

A Strange Detour for Chrysler

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LOOKING TO NISSAN
Will consumers go along?

NISSAN VERSA	NISSAN ALTIMA
Chrysler will sell a version in South America in 2009. The U.S. will get a small car in 2010.	No deal yet, but the family sedan could help shore up Chrysler's weak car lineup.

Data: BusinessWeek

So it's come to this. Chrysler, inventor of the minivan (one of the best-selling ideas in automotive history), is starting to turn itself into a marketer and contract manufacturer of other people's cars. To plug gaping holes in its truck-heavy lineup, the U.S. automaker already plans to stick a Chrysler badge on a restyled Nissan Motors (NSANY) Versa subcompact. Now comes word that it is negotiating with the Japanese company to start selling a version of the Altima family sedan. Plus, to pick up the slack at its underutilized truck and minivan plants, Chrysler aims to become an assembler-for-hire for any maker that needs those vehicles.

This plan did not spring from the brain of a car guy. It smells of the moneymen who are now deeply nested in Chrysler's operations. Cerberus Capital Management paid \$7.4 billion for 80% of the company and, having underestimated the difficulty of turning it around, is looking to cut costs and conserve cash. Chrysler and Cerberus say they will save hundreds of millions or even billions of dollars in development costs for small cars and family sedans. And far better to share their factories, they say, than to lose money on them. Yes, it makes a strange kind of sense, but it virtually assures that Chrysler may never thrive as a standalone company.

The partnership has serious weaknesses. Picture the Chrysler star or Dodge horns on a restyled Nissan. And ask yourself: Why not just buy the Nissan? After all, the Chrysler and Dodge brands are among the weakest out there. Nissan vehicles often hold their value better than Chrysler ones do. (As a parallel, consider the General Motors (GM)-Toyota Motors (TM) joint venture to build small cars: The Toyota version of the same basic vehicle sells way better and for a lot more money.) And let's not forget that Chrysler's most famous names stand for

off-roading (Jeep) and gas-guzzling power (the famous Hemi engine). Hard to sell small Nissan siblings with that kind of branding legacy.

Which brings us to the plan to rent out Chrysler's factories. As part of the partnership, Chrysler will build a version of its Dodge Ram pickup for Nissan. Volkswagen (VLKAY) has ordered up a minivan. Votes of confidence, to be sure. But will Chrysler's quality issues scare others off? Two recent studies from J.D. Power & Associates (MHP) maintain that Chrysler's quality lags way behind its toughest rivals. In their defense, Chrysler executives point to a study done by consulting firm Oliver Wyman Group showing the company's manufacturing efficiency is now among the best in North America. They also claim quality has suffered because its former parent, Daimler (DAI), was cheap on parts.

But there's another problem with relying on other carmakers. It steers Chrysler into me-too land and away from its roots as an innovator. The company has often risen Phoenix-like from a crisis with innovations such as the minivan or early SUVs such as the Jeep Grand Cherokee. Design breakthroughs like the Dodge Ram pickup and the PT Cruiser during the 1990s earned billions. More recently, the 300 sedan was a big, if short-lived, hit. Chrysler President Tom W. LaSorda counters that Chrysler's cars will look nothing like their Nissan siblings and that the strategy will play a big role in his planned overseas expansion.

Auto industry partnerships have a tendency to go kaput when interests diverge. For the moment, the alliance with Nissan will allow Cerberus to keep Chrysler going while it figures out an exit strategy. Nissan may not buy Chrysler outright (despite speculation) and seems content with a looser arrangement that will allow it to sell more cars. LaSorda doesn't see a sale happening any time soon. But a deepening partnership with Nissan means Chrysler is less likely to go it alone. This company will end up on the block again. The only question is when.

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