

Nathan Fernandez

BUS 497A

Nissan Strategy Analysis

A Brief History and Explanation of How Nissan Came to their Current Strategy

Nissan got its start in December 1933 in Japan (Nissan Models). The merger of the automobile components department of Tabata Casting and a small automobile producer and repair shop factory owned by DAT Motors formed the company: Datsun. Datsun merged again with another Japanese manufacturer and Nissan Motor Company, Ltd was born (*ibid.*). The car company's first vehicles were marketed under the Datsun name. After world war II, Nissan partnered with U.K.-based Austin Motor Co., which allowed for a baseline presence to be established in the United States (*ibid.*). As we will see, partnerships such as these will play an important role in Nissan's strategy throughout the years. The first Datsuns hit American shores in 1958 and vehicles like the Datsun 1000 were based on Austin platforms (*ibid.*). In the 1960s, Nissan merged again with Prince Motor Company. This merger helped Nissan create more luxury-focused vehicles. During this time, the car company began offering "its first vehicle styled for the U.S. market," the Datsun 510 (*ibid.*). By the end of the 1960s, "Datsun had exported more than 1 million vehicles" (*ibid.*). In the 1970s, Datsun's stylish 240z sports car proved successful in furthering the brands strength in the industry. Nissan/Datsun was beginning to be associated with the successful qualities of its products: excitement (or performance), affordability, style, and most importantly, innovation. By the the end of the 1970s, "the automaker's cumulative vehicle exports had surpassed the 10 million mark" (*ibid.*). It was in 1981 that the company started selling its vehicles under the 'Nissan' name worldwide. During the 1980s, the company launched the "tuning division called Nismo for the development of performance-oriented vehicles and accessories" (*ibid.*).

The launch of Nismo furthered Nissan's quality of excitement and innovation. It was also around this time that Nissan decided to build a plant in the U.S. The plant was essential because "since the 1960s, the US imposed strict tariffs on imported vehicles" (*ibid.*).

The end of the 1980s also brought the launch of Nissan's luxury division: 'Infiniti'. The luxury division quickly gained recognition as an industry leader in customer satisfaction (Our Story).

Nissan's growth in the U.S. during the 1990s was due in part to its lineup of "fun-to-drive" cars like the 300ZX (successor of the 240z), 240sx, Maxima, and Sentra (Nissan Models 2012). However, a change in consumer demands would not allow this growth to sustain. The features of SUVs proved attractive to consumers and by the early 2000s, SUVs captured 55 percent of vehicle sales (Automobile 2008). Nissan's offering in the late '90s was not well suited for this change. By 1999, Nissan had been suffering major losses for the past 7 years and only 3 models out of 48 were profitable (Stanfordbusiness 2010).¹ However, an alliance formed with Renault in 1999 provided the company with necessary synergies, which allowed for the restoration of profitability in just 2 years (*ibid.*). The practical and stylishly redesigned Sentra and Altima, new models like the 350Z sports car (successor of the 300zx), Armada SUV, Xterra SUV, and Titan pickup raised sales and consumer interest (Nissan Models).

Nissan's Current Situation and and Current Strategy Analysis

Nissan has been a proper student of history. The car manufacturer has learned

¹ Appendix A-stock prices for these years reflects these struggles

how to adapt to shifting needs of consumers and remain innovative. This is evident today as Nissan is the second largest automotive company in Japan according to volume (Jindal). The company operates with more than 150,000 employees worldwide and recorded sales of 4 million vehicles in 2010 (Jindal 2011).

Nissan markets its vehicles mainly under its two brand names: Nissan and Infiniti. “With 119,000 sales in 2003, an increase of 35% over 2002,” Infiniti was the fastest growing luxury brand in the U.S. In 2008, Nissan was recognized as a *Fortune* 500 company with roughly \$93 billion in revenue (*ibid.*). The company has “manufacturing centers in 18 countries and R&D centers in five nations and services in around 160 countries in the world” (*ibid.*). Nissan also has plants in China, and is an established player in the Chinese market, which is considered the most important market by many (Stanfordbusiness 2010) (Jindal 2011). Recently, Nissan has ventured into India and Russia and other growing regions as part of a BRIC strategy, which will be explained in more detail following the Core Analysis section of this paper (Jindal 2011).

The manufacturer is now known for offering a wide range of well-regarded vehicles; it is still viewed as a leader in innovation thanks to the incredible GT-R supercar--colloquially known as ‘Godzilla’--and the all-electric Leaf (Nissan Models). The GT-R represents excitement and innovation in a highly competitive package. Its retail price is a major strength considering that its performance is either on par with, or surpasses, that of rivals’ comparable offerings, which are priced significantly higher (Appendix C) (Martinez). The Leaf also exemplifies Nissan’s innovation and dedication to improving the environment under the Nissan Green Program 2010 (Nissan Models).

The company “has been recognized as a 2010 and 2011 ENERGY STAR(R) Partner of the Year by the U.S. Environmental Protection Agency” (Jindal 2011). “A pioneer in zero emission mobility, Nissan made history with the introduction of the Nissan LEAF, the first affordable, mass-market, pure-electric vehicle and winner of numerous international accolades including the prestigious 2011 European Car of the Year award” (*ibid.*).

Core Strategy analysis

Nissan develops its products with “a strong commitment to developing exciting and innovative products for all” (NISSAN). Looking at the company’s history and current plans, Nissan seems to use a broad differentiation strategy to carry out its mission. Innovation and excitement are differentiating factors, which also increase the brand’s positive image. Accordingly, it can be considered a part of their strategy to differentiate from rivals. However, since Nissan competes globally, they have decided to alter parts of their strategy relative to the market conditions of a particular region. This is a “think global, act local” strategy (Thompson). The “company has not used same policy across all the countries” (Jindal 2011). Nissan aims to be a leader of each market in which it competes, but prioritizes markets it considers to be of high priority (*ibid.*). Therefore, Nissan bases the strategy adopted in each country on that market’s external environment as well as the market’s consumer demands.

However, the company has had a core strategy apparent in all regions. This core strategy is primarily based on two components which enable it to sufficiently create proper region-tailored sub-strategies: 1) Develop local partnerships, and 2) Direct

technology transfer (*ibid.*). These two components seem to have always been at the core of Nissan's growth. One of the biggest advantages in developing local partnerships is the knowledge gained about each local market (*ibid.*). In building an alliance with a manufacturer that has already established itself in a region, Nissan can learn that market well enough to be confident of success in that region (*ibid.*). For example, in 2002, Nissan formed an alliance with Dongfeng Motor Corporation in China. "Together, they established a 50-50 joint company, Dongfeng Motor Co. Ltd. (DFL) in 2003" (*ibid.*). The alliance helped Nissan establish itself in the Chinese market since "Dongfeng already had an established network of agents and dealers and had expertise in commercial vehicles" (*ibid.*). In this way, we can also see that partnerships can allow for a more stable entry into foreign markets.

Another advantage gained from building alliances with companies which are local and already established is the possible aid the alliance can provide in building local plants, and owning local plants provides its own advantages. This is apparent in the company's venture into Russia. Establishing an alliance with AvtoVAZ facilitated the the creation of a plant in St. Petersburg, which helps the company avoid high import duties (*ibid.*). The plant also helps the alliance meet the growing demand of Nissan vehicles in Russia (*ibid.*).

Developing local partnerships also allows Nissan to capitalize on another important component of their core strategy: direct technology transfer, which can lead to important synergies. Again, we can see this advantage in the Dongfeng alliance. Through this alliance, Nissan gained knowledge of the Chinese market. But, Nissan also

brought to the alliance its expertise in passenger vehicles and customer satisfaction.

Nissan was able to “train dealers in China, which were already established by Dongfeng, to use its practices” (*ibid.*). In this way Nissan cut costs by capitalizing on the use of already existing dealerships, rather than having to set up new dealers.

Simultaneously, Dongfeng was able to reap the benefits provided by Nissan’s dealer training technologies, without having to invest in the necessary research and development in order to create such training/expertise. The resulting synergies of the alliance enabled the Nissan to “offer a full product lineup of both passenger and commercial vehicles, the only company to do so in China” (*ibid.*). In 2009, their strategy paid off as the car company experienced an increase in sales growth of 39 percent (*ibid.*). “China was the only market where Nissan realized any profit during the recession” (*ibid.*).

The Dongfeng example also shows that alliances can facilitate the creation of tailored strategy needed in a region. This was shown through the resulting ‘full product lineup’ that Nissan may not have planned had it not been able to rely on the market expertise of Dongfeng.

These advantages can also be observed in Nissan’s Russian alliance with AvtoVAZ. The Russian car company holds roughly 28 percent of the region’s market share making it the industry leader in terms of market share (*ibid.*). The alliance was attractive to both Nissan and AvtoVAZ as Nissan could use the market expertise of AvtoVAZ and its strong established distribution network, and AvtoVAZ could use the advanced technologies crafted by the Nissan-Renault alliance (*ibid.*). Furthermore, the

alliance helped Nissan tailor a proper Russian market strategy by providing Nissan with the understanding of the market potential of Russia in regards to the unmet consumer need of Light Commercial Vehicles (*ibid.*).

Strengths

To reiterate, innovation and excitement are Nissan's strengths. These strengths also provide the company with another strength, differentiation that appeals to consumers on a broad scale. In order to achieve these strengths, Nissan uses a core strategy. This core strategy can be considered a strength on its own because it aids the company's innovation by enabling it to effectively develop region-tailored strategies. This core strategy consists of two important components, or sub-strategies: 1) Developing Local Partnerships and 2) Direct Technology Transfer. These sub-strategies provide the car company with other vital strengths. Local partnerships lead to greater acquaintance with foreign regions, growth and expansion, a more stable entry into these regions, and direct technology transfer. Direct technology transfer leads to synergies through exchange of technology, expertise, and data.

Weaknesses

This core strategy does have its weaknesses however. Nissan's numerous alliances have "made their operations and business strategy complex" (*ibid.*). This alliance entanglement can also lead to conflicts, as was evidenced in India where a new partnership created significant differences with an old partnership with Mahindra &

Mahindra, ultimately leading to the fallout of the joint venture (*ibid.*).

Another weakness of the company is apparent in the juxtaposition of their extensive expansion and the 2008 world-wide economic crisis. Overall, overexpansion created the capacity to achieve the high volumes demanded at the time. Once the market fell, the capacity for this high volume was no longer needed, at least in the short-run.² This is especially true in their expansion in Russia. Capacity was heavily increased in Russia, but being a country that was severely affected by the economic crisis, the Russian market is no longer no longer “booming” as it was before the crisis (*ibid.*). Such an excess in capacity increases costs without providing sufficient returns.

Also, although the Leaf is a strength which is widely recognized as an innovative step in the right direction, it has been a large investment for Nissan and comes with a load of risks. In this way, the leaf can be considered a weakness in that it is an investment susceptible to many external risks. These external risks will be discussed soon in the ‘Threats’ section.

Opportunities

One of Nissan’s biggest opportunities is viable due to the company’s significant presence in emerging markets. Although the U.S. and Japan are still “big markets for Nissan, these markets have matured and the future of Nissan depends on its success in emerging nations” (*ibid.*). The auto industry in its entirety mainly considers Brazil, Russia, India, and China (BRIC) to be “the top priority markets” (*ibid.*). I’ve mainly

² Appendix B shows this dramatic shift in volume before, during, and following the recession

mentioned only two of these markets but Nissan has invested in all of the BRIC countries, which gives the company a good chance of staying ahead in these emerging nations should opportunities present themselves (*ibid.*).

Also, Nissan is betting on the growth of the electric vehicle segment. If the electric vehicle market does grow, Nissan will have a prime opportunity to reap the benefits of its prominent position in the segment. Likewise, if the government imposes stricter emissions laws, the Leaf and the technology on which the Leaf was based would position Nissan at an advantage over its non-electric rivals (Stanfordbusiness 2010).

These opportunities are mostly dependent on the company's external environment. In the same way, the company's most significant threats are also highly externalistic.

Threats

One of the most apparent problems Nissan faces is the threat of a slowdown of market growth in emerging nations. This threat is especially significant considering the company's heavy expansion in these regions in recent years.

On the topic of emerging nations, another important threat to consider is the potential emergence of competitive local manufacturers in these BRIC territories (*ibid.*). An emergence of competitive local manufactures is especially important to protect against (or properly prepare for) because these regions either already are or can potentially be Nissan's profit sanctuaries. Profit sanctuaries are vital to the performance of companies that compete globally (Thompson). Accordingly, competitive local

manufacturers in the BRIC regions would be a significant threat because these manufacturers would pose a threat to possible profit sanctuaries such as China (Jindal 2011).

Another threat previously outlined is that of insufficient returns on its Leaf investment. The Leaf investment is threatened in several ways. Consumers are still somewhat apprehensive of the idea of the electric car; this may prove to be a significant obstacle to the success of the Leaf (*Who killed 2006*).

One of the main attractions of the Leaf is its government subsidies which allow it to be affordable to a broader market (Subsidies). These subsidies may expire before Nissan is able to sufficiently cut costs to lower the price enough to still be attractive without the subsidies.

Also, Nissan may not be able to find efficient opportunities to supplement regions with enough charging stations for the Leaf. This could threaten the vehicle's image of viability for potential consumers, especially those who require the Leaf for more than a daily, local use.

Recommendations for Nissan

My recommendation for Nissan is to study markets more carefully in order to more conscientiously expand or perhaps even decrease its presence in certain regions. A more specific recommendation of this sort is for Nissan to consider opportunities in regions outside of the BRIC countries.

For example, the South American market has significant potential which may not

be sufficiently provided for by focusing mostly on Brazil (Jindal 2011). Such a potent market would require additional investments from the company. Since Argentina is the “second largest economy in the region with a good domestic market and favorable conditions to set up a plant,” it may be worthwhile to start planning additional expansion in Argentina at least in preparation for the probability of demand for additional capacity in the greater South American region (*ibid.*).

Nissan should also reconsider certain expansion efforts. Capacity may need to be put on hold or even decreased in Russia as the region has not fared as well as others (*ibid.*). Overexpansion just before the economic crisis has led to excess capacity which is likely detrimental to the company.

Therefore, it may be in Nissan’s best interest to use its resources in more stable regions, i.e., China. China has been a more successful region and is likely to be a more promising region in the short-run as well as the long-run when compared with Russia. So, Nissan should consider re-allocating its resources to the Chinese market (*ibid.*). Also, because Nissan operates globally, it is important for the company to protect profit sanctuaries like China as success in these areas is critical to Nissan’s overall performance (Thompson).

My last recommendation is for the Nissan Leaf. The Leaf is one of Nissan’s biggest strengths, but it can also be a significant weakness if the effort is not supplemented sufficiently. So, I recommend an increase in the advertising budget for the Leaf. The electric vehicle demands some changes from its consumers. But, these changes may not be as significant as one would think; accordingly, Nissan needs to

focus more on communicating the insignificance of these changes to consumers. An increased awareness of the practicality of the Leaf should be spread so as to instill consumer comfort and familiarity. Doing so will increase the image of viability of the Leaf, which will broaden its market and allow the company a greater chance of reaping the benefits of such an exciting innovation.

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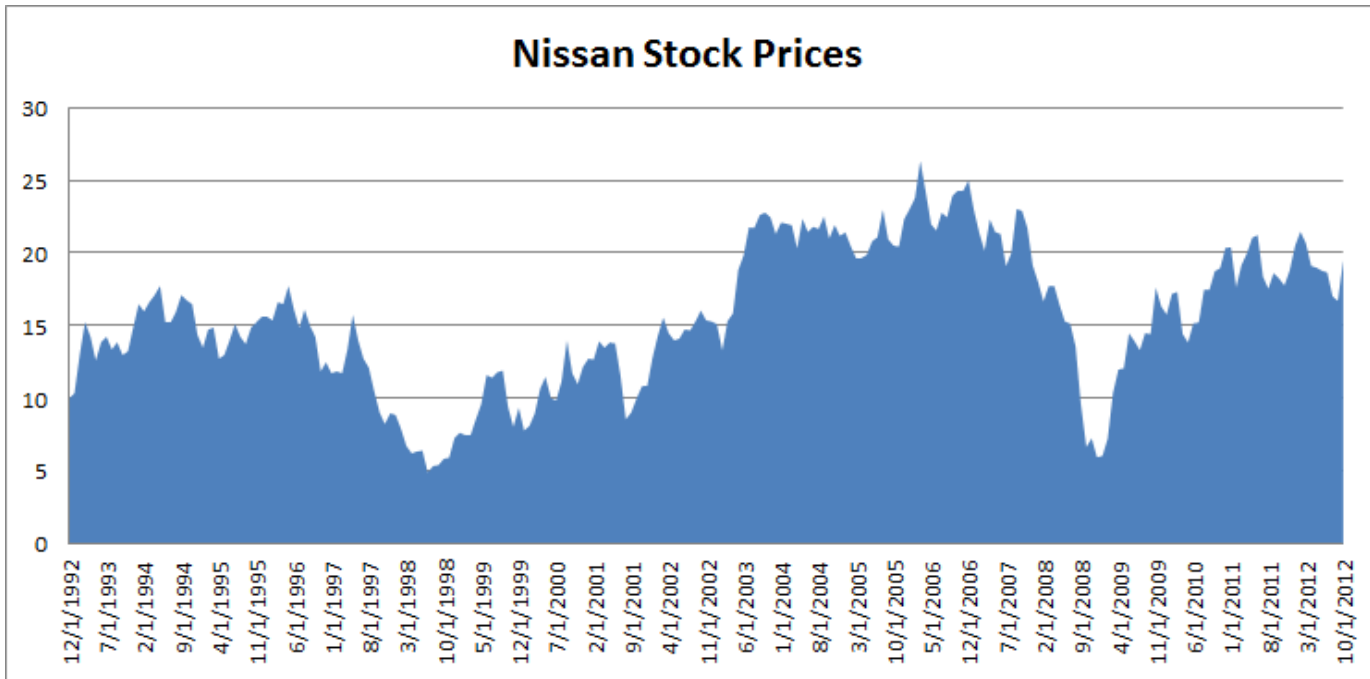
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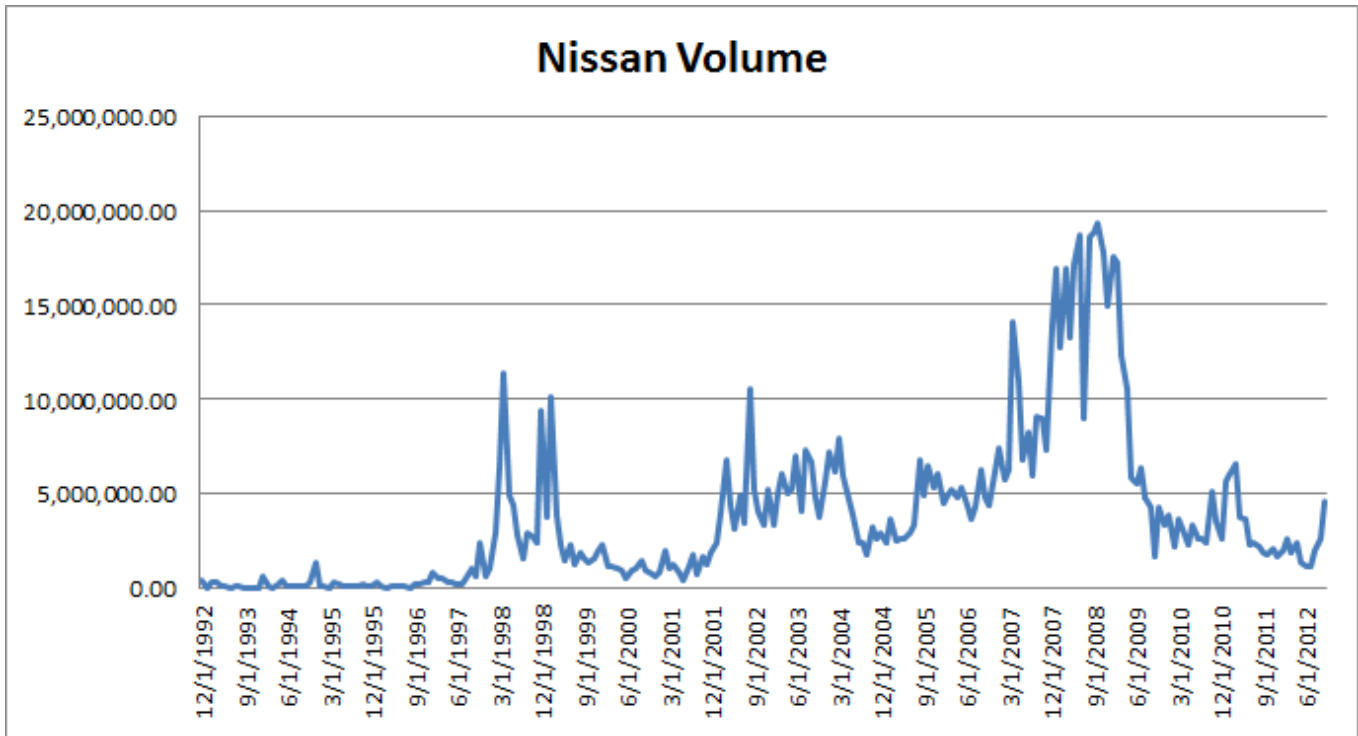
Jessie Deeter. Sony Pictures Classics, 2006. Youtube.com.

Appendix A:



(Nissan Motor)

Appendix B:



(Nissan Motor)

Appendix C:

	2005 Bugatti Veyron	2011 Ferrari 458 Italia	2012 Nissan GT-R	2010 Porsche Turbo (PDK)
Output	987-hp/922-lb-ft	557-hp/398-lb-ft	530-hp/434-lb-ft	500-hp/480-lb-ft
Weight	4530 lb	3439 lb	3898 lb	3570 lb
Weight to Power	4.6 lb/hp	6.2 lb/hp	7.35 lb/hp	7.1 lb/hp
0-60 MPH	2.7 sec	3.0 sec	2.9 sec	2.8 sec
Quarter Mile	10.4 sec @ 139.9 mph	11.1 sec @ 125.2 mph	11.2 sec @ 122.7 mph	11.0 sec @ 125.5 mph
Braking , 60-0 mph	104 ft	99 ft	101 ft	99 ft
Lateral Acceleration	0.96 g (avg)	1.02 g (avg)	1.05 g (avg)	1.00 g (avg)
MT Figure Eight	24.7 sec @ 0.83 g (avg)	24.0 sec @ 0.88 g (avg)	23.3 sec @ 0.89 g (avg)	23.5 sec @ 0.86 g (avg)
MSRP	\$1,192,057 (Top)	\$225,325 (2011 Ferrari)	\$89,950 (Martinez)	\$132,800 (2010 Porsche)

(Martinez)