

# PEUGEOT CELEBRATES ITS 200 YEARS OF LIFE. HISTORY, STRATEGIES, ORGANIZATION AND FUTURE PROSPECTS OF THE FRENCH CAR COMPANY. A COMPARISON WITH FIAT AUTO.

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## ABSTRACT

*The motor industry is suffering more than other sectors from the effects of the current international crisis with a widespread drop in sales affecting almost all the main world producers, due to two factors that can be described as follows. On one side, the shrinkage in family per capita income inducing the consumer to spend less on luxury goods (like cars); on the other one, the high upkeep of cars because of a sharp increase in the cost of fuel, of insurance as well as of road tax, particularly in some European countries (like Italy).*

*In addition to this ruinous economic situation reducing the car producing companies' receipts, the high costs to be born to renew the industrial plants in compliance with the environmental regulations as well as to design products that are able to meet the consumer's changing needs led motor companies to reorganize their competitive strategies with growing attention, as compared to the past, to a kind of strategy oriented to “innovation and flexibility”, allowing the design of new high technology products that are environment-friendly and energy saving with low selling prices compared to the quality offered.*

*In particular, these goals can be achieved by implementing such strategies as those pursued by some producers in recent years: significant mergers with other car companies aimed at combining their individual peculiarities in order to properly widen the range of products offered; production relocation to emerging countries in order to profit from low costs of raw materials and labour to minimize production costs; boosting research and development to design cars that are able to run with alternative energy sources; re-launching neglected brands through creative promotional campaigns that are likely to stir up new emotions in the consumer.*

*As a result, the present work is mainly intended to analyse the strategic evolution of one of the most ancient motor companies on the international scene, namely Peugeot, to weigh up the situation, on the occasion of its bicentenary, about the innovative ideas brought into the market, the kind of organizational structure adopted within the company itself, as well as the future prospects of the transalpine firm.*

*In particular, after a rapid historical survey of the firm, the paper is going to assess whether the strategic choices made are able to meet the above-mentioned successful factors, in order to assume the possible result that the new models suggested are likely to achieve on the consumer's market.*

*Afterwards, the most suitable organizational structure to be adopted to support the strategic choices made in the present market conditions will be examined; finally, the dissertation will end by comparing such internationalization strategies with those implemented by the transalpine competitor, namely Fiat, in order to assume which of the two strategic choices could turn out to be the most performing one in the future.*

**Keywords:** Peugeot, Strategies, Internationalization, Production, Fiat











However, in the above factory, a referendum was held by the owners at the beginning of the year, concerning the acceptance or not of the new labour agreement, in exchange for considerable production investment reaching 1 billion Euros to produce new “luxury” models (like Jeep and Giulietta). The referendum was successful, with the favourable opinion of 54.1% of the workers, out of the total staff of 5,400 employees in the factory.

In particular, the agreement is penalizing for workers who, nevertheless, due to the current international economic recession, opted for keeping their job in spite of reduced rights.

Going further into details, the agreement provides for reduced breaks, shrinking from 40 to 30 minutes, with 32.47 Euros added, monthly, on the wage packet for the extra minutes worked, the non-payment of the first day off sick for those employees who will be out shortly before holidays or on their weekly day off for more than twice a year, a 40-hour weekly work salary, including breaks, spread over a total of 18 work-shifts, compulsory overtime up to 80 hours per year and, above all, new sanctions about striking that can lead to the worker’s dismissal if production is seriously damaged (Sciarra 2010d).

It is important to point out that the assent of almost all the trade unions to this independent contract providing that the Joint Trade Union Committee (JTUC) is replaced by the corporate one is only possible because the Fiat Group is no more party to the Italian Manufacturers’ Association (Confindustria).

Another disadvantage is, however, linked to this corporate Taylor-style policy inhibiting workers from any kind of protest. Which, in the long run, is likely to bring about growing social unrest due to exhausting work-shifts, lack of dialogue with the top management, as well as a worker’s wages which are not up to the average standard of living of the country. All these factors are likely to lead the employee to develop a state of depression thus causing either long periods of absenteeism from work or lesser commitment by the worker as compared with his own potential.

From the point of view of taxation, even if the elimination of customs duties allows the Russian market to collect 400 million Euros, considering 200,000 motor vehicles exported, this amount is not going to be cashed by the Turin firm but it will be handled by the Kragujevac joint company (Mijalkoviæ 2008).

Besides, it is to be pointed out that the incidence of the labour cost doesn’t exceed 7% of the total capital in a highly complex and technologically advanced structure, with a final saving that, after all, should only reach 3% of the end-product. Which would make one consider that the GOM (Gross Operating Margin) is very scant if, to keep it steady, in this period of international recession, it is necessary to sacrifice the social peacefulness of the firm.

As to the internal strategy, aimed at changing the corporate organization, in order to expedite the decision-making process, as well as to achieve the flexibility needed to meet promptly the market’s development, in September 2010, as already described above, the Fiat group split into two separate companies: Fiat Auto and Fiat Industrial. The first will include, besides Fiat Group Automobiles, such companies as Ferrari, Maserati, Magneti Marelli, Teksid, Comau and Fiat PowerTrain automobiles; the second will incorporate CNH and Iveco, in addition to the industrial and marine sector of Fiat PowerTrain.

This reorganisation will eventually allow the motor sector to go its own way and the management and funders to really understand the extent of the value yielded through the production and sale of cars. In fact, from a financial point of view, the above shake-up will also include a fair distribution of the industrial debt between the two groups reaching approximately 2.5 billion Euros as well as initial liquidity of 10 billion Euros for Fiat Automobiles and of 3 billion Euros for Fiat Industrial (Fornovo 2010).

In addition, the spin-off of the automotive industry from the industrial one has allowed Fiat Automobiles and Fiat Industrial shares to be quoted separately as from the beginning of the year; which was highly appreciated by the financial community.

In an international market which is currently experiencing a state of turmoil due to a process of continuous change influencing its evolution, the logic of this splitting is primarily oriented to preventing the heterogeneity of the businesses that made it up because of a clear difference distinguishing the two main activities as regards their specific features, commitments, capital profitability, margins and dynamics of their markets.

This will enable each of the two business units to focus on its own SBA (Strategic Business Area) with goals easily identified and recognized by the market and to show specific features with strategies that are determined independently, as well as to bring out the amount of value that each entity is likely to yield.

Specifically, the Fiat Group will be able to better its competitive position on a world scale and to enhance its efficiency thanks to an alliance with Chrysler, whose share should reach 51% by the end of the year, benefiting from the best distribution in the Chrysler's sale network; which will allow Fiat to spread its brand internationally, giving birth to a "four-headed heart": Turin for the European market (that is going to control the Italian factories as well as those based in Poland, Serbia, Turkey and Russia), Detroit for the North-American one (covering American investments in addition to those in Canada and Mexico), Betim for South-America (that is going to control Brazil as well as Argentina) and finally Peking, for the Asian area (that is going to run the newly established Chinese factory in Changsha as well as India).

The results seem to support the Group's strategies, despite the cut in governmental incentives; in fact, it seems that, on one side, the Group's net proceeds have risen from 50,102 million Euros in 2009 to 56,258 million Euros in 2010 and, on the other one, the negative net result recorded in 2009, with a loss of 848 million Euros, was turned into a profit in 2010, with 600 million Euros. Finally, the car sector alone has increased the result concerning the ordinary management, shifting from 719 million Euros in 2009 to 934 in 2010, while, thanks mainly to the partnership with PSA Peugeot Citroen, vehicles have more than doubled their positive result, shifting from 105 million Euros in 2009 to 270 in 2010 (Molinengo 2011).

Prospects for the future are highly ambitious for the Turin firm whose turnover is expected to reach 64 billion Euros, within four years, which would actually double the amount expected for 2010, of which as much as 80% would result from Fiat Group Automobiles, 6% from Ferrari and Maserati, while the remaining part would come from component production (Fornovo 2010).

## **THE ORGANIZATION OF PSA PEUGEOT CITROEN AND FIAT AUTO**

The analysis carried out on the companies' organizational structures of PSA Peugeot Citroen and Fiat Auto shows that the two manufacturers rely on the Toyotist principles based on the lean production model.

The reasons for this organizational orientation are related to the fact that the turbulence of the markets has changed the companies' strategic structure (meant as the company's organisation that is strategically relevant) that, being originally of a unitary kind (namely having a single competitive reference system), has got diversified (i.e. involving companies that are willing to compete in different areas and ranges of activities characterized by different reference economic operators and different rules).

As a result, it was necessary to support the corporate decision-system with a suitable organisational structure that was to be different from the hierarchic-functional one aiming at developing an analysis of the value chain carried out by function. In fact, it provided for segmentation into sub-systems of operations sharing the same "object" and hence the same professional skills, competence and resources called for, thus neglecting the distinction between the different kinds of activities and their own interconnections (Nelson 1988, Taylor 1969).

Instead, the purpose is that of segmenting the corporate system into processes both at a global level and for each single SBA (Strategic Business Area), which means subdividing the system into a set of sub-systems involving homogeneous activities that are interconnected and aimed at the creation of value for the customer, by transforming an input into an output (Bernardi and Biazzo 1996).

Thus, organisational redesigning has involved all the organisational variables (structure, technology, human resources) with the sole purpose to achieve maximum competitiveness on the market, thus meeting the customers' demand and improving the business performance through increased flexibility, innovativeness and corporate integration.

In particular, it is to be pointed out that this organisational structure is based on a set of fundamental criteria with which compliance is critical to the effectiveness and efficiency of the structure itself. They include: the process diversification, the decision-making power delegated to employees, the tasks unification, avoiding production waste thanks to the Just-in-time system, the process activity

outsourcing, the total involvement of suppliers (Argyris 1995; Bartezzaghi et al. 1994; Benozzo and Piccardo 1995; Butera 1994; Camussone 1985; Cusumano 1985; Dubini and MacMillan 1991; Golhar and Stamm 1991).

Therefore, in the light of what examined above, it can be stated that the new organizational structure of the two producers considered radically changes the main criteria on which the old hierarchical-functional model was based, thus leading to replacing the management by “functions” with that by “process”, to a complete redesigning of the decision-making system through the setting up of the “Business Units”, as well as to abolishing the “teams” by establishing the “basic organizational Units” (Volpato 1996).

Ultimately, the benefits of this organisational reshaping are mainly two:

the first is the fact that, in this way, it is possible to understand the economic impact (cost) of each activity on the end-product;

the second one concerns the possibility of establishing what are the key business processes, namely those able to create value for the customer as well as of favouring those processes at the expense of others that do not allow such a result and are, therefore, eliminated from the company.

## CONCLUSIONS

The present work was intended, first, to analyze the development strategies of PSA Peugeot Citroen Group, to assess whether such strategies were in line with market expectations, and secondly to compare them with those of the Fiat Auto Group, trying to understand the main differences between the two car makers, as well as to assess, subsequently, what organizational structure would best support the business goals planned.

Thus, the analysis carried out and the results examined show that, in the current international context, the automotive industry is definitely one of the most affected by the recent war in the Middle East, due to the evident rise in fuel prices.

In particular, the sector is characterized by a significant reduction in competition fragmentation, as compared to the past, owing to the creation of joint ventures between international manufacturers and local governments, especially in developing countries, as well as to the merger between traditionally leading producers, aiming at allowing the realization of those synergies ensuring its competitiveness.

Among those synergies, the one that is increasingly pushing its way among the others is that aiming at developing the expensive innovation concerning energy saving, in order to introduce either hybrid or electric engine cars, that in the current phase of serious international crisis, is increasingly a critical success factor to be met.

In particular, the PSA Peugeot Citroen Group’s strategy is going this way, thus increasingly oriented towards environmental protection and energy saving, being well supported by the Government and the unions, so that they now rank 1<sup>st</sup> for the production of electric vehicles in the international scene and represent, at present, 10% of the overall French car market, even thanks to 5,000 Euros discount on cars, funded by the State that is also committed to purchase these cars to renew the public car park.

The reasons for this result are related to two main factors. On one side, the availability of electricity in large quantities that are not exploited, due to the nuclear power plants production and that would encourage the development of infrastructures for recharging electric vehicles on the area; on the other one, the concern for the employment shortage in the French automotive industry, due to the relocation of production by the leading transalpine manufacturers that are concentrated on seeking low-cost labour in the emerging countries.

In fact, although they do not want to give up the idea of relocating activities abroad for the above reasons, on one side, in order to ensure the creation of value in A and B segments, which represent about 80% of the market, on the other one, it is also true that they are fully willing to produce electric cars locally; which would promote both employment and the increase in domestic sales, with the prospect of penetrating the Chinese market that appears to be the most attractive at an international level, due to high demand for cars as well as to tax relief granted for the production of electric cars.

Unfortunately, as to the electric car segment, the Fiat Group starts from a position of distinct disadvantage, since it cannot rely either on nuclear power or, for the moment on the Government’s funding; such factors do not make the purchase cost of those vehicles very competitive, namely 35,000 Euros

on average; in addition, they do not provide the national territory with a widespread supply network (Mombelli 2011).

Concerning the production location, the Fiat Group shows a greater geographical decentralization compared to PSA Peugeot Citroen Group, due to a more complete network of production and sales, supplied in all continents by a widespread organization known as “four-headed heart”, in which the “heads” are represented by the parent company located in Turin for Europe, by Detroit headquarters of Chrysler in North America, by Betim for South America and Peking for Asia.

The reasons for this stronger decentralization, as compared to PSA Peugeot Citroen Group, are due, not only to the search for low cost labour, but also to the search for affordable energy resources and, above all, to the low level of productivity of the Italian factories, reaching 54% (this percentage falls to 37% if one considers the technical capacity), compared to the foreign ones in which the work commitment is equal to 126% (and to 78% considering the technical training of workers).

Unfortunately, this relocation has brought about considerable social tension in Italy which, especially following the decision to produce the “LO” model, originally planned in the Mirafiori plant in Turin, in the new one based in Kragujevac in Serbia.

It is to be noted that another aspect emerging from the analysis conducted on the two automotive groups examined is linked to their political re-launching.

In fact, the transalpine Group has focused its attention on its image restyling, by redesigning the brand, offering innovative advertising campaigns, a wide and various range of products focused on environmentally friendly and energy saving engines, as well as on an efficient after-sales service with the use of “Mu by Peugeot”. On the contrary, the re-launching of the Fiat Group was different, aiming mainly at redefining the corporate structures both nationally, with the splitting giving birth to the two companies, namely Fiat and Fiat Auto Industrial, and internationally, with the acquisition of Chrysler.

The spin-off implemented has eliminated the heterogeneity of the business, thus allowing each SBA (Strategic Business Area), to determine specific objectives easily identified by the market, to expedite the decision-making process with independent strategies and to bring out the amount of value that each entity is likely to produce; instead, the French Group is still experiencing this kind of heterogeneity, due to not only to the merger of the automotive and business sectors into a single corporate structure but also for the presence of the Citroen brand.

As to the acquisition of Chrysler, it allows a more widespread distribution network at an international level, especially in North America, as well as the exploitation of the know-how in the standard and luxury segments of the American company to complete the product range, creating successful cars relying on quality engines and high technology in those segments where the Turin company is not competitive, being focused, mostly, on utility passenger cars.

Finally, as regards the organizational structure adopted by the two manufacturers, it was noted that the model used is the same, namely no longer the one based on functions, but one that focuses on processes, allowing the organisational efficiency and effectiveness to be improved, thus meeting a number of critical success factors represented by the following: the streamlining of production that is likely to better the business flexibility and the quality of the product, greater decision-making power delegated to employees, whose increased involvement leads to improving their commitment, minimized costs thanks to reducing the stock-in-trade as well as waste, improved information, whose effectiveness is ensured by the technological value of the computer system, reduced assembly time of the car through the location of suppliers close to the parent house and so on.

In conclusion, in the light of the analysis carried out, it can be stated that both the strategies adopted by the two manufacturers examined have been satisfactory and that, indeed, their merger, in the future, could be facilitated by a common organisational structure and it is likely to allow the transalpine Group to exploit the wider relocation of production and distribution of Fiat Auto to enter new markets, as well as its specialization in the production of utility passenger vehicles to get stronger in this segment; on the other side, the Italian company will be allowed to exploit the low cost of French energy in order to minimize production costs, as well as technology and the degree of specialization achieved in the segment of electric cars, to ensure the development of this segment in the domestic market, producing cars with an average cost lower than the present one.

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