# New trend in 2000

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- If the Japanese technology were dominating the world of Manufacturing, around 2000 new ideas did rise in the Business world influencing also the Automotive Industries.
- The Globalization in its full explosion was suggesting to explore the possibilities offered by the countries in evolution. The discussions in automotive started around:
    - Global car
    - LCC involvement in components
    - New markets
- The complexity of the period around 2000 was so big that while Automotive Industries were working in the new horizons suggested by the global economy, in parallel appeared different trends to take under consideration:
    - The rise of “logo” centrality in the business (started from sportwear and dressing) with a outsourcing and reduction of Manufacturing importance
    - Synergy and co-operative value, adding organizations among regions (JV, merger)

# The world is flat

- This is the title of a book written by **Thomas L. Friedman** and **issued in 2005** that had an incredible success.
- The importance of this book is the **positive message** that for the first time put in connection, in a clear way accessible to all, the combination of the globalization with the new opportunities offered by internet.
- Of course, he was not blind and saw some problems (unemployment, pandemic) but proposed to the world a paradigm for a new global economy.
- The principle that guided him is the thought of David Ricardo, an English economist of the XIX century. His **comparative advantage theory suggests that nations can gain an international trade advantage when they focus on producing goods that produce at the lowest costs compared to other nations.** Exchanging these goods **with other ones produced in an optimized way by other Nations**, more specialized, they will **obtain an advantage**.
- It is a different way of looking at the world. Not exactly the same of today, since US introduced a high penalties in Automotive import (car, components, labor and raw materials)

# Ten forces that made the world flat

1. **1989: the fall of the wall and the launch of Windows** extended the business world from the 2.5 billion men to the double thanks also to the reduced political tension with Russia, the opening of China to business, the reduction of bureaucracy in India.
2. **Internet navigation**
3. **Workflow**: process are standardized on the computer and people can work in remote
4. **Uploading**: the wide possibility to upload individual data to internet (Wikipedia)
5. **Outsourcing** : follow Ricardo to find someone that can produce better than you
6. **Offshoring:** transfer business among regions in order to improve cost and enlarge markets
7. **Supply chaining:** The use of information technology to connect real rime to optimize the supply chain processes.
8. **Insourcing**: the contrary of Outsourcing. Gather the opportunity to support small companies with a large network (Amazon with little shops)
9. **Informing** (Google and others)
10. **Smartphones**

These forces impacted heavily also the Automotive Industry even if something less that other sectors

# No logo – The factory betrayed

- Not all the opinion maker were in agreement about the positive opportunities given by the new global economy.
- One important and original voice "against" has been **Naomi Klein**, a Canadian journalist, that in 2000 published the super-hit **"No Logo".**
- She explained how at the end of last century, gradually the Companies get aware that the consumers buy the "logo" it means what seems to guarantee a spirit, an experience, something unique inside only the product characterized by the logo. More than a brand. **Or less.**
- Gradually, the production that, remember!, is crucial and central in the handcraft, become less important and could be shared in order to reduce cost and optimize the margins.
- **The production plant according to this model are owned by third parties, dark, dirty, with no unions nor respect of ergonomics or safety. The contrary of the Japanese production model.**
- Klein advised us about the risk consequent to the **outsourcing** and the **delocalization.**
- She studied a lot of "free-duty production areas" dedicated primarily to sportwear, electronics but in the perimeter involved also GM meaning that Automotive also could be impacted. In reality, most of Carmakers are still following the Lean Manufacturing. **So far.**

# Synergy and co-operations

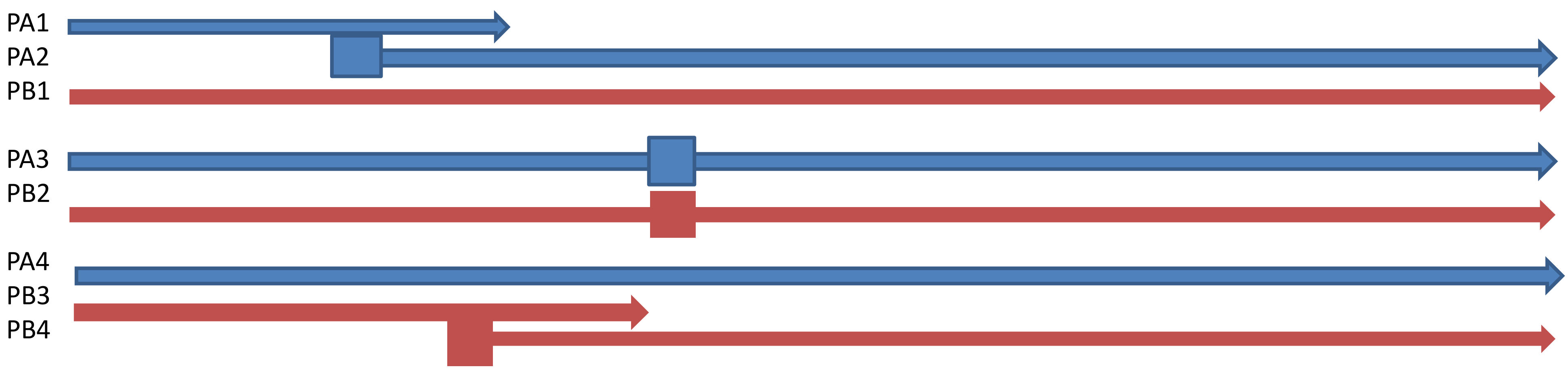
- All the aspects we have seen so far were matter of macroeconomy and sociology but a clear awareness that appeared around 2000  was that only merged Companies with extended markets and shared costs would have been able to survive in Automotive.
- Mergers among important Automotive group started to be explored in order to make stronger its own position.
- In some way, it was an operation done accordingly to the Ricardo's theory.
- Some Company could offer a strong presence in a region, other a new technology. Some Companies had unsaturated plant that could have been saturated avoiding new capacity's investment for someone else.
- Fiat e.g., offered the leading position in South America, a top-class diesel technology (direct injection) with free capacity, a strong presence and supplier base in Europe. This had been appealing for General Motors.
- A way less impacting was the creation of Joint Venture so not exactly a full merger but the sharing of strategic sectors. For the JV Fiat-GM they was the powertrain sector and the Purchasing operation.

# The Joint Venture

- A Joint Venture is a legal entity fully separated from the two Parent Companies that created it putting together some portion of the Business.
- Sometime is a 50%-50% homogeneous sharing , sometimes is a capital sharing with inhomogeneous businesses.
- Sometimes one parent Company has 51% or more and drive the JV.
- Normally there is a Board in which the member are shared that take decisions but sometimes there is a CEO and Executive Vice Presidents that are independent in all operations including self-financing activity.
- If the JV supplies product to the Parent Companies, in some case it is treated as a supplier in other as a branch of the Company especially if has 51% or more.

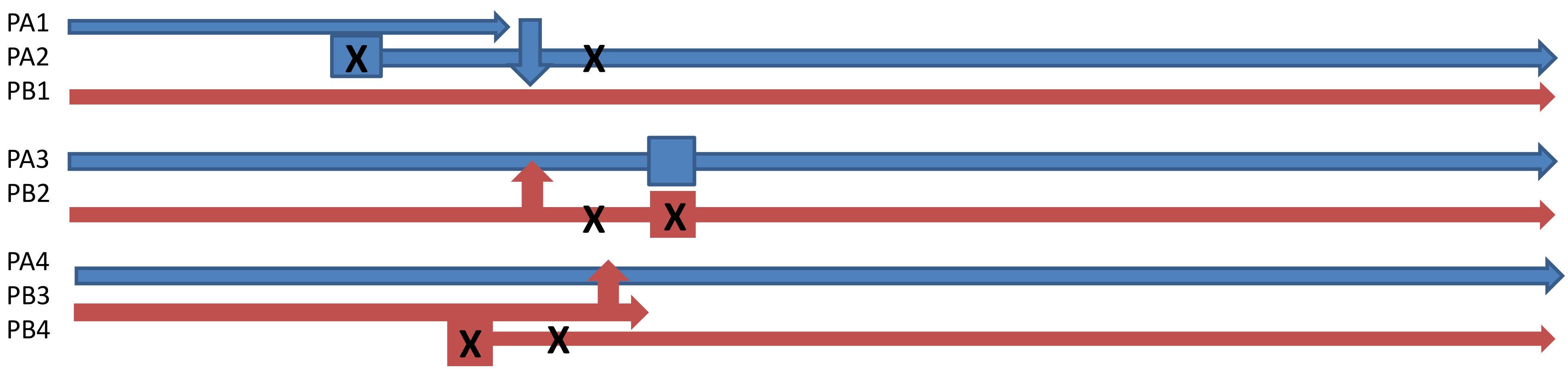
# JV- Basic separated plan

- To start up a JV it is necessary demonstrate that there is a favorable BC. The BC is made comparing the sum of two NPVs of  separated Parent Companies vs the merged Business Plan.
- Let assume that PA1, PA2…PAi…PAN are the N product of Parent Company A and similarly PB1, PB2…PBi…PBM are the M product of Parent Company B.
- The portfolio plan for the separate Companies is the following one where the products are bundled per three segment that are object of the JV.



# JV - Convergence plan

- The hypothesis of a JV allows the two parties to imagine a merged plan in which the products of the same segment synergized.
- So PA2 investment will be canceled and at the end of the life the PA1 will be replaced by the PB1 of the other parent company. ON the second segment both companies planned to have a restyling. Inside the JV: a convergence on the PA3 allow to save the investment to renew PB2.
- In the third segment, no new investment for PB4 and the PA4 in place of PB3 at the end of its life.



# Business case

- The evaluation of the soundness of a JV proposal can be evaluated through a Business Case.
- The two separated plan are evaluated in terms of Total Discounted cash flow.
- The convergence plan is the support for the evaluation of the new Discounted Cash flow.
- The comparison of the two represents the result:

| | | Formulas | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | total |
|---|---|---|---|---|---|---|---|---|---|
| **INPUT** | | | | | | | | | |
| **Total DCF case A (separated)** | | | **60** | **54** | **220** | **202** | **169** | **35** | **740** |
| **Total DCF case B (convergence)** | | | **60** | **54** | **45** | **38** | **80** | **13** | **289** |
| **OUTPUT** | | | | | | | | | |
| Delta Discounted cash flow | | =ACT( Case A-Case B) | 0 | 0 | 176 | 164 | 89 | 22 | **451** |
| NPV | | =Cumulated DCF | 0 | 0 | 176 | 340 | 429 | 451 | |
| Total actualized investment B | | | 0 | 0 | 0 | 0 | 66 | 0 | **66** |
| **Profitability case B** | **687%** | =Cum DCF/Cum Inv for proposal (case B) | | | | | | | |

Result in favor of JV