PSA Peugeot Citroën

The PSA Group included two general car manufacturing companies: Automobiles Peugeot and Automobiles Citroën. The two were linked by strong technological, industrial, and financial synergies, although each marque kept its identity, and its own marketing and sales. In 1994, the PSA group was the third largest car manufacturer in Europe, with 12.8 percent market share.

The year 1994 showed improved performance of PSA, after difficulties in 1993: profitability rose from a Ffr1 billion loss to profits of Ffr3.1 billion, and the sales turnover increased from Ffr145.4 billion to Ffr166.2 billion (95 percent of which was in car manufacturing). PSA employed 139,800 people and manufactured 1,989,000 vehicles, of which two-thirds were sold outside France in 150 countries and 22,000 sales locations. With export sales of Ffr74.9 billion, the group was the main French exporter.

THE PSA GROUP

In 1976, Peugeot, a family-owned company, took over Citroën. Then in 1978, it took over the European subsidiaries of Chrysler. At the beginning of the 1990s, the group (Peugeot and Citroën) was controlled by the Peugeot family, who owned 22.7 percent of the equity, the largest other shareholder being Michelin. The rest of the equity was held by financial institutions and individual stockholders.

From 1980 to 1984, the PSA Group went through financial difficulties, its net debts rising to Ffr33.1 billion and its equity dropping to Ffr5.3 billion in 1984. In 1983, the group lost Ffr2.6 billion. The renaissance of PSA came with the hiring of a new top manager, Jacques Calvet, and with the growth in the European market (+4 percent per year on average) between 1985 and 1989. Jacques Calvet became président directeur général of Peugeot, then président directeur général of Citroën in 1983 and président du directoire of the holding company in 1984. Formerly, he had been directeur du trésor at the French Ministry of Finance and president of the Banque Nationale de Paris. Experts believed that his skills and the rigor of his management were at the center of the recovery of the PSA Group. Losses were cut as early as 1984, and debts were reduced starting from 1987. At the end of 1989, the company announced net profits of Ffr10.3 billion (a net margin of 6.7 percent of turnover); the sales turnover was about Ffr153 billion and debts had been reduced to Ffr1.9 billion.

Substantial progress in production methods was also achieved: productivity improvement were about 72 percent between 1982 and 1987 (the best European performance according to the consulting company Luvigsen Associates), and 60 percent during the period 1985–1989. High investments were made to rationalize manufacturing and to develop the company's range of products.

In 1986, Jacques Calvet announced an ambitious goal for PSA: to become the leading car manufacturer in the European market in terms of number of vehicles sold. However, the aim of dominant market share was postponed with the recession of the western European market and the unexpected opening of the eastern European market, which was more favorable to competitors based in

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Germany (Volkswagen and GM-Opel). Indeed, from 1990 to 1993, with the economic recession, the European car market decreased and sales and profits of the PSA Group slowly declined before the 1994 revival.

Table 1 gives the main financial indicators of PSA between 1990 and 1994, and **Table 2** gives information on the two main companies of the group, Automobiles Peugeot and Automobiles Citroën.

MARKETS

Western European market shares fluctuated depending on two main factors: significant changes in relative prices and the success of new models. The top management of the PSA Group was preoccupied with the price war that had been taking place since 1990. They were also concerned with monetary fluctuations within Europe, particularly with the competitive devaluations of sterling, the peseta, and the Italian firs (about 38 percent since 1992), which had upset sales at the beginning of the 1990s. PSA and several other car manufacturers were looking forward to the possibility of a single European currency. As Jacques Calvet remarked in the annual stockholders' meeting in June 1995:

> For Europe, which is now truly a single market, the worst wounds have come from within, with the break-down of the European Monetary System and competitive devaluations, notably of the Italian lira. Europe will not hold up long if there is not a rapid solution to this problem.

Moreover, new competitors were emerging. The market share of Korean car manufacturers in Europe (about 3 percent in 1994) was growing, particularly in the low-priced segment.

The eastern European markets stagnated at around 1 million vehicles a year and experts forecast a maximum of 1.5 million vehicles by the year 2000. The Russian market was estimated around 2 million vehicles and moderate growth was expected.

The North American market grew in 1992 (5 percent) and in 1993 (7.3 percent), and it represented 16.5 million vehicles in 1994. 'Light trucks' (minivans, pick-ups, four-wheel-drives) represented 40 percent of sales, with high growth. General Motors, Ford, and Chrysler had a 73 percent market share, compared to the Japanese 23 percent, and the European car manufacturers' 2.7 percent. PSA had left the U.S. market in 1985, since it could not establish a significant position in this highly competitive environment (on average the price of cars in the United States was 30 percent lower than in Europe).

The Japanese market showed signs of revival in 1994 (an increase of 1 percent) after three years of

TABLE 1
PSA Group: Main Consolidated Financial Data

	1994	*1993*	*1992*	*1991*	*1990*
Net sales	166.2	145.4	155.4	160.2	160.0
Cash flow	15.2	8.3	13.7	15.4	16.2
Investments (tangible assets)	10.5	11.3	13.8	15.5	15.2
Net profit	3.1	(–1.4)	3.4	5.5	9.3
Shareholder's equity	53.5	50.5	53.1	51.7	47.2
Net financial debts	7.6	16.7	14.3	9.4	8.3
Earnings per share (Ffr)	62	(–28)	67	111	185

Note: Figures in million of French francs unless stated.
Source: Adapted from *Annual Report*, 1994.

TABLE 2
The Two Main Companies of the PSA Group: Automobiles Peugeot and Automobiles Citroën

Automobiles Peugeot			*Automobiles Citroën*		
Group's holding: 100% (full by Peugeot SA) Plants in: Sochaux-Montebélard, Mulhouse, Poissy, Ryton (U.K.), and Villaverde (Spain). Plants in: Dijon, Lille, Saint Étienne, Sept-Fons, Vesoul, Valenciennes, and Villers la Montagne			Group's holding: 100% (fully by Peugeot SA) Production sites in: Aulnay, Rennes, Vigo (Spain), and Mangualde (Portugal). Plants in: Asnières, Caen, and Charleville		
	1994	1993		1994	1993
Economic Data			*Economic Data*		
Production (in number of vehicles)	1,202,200	1,058,100	Production (in number of vehicles)	787,800	693,500
Sales (in number of vehicles)	1,209,200	1,061,900	Sales (in number of vehicles)	779,600	702,000
Employees			*Employees*		
Company	41,900	43,800	Company	28,900	29,900
Group	69,200	73,000	Group	45,700	46,800
Consolidated financial data (Ffr m)			*Consolidated financial data (Ffr m)*		
Net sales	101,778	89,968	Net sales	70,653	64,592
Working capital provided from operations	7,545	3,102	Working capital provided from operations	4,416	1,540
Net income	1,394	(958)	Net income	184	(2,341)
Stockholder's equity	30,644	29,318	Stockholder's equity	4,757	4,637
Capital expenditures	6,047	5,758	Capital expenditures	3,240	3,456
Dividend	280	—	Dividend	—	—

Source: Annual Report, 1994.

decline. It represented 6.6 million vehicles. In this market, dominated by Toyota (with a 41 percent market share), imports from foreign OECD countries were marginal. German manufacturers together exported 121,000 vehicles in 1994, Americans exported 37,000 vehicles, and the French sold 6,800 units.

The African and Middle East markets remained marginal (stable at around a total of 1 million vehicles a year). Two other zones experienced high growth: South America (2.8 million vehicles a year, with a 6 percent annual growth) and Asia (apart from Japan), which represented annual sales of 4.8 million vehicles (with a 9 percent annual growth).

Table 3 shows the breakdown of the sales of the PSA Group in the world, and **Table 4** gives the breakdown of market share for the group in Europe.

At the annual stockholders' meeting in June 1995, Jacques Calvet commented on the 1994 performance of PSA as follows:

> The market share of Peugeot and Citroën in western Europe, 12.8 percent, as compared to 12.1 percent in 1992 and 12.4 percent in 1993, has grown significantly. This commercial dynamism results both from the deployment of our ranges of vehicles . . . and from the favorable evolution of European markets: those where Peugeot and Citroën have a high share have evolved more favorably than the European average.

TABLE 3
Worldwide Sales of the PSA Group (Passenger Cars and Light Commercial Vehicles 000s)

	1994	*1993*	*1992*
Western Europe			
France			
Peugeot	430	328	437
Citroën	304	250	270
F5A Peugeot Citroën	737	577	707
Other Western European Countries			
Peugeot	585	544	617
Citroën	416	399	459
PSA Peugeot Citroën	1,000	942	1,076
Outside Western Europe			
Eastern Europe			
Peugeot	14	20	15
Citroën	8	10	6
PSA Peugeot Citroën	22	30	21
Africa			
Peugeot	24	22	31
Citroën	9	7	
PSA Peugeot Citroën	34	29	39
America			
Peugeot	99	71	59
Citroën	11	8	8
PSA Peugeot Citroën	110	79	67
Asia-Pacific Area			
Peugeot	40	59	57
Citroën	21	19	15
PSA Peugeot Citroën	61	79	72
Special Registrations			
Peugeot	19	18	19
Citroën	10	9	13
PSA Peugeot Citroën	19	28	33
Total Worldwide			
Peugeot	1,209	1,062	1,235
(including small collections)	(40)	(42)	(27)
Citroën	780	702	779
PSA Peugeot Citroën	1,989	1,764	2,014

Source: Annual Report 1994.

TABLE 4
European Sales of the PSA Group: Share of Passenger Car Registrations (%)

	1994	*1993*	*1992*
France	31.1	29.7	30.4
Austria	7.8	7.5	7.0
Belgium-Luxembourg	43.7	13.6	14.2
Denmark	14.8	14.8	12.3
Finland	8.4	6.9	5.7
Germany	4.5	5.1	4.5
Greece	11.3	11.5	11.2
Ireland	7.0	6.9	6.7
Italy	7.0	6.7	7.1
Netherlands	12.1	13.1	11.0
Norway	8.9	8.0	7.5
Portugal	13.3	14.0	16.2
Spain	19.9	20.3	20.7
Sweden	4.6	4.3	33.2
Switzerland	7.9	7.9	6.6
United Kingdom	12.1	12.6	11.8
Total Europe	12.8	12.4	12.1
Europe outside France	9.2	9.3	8.8

Note: Does not include light commercial vehicle registrations.
Source: *Annual Report,* 1994.

THE STRATEGY OF PSA

Jacques Calvet chose to be chairman of Automobiles Peugeot and chairman of Automobiles Citroën in order to stimulate synergies between the two companies, which kept their own culture for several years after the merger. Peugeot and Citroën were both involved in the main segments of the market and adopted parallel market positioning (see **Table 5**). Automobiles Peugeot had a 7.7 percent market share in western Europe (18.7 percent in France) and Automobiles Citroën had a 6.1 percent market share in western Europe (12.4 percent in France).

Some other competitors also had more than one marque. The Volkswagen Group had several, with Scat and Skoda at the low end of the market, Volkswagen as a generalist, and Audi at the top end of the market. The Fiat Group had Ferrari at the very top of the market, Alfa Romeo, Fiat itself, and Lancia. Other car manufacturers such as Renault had only one marque.

At PSA, the standardization of vehicles was relatively high between the two product lines, about 50 percent of the components being common. These were the non-visible components—engines, gearboxes, etc.—while the elements of the car that could be seen were different. Joint purchasing of components through Sogedac, a group company (with an annual sales turnover of Ffr80 billion), was seen as a source of competitive benefit by the company.

Part of the R&D expenses were also shared: thanks to the two parallel model ranges, synergies in R&D had increased, particularly in the early phases of new product development. For instance, the Citroën XM and the Peugeot 605 were developed by a single "technical platform" (multifunctional project team). Innovations concerning new materials

TABLE 5
Group production of Peugeot and Citroën Models (Number of Vehicles)

Sector	*Peugeot*		*Citroën*	
	Model	1994	Model	1994
Mini	106	340,800	AX	198,700
Super mini	205	146,600		
Lower medium	306	380,850	ZX	251,600
	309	300		
Upper medium	405	214,300	Xantia	214,700
	504 Paykan	45,550	BX	100
	505	9,600		
Executive	605	19,050	XM	20,600
"Monospace"	806	10,900	Evasion	7,200
Utility and miscellaneous	J5, J9, Boxer	34,050	C15, C25 C35, Jumper	94,900
Total		1,202,000	Total	787,800

Source: Annual Report, 1994.

and new methods were shared. Industrial teams also worked together on international operations.

Differences and separation between the two marques were apparent in product design and style, the development of production processes, and marketing and sales, with two distinct dealer networks competing with each other. There was no intention to merge the two distribution networks, since executives believed the weaker marque could be disadvantaged (a problem which occurred when Peugeot took over Chrysler-Simca in 1979). Besides, the view was that merging the two independent distribution networks could give an opportunity for foreign competitors to take over dealer networks.

Such a strategy required a significant effort to renew the range of models of the two companies. In order to renew eight basic models (four Peugeot and four Citroën) every six years, PSA would have to launch one or two new models every year. On average, the investment to launch a new model was estimated at around Ffr10 billion.

The PSA Group was the world leader in diesel cars with 957,400 vehicles in 1994, and had a significant competitive advantage in this domain. It sold diesel engines to Rover and Ford. In general, French car manufacturers PSA and Renault had a particularly strong position in diesel cars, with a 38 percent market share in western Europe. The top management of PSA argued that diesel engines consumed less and cheaper fuel, produced less pollution, and were more reliable and longer lasting than petrol engines. The proportion of diesel cars was very low in Japan and in the United States, but it was significant and growing in Europe, particularly where the taxation of fuel was not unfavorable (see **Table 6**).

RENEWAL

Since the beginning of the 1990s, a particular effort was made to launch new models and renew existing models. In 1994, PSA launched the 806 monospace (Peugeot) and its brother, the Evasion (Citroën). At Peugeot, the 605 was restyled and re-engined, and new versions of the 306 (a cabriolet and a "tricorps"), and new utility vehicles (Boxer and 205 van) were launched. At Citroën, the XM

TABLE 6
Percentages of Diesel Cars in the Main EEC Countries

	1990	*1994*
France	33.0	47.6
Germany	9.8	16.6
Italy	7.3	8.7
United Kingdom	6.4	21.7
Netherlands	10.9	12.0
Belgium-Luxembourg	31.8	41.4
Spain	14.7	28.2
European-Union (12 countries)	14.2	23.1

Source: PSA.

was restyled and re-engined, new versions of the ZX (Break) and the Xantia (Active) were produced, and a new utility vehicle (Jumper) was launched. Advertising and promotional budgets were increased to rejuvenate the image: warm and relaxed for Citroën, humorous and lively for Peugeot. Peugeot reinvested in the Formula I Grand Prix and won eight podiums in 1994 with the McLaren team; they also won "super tourism" competitions with the 405. Citroën won the world rally championship for the second time with its ZX.

The cooperation between Peugeot and Citroën was crucial in order to share the efforts in renewing products. For years, PSA also cooperated with Renault in the development and manufacture of components as well as in research on environmentally friendly cars. At the beginning of the 1990s, the cooperation with Fiat was strengthened in order to share the development and manufacturing of a monospace. In 1994, the Sevelnord plant at Valenciennea (France) started to manufacture the monospace for the four companies: Peugeot 806, Citroën Evasion, Fiat Ulysse, and Lancia Zeta. Sevelnord, a 60/60 joint venture between PSA and Fiat, required a Ffr6 billion investment and were to produce 130,000 vehicles a year. The same type of cooperation was set up in Italy in order to share the manufacturing of small utility vehicles: Peugeot Boxer, Citroën Jumper, and Fiat Ducat. Sevelsud was to manufacture 190,000 vehicles a year. The top management of PSA viewed such focused alliances at the best way to compete in new market niches.

From 1988 to 1990, PSA spent 3.5 percent of its turnover on R&D. In 1994, the budget for R&D was Ffr7.2 billion, representing 3.8 percent of the consolidated turnover, a high percentage compared to other European competitors, but lower than the Japanese Toyota and Honda (both around 5 percent). Most of the 9,200 persons employed in R&D worked for the two marques: on the development of new models, on market-driven technological innovations, or on manufacturing technologies and methods. For instance, PSA participated in a joint European program, Prometheus, to improve road traffic in Europe with the help of electronic systems. The group was also active in joint European programs for the recycling of vehicles. The improvement of subsystems such as diesel engines and suspensions was also seen as a priority: for instance, the launch of the Xantia Activa in 1994 was based on a new system of active suspensions.

The electric car was one of the top research priorities for PSA. In 1991, PSA was the first car manufacturer to sell electric vehicles for urban use (to Electricite de France and to local government authorities and public institutions). The market was estimated by executives to be around 250,000 vehicles in Europe by 1995. The large-scale manufacturing and sale of the electric Peugeot 106 and Citroën AX was planned to start in 1996. The electric car was to become the second family car, for driving short distances mainly in towns. The PSA executives believed they were three years ahead of competition in this domain. The group cooperated with several townships so as to implant the necessary infrastructure to provide power for recharging batteries. PSA also launched the "tulip" project, a system of electric car rental for the town. Small two seater Tulip cars would be rented by subscribers in several places in a town, and batteries would be recharged in a number of parking places with an electric terminal. The system was experimented with in Tours at the end of 1995, and PSA decided to continue its further development.

PRODUCTIVITY AND EFFECTIVENESS

Investment was particularly high at the beginning of the 1990s, about Ffr15 billion a year in 1990 and 1991. It represented about 9.5 percent of the sales turnover, one of the highest ratios of the industry, and was financed internally rather than through borrowing. Investments were aimed at renewing the product range. They were also aimed at continuing the modernization of the industrial assets of the group, in order to improve productivity, flexibility, efficiency and the quality of the products' (annual report, 1990). With the crisis in 1993, investment was reduced; however, in 1994 it still represented Ffr10.5 billion.

On average, productivity was improved by 10 percent a year during this period, with a 12 percent improvement in 1994 compared to 1993. Reductions in costs were vital. Jacques Calvet stated that the market reversals in 1990 and 1991 and the price war made them even more so.

Purchases represented 58 percent of production costs in 1994. Cost cutting on procurement was a priority for the Sogedac, and productivity plans were implemented with suppliers. On average, suppliers increased their added value ratio by 5 percent a year.

In PSA's plants, the number of hierarchical levels was reduced and a price controller was named for each model. His or her role was to validate suggestions for technical simplifications and cost cutting, many of which came from the workers (more than 128,700 suggestions were in 1994 compared to 78,434 in 1991). Progress was also made in logistics and manufacturing; and delivery times were reduced to 8 days from 25 days in 1994. Inventories were reduced by Ffr2,000 million in 1993 and Ffr759 million in 1994. When investments were made, the group tended to choose simple, reliable, less costly solutions. Cost cutting was seen as a priority, productivity improvement targets for the period 1995–2000 remained very ambitious, and the simplification of product ranges and assembly lines was seen as the way to achieve these goals and improve the quality of vehicles.

In order to improve the effectiveness of R&D, after 1994 every development process (subsystem or new model) was organized in a "project team" based on a "technical platform." This form of organization was begun in the 1980s by the Japanese in order to reduce the development time of new models and to improve the simplicity of manufacturing. A project leader was in charge of quality, cost, scheduling, and specific performance targets (for a new model, he or she reported directly to the top management of PSA). All the professions and functions were represented within a "technical platform:" designers, process engineers, the manufacturing, quality, and procurement functions as well as some key suppliers. Typically, the technical platform for a new model would include 20–30 permanent members and a total of 200–300 people working temporarily on particular phases of the project. In 1994, the new model development time had been reduced to 196 weeks at PSA (compared to 250 weeks in 1990); the objective was to reduce it further to 156 weeks by the year 2000. The Japanese car manufacturers and General Motors Europe (Opel Vauxhall) had the shortest new product development times in the industry (between 160 and 180 weeks). The only problem with independent project teams and technical platforms was the risk of overlooking potential synergies between models, creating new components, and increasing their unit costs. At PSA, the early phases of development of new models were shared between Peugeot and Citroën. The role of Sogedac (the group company in charge of components and procurement) also helped achieve such synergies. It was in the latter stages of product development, when design and the development of production processes dominated, that the two technical platforms for Peugeot and Citroën became more apparent.

Given the limited growth opportunities, productivity improvements led to a regular reduction in staff, particularly in France: 139,800 employees in 1994 compared to 143,900 in 1993 and 150,800 in 1992. The forecasts for the period 1995–2000 showed a continuation of this trend. Careful personnel planning and forecasts at PSA reduced the risk of crises in the long term. Indeed, work patterns were changing: between 1984 and 1994 the percentage of highly skilled workers rose from 10 to 25 percent, the percentage of technicians from 9 to 13 percent, and the percentage of supervisors and managers from 4 to 8 percent. The group had developed an ambitious training program, representing more than 4 percent of the wages in 1994 (as compared to 2 percent in 1984).

THE INTERNATIONAL STRATEGY OF PSA

Europe

PSA had industrial units in several countries in Europe. In 1994, about 80 percent of manufacturing was done in France. Indeed, France was considered a competitive country in terms of production costs. Peugeot Talbot España (with 205 and 306 manufactured at Villaverde) and Citroën Españla (with AX, ZX and C15 manufactured at Vigo) represented about 16 percent of the production. Peugeot Talbot Motors, based at Ryton (United Kingdom), manufactured the 406 until l993 and the 306 after 1993 (76,300 vehicles in 1994, representing about 3 percent of the total). The Mangualde plant in Portugal manufactured 14,000 AXs. The Sevelsud joint venture with PSA Fiat Italy manufactured small utility vehicles. Automobiles Peugeot and Automobiles Citroën made 87 percent of their sales in Europe; and the European market was seen as a priority for the PSA Group, particularly the large countries (see Table 4). In the German market, seen as particularly attractive, PSA tried to strengthen its position and developed its network of dealers. Since Peugeot had taken over the chronically loss-making U.K. operations of Chrysler, production had risen from about 20,000 units in 1985 to 116,600 in 1990. It then started to decrease with the decline of the British market. However, PSA aimed at improving its U.K. market share for Peugeot and Citroën as the main export market of the group.

The relationships between the corporate center in France and the foreign subsidiaries were becoming more complex as the international strategy developed. Research and development was centralized in France; product marketing, pricing, and communication policies were also decided in France; but some adaptations to particular important foreign markets were negotiated between the headquarters and its subsidiaries.

Peugeot Talbot Motor Company Ltd. (U.K.) also had a higher degree of autonomy than most of the Peugeot operating businesses. From 1982 onwards, PSA took over the marketing and design decisions for the U.K., and disbanded the Ryton design center. However, PSA Center did realize the differences in the U.K. market, especially because of the importance of the fleet market (car purchased centrally by companies for company personnel). There was, therefore, a marketing director in the U.K., but with a strong functional reporting link through to marketing and design in PSA Center. The degree of autonomy was less than had been expected by George Turnbull, the chief executive from 1978 to 1985, when he left. The increasing autonomy of the later 1980s had been “earned,” not only by the U.K. company delivering against its business objectives and the improvements made in industrial relations and productivity, but also by the “diplomatic” style of the chief executive at that time, Geoffrey Whalen, toward the corporate center.

Europe was seen as the domestic market of European car manufacturers, and Jacques Calvet was known for a defensive strategy against Japanese competitors. In European *Motor Business* (November 1989) he stated:

> We must develop a common foreign policy toward Japan. We must limit the imports of Japanese cars as long as we do not sell a significant number of cars in Japan, that is to say a ratio of at least one [European car sold to Japan] for two [Japanese cars sold in Europe]. We must also have a common policy concerning the Japanese transplants in Europe . . . we need a significant proportion of local content [in Japanese transplants in Europe]—namely 80 percent—because this relates to the problem of employment and to sustaining technological capabilities in Europe . . . . We should examine the suggestion made by Gianni Agnelli [president of the Fiat Group] who says that there should be an overall quota on the importations of Japanese cars—wherever they come from—and a limitation to the manufacturing of Japanese cars in Europe.

As far as the strategy of the PSA Group was concerned, Calvet also stated, in *Le Figaro Economie* (April 1991): "As long as I am president of the Group, I will never accept an agreement with the Japanese." It was a view he retained in 1995.

The PSA Group was actively lobbying at the EC level to defend the argument of protection against the Japanese, as stated in the annual report of the group in 1990:

> The group will continue its efforts of persuasion in order to avoid dangerous drifts in building Europe and in the negotiations, which are badly opened, between the 12 states of the EC and Japan . . . . Do we make Europe for the Europeans, for employment, for technology, for European wealth and power or do we abandon ourselves to a competition which is not truly based on free trade and which would lead to a weaker Europe?

With the exception (to same extent) of the Fiat Group, the other European car manufacturers had less intransigent positions towards Japanese competition. However, the attitude of the German companies and the subsidiaries of the North American companies in Europe evolved toward more protectionism between 1989 and 1991. The attitude of the EC Commission also changed in this direction during the same period. The result was the EEC-Japan agreement of 1991. Japanese imports into Europe would be limited to their 1990 level—that is, to about 1.23 million vehicles a year—during a transitory period until the end of 1999. More precisely, the quotas limiting Japanese imports in some European countries (mainly France, Italy, and Spain) would be increased progressively. With regard to Japanese transplants in Europe (not subject to the above limitations), both parties had agreed to limit the production of Japanese transplants to under 1.2 million vehicles until the end of 1999. Actually, a complicated system of monitoring was put in place, taking into account the annual evolution of the European market in order to define limits to Japanese growth.

As far as eastern Europe was concerned, PSA had a prudent strategy. By 1990, the group had established a distribution network in most of the countries, but exports represented fewer than 22,000 vehicles in 1994.

New continents

In the 1990s, PSA started to look for growth in other continents. As stated in the annual report (1990):

> The industrial project targets countries with a real potential of development for the group, considering the situation or the economy of the country, its industrial base, and the perspective of growth of the automobile market.

In his address to the annual stockholders' meeting in June 1995, Jacques Calvet declared:

> We have made great strides in extending our international presence. Our ambitious goal this year is for Peugeot and Citroën to progressively make 26 percent of their sales outside western Europe. Advances in this area include the new phase in Citroën manufacturing operations in China, Peugeot's recent cooperation agreement in India, our plans to begin production of the 306 in Argentina, and Citroën's

negotiations with Proton in Malaysia, which may soon come to a conclusion.

Peugeot had a good reputation in Africa, but this continent offered limited growth opportunities. Morocco and Egypt were the only exceptions (the 405 and AX were assembled in Egypt). The further aim was to complete the group's representation around the Mediterranean basin (including Turkey and Tunisia). Iran was the main base of the group in the Middle East, but local assembly was limited to 8,400 vehicles in 1994.

In Asia, the Japanese market was too competitive to expect significant growth for PSA: 6,600 vehicles were sold in 1994. The Korean market was attractive (900,000 vehicles and 1.2 million expected in the year 2000), but it was tightly protected and dominated by local manufacturers (Daewoo, Hyundai). On the other hand, the sales of the group were growing in Malaysia (3,400 units in 1994), in Taiwan (4,500) and in Thailand. In most of these countries, Japanese car manufacturers already had dominant market shares and strong positions with their networks of local suppliers (for instance, Toyota produced diesel engines and electrical equipment in Thailand, gearboxes and transmissions in the Philippines, petrol engines in Indonesia, steering systems in Malaysia, and coordinated activities in Singapore). The Chinese market was less structured and experts forecast annual sales of 1.2 million vehicles in the year 2000 to be manufactured locally. In this market European competitors were more active, particularly Volkswagen and PSA. Peugeot had a joint venture with the Canton township. Guangzhou Peugeot Automobile had the capacity to produce 45,000 vehicles a year (505 and pickup 604). Actual production was around 20,000 units a year; however, there was a project to extend capacity and to manufacture the 405 (150,000 units in the year 2000). Dongfeng Citroën Automobile Company manufactured 8,000 Citroën ZXs in 1994 (compared to 5,000 in 1993), and new plants were being built in Wuhan and Xiangfan in order to produce 37,000 ZXs and extend the capacity to 150,000 vehicles in the year 2000.

There were about 200 million individuals belonging to the middle and upper classes in India, and the 300,000 vehicle market was expected to become a 600,000 units annual market by the year 2000. The Indian car industry was dominated by Maruti, a joint venture between Suzuki and the Indian state which had a 70 percent market share (particularly with the small Maruti 800). A number of international competitors were making agreements with local partners: Mercedes with the local Telco, Daewoo with the local DCM, Opel with Hindustan (objective: 12,000 vehicles) and Volkswagen with Eicher Motors (objective: 30,000 vehicles of the Golf 4 and Audi). At the end of 1993, PSA had signed an agreement with Premier Automobile Ltd. (the number two in India) to manufacture the Peugeot 309 in Kalyan, starting from 1995. After a Ffr1 billion investment the objective of the joint venture PAL Peugeot Ltd. was to produce 60,000 vehicles a year. In the South American continent, Peugeot and Citroën had significant positions in Argentina (with a 16 percent market share) and in Chile (8,000 vehicles in 1994). The industrial presence of Peugeot in Argentina through the Sevel joint venture) WRS, a key success factor in the context of the new Mercosur free-trade agreement in this zone. Peugeot and Citroën had just established sales subsidiaries in Brazil and sales grew from 3,000 vehicles in 1993 up to 10,300 in 1994.

Finally the top management of PSA was studying the opportunity of a "come back" in the North American market. Like several other European car manufacturers, PSA had been pushed out of the U.S. market in the late 1980s. At the time, it distributed the 505 and the 405 through a limited number of megadealers, in the east coast, the west coast, and the south-east. A study conducted in 1994 recommended the following:

- Specific vehicles were needed (given the local norms and preferences).
- A complete sales network was needed (because cars travel all around the country).
- At least two and up to four models were needed in order to feed the sales network.

- It was necessary to have local production (given the evolution of the U.S. dollar and the relatively low cost of manpower in this zone); plants could be located in the United States, in Canada, or in Mexico (Volkswagen had plants in Mexico; BMW and Mercedes had plants in South Carolina).
- Such an investment was estimated, around Ffr20 billion in four years, and the next "high cycle" of the U.S. market was expected in the year 2000 (after the 1994–1995 high cycle).

CHALLENGES FOR 1995–2000

Within western Europe the top management of PSA was concerned with the decrease in consumption, as shown by the estimation of sales for 1995. Price differentials between European countries, mainly due to competitive devaluation, stimulated the development of parallel distribution channels (for instance, the price of French car in Italy was 30 percent lower than in France for some models). This situation, combined with increased competition in a mature market, was driving down prices. Moreover, according to the EEC-Japan agreement, the competition with the Japanese would be free in Europe starting from the year 2000, and Korean competitors were expected to sell about 1 million vehicles in Europe by the end of the century.

Finally, the chairmanship of Jacques Calvet was supposed to come to an end in 1997, although some believed that, given his success at the head of USA, he would continue. Indeed, the market value of the group had been multiplied by 15 in 10 years, with the Peugeot family keeping control of the company.

In June 1995, Jacques Calvet concluded his address to the annual stockholders' meeting as follows:

> The challenges facing us are clear. The economic and monetary environment and the intense competition in our markets are serious threats. On the other hand, the Group's forward looking attitude and our employees' strong commitment to achieving our objectives—which I greatly appreciate—are precious, even crucial strengths. As a result, we can face the future with confidence.