

Case 8 Evaluating the Chrysler-Fiat Auto Alliance in 2012

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“The country that gave us Sophia Loren and Leonardo da Vinci also gave us the century-old Fiat. The group’s cars range from models like the popular Fiat Nuova 500 to the Alfa Romeo, Ferrari (85% owned), and Maserati brands. Fiat holds a 53% stake in Chrysler, and has management control of the US carmaker.”

HOOVERS.COM (2012).¹

“Chrysler hopes its crisis remains in its rearview mirror. The company has engineered an automotive resurrection by choosing a back-to-basics alliance with Fiat; the collaboration gives Fiat a 53% stake in the US car company. Chrysler continues to manufacture its Chrysler brands, as well as Dodge, Jeep, and Ram vehicles; it will also produce smaller Chrysler-brand cars based on Fiat design and technology.”

HOOVERS.COM (2012).²

THE CHRYSLER-FIAT TIE-UP

In today’s global business, the majority of corporate marriages (alliances, mergers and acquisitions, JVs, etc.) encounter problems that emerge from operational and post-alliance integration hurdles and end up in failure. Unlike other corporate tie-ups, the Chrysler-Fiat alliance has survived since its 2009 inception and continues to enjoy a solid growth in its post-alliance integration. The above statements also testify to the alliance’s synergies and stability that have taken place in the Chrysler Group (hereafter Chrysler) and Fiat Group Automobiles S.p.A. (hereafter Fiat). Chrysler manufactures the Chrysler brand, Jeep, Dodge, Ram, and SRT and other products and is headquartered in Auburn Hills, Michigan. Chrysler was founded as Chrysler Corporation in 1925. Fiat, on the other hand, sells a diverse range of brands that include Fiat, Alfa Romeo, Lancia, Fiat Professional, and the Maserati and Ferrari sport cars. Fiat first started manufacturing cars in Turin, Italy in 1899. As of 2012, the two auto companies have survived their financial exigencies and market-share problems. Of course the whole process forced the companies to go through tough restructuring measures and corporate changes that took place on both sides

of the Atlantic (see Table 1). Chrysler’s alliance with Fiat initially provided the company a tangible lifeline when Fiat took 20 percent ownership in Chrysler.

In 2009, on the recommendation of the U.S. Treasury Department and under the leadership of Sergio Marchionne, CEO of Fiat, Chrysler filed for Chapter 11 in a New York court to initiate the bankruptcy proceedings. Business history reveals that Chrysler’s financial problems and other business-related difficulties were the result of its de-merger with Germany’s Daimler and massive losses. Chrysler’s financial problems were also the result of weakened global markets and the 2008

TABLE 1 Selected Financial and Corporate Data of Chrysler and Fiat (2011)

	Chrysler	Fiat
Revenue	\$55 billion	€35.88 billion*
Net income	\$183 million	€179 million
Operating profit	\$2 billion	€992 million
Total Assets	\$35.44 billion	€73.44 billion
Stockholder equity	\$ – 4.48 billion	€12.46 billion
U.S. market share	10.5 %	NA
Vehicles manufactured	2 million	2.09 million
Year founded	1925	1899
Founder	Walter Chrysler	Giovanni Agnelli
CEO	Sergio Marchionne	Sergio Marchionne
Owner	Fiat (58.5%)	NA
Type	Limited liability co.	Società per azioni
Headquarters	Auburn, Michigan	Turin, Italy
Total Employees	51,623	137,800

Source: *Value Line* (various issues); *Wikipedia* (2012). Various sites, (http://en.wikipedia.org/wiki/Main_Page).

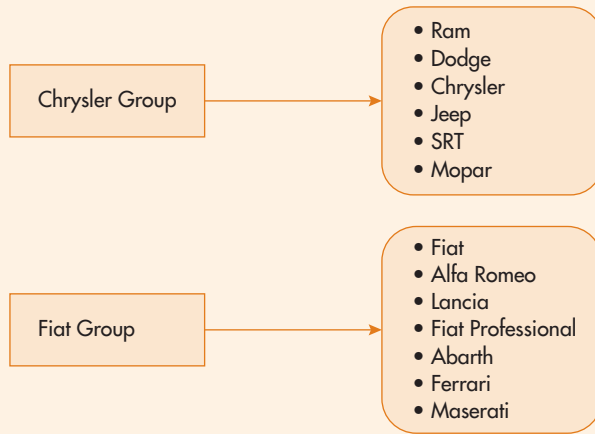
* Conversion into US dollars: \$47.97 billion.

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*The material in this case is intended to be used as a basis for classroom/academic discussion rather than to illustrate either effective or ineffective handling of a managerial situation or business practices.

¹ Hoovers. (2012). *Fiat*, (http://www.hoovers.com/company/Fiat_SpA/crkkki-1-1njht4-1njfaq.html). Accessed on February 24, 2012.

² Hoovers. (2012). *Chrysler Group LLC*. (http://www.hoovers.com/company/Chrysler_Group_LLC/rfyyci-1-1njht4-1njfaq.html). Accessed on February 24, 2012.

FIGURE 1 Brand Platforms of Chrysler and Fiat (2012)

Source: Chrysler and Fiat Websites.

global financial crisis. Since 1998, Chrysler's ownership had gone through two hands. First the company was acquired by Daimler until 2007. Later Chrysler was bought by Cerberus Capital Management, a New York-based private equity firm. Cerberus could not reap tangible benefits from the deal because of the 2008 global financial crisis and cost problems in the industry. High oil prices and a recession in the U.S. were the last blows leading to Chrysler's demise.

In 2007, Chrysler again became homeless when Daimler sold its 80 percent stake in the company to Cerberus for \$7.4 billion.³ Interestingly, Daimler paid \$36 billion to acquire Chrysler in 1998 and ended up losing \$29 billion in the deal. DaimlerChrysler's de-merger was a major financial setback and a public relations blunder for the German Group. In the auto industry, the DaimlerChrysler breakup was called "Chrysler's private bailout." Although the DaimlerChrysler merger was hailed as a "merger of equals," both companies encountered problems in the areas of post-merger integration and corporate cultures. Kirk Kerkorian, a billionaire from Las Vegas, was equally interested in buying Chrysler for \$4.5 billion but Daimler sold Chrysler to Cerberus for a good price.⁴

CHANGING HISTORY AND CHRYSLER'S SURVIVAL IN NORTH AMERICA

Business history tells us that Chrysler was always the number three automaker in North America because of its quality problems and low market share. The company often remained behind GM and Ford in its quality rankings and visibility. In the area of consumer satisfaction, Chrysler had problems making satisfactory scores. Right from its inception, Chrysler

concentrated on those segments that required inexpensive autos by middle-income consumers. The company was further left behind in the auto industry with the arrival of Japanese competitors such as Toyota, Honda, and Nissan. No wonder Chrysler remained synonymous with its low-quality image that often brought problems. At the same time, because of its minivans and the Jeep brand, the company was a competitive player and witnessed a solid growth in North America.

Chrysler was founded in 1925 by Walter P. Chrysler, who had worked for Buick Motor Company. As stated earlier, Chrysler manufactured cars for the masses and particularly targeted the mainstream American consumer. Between 1941 and 1960, Chrysler introduced a variety of newer models and took credit for technological innovations in North America. As the third largest auto manufacturer, Chrysler always rated as one of the late movers in the industry. In the early eighties, the company was on the verge of bankruptcy but was rescued by the U.S. government. In the nineties, Chrysler vehicles started to get good ratings from analysts but continued to remain behind other manufacturers in quality and consumer satisfaction. When Daimler-Benz proposed the merger in January 1998, Chrysler's Board saw a major opportunity for future survival and access to new markets. In the next four months, both companies negotiated extensively and closed the deal in May 1998.

The next eight years witnessed many ups and downs for Chrysler because of the issues of post-merger problems, losses, and lay-offs. In 2007, DaimlerChrysler announced that Cerberus would acquire 80 percent of Chrysler for \$7.4 billion. As Chrysler dealt with the 2008–2009 global recession and high oil prices, Cerberus kept on exploring the possibilities of either selling Chrysler or creating an alliance with GM, Nissan, Fiat, or Volkswagen. Early in 2009, Fiat turned out to be the key contender for Chrysler. In April 2009, Chrysler and Fiat announced their strategic alliance and agreed on a new ownership structure. In May 2009, Chrysler filed for Chapter 11 bankruptcy in a New York court and started the process of a company-wide restructuring. As of 2012 the company has recovered because of its alliance with Fiat and continues to expand in North America and beyond. The company Website observed about its leadership and innovation as follows:

*"All automobile manufacturers build vehicles, but Chrysler Group creates entirely new automotive categories. Our leadership and innovation earned us the label of Detroit's engineering company."*⁵

FIAT'S CORPORATE ENDURANCE IN THE EUROPEAN MARKETS

Fiat is an interesting company from Italy and carries a long history in global business regarding its corporate initiatives, restructuring, and growth. The company has survived corporate disruptions, labor crises, and many technology shifts. Most

³ For more information on Cerberus, see: www.cerberus.com; Thornton, E. (2005). What's bigger than CISCO, Coke, or McDonald's? *BusinessWeek*, (October 3): 101–110.

⁴ For detail, see: Anwar, S. T. (2011). The 2009 Chrysler-Fiat strategic alliance, in Deresky, H., *International Management: Managing Across Borders and Cultures*, (7th edition), Upper Saddle River, New Jersey: Pearson/Prentice Hall: 288–297.

⁵ Chrysler Group. (2012). *Innovation Overview*, (<http://www.chryslergroupllc.com/Innovation/Pages/default.aspx>). Accessed on February 24, 2012.

of Fiat's problems arose from Italian labor laws, weakened business environments, and cost issues. From business history perspectives, Fiat has come a long way in the European market regarding dealing with quality areas and reputation.⁶ The company has reinvented itself by fixing its brand portfolio and quality areas. This is clearly evident from the company's current and long-term plans and strategic initiatives. Fiat's Website stated:

*"Following the demerger of the capital goods businesses to Fiat Industrial (January 2011) and the increase in its stake in Chrysler to 58.5%, Fiat S.p.A. is accelerating and consolidating the industrial integration of the two groups to create a global automaker determined to position itself as a leader in the industry. Fiat and Chrysler already share a philosophy based on integrity, dedication, delivering on commitments, transparency, reliability—and passion. The Group's objective is to write the new chapters of the story upon which it has just embarked through leveraging synergies to reduce costs, sharing know-how, expanding the global product offering and improving market penetration worldwide."*⁷

Like Chrysler, Fiat's evolutionary growth and survival had encountered problems in the areas of technology and quality standards. The company history has been unique and reflects Italy's industry-specific problems and rigid labor laws. Fiat was founded in 1899 and employed 35 workers in 1900. Gianni Agnelli, a former cavalry officer, became the company's chairman in 1966. In 2009, the Agnelli family controlled 35 percent of Fiat.⁸ During the sixties and the seventies, Fiat witnessed massive labor strikes and assembly-line disruptions that resulted in 15 million lost worker hours. Between 1980 and 1985, the company reduced its labor force by cutting 100,000 jobs. In 1986, Fiat acquired Alfa Romeo from the Italian government and became the largest automaker in Europe. In 1996, Agnelli resigned as chairman and was given the position of an honorary chairman.

In 2000, GM acquired 20 percent of Fiat for \$2.4 billion. In 2002, Fiat encountered financial problems and laid off thousands of workers. In 2003, Agnelli died and his brother Umberto took over the company.⁹ In 2004, Fiat recruited a well-known turnaround executive, Sergio Marchionne, to

become its CEO. In 2005, Fiat and GM dissolved their five-year partnership when GM paid Fiat \$2 billion in cash to get out of the partnership.¹⁰ In 2007, Fiat introduced its iconic Cinquecento 500 model after being out of production for 32 years. In early 2009, Fiat announced a deal to acquire 20 percent of Chrysler in exchange for a technology-sharing pact and distribution networks in Europe and North America. During the same period, Marchionne also showed interest in acquiring GM's Opel and Vauxhall brands in Germany and the UK.

THE GLOBAL AUTO INDUSTRY IN 2012 AND BEYOND

*"The most important trends in the automotive industry generally involve two related developments: competition and globalization. As the global market for vehicles expands and as more producers enter new markets around the globe, competition escalates worldwide and companies seek to achieve economies of scale for their vehicle manufacturing."*¹¹

The above quote accurately reflects what is taking place in the global auto industry, which continues to witness structural changes because of competition and growth (see Figure 2 and Table 2).

As of 2012, the global auto industry is a major industry impacting countries, regions, technologies, and consumers at every level of the society. The industry is always on the move because of changing technologies, demographics, and consumption. The industry originated in a haphazard way and continues to expand in emerging markets because of tangible demand and growth prospects.¹² Industry-specific clusters and value chain networks are common in the industry because of changing technologies and cost issues.¹³ No wonder collaborations and alliances are common in the industry.¹⁴

The global auto industry has been one of the largest industries in the world that impacts countries as well as their socio-political environments. In the U.S., Japan, and Europe, auto companies often became part of their country-specific policies and national prides. Today's auto industry is totally different since it does not excite national emotions, although worker

⁶ For more discussion on Fiat's history and its evolutionary growth and company-related issues, see: Fauri, F. (1996). The role of Fiat in the development of the Italian car industry in the 1950s, *Business History Review*, 70(1): 167–206; Garibaldi, F. (2008). A company in transition: Fiat Mirafiori of Turin, *International Journal of Technology and Management*, 8(2): 185–193; Maielli, G. (2005). The machine that never changed: Intangible specialization and output-mix optimization at Fiat, 1960s–1990s, *Competition & Change*, 9(3): 249–276; Whitford, J., & Enrietti, A. (2005). Surviving the fall of a king: The regional institutional implications of crisis at Fiat Auto, *International Journal of Urban and Regional Research*, 29(4): 771–795.

⁷ Fiat Group. (2012). *Mission*, (<http://www.fiatspa.com/en-US/group/mission/Pages/default.aspx>). Accessed on February 24, 2012.

⁸ Meichtry, S., & Toll, J. (2009). Fiat nears stake in Chrysler that could lead to takeover, *The Wall Street Journal*, (January 20): A1&A13.

⁹ Galloni, A. (2003). Death of Fiat's Agnelli's marks the end of an era, *The Wall Street Journal*, (January 27): A3.

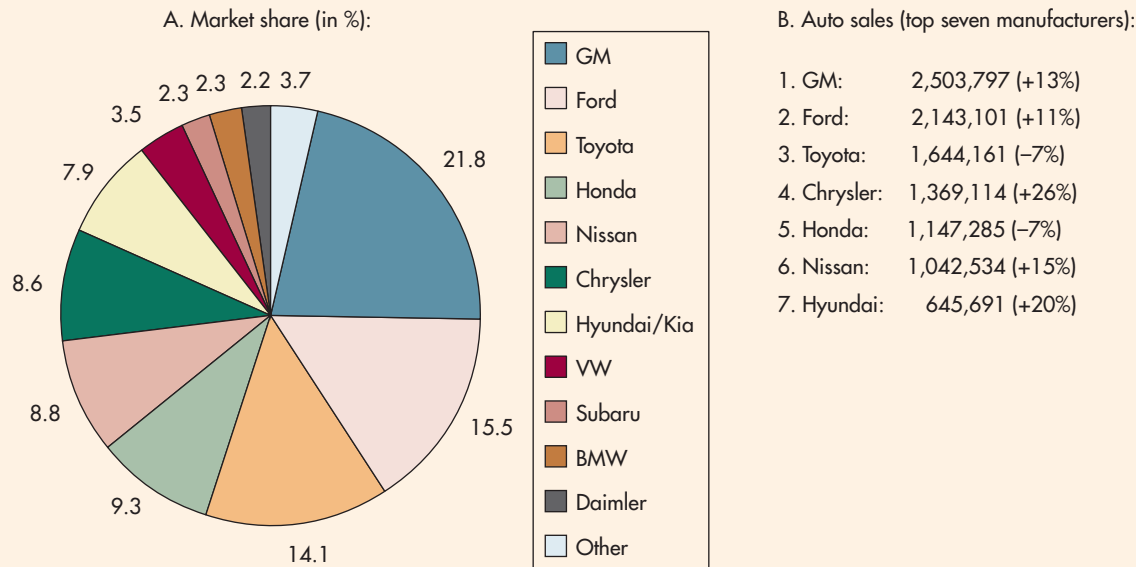
¹⁰ Galloni, A., & White, G. L. (2002). Fiat head sees GM write-off as tuneup to bid, *The Wall Street Journal*, (October 11): A2.

¹¹ S&P Net Advantage. (2011). *Auto & Auto Parts*, (<http://www.netadvantage.standardandpoors.com/NASApp/NetAdvantage/showIndustrySurvey.do?code=aup>). Accessed on February 24, 2012.

¹² *The Economist*. (2012). The world in figures: Industries. *The world in 2012*, London, UK: *The Economist*, 119.

¹³ For more discussion, see: Rothenberg, S., & Ettlie, J. E. (2011). Strategies to cope with regulatory uncertainty in the auto industry. *California Management Review*, 54(1), 126–144; Sturgeon, T., Biesebroeck, J., & Gereffi, G. (2008). Value chains, networks and clusters: Reframing the global automobile industry. *Journal of Economic Geography*, 8(3), 297–322; Türkcan, K., & Ates, A. (2011). Vertical intra-industry trade and fragmentation: An empirical examination of the US auto-parts industry. *World Economy*, 34(1), 154–172.

¹⁴ See: Lin, L. (2009). Mergers and acquisitions, alliances and technology development: An empirical study of the global auto industry. *International Journal of Technology Management*, 48(3), 295–307.

FIGURE 2 Auto Market and Company-Specific Market Share in the U.S. (2011)

Source: Auto Nation; Good Car Bad Car; Value Line; The Wall Street Journal (various issues).

TABLE 2 Auto Sales in Selected Global Markets and Countries (Millions of Units, 2009–2012)

Region	2009	2010	2011	2012*
North America	12.61	13.96	15.22	16.10
Canada	1.46	1.56	1.59	1.61
U.S.	10.40	11.55	12.73	13.50
Mexico	0.75	0.85	0.90	0.99
Western Europe	13.62	12.98	12.80	12.16
Germany	3.81	2.92	3.176	3.24
Eastern Europe	2.58	3.14	3.90	4.25
Russia	1.47	1.91	2.65	2.95
Asia	17.68	22.47	22.50	24.23
China	7.32	9.41	10.04	10.94
India	1.43	1.87	1.95	2.09
South America	3.93	4.27	4.47	4.65
Brazil	2.53	2.69	2.64	2.74
Total Global Sales	50.42	56.82	58.89	61.39

Source: Gomes, C. (2012). *Global Auto Report*, Toronto, Canada, Scotia Bank, p. 2.

* 2012 forecast.

unions continue to exert pressure on their governments.¹⁵ As of 2012, the global auto industry is a mixture of complex and modular technologies and assembly line operations that contains suppliers and parts manufacturers, raw material providers, and outsourcing firms. At the global level, these entities are highly diverse, intertwined, and dynamic. Small disruptions in the industry can cause major delays in the industry's

value chains and established platforms.¹⁶ In the last 15 years, the auto industry has witnessed cross-border alliances, joint ventures, and other corporate tie-ups that mostly aimed at economies of scale and value chain efficiencies.¹⁷ In 2012, only three American auto manufacturers prevailed in North America (General Motors, Ford, and Chrysler) while Japan had three major firms: Toyota, Honda, and Nissan. Interestingly, Europe has been left with four large auto companies (Daimler, Volkswagen, Fiat, and Renault-Nissan). In 2011, revenues of the top auto firms were as follows: Toyota, \$235 billion; Volkswagen, \$168 billion; GM, \$149 billion; Ford, \$136 billion; and Honda, \$117 billion. During the same period, Chrysler-Fiat's revenue surpassed \$102 billion.¹⁸ The auto industry has witnessed many structural changes in the forms of strategic alliances and collaborative activities in R&D, distribution agreements, joint

¹⁶ For detail, see: *The New York Times*. (2005). Japan makes more cars elsewhere, (August 1): C1&C9; *Financial Times*. (2002). Fitting together a modular approach, (August 15): 6; *Financial Times*. (2006). FT – Motor industry, (September 28): 1–4; Symonds, M. (2008). A global love affair: A special report on cars in emerging markets, *The Economist*, (November 15): 1–20.

¹⁷ For more discussion on cross-border alliances, joint ventures, and mergers and acquisition, see the following recent studies: Brannen, M. Y., & Paterson, M. F. (2009). Merging without alienating: Interventions promoting cross-cultural organizational integration and their limitations, *Journal of International Business Studies*, 40, 468–489; Haecussler, C., Patzelt, H., & Zahra, S. A. (2012). Strategic alliances and product development in high technology new firms: The moderating effect of technological capabilities, *Journal of Business Venturing*, 27(2), 217–233; Jiang, X., Li, Y., & Gao, S. (2008). The stability of strategic alliances: Characteristics, factors and stages, *Journal of International Management*, 14, 173–189; Keil, T., & Laamanen, T. (2011). When rivals merge, think before you follow suit. *Harvard Business Review*, (December), 25–27; Kumar, S., & Park, J. (2012). Partner characteristics, information asymmetry, and the signaling effects of joint ventures. *Managerial & Decision Economics*, 33(2), 127–145; Tjemkes et al., B. (2012). Response strategies in an international strategic alliance experimental context: Cross-country differences. *Journal of International Management*, 18(1), 66–84.

¹⁸ See: Company Websites; Value Line (2012). (various issues). New York: Value Line Publishing, LLC.

¹⁵ For more discussion on this topic, see: Dowd, M. (2009). No more Hummer nation, *The New York Times*, (April 1): 25; Ingrassia, P. (2009). The UAW in the driver's seat, *The Wall Street Journal*, (April 30): A15; Ingrassia, P. (2009). How Ford restructured without federal help, *The Wall Street Journal*, (May 11): A19.

ventures, and equity stakes. The reasons behind these changes are the industry's evolutionary processes, economies of scale in manufacturing, and consolidations (see Figure 2).

Changing demographics and rising costs have compelled large-scale auto manufacturers to move assembly plants to low-cost economies. In addition, consumer demand in emerging markets (EMs) has forced large auto manufacturers to move facilities abroad to take advantage of cheaper labor and market opportunities. Auto analysts believe that in the coming years, only a small number of auto manufacturers will be left at the global level because of consolidations and mergers. As of 2012, companies maintaining strong brand identities with competitive technologies and quality are able to compete effectively. Restructuring by GM, Ford, Chrysler, and other auto manufacturers have brought cost efficiencies and flexible manufacturing. At the same time, the global auto industry is a complex industry and will take time to recover and restructure. Reed in the *Financial Times* convincingly predicts:¹⁹

"All the European carmakers are running against the treadmill, in some cases with increasing speed.... Analysts are describing Europe as the sector's 'sick man', a status held until recently by Detroit's three carmakers, which restructured deeply during the Crisis."

PROFILE AND STATUS OF THE CHRYSLER-FIAT ALLIANCE IN 2012

Table 3 and Figure 3 provide Chrysler-Fiat's post-integration progress and related areas that help us evaluate the alliance. As of 2012, both companies have made major structural changes to meet their integration goals. Academic and practitioner studies authenticate that strategic alliances link two or more companies' operations by combining manufacturing resources and knowledge.²⁰ These tie-ups combine R&D, produce development, distribution networks, and other areas in knowledge sharing. Strategic alliances mostly aim at seeking economies of scale and raising productivity.²¹ Interorganizational cooperation is a unique competitive weapon that helps companies to expand their managerial and financial resources.²² Such is the case with the Chrysler-Fiat strategic alliance in 2012 that continues to bring changes to the companies. The alliance has allowed Chrysler and Fiat not only to survive in the auto industry but expand in global markets. In its initial phase in 2009, Fiat owned

20 percent of Chrysler and later raised its stake to 58.6 percent in 2011. Fiat has already delivered what it planned in 2009.

The Chrysler-Fiat strategic alliance is heavily influenced by today's global competition in the auto industry that continues to seek consolidations. The industry has witnessed downsizing, massive losses, and weak consumer demand. The auto manufacturers from North America have been heavily burdened with debt and expensive labor union contracts. Chrysler was in a more dire situation and saw Fiat as the only available partner for survival. Other factors that helped form this alliance are R&D opportunities, access to markets, and long-term rationalization in manufacturing. In the context of the global auto industry, the companies' growth, and the companies' strategy, we now discuss the status of the alliance as follows:

1. **What went well in the alliance?** After the tie-up, the top managers of Chrysler and Fiat planned and operationalized major synergies that aimed at a common R&D platform, restructuring, streamlining global operations, and image building in both companies (see Table 3 and Figure 3). Both Chrysler and Fiat raised their quality ratings and established dealer networks in Europe and the U.S. Although downsizing was pursued to cut cost and operations, this did not cause the companies to lose sales. Both firms developed common assembly platforms in those sectors where technologies were similar. As of 2012, the alliance has brought major savings in the areas of joint product development, supplier networks, and dealer networks (see Table 3 and Figure 3).
2. **Problems that surfaced in the post-alliance integration:** In the post-alliance integration, Fiat's sales declined in the European markets in 2011 because of the economic downturn. Dealing with labor unions in Italy and their work ethic-related issues also hampered corporate efficiencies in the alliance. Chrysler's U.S. operations mostly went well because of stable financial resources and sales (see Table 3 and Figure 3).
3. **Globalization and the changing global auto industry:** Globalization is a major force impacting countries and their industries.²³ The same applies to the global auto industry, which continues to be dynamic yet highly competitive in sales and market shares (see Figure 2 and Table 2). Regardless of the auto industry's consolidations and mergers and acquisitions, there are opportunities available to those companies that introduce new technologies and auto models. Chrysler and Fiat may have a good opportunity to target the small car and hybrid segments. If planned accurately, both companies have the potential to target the middle classes in North America, Europe, and emerging markets.
4. **Evaluating Marchionne's leadership:** As of 2012, Marchionne enjoys a great reputation in Italy and

¹⁹ Reed, J. (2012). In the slow lane. *Financial Times*, (February 2): 7.

²⁰ For more information on alliances and collaboration, see: Anwar, S. T. (2012). Strategic Alliances, JVs/IJVs, M&As, Interorganizational Cooperation & Related Links. (http://wtfaculty.wtamu.edu/~sanwar.bus/otherlinks.htm#StrAlliances_JV_MAs). Accessed on February 22, 2012.

²¹ For more discussion on the concepts, theories and problems of strategic alliances, see: Doz, Y. L., & Hamel, G. (1998). *Alliance advantage: The art of creating value through partnering*, Boston, Massachusetts: Harvard Business School Press; Dyer, J. H., & Hatch, N. W. (2006). Relation-specific capabilities and barriers to knowledge transfers: Creating advantage through network relationships, *Strategic Management Journal*, 27, 701–719; Kuglin, F. A. (2002). *Building, leading and managing strategic alliances*, New York: AMACOM.

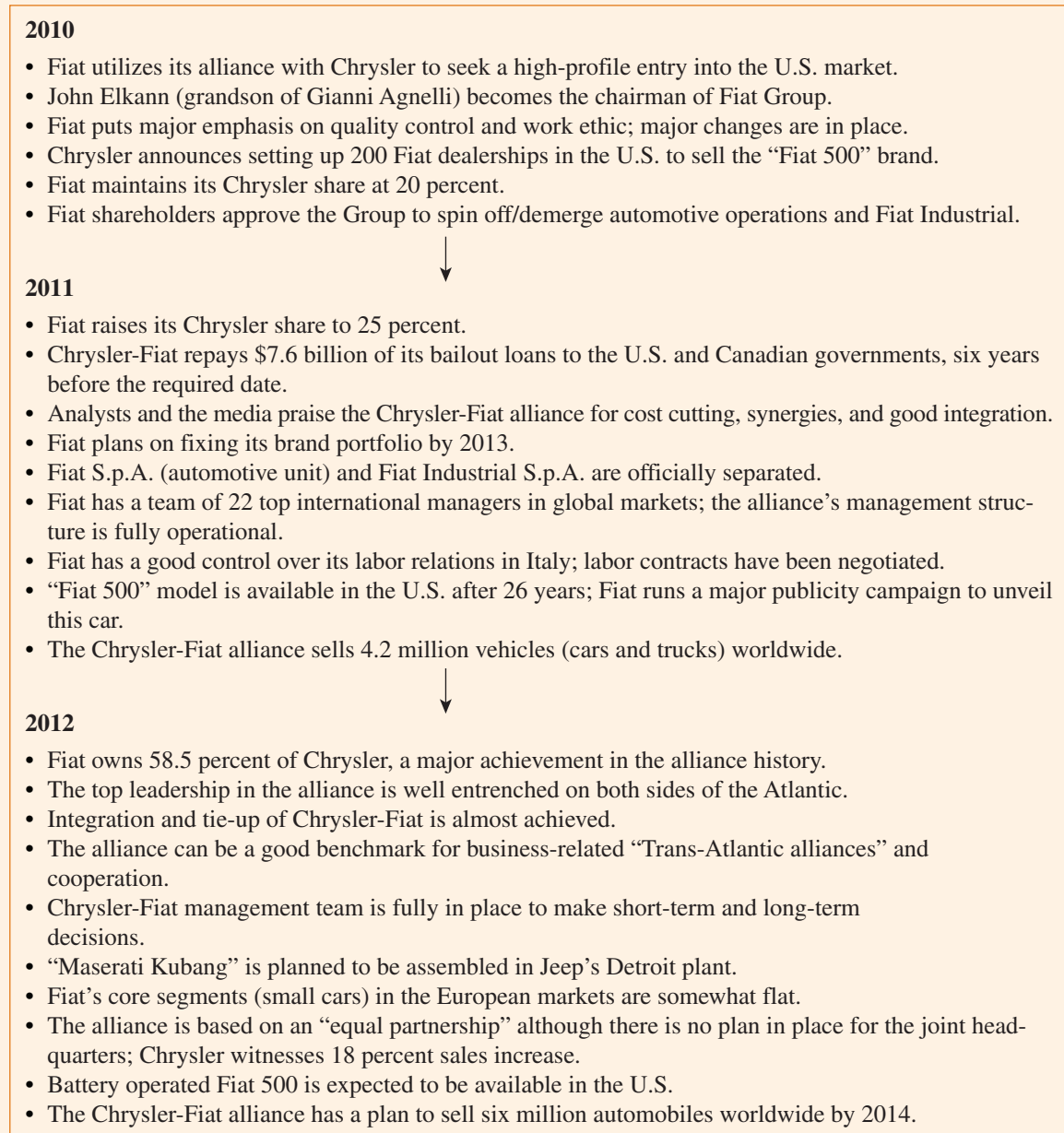
²² Lynch, R. P. (1993). *Business alliances guide: The hidden competitive weapon*, New York: John Wiley & Sons.

²³ See: Anwar, S. T. (2007). Global business and globalization. *Journal of International Management*, 13(1), 78–89; Anwar, S. T. (2011). Internationalization, investment opportunities, expansion strategies, and the changing telecom industry in the MENA region, *The Journal of World Investment & Trade*, 12(6), 891–917.

TABLE 3 Chrysler-Fiat Alliance: Selected Coverage and Reporting by the Print Media (2009–2012)

<i>“Alliance with Fiat gives Chrysler another partner and lifeline”</i> (NYT, January 21, 2009, p. B1).
<i>“Chrysler’s new ally takes a pragmatic approach”</i> (NYT, February 3, 2009, p. B1).
<i>“After its turnaround, Fiat finds an opportunity with Chrysler”</i> (NYT, April 1, 2009, p. B4).
<i>“Possible Chrysler savior Fiat has low reliability scores”</i> (USAT, April 1, 2009, p. 2B).
<i>“Chrysler ax falls across U.S.”</i> (WSJ, May 15, 2009, p. A1).
<i>“Fiat CEO sets new tone at Chrysler”</i> (WSJ, June 19, 2009, p. B1).
<i>“Fiat goes full throttle in restructuring plan”</i> (FT, June 19, 2009, p. 15).
<i>“Chrysler to make Fiat in Mexico”</i> (WSJ, August 17, 2009, p. B2).
<i>“Italians get to work at Chrysler”</i> (FT, September 4, 2009, p. 14).
<i>“Fiat plans to spend \$11 billion on growth”</i> (WSJ, December 23, 2009, p. B1).
<i>“A long haul for Detroit’s prince”</i> (FT, January 14, 2010, p. 11).
<i>“Dual control”</i> (FT, February 20–21, 2010, p. L and A17).
<i>“Fiat to spin off non-car divisions”</i> (FT, April 22, 2010, p. 15).
<i>“Chrysler ads aim to rebuild image”</i> (WSJ, June 9, 2010, p. B1).
<i>“Chrysler to set up 200 Fiat dealerships”</i> (NYT, July 7, 2010, p. B2).
<i>“Fiat pushes work ethic at an Italian plant”</i> (FT, July 23, 2010, p. B1).
<i>“To counter slump, Chrysler plans new-model barrage”</i> (WSJ, September 15, 2010, p. B3).
<i>“Marchionne’s gamble”</i> (FT, September 20, 2010, p. 7).
<i>“Chief says Fiat may try to add to stake in Chrysler before a public offering”</i> (NYT, January 4, 2011, p. B4).
<i>“Marchionne upends Chrysler’s ways”</i> (WSJ, January 12, 2011, p. B1).
<i>“Fiat’s CEO presses Italy for changes”</i> (WSJ, February 16, 2011, p. B4).
<i>“Fiat plans a ‘product offensive’”</i> (FT, March 3, 2011, p. 16).
<i>“Chrysler bail-out is a working model”</i> (FT, April 27, 2011, p. 8).
<i>“Resurrecting Chrysler”</i> (WSJ, July 3, 2010, p. A9).
<i>“Alfa Romeo readies a stirring stateside return”</i> (WSJ, April 16–17, 2011, p. D12).
<i>“Fiat takes Alfa Romeo for a U.S. test drive”</i> (BBW, April 18–24, 2011, p. 19).
<i>“Payback time at Chrysler”</i> (WSJ, April 29, 2011, p. B1).
<i>“Marchionne settles \$7 billion bill with taxpayers early”</i> (FT, May 28–29, 2011, p. 9).
<i>“Fiat has U.S. share deal”</i> (WSJ, June 3, 2011, p. B3).
<i>“Fiat weighs majority in Chrysler”</i> (WSJ, July 21, 2011, p. B3).
<i>“Fiat management team takes reins at Chrysler”</i> (WSJ, July 21, 2011, p. B3).
<i>“Fiat acquires majority share of Chrysler”</i> (WSJ, July 22, 2011, p. B4).
<i>“Fiat and Chrysler closer to full tie-up”</i> (FT, July 25, 2011, p. 17).
<i>“Joint structure for Chrysler and Fiat”</i> (FT, July 29, 2011, p. 14).
<i>“Chrysler’s turnaround gets wheels”</i> (WSJ, October 26, 2011, p. B4).
<i>“Fiat’s chief faces hard fight on the home front”</i> (FT, October 26, 2011, p. 13).
<i>“Chrysler gains momentum”</i> (WSJ, December 14, 2011, p. B3).
<i>“Fiat jumper-clad revolutionary”</i> (FT, December 17–18, 2011, p. 13).
<i>“The Fiat 500C can’t fail – not for lack of trying”</i> (WSJ, December 17–18, 2011, p. D16).
<i>“Power steering: How Chrysler’s Italian boss drives an American auto revival”</i> (TM, December 19, 2011, p. 36).
<i>“Chrysler hits profit stride”</i> (WSJ, February 2, 2012, p. B2).
<i>“A merger once scoffed at bears fruit in Detroit”</i> (NYT, January 10, 2012, p. B1).

Note: BBW—Bloomberg Businessweek; FT—Financial Times; NYT—New York Times; TM—Time; USAT—USA Today; WSJ—Wall Street Journal.

FIGURE 3 Major Developments and Achievements of the Chrysler-Fiat Alliance (2010–2012)

Source: *Automotive News*; *The Economist*; *Financial Times*; *Fortune*; *The New York Times*; *The Wall Street Journal* (various issues).

North America (see Table 3). Under his leadership, the alliance has worked well and continues to seek additional synergies (see Figure 3). Originally trained as a chartered accountant and solicitor, Marchionne joined Fiat in 2004. He received a master’s degree in business administration from the University of Windsor and worked for SGS S.A., a Swiss company that dealt with trade goods.²⁴ Under his

tenure at Fiat, Marchionne was able to convince the board to seek major changes in difficult times.²⁵ Marchionne sought a planned and systematic restructuring of Fiat by concentrating on new technologies and consumer issues. Fiat successfully realigned its management structure and was able to show a profit.

5. Brand portfolios and branding issues: As of 2012, Chrysler and Fiat’s brand portfolios seem compatible and are competitive in global markets (see Figure 1). Both

²⁴ For more information on Sergio Marchionne, see: *The Economist*. (2009). Pedal to the metal, (April 25): 72; Meichtry, S. (2009). Fiat CEO builds record of bold strategic moves, *The Wall Street Journal*, (January 20): A13; Reed, J., & Vincent B. (2009). Fiat’s front-seat driver, *Financial Times*, (January 24–25): 7; Wayne, L. (2009). New leaders hold Detroit’s prospects in their hands, *The New York Times*, (March 31), B4.

²⁵ Marchionne, S. (2008). Fiat’s extreme makeover, *Harvard Business Review*, (December): 45–48.

manufacture small cars that are in demand because of high gasoline prices and cost issues. In their alliance, the companies have successfully pooled their resources together to consolidate brand portfolios that aim at significant cost savings in R&D and technology platforms. The companies' joint dealer networks have brought required savings and efficiencies.

6. **Company-specific issues:** History books reveal that Fiat left the North American market in the eighties because of its weakened market share, quality problems, and mismanagement. To re-enter into the North American market, Fiat needed a well-established auto manufacturer that knew the market and had the technology available. In 2008, Chrysler was the only choice available for this tie-up. As we evaluate the Chrysler-Fiat alliance in 2012, it is clear that the tie-up was a logical choice on the part of Fiat, which desperately wanted to come back to North America for future expansion and growth.
7. **Dealing with government loans in North America:** In May 2011, Chrysler-Fiat repaid \$7.6 billion of its loans to U.S. and Canadian governments, six years ahead of their due date.²⁶ This was a major achievement of the Chrysler-Fiat alliance and its credibility in the auto industry. Initially in 2009, the Obama Administration initiated the auto bailout by specifically targeting GM and Chrysler. This step was taken by the U.S. government because of Chrysler's losses that amounted to \$8 billion. Under the auto bailout plan, Chrysler was given \$4 billion with strings attached.
8. **Availability of Fiat's technology platforms:** One of the major clauses of the Chrysler-Fiat alliance was its technology-sharing agreement. Fiat supplied four technology platforms and two types of engines to Chrysler. This helped Chrysler to get involved in small cars technology.²⁷ In Europe, Fiat was always known for its "small car production model" that particularly helped the company to seek recovery since 2004.²⁸

SYNERGIES AND CHALLENGES AHEAD

At the time of Chrysler-Fiat's alliance, analysts and industry watchers were not sure of the success of the tie-up. As we evaluate the alliance in 2012, the companies' tie-up carries a long-term synergy and has benefitted immensely in cost savings, corporate integration, common technology platforms, and distribution networks. The alliance has brought synergies in those areas of production where the companies were similar (see Figure 3). The alliance did face challenges and some obstacles in the areas of brand portfolios, labor unions, management structures, and integration. Fiat had been successful in Europe but lacked visibility in North America. Chrysler, on the

other hand, had a brand name in North America but was short of dealer networks in the European markets. Both companies' brand portfolios were reinvigorated in the alliance structure to reap benefits from economies of scale. This did cause a few delays and disruptions. In 2012, both Chrysler and Fiat carry acceptable brands and deliver consumer benefits.

Although the alliance's major objectives have been achieved in the areas of cost, technology sharing, global integration, and R&D platforms, some work remain incomplete in global integration and common assembly platforms. Chrysler is no longer the laughing stock in the auto industry. Marchionne and his top global managers' initiatives have been praised by the media and industry analysts because of their well thought-out plans and unique tie-up of the two companies. Both companies have been credited with crafting a successful "transatlantic auto alliance" that continues to remain at the helm of the ship. Just a few years back, a long-term alliance between two auto companies from two different cultures was unthinkable. In academic and practitioner research, alliances, mergers, and corporate tie-ups always attract researchers because of their known and unknown outcomes and synergies. At the same time, these activities can also bring tangible benefits if managed properly. As of 2012, Chrysler and Fiat seem to be in a good position regarding capitalizing on the alliance. Above all, Marchionne and his top managers and advisors are firmly in control of the ship that was in troubled waters just a few years ago. We finish this case with Colman and Lunnan's insightful and thought provoking comments from the *Journal of Management* that apply to the Chrysler-Fiat alliance:

*"The objective of an acquisition is to create value. Value can be created through the integration of the target and acquiring firms' organization and activities.... Expected value motivates the deal, whereas serendipitous value arises primarily from the sharing of knowledge between the target and acquirer during the integration process, which can result in new, superior but unexpected procedures and processes."*²⁹

Case Questions

1. What are your views of the Chrysler-Fiat auto alliance and its status in 2012?
2. Analyze and evaluate Chrysler and Fiat's strengths and weaknesses before and after the alliance.
3. Compare and contrast Chrysler and Fiat with other auto manufacturers.
4. Analyze Chrysler and Fiat's 2012 brand portfolio in the world auto industry. How do you see both companies making changes to compete with their competitors?
5. What did you learn from the Chrysler-Fiat Alliance and its integration strategies?

²⁶ See: Reed, J. (2011). Marchionne settles \$7 billion bill with taxpayer early. *Financial Times*, (May 28–29): 9.

²⁷ Simon, B. (2009). Time is tight for Chrysler in drive for reinvention, *Financial Times*, (May 4), 15.

²⁸ Boland, V. (2009). Rome throws weight behind Fiat pact, *Financial Times*, (May 2/3), 9.

²⁹ Colman, H. L., & Lunnan, R. (2011). Organizational identification and serendipitous value creation in post-acquisition integration. *Journal of Management*, 37(3), 839.