

Four stories to weave together

1. **Why** *Crescita Guidata* then?
 - A transition in the organization of the Fiat supply chain...
2. **What** CG then?
 - How was it supposed to work? Did it work?
3. **Why** CG now?
 - What has been happening with Fiat Auto and the automotive industry in Piemonte in the last few years
4. **What** CG now?

Aldo will begin with story 3, as that sets the stage. I will quickly talk about story 1, but that is in our paper, so I will spend more time on story 2, as we have things to add to what we say in the paper. And then Aldo will go on to story 4.

The crisis of Fiat Auto (1): Low to negative profitability

RETURN ON SALES

| | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|------------------|--------|-------|--------|--------|-------|-------|-------|-------|--------|--------|
| Fiat Auto | -2.25% | 0.17% | -0.50% | -0.43% | 2.89% | 1.11% | 1.97% | 1.22% | -6.63% | -0.20% |
| Iveco | 3.13% | 5.68% | 4.21% | 3.93% | 3.45% | 2.91% | 5.01% | 3.23% | -4.18% | -2.02% |

NET PROFIT

| | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 | 1993 | 1992 |
|------------------|-------|------|------|------|------|-------|------|------|------|------|
| Fiat Auto | -1442 | -599 | -493 | -258 | 402 | -0.04 | 318 | 60 | -901 | 0 |
| Iveco | -123 | 147 | 163 | 200 | 176 | 125 | 190 | 14 | -268 | -47 |

The crisis of Fiat Auto (2)

A world car that didn't succeed

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | <i>Previsioni</i> |
|----------------------|--------------|--------------|--------------|--------------|--------------|--------------|-------------------|
| Brazil | 157.6 | 375.2 | 265.9 | 254.5 | 259.7 | 271.2 | 400 |
| Argentina | | 48.14 | 60.54 | 26.14 | 25.74 | 31.32 | 100 |
| Poland | | 9.006 | 28.52 | 21.96 | 10.95 | 6.168 | 50 |
| Venezuela * | | 9.766 | 8.858 | 1.867 | | | 23 |
| Morocco | | 98 | 5.393 | 8.361 | 6.19 | 6.407 | 20 |
| Turkey | | | 20.1 | 23.96 | 43.89 | 13.84 | 110 |
| India | | | | 3.766 | 2.701 | 8.99 | 100 |
| South Africa | | | | 137 | 6.822 | 8.161 | 25 |
| Egypt | | | | | 3.201 | 3.375 | 15 |
| Russia | | | | | | | 70 |
| China | | | | | | | 100 |
| Total | 157.6 | 442.2 | 389.3 | 340.7 | 359.2 | 349.5 | 1.013.000 |
| (*) divested in 1999 | | | | | | | |

The crisis of Fiat Auto (3)

Reduced market share in Europe and Italy

(and Italy less important in Euro car production)

| 22% loss in market share in Europe | | | | | | | | | | | |
|---|--------|--------|-------|--------|--------|--------|--------|--------|--------|-------|-------|
| 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | | |
| 12% | 10% | 11% | 11% | 11% | 12% | 11% | 10% | 10% | 9% | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| 35% loss in market share in Italy | | | | | | | | | | | |
| 1985 | 1990 | 1995 | 1998 | 2000 | 2001 | | | | | | |
| 58.82% | 52.30% | 46% | 39% | 35.40% | 34.73% | | | | | | |
| | | | | | | | | | | | |
| | | | | | | | | | | | |
| And a reduced importance of Italy in European car production (40%) | | | | | | | | | | | |
| 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
| 13.90% | 12.72% | 11.31% | 9.94% | 10.87% | 11.31% | 11.10% | 12.29% | 10.38% | 10.27% | 9.70% | 8.50% |

Fiat and “l’indotto”

Table1: Trend of the number of Fiat Auto suppliers

| | | | | | | | |
|--------------|-------|--------|--------|--------|--------|--------|--------|
| Years | 1987 | 1989 | 1992 | 1994 | 1996 | 1998 | 2001 |
| Firms | 1.200 | 990 | 560 | 410 | 370 | 364 | 330 |
| Index | (100) | (82,5) | (46,6) | (34,2) | (30,8) | (33,0) | (27,5) |

Table 2: Fiat Auto: levels of vertical disintegration

| | | | | | | | |
|---------------------|------|------|------|------|------|------|------|
| | 1982 | 1987 | 1992 | 1996 | 1998 | 1999 | 2000 |
| External Production | 50% | 52% | 65% | 70% | 70% | 73% | 72% |
| External Design | 30% | 30% | 45% | 59% | 70% | 73% | 72% |

Piemonte's auto component industry

It's big!

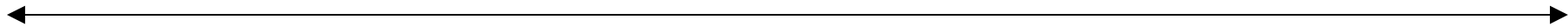
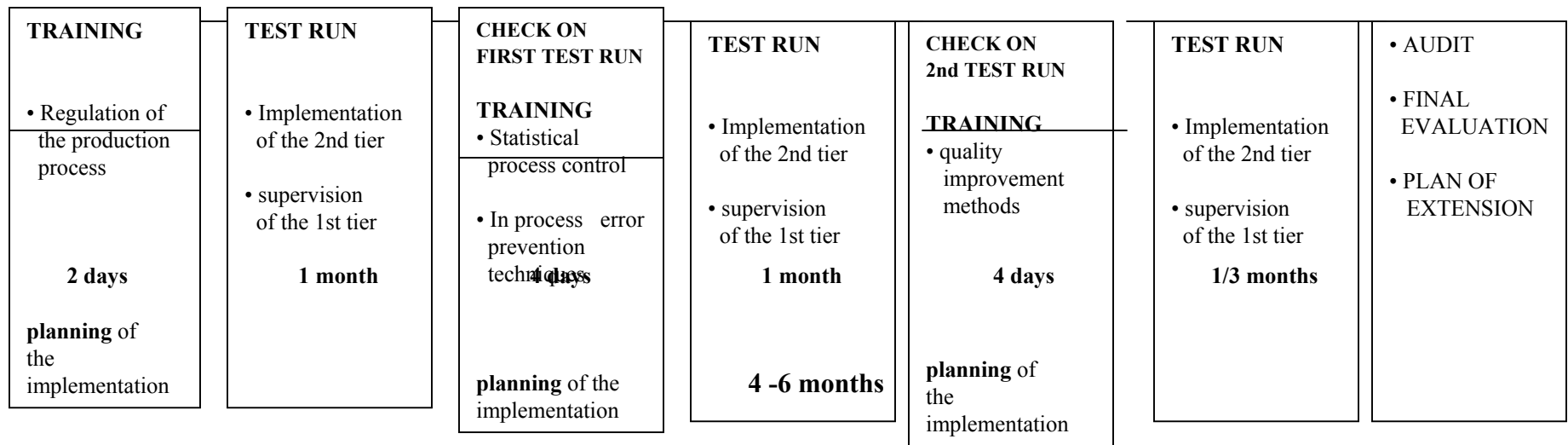
- 18% of regional manufacturing employment (automotive is just 9.5%)
 - Combine for ~145,000 jobs
- It produces 40% of national output
- It exports 35% of national component export

It's geographically concentrated and depends on small firms

- 50-60% concentrated in the province of Torino
- >3000 firms
 - 71% of firms has less than 50 employees
 - Another 23% with between 50-250 employees

Guided Growth, mother hens, and consortia...

- Fiat and the “Guided Growth” program
 - Selection
 - Training and “guidance” to the first tier
 - But what about the 2nd tier?
 - Cesos/Adapt → lacking in quality control, process control, financial mgmt
- “Consaf” consortium
 - An innovative program...
 - Three modules
 - (Regulation of the production process; production quality; quality improvement methodologies); Some costs to all parties
 - 10 day training course
 - one month test run in the firm, with the aid of the first tier *on site* at the second tier
 - “Final evaluation”



- The program is focused on 1 (or 2) product and process
- At the end of the program the 2nd tier must propose a plan of extension to all the products supplied to the 1st tier

Who Participated

- 102 1st tier suppliers
- 428 2nd tier, of which 58 withdrew
 - Why? “Elimination”; Wire harnesses delocated to N. Africa; Weak interest at Melfi and Pomigliano
- Concentration:
 - 35 1st tiers brought 4+ 2nd tiers (34% brought 65%); Just 16 brought 7+ (41%)

Small process specialists

Process specialists

| Technology | Percentage |
|-----------------------------|-------------------|
| plastic molding | 24% |
| metal stamping | 25% |
| machining and metal cutting | 15% |
| plate/paint/heat treat | 9% |

And pretty small (from a subsample)...

| Employees | Percentage |
|------------------|-------------------|
| <10 | 7% |
| 10-24 | 28% |
| 25-49 | 28% |
| 50-99 | 25% |
| 100-260 | 12% |

Who made it to the end?

120 2nd tiers were evaluated (as of dec. 2000) by just 45 1st tiers.

- **Why?**
 - 1st tiers
 - Some were there because they had to be
 - Some brought only the best...
 - Changes of ownership, mergers
 - 2nd tiers
 - With Fiat's falling volumes, hard pressed to invest
 - **Fiat loses interest..., GM... -- this is big for the future, of course...**

The upshot: it can work, but...

- The importance of "*chi ci crede*"
 - 18 1st tiers successfully evaluated 77 2nd tiers
 - Evaluations from interviews

Back to the original issue...

- What can be learned from this for public policy?
- What is the argument for a public sector intervention?
 - Here we are back to story 3..., what happens to Piemonte if the Fiat crisis has long term repercussions in the auto components sector ? (that is, if they are unable to fill capacity with new business, and note, the most likely answer seems to be that they will *in part* be able to find individual solutions, but that “in part” could either be very big or very small)
 - The answer is the usual sine qua non of industrial policy... there is reason to fear a market failure in training provision
 - Structure *and* conjuncture
- But can the public sector do anything for the Automotive components sector in Piemonte? And if so, what can be learned from this initiative?

CG1: the lessons

A (slightly shortened) slide borrowed from Amedeo Vercelli

The program provided Fiat and other regional actors with a previously unavailable window into the reality of 2nd tier suppliers

Points of strength

- Deep technological expertise in their specific fields, often 20-30 years experience, and innovative ability
- High flexibility in meeting JIT requests, short cycle times
- Price competitiveness

Points of weakness

- Often an excessive dependence on a single customer
- Technical competencies and skills, but not biz or market oriented
- Individual – not managerial -- entrepreneurship

CG2: the future?

And now back to Aldo....