A Case Study of the Acquisition of Swedish Volvo by Chinese Geely

Author: Lieke Wang

Supervisor: Thomas Danborg

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Abstract

The acquisition of the famous Swedish Volvo by the unknown Chinese Geely has attracted a lot of attention in the world-wide medias, particularly in Sweden and China. It is the largest overseas acquisition ever by a Chinese company, which marks a beginning of a new era that the fastest growing China has become a superpower in the world economy. Because this acquisition is such a complex business where two involved companies are so much different, it is of high interest to make a case study of this in the business research area.

The thesis begins the study by looking at the basic facts of these two companies: the products, market, finance situation, brand and technology, etc. It was found that these two companies have very little in similarity, but a huge difference in product segment, technology and brand, inter-culture, language, etc. Therefore, there is no immediate cost saving through the integration of two companies and the sharing of the common components, which indicates that the risk of failure of this acquisition is relatively big. However, there do exist some opportunities lying ahead. The most obvious opportunity is the possible rapid expansion in the growing Chinese market as Volvo’s second home market. To be successful in China, Volvo must address several issues: quickly establish its local production in China, develop its own supply chain in China to reduce its cost, get into the list of the government procurement in China, etc. In all these aspects, Geely has good experience and competence, and should give Volvo a lift there. These are the real opportunities for Volvo in the new chapter of its history. To realize Volvo’s opportunities and reduce its risk of failure, right strategies must be developed and effectively implemented. The suggested strategies include: running two separate companies to defend Volvo’s brand, a new organization and strategy in China to facilitate the expansion, local market positioning for more custom base, etc. In addition, it is necessary for Volvo and Geely quickly establish mutual trust and respect between two companies’ employees. Finally, the thesis also looked at the strategies Volvo and Geely have adopted so far, and it indicated that they are implementing a similar strategy except in two areas: how to position Volvo in China and how quickly Volvo should establish its production in China. It is believed that the road to a successful acquisition of Volvo by Geely is not smooth, rather it is a bumpy road where there are a lot of challenges ahead.

In summary, the acquisition of Volvo by Geely does not sound very rational from the conventional wisdom, due to the huge big difference in brand, product specification, custom base, inter-culture and company culture, language, etc. However, the aspect of China does give a lot of hopes for the success of the acquisition. To realize these opportunities, it is important for the management team to develop a right strategy and effectively implement it.
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1. Introduction

1.1 Acquisition of Volvo by Geely

The world finance crisis from 2007 to 2009 is a crisis triggered by the failures of a series of bank and insurance companies which were hit by the US real estate and subprime lending crisis. The crisis led to a world economy recession, which is considered by many economists to be the worst since the great depression of the 1930s. The crisis resulted in dramatically reduced consumer consumption and economical activities. One of the heaviest hit branches is the automobile industry, where two of ‘the big three’, GM and Chrysler, were forced to go pre-prepared bankruptcy in the US. As a part of that story, the Swedish luxury car maker Volvo Cars, owned by Ford at that time, was sold to the Chinese unknown Geely which makes low-cost cars.

- On October 28, 2009, Geely was named as the preferred buyer of Volvo Cars by Ford.
- On December 23, 2009, all substantive commercial terms were finalized for the sale of Volvo Cars from Ford to Geely, after a long and difficult negotiation.
- On March 28, 2010, the definitive agreement was signed in Volvo Cars’s headquarter Gothenburg. The sale figure is about $1.8 billion USD.
- On August 2, 2010, the deal was completed after the approval of relevant authorities.

This process has triggered a lot of media attentions worldwide, simply because a totally unknown small Chinese company bought such a famous automobile manufacturer in the west. In fact, it is the largest overseas acquisition ever by a Chinese company, which marks a beginning of a new era that the fastest growing China has become a superpower in the world economy. For the Chinese, they are very proud because it is the evidence that their economical development has reached a new stage. No Chinese could image such an acquisition even only a few years ago. But the Chinese are also worried, because they are not sure if they can manage Volvo Cars well. This is a big test for them, because the failure of this acquisition will damage the reputation of the Chinese acquisition overseas, and it will lead to the strong resistance when any Chinese company tries to make similar acquisition in the future. Therefore, the Chinese from the government officials to the ordinary people really like to see the success of this acquisition, and want to set a benchmark for the future. On the other hand, Volvo Cars is a symbolic brand for Sweden that makes the Swedes extremely proud of it for the past many years. When this symbolic brand goes to China, the Swedes are sour because their national pride is leaving for the communist country, the Swedes are concerned because they are worried about the future fate of Volvo Cars and their jobs in Sweden, the Swedes are kind of looking forward to the new opportunities this acquisition brings, particularly in the world largest automobile market. All these have made this acquisition very interesting, particularly for the Swedish and Chinese people, both the business and ordinary people.

1.2 Theory behind this acquisition

1.2.1 Intention for Geely to buy Volvo

Geely is an unknown low-quality and low-price automobile player with a small size located in China, and Volvo is a well-known luxury car producer with much bigger size located in Sweden. Because of their huge difference in product segment, brand, technology and also
corporate culture, there is no obvious synergy in this acquisition. Why was Geely interested in buying Volvo? According to Geely’s chairman, Li Shufu, he was already interested in Volvo 5 years ago, but Ford did not have intention to sell that brand. There are many reports which analyze his intention [1-2], and there are also reports where Mr. Li gave his own version why he brought Volvo [3-5]. Based on these reports and the author’s own analysis, the intentions of this acquisition are as follows:

- Geely got the access to advanced technology of Volvo.

It is a fact that Volvo has one of the most advanced technologies in the automobile industry. Volvo is most well-known in the safety design, but also in the environment technology. Volvo is regarded as the safest car in the world by many. When Volvo was owned by Ford, Ford and Volvo had already spent more than 10 billion dollars in the R&D of new energy car technology, which is the key to the future success. In addition, Volvo has a complete and advanced product development process, worldwide customer management, etc. All these are attractive to Geely, which does not have these technologies today. By acquiring Volvo, Geely got the access to these technologies directly, and this will shorten the time for Geely to develop such by its own.

- Brand enhancement of Geely.

Through the acquisition of Volvo, Geely has strengthened its brand both in China and abroad. In China, people are really proud of Geely’s acquisition of the prestigious Volvo, which gives a lift for the image of Geely in China. Overseas, Geely has got a lot of attention in the world media because of the acquisition business. The people in the west countries already know the brand of Geely, even if they have not seen the products yet. This definitely helps Geely’s overseas expansion in the future. Without this acquisition, it would take many years for Geely to bring its brand to such a level, even if it can.

- High possibility of a profitable Volvo.

Although Volvo was still losing money when the acquisition was carried out, Geely did believe that a profitable Volvo was in the reach. Like the stock market, the darkest time is often the best buying opportunity while most people do not dare to do so. For Volvo, Geely’s chairman Li Shufu believes that he can turn around Volvo very soon for several reasons: the worst economic recession can be over soon, Volvo has several new products coming (models XC60 and V70 are now, models S60 and V60 are coming, etc.), Geely can help Volvo succeed in the growing Chinese market, etc. Therefore, Geely dared to borrow money to buy Volvo, and the development latter justified some of his points. Immediately after the acquisition, Volvo returned to profit! With just paying a sum of 1.5 billion dollars, it is absolutely a worthy business just from the price point of view.

- High growing possibility for Volvo in the Chinese market

Geely’s chairman Li Shufu has been confident that he can make Volvo grow significantly in the fast growing Chinese market. He sees this as the turning point of Volvo. He can help Volvo understand the Chinese market deeper and better. He can help Volvo establish new plants in China in an efficient way. He can help Volvo reduce the cost by establishing its Chinese local supply chain. He even believes that he can bring Volvo into the government procurement list. All these will strengthen Volvo’s position in China and in the world as well.
- Development of the Chinese automobile industry.

After the thirties years of economic reform, the Chinese industry has reached a new level in general. For the automobile industry, the entire supply chain has been constantly upgrading and improving, from textiles, plastics, metal, metallurgy, iron to to electronic appliances, computer, chip, logistics, information industry, etc. The automobile industry not only eyes on the domestic market, but also the overseas expansion. The government really wants to see the direction of overseas expansion. Therefore, the government helped Geely acquire Volvo, which opens a channel for the Chinese automobile industry to the world. This acquisition has great strategic significance in enhancing the nation’s brand, to bring China's automobile industry to a new level on the world stage. Without this, Geely could not get the support from the government. Without the support of the government, Geely could not finance this acquisition. Therefore, the Chinese government has been supporting this acquisition actively.

In addition, the Chairman of Geely Li Shufu is generally regarded as an entrepreneurial leader who dares to take risk.

All above arguments resulted in the acquisition of Volvo by Geely at the end.

1.2.2 Global perspective of the acquisition

Although the acquisition of Swedish Volvo by Chinese Geely is a relatively small scale case in the worldwide business, it reflects two important phenomena in the past thirty years: intensified globalization and the rising China – from the author’s point of view.

Globalization is of course a huge topic, and the definition is quite complex, often one can define it in different ways. But in general, it is defined as a process by which regional economies, societies and cultures interact and become integrated aided by a global network of communication, transportation and trade [6]. This process has effects on the environment, culture, political systems, economic development and prosperity, etc. around the world. However, the idea of globalization is not new. From thousand years ago, people started buying and selling goods each other in lands at great distance. The famous example is Silk Road across central Asia that connected China and Europe during the middle ages [7]. In history, the broad change in globalization has been always related to the development of transportation system and communication method. The development of the voyages in 15th century led to an age of discovery worldwide and consequently a European age of colonization. With the invention of steamships and railroads in the 19th century, the globalization developed into a modern form: vast populations in the east became the ready consumers of European exports because of superior manufacturing technology and improved global communications. With the rapid development of air transportation and telecommunication in the middle of 20th century, the globalization developed into a modern stage: the global expansion of multi-international corporations based on the US and Europe, and the world-wide culture exchange through easier air travel and communication in media like TV, radio, newspaper and other related publishing. This is a period of worldwide export of western culture, living style and goods. During this stage, a lot of theory about globalization and how to deal with the emerging markets were developed [8-12]. Outsourcing was a very hot topic at that time, and it began with the allocation of the production sites from the western countries to the developing countries like China and India. However, when these emerging countries become stronger with bigger domestic markets, multi-national companies began outsourcing the R&D work (i.e., white-
collar jobs) to these countries also, with the help of enhanced communication technologies like computer and internet technology. This changed the balance of the world economic and political powers. This stage of globalization lasted until later 2000s, when most industrial nations went into recession, while China emerged as the world new economy superpower. China is probably the biggest benefit of the globalization in the past thirty years. China was one of the poorest countries in the world in 1980s. By using its cheap labor and the vast domestic market, China has attracted a huge foreign direct investment from multi-international companies. This helped China develop modern technology in manufacturing, IT industry, etc. The results of this are the soaring domestic consumption, and export as well. For export, China surpassed Germany in 2009 to become the world’s largest exporter [13]. For GDP, China has surpassed Germany and Japan in the recent years, and today China is the second largest economy behind the US. Many observers believe that China’s GDP will surpass the US within ten years, and become the world largest economy [14]. With the rapid development in economy, China has also gained more influence in world-wide politics. Today, China is investing almost everywhere in the world, particularly in the strategic areas of raw materials like oil and gas (in Russia, Africa, South America, middle east, etc.), mining (Australia, Canada, etc.), etc. Through the strategy of ‘exchange technology by market’, China has developed its technology into a high level. In some areas, China has outpaced the original western players such as the high-speed trains and super-computers. One can conclude that China is the coming world superpower (even if it is not today), and this rising China will absolutely change the landscape of the today’s world. Every country in the world needs to think about the issue: how to deal with the rising China? In addition, the Chinese need to ask how they can success in the expansion in the west. Until now, there are not so many investigations in the above area, but more work is expected to come for these hot topics in the coming years.

The acquisition of Swedish Geely by Chinese Volvo reflects the above discussed phenomena. First, it is an international merge which is the result of globalization. A lot of challenges are needed to solve, e.g., culture difference, different management styles, cost re-allocation, etc. Second, this business is the biggest overseas acquisition by a local Chinese company. It marks the rising power of China in the world economy. It also reflects the big wish of the Chinese to expand in the world market. It is believed this acquisition will act as a test case. A successful acquisition will lead to explosive follow-ups soon. This means world needs to be prepared for doing business with China. It is not any more that it is the business as usual to acquire local Chinese companies in the China. It is likely to be the opposite way, which the world is not used to. The case study of the acquisition of Swedish Volvo by Chinese Geely will provide some indications that how the western countries or companies should deal with the ring China in the coming years.

1.3 Methodology and how the study is carried out

Although this acquisition has hit a lot of attention in the local Swedish and Chinese media [15-18] as well as the worldwide media [19-20], a literature survey showed that there are no extensive and specific investigations on this acquisition regarding the threats and opportunities, the strategies they should adopt, what long-term impact of this acquisition will lead to, etc. This is probably because this acquisition is relatively new, and even if there are some investigations, the results have not been published. The author is sure that this acquisition will become an example topic in some MBA courses in the future, no matter this acquisition will be successful or not. Therefore in this MBA thesis, the author would like to look deep into this acquisition, by using the methodology of case study.
In generally, case study is a widely used methodology in sociological science and management when a holistic in-depth investigation is needed. To conduct case study in an effective way, many different methodologies have been developed, e.g., grounded theory, survey research, focus group, content analysis, etc. [21 & 22]. However, case study is multi-perspective analysis, and thus a so-called ‘triangulation’ methodology is commonly used. The triangulation includes data source triangulation, investigator triangulation, theory triangulation and methodology triangulations. Since this thesis is not about the study of the methodology itself, no effort was given to review the methodology development in the past. Instead, the task here is to select an appropriate methodology to carry out the study of the merge of the Chinese Geely and the Swedish Volvo. As the nature of this study, the triangulation methodology is adopted. To specifically conduct the study, the procedure recommended by Yin [23] was followed:

(1) Design the case study protocol

The most important thing in this part is to establish what questions one likes to answer in the case study. This should give an overview of the case study project, field procedures, case study questions, and guide for the case study report. In this study, the case study protocol is relatively straightforward: to find out the impact of the acquisition of the Swedish Volvo by the Chinese Geely, whether it is more threat to Volvo or it brings more opportunities to Volvo? In addition, it is the author’s intention and wish to develop a strategy to achieve a successful acquisition based on the study. All these were decided from the very beginning of the thesis work. This part is covered in chapter 1.

(2) Conduct the case study

To conduct the case study means a preparation for data collection, distribution of the questionnaire and conducting interviews. Due to the limited time and resource of this thesis work, it is not practically possible to do any interviews with good statistical quality. Instead, data collection can be done only through documentation and archival records. The data source the thesis has used includes:

- Information from official websites: Volvo Cars ([www.volvocars.com](http://www.volvocars.com)), Geely ([www.geely.com](http://www.geely.com)), and Ford ([www.ford.com](http://www.ford.com)). Because these sites are the official websites of the associated companies, the information is regarded as highly reliable.
- Newspapers in Swedish and Chinese. The main newspapers I have read or cited are Dagens Industri and the People’s Daily, which can be regarded as accurate in general.
- Source from internet, both in Swedish, English and Chinese. The information from this part is not totally reliable, but the author has tried to use the information from the well-known sites, and the author tried to judge the information based on his own experience and knowledge.

This part is covered in Chapter 2, where the different facts of Volvo and Geely are collected.
(3) Analyse case study evidence

This part is about the analytical strategy. It is recommended to have a general analytical strategy, so as to guide the decision regarding what will be analyzed and for what reason. This part is covered in chapters 3, 4 and 5. Based on the data collected in Chapter 2, the similarity and difference of both companies are firstly analyzed. After that, the deeper analysis is carried out to look at the challengers and opportunities of the acquisition. This analytical strategy was actually developed from the very beginning of the thesis work.

(4) Develop conclusions, recommendations, and implications based on the evidence.

From the perspective of the readers or users, the most important is to develop convincing conclusions and give concrete recommendations based on the analysis conducted. It is the contact points between the readers and the authors. In this thesis, the conclusion is the final judgement of the acquisition, and the recommendations are some suggested strategies to make the acquisition successful. These parts are covered in Chapter 6. In addition, the strategies adopted by Volvo and Geely so far are also examined in Chapter 6.

Based on the above strategy, the following structure was used in this thesis. Firstly, the past and current situations of both Geely and Volvo Cars are reviewed, in terms of their development history, sales, brand, technologies, etc. Secondly, a comparison is given between these two companies, both the similarities and the differences. Thirdly, the author would like to examine what challenges and what opportunities this acquisition faces ahead. Finally, a strategy is developed by the author to make the acquisition successful. In addition, the strategies adopted by Geely and Volvo Cars so far are analyzed and compared to the strategies developed by the author.
2. Geely and Volvo

2.1 Geely

Geely is generally regarded as the brand of the automobiles manufactured by Geely Automobile Holdings of China [24], which is listed on the Hong Kong Stock Exchanger (code: HKG:0175). In fact, Geely Automobile Holdings is owned by its parent company called Geely Holding Group which is controlled by its chairman Li Shufu. It should be noted that it is the Geely Holding Group which bought the Swedish car manufacturer Volvo Cars, not Geely Automobile Holdings. Since the main business of Geely Holding Group is the automobile from Geely Automobile Holdings, there will be no distinguish made to separate them in this thesis, just to simplify the discussion. Only Geely is mentioned afterwards. Note that the above information is based on the information posted on the homepage of Geely Holding Group www.geely.com.

![Geely Symbol](image)

Figure 2.1: The symbol of Geely

Geely is one the four largest independent private automobile manufactures in China, along with BYD, Chery and Great Wall. When the stated-owned or partly owned manufactures (like Shanghai Automobile, Chang’an Motors, etc.) are included, Geely is approximately the tenth largest in China. Therefore, even in China, Geely is still a relatively small company in the automobile industry. In 2009, Geely sold a total number of 326710 units, and the total number of employees reached 12000. [25]

Geely was founded in Taizhou in Zhejiang province in 1986, manufacturing refrigerators initially. It also manufactured decoration materials and motorcycle parts in the following years. In 1997, Geely launched its auto manufacturing business. At that time, Geely was the first independent and the largest private automobile manufacturer in China. In 2005, Geely’s share was listed in the Hong Kong Stock Exchanger. Today, Geely is headquartered in Hangzhou, Zhejiang province, and it operates eight car assembly and power-train manufacturing plants in China that are located in different parts of China (see Figure 2.2). These facilities enable a total annual production capacity of approximately 460,000 cars per year by the end of 2009. One can see here that the production capacity in every location is quite small from the international standard, but this is probably reflects the special feature in China. One reason for this is probably one get special support from the local government when a new production plant is opened and maintained.
2.1.1 Products

The early models of Geely were generally copies from others, but during the last several years, Geely has spent great effort in upgrading its technology and self-developed several original products, such as Geely FC, Geely Panda, Emgrand series, etc. Currently, Geely produces and markets five brands with more than 30 models. A short list of these products (from www.geely.com) is shown as follows:
Figure 2.3: Products from Geely

The sale prices for different car models are listed in Figure 2.4. One can see that most cars are marketed under 100000 RMB, except the brand Englon whose total sales volume was only 263 in 2009 [25]. Therefore, one can conclude that Geely is basically operating in the low end of the automobile market.
2.1.2 Market

Geely sold approximately 200 cars in 1998, but reached an amazing annual sales volume of 326710 in 2009, achieving an average annual increase of 96% approximately (see Figure 2.5). Of course, this growth is based on the very low level in 1998. If the past 5 years is considered, the average annular growth is 20% approximately, which is still very impressive figure in the automobile industry. Although this achievement comes from the favorable and explosive development of the domestic Chinese automobile market, there is no doubt that Geely has performed very well in the past years.
In terms of market share, Geely achieved approximately 4.3% in the domestic Chinese automobile market in 2009, ranked 10th in China. – see Figure 2.6 [26]. It should be noted that the foreign players are not allowed to have their own manufacturing capacities in China. Instead, they must form a joint venture with a domestic Chinese players in order to produce automobiles in China. The imported automobiles are subjected to a significant amount of import tax, which makes them not competitive in China. For Volkswagen, it has two joint ventures in China. Therefore, it has two positions in this ranking.
In terms of market, the main market of Geely is no doubt the domestic market, with approximately 95% of its sales registered in China in 2009. However, Geely’s chairman Li Shufu, with the entrepreneurial leadership, has set an ambitious goal of growth in the market share, both domestic and overseas (see Figure 2.7) [27]. Of course, these are very challenging goals, and it remains to see whether it is achievable.

2.1.3 Finance situation

Geely’s finance situation has been very good during the past years. While its turn-over has increased year by year, its finance result of profit has also increased year by year, even during
the worldwide finance crisis, thanks to the good health of the Chinese economy. In 2009, Geely’s net profit reaches 1.3 billion RMB, which is about 188 million USD [25]. This profit is certainly not a great number for those big international manufacturers, but it is sufficient for Geely to continue its operation expansion domestically and internationally.

2.1.4 Brand and Technology

Due to the short history of Geely, it is no surprise that Geely is regarded as a low-cost brand with relatively no good quality, both in and outside China. Geely is competing mainly in the low-end segment of the Chinese automobile market. This can be seen from the price list of its products, shown already in Figure 2.4: most if its products are marketed under 100000 RMB, except the brand Englon. However, Englon is a relatively new and exclusive product, and its sales volume in 2009 was only 263 in total.

However, Geely has a corporate culture of entrepreneurship under the leadership of its chairman Li Shufu. It is not an easy thing to grow from zero ground to approximately 300000 units per year within ten years. Although its innovations in technology are not so great if one compares them to those achieved by international giants, they do reflect Geely’s entrepreneurial determination in developing its own technology. Some of the technology development milestones are [28]:

- In 2001, Geely’s JI-6360 model was certified by the government making Geely the first private company qualified to be producing automobiles in China.
- Geely produced the first Chinese-designed automatic transmission in March 2005, after the other state-owned car makers failed to develop such transmission system, even when over a billion RMB were spent [29].
- Geely’s 4G18 engine, Geely’s self-developed automatic transmission, and the Geely EPS intelligent steering booster were displayed at the Chinese national innovation exhibition in 2005.
- Geely participated at the North American International Auto Show in Detroit, winning the Special Contribution Grand Prize for Invention and Creation for its Blow-out
Monitoring and Brake System ("BMBS"), a unique safety system independently developed by Geely in 2008.

- Geely claims that it is the only Chinese car manufacturer to have developed its own range of engines – including eight series of engines between 1 litre and 1.8 litres supporting both manual and automatic transmissions.

With its achievement in technology, Geely is aiming for transforming its competitive advantage from price competitive to technology and performance competence.

2.1.5 Overseas expansion

Geely was the first Chinese company to present its products in the developed market by participating in the Frankfurt Motor Show in September 2005 [30]. It presented all its models at that time, namely 5 models. One year later, Geely appeared in the Detroit auto show, again with several models. In 2003, Geely started exporting cars overseas. In 2009, about 5% of its sales was from overseas, however, mostly the developing countries, such as South East Asian countries, African countries, Russia, Peru, Uruguy, Bangladeshi, Cuban, Pakistani, Romanian, etc. Geely has had a very high ambition to enter the European and American market, and has prepared for that for quite long time. However, it failed the U.S. crash and emission tests so that it has to postpone its plan to enter the North American market. It is the same story for the European market, and it is currently working hard to re-engineering its products to meet the Euro IV emission and Euro NCAP crash-test regulations. Despite of the relatively slow pace, Geely’s chairman and founder, Li Shufu, has a vision that two-thirds of the company's output should be sold overseas, though he is noncommittal as to when that could happen.

In order to speed up its technology development, Geely has been looking for the overseas acquisition. The first acquisition happened in 2009 when Geely paid AUS$58 million for purchasing Drivetrain Systems International (DSI), an Australian transmission company. In fact, DSI is the second largest independent transmission manufacturer in the world, and this acquisition helped Geely become the first Chinese car maker to have the ability to manufacture six-speed automatic transmissions. This successful acquisition enriched Geely’s ambition in the international market. In 2008 it was reported that Geely contacted Ford for a possible takeover of the famous Swedish luxury brand Volvo Cars. Since then, Geely acquired Volvo Cars through the following steps:

- On October 28, 2009, Geely was named as the preferred buyer of Volvo Cars by Ford.
- On December 23, 2009, all substantive commerical terms were finalized for the sale of Volvo Cars from Ford to Geely, after a long and difficult negotiation.
- On March 28, 2010, the definitive agreement was signed in Vovlo’s headquater Guthenborg. The sale figure is about $1.8 billion USD.
- On August 2, 2010, the deal was completed after the approval of revalent authorities.

During this acquisition, Geely got a lot of coverage in the domestic and overseas media. It certainly strengthens Geely’s image both in China and overseas. After this acquisition, it is believed by most people that Geely can accelerate its technology development significantly through the access to the Volvo technology, one of the most advanced in the world. Therefore, Geely’s overseas expansion is mostly likely to accelerate through both Volvo and its own sales.
2.2 Volvo Cars

Volvo Car Corporation [31], or Volvo Personvagnar AB in Swedish, is a Swedish car manufacturer with its headquarter in Gothenburg of Sweden. The company was founded in 1927, originally as a subsidiary company to the Swedish bearing maker SKF. It became independent from SKF when AB Volvo was introduced to the Stockholm Stock Exchanger in 1935. Volvo Cars was owned by AB Volvo until 1999, when it was acquired by the Ford Motor Company as part of its Premier Automotive Group. Geely Holding Group then acquired Volvo from Ford in 2010. Since the brand of Volvo is shared with AB Volvo (which produces heavy trucks, buses, construction equipment, etc.), usually one needs to specify these two companies when using Volvo. However in this thesis, Volvo will be only referred to Volvo Cars for the purpose of simplification.

Figure 2.9: The symbol of Volvo

2.2.1 Products:

With a total number of 11 models, Volvo operates in the premium-segment of cars with four versions: sedans (S40, S60 and S80), versatile estates (V40, V50 and V70), cross country (XC60, XC70 and XC90), coupes and convertible (C30 and C70) – see Figure 2.10 [32]. In addition, Volvo produces a special long-wheelbase version S80L of S80 exclusively for the Chinese market. The models XC90, S40 and V40 are relatively old, older than 5 years. The models of V70 and XC60 are relatively new, less than 2 years. The models S60 and V60 are very new, and the first introduction of these models is currently going on at the time when the thesis is written.
Table 2.10: the complete list of Volvo’s current models

As expected, the sales price of Volvo’s products is relatively high. Table 2.1 lists the recommended price for the Volvo cars sold in the Swedish market. Note that the price listed does not include the local additional apparatus. This price list reflects that Volvo operates in the premium segment of automobiles.
Table 2.1: The price list of Volvo models [33]

<table>
<thead>
<tr>
<th>Model</th>
<th>Recommended price (SEK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>C30</td>
<td>183000 - 256000</td>
</tr>
<tr>
<td>S40</td>
<td>199000 - 272900</td>
</tr>
<tr>
<td>V50</td>
<td>209000 - 282900</td>
</tr>
<tr>
<td>C70</td>
<td>371000 - 423000</td>
</tr>
<tr>
<td>S60</td>
<td>270000 - 394000</td>
</tr>
<tr>
<td>XC60</td>
<td>338500 - 380000</td>
</tr>
<tr>
<td>V70</td>
<td>263000 - 441000</td>
</tr>
<tr>
<td>S80</td>
<td>2640000 - 498000</td>
</tr>
<tr>
<td>XC90</td>
<td>445000 - 583000</td>
</tr>
</tbody>
</table>

2.2.2 Market

With approximately 2,300 local dealers from around 100 national sales companies worldwide, the US is Volvo Cars' largest market, followed by Sweden, Great Britain, Germany and China. In 2009 Volvo recorded global sales of 334,808 cars, and the distribution in different countries is shown in Figure 2.11 [32]. In 2009, the sales in most countries are either lower than 2008, or the increase is very little. The exception is China, where the total number of sold cars is increased by 77.3%. The latest sale figure in 2010 continues this trend in China.

![Ten biggest markets 2009 (2008), no. of cars](image)

Figure 2.11: Volvo’s sales worldwide in 2008 and 2009

For the two biggest markets, the US and the EU, Volvo has a market share of an approximately 0.6% and 1.5%, respectively [34]. This has been very constant over the last
years, even during the finance crisis. It reflects two things: Volvo is a relatively small player in the global automobile market, and Volvo did not have good growth in the market share.

Sweden is the Volvo’s home market, where Volvo is ranked number one in market share, around 20-25% for the past years [33]. However, even with this market share, Volvo sold only 41826 cars in Sweden in 2009, representing only 12.5% of its total sales worldwide. This shows that the domestic Swedish market is rather small, and there is no much space for volume growth for Volvo.

### 2.2.3 Finance situation

Figure 2.12 shows the annual total sales volume of Volvo during the last ten year [32, 34]. One can see that the normal sale figure should be around 420000 cars, except during the finance crisis 2008 and 2009, when Volvo sold only around 350000 cars.

![The annual total sales volume of Volvo](image)

Figure 2.12: Volvo’s annual sales volume in the past ten years

The sales revenue has the same trend as the total number of sold cars (see Figure 2.13), because the average price for a Volvo remains similar over the years.
Because of the reduced sales figure, Volvo has run into trouble in its finance performance. As a matter of fact, Volvo has been losing money for a continuous period of 4 years (see Figure 2.14). In 2008, Volvo experienced the biggest loss in its history, nearly 1.5 billion USD in a single year. This triggered Ford to sell Volvo.

Due to the reduced sales and the big finance loss during the last years, Volvo has taken action in reducing the cost. One of the actions is of course the layoff of the working force. The
The total number of employees has been reduced from 27,339 in 2005 to 19,650 in 2009, a percentage of nearly 30%.

![The total number of employees at Volvo](image)

**Figure 2.15: Volvo’s total number of employees in the past five years**

### 2.2.4 Brand and Technology

Brand is often associated with a technology advance. Volvo is often regarded a highly prestigious automobile brand, with a high reputation of technology advance in safety. It operates in the premium segment, and mainly competes against the luxury brands of Mercedes, BMW and Audi, however in the lower end of luxury automobile market. Volvo is best known for its high safety standards. For a long time, Volvo enjoyed a strong reputation in its safety, solidity and reliability, particularly prior to strong government safety regulation. During Volvo’s 83 years of history, Volvo achieved a lot of innovations in safety. Some examples include [35]:

- In 1944, laminated glass was introduced in the PV model.
- In 1958, Volvo engineer Nils Bohlin invented and patented the modern 3-Point Safety Belt, which became standard on all Volvo cars in 1959.
- In 1956, Volvo was the first company to produce cars with padded dashboards with their Amazon model. Additionally
- In 1964, Volvo developed the first rear-facing child seat and introduced its own booster seat in 1978.
- In 1991, the 960 model introduced the first three-point seat belt for the middle of the rear seat.
- In 1991 the Side Impact Protection System (SIPS) was introduced on the 940/960 and 850 models, which channeled the force of a side impact away from the doors and into the safety cage.
- In 1995 Volvo was the first to introduce side airbags and installed them as standard equipment in all models in 1996.
• In 1998 Volvo also developed and was the first to install a head-protecting airbag, which was made standard in all new models as well as some existing models. Later years of the C70 featured a head-protecting airbag deploying upwards from the door, negating the issue of roof position.

• In 2009, City Safety was introduced to the cross-over XC60. City safety means that the car automatically stops at speeds below 31 km/h if obstruction is detected in front of it.

• In 2010, Pedestrian Detection with auto brake was introduced in the new S60.

The most famous and the independent assessment authority Euro NCAP conducts safety tests for the most popular cars sold in Europe. Its current and historic results demonstrate the high standard in safety Volvo has achieved [36, 37].

![New Rating Scheme](image1.png)

![Pro 2009 rating](image2.png)

Figure 2.16: Safety test results of Volvo from Euro NCAP.

When Volvo was a part of the Ford group, Volvo provided technology advance to the Ford automobiles, which helped Ford achieve better safety image. In fact, Ford’s Montero and Focus share Volvo’s S80/V70 and S40 platforms, respectively.
2.2.5 Sale process

Volvos Cars was owned by AB Volvo until 1998 when AB Volvo wanted to divest its automobile business and fully concentrate on the commercial vehicle market. Ford, on the other hand, saw advantages in acquiring a profitable prestige mid-size European automobile manufacturer, well renowned for its safety aspects, as an addition to its Premier Automotive Group. The buyout of Volvo Cars was announced on January 28, 1998, and in the following year the acquisition was completed at a price of $6.45 billion USD. As a result of this transaction, the brand of Volvo is now utilized by two separate companies: Volvo Cars and AB Volvo.

Volvo Car Corporation was part of Ford’s Premier Automotive Group (PAG), which includes the brands Jaguar, Aston Martin and land Rover. Volvo had a great performance in the early years with Ford: profit was very good until 2006, share advanced technologies with Ford, etc. However, the rest of brands in PAG never had a good finance performance. When Ford’s new CEO Alan Mulally came to power in 2006, he decided that Ford should concentrate on ‘one Ford’ strategy. This resulted in the sale of Aston Martin to a British consortium in 2007. In the next year, Ford sold Jaguar and Land Rover to Indian Tata Motors. Although Ford denied to sell Volvo for a quite long period, it announced that it was considering to sell Volvo in 2008, after Volvo’s heavy loss in 2008.

After a long speculation, Ford confirmed that on October 28, 2009 that the preferred buyer of Volvo Cars was the Zhejiang Geely Holding Group, the parent company to the Chinese automobile manufacturer Geely Automobile. On December 23, 2009, Ford confirmed that all substantive commercial terms of the sale to Geely had been settled. A definitive agreement was signed on March 28, 2010 worth $1.8 billion. After the approval of the relevant authorities of the European Commission and China's Ministry of Commerce, the deal was closed on August 2, 2010.
3 Similarity and difference of Geely and Volvo

In order to study the acquisition of Volvo by Geely, it is important to look at their similarities and difference in different aspects. Based on the description of both companies in the previous chapter, the following results can be obtained.

Table 3.1: Similarities of Geely and Volvo

<table>
<thead>
<tr>
<th></th>
<th>Geely</th>
<th>Volvo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business area</td>
<td>Automobile industry</td>
<td>High growth in the Chinese market. In 2009, Geely and Volvo achieved approximately 60% and 77.3%, respectively.</td>
</tr>
<tr>
<td>Growth in China</td>
<td>High growth in the Chinese market. In 2009, Geely and Volvo achieved approximately 60% and 77.3%, respectively.</td>
<td>Approximately 3500000 units in 2009</td>
</tr>
<tr>
<td>Total number of annual sales volume</td>
<td>Approximately 3500000 units in 2009</td>
<td></td>
</tr>
</tbody>
</table>

Table 3.2: Difference between Geely and Volvo

<table>
<thead>
<tr>
<th></th>
<th>Geely</th>
<th>Volvo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>China (communist)</td>
<td>Sweden (democratic)</td>
</tr>
<tr>
<td>Culture</td>
<td>Chinese culture</td>
<td>Swedish culture, western culture</td>
</tr>
<tr>
<td>Market</td>
<td>95% in China, and the rest for export</td>
<td>Truly international</td>
</tr>
<tr>
<td>Number of models</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Price range</td>
<td>400000-112000</td>
<td>183000 - 583000</td>
</tr>
<tr>
<td>Segment</td>
<td>Low cost and low quality segment</td>
<td>Premium segment</td>
</tr>
<tr>
<td>Customer base</td>
<td>Chinese customers for quality products with competitive price</td>
<td>World-wide customers for driving experience and safety</td>
</tr>
<tr>
<td>Brand</td>
<td>Only known in China, low cost and low quality</td>
<td>Luxury or nearly luxury brand over the whole world, famous for its safety record</td>
</tr>
<tr>
<td>Innovation</td>
<td>Very limited innovation due to the short history</td>
<td>Very innovative, particularly in safety technology</td>
</tr>
<tr>
<td>Technology</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Organization</td>
<td>Mainly in China</td>
<td>Truly international</td>
</tr>
<tr>
<td>Growth</td>
<td>High growth, thanks to the explosive domestic market of China. A growth of 59% during 2009.</td>
<td>No growth during the last ten years, and negative growth during the finance crisis. A negative growth of 10.6% during 2009.</td>
</tr>
<tr>
<td>Finance, 2009</td>
<td>Profit of 188 million USD</td>
<td>Loss of 653 million USD</td>
</tr>
<tr>
<td>Sales, 2009</td>
<td>1.86 billion USD</td>
<td>12.44 billion USD</td>
</tr>
<tr>
<td>Production plants</td>
<td>8 in China</td>
<td>One in Sweden and one in Belgium, one joint production plant in China</td>
</tr>
<tr>
<td>Number of total employees</td>
<td>12000</td>
<td>19650</td>
</tr>
</tbody>
</table>
One can see that there are very few areas where two companies have similarity. Instead, the two companies have huge difference in many aspects. This makes this acquisition very special. In the Chinese media, this acquisition has been called ‘Snake eats elephant’. No one could image this could happen from the beginning. The huge difference in culture, company size, brand, etc. clearly means a huge risk in this acquisition, although there are certain opportunities available also. However, this acquisition can’t be assessed by the traditional theory, because China is in the process of rapid change, and so does the world because of the change in China. As Prof. Tony Fang in Stockholm University said, ‘The changing China and the changing world are important sources of inspiration for theory re-building in world politics, economy, culture, management and society’ [38]. To re-build theory by studying this acquisition is probably too ambitious for this thesis, but this thesis is intended to study the various aspects of this acquisition, and try to develop a strategy to make this acquisition succeed.

Because it is hard to find the overlap between Volvo’s premium position and Geely’s low cost product position, there will be a lot of challenges ahead. Is a partnership between them possible, or two companies must be operated separately? What are the difficulties they will face? If no partnership will be created, what is the benefit of this acquisition, and what are the opportunities? These are the questions which will be answered in the coming chapters.
4 Challenges

International organization is an organization with an international membership, scope, or presence. International corporations, also called multinational corporations, are nongovernmental international organization. The examples are numerous, like The Coca-Cola Company and Siemens which are present in approximately 200 countries. In recent years, the total number of international corporations is steadily increased because of the rapid process of globalization. To be successful, the international corporations must deal with the same issues as the domestic corporations like demand elasticity for its products, marginal principle for profit optimization, etc. However, the international corporations operating globally face additional challenges: different cultures, different languages, different currencies, rules and regulations of different countries, different tax systems, different tariffs and other restrictions, different customer bases, different costs of productions, etc. [39]. In summary, to manage an international organization is one of the biggest challenges for a multinational corporation, particularly for those which become a multinational corporation by the result of international mergers.

4.1 Comparison with the merge of Daimler and Chrysler

One famous example of failure after the international merge in the automobile industry is the failed acquisition of American Chrysler by the German Daimler group. In 1998, the German Daimler-Benz AG merged with the American auto maker Chrysler. At that time, the merger was described as the perfect match in industry with a forecast of billions of dollars could be saved, and both companies could benefit from this merger. However, the integration of the two business units never worked, and the promised synergies were not realized. After a long period of mounting finance loss of Chrysler, Daimler paid $650 million USD to Cerlerus to take Chrysler and associated liabilities off its hands in 2007. However, Daimler paid $36 billion USD to acquire Chrysler in 1998! What a miss of fortunes! Of course, there are numerous excuses for this failure, but the main two reasons are the culture clash and the mismanagement [40]. The culture clash came mainly from two aspects: the general German and American culture including the languages although most senior manages in Daimler can speak good English, and the corporate culture because of their different products (Daimler: luxury brand with quality of ‘no cost consideration’, Chrysler: attractive design with competitive price). For the management side, Daimler attempted to run Chrysler USA operations in the same way as it would run its German operations. However, Daimler was characterized by methodical decision-making, while the US based Chrysler encouraged creativity. In addition, Daimler has a corporate culture of hierarchy and centralized decision making while Chrysler is more equal empowerment. The management teams lacked vision and leadership to overcome these differences. Employees didn’t know what the relationship was supposed to look like in the end. Finally it resulted in the total failure of this merge. This example exactly illustrates the huge difficulty in managing the international organization resulted from an international merge or acquisition.

If one compares the above discussed case against the merge case of Geely and Volvo, one can see that there is huge similarity between these two merges. But the difference between Geely and Volvo in culture, customer base, management and cost is much bigger than the case of Daimler and Chrysler.
• Geely and Volvo have no any common customer base, while Daimler and Chrysler do have some common ground.
• Germany (Daimler) and USA (Chrysler) are nevertheless the so-called western countries, and share the same democratic values, while China (Geely) and Sweden (Volvo) have different social systems, and do not share the same value in principle.
• Although Germans do not speak perfect English, they do manage English pretty well. However, most Chinese do not understand English (not to say Swedish), and very rare Swedish can speak Chinese. Even the Chairman of both Geely’s board and Volvo’s board, Shufu Li, does not speak English!
• While Daimler and Chrysler could find something similar in management (democratic decision making process), there is no common process in Geely and Volvo.
• While most people worldwide accepted the merge of Daimler and Chrysler, most people in western countries do not accept the merge of Geely and Volvo, simply because Chinese products are still regarded as the low-quality products. Many of these people are the customer base of Volvo.

All this indicates that the challenges ahead are much more for the merge of Geely and Volvo than the merge of Daimler and Chrysler, while the merge of Daimler and Chrysler failed! As Prof. Tony Fang indicated in the Swedish business paper Dagens Industri [38]: the lack of expertise in international organization is apparent currently in all the Chinese automobile manufacturers, including Geely, which presents the biggest challenge in this acquisition of Volvo by Geely.

4.2 Culture difference

It is no doubt that there is huge culture difference between Volvo of Sweden and Geely of China. Although China has adopted the market economy, it is still regarded as being ruled under the communist party and the leaders of dictator. China was totally isolated from the rest of world until 1978, when the door was opened and the reform was adopted. The mutual understanding of each other between China and the western countries has been improved significantly in the past thirty years, but the huge gap still exists in the way the people think and conduct.

(1) Conception of the self

Due to the long tradition, the Chinese culture places the country, society and family above the own self. This is called collectivist. But in the western culture (the Swedish culture is a part of it), the self right is placed above all, and it is called individualist. Because of this, the Geely people will have difficulty in understanding why the Volvo colleagues priority themselves above the working schedule at job, while the Volvo people do not understand why the Geely people can work so flexibly (and cheaply) that they are available whenever they are required, even during middle night. This will put the cooperation between these two companies in danger at the end if no good measure is taken.

(2) Social structure

In China the social relationship is formal and hierarchical. Most people are comfortable with the hierarchical structure, and know their positions, and abide by the unofficial rules. Usually people do not cross the line of their areas. However, the Swedish social structure is very
informal. People do believe that everyone is socially equal, and it is very common that those people from various social levels socialize and know each other. Importance of social ranking is minimized in western countries, particularly in the Nordic countries where Sweden is one of them. This is very important aspect when the Volvo people communicate with the Geely people, particularly when they visit China. In China, people cannot separate the working life from the social life: in order to keep good relationship in business, you need to keep a good relationship in social life with people.

(3) Keeping time schedule

While Sweden is a nation famous for keeping time schedule, the Chinese do not view the time schedule as the strict point rather a suggestion. However, this might not be applicable today, because the Chinese are really making changes in the past years. It could vary from area to area, and company to company. It is not known how good Geely is in keeping the time schedule in general. Keeping time schedule is regarded as a part of company culture in China.

(4) Time consciousness

The Chinese pay a lot attention to the past. They remember what happened in the past, whether it is good or not. They try to judge things and make decision on what happened before, and to some extent, they pay less attention to the long-term future. On the other hand, the Swedish people pay less attention to the past, and pay more attention to near-term future. What happened in the past plays less role for the Swedes to make decision for the future.

(5) Respect and consideration for others

If one does not understand the way the Chinese behavior, people might regard that the Chinese pay little respect to the others. The author of this thesis experienced this recently. The author is currently working and living in Sweden, and applied a job position in China. The author got a call on 02:12 in the middle night, and was informed that the telephone interview will be arranged on 04:00 two days later. Two days later, the author got up on 03:30, but the call did not come until 05:15. Three people made the interview, but none of them apologized for the scheduled time and the delayed time. Not a single word of this. Although the author was raised up in this culture (having lived in Sweden for many years now), it is still hard to accept this. But this is acceptable in China to some extent, because people believe that one has to work hard and therefore it is natural to call you whenever they have time. But if similar things happen to the Swedish people, it would be very hard to understand. Therefore, the mutual respect will be difficult to establish between the Geely people and the Volvo people.

On the other hand, the Chinese people do expect to receive the respect from others. The Chinese people usually try to avoid direct confrontation and open criticism, thus the good ‘face’ of others can be kept. In contrast to this, the Swedish people are willing to express their personal views, and even directly criticize the others to some extent.

(6) Task- or relationship- oriented, friendship and harmony

It is the highest priority for the Chinese people to keep the harmonious relationship, and it is above the accomplishing of task. On contrast, the Swedish people are more task-oriented, while keeping the relationship is less important. For some Chinese, the friendship is life long, and people are deeply obligated to give each other whatever they have. In this case, the task is
not important anymore. While the Swedish people have only limited commitment to their friends, and to accomplish the task is more important to keep the close relationship.

(7) Respect of rules and written procedures

By contrast to the Swedish people who stick to the agreed rules and procedures, the Chinese people put more faith in personal relationship than in written rules and procedure. To avoid direct confrontation or to not lose ‘face’ can mean that decisions are made with no respect of rules. This is important when doing business with the Chinese. In China, business becomes often secondary when the good social relationship must be established first. Do not expect a contract before the social network is established. This is totally different in Sweden.

4.3 Language

Language is obviously the most important tool that people can communicate thoughts and ideas. In order for people to forge friendship, cultural and economic relationship, language plays a vital role. If people speak the same native language, the communication becomes relatively easy. But if the language is not the native one for one partner, the communication can be problem. If the language is not the native one for both partners, it is certainly a very big challenge to achieve a good communication. Unfortunately, it is the case for Geely and Volvo.

Geely is a Chinese company, and the mother language there is Chinese. Volvo is a Swedish company, and the mother language is Swedish. Because Swedish is a small language with approximately 10 million people, it is not realistic to expect the Geely people to understand the Swedish in the future. On the other hand, Chinese is a big language with over 1.4 billion people who use it. But Chinese is a signed language, and it is a very difficult language for those people whose mother language is based on alphabet, such as Swedish. In fact, there are very few Swedish people who can speak Chinese.

Under this circumstance, the only language the Geely and Volvo people can communicate is English. To speak English is no problem for the Swedes, because the Swedes are probably the second only to those native speakers like Americans and British. But even so, it is the foreigner languages the Swedes speak, and sometimes they do make mistakes. Moreover, for those people who work in the workshop, it is possible that some do not manage English well. On the other hand, the Chinese are not good at English in general. Only those young and well-educated people in China can speak relatively good English. Only those Chinese who have long study or working experience abroad can manage English very well. With this in mind, it is easy to understand the communication between Geely and Volvo can be a big challenge when they try to cooperate or even integrate each other.

In a recent interview which was published in the Swedish business newspaper Dagens Industri, the vice chairman of Volvo, Hans-Olov olsson, said that Chairman Li Shufu of Geely does not speak English so that he will not participate in the meeting discussion of the directing board. Instead, Li’s opinion and wish will be taken into the board discussion through Hans-Olov Olsson himself. Without the direct influence in the board discussion, it is hard to believe that the wish of the owner can be fully expressed and reflected. Moreover, without the direct communication of the board chairman to the board members, it is certainly a big challenge that misunderstanding will be avoided in the future. This is just an example that the language gives a big challenge to the cooperation between Geely and Volvo.
4.4 Brand and customer loyalty

Volvo is regarded as a safe and good quality car everywhere in the world, and is regarded as a luxury car in certain parts of the world like North America and China. The name of Volvo is often associated with the elegant Scandinavian design or the Swedish style: the cars are designed and produced in Sweden (although certain cars are produced in Belgium), and in general, Sweden is famous for elegant design and good quality. The safety record is also an asset for Volvo, which is often regarded as the safest car in the world. The brand is shared with AB Volvo, which produces very high-quality trucks, buses and construction equipment. Therefore, the brand of Volvo is very highly valued, although no research work was found by the author to estimate how much it is worth, like other big names such as Coca-Cola, Apple, Sony, Nokia, etc. One can see that the core values of the Volvo brand are the Scandinavian design, quality of Sweden and superior safety. This is how the current customers value Volvo, and this is why Volvo can compete within the premium segment. Customer loyalty can be kept only through the preserve of the brand value.

However, to keep the high value of the Volvo brand is a very challenging work after Volvo was bought by Geely. The reason is simple: the Geely brand is very weak, and Geely is unknown to the people in industrial nations, and in China, Geely is regarded as a low-cost and low-quality product. This kind of owner does not increase the value of the Volvo brand. In addition, Geely is totally different from Volvo’s previous owner Ford, where Ford itself has a good reputation even if it is not regarded as the luxury brand. The customers have a lot of reasons to worry about the brand of Volvo after the taking over by Geely:

- Volvo is now under the control of the Chinese community party, which is still regarded as dictator. This damages the brand of Volvo already to some extent, particularly for those customers in North America and Europe, where democracy is a part of the value of this life.
- Production might be moved from Sweden to China. While the quality of Volvo is associated with Sweden, China does not represent a good quality, particularly for the luxury brand.
- The design might be moved from Sweden to China too. This will strongly damage the origin of Volvo: the Scandinavian design of elegance.
- Volvo might possibly try to reduce the cost by sharing the cheap components from Geely. This will damage the quality of Volvo, particularly for the safety reputation.
- Volvo might lose the moral value either by accepting the dictator leadership from Geely, or being forced to use the workforce with bad working condition from Geely. If this happens, it will damage the value of Volvo significantly in Europe and North America.

Although the above points are mostly from the perspective of the people living in Europe and North America which are the biggest market for Volvo, it is also applicable to the people in China. In China, Volvo is regarded as a luxury brand which competes against Mercedes, BMW and Audi. The customers of Volvo are those rich Chinese, and they usually like the luxury goods from abroad. Promoting Volvo into the local Chinese products certainly does not help the brand value of Volvo in China. The author is a Chinese, and the author knows that the rich Chinese people do not like to see that Volvo is too much involved with Geely, even if Geely is Chinese. It is hard to image that the rich people like to go to the Volvo car dealer store where the Geely cars are also represented. They simply do not like that the relatively poor people go to the same store! It sounds not elegant in the west, but it is the current reality in
China. Therefore, the purchase of Volvo by Geely does not automatically strengthen the Volvo’s position of brand in China. It is a challenge for Volvo in China, just like in Europe and North America.

Therefore, the brand of Volvo does not remain successful on its own. In fact, it is a big challenge for Volvo and Geely to face ahead. To keep its value of a successful brand, proactive and smart management strategies must be undertaken. Only after that, the custom loyalty can be maintained and developed further. Custom loyalty consists of the elements of customer satisfaction and customer retention, as well as customer recommendation to potential customers [41]. All these three customer metrics have a known relationship with profitability. In another words, Volvo and Geely need to develop a smart management strategy to maintain Volvo’s brand and its profitability.

4.5 Cost structure

Because Geely and Volvo operate in different segments, they have very different cost structures in their products. As it is presented in the first chapter, the cheapest Volvo car (183k SEK) costs much more than the most expensive Geely car (112K RMB if the Englon is not counted because only a total number of 236 cars were sold in 2009). The average price of Volvo is about 5 times of Geely. With such a big difference in product cost, it is very difficult for the two companies to share some components in the future. Maybe Geely would benefit from some key technologies from Volvo, but definitely Volvo can’t use any Geely’s low cost technology.

Because Geely is located in China, and Volvo is located in Sweden, they have very different cost structure in working force. Sweden is a high-cost country, and the working force is very expensive, both the white and blue collar, while China is still a low-cost country, and the work force is very cheap, particularly those blue collars. For those engineers in Volvo and Geely working for the similar task, their salaries can differ up to one tenth. In addition, the Chinese workers are very flexible in terms of working overtime, working time of day and night shift, etc. The layoff of the work force is also easy in China. This is because there is neither law nor union to protect the workers. In contrast, with the strong influence from the union, the Swedish workers enjoy long holidays and strict working schedule. The layoff of the working force is very difficult in Sweden and very costly. All these put the sharp contrast of the cost structure between Geely and Volvo. It is therefore a great challenge to form a partnership between Volvo and Geely.

With this huge difference in their cost structure, Geely, the owner of Volvo, will be difficult to understand the investment and management of Volvo. When it makes investment in Volvo, Geely will always wonder why such a big investment can only produce so little results in Volvo, while so much can be done in Geely with the same amount of money. If this can’t be treated in a good way, there will certainly be problem between Geely and Volvo.
4.6 Finance management

The main challenge in finance management is to manage the currency exchange rate, different tax systems, multinational capital budgeting, multinational transfer pricing, etc. Apparently Geely does not have this competence, while Volvo has limited ability because it had always been a part of global corporate (AB Volvo and Ford) so that it did not make the global decision independently.

4.6.1 Exchanger rate

Multinational companies that sell and buy from foreign countries and receive or make payments later in foreign currencies must always consider the fluctuation of the currency exchanger rate. For the case of Volvo and Geely, there are four currencies which need to consider: Swedish Krona, Chinese Yuan, US Dollar and Euro. This is based on the locations of two companies, and their major markets. The historical exchange rates among these currencies are shown in Figure 4.1. One can see the following trend:

1. Chinese Yuan has been relatively stable against the US Dollar, although it is under pressure to be strengthened. One Dollar was worth about 8 Yuan five years ago, and today it is worth about 6.7 Yuan. Since Chinese Yuan is controlled by the Chinese government, it will be kept relatively stable and it will be steadily strengthened with time under the pressure from the USA and other industrial nations.
2. The Exchange rate of Dollar against Swedish Krona is determined by the market, and the historical fluctuation is very big. During the last ten years, the top exchange rates of high and low are approximately 11 and 6, respectively. This means a fluctuation of 83%.
3. The Exchange rate of Euro against Swedish Krona is also determined by the market, and the historical fluctuation is smaller than the fluctuation against Dollar, but there is still a fluctuation of approximately 25%.
US Dollar/Swedish Krona

Euro / Swedish Krona

Figure 4.1: The historical exchange rates among the currencies of Swedish Krona, Chinese Yuan, US Dollar and Euro [42]

With such a big fluctuation of the currency exchange rates, particularly for exchanger rate of Dollar against Swedish Krona, it is a very big challenge for Geely and Volvo to manage, with no such experience for Geely until now. Exchanger rate hedging is a good way for companies to protect themselves from suffering a loss due to the strong currency fluctuation, but this requires good knowledge and competence, which Geely does not have.

4.6.2 Multinational capital budgeting

It is a complicate issue to do a capital budgeting analysis for a domestic corporation, but it is much more complicated to do a multinational capital budgeting. For Geely and Volvo, multinational capital budgeting is a daily life of their business after this acquisition. There are several areas which need to consider [39]:
• International fund flows. There will cash flows going between the parent company Geely and the subsidiary company Volvo and vice versa. If Volvo continues its operating loss, how should Geely finance this? If Volvo is operating well with profit, should the profit be kept by Volvo, or should Geely take it? If Geely will use Volvo’s technology, how should this be treated in the cash flow? These are tough questions when capital budgeting is done.
• Inflation rate. The inflation rates in China and Sweden are certainly different, and must be taken into consideration in the capital budgeting.
• Exchange rate. This has been discussed already, and it presents one of the biggest challenges in the capital budgeting. If a capital project will span many years, long-term hedges are needed.
• Tax differences. There are major differences in tax between China and Sweden and the western countries.
• Cost of capital. When the projects are evaluated from Geely and Volvo, different costs of capital should be used. The cost of capital depends on the local capital market, local tax rates, how project load is secured, etc. The political risk should be also considered.

All these will influence the final project valuation, and Geely and Volvo will face challenge in the multinational capital budgeting.

4.6.3 Finance investment

When Volvo belongs to the big companies like Ford, it can get finance investment from the mother company. It can also share the technology development cost with its mother company. However, it is totally different story after Volvo was acquired by Geely, which is a small company, much smaller than Volvo. If Volvo is doing well with good profit, this would not be a problem. But if Volvo continues its loss in finance performance, Geely will not have the finance ability to help Volvo. Let’s make a simple estimation as follows:

Geely [25]:
- Profit before taxation: 1.5 billion RMB (1RMB is approximately equal to 1 SEK).
- Net current assets: 9.894 billion RMB.
- Acquisition cost for Volvo: 1.8 billion Dollar which is approximately 12.1 billion RMB.

Volvo [32]:
- Volvo’s loss in 2008: 1.5 billion Dollar which is 10.1 billion RMB
- Volvo’s loss in 2009: 653 million Dollars which is 4.38 billion RMB

One can see that the total value of profit and current assets of Geely is less than the acquisition cost for Volvo. Moreover, Geely’s record profit of 1.5 billion RMB is much small than Volvo’s loss of 4.38 billion RMB in 2009. Therefore, Geely’s size is difficult to cover Volvo’s loss or make an investment for Volvo, simply Volvo is much bigger that Geely. This is why no one believed that Geely could take over Volvo, but it happened. How Geely was financed to pay the purchasing price to Ford is still not disclosed, but speculation in the Swedish media is that Geely borrowed 6.0 billion RMB from some Chinese banks, and got an investment of 4 billion RMB from a local stated controlled oil fund. No matter which place the
money is from, Geely has a huge debt in its finance structure. This further reduces the possibility of its investment in Volvo. In fact, according to the article published on 2010-08-23 in Dagens Industri, Geely has created an ownership structure where Volvo will pay half the purchase price of 1.8 billion Dollars in future profits. Although this is just a speculation, it indicates the danger that Volvo may wait with investment and instead use the possible future profits to debt servicing to the new owner.

The fact is that Volvo is making application to European Investment Bank for borrowing approximately 6 billion RMB to finance its product development [43]. It is clear evidence that Geely is a very weak owner, and it does not have the finance capacity to invest in Volvo. This speaks for the great challenge for Volvo to secure finance investment in the future.

Because of the great challenges outlined above, the acquisition of Volvo by Geely is certainly not correct strategically. There is not too much synergy in this acquisition. The same conclusion was made by most analysts, and they believe that this acquisition does not have good business sense, at least for Volvo. Of course, there are opportunities over there, as long as the right strategy is created and correctly implemented. This will be discussed in the following two chapters.
5 Opportunities

5.1 Successful story of the alliance of Nissan and Renault

The most famous successful merge story in automobile industry is probably the alliance of the French Renault and the Japanese Nissan. In March 1999, Renault and Nissan signed a comprehensive partnership agreement which formed an automobile group of global scale. At that time, the partnership gave Nissan the much needed cash injection, and it gave Renault an access to the Asia Pacific market and the easy return to the Latin American market. In a short period of time after establishing the alliance, Nissan achieved a remarkable financial turnaround, and Renault accelerated its international development. Although many people did doubt this alliance for many different reasons, the fact is that the Renault-Nissan alliance is very strong today. According to the website of Renault and Nissan alliance, these two companies achieved the following things in 2008 [44]:

- Third largest global automaker (based on sales for the year 2008)
- Global market share of 9% (by volume)
- In 2008, Renault achieved revenue and net profit of 37.8 billion Euros and 571 million Euros, respectively. During the same period, Nissan achieved revenue and net loss of 58.6 billion Euros and 1.62 billion Euros, respectively. Taking consideration of the worst recession of the automobile industry for 2008, the performance of Renault and Nissan is actually very good.
- Significant presence in major world markets (United States, Europe, Japan, China, India, Russia)

It is the author’s intention to learn something from the success of the alliance of Renault and Nissan for the acquisition of Volvo by Geely. But first, we need to look at the difference between these two business units. The main difference is Renault and Nissan are operating in the same segment of quality cars with competitive prices. Their respective brands have similar values, although Renault is strong in Europe while Nissan is strong in Japan and USA. Because of this, it is relatively easy for them to operate in one company, share technology and components, etc. This is different from Geely and Volvo. The brand values of Volvo and Geely are totally different. But there are also many similarities in these two business units:

- Culture difference: Japan and France have a contrasting culture in many aspects. The Japanese company usually has a collective organization with consensus decisions, while the French company has a more individual one with a decision making process without consensus.
- Language: There is no way for both companies to understand each other’s mother language, and the only possible language both companies can understand is English. But neither Japanese nor French are good at English.
- Finance difficulty: Similar as Volvo has difficulty in finance, Nissan had finance problem also in 1999.
Obviously these difficulties or challenges in the case of Nissan and Renault are similar to what are in the case of Volvo and Geely. The conventional wisdom believed that culture differences alone between the Japanese (Nissan) and French (Renault) would bring down the alliance, but it turned out that this merge is one of the most successful businesses in the automobile history so far. Therefore, it is important to look at the strategies adopted by this partnership closely, and Geely and Volvo can certainly learn a lot from that success.

The Alliance developed and implemented a strategy of profitable growth. The objective is to establish a powerful automotive group and develop synergies while conserving the corporate culture and identity of each brand. Based on the previous studies [45, 46] and the author’s own analysis, the following strategies have been adopted by the alliance of Renault and Nissan:

- These two companies are linked by cross-shareholdings, but kept as separate brands. This is because customers in most cases don’t know or care about how different brands or models are built, instead customers only care about the quality of products. Therefore, for 10 years, employees at Renault and Nissan have worked as partners with attitudes of mutual respect and company pride while keeping separate brands and corporate identities.

- Management team is of course the most important one in the success of the alliance, because it is the management team who sets and implements the strategy for the business. Renault and Nissan have many mangers who sit on the others’ directing board and executive team. This makes them easily understand each other’s situation, and thus can make correct decision. The chairman and CEO of the alliance, Carlos Ghosn, is a charismatic person with multilingual ability of French, English, Arabic and Portuguese. The experience of Carlos Ghosn (born in Brazil, primary education in Lebanon, high education in France, working experience in difference countries, etc.) indicates that he could manage the inter-culture issue very well. The team under his leadership has developed and implemented good strategies for the alliance.

- Combined expertise and technology sharing. The two companies have joint initiatives to generate benefits through several ways: common platform in products, joint research and development projects, draw on the each other’s strengths of complementary expertise in manufacturing, sales and technology, etc. In reality, Nissan pilots the development of new gasoline engines while Renault focuses on diesel engines. In addition, Nissan actively participated in the development of the Renault group's first cross-over.

- New human resource policy. In order to solve the problem in culture difference and language, a special effort was made at Renault to develop foreign language skills. English is the official languages in the alliance of Renault and Nissan. In Renault, all new recruits must pass the minimum level test of English. This is indeed a major recruitment policy for the French company Renault. In addition, international training programs are conducted to promote intercultural understanding of the diverse cultures of the two distinct parent companies.

The case of Renault and Nissan indicates there is a real chance to be successful even if the two merged or allied companies are quite differently. It all depends on the management and the strategies. Therefore, the acquisition of Volvo by Geely can be also successful, even if there are so many challenges discussed in the previous chapter. Volvo and Geely can learn a lot from
the case of Renault and Nissan and some other similar cases, and develop its own strategies. These strategies will be discussed in the next chapter.

5.2 Expansion in China.

For Volvo, the operating condition in the European and American market is the same as before. The new condition for Volvo after being acquired by Geely does not contribute much particularly in these regions. In fact, the effort should be given to keep Volvo’s high value of its brand in these two markets. However, Volvo’s condition in China is significantly changed, which is obviously the most promising opportunity in Volvo’s new era.

The rapid expansion of economy in China has led to the explosive growth in the Chinese automobile market – see Figure 5.1 [47]. In November 2009, China overtook USA as the largest automobile market in the world. In 2009, the total sales of automobile in China reached 13.79 million, of which 8 million units were passage cars, and the rest are commercial units [48]. However, to enjoy this growth, it is very important to be local, i.e., produce cars locally. The imported cars must pay approximately 25% import tax. With this tax rate, it is very difficult to compete against the locally produced cars which are already cheaper due to lower cost of components and lower cost of work force. Only those very expensive and luxury cars may find exclusive customers in China. Therefore, Volvo’s growth in China during the past year mainly came from the locally produced S40 and S80L.

![Annual sales of automobile in China](image.png)

Figure 5.1: The annual sales of automobiles in China

Since Volvo is owned by the Chinese Geely now, Volvo can regard the world largest automobile market as its second home market. This is the major change in the Volvo history, which is probably the biggest opportunity for Volvo in this acquisition. Of course, one can
argue that Volvo was owned by Ford, which has the American market as home market. At that time, the American market was the biggest automobile market in the world. But one needs to notice that the American market is very open, and to be the home player is not necessary to mean a lot of advantages although some advantages do exist. But the Chinese market is still relatively closed, and one can compete only after being locally represented. A foreign company owned by a Chinese company has some advantages as described below.

5.2.1 Local manufacturing

To be successful in the Chinese market, local manufacturing is very important. In fact, it is almost a ‘must’ for the automobile business in China. The main advantages are as follows:

- Cost reduction by using a lot of locally produced cheap components.
- Cost reduction because of the cheap labor cost.
- Avoid the high cost of transportation from abroad to China.
- Avoid the import tax of approximately 25%.

Volvo’s sales figure of the different models in China also confirms the importance of the local manufacturing. Table 5.1 shows the sales results of Volvo for the most sold cars in China [49]. One can see that the Chinese market is ranked in NO. 1 and NO. 2 positions for S80 and S40, respectively in Volvo’s market worldwide. It is no surprise that these two models are the only locally manufactured models! Particularly for S80, it is actually the local revised version S80L, which has bigger space for the back-seat passages. This is a specially designed version for the local Chinese market, and that has made it the top market position in the Volvo family.

Table 5.1: Volvo’s sales of the top 4 models in China in 2009

<table>
<thead>
<tr>
<th>Model</th>
<th>Sales</th>
<th>The position of the Chinese market</th>
</tr>
</thead>
<tbody>
<tr>
<td>S40</td>
<td>6173</td>
<td>36954 NO.2</td>
</tr>
<tr>
<td>S80 (S80L)</td>
<td>8734</td>
<td>28171 NO.1</td>
</tr>
<tr>
<td>XC60</td>
<td>3516</td>
<td>61667 NO.5</td>
</tr>
<tr>
<td>XC90</td>
<td>2601</td>
<td>32754 NO.3</td>
</tr>
</tbody>
</table>

However, it is not an easy task to set up local production in China. The foreign automobile manufacturers are not allowed to set up their own production line alone. Instead, they must find a domestic partner to form a joint venture first. By doing so, the profit made in the Chinese market will be shared by the local partner. This is the case for all foreign players, e.g., GM has a joint venture with Shanghai Automobile, and Volkswagen has joint ventures with both Shanghai Automobile and First Automobile Works. Except the profit sharing, the joint venture will have to deal with other problems, like technology protection, management of cross company, etc. It is obvious that it limits the expansion possibilities in China for foreign companies.

Since Volvo is owned by a Chinese company now, it is likely that Volvo can be exempted from the above regulation. There is of course no strict or clear rule to determine if this is the case, but in China, the government officials have a lot of power, and they do not need to stick to the strict rule all the time. On the other hand, Geely, particularly its chairman Li Shufu (he is the member of the National Committee of the Chinese People’s Political Consultative Conference (‘CPPCC’) has some influence in the Chinese politics. He can use his power to help Volvo be exempted from the requirement of joint venture. This is for sure. Once Volvo is
exempted from this, Volvo has more freedom to set up the local production in China, and develop its own strategy to succeed in the Chinese market. In addition, Volvo will also benefit the vast experience and great expertise of the Chinese production from Geely. Geely can help Volvo in selecting the production plant, local purchasing network, dealing with the local authorities, etc. All these will greatly accelerate the local production of Volvo in China. Volvo does not need to worry about the possible stealing of technology by the local partner in case of a joint venture. In addition, Volvo can keep all the profits in the local production plant, and does not need to share it with the local partners. As long as Volvo can make Geely believe that it is worthy to invest the profit in its own development, Volvo can use its profit in China to finance its technology and product development in Sweden.

5.2.2 Government procurement car list

Every year, the Chinese government purchases a lot of products including automobiles. There are two main advantages in being in the list of that:

- Because of the size of the country and its government, being in the list means a big business for its own. Only in 2008, the Chinese government spent almost 80 billion RMB in purchasing automobiles only, and it is approximately 8% of the total Chinese automobile market [50]. The projection will be above 100 billion RMB in the coming years [51]. Therefore it is a real business opportunity for every major automobile player in China.
- It is a tradition that the normal Chinese people regard the products used by government officials are decent and prestigious products, thus it is more likely that they will try to buy the same products as the government officials do. Therefore, being in the list is a good market strategy to attract customers.

However, to be in the list of government purchasing is not easy for foreign players. To support the domestic players, the twelfth meeting of the Eleventh National People’s Congress informed that from beginning of 2009 all levels of government and public institutions should purchase at least 50% of products which are own-brand vehicles [51]. This is to help the domestic players to gain competitive advantages in the automobile industry restructuring and revitalization. There are even rumors that government is considering that the future purchasing of the new energy automobiles should be purely domestic brand. Under this condition, it is a tough competition in being in the list of government procurement for foreign players.

Under the current situation, only a limited number of foreign players are in the list of the government procurement car list in China. All these foreign players have joint ventures with the local automobile players and have a lot of investment in China, thus contribute a lot to the rapid development of China. These players include Volkswagen and GM, which are the current market leaders in China. The luxury cars like Mercedes and BMW were also included in the government procurement list from 2009, but Volvo has never been in the list so far. Now the situation for Volvo is totally different, because Volvo is owned by the Chinese Geely. It is likely that Volvo can be treated as a domestic player, and then it is natural to get into the list of the government procurement. Even if there will be some problems in getting this status, Geely’s chairman Li Shufu should be able to fix this with his good relationship with the politics. As mentioned above, Mr. Li is a member of CPPCC, where he has the possibility to speak to even the highest politics like the President and the Prime Minister. In addition, he is the Vice Chairman of the China Association of Automobile Manufacturers (‘CAAM’) and Vice Chairman of the Chinese Non-Government Education Association. Therefore, Mr. Li can
use his political influence to solve some issues of Volvo’s status in China. It is a Chinese tradition that such influence can contribute a lot to the business opportunity. Based on Mr. Li’s political influence, the Chinese ownership and good reputation of Volvo, it is highly likely that Volvo can get into the China’s government procurement car list, thus create additional business opportunity in China, both direct sales lift and the brand lift.

### 5.2.3 Finance investment

As mentioned before, how Geely was financed to pay the purchasing price to Ford is still not disclosed, but speculation in the Swedish media is that Geely borrowed 6.0 billion RMB from some Chinese banks, and got an investment of 4 billion RMB from a local state controlled oil fund. The negative aspect of this is that it demonstrates that Geely is a weak owner of Volvo in terms of finance ability. But on the other hand, it demonstrates that Volvo can find much needed investment in China, particularly when it needs finance to expand in China.

After thirty years of high growth (approximately 10% annually), China has accumulated an enormous wealth. Today, China has the world largest foreign exchanger reserve, and it is the biggest owner of the US obligations. In addition, many local governments, enterprises and private persons do have a lot of money, and they are looking for good investment. Now Volvo is a part of the Chinese Geely, and it certainly has better opportunity to get the needed investment in China. This finance investment is not necessary to be restricted in China, it can be used overseas like Sweden as long as Volvo can demonstrate its ability to give a good return. This certainly secures the further investment, and increases the possibility of Volvo’s expansion.

### 5.2.4 Home market

After being purchased by the Chinese Geely, China has become the second home market for Volvo. As a home market, the players can always enjoy some advantages. Except getting rid of some policy restrictions for foreign companies, there are other advantages. The first and the most important one is the patriotism. People usually are proud of the products produced in their own country, and tend to buy and stick to that product. However, this might not apply to the Chinese consumers. The Chinese consumers do value the foreign products higher than the domestic ones in general. Therefore, Volvo must have a good strategy in marketing. Volvo must create an image that it is a Chinese owned product, but its quality and value are purely Swedish. That’s to say, keep the original brand of Volvo! If Volvo can succeed in this brand management, Volvo will have great opportunity in China as a home player. The other advantage as the home market is that the company knows the consumers better than the foreign companies. In this aspect, Volvo must rely on its owner Geely, which has a better understanding of the Chinese market and the Chinese consumers. Anyway, this second home market provides a real good opportunity for Volvo, and Volvo must use this advantage to expand its sales in China.

### 5.3 Mutual learning

There is no doubt that Geely can learn a lot from Volvo in different areas like safety technology, engine technology, product development process, product and brand management, international organization management, etc. This is obviously one reason why Geely purchased Volvo. On the other hand, there are many things Volvo can learn from Geely. It is not often that people think in this way, because Geely is not in the same class as Volvo in almost all
areas. But the author does see several areas Volvo can learn from Geely, e.g., entrepreneurial leadership, cost control, emerging market experience and competence particularly in China, etc. Therefore, the learning process is mutual for Volvo and Geely.

5.3.1 Entrepreneurial leadership

According to reference [52], the entrepreneurial leaders usually have the following characteristics:

- Strong achievement drive and sensible risk taking.
- High degree of enthusiasm and creativity.
- Tendency to act quickly when opportunity arises.
- Constant hurry combined with impatience.
- Visionary perspective combined with tenacity.
- Dislike of hierarchy and bureaucracy.
- Preference for dealing with external customers.
- Eye on the future.

The chairman of Geely, Li Shufu, might not have all the above characteristics, but his story of founding Geely and developing it into today’s strength demonstrates that he is a type of entrepreneurial leader [53, 54]. Mr. Li was born in a farmer's family, and could not go to university because of poverty at that time. Rather, he started his first business in 1984 with 2,000 RMB given by his father. He bought a camera with that money, and earned a little from taking pictures for others. It was reported that he has a risk taking characteristics because every time when he earned money, he always put all the money into his next business which can easily bring him to bankruptcy. After the first earned money, he opened a photograph shop and then refrigeration components. At the beginning, the refrigeration production was not successful due to the technical problem. But he did not give up, instead, he turned to experts and big factories for core technology and then set up his own plant. His products sold nationwide and set him on his path to success. He was at the age of 21 only at that time! In 1989, Mr Li had to close his plant because the government wanted to regulate the refrigeration industry, where Mr. Li did not have the necessary license from the Ministry of Machine-Building Industry (MMBI). In 1994, Mr. Li saw the popularity of the expensive imported motorcycles in China, and he decided to produce motorcycles. But again, he could not get the license, because his company was private owned. He tried, but he could not even make it past the front gate of MMBI. His next step was to bail out a local and nearly bankrupt State-owned motorcycle factory to bypass this difficulty. In three years, the sales of Geely brand motorcycles ranked first among the same type of motorcycles in China. He made enormous fortunes from this, and in 1998, he decided he was ready to manufacture cars. But many people regarded him as mad for two reasons: firstly, private company couldn’t get license from MMBI; Secondly, no one believed the private company had the fund and technology to be competitive in the highly competitive automobile market. But Mr. Li was determined that he could do that, although the road to a successful car has never been a smooth pathway. Firstly, it was the technical challenges which almost brought down the company several times. Secondly, he must get the license from MMBI. For this matter, he again copied the previous method: he bought a small automobile plant in Deyang County of Sichuan which had the license. After a long bumpy road, the Geely car was recognized by the State Economic and Trade Cooperation Committee, just 10 days before China entered the WTO in 2001. The success just continued, and in 2010, Geely has been the biggest private automobile company in China. Although Geely benefited from the rapid economic growth of China, no one can deny that his success came from his determination and creativity. Under his leadership, the Geely group does have
entrepreneurial spirit in its own. In addition, the acquisition of Swedish Volvo is another kind of evidence that Mr. Li is willing to take the risk when necessary, because the failure of Volvo can easily bring down Geely due to the sizes of the two companies.

On the other hand, Volvo lacks this entrepreneurial spirit in its management or company culture. The fact is that Volvo has had no growth at all during the past twenty years, while its competitors like BMW and Audi increased the total annual sold cars by three times. There are of course many reasons behind it, but it is no doubt that Volvo did not dare to take risk in certain product segments and in certain emerging markets like China. To be successful, the company must be not only innovative in technology, it should also have the entrepreneurial leadership in its management and company culture. Now, Volvo has a new owner Geely, whose leader is very entrepreneurial. With this new leadership, it is more likely that Volvo can take bold decisions in critical points, thus hopefully can achieve high growth. It is really what Volvo needs, and the acquisition has created this opportunity.

### 5.3.2 Marketing position

Geely and Volvo are operating in different segments, and to some extent in different regions. They can learn each other in finding their market positions. For Volvo, the real opportunity after the acquisition is in China, where the world biggest automobile market is located. To be successful in the Chinese market, Volvo must find the right market position in China. In this issue, Geely, as a home player, has a better sense than Volvo. Volvo should try to benefit from Geely’s competence. On the other hand, Geely is trying to expand overseas, but its brand management is not strong. In this issue, Geely can learn it from Volvo.

#### 5.3.2.1 Volvo’s marketing position in China

China is a big country, where its consumers have its own taste. In terms of cars, the Chinese people like the big cars with big engines while the rest of world is adapting to smaller and more fuel efficient and environment friendly cars. The reason for this is that the Chinese people are concerned with their ‘face’. It is a general trend that the Chinese people like to buy luxury products if they can afford. Even if they can not afford, they like to have the products which look similar to those luxury ones. China has a highly classified culture, where the rich people try to show their status through the products they use. In terms of automobiles, the growing middle classes are really interested in buy luxury cars like Volvo. For those even richer people, they actually want to buy even more luxury cars, like BMW 7 series, Mercedes-Benz S-Class, Audi 8 series, etc. Those Chinese customers are usually extremely rich, and do not concern about the environment. In fact, there is a huge customer base for luxury cars in China. One evidence is that the sales of BMW 7 series, Mercedes-Benz S-Class and Audi 8 series are increasing dramatically every year in China [55]. This is a segment Volvo should absolutely look into. Once Volvo enters into this up-end segment, Volvo positions its brand into a higher level. By doing so, Volvo can strengthen the positions of the current products, even if their quality and prices are kept similar. Eventually this will increase the market share of Volvo in China.

During the preparation of this thesis, the above issue was seriously discussed within the Geely and Volvo group. Geely’s Chairman Li Shufu wants to drive Volvo in this direction, while the rest of Volvo management does not want to do that. The author agrees with Geely’s Chairman Li Shufu. Volvo must make such a change to meet the local market demand in China.
The general idea is that Volvo must adapt to the local market condition in the future, not stick to the one concept as before. This is something Volvo can learn from Geely, particularly for the Chinese local market. One evidence of this is that Volvo achieved a dramatic sale lift after its local adaptation of S80L was introduced in China. In comparison to S80, S80L is locally produced in China and it has bigger space for back-seat passages. This is specially modified product for sales only in China, because the rich people who buy Volvo usually have private drivers and they sit on the back-seats. This is the demand from the local market. Today, the Chinese market is the biggest market for S80!

In general, Volvo must find its right market position in China. In this issue, Geely can definitely offer good advice, simply because it understands the market better than people in Volvo.

5.3.2.1 Geely’s marketing position overseas

It is not secret that Geely has intention in overseas expansion. The expansion into the emerging marketing is relatively successful, but the expansion into the western countries has been very difficult and slow. One problem is the safety and quality issue of its products, as discussed previously. The other problem is the brand management. Geely, as many Chinese companies, does not have experience and competence to manage its brand. In the home-appliance area, many Chinese companies can produce products with similar quality to Electrolux, but Electrolux still has competitive advantage. The reason for this is that the Chinese companies do not have competence to manage its brand, particularly overseas, according to the CEO of Electrolux Hans Stråberg. This is the same problem for Geely. One intention for Geely to buy Volvo is to promote Geely’s brand. In fact, Geely is a well-known brand world-wide today even if its product is not present in western countries. This is simply because its brand is correlated to Volvo, and is covered in the world-wide media when the Volvo issue was widely discussed. Of course, this is just a first step for Geely. The next step is to try to sell its cars in western countries, and the management of its brand should be seriously considered. In western countries, the brand is related to products (quality, safety, price, etc.), after-sale service, company culture, social responsibility, environment obligation, etc. In these issues, Volvo has a good experience, and can certainly provide help to Geely.

5.3.3 Cost control for Volvo

Volvo has a low profit margin, because its product cost is relatively high. To maintain its technology lead in the market is of course important, but to be competitive, Volvo must reduce its product cost. There are of course many ways to reduce the cost, but the acquisition by Geely provides two extra aspects.

Firstly, Geely has extremely good competence in purchasing in China, and Volvo should try to benefit from this competence. As a local Chinese company, Geely knows the culture and the rules better than Volvo. Geely itself has many own suppliers, and it is sure that these suppliers can provide components with very competitive prices. What Volvo needs is to find cheap components with good quality. It is not expected that Volvo will buy all components from China, but it is a good start to reduce the cost by purchasing in the east. With the boom of the Chinese automobile market, there will be certainly more automobile component suppliers in China. With the help from Geely, Volvo should be able to find more cheap components with
good quality in China. In addition, Geely can certainly contribute the knowledge of how to set up a production plant in China, and how to run the production in an efficient way.

Table 5.2 is the percentage of the purchasing of Volvo from different countries [32]. One can see that Volvo made its purchasing mostly in the high cost countries, very little in the emerging countries like China. One can of course argue that Volvo is a luxury car and needs high quality components, which justifies the high cost of its components. However, many Chinese companies can also provide high quality components with relatively low price. Because of the rapid development of the domestic automobile market and the establishment of foreign and domestic automobile players, there is already a huge supply chain which can provide components in different segments. The only thing is that one needs competence to find them, and establishes own quality control system when dealing with these suppliers. In this sense, Geely is a good partner for Volvo to establish its supply chain in China. The first step for Volvo is to establish supply chain for the local produced cars in China. This acts the verification case. Once this is succeeded, the second step is to use some of the components in the cars built in Europe. By doing so, Volvo has a good chance to reduce its product cost, which increases its competitiveness.

Table 5.2: the percentage of the purchasing of Volvo from different countries

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sweden</td>
<td>20%</td>
<td>25%</td>
</tr>
<tr>
<td>Germany</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Belgium</td>
<td>17%</td>
<td>22%</td>
</tr>
<tr>
<td>France</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>UK</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Poland</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Check</td>
<td>3%</td>
<td>2%</td>
</tr>
<tr>
<td>Spain</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Turket</td>
<td>2%</td>
<td>-</td>
</tr>
<tr>
<td>Italy</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Others</td>
<td>13%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Secondly, Volvo should try to look for the possibility of setting a design center or a R&D center in China also. In today’s situation, it is not enough to just have a local production in China, one needs having R&D activity in China also. One reason for this is of course the low cost of the local Chinese engineers. Most of them are very intelligent, and what they need is the efficient working process, which the foreign companies like Volvo can supply and support. On the other hand, the local people do have better sense in what products the customers like. For instance, the high ranked Chinese officials and the rich Chinese usually do not drive their cars by themselves. Instead, they sit on the back seats. Because of this, they like the car with bigger space for the passages sitting on the back seats. Audi and BMW are the first foreign companies to catch this, and modified their design for the back seat space. By doing so, they won a lot of market share in China. Volvo did the same with its Chinese version of S80L, but it is several years after the competitors, so basically it missed that opportunity. With the local design team, it will be easier to catch the special requirements of the local customers.
In the intensive market competition today, it is extremely important to control company’s product cost. In the case of Volvo, it is absolutely necessary to look for answers in China, and Geely is of course a good source to get help.

In summary, Volvo must try to make full use of China’s cost advantages in sourcing and R&D - to reduce its product cost. On the other hand, the quality of Volvo must not be compromised to avoid any damage to the brand’s reputation.

5.3.4 Development of Geely through the help from Volvo

When Geely bought Volvo, it is certainly the aim that Geely can benefit from the advanced technology of Volvo. One should realize that it is also in the interest of Volvo that Geely becomes a strong player in China, even in the world market. As long as Volvo’s brand is not damaged by helping Geely, Volvo should try its best to help Geely develop better cars. There are a number of areas Geely can benefit from Volvo, particularly in the following areas:

- Safety technology: As mentioned previously, Geely has failed the safety test in Europe and USA, while Volvo is most famous for its safety design. Although Geely can’t adopt the Volvo’s safety technology directly (simply because it is too expensive for Geely), Geely can use the Volvo’s used safety technology or Volvo can develop a special simpler version for Geely.
- Product development process: It is important for a company to have a good product development process. To some extent, it is more important than the technology itself. To establish this process, the company needs a long experience in this field. Basically, it is not an easy task for Geely to establish this within a short period of time. Volvo certainly has this competence, and Geely should try to apply the modified Volvo process in its own activities.
- Distribution in the industrial countries: While Volvo has a good understanding of the distribution channel in the industrial countries, Geely has a good understanding of the distribution channel in the China. They should try to benefit from each other’s competence.
- International organization: While Volvo is an international company, Geely is more or less a Chinese local company. Although Geely is the mother company of Volvo, it should be Volvo which can help Geely in the management of international organization.

It is important for Volvo and its employees to understand that a strong Geely is in the interest of Volvo. Only after that, Volvo’s employees can overcome the different difficulties (intension, culture difference, language, etc.) to help Geely become a more mature automobile player worldwide. By doing so, Volvo will get higher status in the Geely group, and it can secure its own fate!
6 Strategies for success

A strategy means a plan of action which is designed to achieve a particular goal, in this case, a successful operation of both Volvo and Geely. Due to the limitation of time, effort was spent mostly to develop strategy to achieve a successful Volvo. On the other hand, a successful Volvo also means a success for Geely. It should be pointed out that no effort is given to address how Geely can succeed in the Chinese market and expand overseas. This should be regarded as a separate topic outside of the scope of this thesis.

6.1 Suggested strategies

The strategy should be developed based on the challenges and the opportunities described in the previous chapters. The main idea is to develop a plan which can maximize the opportunities and minimize the difficulties. As discussed previously, the main difficulty is to defend the brand of Volvo and solve the inter-culture conflict. The main opportunity is to expand in the growing Chinese market and reduce the product cost by better supply chain management. Based on these, the following strategies are suggested by the author.

6.1.1 Fully independent Volvo

Because of the huge difference in their brands, Geely and Volvo must operate in two separate companies to defend the brand of Volvo. No matter how important the Chinese market is for Volvo, the biggest market for Volvo is still in Europe and the US. The core value of the Volvo brand includes safety, environment, respect for people in the company culture, Scandinavian design, etc. Once this image is damaged, the customer base will be diminished in Europe and the US. Because Geely is a low-end brand associated with China (often related to the communist party and no respect of human rights), a close relationship between Volvo and Geely will damage the brand value of Volvo.

To keep the brand value of Volvo, Volvo must be given a high freedom to operate independently. Any closer relationship with Geely should be kept with low profile. The best way is to keep the original management team with only some necessary changes. Of course, Geely could have some people sitting in the directing board to influence the direction of Volvo, particularly in the issue of how to expand in the growing Chinese market. This is not only to defend the brand value of Volvo, but also to meet the pressure of the union of workers in Volvo. This is particularly important right after the acquisition.

6.1.2 Special strategy in China

A comprehensive and special strategy must be developed and implemented for the growing Chinese market. The first step is to find a good position for the brand of Volvo in China. One needs to keep the elegant characteristics of Volvo from the Scandinavia, and at the same time, one has to make the Chinese people proud of Volvo because it belongs to China. Somewhere one needs to find the best balance between these two points. The second step is to speed up and expand the localization of manufacturing for other models like S60, XC60 and XC90. This is the major step that Volvo can increase its market share in China. This is also the prerequisite for Volvo to enter into the list of the government procurement. With the influence of Geely’s
chairman Li Shufu, Volvo should be able to enter into the list, which will strengthen the brand value of Volvo in China. The third step is to set up a supply chain in China, not only to supply components for the local produced Volvo, but also to be used in the Volvo cars produced in Europe. This will decrease the cost of the products, which increases the competitiveness of Volvo in the global market.

To develop and implement such a strategy, a separate China team must be established, and be operated under the direct control of the CEO of Volvo. This team must consist of people with vast experience, particularly with the experience of the Chinese market. It is no doubt that some Chinese from both Volvo and Geely should be included in the team.

6.1.3 Cost reduction

Since Volvo must operate separately from Geely, it is not possible to share common platform or components with Geely to reduce its cost and achieve the synergy. Even joint research program is not realistic currently, because Volvo is so more advanced than Geely. Of course, Volvo should continue to improve its working process to be more efficient in operation, just as it did before the acquisition. Here, we look at the strategy dealing with opportunities this acquisition brings, i.e., the cost reduction through the China related operation where Geely has a good knowledge and competence. Firstly, Volvo should set up its own manufacturing plants in China, which can significantly reduce the product cost. This can be done with the help of Geely. Geely knows the local rules much better than Volvo. In addition, Geely has a better position to negotiate with local government, and this will give a lot of benefits in setting up the new plants, like the reduced cost of land, local tax relieve, etc. Secondly, Volvo must establish its Chinese local supply chain, not only for its local production, but also try to use some components in its products produced in Sweden and Belgium. This will reduce the cost significantly.

To achieve this, a special team must be established under the leadership of some of the highest leaders from both Volvo and Geely. This team has a key role to play to reduce the product cost of Volvo.

6.1.4 Inter-culture learning and language

The biggest challenge in the international merge is how to deal with inter-culture difference. The management team must develop a strategy to deal with this issue. Any success is built on the good cooperation among people, while the good cooperation requires efficient communication and understanding of each other’s culture, especially at the management level. This issue lies on the hand of human resource department. For Volvo, it requires to have changes in habits, organization and management process to deal with the new dimension created by the acquisition. International training programs must be regularly conducted to promote the understanding of the diverse cultures, the Chinese culture and the Swedish culture. One way to achieve this is to exchange the management people between two companies.

To communicate each other efficiently, language ability is very important. For Geely, the recruitment of future managers must be conducted with a requirement of the English level. Only those who can speak good English can communicate with the people from Volvo efficiently. Regular courses should be assigned for these managers. For Volvo, it is probably not realistic to expect people to learn Chinese, but it should be in the benefit of Volvo to recruit
some managers who can speak Chinese and know the Chinese culture well. If no suitable Swedes can be found, those Swedish Chinese should be good candidates.

6.2 Adopted strategies by Volvo and Geely so far

It has been a relatively short period of time since Geely officially took over Volvo on August 2, 2010. It is thus relatively difficult to assess the strategies adopted by Geely and Volvo. Therefore, the analysis is carried out only by limited information.

During this short period of time, the Geely and Volvo team has been working intensively on the new strategies for Volvo, particularly for Volvo’s expansion in China. The following information is based on the reports from different medias.

- An independent Volvo with good directing and managing teams. Geely’s chairman Li Shufu re-iterated several times that Volvo will be run independently. His word is ‘Geely is Geely, and Volvo is Volvo. They are brothers, not ownership.’ He reiterated this point in overseas media as well as in the Chinese media. He demonstrated this through the selection of the Volvo directing board members and the managing team members. In the Volvo’s directing board, there are a total of 8 members, where only 2 of them are Chinese. He himself serves as the chairman, and the other Chinese is Freeman H Shen who was educated in USA and has good ability in managing language and inter-culture. For the managing team, the board selected Stefan Jocoby as the President and CEO. Stefan Jocoby is a German, and has a long experience with Volkswagen in Europe, USA and Asia. The managing team consists of people from the western countries, and no any Chinese are promoted in the team of top managers. All these can ensure an independent Volvo, which is good for preserving the brand of Volvo.

- New organisation in China. The new organization of Volvo began with an appointment of a new top manager. Freeman Shen, formerly a vice president with Geely Holding Group, was assigned to head Volvo’s China operations. Mr. Shen is currently also a member of the directing board of Volvo. He will be responsible for both the industrial and commercial sectors of Volvo’s business in China. Mr. Shen has acted as a close advisor to Li Shufu, chairman of both Geely and Volvo Car Corp., during the course of Geely's acquisition of Volvo Car Corp. over the last year. As a former CEO of Fiat Powertrain Technologies China from 2007-2009, Mr. Shen joined Geely in December 2009 as vice president for the company's overseas business. Mr. Shen is Chinese, and was grown up in China also. Mr. Shen obtained Master's degrees in engineering and business administration in the U.S. and began his professional career working for companies such as BorgWarner Inc., serving as a top level executive for the U.S. supplier from 2000 to 2007. The aim of this person is to build a new organisation of Volvo in China, but what exactly the new Chinese organization will see out remains to be seen.

- Local production in China. A lot of discussion regarding the local production plants has existed for a long time, which indicates that Volvo is seriously looking for the expansion of production in China. A strong evidence is that Volvo has sent its former production manager Lars Danielson to China to lead the construction of the new plant in China. Lars Danielson has broad experience of the automobile industry, business acumen and proven leadership skill. This appointment is aimed to effectively construct the local Chinese plant, guarantee the good quality of the locally produced cars, etc. This will defend Volvo’s brand also.
Cost reduction through more purchasing in China. It appears that Volvo is going to use Geely’s supply chain in China, at least look at the possibility. According to a recent interview of the CEO Stefan Jacoby, Volvo is looking at the Geely's supply chain very carefully. It is a sign that Volvo wants to use Geely’s supply chain as a platform to increase its purchasing in China and thus reduce the product cost.

Geely and Volvo have taken some actions in solving the problem related to inter-culture difference and language. Firstly, although Mr. Li is the chairman of Volvo’s directing board, he will not participate in the board meeting discussion directly, simply because he does not speak English. The vice chairman, Hans-Olof Olsson, will convey his view into the board discussion. By doing this, the board discussion in English will be more efficient. Secondly, Geely has chosen Mr. Freeman Shen as the Chairman of Volvo organization in China, and the member of Volvo’s directing board. Mr. Shen is a Chinese. He obtained his two master degrees (engineering and MBA) in the US, and he has many years of working experience in both the US and China. He should be able to communicate with the other Volvo directing members and to master the inter-culture effectively. In addition, it is a good sign that Mr. Li recently said that he accepts Volvo’s board’s decision if they have different views like the suggested luxury cars in China, because he trusts Volvo – simply he believes that Volvo with more than 80 years history of success knows its value better than him [56, 57]. He also said it that Volvo is a big international company, and it is not possible and not good if all the people listen to him only. All these demonstrate that that Mr. Li respects other cultures well.

There are some areas where Volvo and Geely either have not reached an agreed strategy or have different views.

How to position Volvo in the Chinese market. According to the recent reports, Geely’s chairman Li Shufu wants Volvo to develop bigger and more luxury cars for the Chinese market, where Volvo’s other board members want to keep Volvo’s current size but more efficient cars. In fact, according to the Chinese report, Mr. Li believes that Volvo’s problem is its small volume. According to him, Volvo spent similar budget in the R&D activities as BMW, but its sales is far behind BMW today. The reason for this is that Volvo does not have enough models to offer customers. He wants Volvo to extend its product range to both high and low ends, i.e., bigger and luxury cares similar as BMW 7 series and small cars down to the cars even smaller than Volvo C30 [54]. For the bigger and luxury cars, Volvo should be able to find market at least in China. Although this has not been accepted by the Volvo’s directing board, it is a clear sign that new initiatives are undertaken to develop new market position for Volvo.

Although it appears that Geely and Volvo have taken some actions in the area of inter-culture difference, no concrete strategy has been presented for solving this issue, at least publicly. In addition, strategy must be developed to solve the issue of language. Because it is a very obvious issue, it is almost certain that Geely and Volvo are developing a strategy to solve this problem. It is expected that the human resource department will play a great role in this issue.

Overall, it seems Volvo has taken the correct strategies so far, although there are many points Volvo needs to prove in the future. To develop a strategy is important, but it is more important to implement it in a correct and effective way. To run two companies Geely and
Volvo separately is not enough to defend the value of the Volvo brand. Some additional measures must be taken. In addition, a detailed strategy and plan for the Chinese market must be established quickly. There is basically no time to wait. The growing Chinese market is changing fast, and bold and quick action must be taken.
7 Conclusions

Through the study in this thesis, the following conclusions can be reached:

The acquisition of the Swedish Volvo by the Chinese Geely is a direct result of one of the worst recessions trigged by the finance crisis. However, it is in fact the result of the new world economy balance between China and the western industrial countries. Benefited from the globalization, China will be the next superpower in the world economy. It is believed that this acquisition is just a beginning of the Chinese economy expansion overseas.

Although Volvo did not like to be brought by a Chinese company like Geely, it probably had no choice because it was owned by the American Ford previously. However, for Geely, there are many reasons why it was interested in buying Volvo: a direct access to the absolute world-class technologies in automobiles, the possibility of rapid expansion in the Chinese automobile market for Volvo, increase the value of the Geely brand significantly domestically and overseas, maybe overseas distribution channel for Geely in the future, etc. Moreover, the price of the acquisition is really low, thanks to the fact that Ford wanted to get rid of Volvo and get the needed cash.

It is concluded that there are a lot of challenges lying ahead for Geely and Volvo. The main challenges include: to defend the brand and customer loyalty of Volvo, to overcome the culture difference between two companies or two countries, to manage the multi-national organization, etc. Due to the huge difference in two companies, there is no immediate cost saving or synergy available in the near future. Therefore, the challenges themselves indicate that the risk of failure of this acquisition is relatively big.

However, some opportunities do exist, particularly in the rapid expansion in the growing Chinese market. While Volvo’s home market of Sweden is very dynamic, it is actually very small. This is why it is important that Volvo gets the world largest automobile market of China as the second home market. Volvo must try to get into the list of the government procurement in China. Volvo must quickly establish its local production in China. Volvo must try to establish its own supply chain in China to reduce its cost. In all these aspects, Geely has good experience and competence, and should give Volvo a lift there. These are the real opportunities for Volvo in the new chapter of its history.

To realize Volvo’s opportunities and reduce its risk of failure, right strategies must be developed and effectively implemented. Firstly, the running of two separate companies is an effective way to defend Volvo’s brand, at least in the short term. This will keep Volvo’s traditional customers in Europe and the US. Secondly, a good organization and strategy in China must be established to catch the expansion opportunity in the fast-growing Chinese automobile market. This includes rapid establishment of the local production of more models, special features in the product or new products for the Chinese market (i.e., local market positioning), establish Volvo’s supply chain in China with the help of Geely, etc. Thirdly, Volvo and Geely should quickly establish mutual trust and respect on the top manager level to bypass the inter-culture conflict (later to extend to the middle managers and even the ordinary employee level), etc. In this aspect, the human resource department should play a great role.
Because of its relatively short period after the official acquisition, it is difficult to assess the strategies Volvo and Geely have adopted. Based on the various reports from the media, it seems that Volvo and Geely are adopting the similar strategies the author suggested. The main deviation is how and how quickly Volvo should expand in the Chinese market. Geely wants a quick expansion in China with construction of several plants, while Volvo wants to be careful about the expansion pace. In addition, Geely wants Volvo to position its products in more up-end at least in China, while Volvo wants to keep its original product position. Although it is normal to have different views in the strategies, it is a reflection of inter-culture conflict, e.g., how one understands the market demand, people who are used to the Chinese growth speed do not understand the normal expansion pace in the western countries, or vice versa, etc. Therefore, the road to a successful acquisition of Volvo by Geely is not smooth, rather it is a bump road and there are a lot of challenges ahead.

In summary, the acquisition of Volvo by Geely does not sound very rational from the conventional wisdom, due to the big difference in brand, product specification, custom base, inter-culture and company culture, language, etc. However, the aspect of China does give a lot of hopes for the success of the acquisition. By access to the world largest and fastest growing automobile market as the home market, Volvo has got several major opportunities: increase the Chinese market share, reduce its product cost both in China and in western countries, etc. In order to realize these opportunities, Volvo and Geely must develop the right strategies and effectively implement them. This lies in the hand of the owner and the top managers. If Volvo can succeed in the Chinese market as planned while at the same time keep its current market position in Europe and the US (even if not improve), this acquisition should have real opportunity to succeed. The author will be very happy to see a successful group of Geely and Volvo in the future.

It should be noted that no effort was devoted to look at the strategies Geely should adopt to develop itself. It is believed that a successful Volvo is a part of the success for Geely. Of course, the success of Geely requires more detailed and deeper analysis separately, but it is beyond the scope of this thesis.
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