A big plan for small cars

A two-way carmaking alliance recruits a third member.

IT IS more than ten years since Renault forged its transformative alliance with a nearly-bankrupt Nissan. Ever since, Carlos Ghosn, the man who made his reputation by turning round the Japanese carmaker, has been scouring the globe for a third partner to achieve even greater economies of scale. General Motors shortsightedly turned down Renault-Nissan's overtures in 2006. But on April 7th Mr Ghosn announced a deal with Daimler.

The tie-up with the German luxury car and truck firm falls some way short of the kind of full-blown alliance that Mr Ghosn would doubtless like, although it does go further than the co-operative deals that are commonplace in an industry that is always looking for ways to save money. Whereas Renault holds a 44% stake in Nissan, which in turn has a 15% (non-voting) share in the French company, Daimler will take a much more modest 3.1% stake in each of them, and they will each take a tiny 1.55% stake in it. Mr Ghosn believes that cross-shareholdings are a critical signal to employees, especially engineers, that the partnership is both long-term and strategic, but Dieter Zetsche, Daimler's boss, was reluctant to go further in that direction.

It is easy to see what Daimler gets out of the deal. Its Mercedes brand urgently needs to find a better way of producing small cars. The world's drivers are increasingly turning to smaller, more efficient vehicles as environmental regulations bite harder and populations age in rich countries. Mercedes is not new to making small cars, but its efforts have been crippled by products that are sub-scale and over-engineered. It has lost huge amounts on its Smart, A-Class and B-Class programmes—perhaps as much as €7 billion ($9 billion) over the past decade, according to Max Warburton of Bernstein Research.

In its efforts to stop the rot Daimler has talked to Volkswagen and Fiat as well its great rival, BMW. However, Renault-Nissan's experience in making partnerships work and the complementary nature of the firms' products made the pair a good fit for the German firm.

The new alliance will focus on sharing resources in four main areas: platforms for small cars and light commercial vehicles; small petrol and diesel engines; technology for fully electric and hybrid cars; and bigger diesel engines. The first fruit of the collaboration is likely to be the development of a new platform for the little Renault Twingo that will also be used by Mercedes for the next two- and four-door Smart cars, due in 2013.

Renault will not benefit as much from technology sharing, but Nissan will get Mercedes diesel engines for its high-end Infiniti range, which is struggling to establish itself in Europe without a diesel option. According to insiders, the three partners will also earn around €2 billion from the deal in the form of cost savings and additional sales over the next five years.

Perhaps more important to Mr Ghosn is the apparent vote of confidence from Daimler. For much of the past decade Renault has been a disappointingly mediocre performer, bolstered by substantial dividends from the more successful Nissan. Thanks to the launch last year of the new Mégane hatchback and Scenic minivan, Renault's market share in Europe is rising. But despite (or perhaps because of) Renault's bold attempt to be the first volume maker of purely electric vehicles, investors, according to Mr Warburton, still see the firm as "a long-term structural loser". Mr Zetsche's cautious endorsement could shift that perception, but only if he and Mr Ghosn can convincingly show how they will make their tie-up work.

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