Struggling Nissan seeks a partner

Nissan, Japan’s second largest car maker meanwhile was in trouble. The worst automotive victim of Japan’s ’lost decade’ of the ’90s, Nissan had been unprofitable every year since 1992 (except for 1996), and had racked up more than $20 billion in debt. It had exhausted its resources to keep up with market leader Toyota. Its share of the global automotive market had fallen from 6.6 per cent in 1991, to 4.9 per cent in 1998. Its domestic market share had been in decline for 27 years in a row. It needed money, fast. At the time Nissan president Yoshikazu Hanawa was looking for an automotive partner prepared to give a substantial cash injection.

Two companies emerged as contenders: DaimlerChrysler, buoyed by initial positive feedback to its recent merger and keen for further expansion, and Renault, looking for an alliance with another car maker to give it greater economy of scale. DaimlerChrysler was a clear favorite.

“DaimlerChrysler was a much better known company in Japan and regarded as a more successful business, with more prestige,” says Toshiyuki Shiga, chief operating officer for Nissan. “Renault was much smaller, and much less international - no presence in Japan or America, for instance, which were the markets Nissan knew best.”

In March, 1999, however, DaimlerChrysler announced its withdrawal, deterred by Nissan’s high level of debt. The way was left open for Renault, the sole suitor. Renault CEO at the time, Louis Schweitzer, wishing to increase Renault’s small footprint in the world automotive industry, was determined to push ahead. He offered to purchase 36.8 per cent of Nissan’s capital for $5 billion. The two companies would form an alliance. Uniquely, each partner would retain its identity and its independence.

“I was fully involved in negotiations,” says Shiga. “Nissan management had a preference for Renault over DaimlerChrysler because Renault expressed clearly that they would treat Nissan as a partner. They spoke about an Alliance, to the benefit of both companies. They spoke about preserving corporate identities, brands, and separate managements. We liked what we heard.

“In September 1998, I visited Renault with Mr. Hanawa, our president. We saw Mr. Schweitzer. He asked us what Nissan’s biggest weakness was. Hanawa-san told Mr. Schweitzer that a great weakness was our inability to implement cost reduction. Mr. Schweitzer mentioned that Carlos Ghosn was an expert at cost reduction.

“November that year was the first time I met Mr.Ghosn. He came to Nissan in Tokyo. Five Nissan directors attended the meeting, including myself and Hanawa-san. The potential deal was still secret, so not too many people were involved. Mr.Ghosn made a presentation on cost reduction. I was extremely impressed. He showed how he greatly reduced Renault’s costs in Europe. The presentation was excellent - full of passion - and I thought wow, what a strong leader.”

Louis Schweitzer did indeed ask Carlos Ghosn to go to Japan. If Ghosn refused, said Mr. Schweitzer, the deal was off. Carlos Ghosn accepted. The Alliance was underway.

On March 27, 1999, the agreement on the Alliance was signed by Louis Schweitzer and Yoshikazu Hanawa.

About 30 Renault executives were sent to Japan, to take up senior or influential positions in Nissan.

“When the Alliance started, Renault bought a share of Nissan because we needed the cash. That was our priority: cash. As it was a true Alliance, the intention was for Nissan to reciprocate and buy a stake in Renault, though this was not possible for a number of years. We simply did not have the funds.” says Shiga. Later, Nissan bought a 15 per cent stake in Renault and Renault increased its stake in Nissan to 44.3 per cent.