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The Logan Epic

**New trajectories
for innovation**

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DUNOD

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FOREWORD CARLOS GHOSN

CEO of Renault-Nissan

This book tells the story of a project that has become a programme and, above all, a pillar of the strategy that the Company and the Alliance are pursuing.

The project had been launched by my predecessor at the head of Renault, Louis Schweitzer, and the success story that this book traces is rooted first and foremost in the grand idea that he was able to see through in the face of entrenched behaviour and received wisdom. It is also embedded in Renault's genes, specifically in its unusual aptitude for innovation and reinventing the automobile.

Logan is a major innovation that has often been underestimated despite having contributed greatly to Renault's success over the past decade.

Innovating does not simply mean adding more technology to a vehicle. It also involves listening to the market, knowing how to identify emerging tendencies and ensuring that customers are well served by technological or other forces of innovation. The Logan has had unprecedented success specifically because it is in sync with the big trends affecting the automobile business—and, to a certain extent, because it has anticipated them. The Logan has been able to respond to new needs, different ones depending on the country where the product was being sold. The strength of its Entry range resides precisely in this ability to respond with one and the same product offer to motorists' expectations in both emerging and mature countries.

In Europe, where our Entry range is sold under the Dacia brand name, the automobile market has been declining and its image deteriorating. 43% of young French consider that the automobile has more shortcomings than advantages. In terms of personal mobility, real needs have become more important than the projection of social status. Against this background, Dacia's modernity comes from its decision not to compete by over-equipping its car like everyone else is doing. Instead, it had the intelligence to concentrate on what was necessary. Dacia's transparent promise to

customers is that they would have a bigger, more reliable, simpler and less expensive car. Its main focus has been on motorists who only bought used cars previously, with two-thirds of our customers accessing a new car for the first time ever with this purchase. Over the past eight years, Dacia has been the fastest growing automobile brand in Europe, proof that it satisfies previously unfulfilled needs.

However, there has been a very different dynamic in emerging countries where accessing personal mobility remains a major aspiration for social climbers. The Global South has an enormous need for mobility, including over short distances, due to the general mediocrity of the public transportation infrastructure. The end result has been an extremely rapid growth in automobile sales once the price matched households' greater purchasing power. The growing market for automobiles in emerging economies has been felt across all segments, including for midrange or luxury vehicles. It remains that the main growth driver has been locally manufactured affordable cars.

Thanks to its Entry models, Renault possesses a vehicle range that is perfectly adapted to this international dynamic. These are global cars assembled in seven countries across the world. They are also local cars that have evolved in response to the specific needs of the markets where they are being sold, with examples ranging from the specific design of the Sandero ph 2 sold in Brazil to the Duster's rear air conditioning system in India.

Between 1999 and 2011, the share of Renault cars sold outside of Europe rose from 11% to 47%. This would have been impossible without the Logan and its successors, with more than half of our sales outside of Europe involving this line. All in all, more than 1 million Entry range cars will have been sold within eight years after its launch.

In sum, vehicles in our Entry range are a foundation of the Group's ambitions and strategy. They reflect Renault's goal of making mobility both sustainable and accessible to all. Accessible mobility means offering products that are affordable both at purchase and also throughout their operational lifecycles. Sustainable mobility means equipping models with the latest mechanics, avoiding over-sophistication and focusing on performance. Lastly, mobility for all means responding to personal mobility needs in both developed and emerging countries.

In addition, Entry vehicles are a pillar of our growth strategy. Before the Logan, Renault profits mainly depended on the Mégane range. Today the

Entry range is the Group's most profitable line with a global reach that allows it to smooth out the effects of any regional crises.

Its contribution to the French activities of Renault and the Company's subcontractors has also been positive. Despite its international reach, the Entry still generated €630 million of value added in mainland France in 2011, notably through knock-on effects benefitting our mechanical plants and engineering operations. The profits generated by these vehicles have also made a major contribution to our investments in France and the rest of the world, helping to prepare Renault's future.

Above and beyond the initial idea of making a €5,000 car, the Entry range's performance can be explained by its rigorous and frugal implementation—and by the fact that eight years after the first Logans came on the market, the competition has not been able to reproduce our business model.

All in all, the Logan's epic adventure has been central to Renault's success. A visionary managerial decision to pilot an exemplary project based on a pragmatic lifecycle management—these mechanics are all adroitly detailed in this book, with special focus on decision-making processes, major changes in the automobile business and the people without whom none of this would have been possible—namely, the men and women of Renault who have carried this innovation to its successful conclusion.

INTRODUCTION

Lessons from an epic adventure

From the Ford Model T and Fordism to Toyotism, just-in-time methodologies, the Twingo and project management—in more than a century of history, the automotive industry has been a permanent exemplar of business theories and even of models of capitalism. Not that the sector invented everything—far from it—but it has been able to appropriate innovative concepts and give them life through emblematic cases that have helped theory to transcend obscure circles of professional academics.

The question is what characteristics a good exemplar must possess to be considered a fully-fledged school of thought. Clearly, it must be original and embody a theory or model that breaks with the past. It must also be a success. In management like other disciplines, scholars are aware that there is much to learn from failure. Yet failures are difficult to analyse and even harder to talk about with any transparency. Moreover, imitation may be criticizable but it does constitute a powerful vector for the deployment of new ideas. In addition, the new thinking must also be rooted in realities that are easy to perceive. With this in mind, what we can say is that the automobile has driven the global notoriety of the challenges that big industry faces today.

Above and beyond these management issues, it has been clear since Chandler that the main attributes characterising our economies have been at least partially developed within companies or—at the very least—that a modicum of coherency must connect organisations endowed with such attributes, the markets where they operate, the wealth that they distribute and the institutional environments within which they operate. Once again, over the course of the 20th century the automobile has willingly and frequently served as an exemplar, with some of its key topics (“Fordism”, “Post-Fordism” or “Toyotism”) touching on economic issues requiring much deeper analysis than is customary, and which have been more or less successfully resolved by managers working for leading carmakers. In addition to the ease with which automobile-related illustrations can be turned into rhetoric, the industry has also been crucial to employment,

trade, growth and technological capabilities in many countries. This also justifies its use as an example, as does the fact that automotive spending accounts for a significant share of many household budgets and, more broadly, plays a major role in the organisation of social life.

For the authors of this text, the Logan example is worth examining both on its own merits and also because of what it represents, illustrates or suggests on a further level. This is because the Logan combines exemplary aspects of an original business problem (which some might call a model) that is interesting to analyse.

The Logan is noteworthy first and foremost because of the scale of its success. Originally launched as a particularly risky bet—because such small volumes (initially 60,000 units annually out of the Romanian factory) had been predicted, the programme has constantly upgraded its forecasts, expanding markets and production capacities until it exceeded 900,000 units in 2011, more than 15 times the original goal. It remains that the most spectacular and unexpected success of this vehicle programme—which the public is familiar with because of its exceptionally low prices—cannot be attributed to rising sales but to the fact that it has been extremely profitable for the Renault group, something that has been especially precious since a crisis broke out in the late 2000s.

Another reason for the importance of this example is its deviation from “business as usual”. The changes involved have been both coherent with one another (explaining why the Logan might be equated with a “model”) and covered a wide range of activities. What we are facing here is the kind of case study found in many business or economics modules, including strategic marketing classes, where the Logan perfectly embodies Christensen’s “low-end disruption” strategies; project management classes, where it helps to explain why dedicated and autonomous project teams are so effective, while highlighting the efficiency of modern “design to cost” methodologies; theories of growth classes, focused on innovative firms and their management of product families, involving generations of differentiated products and the decades-long conquest of different markets (without this extension’s complexity impeding the concept’s coherency or the programme’s profitability); corporate internationalisation classes, by resuscitating the construct of a “world car”; or management production classes, revealing the issues and problems associated with the delocalisation of manufacturing and the complexity of globalized procurement. All illustrate the originality of a kind of geographic deployment where

innovation no longer spreads outwards from a firm's country of origin towards more exotic destinations but targets first and foremost distant customers before (potentially) reselling the products designed in this way in traditional Western markets.

Without trying to equate “Loganism” with Fordism or Toyotism, we consider that our case study epitomises broader industrial, economic and geopolitical issues affecting the whole of the automotive industry and, beyond this, economic organisation. Taking just one example, the constraints and opportunities that the big developed countries face as a result of the emerging economies' growing power have been wilfully tolerated for more than a decade because people believed in the manifest destiny of the knowledge economy, which was supposed to help the leading developed countries to maintain their primacy by using innovation to perpetuate a top-down division of cognitive labour. Implicitly, behind the famous “Lisbon agenda” that the European Union created for itself, there was also the idea of a division of labour that would make it possible to delegate manufacturing phases to the emerging economies without the Global North having to worry about its own leadership role. In part, the automotive industry—and the forms of sourcing and relocalised assembly that developed in the 1990s and 2000s—seems to be rooted in these hypotheses. By trying to expand local contents and share design tasks between France, Romania and (increasingly) other sites such as Brazil, Russia or India, the Logan family has evoked a more balanced form of the international division of design tasks, while possibly reversing the sources of innovative concepts.

Similarly, the demonstration made by the Logan and its family that it is possible to achieve more than satisfactory profitability at the bottom-of-the-range, breaks with the past by contradicting today's widespread belief in the industry that profitability equates to the ability to sell expensive products. This credo, shared by managers in the sector's largest companies, analysts and politicians with an ongoing interest in the automobile business, constitutes a new “one best way” that has ostensibly been confirmed by the Volkswagen group's undeniable success. The Logan questions the way that this credo affects perceptions of (and efforts to appropriate) “value” in the automotive sector. In Europe and beyond, the Logan and its family—whose successes have been surprisingly discreet—deserve special analysis to bring to light the meaning of contemporary developments and the trajectories being

imposed on the industry. In turn, this makes it increasingly possible to conjure up alternatives.

Examining the Logan case study from this perspective, the book is broken down into three sections.

The first one recaps the emergence and conduct of the Logan project, which has been the seminal act in this epic adventure. The first chapter focuses on product and market strategies. It is followed by an interview with Louis Schweitzer, the project's father. The second chapter analyses product design management and the industrial developments associated with this. It is followed by an interview with Jean-Marie Hurtiger, who brought the project to completion from March 1999.

The second section analyses the expansion dynamic underlying Renault's Entry programme, involving both a broadened product range and expanded target markets globally. This story concludes in late 2011. The 2012 inauguration of a new factory in Morocco and launch of the Lodgy minivan clearly constitutes a new expansion phase that we have not wanted to discuss for reasons of confidentiality and because it is too early to have an overview of the outcomes. The second section ends with an interview with Gérard Detourbet, Entry programme Director during this entire expansion phase.

The third section is more theoretical and forward-looking, focusing on the lessons that the Company (and the automotive economy) should learn from this epic adventure. It also contains reflections on our industrial model and, more broadly, on society as a whole, ensuring an "intellectual" link-up between the perspectives opened by another ongoing Renault programme involving electric vehicles.

The book's three authors are all automotive industry experts. They have relied specifically on a 2010-2011 Renault survey that allowed them to meet all key Logan programme actors and consult relevant internal documentation.

The authors would like to thank all of the managers they met at Renault and Dacia for their kindness and availability for interviews, documentary research, site visits, etc. The book would also have been impossible without the support and confidence placed in us by Gérard Detourbet, Entry Programme Director, who spent a great deal of time with the three of us, university academics seeking to conduct an in-depth study on the Logan's success, discussing his experience and providing us with unfettered insight into the specific universe that has been created within the Renault group.

As is customary in this kind of partnership, the only demand expressed by the Company was to verify that no information deemed strategic would filter out. Besides from this one constraint, the authors were given full freedom to develop their own analyses and interpretations. They remain entirely responsible for any errors or omissions in the text.

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