instance, the Chinese automobiles that are well implanted in their country. These multinationals seek to be implanted in developed countries thanks to merger or buyout of companies like Volvo or Saab.

Moreover, Kaplan and Norton's (1992) Balanced scorecard can give an overall picture of the organisation in order to measure Renault's performance. Different perspectives of the organisations are analysed: financial; customer; internal business process and learning and growth (More details in the next part).

6.2. **Balance Scorecard**

A balance scorecard "encompasses the needs and expectations of all the company's main stakeholders" (Thompson, 1997). It is seen as a means of performance evaluation. It is an instrument of control, and a suitable tool to improve the change within companies. According to the authors, the balance scorecard is composed by four components: Financial needs, Customers, Internal Environment, and Growth and Improvement.

Financial Needs: In 2014, Renault made a profit of €801m whereas the group made a profit of €97m in 2013. It is an improvement of more than 725%. (Renault, 2014)

Customers: In a recent customer satisfaction survey conducted by Roy Morgan Automotive Currency Report, it appears that the owners of Renault and Volvo are more likely to be satisfied with their car. (Caradisiac, 2011)

Internal Environment: The internal environment focuses on the time to process a request. Unfortunately, no information can be founded on the company Renault.

Growth and Improvement: By the internationalization strategy established by Renault, the main goal is the growth and the improvement of the car company.

7. Conclusion

The talent of Renault to develop fruitful international relationships was clearly demonstrated throughout this report by the Renault-Nissan Alliance with a total respect of the brand of each manufacturer; but also the creation of Renault Samsung Motors (Korea) in 2000 and the injection of dynamism into Dacia (Romania) in 1999, with the implement 100% of Renault standards (which permitted to dispose of an international basis to the Logan program). From these three different experiences, the French firm acquired a unique skill in terms of strategic partnerships. Essential elements to this success were the respect for the identity of the partner, understanding the customer and local markets but especially the standardisation of production systems based on best practices quality assurance and development of purchasing synergies and engineering to reduce costs.

8. Strategic recommendations

We can wonder whether Renault could be competitive with the Chinese market in the future. Thanks to its merger with, for instance Dacia, Renault can aim emerging countries but also poor and middle class in rich and developed countries.

So, Renault has the stuff, the innovation, and the strategy to be received gracefully in new countries. Nevertheless, Renault tends to forget its own country: France. The brain drain is a chronic phenomenon in France. Renault is the symbol of the French automobile but also of a worldwide success. Yet, Renault relocated increasingly in countries where the workforce is weaker. Is it the end of the big company's production in developed countries? Emerging countries want to also compete with European and American multinational and start to close their boundaries to produce themselves their own products.

Renault in the world symbolizes the success of a brand but shows also limits of this rise. The gap between poor and rich countries, the emergence of Asian countries, the lack of structure in African countries, and so on, are problems faced by Renault. If we expand our spirit beyond the simple company that is Renault, we can observe that these problems are ones of major parts of multinational and even countries in the world.

Moreover, we can see different threats that Renault should be careful on the SWOT (appendix 1). In my mind, the most important is the competition increasing. Renault must differentiate more, while keeping good quality and competitive prices in order to stay one of the European leaders.

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Appendix 1

SWOT Analysis

Strengths	**Weaknesses**
• An in-house financing system • A minor debt • Independent from production centres • European leader • Good brand image • Setting up of hybrid vehicles	• Dependence on the French market • Marketing centralized around the entry-level cars
Opportunities	**Threats**
• Countries growth and very large market (India for example) • Positive synergies with Nissan • Ecological sensitivity and increased demand for ecological cars	• Increased competition • Increase of raw material prices • Financing costs are rising • Declining purchasing power

Appendix 2: The localisation of Renault in the world (Renault, 2014)