Brief case 27

THE FAILED ALLIANCE BETWEEN VOLKSWAGEN AND SUZUKI

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In December 2009, the European company Volkswagen (VW) and Japan's Suzuki, two competitors in the automobile industry, entered into an alliance designed to be mutually beneficial in the global market. At that time, VW was the world's third-largest car manufacturer, while Suzuki stood in fourth place in Japan, with a major positioning in the small family car segment, and in third place globally for motorbikes.

The alliance was seen as a long-term strategy to develop the complementarities between the two companies, with each maintaining its own identity. Although they were competitors, the statement issued when the alliance was formally subscribed stated that the two companies complemented each other perfectly in terms of product range, global distribution and production capacity. Furthermore, they announced that they shared a common approach to the growing global demand for eco-friendly cars. They expected to post positive financial results within two or three years.

There were, therefore, two specific objectives. Firstly, both companies sought to mutually support each other in pursuit of an advantageous positioning in emerging markets. Accordingly, in addition to its presence in Europe, VW also brought to the table its major presence in Latin America and China. In this country, it had a 17% market share, being the first European manufacturer to launch there. For its part, Suzuki provided a major presence in Japan, South-East Asia and, especially, India, where it was the market leader thanks to its experience in small family cars and its alliance with the local manufacturer Maruti.

The alliance's second objective was to reinforce both companies' positioning in the more developed countries in the eco-friendly car segment. The alliance, therefore, provided for the sharing of technology for hybrids and low-CO2-emission cars. With a view to its success, and given their respective market positions, VW provided its most advanced technology, which Suzuki aspired to acquire and assimilate. In turn, Suzuki was strong in the manufacture of low-cost mini-vehicles and small family cars, segments in which VW was not so strongly positioned, and which were key for gaining positions in emerging markets.

The alliance took effect in January 2010, with the exchange of shares between the two companies. VW took a 19.9% holding in Suzuki for around 1.9 billion dollars, becoming Suzuki's largest shareholder, albeit with no controlling interest. In turn, Suzuki used just under half of the amount received to buy shares in VW, becoming a minority shareholder of the European giant with a 1.49% stake.

However, the alliance's objectives were not met because collaboration projects were not established over the following months, and discrepancies abounded between the two companies' leaderships. The Japanese company complained that the expected transfer of technology from VW never materialised, even though this was one of the agreement's mainstays. In turn, VW complained that Suzuki was dragging its feet and showed little interest in the alliance. Both parties called upon each other to remedy the situation with a view to rekindling the partnership. Suzuki went as far as to say that if measures were not taken to resolve the issue of its lack of access to VW technology, it would be impossible to establish a relationship of mutual trust between the parties.

Matters came to a head in June 2011, when Suzuki reached an agreement with Fiat to deliver diesel engines, which VW considered a breach of the alliance agreement and a betrayal. VW publicly expressed its anger, calling on Suzuki to rectify the situation and make a public apology. For its part, Suzuki argued that VW either could not or did not want to deliver the requested diesel engine, so it sought another supplier after checking with its partner. As it did not consider itself to be responsible for this problem, Suzuki indicated that VW's public complaint compromised the joint effort to develop new products and, what's more, it tarnished Suzuki's image and honour. The Japanese company then demanded that VW publicly apologise for unfairly accusing it of betrayal.

As VW did not publicly retract, in September 2011, less than two years after allying, Suzuki announced it was unilaterally terminating the agreement and ceasing to collaborate with VW. Suzuki then announced that, since the beginning of 2011, it had accelerated the development of its own environmental technology in pursuit of greater autonomy and, therefore, would be less dependent on the VW technology that had failed to appear. Suzuki thereby stated its intention to maintain its technological independence to compete in global markets.

Furthermore, Suzuki stated that, with the alliance broken, there was no longer any sense in the exchange of shares, so it called upon VW to divest its 19.9% capital holding. It also announced that if VW wished to recover the investment Suzuki had made when the alliance was subscribed, it would have no objection to doing so. VW's response to this unilateral split was to state that it continued to be interested in working with Suzuki and that it had no intention of selling its stake. Moreover, it indicated that there was no legal clause obliging it to sell its shares. Given this situation, with no chance of a friendly agreement on the dissolution of the shareholding alliance, in November 2011 Suzuki announced it was initiating arbitration proceedings before the London Court of International Arbitration to recover this holding and thereby restore its independence prior to the alliance.

Following the end of the collaboration, VW decided to go it alone on the project to launch a low-cost car for emerging countries in Asia, without seeking alliances, after the failed attempt involving Suzuki in 2009. What's more, VW took Suzuki to the international courts to revoke the Japanese firm's right to use the letters "GTi" on its products. However, the courts ruled in favour of Suzuki, and although VW announced it would appeal against the decision, it finally desisted. For its part, Suzuki continued to reinforce its alliance with Fiat, with which it had a better understanding than with VW.

In August 2015, the International Court of Arbitration ruled in favour of Suzuki regarding the termination of the agreement, permitting it to buy back VW's 19.9% shareholding, while also decreeing the end of the agreement between the two groups as of 18 May 2012. In September 2015, Suzuki repurchased the shares for approximately 3.4 billion euros. At the same time, it sold its 1.5% holding in VW to its largest shareholder, Porsche, for an undisclosed sum, albeit with capital gains of 304 million euros, according to Suzuki. This sale was arranged despite the drastic fall in VW's market value, as it coincided with the news of its problems with toxic emissions.

Question: Analyse the reasons behind the alliance between VW and Suzuki and identify the mistakes made in the management of the agreement that caused the alliance to fail.

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