

7 Investment

- ▶ no-frills products
- ▶ the Renault Logan
- ▶ deciding on an appropriate investment strategy

7.6 Case study Lesage Automobile

Discussion

1 Work in small groups. The automobile business is a good example of a market where many customers feel oversold, i.e. in addition to meeting their basic needs, the product has features that they do not really need or want.

Some manufacturers have begun to respond by offering 'no-frills' products, like Renault's Logan.

Brainstorm examples of existing or possible no-frills products in other markets. Which ones would you (not) be prepared to buy?



Reading

2 Read the article below and answer the questions.

- 1 Why was Renault Chairman Louis Schweitzer surprised?
- 2 What is the Logan's appeal to western European consumers?
- 3 How is Renault able to sell at half the cost of its main competitors?
- 4 How should Renault's competitors react?

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clamour
no-frills
oversell

Got 5,000 Euros? Need A New Car?

Drivers across Europe are clamoring for Renault's ultracheap, no-frills Logan

A strange thing happened when French auto maker Renault rolled out the no-frills Logan, a midsize sedan designed to sell for as little as \$6,000 in emerging markets like Poland. Western buyers clamored for the car. So Renault began delivering the roomy, unpretentious five-seater to France, Germany and Spain. The pricier West European version includes a passenger-side airbag and a three-year warranty but still sells for a base price of \$9,300 – about half that of the Ford Focus (\$17,250) and the Volkswagen Golf (\$18,264).

Building cheap cars for the West wasn't what Chairman Louis Schweitzer had in mind when he spent \$592 million in 1999 to acquire and retool ailing Romanian auto maker Dacia. He aimed to produce a low-cost vehicle targeted at developing countries, home to 80% of consumers who have never owned a car. But he may well have stumbled onto a rich vein of demand in the West for utilitarian cars, part of the discount mania that has spread across Europe. No matter where the Logan sells, Renault has engineered a small miracle by making a car that is modern but stripped of costly design elements and superfluous technology. Deutsche Bank pegs production costs for the Logan at \$1,089 per car, less than half the \$2,468 estimate for an equivalent Western auto.

'The concept was simple,' says Kenneth Melville, the Scot who headed the Logan design team. 'Reliable engineering without a lot of electronics, cheap to build and easy to maintain and repair.' To keep costs low, Renault adapted the platform used for its other small cars – the Clio, the Modus and the Nissan Micra. Melville's team then slashed the number of components by more than 50%. The simple design means assembly at the Romanian plant is done almost entirely without robots. That lets Renault capitalize on the country's low labor costs: gross pay for a Dacia line worker is \$324 per month. Now, Renault is ramping up production of the Logan from Russia to Morocco. 'The investment in manufacturing is relatively low, so you can have factories that don't have to produce huge volumes to finance themselves,' says Christoph Stürmer, Senior Analyst at researcher Global Insight in Frankfurt.

Other companies are working on cheap cars too. Volkswagen is considering building a \$3,650 car for China, and in India, Tata Motors is offering its Nano for \$2,500. But for now, the Logan is the one turning heads.

