

Small car companies struggle to adapt to change

1 Warmer

Write down the name of three successful car manufacturers.

List the reasons you think these companies are successful.

Compare your ideas with a partner.

2 Key words and expressions

The key to understanding the article is understanding the term *scale*.

Quickly read the article and choose the best definition of *scale*.

- a The total size of a company
- b The business benefits of being a large company
- c A company that has merged with at least two other companies

Why smaller car groups face battle for survival

Consolidation tops agenda at Geneva motor show as companies prepare for electric age

BY PETER CAMPBELL AND PATRICK MCGEE

- 1 The topic of consolidation among car groups, never far from the surface, bubbled back to the top of the agenda at one of the industry's showcase gatherings in Geneva this week.
- 2 Reports that PSA, the owner of Peugeot, is seeking a deal with Fiat Chrysler or even General Motors was a big talking point at the annual motor show.
- 3 Carlos Tavares, PSA chief executive, did little to dispel the speculation: "We love to discuss with people who are looking for deals."
- 4 Even if a tie-up involving the French group, which bought Opel and Vauxhall from GM in 2016, fails to materialise, a wave of consolidation and co-operation is sweeping the sector.
- 5 Erstwhile rivals are exploring new ways to combine forces in the coming age of electric vehicles where scale is likely to prove critical for success.
- 6 German groups BMW and Daimler, arch enemies for decades, are combining forces on ride-hailing and other transport services, which could include self-driving projects.
- 7 Volkswagen, which jostles with the Renault-Nissan-Mitsubishi Alliance and Toyota to be the world's largest car group and has launched its own alliance with Ford, is even looking to bulk up, with plans to license its costly electric production technology to other carmakers.
- 8 "That is where we will try to win the game, on scale," Herbert Diess, VW chief executive, told the Financial Times before the show. "I am quite sure that not all brands can survive this."
- 9 Ultimately, "I think everybody needs scale", said Thierry Bolloré, chief executive of both Renault and the global alliance between the French group, Nissan and Mitsubishi.
- 10 The need for scale partly explains why talk of PSA's potential search for a deal to expand outside Europe took on such resonance in Geneva.
- 11 With growing investment demands, from battery cars and self-driving systems to cleaner combustion vehicles, companies will have to pool resources.
- 12 Randall Miller, head of automotive at consultancy EY, estimates that spending on new technologies in the sector has totalled more than \$170bn in the past five years, with the bulk of investment coming from tech groups and private capital.
- 13 "It's going to be the new reality that new partnerships will come together: competitors one day will be alliance partners the next."
- 14 At the show Mike Manley, chief executive of Fiat Chrysler Automobiles, told the Financial Times: "If there's a partnership, merger, relationship that makes us stronger, then I'm absolutely open to looking at it."
- 15 "It would be crazy of me not to do that because of all the benefits that those things can bring if they're the right partner and set up in the right way."
- 16 Yet scale can bring downsides. Heft breeds bureaucracy.
- 17 Even Mr Bolloré admits there are disadvantages to being big. Decisions at the Renault-Nissan-Mitsubishi Alliance, which sells more than 10m cars a year, "can sometimes be a little bit heavy and not appropriate with the speed at which we should go on the market", he said.
- 18 Andy Palmer has worked at both ends of the scale spectrum, having moved from chief planning officer at Nissan to become chief executive of Aston Martin.

Continued on next page

- 19 “Big companies can obviously spend more on research and talent and have less susceptibility to market movements because they are globally spread. But smaller companies are agile,” he said. “They can make decisions much quicker.”
- 20 Mr Tavares, despite reports of his desire to grow, said: “There is a trade-off between scale and agility,” adding that carmakers would need to remain flexible to survive the “chaos” facing the sector.
- 21 Mid-sized companies, which include PSA and FCA but also extend to German luxury car groups such as BMW and Daimler, need to be adaptable to remain competitive against their larger rivals, such as VW and Toyota.
- 22 “Every day is challenging,” said Harald Krüger, BMW chief executive. “My headline for this one: flexibility is king. Sometimes we talk about ‘cash is king’, but these days flexibility is king.”
- 23 For the proliferation of start-ups that pepper the sector and have no hope of even modest-scale benefits, agility is their greatest asset.
- 24 e.Go, the 300-strong German company that will rely on Volkswagen’s electric platform from 2020, begins production this month on an all-electric micro-vehicle that will start at less than €15,000.
- 25 “We need only two years to develop a car,” said Günther Schuh, chief executive and founder, which compares with upwards of five for a larger company.
- 26 He hopes to build as many as 100,000 cars a year by 2022 by reducing complexity and relying on a capital expenditure budget that is 90 per cent lower than the competition.
- 27 “I can offer cars in the range of €20,000, and the big guys will offer cars in the €30,000 range,” he said. “So this is a win-win situation.”

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3 Understanding the article and Business language

A. Read the article again. As you read, find the words in the box below and underline them.

agility consolidation critical groups mergers susceptibility

1. Why is there lots of _____ in the car industry?
2. Why is scale _____ to car manufacturers’ success?
3. Which car _____ have announced partnerships?
4. What is Mike Manley’s view of partnerships and _____?
5. Why do big companies have less _____ to market movements?
6. Why is _____ a start-ups biggest asset?

B. Check the words in the box in part A in a dictionary and write an example sentence for each word.

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____

C. Read the article again and match the answers to the questions in part A.

- a. Because they're globally spread

- b. Because they're too small to get scale so need to adapt to changes quickly

- c. Because costs of electric and driverless cars are making business more difficult

- d. Car manufacturers need more resources to adapt to changes in the industry

- e. Any opportunity to make the company stronger is good

- f. BMW and Daimler / VW and Ford

4 Discussion

Work in pairs. Discuss the questions.

1. How important is scale in your business?
2. Do you think the car manufacturers' partnerships will be successful? Why (not)?
3. How do you think driverless and electric cars will affect the car industry?
4. Do you think start-ups like e-go and Tesla can be successful? Why (not)?

5 Wider business theme – Scale

A. Decide if each feature is an advantage (a) or disadvantage (d) of being a big company.

1. Costs are lower _____
2. You have access to many different markets _____
3. Decisions take longer _____
4. You have lots of resources _____
5. It's hard to change things _____
6. Products take a long time to develop _____

B. Work in small groups. Discuss the advantages and disadvantages of large companies from the view of:

- Shareholders
- Management
- Employees
- Customers