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**Interview with two vice-presidents  
of Renault at their head office**

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## ***Preface***

This interview was held in March 2005 as part of a program to survey the European automobile industry, funded by a Ministry of Education, Culture, Sports, Science and Technology grant for scientific research.

After presenting the contents of the interview, conducted in a question-and-answer format with two vice-presidents at Renault's head office, we give a summary at the end of this document. The interview was arranged through the kind concern of the public relations

departments of Renault Japon and the head office of Renault. First of all, we wish to express our thanks to both PR departments. We are also grateful for receiving their permission to carry the interview report here.

The two vice-presidents interviewed are Mr. Georges Douin, executive vice-president in charge of strategic and product planning, international operations, and Mr. Jacques Verdonck, who is responsible for corporate and strategic planning. Mr. Douin is reported to have retired in June last year. According to the PR department of Renault Japon, Renault's business strategies have been undergoing considerable changes since Mr. Carlos Ghosn's return to Renault. We would like to note that the interview reflects the state of affairs before such changes.

The questions asked cover a wide range of topics — the results and features of the Renault-Nissan alliance over the last six years, Renault's global business operations, how to gauge the synergy of the two companies, quality standard evaluations for joint purchases of component parts by both companies, establishing the identities of individual products, the method of mutual study between the two companies, Renault's business strategies in Eastern Europe and Russia in the context of the expansion of the EU, mutual study of production technology between Nissan and Renault, the difference in development lead times and model change cycles between the two companies, achieving commonality of their respective platforms, the method of their joint product development, and finally what makes the Renault-Nissan alliance different from that of other automakers.

### ***Evolution of Renault-Nissan Alliance***

**Shimokawa:** Six years have passed since the Renault-Nissan alliance was formed, and Mr. Ghosn will be returning to Renault this year. We can see several important steps or stages, like the Nissan Revival Plan, over this time period. We can also see that the alliance contents have deepened as the relationship has developed. Nissan's global business has also been strengthened and the same can be said of Renault too. The importance of the Chinese market has also clearly increased.

**Verdock:** It has been a continuous process. It is not accurate to say that the alliance has changed very much after the NRP. From the beginning we decided to establish Cross

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Company Teams (CCTs) and Functional Task Teams (FTTs) were established. These were mainly opportunity hunters for developing synergies and enhancing the profitability of each company. Each team contributed to the success of NRP, and they continued to work after NRP because it is long-term business when we talk about developing powertrains and platforms. It does not take only two years to implement. It takes a long period of time.

So, from the alliance point of view, we do not see that there is a break or a change after NRP. For sure when we consider Nissan as a company, it is something different. NRP was coming back to the black. Thereafter was the expansion and sustainable growth of Nissan which was demonstrated. Nissan 180 was one main task of the whole management team of Nissan.

It is important to say that as far as Renault is concerned we concentrate our efforts during the first two years of the alliance to help Nissan succeed in NRP. Thereafter, for sure, we supported the efforts of Nissan, but we also looked forward to have a balanced success for both Renault and Nissan. All the things that have been decided through the CCTs and FTTs had to demonstrate that they were win-win for the alliance. It means a win for Renault and a win for Nissan. There is no way to develop something in common where one party is losing and the other is winning. This guided all the efforts of the CCTs and FTTs from the end of NRP to now.

This work is still going on. There is no end. We could measure the impact of the synergies. It was possible to measure it because we can say that we would not have been able to achieve all these things if we were alone. But there comes a point in time where it doesn't mean anything, because six years have passed. We can't say what would have been the situation of Renault if we had been alone. Therefore, we could measure the impact of the synergies for the first three years. After that, it is impossible to measure.

**Verdock:** Within the alliance, today we have set up 19 CCTs and 4 FTTs. The number of these teams changes depending on the priorities of the alliance.

The CCTs are joint teams made up of Renault and Nissan people, with co-leaders, one from Renault and the other from Nissan. There are also 2 pilots, again one from Renault and one from Nissan. They meet regularly. They are opportunity hunters. They are charged with improving the business of each company. They make proposals to the boards of Renault and Nissan, and they work it out. They make sure that these proposals are implemented at

Renault and Nissan.

Cross Functional Teams (CFTs) are something different. Each company has from before the alliance vertical organizations, like R&D, etc. So the idea of CFTs is to cross all of these vertical boundaries and work on specific tasks. This was implemented at Renault before the alliance, particularly when Mr. Ghosn came to Renault in 1996. At Nissan, CFTs were also introduced, but it had nothing to do with the alliance. It was done within Nissan.

### ***Alliance Synergies and Benefits***

**Shimokawa:** How do you handle the issue of measuring synergies when you are faced with different cultures in each company?

**Verdonck:** I can speak about how we measure the efficiency of the actions we developing today within Renault and Nissan. When we decided a project it should make sense economically speaking for each company. It is easy to measure. For example, I will get a lower price from the supplier if I purchase 200 units rather than 100 units. So, it is easy to measure the impact of joint action. This is the case for everything. If we decide, for instance, to develop a common engine, you can measure how much you win on each side because you develop it jointly. It is easy to measure.

**Shimokawa:** But in some cases, for example, like in common purchasing, cost evaluation is very clear, but if the contents of the quality, the standard and the way of thinking at Nissan and Renault, are different, how do you measure these?

**Verdonck:** It was a tough issue. It is not any more. Because we have decided that quality will not be a differentiator between Renault and Nissan. We have decided to set up the same standards of quality for Renault and Nissan. It does not mean we have downgraded one. In fact we are looking for at the top level of quality for both companies. We recently set up, what we call, Vision Destination for the alliance, where we set clear objectives for the alliance. One of these is to be among the top three of manufacturers worldwide for each product and service for each company.

Of course there are a lot of charts and processes that are common from the design of a new product up to the in-service of a project. We have a Quality Charter. We have set milestones in the development of a program where we have to make sure that we fulfill the

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quality criteria of a product, which are the same between Renault and Nissan. Therefore, for the cost issue, we cannot say that we will take a lower cost for one company because it is a lower quality. We take a lower price, because we are a winning alliance. We are upgrading the quality of both brands.

In sales and marketing, we benefited a lot from this alliance. It allowed us to come back to countries, such as Mexico, where we were not prior to 1999. A few months after the alliance started, we decided we could come back into the market by having some of our product manufactured in the Nissan plant. And develop a network based on some Nissan dealers in Mexico. So, very rapidly we could sell many thousands of vehicles in Mexico and be profitable one year after the start of the operations, which is a very successful synergy. We could do the same also in Mercosur, where we decided jointly to set up a plant for commercial vehicles in Curitiba (south of Sao Paulo), which we probably would not have done alone. But as Nissan was coming with us it was possible to justify the creation of the plant because we could manufacture a sufficient number of products to fill the plant.

Also, in the commercial sector, Nissan benefited a lot from the alliance, for instance in Europe, when Nissan decided, and we decided jointly, to allow Nissan to cross badge some of our commercial vehicles. It increased the volume of commercial vehicles we had to manufacture and in such a way we could decrease the cost of our product because of higher volumes.

In other regions of the world, in Korea for instance, we fully benefited from Nissan support. As you know, Renault Samsung Motors is a plant that nowadays belongs to Renault. But before it was acquired by Renault, this plant was a plant under cooperation with Nissan, which means that the plant itself was according to the NPW. The vehicles were licensed by Nissan. Therefore, we could benefit from the full support of Nissan to enhance and improve the product range of RSM since the beginning. RSM has nearly 10% market share in Korea. It is a success. It is a profitable company. We are going on with developing this company with the help of Nissan. I am not sure we would have had such a success without the Nissan support in Korea.

**Shimokawa:** What do you think is Nissan biggest improvement with Renault's support? For example, management capability reconstruction is one of the very important issues, especially after Nissan had essentially lost its strategic way in Europe and the US.

**Verdonck:** It is difficult to summarize. I think it is a whole set of measures, and the willingness to build something that is well balanced between Renault and Nissan, which makes the success of the alliance.

Of course we can say that one key element was the shareholding of Renault in Nissan. In fact, we brought a lot of cash to that company. It was necessary. I think otherwise nothing was possible. It was a very huge investment for Renault. That means we were looking for payback on this investment. Therefore, we were very keen that this investment be profitable and justify the many efforts we had developed in the beginning. It also must justify the fact that we had dedicated a very high-level management team headed by Carlos Ghosn to this company. I think this is the first point.

### ***Pursuit of Both Unique Product Identities and Commonization***

**Shimokawa:** Please describe how you coordinate unique product identities, platform commonization, different model change cycles at each company, etc. to get win-win.

**Verdonck:** We are very careful to coordinate but not to mix. Each company should keep its own culture, its own identity. We don't have to change the identity of Renault or Nissan because the alliance exists. Therefore each company has to run its strategy according to its own identity. This is true also for the products we are developing. But this does not mean that we can't do anything, that we can't work together. You can have common engines, common gearboxes, a lot of common components, air conditioner, for instance, which can fit in similar products or even products from different segments.

It is a big puzzle, where we can play together. But each company is sticking to its own identity. This is not an easy task. We definitely do not want to limit the development of either Renault or Nissan due to the alliance. It should help each company to develop. It should not be a stumbling point.

**Shimokawa:** When we met before you (Mr. Douin) explained to me that, for example, in the Seat/Volkswagen case, from the viewpoint of product development engineers, you can understand how the Seat engineers might be quite annoyed. Of course, their platform originally came from Volkswagen in Wolfsburg. So, how do you coordinate both company's innovators at Renault and Nissan, with their quite different way and philosophies toward product. Of course, mass-produced cars, like the Micra and Clio, are available, but in the



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case of other types of cars, it seems to be somewhat different situation, with more difficulties. How do you coordinate this commonization strategy?

**Douin:** I don't know how Volkswagen has evolved recently, but some years ago their claims about platforms was that they were very mandatory. It was a must. There was very limited freedom to change. There was a range, but at the end of the day, a Seat was very close to a Volkswagen.

**Verdonck:** It was not only the platform, but also the body.

**Douin:** There was a huge focus on the limitation of diversity, the axle, the powertrains, the instrument panels, and so on. In the case of the (Renault-Nissan) alliance, in the beginning the CEOs put some pressure to make sure that people worked together. But now they are quite happy with the way people are working together. So, there is more freedom to differentiate in any way.

Another important issue is that we are absolutely convinced that there is not any more any "world car" definition. There are very significant differences between Japan, Europe, and the US. So, even Nissan, has to make quite significant differences for the same car in Europe, Japan, and the US. Nissan's scope is wider than Renault's. Renault is mainly Europe, with the rest of the world maybe 20 or 25%. Nissan is really free with its targets. Among the various targets of Nissan, we can easily find differences. For instance, the Japanese March and European Micra are not the same. One is focused for fuel economy in Japan. One is focused for safety in Europe. One has the diesel. So, now, I think we have worked together for 5 years, people are speaking with more freedom about the specific needs of the European market, the B-segment, C-segment, the estate, multi-purpose vehicles being different from hatchbacks. So at the end it is a complete mix, a complete combination. You may use some components from the bank of components, but it is not exactly in the same type of cars, face to face.

For example, in Europe, the 2-liter engine displacement is a key level for different reasons. So our gasoline engine is 2 liters. Beyond 2 liters, we have the turbo version, which has more power. But this is unique to Europe. When we decided to have an SUV made in Korea at Renault-Samsung, we thought that this 2-liter turbo was too short and would not be accepted by Korean customers. So, we went to Nissan, and we could find in the Nissan bank

of engines, a 2.5-liter, which was the right answer for such a vehicle. This is Renault's only use of this engine. By the way, this engine will also be used by Nissan for similar SUVs. So, this is a good savings. For Nissan, they did not have enough (work done) on diesel engines, and we said to them, we shall work on this. So, you can see that it is case-by-case, on what to share.

We are not condemned to reach, say, 80% commonality. (This would be) a mistake (from the view) for customer expectations.

**Shimokawa:** As you mentioned, Nissan and Renault are still pursuing commonization strategy, but how do you coordinate the different ways of thinking at the two companies? My feeling is that the modularization contents may be different and each car category may be quite different at each company.

**Douin:** Maybe you are right. Probably what is most difficult to mix is the engineering backup. Let's take a critical issue, like painting. We do not have the same way of painting cars. It seems surprising. But this is (an issue) with twenty years history. Twenty years ago, Renault has some problems with rust in Germany. But we had additional progress and now we are clear with twelve years durability for rust. We have a quite complex (system) for paint protection and painting. The engineers do not easily want to change this, because they are afraid that they will put at risk (this performance) if they change. Nissan has another approach, and they are also good. But it is not the same approach. So, when we want to make two cars in the same factory, we want to paint them on the same line. This is a difficulty. To say that we want one unique painting system, it would require a long learning process to be sure, and so on and so forth. So, this will take a long time. But, for instance, for the platform and the modules it is easier. For instance, what is the difference between two platforms? Basically it is, in the front end, do we have a diesel or not? Do we sell this diesel in Europe or not? This basically fixes the requirements for the front end of the car, for the weight, the safety, the front axle of the car, and so on. For the rear part of the car, is it a hatchback for a passenger car? Is it an estate? Is it multi-purpose? What kind of weight and handling system do you require in the back of the car? So, if we agree on the targets, then we can quite easily agree on the answers. So, I think the modules and parts approach, also led by RNPO, our common purchasing organization, we want to have the same parts, with common suppliers, is doing well. The difficulty is the backup technology of each company. This is not that there

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is a suspicious way of each party. It is not this. It is rather that we know it works, so we are not really open to change when it works.

**Shimokawa:** In my feeling, American companies, like GM and Ford, introduced too much modularization and did not try to do parts commonization, and only used big modules aiming for economies of scale, and then their product year-by-year became not very differentiated. It is still a problem.

**Douin:** Getting back to the current issue, we do not have the same problem as the other French group, because we are not brothers in the same area. Seen by customers, this is a Japanese car against a French car. Even in the SUV, we have exactly the same cars in the SUV (segment), but we can do it in a better way than Peugeot and Citroen, who are really the French brothers. When they sell a Citroen it is (viewed) against a Peugeot. Within the same group, I think it is more difficult to play this game, than when you are two far cousins, as we are.

### ***Mutual learning***

**Shimokawa:** If you look back on your four years of experience on the alliance committee, can you describe what mutual learning, Nissan from Renault and Renault from Nissan, has happened?

**Verdonck:** I think it is a never-ending process. We say that each company should be run under its own management processes, its own management board, with its own autonomy. Therefore we learn everyday from the other, because these are different companies. We develop benchmarks between each company, which means that it is a never-ending process. Maybe we can each imagine new ways of development or manufacturing. Everyday we can learn from them, and vice-versa.

**Heller:** Could you please give more details on what Renault has been learning from Nissan and how that has been evolving?

**Verdonck:** There are different fields of activity where we have learned from them. In the manufacturing sector, for instance, Nissan implemented the Nissan Production Way. A few months after we signed the alliance, we decided to implement a copy of the NPW, which is

called the Renault Production Way. This is not the NPW; it is Renault's. We have taken the best features of the NPW and adapted them to the Renault culture, and we are implementing it for more than six years now. It is quite efficient. We have improved the productivity and the quality performance within our plants.

What we have learned also how to launch a vehicle in a short period of time. The ramp-up period at Renault was not as efficient as what we are doing currently today. This success is a result of the benchmark we carried out with Nissan.

Sticking to manufacturing, we learned how to invest in a better way, limiting the amount of investment, having more efficient investment, having more carryover which was a current practice in Nissan, but it was not the case in Renault.

In the engineering sector, we have also learned how to develop in a shorter period of time, even though we have a lot of progress to make. I do think we will get a lot more from the alliance in the years to come, than what we have achieved today. We can shorten development. We can limit the number of prototypes to be more efficient in the number of prototypes.

In the purchasing sector, we learned from them how to manage more efficiently the suppliers in terms of quality. We had some experts from Nissan come in, who were working full time in Renault so as to implement this way of working with the suppliers. The suppliers are very happy also to get these advices from Renault and Nissan.

**Higashi:** I am interested in the production line. I think NPW and RPW are so different. Please explain how Renault learned from Nissan in production.

**Shimokawa:** Last week we visited the Nissan plant in Newcastle, England. It was very interesting what they are doing in synchronization. Last year we went to Spain and visited your Palencia plant and the Barcelona Nissan Iberica plant, which is producing your commercial vehicles. They told us that in the Renault and Nissan Production Ways the essential points are the same, but somehow there are different ways of thinking still there too.

**Douin:** The global approach is to learn from Nissan, as you say, and to adapt the performance of Nissan to European conditions. Second, from our global experience with Japanese OEMs, in particular with Nissan, is that they are focused mainly on physical

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performance. And in sometimes the cost performance is not directly optimized in the same way as physical performance. An example, I think we have started the program now in a very careful way, about final logistics to the production operation, where the worker works. He has parts around him and all Japanese OEMs bring to him very small batches. To do this for the sake of the worker, you have to prepare it somehow. Delivering these small boxes several times a day is not obviously cost efficient compared with bringing larger boxes. The same for cockpit preparation, or front-end modules, seats, exhaust lines, etc. It is not always proven that it is less costly to do the preparing ahead of time than to do assemble the parts on the line. These are some things.

However, roughly speaking our ways of measuring performance are becoming roughly the same. So, normally there should not be so much difference between the way of measuring performance at Renault and at Nissan.

**Verdonck:** The way we learned is, in fact, we copied. It's very easy.

**Douin:** Hundreds of people going to the Newcastle plant. And this is important, because we thought it was more important to see them active in Europe than to go to Japan.

Another thing we learned from them, for instance, is the need for perfect quality coming from the supplier: the supplier's PPM. The quality when the parts enter the factory. If we don't trust the supplier to reach it, we should put our own control at the entrance, which had been eliminated. Second, in many of our factories, mainly for luxury cars, we have re-introduced check men. This was also a requirement given from the Nissan expertise. That we need to put people at various points on the line to check quality at different stages. The same is true at the entrance of the line and end of the line, a check for quality.

**Heller:** May I clarify something... You used to have check men at Renault for incoming parts?

**Douin:** Yes. Ten years ago, we had check men for incoming parts. Then, we got rid of them because we thought we had to trust the suppliers, and we asked suppliers to do the job. Now we have re-introduced them when needed. The suppliers have now dramatically improved their quality. Let's say that five years ago, there was a range of 500 PPM, now we are down to 80 PPM.

This also was a method that Nissan also helped us in the way of managing the quality of

the suppliers. We had a man in our plant, Mr. Sato, and we have introduced the Sato system--it involves step-up or rank-up of suppliers. This has become a reality now. And also the suppliers are doing it themselves for the second-tier suppliers.

**Heller:** You mentioned the importance of keeping the identities of the two companies independent and self-propelling, but it would seem that this copying of each other could be diluting the identities.

**Douin:** No. There is no risk or any issue about it.

**Heller:** But it seems like it could be a tradeoff if it is managed poorly.

**Verdonck:** By introducing the Nissan Production Way, it does not mean you are diluting the identity of Renault. You copy the efficiency. So it is not a question of identity.

**Douin:** The risk could be related to the commonality of parts, engines, platforms. But even so we don't consider that there is a risk of diluting the brand identity by using the same parts. Roughly speaking there is not a big difference between a Peugeot and a Renault. (We are) using the same parts from the same suppliers, the same architecture, and so on. The final touch, tuning, design, it makes it (different).

**Heller:** In these final touches, tuning, these will remain very Renault and very Nissan identity?

**Douin:** I think directly and implicitly. Each company has its own history and the output is slowly evolving, but there is a real heritage. The handling of a Renault is nearly always the same. And it is different from the handling of a Peugeot and a Citroen. The tradeoff between comfort and handling (is also different.) So, that is surprising in our industry, at least in Europe. Small details make the difference. Because if you look at, as I said, a competitor's car, such as a Polo or a C3, a 206, and a Clio, (and they are) very close. But sometimes one is much more successful than the other one. It is impressive to see that you can find it really in the details. These details are important and I am always impressed to see in product planning that they are focusing on some detail that they consider will be important. Seen from the viewpoint of the cost department or ergonomics, and so on, (you must ask) why do you ask for this? It is just a detail, but in the end this makes the difference. Including of

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course global design of the car.

But really if you drive a Nissan Micra and a Renault Modus, you will not imagine that they are using a common platform, but I think it is about 50 or 60% of the car is common.

Another thing we have learned from Nissan is to invest in a more efficient way. We invest more than Nissan. But in fact when we make a new car it has more new content than Nissan. They have more carryover than we have. But they are replacing their cars more quickly than we do. If you look in the past, a new European car was a complete event. For example, Citroen switching to the DS, it was a huge event. A complete revolution of technology and so on. So, this of course is decreasing. But even the new Clio, for instance, which we will release in September, we forecast 3 million units... investment in the range of 1 billion Euros. It is a huge event. I don't know, but I don't think there are as many big events in the Japanese industry.

**Verdonck:** Volumes are smaller.

**Douin:** Volumes are much smaller. The total production of each model is also quite short. So, who is right? In Europe, we are closer to the European approach. In Europe, the life cycle is seven years. For mass production cars, (we are) looking for 1 million units or even more.

**Verdonck:** 5 million.

**Douin:** Yes. 1 to 5 million. If you look at a Japanese car, there are not so many that reach 1 million or 2 million. Even the small Twingo, which is a very narrow program, is now more than 2 million units. So the amortization per unit is maybe not so different.

**Shimokawa:** When I met you four years ago you explained that the Nissan and Renault production philosophies are quite different from each other. Not only Nissan, but the whole Japanese industry is shortening lead time and the model change cycle. But Renault's philosophy is more orientated towards gazing at the market trend and trying to understand the customer's mind, brand quality, brand image, and you can evaluate what is the good timing to enter the market. The Japanese way is different, some products are good, but some are...

**Douin:** They are changing, because they are...

**Shimokawa:** What do you think about this now?

**Douin:** I think we now still try to do it like this (way you described). We have improved our development time. Mainly for our more current programs we are down to one batch of prototypes. This was learned from Nissan. So we have only one batch of prototypes, which are quite late. Our prototype batch is made from final production toolings, at the early stage of production tooling. This has become the rule for current programs. If the program is very innovative, then we may still have to (do more prototyping.) Second, as you said, Japanese competitors are learning too. They have benchmarked us. Our way of predicting the consumer tastes. They are quick. And Toyota has become a very good market trend-setter, as well. Toyota, for instance, is the market leader in Europe in the SUV segment, the Rav4. This is impressive. 16% of the market.

In the vehicle engineering, they are working very closely with the Nissan team. They are sharing the same platform. The platform approach has become very sophisticated, the way of speaking about modules and parts. We have improved. Nissan has also improved.

But we do not intend to reach some minimum development time. We are not convinced that this is necessary. Maybe at some point, speed may be costly. If you have a good product planning, normally you should be able to plan a product three years before. You should be on time with a good performance, but not with too costly performance.

### ***Way of working together***

**Heller:** You mentioned the CEOs being happy about the way the people (in the two companies) are working together. May I ask how this working together is done, the actual day-to-day interaction?

**Douin:** We have here the secretary of the Alliance Board, who sets the points of the agenda.

**Verdonck:** We have monthly meetings, where we review the work of each CCT or FTT. When it is time for decision making at the board, we have 8 members, 4 coming from Nissan and 4 from Renault. We discuss and we make the decision. In fact, there is no vote at the level of the board, but the decision is usually taken after discussion.

**Douin:** And sometimes we say that there is not enough reason to have differentiation, and we will have only one. But other times we say that there are good reasons to have



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differentiation and we will accept the differentiation. For example, this year we will have discussion about reviewing our engine policies, because we think we are not as advanced in the engine convergence. There are such differences between Japan, the US, and Europe. So, it is quite complex. So, we are behind in engine convergence as compared with the vehicle. So, we shall have two or three meetings about diesel engines and gearboxes.

**Heller:** Moving away from the planning, I am curious about the implementation of the strategies made by the CCTs or other programs. How is the day-to-day interaction of Renault people with Nissan people doing joint product development, the teamwork? How is that managed? Could you describe this interaction?

**Douin:** Generally speaking one company develops and the other one follows. So, it is not 50:50 shared development, because our experience is that this is not good.

**Verdonck:** It is like this for platforms or engines. One company develops for the other.

**Douin:** In such a case, there are different steps of common discussion: product planning, product requirements, technical specifications, and then if we agree that such a new engine will have a chain instead of a timing belt, the engineering company makes it happen. The other one has just a few people, maybe 1 to 5 people, to follow. This is the way we have done it for manual transmission which will be out this year in the coming few weeks. It had Renault leadership.

**Verdonck:** For gasoline engines, we did it (this way). It was developed by Nissan.

**Douin:** Nissan made together an engine, a 1.6 and 2-liter. And Renault will roll out a diesel engine for the alliance, but mainly it is a Renault engine. I would say 90% Renault.

**Heller:** So it is not outsourcing engineering work to Nissan (in this case), primarily just done by Renault?

**Douin:** Well, it is case-by-case. What is the best company to be the engineering company? We really have the concept of one company being the engineering company and the other (being the following company.)

**Verdonck:** In fact, the product is co-owned. It is not a Renault product purchased by the

other one.

**Douin:** It is a 50:50 split.

**Heller:** Even though one company leads, the end product is shared.

**Verdonck:** This is not only for intellectual property rights, but also in terms of expenses. One company develops the whole of the project, but it charges back the other company 50% of the cost.

**Douin:** We have complete contracts, exactly as if we worked for Peugeot or Volkswagen. Very clear contracts about costs, investment, quality, planning. But by exception, we may decide not to have common parts. For instance, if Nissan decides to develop of new V8 (but we have no interest in a new V8, we will not co-own it just for the sake of having a V8.

**Verdonck:** In such a case though, we could still have a buyer-supplier relationship.

**Heller:** For example, the one used in the Korean SUV, you mentioned. If it is the only case that Renault is using it, you could just have Nissan supply it, rather than jointly own it.

**Douin:** Yes. In the case I spoke about, the engine is bought out from Nissan.

**Shimokawa:** When I met you before, you mentioned the importance at Renault and Nissan of the basic philosophy of each company respecting each other's culture. Maybe I guess this philosophy is continuing and being strengthened, but if we look other globally reorganized companies, like DaimlerChrysler or GM-SAAB, where we see more consolidation, the results do not always seem to be very good. If you compare other company's way of making an alliance with Renault-Nissan's way, which is better?

**Douin:** I think this is the key success of Mr. Schweitzer's strategy. The other night he gave a speech in India, he was very clear again on this point. He has purposely managed the alliance so that it will not be seen as a merger by the other party. We prefer to have some tough discussion, to have some counter proposals, and to negotiate step-by-step in the meetings rather than to have some kind of imposition coming top-down. With the help of Mr. Ghosn on the other side, who himself has very strong leadership, the Nissan party was a real counter party. It was not just like a subsidiary that will accept anything. So, Mr. Schweitzer the other

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night insisted that this was a unique example, and he expected that this would not only be successful for the past five or six years, but that he was sure that Mr. Ghosn will go ahead with the same double way of management. In each meeting that Jacques (Verdonck) spoke about, when we select an engine, when we select a site, it is after the two parties have made proposals to look at which is the best proposal. (This is) the best kind of competition between the two parties. Of course, this may be destroyed if there is some mismanagement. But we believe we have good managers at the top of the companies. Maybe Mr. Schweitzer and Mr. Ghosn are among the best we have today in the automotive industry compared to some other one at least.

This (way of cooperating) is part of the success. We are at 44% (ownership) of Nissan. It makes us the main owner, like a control situation, but it is not like 51. It is not 51 or 49, it is just 44%. If there is a challenger coming in, then we can ask to fight against it to reach 51. But this is not the purpose. The purpose is to remain as it is, and to succeed as often as possible common works, common components, common platform sharing, etc. But as much as possible we are not supposed to do it at whatever cost.

But if we meet again four years from now, we will have to ask it again, because I will not be in the business. I will be just watching.

### ***Views on various overseas markets***

**Shimokawa:** Please explain Renault's strategic philosophy towards China.

**Verdonck:** This is a case that illustrates quite well what the alliance could bring to each company. First of all, if Renault goes to China, it is Renault's decision. It's not a Nissan decision. It's not an alliance decision. It is first a Renault decision. We consider at Renault that the Chinese market is a promising market, for sure. In 2002 and 2003 it increased a lot, nearly 60% growth a year. Unfortunately, in 2004 it was not as much, but still nearly 15%, which is still very high growth. We expect this market to be the number three in the world, after the US and European markets, that is, before the Japanese market, by about 2010. Therefore, if we consider the worldwide industry volume, the growth will come from Asian markets, specifically from China. Therefore, if we look for profitable growth for Renault, we consider that we should be an actor in the Chinese market. This is the first point.

The second point is that we are a latecomer to the Chinese market. Every OEM is

currently making business in China. We are not. Therefore if we come to the Chinese market, we have to make sure that we bring something different to this market, that we can be an OEM with a well-adapted product. We of course should look also to be profitable. Then comes the alliance. It would be a mistake if we do not look at what Nissan has done so far in China. Therefore the first strategy for Renault should take into account the strategy of Nissan. So that we can develop in the Chinese market as much synergy as is possible, so as to help Nissan and to help Renault.

Based on these facts, one key idea is to have the same partner. As you know, you must select a joint venture to enter China. You cannot go on your own. It is much easier to develop synergies if we have the same partner at Renault, as Nissan, which is currently Dongfeng. This is the first point.

The second point is that as the Chinese market is growing, but also it changed a lot in 2004. Prices have decreased, by let's say, nearly 15% in one year, due to China entering the WTO, due to the expectations of the customers to wait for further decreases of prices because the OEMs were very profitable, which the customers knew. Therefore, customers do expect prices to decrease and it happens every month. So, it would be very risky to go on our own and set up a greenfield plant, investing a lot of money, running the risk that we do not fill our capacity. It is the same problem for Nissan, which has developed a new plant. They are running the risk of not completely filling that plant. Therefore, we have a joint interest in making as much use as possible of the existing capacities, which at the moment is Dongfeng-Nissan capacity, and in the future Dongfeng-Renault capacity. So our strategy in China is to make as much use of the capacity of our partner (Nissan) and in the future Dongfeng-Renault.

This shows how we can do something that makes sense, making use of what already exists in China. Of course, when we will look for suppliers in China, we have what we call the Renault Nissan Purchasing Organization, which operates in China. We expect to benefit from this organization, to have the same supply bases, perhaps to have common logistics. Perhaps to have, maybe, dealers, which will not be common, but if we know quite well a Dongfeng-Nissan dealer that is very efficient, it may be better to ask him to become a Renault dealer in the future, than to run the risk of choosing a dealer that we don't know at all. Therefore we will make use of all of these possibilities.

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**Orihashi:** How about the South East Asian market? Will Renault enter this market coordinating with Nissan.

**Verdonck:** We consider that SE Asian market to be interesting. If I remember correctly, it is 3 million vehicles for the whole market. But this market is made up of different markets. The Thai market is made up of pick-ups and classical passenger cars, which is different from Indonesia. The Malaysian market is quite smaller. The Philippines is also quite different. The most important market is the Thai market. If we consider the international development of Renault, we can't do everything at once. We have to set priorities. In the development strategy, you can't go everywhere at the same time. It was not at the top of our priorities to be in the ASEAN market, though this does not mean that we will not go there or are not there. We consider that we will be there tomorrow.

I gave you the example of China of how we can set up strategy making use of the partner. When we go to the ASEAN market our approach will be the same. Nissan has currently much present in Thailand. It has taken over its Thai partner, which offers much more freedom to develop something that makes sense for Renault in the future, than what we would have been possible in the past. With Nissan in full ownership of its operation, it is much easier to develop something if we need it.

The second point is when we consider the product, it needs to be specific to the Thai market. So if we want to be there, we have to get the right product. It is a combination of product, industrial scheme, dealer network, and when we will decide to go there we will consider all of these things and we will try to work as much as possible with Nissan.

Currently in ASEAN, we have operations in Malaysia with our partner, where we are manufacturing the Kangoo, a light commercial vehicle. Nissan has the same partner. I think it will be quite easy to develop synergies in the future since we have the same partner.

**Shimokawa:** What do you think about the future of the Eastern European market, including Ukraine and Russia? Of course, Renault has an operation in Romania, Dacia, producing the new product, Logan.

**Verdonck:** As you know, the European Union is still developing. Today there are 25 members, and by 2007 or 2008, Romania and Bulgaria will join. So, I think it is something different when we speak about Romania and when we speak about Russia, which is not

expected to become a member of the European Union today. Therefore, when we speak about Romania and Poland, by 2008 it will be definitely part of Europe. In Europe there are a set of regulations that make it what is called a single market, even though it is quite difficult and you have specific rules for each member. There are some automotive regulations that are Europe-wide. This is true for distribution, which will apply to Romania the same as the rest of Europe, describing how you can sell your cars.

If we look at these countries of Eastern Europe that will definitely be Europe by 2008, the markets are interesting. They are growing, maybe 5 or 6% a year. Therefore, the growth is higher than what we can expect from Western Europe. But it is still a limited market, less than 2 million vehicles, compared to the whole of Europe that is nearly 17 million vehicles. It is important to say that these markets are low-cost countries.

**Douin:** In 2006, we will see Russia enter the WTO, which will already be a good improvement.

**Verdonck:** An improvement, yes, but still it does not mean compliance with European market regulation.

What we can say is these Eastern European countries are low-cost countries. The labor costs are lower. For some of them there is a tradition of industry. This means that you can find suppliers or you can ask your suppliers to manufacturing locally to decrease the cost. For the new OEMs coming into Europe, such as Toyota or the Koreans, it is quite obvious that they prefer to set up new plants in Eastern Europe, because you can benefit from lower costs and at the end of the day you are part of the European Union. So, if you have a choice to make it is better to be in these parts of the region.

If we speak of Russia, it is something different. As Mr. Douin mentioned it will become part of the WTO. It is a very big country. The market is also growing quite importantly. The growth of the market depends on the growth of the GDP, which also depends on the price of oil.

**Douin:** But it is becoming more serious, because they are also putting aside a part of the money they earn from petrol. They keep a ceiling of about \$25 a barrel, and anything over this they receive is set aside to improve current (industry). This is a safe approach, if they can do it.

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In Russia, we have a very difficult issue, that is, the competition between previous Russian OEMs and newcomers. Newcomers, we are fighting to decrease the taxes on (imported) parts. We are investing in Russia. We will increase our local content, but for the time being it is very difficult to have more than 50% local parts. So, we must import parts. These parts should be at very low tax, compared completely built vehicles that are heavily taxed to protect the local industry. The Russian OEMs are not very happy with this. They want both to be taxed very high.

There is a big change to expect in Russia in the next five years. We do not expect the Russian industry to survive as it is in the next five years, because they have no R&D, no quality. Their only asset is that they are selling cars in the range of \$4000 to \$7000. This is very difficult to compete with. But at one point people will switch, with the new regulation, new safety features, current technology, etc.

**Shimokawa:** In the past Renault had some truck operations in the Soviet Russian era, no?

**Douin:** In fact, it was only a technical assistance contract. We were never directly involved.

**Shimokawa:** I see. The Russian market is an interesting market.

**Douin:** Yes. We find Toyota, of course.

**Verdonck:** Ford.

**Douin:** The Koreans are importing cars. There is even an Indian car in Russia. There truck market is also quite interesting in Russia.

### ***Future Perspective on the Alliance***

**Shimokawa:** Finally, could you explain what is the most important issue from now in the Renault-Nissan alliance, the future perspective?

**Verdonck:** The most important issue I think is to succeed in helping Renault in its sustainable growth in making Renault a key actor in different countries, not only in Europe, to extend the role of Renault internationally, and on the Nissan side, to sustain also the profitability and the growth of Nissan.

**Douin:** Another one is together to reach a good level of technology. There are huge

requirements in the coming years, we must absolutely have a complementary approach and have a very strong approach. Together we must try to be a leader.

(End of Interview)

After completing the interview with the two-vice presidents at Renault's head office, the authors summarize the interview here. This interview began as a meeting with Mr. Verdonck, which was later joined by Mr. Douin. Mr. Verdonck is vice-president in charge of planning business strategies at Renault. He is also the secretary and coordinator of the Renault-Nissan alliance board that meets once a month. The following points summarize the questions and answers that were exchanged in the interview session.

**1. How has the alliance evolved over the last six years?**

The basic form of the alliance has not changed, even after the implementation of the Nissan Revival Plan (NRP). The Cross Functional Team (CFT) and the Functional Task Team (FTT) are still in action, contributing to the evolution of the alliance into long-term development of power trains and platforms, for example. Concerning ways to assess the synergy of cooperation between the two companies, it is easy to evaluate the type of synergy that can be measured in terms of economic efficiency, such as joint purchases and joint development of engines. On product quality, however, our goal is to achieve a higher standard through mutual efforts, even for low-cost products. To that end, we have been working on the development of a program to create the same quality standards for both companies.

**2. How do you adjust your efforts to establish identities and achieve a commonality of platforms for products for two companies with different model change cycles?**

We have been extremely careful about this in our approach. We have no intention of blending the two companies. They have their own strategies based on their own identities and do not want to change them. The same goes for the products we develop. However, this does not rule out the use of common engines, gearboxes and components under the alliance.

**3. What do you think about the mutual study program between the two**



**companies?**

This is an endless process. Renault has learned a lot from Nissan, including Nissan's production methods, their management of short development lead times, and their system of collaboration with suppliers to improve product quality. On the marketing front, we have been able to exchange experience and knowledge with each other through shared use of dealer networks in Central and South America. Renault has obtained cooperation from Nissan in making investments in Samsung Motors and launching business operations.

**4. What are your strategies for the Chinese market?**

Renault has not expanded into the Chinese market on its own. We will probably advance into that market in a way somewhat different from other OEM manufacturers. Renault needs cooperation from Nissan as a business partner to head off the major risks incurred in building its own factory in light of the production capacity of Dongfeng Nissan. Especially for China, we are watching automobile price trends and suppliers' moves with keen interest.

**5. What about Eastern Europe and Russia?**

In Eastern Europe, an increasing number of countries are joining the EU, while Russia will be on its way to becoming an economic power after it joins the WTO. Renault plans to strengthen its production bases for its low-cost Logan model in Croatia and Romania, while at the same time paying attention to the moves in the Russian market. In Russia, recent increases in imports of Indian and Korean cars are of particular note. Significant changes are likely to occur within five years, resulting in the decline of any local automakers that do not have enough R&D capacity. We are closely watching how things will go.

**6. There was a difference in development lead times between Renault and Nissan. Nissan had a shorter development lead time. What is the present development lead time at Renault?**

We have reduced our development lead time for products for which it is needed. This is one of the lessons we have learned from Nissan. We will allow for a longer development lead time for products that we need to examine carefully to meet customer needs.

**7. Finally, how does the Renault-Nissan alliance differ from M&As among other**

**automakers?**

This alliance is based on mutual trust and respect for the other's corporate culture. We would like to emphasize that these principles are the keys to our successful alliance and the basic philosophies of Louis Schweitzer, the former chairman of Renault.

Reviewing the meeting, the interviewers may say that these basic points are still alive at Renault, even though the interview was held one and a half years ago.