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Nissan Motor moment of truth...

With no attractive target companies available for sale is really tying up with GM the right policy?

According to Mr. Kerkorian who is a GM core shareholder and board member negotiations between Nissan Renaud group and GM have already started. In the aftermath of the birth of Steel world number one company such news attracts media's attention. However I wrote many times that GM is nearly a dead body. There is no other way for GM to survive than to drastically cut in its workforce and employees pension money burden ; I believe GM have no choice but to request protection from creditors under the bankruptcy act chapter 11. But of course that does mean GM's stocks would become *wall paper* and that would lead to a massive 2 billion US $ loss for Mr. Kerkorian therefore question is where to turn to get a financially and technically acceptable solution? here comes the white knight Nissan Renaud.

The objective is understandable but timing could never have been worse.

Current Nissan domestic and US sales have fallen 20 % compared to last year. Therefore the prime concern of Nisan should be to solve these problems first.

In addition is it really interesting for Nissan Renault to help GM whose sales are plunging even faster? For now Nissan and GM still enjoy strong brand names and sales network but they lack new models to satisfy sales network. Unless a business link between both can bring immediately new models, new technology it does not have much sense.

If GM does not solve its employee's pension debt problem the risk inherent in supporting GM management seems far too important for Nissan Renault.

Most specialists believe that it is hazardous for Nissan Renault neither to enter any financial agreement nor to mention a full alliance before autumn new model sales show some results. Analysts and investors consider the risk too important and have issued strong 'sell' recommendations on the stock.

I believe Nissan must first rebuild its financial health. The risk to introduce new models and new technology is high when finances are in a precarious state. On the reverse I also believe that Nissan lacks new models, new technology to wake up its sales network considering they are lagging in development. To fill this gap they introduced Toyota Hybrid technology, light car from Mitsubishi and OEM supply from Suzuki Motor.

Frankly speaking Nissan has not much to gain by rushing into hybrid car introduction and therefore falling into deep deficit. Nissan has neither much to gain from teaming with GM.
All large Japanese auto makers rushed to invest on a large scale overseas, this in turn boosted spare parts/materials makers' investments in equipment .The activity of press machine, dye cast machines and other related machinery makers has been kept at high level to cope with car makers expansionary plans. However the financial investment burden of each company is becoming significant, large sales increase do not automatically translate into net earnings increase.
The 3 largest carmakers current profitability (current profit/sales %) are: Nissan *9,25 %*, Toyota *8,93 %*, Honda *8,77%*. The figures line up roughly at 9 % however to produce such figures constraint gaps exist.
Spare parts makers are on the frontline to experience such gaps, current profitability can be maintained on the scale merit provided large production quantities are maintained, and if production scale goes down so does profitability.
Current profitability figures for Toyota affiliated Denso is 8,36 %, Aishin Seiki 5,57 %, Futaba industry 5,42 %.Honda related FCC 12,08 %, Nippon Seiki 9,30 %,Showa 6,86 %, Keihin seiki 8,25 %. Nissan related Calsonic 3,4 %, Unipress 4,04 %, Kasai Kogyo 3,37 %, Yorozu 3,31 %. Honda related spare part makers come out as the most profitable, and Nissan related makers as the lowest. (Toyota related subcontractors stand as medium). Considering Carlos Ghosn aggressive cost cut policy comments this comes as no surprise.
The development of spare part makers is a vital necessity for large carmakers profitability, the relationship between both is necessarily getting stronger (to the point affiliated spare parts makers build production sites within the main car makers plants).
Even if profitability slows the spare part makers have to invest heavily to cope with the affiliated maker overseas expansion. In the case of Nissan the medium term business plan 'value up plan' was targeting 20 % ROIC, for the previous fiscal year 19,4 % has been achieved.
But this has been made at the expense of affiliated parts makers' profitability and Nissan is seemingly shifting its parts sourcing to outside contractors.
Even if in the short term affiliated part makers are committed to maintain high profitability sooner than later they will need new capital injection as investment burden increase. It is questionable how long those part makers will be able to maintain at the same time high quality parts output and cost cutting pressure. Such 'cost cutting policy' savings are indeed very risky.

Maybe Mr. Ghosn could argue that an agreement with GM will make his company the world largest but the management benefit for Nissan looks limited, financial burden is huge. Maybe Mr. Ghosn should rather continue to look at his own doorstep before embarking in such policy.