RENAULT-SAMSUNG'S NEW STRATEGIC CHOICES : FROM SCALE TO SCOPE

Hyunjoong JUN
(Dongseo University, Busan, Korea)

Since the year 2000, Korean economy is changing rapidly and is recovering quickly. The pace of restructuring, globalization and liberalization that has taken place over the past two years has attracted an equivalent amount of foreign direct investment in Korea that had been realized over the previous 36 years.

The wave of acquisitions, equity partnerships, and strategic alliances involving domestic and major foreign carmakers has brought a new shape in the car making industry. In particular, the merging of Hyundai-Kia, and Renault-Samsung and the possibility of the sale of Daewoo Motors to GM this year means there is no longer a sole Korean owned automaker in the world.

After over five years as an independent carmaker, Samsung Motor was born again on September 1, 2000 as Renault-Samsung Motor (RSM). Renault had acquired the majority share of the youngest Korean automaker that belonged to the largest Chaebol ("multi-sectorial" firm), Samsung group. Now, Renault possesses 70.1% of the share of the new firm, while Samsung group retains 19.9% of the share and Samsung Motor creditors have 10% of the share. In the event Samsung group continues to contribute to the growth of the RSM aggressively, RSM will be able to use considerable portion of customers' information, knowledge, capability, "brand value" and network of Samsung group in domestic and foreign market. The alliance between the two firms could be considered as an attempt by the firms to engage in joint competitiveness, organizational capabilities and mutual learning.

The birth of Renault-Samsung Motor could be considered as new momentum for the development of the domestic industry.

By launching RSM, it increased the sales of its unique model, *SM5*. RSM sold 70,000 SM5 units in 2001. The production of the French-Korean joint motor company has gone up to over 7,000 units a month in 2001 from under 3,000 units in August 2000. The automaker aims to hike its current 7 percent market share up to 10 percent by next year. RSM is currently proceeding 15 projects to reach BEP (Break-Even Point) in 2004. Therefore, the year 2001 is a pivotal year for RSM and the profit can be realized in near future. The carmaker's annual production is projected at 150,000 units in 2003 and 240,000 units in 2005. On a long-term basis the plan is to reach 500,000 units in production annually.

Until the year 2001, RSM emphasized a growth strategy for scale. The carmaker produced *SM5* model only and its quantitative growth for scale is led by the sale increase of *SM5*. From the year 2002, RSM started to pursue a growth strategy for scope. The company presented new *SM5* model, '*2002 SM5*', at the beginning the year and also debuted a new mid-size passenger vehicle called '*SM3*.'

Renault-Samsung Motor is preparing new strategies about Customer Service, Marketing, Finance, and E-business fields. The know-how, knowledge and experiences that Renault learned from structural reform of Nissan could help establishing new strategies for Renault-Samsung Motor. Strengthening the local-market and the network of parts suppliers must be constructed urgently.

In this paper, we will analyze the recent changes in Korean automobile industry and seek to analyze the particular form of inter-firm alliance of Renault and Samsung and the acquisition effects of the two carmakers. Also two cases of alliances and inter-firm relations, Renault-Samsung and Renault-Nissan, will be compared partially. Finally, Renault-Samsung's new management strategies will be studied as we examine the obstacles that the firm may confront in the domestic market and try to find solutions.