

ONZIEME RENCONTRE INTERNATIONALE DU GERPISA ELEVENTH GERPISA INTERNATIONAL COLLOQUIUM

Les acteurs de l'entreprise à la recherche de nouveaux compromis ?
Construire le schéma d'analyse du GERPISA

Company Actors on the Look Out for New Compromises
Developing GERPISA's New Analytical Schema

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FROM SOUTH TO EAST: SEAT AND ITS SUPPLIERS, 1992-2003

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Today Spain is the sixth car producer and the fourth exporter in the world. It annually manufactures more than 3 million vehicles (80 per cent exported, mainly to Western Europe). Car exports constitute the main item of the Spanish foreign trade. Automobiles (including motorcycles) account for 22 per cent of the Spanish exports. Car assemblers enroll 75,000 employees. Producers of parts employ not less than 250,000 people. Sales of the industry of transportation equipment account for 7.9 per cent of the Spanish GDP.

In spite of the importance of car production for the economy, there are no Spanish assemblers and the headquarters of the main firms (either assemblers or suppliers of parts) are located abroad. The main consequences being that decisions over investment and choices of models are taken elsewhere. In addition, Research and Development (R&D) takes place mainly in the country of origin of matrix firms.

SEAT was born as a 'national' firm with the technical assistance of Fiat in 1950. Italians left SEAT in 1980 and Volkswagen (VW) took full control of the firm in 1986. Under VW the enterprise was restructured and a new plant was built in the neighborhood of Barcelona (Martorell). The factory, one of the largest and most up-to-dated at the beginning of the 1990s, has today a capacity of 500,000 cars per year. Although Wolfsburg owns 100 per cent of its capital, SEAT has preserved its own administration board and subsisted as autonomous trade mark of the German group. Up to 2001, SEAT was second (after Renault) in the preferences of the Spanish market and retained a market share of 11 per cent (17% if VW and AUDI are included). Another outstanding feature of SEAT is that it has the main R&D center of the car industry in Spain, which occupies around 1,300 engineers and technicians in Martorell (being specialized in design and development of products). Finally, SEAT ranks third among the main exporter companies in Spain, after REPSOL-YPF (oil) and FASA-Renault (cars).

The proposed paper for the GERPISA's colloquium will try to answer four main questions.

- ✓ Which was SEAT's strategy to overcome the 1992-95 slump?
- ✓ Up to which point was such strategy successful?
- ✓ Was there any substantial change in the strategy during the expansion period of 1996-99 and the new recession in 2000-2003?
- ✓ How did changes in SEAT modify the strategies of the main suppliers of parts in Spain?

SEAT's profitability reached its nadir in 1993, with above 900 million euros losses. VW's strategy in regard to SEAT at this moment can be summarized in four points: first, urgent measures to protect VW investment in Spain; second, medium term policies to restore profitability; third, centralization of management; finally, a product strategy based on making compatible common platforms within the VW group and specialization of SEAT in small-'mediterranean'-sportive models.

Among the main urgent measures to defend German assets in Spain, the transfer of the Landaben's factory in Navarra to VW and the sell of the financial subsidiaries of SEAT stand out. They also included the 1994 agreement with the government of Spain and the Catalan regional administration, which provided credit and subsidies to finance new investments in the R&D centers of Martorell and Sitges and premature jubilation of elder workers. Remarkable medium term policies to get off from losses were the creation of a suppliers park at Martorell, the shutting down of Zona Franca's plant, the strengthening of outsourcing policy and the increase of flexibility in labour conditions. The shift towards centralization took the form of the reduction of directive positions in favour of Germans, the curtail of export divisions and the transfer of decisions about purchases of parts from Barcelona to Wolfsburg (in spite of a Spaniard, José Ignacio López de Arriortúa, having this responsibility up to 1996). It also involved the replacement of Joan Llorens by Pierre Alain de Smedt, the first non-Spanish president of SEAT. Finally, the product policy was adapted to Dr. Ferdinand Piëch's strategy of reducing the number of platforms of the VW group from sixteenth to four. SEAT would specialize in small and medium platforms. Products sold under its trade mark should be associated to values such as youthfulness, dynamism, sportsmanship and Mediterranean way-of-life. The successive generations of *Ibiza's* model would be the paradigm.

The results of such an strategy seem mixed. On the one hand, red figures disappeared since 1996 and SEAT's profits went on increasing up to 1998. Later on they declined but remained positive and above 50 million euros up to 2001. Output climbed from 285,591 in 1993 to 458,773 units in 2000. In spite of significant outsourcing during 1993-96, direct employment increased from 12,811 to 15,003 during 1997-2000. With a production of 28 vehicles per worker in 2000, SEAT enjoyed one of the best labour productivity ratio of the VW concern. Innovative agreements among the firm, Unions and the government were signed, such as the one attempting to promote partial jubilation of elder workers (who would continue working 15 per cent of their usual time).

On the other hand, SEAT's president during 2000-2002 and today's president of VW, Bern Pischetsrieder increasingly complained about the loss of competitiveness of SEAT during the last few years and the failure to improve its quality image. In fact, profits out sales (2.4 per cent in 2000) resulted to be lower than in the rest of trade-marks of the group. Extended outsourcing made the firm more vulnerable to transportation bottlenecks and strikes of the logistic operators. The Spanish inflation differential became significantly higher than that of the European partners. Unions resisted attempts to further extend work over holidays. Output decreased in 2001 and 2002, SEAT being confronted with more dramatic declines in its largest markets (Spain and Germany) than its main competitors. Models such as *Toledo*, *Cordoba*, *Leon* and *Arosa* were never commercial successes comparable to that of *Ibiza*. However, it should be taken into account that both Spanish analysts and Union leaders blame VW for slowing up the launching of new products by SEAT in order to avoid cannibalization with models produced in Wolfsburg.

The main dangers for the future development of SEAT seem, nowadays, to derive from the significantly low labour costs of SKODA and VW's plants in the Czech Republic and Slovakia together with the proximity of these factories to the German market. A first evidence is the modest share of new investments in SEAT's plants (including the Portuguese one which produces *Alhambra*) in comparison with expansion of capacity in the former Czechoslovakia. In such a direction, last September, VW took the decision of transferring 50,000 units of *Ibiza* production from Martorell to Bratislava. A few months before, VW had announced its willingness to integrate SEAT within the division of AUDI, reinforcing the strategy to specialize the Spanish firm in sportive cars. The new president, Andreas Schleef, used to be responsible for labour relations at AUDI and retained its chair in the administration board at Ingolstadt. In spite of further centralization, the revision of the previous strategy forces SEAT to gradually give up

the production of cheap mass cars and concentrate on more high priced sportive models. There is also plenty of evidence suggesting that many of SEAT's main first level suppliers of parts located south of the Pyrenees are cutting capacity in Spain and supporting plans to expand their activities in Poland, the Czech Republic and Slovakia.