

Fiat-Tata: What happens before an alliance is struck

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What was the strategic impetus that made the engine tick when Fiat and Tata solidified their headline-grabbing 665-million-euro alliance?

In 2008, the Indian automobile industry attracted the world's attention when Tata unveiled the Nano, billed as the world's cheapest car, selling for \$2,500. But long before this, outsiders had taken note of the Indian market: in 1905, Italy's Fiat, when it was only six years old itself, first made inroads into the Asian Subcontinent.

Fiat's presence has been felt in India for the better part of a century. One of its greatest successes occurred in the 1950s when it released the Premier Padmini, a version of the Fiat 1100, which was produced under license by a local car manufacturer, Premier Automobiles.

When India opened up to greater foreign investment in the early 1990s, Fiat took the opportunity to set up a wholly owned affiliate, Fiat India. It partnered with Premier to produce the Uno model, an affordable car for the burgeoning Indian marketplace, but the car did not sell as well as its manufacturers had hoped. By the early 2000s, Fiat India was losing money, and its plants were operating under capacity.

The story of how Fiat sought to revive its Indian business, and the recent strategic deal struck with Tata, is the subject of a new case study by IESE professors Africa Ariño and Pinar Ozcan with Brian Hohl and Jordan Mitchell.

Search for partner

Fiat's search for an appropriate Indian partner began in the context of a flat market at home. In Europe, Fiat was facing challenges such as a drop in market share and listless product introductions, leading to dire financial results.

However, when Sergio Marchionne arrived at Fiat to perform 'radical surgery,' the new CEO identified alliances as a main road to the company's turnaround. The company decided to pursue unions that would either enhance product technology, provide industrial know-how and scale, or foster success in a specific geographic market. The latter was the main push for revving up efforts in India. Fiat believed that a local partner could help them gain traction in the market and with the Indian consumer.

Tata, being a well-known entity in the country, was quickly identified. As one Fiat executive on the negotiating team said, 'We knew that Tata had great products, a respected history, and an excellent domestic and international reputation. From the [beginning], we saw that they really had a great commitment for the long term. We concluded that their management has a similar spirit to ours.'

Studying the pre-operational phase

Often, academics have focused on the alliance once it is up and running. Others have focused purely on the cultural aspects of cross-border partnerships. For this Fiat-Tata case study, the authors focused on the two-year process, from the initiation of negotiations to the final signing of the Joint Venture Agreement (JVA) in October 2007. They considered both the strategic impetus for the alliance, as well as softer issues such as the tenor and frequency of meetings. For example, given the lengthy procedure of getting European visa entry permits for Indian citizens, most of the meetings between Fiat and Tata were held at Tata's head office in Mumbai.

To launch the process, the teams sat down with a whiteboard and brainstormed possible areas of collaboration. While several fields, both inside and outside of the country, were identified, the teams started with something that could be put in place immediately: a marketing and distribution agreement, whereby Tata would distribute Fiat's Palio through Tata's strong domestic dealer network.

This tie-in quickly expanded to other areas, including a memorandum of understanding (MoU) to establish a joint venture to manufacture passenger cars, engines and transmissions for

India and overseas, and agreements to use excess capacity in Fiat's plants, both in India and Argentina.

The rapport was strengthened significantly during the summer of 2006, when the chairman, Ratan Tata, was appointed to Fiat Group's board of directors.

The expanding scope of the relationship was summed up by one Fiat team member: "At the beginning, it was only cars. The way that we discussed further collaboration is very much in line with the spirit of the relationship to constantly look for new opportunities."

Learning through a long process

The teams negotiated an equity structure for the joint venture to manufacture passenger cars and powertrains. They considered different formations but landed on the idea of equal participation -- represented through equal asset allocation and the same number of board seats -- as both sides were contributing equal knowledge and resources.

The next step was developing the business plan with targets for the demand of cars and powertrains. The teams also had to negotiate major components of the contract, such as exit clauses and asset values.

Two years of work culminated in the signing of an agreement valued at roughly 665 million euros. Despite the long process, one Fiat team member observed how well it all went: "There has not been a roadblock or one big issue to face. The overriding issue was getting through the volume of work in the specified time period."

While the negotiating teams were exultant over what was eventually achieved, both sides acknowledge that it will take some time to see how the road ahead will unwind.

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