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Groupe PSA: acquisition of Opel/Vauxhall—from turnaround to profitable growth[[1]](#endnote-1)

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We are confident that the Opel/Vauxhall turnaround will significantly accelerate with our support, while respecting the commitments made by GM to the Opel/Vauxhall employees.[[2]](#endnote-2)

Carlos Tavares, Chief Executive Officer of Groupe PSA

Groupe PSA (PSA) was a French automotive manufacturer that sold the Peugeot, Citroën, and DS brands. In March 2017, it agreed to buy Germany’s Opel and its British sister brand, Vauxhall, and their European auto lending business from their American owner, General Motors Company (GM), for US$2.3 billion.[[3]](#endnote-3) The purchase made PSA the second largest automotive manufacturer in Europe with the combined unit occupying a market share of 17 per cent, just after Volkswagen AG.[[4]](#endnote-4) GM had not generated any profits in the purchased units; rather, it recorded losses of over $19 billion between 1999 and 2016. Mary Barra, GM’s chairman and chief executive officer (CEO) claimed the Brexit vote in June 2016 was responsible for losses in 2016.[[5]](#endnote-5)

Under the leadership of CEO Carlos Tavares, PSA had successfully recovered at the end of 2015 from its losses that began with the global financial crisis; recovery was attributed to various cost-cutting measures.[[6]](#endnote-6) The company began its six-year “Push to Pass” plan in 2016 with the goal of obtaining sustainable profitable growth by 2022.[[7]](#endnote-7) However, in China, the world’s largest automotive market, PSA’s sales continued to drop between 2015 and 2017 due to fierce competition.[[8]](#endnote-8)

The acquired Opel units continued to make losses under PSA’s ownership.[[9]](#endnote-9) In January 2018, the company was researching the US market with a plan to re-enter the market and sell vehicles there by 2026.[[10]](#endnote-10) With the rising trend of electric vehicles, the European Commission had proposed a significant reduction of 30 per cent in carbon dioxide emissions by 2030.[[11]](#endnote-11) Britain’s negotiating position for a new trade and investment deal with the European Union (EU) following the Brexit vote remained ambiguous.[[12]](#endnote-12) Given these challenges, PSA wondered how it should move forward. In particular, how could it achieve sustainable and profitable growth under its Push to Pass plan?

HISTORY AND DEVELOPMENT OF Groupe PSA

The foundation of PSA was built on its emblematic Peugeot and Citroën car brands. Founded in France by the Peugeot family in 1810, Peugeot launched its first petrol car in 1890. Founded in 1919, also in France, Citroën Société Anonyme established its reputation in 1934 with avant-garde technology, which led to the world’s first mass-produced front-wheel-drive car. In 1976, Peugeot S.A. and Citroën S.A. merged to become PSA Peugeot Citroën. In 1978, PSA Peugeot Citroën took over Chrysler Europe, becoming the largest automotive company in Europe at the time and the fourth largest in the world. In 2016, PSA Peugeot Citroën became Groupe PSA.[[13]](#endnote-13)

In 1992, PSA formed a joint venture with China’s Dongfeng Motors Corporation (Dongfeng) to assemble the Citroën ZX in a newly-built plant in the city of Wuhan. In 2011, to increase its presence in the Chinese market, PSA formed a joint venture with Chang’an Automobile Co. Ltd. In 2013, it opened a new plant in Shenzhen, China, and closed its Aulnay-sous-Bois plant in France to cut costs, amid criticisms of delocalization.[[14]](#endnote-14)

In Europe, in 2005, PSA built a production site in Kolín, Czech Republic, through a joint venture with Toyota Motor Corporation. In 2008, it inaugurated another plant, this one in Kaluga, Russia, in a partnership with Mitsubishi Motors Corporation. To further reduce costs and dependence on the European market, PSA was also building a plant in Kenitra, Morocco, which would begin the assembly of small and subcompact models for the African and Middle Eastern markets in 2019.[[15]](#endnote-15)

SURVIVING THE FINANCIAL CRISIS AND TURNAROUND

Since the global financial crisis of 2007–08, PSA had struggled from shrinking market share and financial issues. It was facing bankruptcy in 2012 due to high reliance on the declining European market. Its share price collapsed to around €5,[[16]](#endnote-16) with a net loss of €2.3 billion in 2013 after a loss of €5 billion in 2012.[[17]](#endnote-17) In February 2014, PSA secured a rescue deal that diluted the Peugeot family’s stake from 25.4 per cent to 13.7 per cent, resulting in the family ceding company control.[[18]](#endnote-18) The French government and Dongfeng each invested about €800 million in return for a 13.7 per cent stake each in PSA, matching the resulting stake held by the Peugeot family.[[19]](#endnote-19)

The Recovery Plan

In March 2014, Tavares was appointed as CEO and chairman of PSA. He began the “Back in the Race” recovery plan announced at the Geneva auto show in April 2014. The plan included improving operating profits, reducing working capital, managing cash, creating a luxury brand, focusing on China, and repositioning in emerging markets. Tavares emphasized that PSA sold cars “at the right price.”[[20]](#endnote-20)

He closed the Aulnay-sous-Bois plant in France and continued to maximize efficiency and capacity use of plants in Europe. Tavares streamlined the high-level inventories and abandoned unprofitable models. He believed in the potential of the luxury DS brand, while transforming the Citroën upscale sub-brand into an international stand-alone luxury brand, to compete with German premium brands.[[21]](#endnote-21)

Tavares pushed to strengthen ties with Dongfeng. Established in 1969 and headquartered in the central Chinese city of Wuhan, Dongfeng was already operating three factories with PSA in the world’s largest Chinese automotive market. The goal was to sell 1.5 million Dongfeng–PSA vehicles a year in China by 2020. At the time, PSA continued to reduce the number of models it had in emerging markets like Russia and Brazil, where PSA was losing money.[[22]](#endnote-22)

From Successful Turnaround to Sustainable, Profitable Growth

PSA could generate operational free cash flow of €3.8 billion at the end of 2015, exceeding the goal of €2 billion and two years ahead of the targeted schedule in the recovery plan.[[23]](#endnote-23) Its operating margin in Europe increased to 4 per cent in 2016, while that of competitors like Volkswagen was 0 per cent.[[24]](#endnote-24) However, due to increased competition, PSA’s market share in Europe had reduced from 13.1 per cent in 2010 to 9.9 per cent in 2015, placing the company behind a major rival, Groupe Renault.[[25]](#endnote-25) Nevertheless, PSA’s share price had increased almost five times from €3.9 during the company’s collapse in October 2012 to €19 in April 2015. PSA had come a long way with its Back in the Race recovery plan, moving from losses of €5 billion in 2012 due to the declining European market to net profits of €1.2 billion in 2015.[[26]](#endnote-26)

Following this success, in April 2016, Tavares revealed his next six-year plan, Push to Pass, to be realized from 2016 to 2021. The plan aimed to transform the company to unleash its full potential by capitalizing on efficiency, operational excellence, and agility that were built during the earlier recovery plan. This new plan raised the goals of sustainable performance, which included an average 4 per cent recurring operating margin during 2016–2018, with a target of 6 per cent by 2021; revenue growth was targeted at 10 per cent growth on 2015’s revenue by 2018, and a total of 15 per cent by 2021.[[27]](#endnote-27)

GLOBAL PRESENCE AND ASPIRATIONS

PSA operated in six regions: Europe; China and Southeast Asia; Middle East and Africa; Latin America, Eurasia; and India-Pacific (see Exhibit 1). To build the global brand according to the Push to Pass plan, PSA aimed to launch a high-quality new vehicle per region, per brand, and per year.[[28]](#endnote-28)

Europe

From a production base made more agile by the Back in the Race plan and with the recovery of the European car market, PSA’s sales grew 3.6 per cent, reaching 1,930,000 vehicles in 2016, while the company planned to launch 28 new models by 2021.[[29]](#endnote-29) In France, PSA had the largest sales, selling 616,585 vehicles in 2017; Renault followed with sales of 534,450 vehicles.[[30]](#endnote-30) PSA was the leader in the European light commercial vehicle market with its vehicles guaranteed by the French government to be of French origin.

The European market was, however, expected to decline 2–4 per cent during 2017 and 2018.[[31]](#endnote-31) While the automotive industry could negotiate the governmental mandates on fuel consumption, it had overly relied on incomes from the Chinese market. Aspiring to be number one and two respectively for profitability and market share of non-premium brands in Europe, Tavares intended to make most of the company’s revenues in the European market to invest overseas.[[32]](#endnote-32)

China and Southeast Asia

Due to fierce competition, PSA’s sales in China and Southeast Asia decreased 16 per cent from 736,000 vehicles in 2015 to 618,000 in 2016.[[33]](#endnote-33) Although the Chinese automotive market, the world’s largest market, grew at a slower pace in 2016, Tavares believed that PSA had to be successful in this potential market to become a global car maker.[[34]](#endnote-34) Chinese car ownership was 170 cars per 1,000 capita, which was far below 465 cars per 1,000 capita of the United States (see Exhibits 2 and 3). The partnership with Dongfeng was intended to capitalize on this potential, particularly through Dongfeng’s six plants with a total production capacity of 1.2 million vehicles, a dealership network, and a regional research and development centre in China. Based on its dynamic renewal of models, PSA planned to increase vehicle sales in this region from 736,000 in 2015 to 1,000,000 in 2018.[[35]](#endnote-35)

Middle East and Africa

The number of vehicle sales in Middle East and Africa had doubled from 2015, to reach sales of 383,489 in 2016. PSA continued to invest, mainly by forming partnerships to reinforce its presence in the region—Iran, Algeria, and Morocco, in particular.[[36]](#endnote-36) In Iran, PSA partnered with Iranian automakers Iran Khodro (IKCO), SAIPA Group, and Arian Motor Pouya to develop ambitious marketing plans for Peugeot, Citroën, and DS brands respectively.[[37]](#endnote-37) PSA aimed to achieve 23 product launches and annual sales of 700,000 vehicles across the region by 2021, with 70 per cent of cars manufactured locally.[[38]](#endnote-38) It also aimed to sell 1 million vehicles in this region by 2025, when the market size was expected to reach 8 million vehicles from 5.9 million vehicles in 2016.[[39]](#endnote-39)

Latin America

Although countries in Latin America were experiencing economic difficulty, PSA’s sales grew 17.1 per cent from 2015, selling 183,900 vehicles in 2016.[[40]](#endnote-40) The priority in the region was to achieve profitable growth while maintaining strong competitive positions. PSA had three production sites in the region, including one in Brazil and two in Argentina, and research and development offices in both countries. Having renewed car models and built eight new models locally, PSA aimed to double sales and triple profit between 2015 and 2021, and to launch 16 models by 2021.[[41]](#endnote-41)

Eurasia

Including Russia, Ukraine, and some of the post-Soviet states, the Eurasia region had great potential.[[42]](#endnote-42) PSA aimed to launch 17 models by 2021, quadruple its sales between 2016 and 2018, and achieve sales of 105,000 vehicles in 2021. Its sales in 2016 were at 10,500 vehicles, down 12.6 per cent from 2015, in a market that had declined 12.5 per cent.[[43]](#endnote-43) With the priority of profitability, PSA intended to increase local content in production activities from around 40 per cent in 2016. It had a joint-venture production plant with Mitsubishi in Russia and an assembly plant with a partner in Kazakhstan.[[44]](#endnote-44)

India–Pacific

Led by Japan and South Korea, India–Pacific was one of the most dynamic and important regions for PSA. Japanese sales grew only 3.3 per cent in 2015, but significantly increased to 20.6 per cent in 2016, selling 19,890 vehicles.[[45]](#endnote-45) PSA planned to launch 17 models and achieve sales growth of 50 per cent by 2021. The target was based on a growing market trend, a series of upmarket product launches that met local expectations, and PSA’s excellent co-operation with local importer partners.[[46]](#endnote-46)

PLUMMET OF VEHICLE SALES IN THE CHINESE MARKET

PSA and Volkswagen were among the first European carmakers that entered China in the 1980s. While Volkswagen had been successful in China, PSA was facing unprecedented issues. In 2017, despite its increase in global sales, PSA sold only 387,000 cars in China and Southeast Asia, a drop of 37 per cent from 2016, marking a third consecutive year of falling revenue.[[47]](#endnote-47)

Due to fierce competition, many distributors were selling cars with negative margins and were, therefore, inevitably subject to bankruptcy. PSA’s market share in China stood at 1.4 per cent in 2017, while it had been 2.5 per cent in 2016 and 4.4 per cent in 2015.[[48]](#endnote-48) The company admitted that it could not meet the sales target of 1 million vehicles by 2018.[[49]](#endnote-49)

The decline was due to weak localization. Also, PSA’s Citroën C5 and Peugeot 508 models were considered less spacious than the comparable Volkswagen models. In addition, PSA lacked the popular sport utility vehicle models. While sales of nearly all luxury brands were increasing in response to the rising wealth of Chinese consumers, the sales of PSA’s premium DS line was expected to drop in 2017 for a fifth straight year (see Exhibit 4).[[50]](#endnote-50)

HISTORY OF OPEL AND VAUXHALL

In 1862, Adam Opel founded a sewing machine company, called Opel, in Rüsselsheim, Germany. In 1886, Opel entered what was then a booming bicycle business, becoming the world’s largest bicycle producer in less than 40 years. In 1899, Opel’s sons, who had taken over the business, built the company’s first automobile.[[51]](#endnote-51) Vauxhall, based in the United Kingdom, built its first vehicle four years after Opel, in 1903.[[52]](#endnote-52)

GM bought Vauxhall in 1925, and Opel in 1929. In 2016, Opel sold 1.2 million vehicles and Vauxhall, 118,182.[[53]](#endnote-53) Vehicles designed and manufactured for the Opel brand were also sold under the Vauxhall brand in the United Kingdom.

General Motors Struggling to Make Profits in Europe

Despite investing in model designs and cleaner engines, and making factories more efficient, GM had not generated any profits in its European subsidiaries; rather, it had incurred over $19 billion in total losses between 1999 and 2016, plus obligation for wages for 38,000 employees (see Exhibit 5).[[54]](#endnote-54) GM initially expected a return to profitability in 2016, but instead, Opel made losses of $257 million. Barra claimed that the Brexit vote, the subsequent devalued British pound, and lower sales in the United Kingdom were responsible for the losses.[[55]](#endnote-55)

In 2009, GM filed for bankruptcy after facing liquidity problems, and it almost sold its Opel operations. However, due to improving business conditions, GM later cancelled the deal, believing it could turn around this strategically important unit. The turnaround plan included a significant 30 per cent reduction of fixed costs through job cuts and a plant closure.[[56]](#endnote-56)

In 2012, Opel presented a 10-year turnaround plan, which included the launch of new vehicles and engines by 2016. At the time, GM decided to close a factory in Bochum, Germany, incurring closure costs of over $866 million. In 2014, Opel pledged to achieve an 8 per cent share of the European market and earnings before interest and taxes (EBIT) of 5 per cent by 2022 by launching new models and engines between 2014 and 2018.[[57]](#endnote-57)

Due to aggressive cost cutting and fewer investments in research and development, Opel’s technology was lagging behind its counterparts. Opel had also suffered from a low-quality image in Germany.

THE DEAL: A BIG STEP TOWARD INDUSTRY CONSOLIDATION

In March 2017, PSA confirmed the acquisition of GM’s Opel and Vauxhall units for $1.3 billion, and the acquisition of related financial operations in Europe for $1 billion, for a deal that totalled $2.3 billion.[[58]](#endnote-58) PSA’s stock price increased 5.2 per cent after the announcement.[[59]](#endnote-59) The deal was officially completed with the approval of the EU’s antitrust authority in October 2017, making PSA the second largest automaker in Europe with the combined unit occupying a market share of 17 per cent, just behind Volkswagen.[[60]](#endnote-60) In 2016, PSA’s global sales were 3.5 million units, Opel, 1.2 million, and Vauxhall, 118,182 vehicles, for total sales of 4.8 million vehicles, with extensive manufacturing plants located all over Europe.[[61]](#endnote-61)

Tavares explained PSA’s plans to strengthen its European foundation and support worldwide profitable growth:

We intend to manage PSA and Opel/Vauxhall, capitalizing on their respective brand identities. Having already created together winning products for the European market, we know that Opel/Vauxhall is the right partner. We are confident that the Opel/Vauxhall turnaround will significantly accelerate with our support, while respecting the commitments made by GM to the Opel/Vauxhall employees.[[62]](#endnote-62)

PSA estimated it would achieve substantial economies of scale and annual synergies of €1.7 billion by 2026 in purchasing, manufacturing, and research and development. By leveraging the prior successful partnership with GM, PSA expected Opel/Vauxhall to achieve a recurring operating margin of 2 per cent by 2020 and 6 per cent by 2026, and a positive operational free cash flow by 2020.[[63]](#endnote-63)

According to Barra, GM would advance transformation and unlock shareholder value, by “reshaping our company and delivering consistent, record results for our owners through disciplined capital allocation to our higher-return investments in our core automotive business and in new technologies that are enabling us to lead the future of personal mobility.”[[64]](#endnote-64) In particular, GM had made the deal in response to Europe’s changing geopolitical and regulatory climate, which demanded more investment at a time when GM saw a greater need to focus on North America, China, and emerging technologies.[[65]](#endnote-65) Earlier, to consolidate its efforts in reviving the Opel and Vauxhall brands in Europe, GM had removed its Chevrolet’s operations from the region in 2013. The divestment of these units substantially diminished GM’s presence in Europe and mitigated its ambition to be a global automaker that had operations in all parts of the world.[[66]](#endnote-66)

THE IMPACT OF BREXIT ON OPEL/VAUXHALL’S OPERATIONS

Car manufacturers always had to decide where they would manufacture their latest vehicle models to maximize their competitiveness in the highly consolidated automotive industry. As a result, plants around the world were competing for the work.[[67]](#endnote-67) Sites in the United Kingdom had attracted global automotive investors due to high-quality production, efficient plants, and a benign business environment. Much of this attractiveness came from the United Kingdom’s access to the European market for exports and imports of vehicles and their components.

Lobby groups, such as the British trade association Society of Motor Manufacturers and Traders and the trade union Unite the Union had warned the British government that Britain’s car plants would be adversely affected if Britain left the EU single market and customs union and agreed to a World Trade Organization tariff.[[68]](#endnote-68) With this “hard Brexit” in an environment with a high number of imported car parts and exported vehicles, it would make better economic sense for some automakers to abandon British factories. In an effort to convince the automakers to remain, the British government had assured major manufacturers, including Nissan Motor Company Limited, Bayerische Motoren Werke AG (commonly known as BMW), and PSA, that it would endeavour to facilitate frictionless trade even though the country would be outside the EU tariff-free trading zone.[[69]](#endnote-69)

In response to Opel/Vauxhall’s disappointing performance, Barra maintained, “It’s clear the [Opel/Vauxhall] team would have hit the target to break even in 2016 had it not been for Brexit.”[[70]](#endnote-70) Opel estimated Brexit cost the brand around $660 million, leading to an operating loss at Opel of $240 million in 2016. The reliance on access to the European market was critical for Vauxhall’s factory in Ellesmere Port, which exported around 80 per cent of its vehicles to the mainland and imported from Europe three-quarters of all the components the factory used.[[71]](#endnote-71)

One of PSA’s goals was to integrate production of Opel, Peugeot, and Citroën to realize cost savings and turn around the loss-making unit.[[72]](#endnote-72) In addition to UK production, the Vauxhall Astra model was also made in Gliwice, Poland. The equivalent size Peugeot 308 was made in the cities of Mulhouse and Sochaux in France. While the Mulhouse plant was fully utilized, the Sochaux plant still had capacity to add more work.[[73]](#endnote-73) Brexit would create barriers to the French–British trade and investment that might provide PSA with economic reasons to abandon the Ellesmere Port factory when other plants on the mainland could do the same thing.

In response to the French, German, and British governments, Tavares promised to maintain PSA’s respective workforces until the manufacturing end of existing models. He added that if the United Kingdom left the EU without any form of deal (a hard Brexit), PSA might have an opportunity to increase its supply chain inside the United Kingdom.[[74]](#endnote-74) If that were the case, PSA’s Ellesmere Port factory might remain to produce the Peugeot, Citroën, and Vauxhall vehicles for the British market, thus avoiding potential tariffs and exchange rate risks. Other manufacturers might also move their production to the United Kingdom. Tavares’s position seemed to be opposed to the position taken by the lobby groups. Where the lobby groups saw reasons for leaving Britain if there was a hard Brexit, Tavares saw opportunities for staying in Britain. However, even in that situation, it could be argued that the output from PSA’s British site would shrink dramatically, and it would not operate efficiently enough to make a profit.

Selling Legacy in China AND POWER OF the GERMAN BRAND

Tavares believed that “many markets” in the world had potential customers who considered only German brands “because of the halo effect of the German premium brands.”[[75]](#endnote-75) PSA’s acquisition of Opel, a German brand, would provide PSA with the opportunity to sell cars to new customers who were not interested in Peugeot or Citroën vehicles, and to sell German cars to customers outside western Europe—a market that GM previously did not cover.

The DS brand was not performing well for PSA in China. According to Tavares, the main problem for the continuing drop in the sales of PSA’s premium DS brand in China was the lack of brand awareness.[[76]](#endnote-76) Tavares suggested that a premium brand “needs roots, which takes time,” but the French automaker could overcome this problem. The DS was the only exported French premium brand—a unique selling point for the brand.[[77]](#endnote-77) PSA was also demonstrating its ability to deliver a high quality product. In 2016, the Citroën Dispatch and Peugeot Expert vans were successfully built alongside the Toyota Proace van in a joint venture between the two companies at the Sevelnord assembly factory in France.[[78]](#endnote-78) An earlier bankrupt French company was making cars for Toyota, then the world’s largest carmaker and a carmaker that demanded very high attention to reliability and quality.

In 2016, the luxury DS brand sold at prices nearly 8 per cent lower than prices of its comparable rivals; PSA wanted to reduce this gap to 3 per cent by 2021. The average price for a Peugeot was approximately 2.4 per cent less than that of the rival equivalent model, made by Volkswagen. PSA hoped to reduce this gap to 1.3 per cent by 2018, before overtaking Volkswagen’s model with a price 0.5 per cent higher by 2021. Tavares emphasized the importance of its premium brands: 25 per cent of the profits on the Peugeot 308 line came from sales of the upmarket GT and GTI models.[[79]](#endnote-79)

Tavares intended PSA’s brands to remain true to their heritage. He stated that “Opel will remain German, Vauxhall will remain British. They are the perfect fit to our existing portfolio of French brands.” Tavares was also expected to retain Opel’s management structure after the acquisition, another nod to legacy.[[80]](#endnote-80) This intention to maintain the originality of the respective brands raised a question, though, about whether PSA could decrease its pricing gaps and increase its global market shares by capitalizing on the power and name of the German brand Opel.

RE-ENTERING THE UNITED STATES

PSA exited the United States with its Citroën brand in 1973 and its Peugeot brand in 1991 due to declining sales and a model range that failed to replicate the success of its older models.[[81]](#endnote-81) In April 2016, without divulging sales expectations, Tavares said he would return to North America, where PSA could make significant profit, introducing its upmarket DS brand to compete with the dominant premium German brands.[[82]](#endnote-82) Earlier in 2003 and 2004, to reduce reliance on declining European markets, PSA had attempted to re-enter the US market with its premium models and in 2016, it also partnered with a French-based ride-sharing operator.[[83]](#endnote-83) However, PSA was still absent from the US market.

In January 2018, with the newly acquired Opel/Vauxhall unit, PSA engaged some Opel engineers, who had worked for GM over the years, to make PSA’s latest products compliant with US regulations. The plan was to sell vehicles in the United States by 2026.[[84]](#endnote-84) PSA was researching the US market to decide which brand should lead the company’s return and, as in Russia and Latin America, the French automaker would begin with low-volume sales to ensure short-term profitability. In addition to meeting regulatory compliance, PSA was preparing a platform that allowed customers to use multiple mobility services, including car sharing and rentals, using a smart phone application. Atlanta was chosen as its North American headquarters.[[85]](#endnote-85)

It was still questionable whether the acquisition of Opel/Vauxhall would help PSA successfully re-enter the US market, and if it successfully entered the market, whether the re-entry would help it better respond to growing competitive pressures in the global automotive industry.

GOING FORWARD WITH NEW CHALLENGES

PSA had to achieve challenging goals in the new six-year Push to Pass plan, which aimed to “meet customers’ mobility needs by anticipating changes in car usage patterns.” Under this new plan, PSA would expand globally, increase profit margins and overall revenues, become involved in mobility provisions, and expand into more connected services. The new financial targets required that PSA achieve profit margins of 4 per cent in 2018 and 6 per cent in 2021, and yearly average revenue growth of 3.2 per cent between 2016 and 2018 and 4.4 per cent between 2019 and 2021. However, PSA’s average yearly profit margins from 2001 to 2015 were only 1 per cent, while its revenue grew very slowly at approximately 0.8 per cent during the same period. Tavares wanted to apply the European benchmarking system across PSA’s factories in which all workers could evaluate their own efficiency.[[86]](#endnote-86)

As of December 2017, the acquired units, under the ownership of PSA, continued to suffer losses of €179 million, compared to losses of €244 million in 2016 under GM’s management. The total profit from Peugeot, Citroën, and DS brands increased 23 per cent to €3.99 billion, while PSA’s margin rose only slightly from 6 per cent in 2016 to 6.1 per cent in 2017. Without the loss-making acquired units, the margin would have been 7.1 per cent. PSA’s revenues increased 20 per cent to €65.2 billion, with the number of vehicle sales up 15 per cent to 3.6 million units.[[87]](#endnote-87)

At the time, Opel/Vauxhall posted revenues of €7.2 billion, slightly below the expected revenues of €7.7 billion. Tavares believed that Opel’s loose management during the transition of ownership led to the decline, but, he added, “I am very confident with everything I have seen so far of the turnaround at Opel; I believe it is going to work. . . . We see that everywhere, people understand that we are here to protect the Opel employees by turning around the company. We believe that people at Opel are the solution, not the problem.”[[88]](#endnote-88)

Prior to PSA’s acquisition, Opel’s European CEO, Karl-Thomas Neumann, had created a plan to reinvent Opel and Vauxhall as all-electric car brands by 2030, built on the platform used for the Chevrolet Bolt. The plan fit with the trends. Due to concerns about climate change, the European Commission had proposed in November 2017 to reduce carbon dioxide emissions from cars by 30 per cent by 2030. With better-established road infrastructure, electric vehicles had become a viable alternative. The market was estimated to grow at a compound annual growth rate (CAGR) of 28.3 per cent between 2017 and 2026.[[89]](#endnote-89) With sales of electric vehicles increasing from only a few thousand in 2012 to over 2 million in 2017, global sales would potentially reach 10.8 million by 2026. Tesla, Inc., the largest American electric car manufacturer, had surpassed PSA in 2011 in terms of the market capitalization of electric vehicles.

PSA needed to achieve its goals of the Push to Pass plan but it was facing sluggish sales in the Chinese market, continued losses with the acquired Opel/Vauxhall unit, and the rise of electric cars in response to global concerns about climate change. To what extent could re-entry into the United States help PSA achieve its goals, and how should PSA proceed with that re-entry? PSA was also dealing with the ambiguity of Britain’s negotiating position after the Brexit vote, which raised questions about whether PS should strengthen its market position in Europe by proceeding to invest in the Vauxhall plant in Ellesmere Port. Should Tavares continue to wait for the outcome of Britain’s negotiations with the EU or could it rely on the British government’s prior assurance that it would minimize the impacts of trade barriers? Or, should the company, without delay, simply proceed to make alternative plans that did not include Britain?

Exhibit 1: GROUPE PSA’S CONSOLIDATED WOLDWIDE SALES (NUMBER OF VEHICLES)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Global Presence\*** | **Brands** | **2015** | **2016** | **Change** | **2017** | **Change** |
| **Europe\*\*** | Peugeot | 1,056,103 | 1,102,230 | 4.4% | 1,173,465 | 6.5% |
| Citroën | 731,141 | 762,576 | 4.3% | 785,662 | 3.0% |
| DS | 76,733 | 65,452 | (14.7%) | 43,135 | (34.1%) |
| Opel/Vauxhall | n/a | n/a | n/a | 376,380 | n/a |
| **Total PSA Group** | **1,863,977** | **1,930,258** | **3.6%** | **2,378,642** | **23.2%** |
| **Middle East and Africa\*\*\*** | Peugeot | 117,093 | 323,084 | 175.9% | 533,170 | 65.0% |
| Citroën | 61,472 | 58,662 | (4.6%) | 57,273 | (2.4%) |
| DS | 1,642 | 1,743 | 6.2% | 1,575 | (9.6%) |
| Opel/Vauxhall | n/a | n/a | n/a | 26,809 | n/a |
| **Total PSA Group** | **180,207** | **383,489** | **112.8%** | **618,827** | **61.4%** |
| **China and South East Asia** | Peugeot | 412,271 | 351,904 | (14.6%) | 249,223 | (29.2%) |
| Citroën | 302,198 | 250,297 | (17.2%) | 131,821 | (47.3%) |
| DS | 21,479 | 16,151 | (24.8%) | 5,963 | (63.1%) |
| Opel/Vauxhall | n/a | n/a | n/a | 295 | n/a |
| **Total PSA Group** | **735,948** | **618,352** | **(16.0%)** | **387,302** | **(37.4%)** |
| **Latin America** | Peugeot | 99,261 | 122,639 | 23.6% | 136,303 | 11.1% |
| Citroën | 56,613 | 60,196 | 6.3% | 68,526 | 13.8% |
| DS | 1,204 | 1,072 | (11.0%) | 1,304 | 21.6% |
| Opel/Vauxhall | n/a | n/a | n/a | 142 | n/a |
| **Total PSA Group** | **157,078** | **183,907** | **17.1%** | **206,275** | **12.2%** |
| **India-Pacific** | Peugeot | 18,457 | 13,977 | (24.3%) | 19,205 | 37.4% |
| Citroën | 4,143 | 4,452 | 7.5% | 6,049 | 35.9% |
| DS | 1,189 | 1,457 | 22.5% | 799 | (45.2%) |
| Opel/Vauxhall | n/a | n/a | n/a | — | n/a |
| **Total PSA Group** | **23,789** | **19,886** | **(16.4%)** | **26,053** | **31.0%** |
| **Eurasia** | Peugeot | 6,538 | 5,626 | (13.9%) | 8,479 | 50.7% |
| Citroën | 5,374 | 4,758 | (11.5%) | 6,345 | 33.4% |
| DS | 88 | 106 | 20.5% | 84 | (20.8%) |
| Opel/Vauxhall | n/a | n/a | n/a | 307 | n/a |
| **Total PSA Group** | **12,000** | **10,490** | **(12.6%)** | **15,215** | **45.0%** |
| **Total Consolidated Worldwide Sales** | Peugeot | 1,709,723 | 1,919,460 | 12.3% | 2,119,845 | 10.4% |
| Citroën | 1,160,941 | 1,140,941 | (1.7%) | 1,055,676 | (7.5%) |
| DS | 102,335 | 85,981 | (16.0%) | 52,860 | (38.5%) |
| Opel/Vauxhall | n/a | n/a | n/a | 403,933 | n/a |
| **Total PSA Group** | **2,972,999** | **3,146,382** | **5.8%** | **3,632,314** | **15.4%** |

Note: \* Numbers include assembled vehicles, CKDs (completely knocked down), and vehicles under license; \*\* Europe includes European Union, European Free Trade Association, Albania, Croatia, Kosovo, Macedonia, and Serbia; \*\*\* Middle East and Africa include 233,000 units sold in 2016 and 443,000 units sold in 2017 under Peugeot licence following the final joint venture agreement signed with Iran Khodro (IKCO) on June 21, 2016; n/a = not applicable.

Source: Created by the case authors based on Groupe PSA, *Annual Results 2017,* March 1, 2018, accessed May 7, 2018, www.groupe-psa.com/en/publication/2017-annual-results.

Exhibit 2: MOTOR VEHICLE OWNERSHIP, 2014

|  |  |
| --- | --- |
| **Country** | **Vehicles per 1,000 people** |
| United States | 797 |
| Italy | 679 |
| Spain | 593 |
| Japan | 591 |
| France | 578 |
| Germany | 572 |
| Malaysia | 361 |
| United Arab Emirates | 313 |
| Russia | 293 |
| Mexico | 275 |
| Brazil | 249 |
| Thailand | 206 |
| Iran | 200 |
| South Africa | 165 |
| China | 83 |
| Indonesia | 60 |
| Philippines | 30 |
| Vietnam | 23 |
| India | 18 |

Source: Created by the case authors based on “Road Motor Vehicle Ownership per 1,000 People, 2014,” Nation Master, accessed May 7, 2018, https://ourworldindata.org/grapher/road-motor-vehicle-ownership-per-1000-people-2014?country=ITA+DEU+FRA+ESP+USA+JPN+RUS+BRA+MEX+ZAF+IDN+CHN+IND+IRN+PHL+THA+ARE+VNM+MYS.

Exhibit 3: Car and Truck Sales by location, 1964–2014

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **North America** | **Europe** | **Japan** | **China** | **Rest of World\*** | **Total** |
| 1964 | 11 | 7 | 1 | 0 | 2 | 21 |
| 1974 | 13 | 12 | 2 | 0 | 5 | 32 |
| 1984 | 15 | 14 | 4 | 1 | 8 | 42 |
| 1994 | 18 | 16 | 7 | 1 | 11 | 53 |
| 2004 | 18 | 16 | 6 | 8 | 15 | 63 |
| 2014 (estimated) | 20 | 19 | 5 | 25 | 19 | 88 |
| CAGR\*\* 2004–2014 | 0.9% | 1.4% | (0.5%) | 11.4% | 2.7% | 3.4% |

Note: \*Rest of the world = Eastern Europe, Mexico, Middle East, South America, and South Korea; \*\*CAGR = compound annual growth rate.

Source: Created by the case authors based on Paul Gao, Russell Hensley, and Andreas Zielke, “A Road Map to the Future for the Auto Industry,” McKinsey & Company, October 2014, accessed May 7, 2018, https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/a-road-map-to-the-future-for-the-auto-industry.

Exhibit 4: TOP PERFORMING LUXURY AUTOMOBILE MANUFACTURERS IN THE CHINESE MARKET OVER THE FIRST HALF OF 2013–2014

|  |  |  |  |
| --- | --- | --- | --- |
| **Brands** | **Number of Vehicles Sales**  **First Half 2014** | **Market Share**  **First Half 2014** | **Market Share**  **First Half 2013** |
| Audi | 268,700 | 30.9% | 29.2% |
| BMW | 225,000 | 22.1% | 19.2% |
| Mercedes-Benz | 136,000 | 17.4% | 14.2% |
| Jaguar Land Rover | 62,500 | 26.0% | 20.1% |
| Lexus | 39,300 | n/a | n/a |
| Volvo | 38,600 | 16.8% | 13.7% |
| Cadillac | 33,800 | n/a | n/a |
| Porsche | 19,800 | 22.5% | 22.5% |
| Infiniti | 14,000 | 13.8% | 7.8% |
| Citroën | 10,400 | n/a | n/a |

Note: n/a = not available.

Source: Created by the case authors based on Shuan Sim, “The Rapid Growth of China’s Luxury Auto Market In 4 Charts,” Jing Daily, July 28, 2014, accessed May 7, 2018, https://jingdaily.com/the-rapid-growth-of-chinas-luxury-auto-market-in-4-charts.

Exhibit 5: General Motors Europe—operating PERFORMANCE, 1999–2016

(IN US$ BILLION)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Year** | **1999** | **2000** | **2001** | **2002** | **2003** | **2004** | **2005** | **2006** | **2007** |
| Profits (Losses) | 0.423 | (0.676) | (0.765) | (1.011) | (0.504) | (0.976) | (1.666) | (0.190) | (0.447) |
| **Year** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
| Profits (Losses) | (2.625) | (3.629) | (1.764) | (0.747) | (1.797) | (0.844) | (1.369) | (0.813) | (0.257) |

Source: Created by the case authors based on Jason Karaian, “General Motors Europe Operating Earnings,” Atlas (Quartz), February 2017, accessed May 7, 2018, www.theatlas.com/charts/r10a9alFl.

ENDNOTES

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89. Report Buyer, “Global Electric Vehicle Market to Reach 10.8 Million Units by 2026,” press release, January 9, 2018, accessed February 15, 2018, www.prnewswire.com/news-releases/global-electric-vehicle-market-to-reach-108-million-units-by-2026-300580286.html. [↑](#endnote-ref-89)