NISSAN'S SEARCH FOR A PARTNER:
THE INITIAL NEGOTIATIONS

On February 1, 1999, Nissan Motor President Yoshikazu Hanawa considered the progress he had made with Renault in negotiations over a possible tie-up. He had met with Renault CEO Louis Schweitzer for the first time about 6 months ago, after several weeks of preliminary preparations by other company representatives. The last 6 years had hit Nissan hard financially, and Renault had expressed interest in an equity investment. Major issues thus far included price, the size of the stake, management control, and particular areas of operations to restructure. Hanawa had insisted that Renault retain the Nissan name, protect jobs, support the restructuring that Nissan already had underway with Nissan leading the effort, and select a CEO from Nissan's ranks. The discussions had been a closely kept secret until a week ago. Now the public was aware of the talks.

Coincidentally, on January 23, the business press reported that Nissan Motor had been meeting with DaimlerChrysler. In November, Hanawa had visited DaimlerChrysler Co-Chairman Jurgen Schrempp in Stuttgart to discuss Schremp's interest in Nissan Diesel. Schrempp surprisingly responded by proposing to invest in Nissan Motor itself. This news also was creating quite a buzz.

Nissan Motor Company Ltd. had not made a profit in 5 of the last 6 years. Its home market share eroded from 24% in 1990 to the current 15.4%, its share price sunk to ¥346 at the end of 1998 (from ¥1,331 in January, 1990), and it had accumulated debt of ¥3,600 billion. In May, 1998, the company launched a massive corporate restructuring named the "Global Business Reform Plan." Nevertheless, in August, Moody's reduced Nissan's credit rating to near junk bond status. Over ¥2000 billion was due for repayment within 12 months, and net income for the fiscal year ending in 2 months--on March 31, 1999--on revenues of some $50 billion, was expected to be in the red again.

The 1990s had already seen a number of automakers pursue mergers & acquisitions (m&a's) as strategic initiatives or remedies. To some extent, this trend reflected a larger boom involving banks, energy companies, pharmaceuticals and telecoms. In 1998, there were four times as many mergers worldwide than occurred in the biggest year of deals during the 1980s' m&a wave. M&a activity was even up among Japanese automakers--darlings of the industry in the 1980s—who were suffering both from industry overcapacity and Japan's continuing economic slump. Ford had increased its stake in Mazda and taken management control. Elsewhere, GM acquired 50% of Saab-Scania and BMW bought Rover. In May, 1998, Daimler and Chrysler shocked the industry with the announcement of their mega-merger. VW proceeded to acquire Rolls Royce, and last month–in January--Ford had purchased Volvo's car operations.

Nissan clearly needed to take action--and probably with some form of external assistance. French Prime Minister Lionel Jospin publicly encouraged a Renault-Nissan liaison, yet previous French governments had severely restricted Japanese autos in the French market and Japanese automakers like Nissan had established bases for the European market in Britain, not France. Nor was it assured that unions at the companies would not resist a major alliance. Would Renault and Nissan be able to finalize a deal? What about DaimlerChrysler's offer? What could Nissan do to best meet its needs, and what roles would other interested parties play in these efforts?

[Note to Reader: The next sections describe Nissan, Renault, and DaimlerChrysler, and the world and Japanese auto industries. Then the case details Nissan's negotiations to date with Renault and with DaimlerChrysler. The final sections cover m&a's and the Japanese, German, and French business environments.]