China’s Foreign Investment Analysis
Case Study of Geely Acquired Volvo

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Abstract
The objective of this research was to analyze the acquisition case of Volvo Car by Geely including the environment scanning, strategic management and acquisition implementation.

The theoretical overview to strategic management explained the acquisition decision making process with various management tools. Furthermore, the benefits and principles of foreign direct investment which were presented in this part are sound base for the detailed discussion about foreign direct investment in China.

The study was accomplished mainly on qualitative research method due to the research limitation. Secondary sources are largely collected from a variety of publications, websites, journals, magazines etc. Meanwhile, the intensive case study provided a comprehensive picture of the acquisition case in a decision making process.

The result of the case study indicated the strategic goals for the acquisition between Geely and Volvo Car. It also pointed out the possible problems Geely are coping.

Keywords
foreign direct investment, acquisition, strategic management, Geely, Volvo Car

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1. INTRODUCTION

1.1 Research Background

According to the statistics released by Chinese National Development and Reform Commission, from 2002 to 2008, China’s annual business volume of foreign investment increased from 2.7 billion USD to $56 billion USD and the average annual growth rate was 66%. To the end of 2008, the foreign investment stock of Chinese enterprises reached 184 billion USD and the total overseas assets was over 1 trillion USD. (SDPC statistic 2010)

The amount of foreign investment by merger and acquisition achieved 30.2 billion USD with an increase of approximately 380% over the previous year which account for 540% of the total foreign investment in that year. From 2003 to 2009, Chinese enterprises closed 437 overseas acquisition deals amount to 116.8 billion USD in total. (SDPC statistic 2010)

Since global financial crisis erupted from Wall Street in 2008, global cross-border investment declined substantially, while the foreign investment of Chinese enterprises grew rapidly. The statistics from Chinese Ministry of Commerce in Foreign Investment and Economic Cooperation Department showed that Chinese enterprises directly invested 177 countries and regions worldwide in 2009. The cumulative non-financial overseas direct investment reached 43.3 billion USD, year on year rise of 6.5%. Meanwhile, the turnover of foreign contractual project achieved 77.7 billion USD with an increase of 37.3%. (MOFCOM statistic 2010)

With the Economic Reform and Trade Liberation started from 1978, the automotive industry in China has made a remarkable progress. Strong development and appropriate adjustments in automotive industry stimulate Chinese automobile manufacturer go globally. Witnessed the failures of Shanghai Automotive Industry Corporation (SAIC) acquired South Korea’s Ssangyong Motor Co. and Beijing Automotive Industry Corporation (BAIC) acquired Saab from General Motors (GE), the Chinese automobile manufacturers have not stopped their steps towards
internationalization. Affected by economic crisis in 2008, many top-brand auto companies chose to sell part of well-known brand to ease financial pressure. At the same time, China’s private enterprises are eager to enhance their competitiveness by merger or acquisition. Zhejiang Geely Holding Group (hereinafter to be referred as Geely) acquired Volvo Car Corporation (hereafter to be referred as Volvo Car) from Ford Motor Company once attracted attention all over the world. Whether Geely could make the acquisition work or not, blessings are as many as criticisms.

1.2 Research Objective

The objective of the research was to analyze the intensive case of Geely acquired Volvo Car in 2010 from the point of strategic management which includes environment scanning, strategy implementation as well as result assessment.

This thesis was trying to answer questions: what is foreign investment, what is the current situation of foreign investment in China. As for the case, the research will answer these questions such as what is acquisition from a strategic point of view as well as the strategic analysis of the “past” “present” and “future” concerning the acquisition between Geely and Volvo Car.

Qualitative research is the main method used in this thesis to explain and explore the research question. All of empirical data are secondary data including internal records and external source which contains published data and internet sources.

The plan for the thesis is as follows: Chapter 2 states the theories for this study including the basic theory of foreign investment and strategic acquisition. Meanwhile, several strategic management tools will be illustrated in this chapter.

Chapter 3 introduces the research method and process applied in this thesis and it also includes the subjects such as research method, data collection, and analysis of data.
Chapter 4 explains the acquisition decision making process from strategic management prospect and point out the existing problems. And consequently, the future prediction of the acquisition will be described.

Chapter 5 concludes and discusses the strategic goals achieved as well as the challenges of the acquisition between Geely and Volvo Car. Moreover, the limitation of the work also been discussed in the end.
2 THEORETICAL FRAMEWORK

2.1 Strategic Management

**Strategy** is “a comprehensive master plan that states how the corporation will achieve its mission and objectives.” (Wheelen & Hunger 2006, 14) Johnson and Scholes (2000) define strategy as the direction and scope of an organization over the long-term.

**Strategic management** is the set of managerial decision and actions that determines the long-term performance of a corporation. It emphasizes the monitoring and evaluating of external opportunities and threats in the light of corporation’s strengths and weaknesses. (Wheelen & Hunger 2006, 3) Strategic management is a system that links strategic planning and decision making with the business of operational management (Gluk & Kaufman & Walleck 1982)

Research revealed that corporate that engage in strategic management generally outperform those that do not. Before an corporation to begin strategy formulation, it scan the external environment to identify possible opportunities and threats and internal strengths and weaknesses. A corporation use environmental scanning tool to avoid strategic surprise and ensure long-run health. (Karlof 2004)

This research concentrates on the strategy formulation which consists of three dimensions (Karlof 2004):

i. The situation analysis

ii. The determination of company’s objectives

iii. The methods to be used to achieve these objectives

2.1.1 SWOT Analysis

**SWOT analysis** is a strategic planning method used to evaluate the Strengths, Weaknesses, Opportunities and Threats involved in a program or research. (See Figure 1)
Heinz Weihrich introduced “TOWS Matrix”, earlier version of the SWOT analysis in 1982 which stands for Threats, Opportunities, Weakness and Strength. SWOT is a rearrangement of TOWS by assessing internal current situation before exploring externally. (Keeley.E.J. 2005)

How to identify the SWOT is crucial because following steps in the process to accomplish the selected objective may derive from it. (Keeley.E.J. 2005)

One approach of utilizing SWOT is matching and converting. Matching is used to find competitive advantages by matching the strengths to opportunities. Converting applies to convert weaknesses or threats into strengths or opportunities. (Kotler P. 2002)

2.1.2 PEST Analysis

PEST analysis stands for “Political, Economic, Sociocultural and Technological analysis” (See Figure 2). It describes a framework of macro-environmental factors for environmental scanning. It is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operation. (Wheelen & Hunger 2006, 73-79)
Political and legal forces regulate the market by various means of protection through laws and regulation such as tax policy, trade restrictions, labor law etc. (Wheelen & Hunger 2006, 73-79)

Economic variables include economic growth, interest rate, exchange rate and inflation rate which have affect how business operate and make decisions. (Wheelen & Hunger 2006, 73-79)

Sociocultural factors influence values and customs of society, such as cultural aspect, population growth rate, age distribution, career attitude. Trends in Sociocultural factors influence the demand for products and further affect how company operates. (Wheelen & Hunger 2006, 73-79)

Technological issues determine barriers to entry, minimum efficient production level and influence outsourcing decision. Furthermore, technological shifts can influence quality and costs of product which might lead to innovation. (Wheelen & Hunger 2006, 73-79)
2.1.3 The Boston Consulting Group’s Growth

The Boston Consulting Group developed a portfolio analysis aid for corporate strategy. The theory based on a discovery of combining four elements of cost, productivity, market volume and market share. Using the BCG (Boston Consulting Group) Growth-Share Matrix (Figure 3) is the simplest approach to portray a company’s portfolio of investments. (Wheelen & Hunger 2006:179-181)

![BCG's Growth Share Matrix](image)

**FIGURE 3 BCG’s Growth Share Matrix (Boston Consulting Group 1972)**

The BCG’s Matrix approach classify it SBU (strategic business unit) to dimension: Horizontal axis shows the relative market share of the company serves as a measure of strength in the market. Vertical axis demonstrates the market growth rate show the attractiveness of the market. By divided the matrix into four areas, there are four types of SBU can be distinguished: stars, cash cows, question marks and dogs.

**Question marks** (sometimes called “problem children” or “wildcats”) are new products with low market share but potential for success. In order to become a “star” or market leader, a lot of investment required. (Wheelen & Hunger 2006, 180)

**Stars** are market leader in a business area with relatively strong competence. They are able to generate enough cash to maintain the high share in the market but eventually
their development will slow down based on the product life cycle. (Wheelen & Hunger 2006, 180)

**Cash Cows** are low-growth product or business with a high market share. It brings more money that needed to maintain market share. It could be stars by continuing generate profit. (Wheelen & Hunger 2006, 180)

**Dogs** are in the most disadvantage position with low share and low growth rate. Since most likely the dog-product or business is not attractive and potential, they should be either sold off or managed carefully for small cash flow. (Wheelen & Hunger 2006, 180)

The concept of BCG is based on Product Life Cycle. It is a graph showing time plotted against the monetary sales of a product as it moves from introduction through growth, maturity to decline. (Wheelen & Hunger 2006, 181) The business opportunity or product starts with “question mark” could become a market leader “star” by invest heavily. With the development of certain business or product, it comes to maturity phrase, the “star” turn into “cash cow” with slow growth rate. It will eventually turn into “dogs” with new competitor and less potential market. (Porter 1984, 407)

In terms of market growth and market share, BCG could measure the company’s current position. The growth evaluate the the potential of the market in future as well as the market attractiveness whereas the market share provide information about the competitive position of the company. (Aaker 1995, 154-170)

BCG’s growth share matrix also play a role in carrying out competitor analysis. By comparing competitor’s portfolios, the company could gather information about the competitor’s position for strategic planning. Especially when the competitor is using the growth share matrix portfolio, the analysis could be impressive. (Porter 1984, 407)

2.1.4 Porter’s Five Forces

**Porter’s five forces** model illustrated in Figure 3 helps to measure the industry’s attractiveness by examining the threat of new competitors and substitutes, the
bargaining power of buyers and suppliers and the degree of rivalry between existing competitors. (Porter 1984, 24)

Porter’s five forces emphasizes the external scanning which indicates the opportunities and threats in the markets.(Wheeler & Hunger 2006) An opportunity or threat could be events or trends that may affect the company in a positive or negative way when certain strategic actions are followed. (Aaker 1995, 21) These five forces shape the attractiveness of an industry and particularly that the company can make use of these five forces to gain sustainable competitive advantage in the market of competition. This influences the barriers of entry in the industry which includes issue like company’s economic size, the product differentiation, demand for capital, and access to supply chain etc. (Porter 1984, 25-48)

![Porter’s Five Force Model](image)

**FIGURE 4.** Porter’s Five Force Model (Porter 1984, 24)

The first force of the model is the threat of entry of new competitors. This threat decreases the attractiveness of the industry by increasing the level.

The industry structure analyses also the threat of substitute products. According to Aaker (1995) substitutes are manufactured by parties identified as competitors but with less concentration on the main industry. And these manufactures have strong
influence over the profitability of market. The substitutes are able to provide the same requirement as the main competitors. As the substitutes can help a company to improve its price strategy and performance, the customer could choose their product without making any loss in costs. (Porter 1984, 44-46)

The bargain power from buyer provide the possibility of the customer to press down price and ask more service which will decrease the profitability of a company and influence the overall business. The characteristics of an industry dominated by customers are through high volume purchase and compared lowest prices. (Porter 1984, 46-48)

The bargaining power of suppliers exists in markets which are highly concentrated on selling in different segments and customers. The supplier may dominate markets by increase the price level or decrease the products or service quality. The supplier can also affect the the profitability of an industry where the cost level can’t be covered by increasing prices by using this technique. The suppliers have dominance in the market with opposite circumstance to industry dominated by buyers. (Porter 1984, 49-50)

The last element in Porter’s model is the degree of rivalry between existing competitors. This consists of forms of rivalry such as price competition, new product development, improved customer service and better guarantees. The defending actions against competitors are results of being threatened. The intensity of rivalry is due to various structural factors, such as the number of competitors in an industry, or whether the industry is declining or growing, or company’s strategic contributions. (Porter 1984, 38-44)

2.1.5 Porter’s Diamond of National Advantage

Michael Porter’s National Diamond framework originated from a pattern of comparative advantage among industrialized nations. It is a diamond shaped diagram to illustrate the determinants of national advantage (See Figure 4). It highlights that strategic choices more than a function of industry structure and company resources, it should be function as the constraint of institutional framework. (Porter 1990, 82-88)
There are four different components: factor conditions, related and supporting industry, demand condition, strategy, structure and rivalry. (Porter 1990, 82-88)

Factor and demand condition focus on macroeconomics environment to determine if the demand is present along with the factors needed for production. Meanwhile, the specific relationship and supporting industry have to be studied for case company. The last component is for looking at microeconomic environment by take strategy, structure and rivalry into consideration. (Porter 1990, 82-88)

FIGURE 5. Porter’s Diamond of National Advantage (Porter 1990)

Diamond of National Advantage consolidate framework to evaluate the source with his previous theories from a national context. It can be used either to analyze a company’s ability to function in a national market or analyze a national market ability to compete in an international market. (Porter 1990, 82-88)

By focusing on company performance, the role of national environment provides competitiveness to develop companies’ identity, resources, capabilities and managerial styles. For a country to obtain a competitive advantage in a particular industry requires dynamic advantages which should depend on company’s competitive advantages by innovation and upgrading. (Porter 1990, 82-88)
In the process of gaining competitive advantage, government plays a significant role. “It acting as a catalyst and challenger encourage even push companies to raise their aspirations and move to higher levels of competitive performance …” They must encourage companies to raise company performance like enforcing strict product standards, try to stimulate early demand for advanced products, focus on specialized factor creation and to stimulate local rivalry by limiting direct cooperation and enforcing anti-trust regulations. (Porter 1990, 82-88)

2.2 Corporate Strategy

A strategy of an organization forms a comprehensive plan describes how the corporate achieve its objectives. The typical business firms usually consider three types of strategy which are corporate, business and functional strategies. (Wheelen & Hunger 2006, 14)

Wheelen & Hunger state that corporate strategy is primarily about a company’s overall direction of general attitude towards growth as well as its management of business and product lines. Kenneth R. Andrews thinks that corporate strategy defines the business in which a company will compete, preferably in a way that focuses resources to convert distinctive competence into competitive advantage. Through a series of coordinating devices, a company could transfer skills and capabilities developed in one business unit to another. In this way, it attempts to obtain synergy among numerous product lines and business units. (Wheelen & Hunger 2006, 164)

Corporations can utilize a variety of modes of entry into global market, with international expansion and growth opportunities being accomplished in three ways: one is exporting with contractual agreement such as licensing and franchising, the second one is to set up new wholly owned subsidiaries, the final mode is foreign direct investment that includes alliances, joint venture or acquisitions (Som 2009, 291-294)

The increasing in FDI global organization has influenced the international trade patterns; they might not always straightforward, but generally result from a series of complicated interactions. Outward foreign direct investment could be a substitute for exports, with the parent companies setting up affiliates to meet the local demand. On the other hand, foreign investment can also be undertaken to take advantage of more
favorable conditions in the host countries. In addition, it may be a direct complement to exports when firms undertake investment abroad to facilitate and enhance the distribution of their products. (Som 2009, 291-294)

2.2.1 Foreign Direct Investment

**Foreign direct investment** (FDI) or **foreign investment** refers to the net inflows of investment to acquire a lasting management interest in an enterprise operating abroad. The direct investment may be by means of purchasing a foreign corporation or constructing production facilities as part of existing business. It usually involves participation in management, joint-venture, transfer of technology and expertise. (Kenwood & Lougheed 1992)

The enterprise invests overseas in order to obtain direct investment income by embarking money outside of company. There are several main **purposes** of investing abroad. (Kenwood & Lougheed 1992)

- **Capital gains.** Enterprise makes most use of temporarily idle fund to earn more than the bank deposit interest income. Or invest other business with long-term fund for higher return on investment (ROI). (Kenwood & Lougheed 1992)

- **External growth.** To achieve growth goal, enterprise could invest other company in a related industry to expand current products line and service market. Consequently, increase the influence of market pricing and competition so as to acquire economy of scale. Enterprise could also invest on a function previously provided by a supplier or by a distributor to stabilize the raw material supply with favorable prices, which are essential to widen the existing distribution channels and reduce marketing expense. Moreover, by various investments on related companies and vertical sections, enterprise not only expands its assets but also decentralizes its operating risk. (Kenwood & Lougheed 1992)

When the enterprise decides to invest overseas, there are four **principals** have to be taken into consideration.

1. **Principle of effectiveness.** The enterprise should take into account the economic benefit of the investment as well as overall economic impact. (Qi 2004, 23-24)
2. Principle of security. The enterprise has to weigh between return on investment (ROI) and business risks. (Qi 2004, 23-24)

3. Principle of liquidity. For the short-term foreign direct investment, the enterprise has to consider the funds liquidity to make sure the cash ability. (Qi 2004, 25-26)

4. Principle of integrity. Foreign direct investment as an important business activity has to comply with the overall corporate objectives of an enterprise. (Qi 2004, 25-26)

The distinguishing characteristic of corporate strategy is its emphasis strategic decision making. As organization grow larger and more complex, with more uncertain environment, decisions are difficult to make. For the foreign investment decision making, it could be analyzed from three aspects as below:

First of all, FDI benefit analysis. Although the purposes of foreign investment vary, the most important motivation is to maximize return on investment (ROI), which is also the fundamental basis for investment decision making. Foreign investment income includes investment profits such as dividends, interests as well as capital gains, for example, the increase of stock price due to stock market rally. For long-term foreign investment, the levels of investment profit and capital gains are the perquisites. (Sykianakis & Bellas 2005, 72-78)

Secondly, FDI risk analysis. The investment risk could be market risk or operational risk. Foreign investment risk refers to the company suffered losses because of the foreign investment. It stems from inventor’s inaccurate expectation of the market and inefficient management of investee. As long as the co-existence of investment and risk, the enterprise has to do necessary risk analysis. (Sykianakis & Bellas 2005, 72-78)

Thirdly, FDI environment analysis. Investment environment is a combination of all factors derived from internal and external activities. Investment environment could be divided into hard environment and soft environment based on its content components. Hard environment refers to the material conditions related to investment activities, including geographical conditions, human resources and material supply etc. Soft environment consist of the social and political environment, economic system and industrial development and so on. (Sykianakis & Bellas 2005, 72-78)
2.2.2 Strategic Acquisition

FDI can occur in three ways: joint venture, acquisition and green-field venture.

**Joint ventures (JVs)** as one type of strategic alliance is formed by two or more corporations agree to share ownership of a FDI in order to achieve a common goal in a foreign market. (Som 2009, 293) Companies combine the resources and expertise needed to develop new products and technologies which allow them to expand into global market and contribute to the development of new organizational capabilities. A joint venture could be an association between a company and a firm in the host country or a government agency in that country; it reduces the risks of expropriation and harassment by host country officials. (Wheelen & Hunger 2006, 173) Certain types of companies favor joint ventures more than others. Usually they are new to foreign operations or have decentralized domestic decision making. It is easier for them to extend control downward in a joint venture. (Daniels & Radebaugh & Sullivan 2011, 578)

The two primary reasons for the failure of joint ventures are incompatibility of the partners and conflict between partners. Some of challenges that the JVs faced were strategic misalignment, non-creation of a governance system that is shared by the partner, economic interdependencies and building a shared organization. (Som 2009, 293)

**Merger and acquisitions (M&As)** have been a more popular mode of expansion in the recent past. They are the simplest way vehicle for accelerating growth since they are provide immediate market access, and acquire technology, patent etc. (Som 2009, 294) Acquisition is a corporate action in which a company purchases most, if not all, of the target company’s ownership stakes so as to assume control of the target company.

Acquisition strategy is a business and technical management approach designed to achieve the objectives within the resource constraints. It is the framework of planning, directing, and managing a program to provide a master schedule for research, development, test, production, fielding, and other activities essential for program success. (McDaniel 1999, 93-97)
According to the standard whether acquiree and acquirer are in same industry, acquisition can be divided into two different types: horizontal acquisition, vertical acquisition and related acquisition. (Ireland & Hoskisson & Hitt 2009, 185-189)

**Horizontal acquisition** strategy is used by company to take over or merge with company within a similar market sector. By acquiring the product of another company at the same stage of production, the company can expand its own product range in order to increase revenue through existing customers. If the acquired company has an established customer base in different geographical territory, the horizontal acquisition can improve the distribution coverage or give access to new market sector. It enables companies to diversify the business by increasing range of products or gaining market sectors. (Ireland et al. 2008, 133-136)

Companies that operate a **vertical acquisition** strategy integrate supply chain as a basis for improving efficiency and costs. To acquire suppliers with essential components or distribution channels and synchronize production and logistics throughout the chain, companies can meet changing level of demand. Vertical acquisition provides an indirect method of increasing market share by depriving competitors of access to essential supplies. Companies pursue vertical acquisition strategy to concentrate on an existing product range as well as to improve costs and production capability. (Ireland et al. 2008, 133-136)

A critical difference between horizontal and vertical acquisition is the focus on cost or revenue. The primary objective of horizontal acquisition is to gain revenue by increasing market share or expanding a product range. With gaining economic scale and increasing productivity, horizontal acquisition makes company to build capabilities out of a future-oriented reason. Vertical acquisition emphasis on reducing cost through decreasing procurement costs and increasing the efficiency of supply chain. (Ireland et al. 2008, 133-136)

Acquiring a company in a highly related industry is called a related acquisition. By integrating some of companies resources and capabilities, the synergy can be achieved which satisfied the companies’ objective to create value. (Ireland et al. 2008, 133-136)
When talking about the acquisition strategy, we focus more on the strategic value which could gain new incremental revenue by leveraging off an asset or capability acquired in the purchase to gain competitive advantage as so to fuel the growth fundamentally. (Stuttard 2001, 35)

However, most firms are limited in their capacity or capabilities to take advantage of market gaps. Either they have solution without the capacity to take advantage of it or have the capacity but lack the capability to exploit what they have. (Stuttard 2001, 37-39)

The acquisition strategy of the former should be on acquiring capacity such as people, facilities, distribution channels or cash. The acquisition strategies of the latter should be focused on buying in products, processes and intellectual property assets which can be supported by the capacity resource. (Stuttard 2001, 38-40)

There are four options regarding the organizational architecture for the strategy integration of the acquiring corporation: holding, preservation and absorption or symbiosis. (Som 2009, 295-296)

Holding is relatively rare; little interdependence was achieved because the acquired company rarely had any need to interact. (Som 2009, 295-296)

In preservation, the acquired corporation preserves the acquired corporation’s independence and cultural autonomy. This usually occurs when the rationale of the acquirer is to expand new geographic areas or to acquire a brand, or management knowledge. (Som 2009, 295-296)

Absorption means assimilating the acquired corporation within the acquiring company’s fold. In this type of acquisition, synergies are related to cost rationalizations, improvement in the systems and processes, and the transfer of best practices. This strategy often used during industry consolidation. (Som 2009, 295-296)

Symbiosis refers to “best of both” or “win-win” strategy. It comprises complicated processes where the transformation of both companies results from the merger. By
reflect on their past, both companies are try to work out an effective process for the combined entity. (Som 2009, 295-296)

But turning around a poorly performing operation is difficult which comes along with personnel and labor relations problems. Moreover, the different management style and organizational cultures may lead to conflicts over decision-making authority. (Daniels et al. 2011, 568)

Although acquisition offer advantages, but sometimes, it is not easy for a company to buy another company. **Green-field investment** would be a good choice for a company by building its own manufacturing plant and distribution system. In a Greenfield venture, company constructs new facilities and hires employees on a buy or leased land. The company could launch a new operation independently without any involvement of partner. If the company owns proprietary technology, it could gain more control which is advantageous. The main disadvantage of green field venture in an international market is that it usually takes time to implement and gain acceptance. (Ireland et al. 2008, 157)

Research showed that companies possessing high levels of technology and diverse product lines prefer green-field investment to acquisition. Nevertheless, it is more complicated and expensive operation than acquisition. (Wheelan & Hunger 2006, 173)

Nowadays, growth always has international implication. A corporate could choose several strategic options to achieve its mission. Acquisition as a relatively quick way to enter into international areas has been applying by many companies to search for synergistic benefits. (Wheelan & Hunger 2006, 171) However, it also incurs high risks, both in industry consolidation and strategic, organizational, cultural fit between the acquirer and acquired. (Som 2009, 294)
3 RESEARCH PROCESS

Martin Shuttleworth (1999) pointed out that “in the broadest sense of the word, the definition of research includes any gathering of data, information and facts for the advancement of knowledge.”

Creswell (1996) stated that research is a process of steps used to collect and analyze information to increase our understanding of a certain topic or issue which consists of three steps: pose a question, gather data to answer the question, and present an answer to the question.

3.1 Research Method

Qualitative research is a type of social scientific research method investigate the why and how decision making in order to get a deep understanding of certain research question or problem. Ghauri and Gronhaug (2005) wrote that qualitative research is particularly relevant when prior insights about a phenomenon under scrutiny are modest, implying that qualitative research tend to be exploratory and flexible. (Eriksson & Kovalainen 2008, 4-6)

Research design includes the basic ideas and the viewpoints, for the theoretical framework, the rough time plan and data collection might have available as well as the method choices. Qualitative research does not usually follow a tightly woven plan, most qualitative research design allows for deviation and surprises during the research process in the data collection and analysis. (Eriksson & Kovalainen 2008, 26-30)

Case studies as one of the basic designs in qualitative research aim at precisely describe or reconstruct a case (Ragin & Becker 1992). It emphases on the production of detailed and holistic knowledge based on the analysis of multiple empirical sources in the context (Tellis 1997). Stoecker (1991) suggests that the intensive case study focus on finding out as much as possible on one or a few cases. The main aim is to understand and explore the case from “the inside” and learn how a specific and unique case works.

Case study of Geely acquired Volvo Car could be categorized into intensive type, the overall purpose of this case study is to construct a “good story worth hearing”. With
the case analysis precede, the thesis try to find out the barriers of China’s foreign direct investment and then put forward a series matching solutions.

3.2 Data Sources

Most Researchers collect empirical data for research project and use various types of data collection methods. The data source could be either one or combination of different source. In methodology, empirical data collected by researchers themselves are called primary data which could be received from interviewing, observing and other approaches. Secondary data are those empirical data that exist somewhere already including both textual data (e.g. documents, diaries, memos) and visual materials (e.g. video recordings, television programs, movies)

Whether to use primary or secondary source depends on the topic and can be suited to certain topics better than others. The ideal ways of gathering data is contains both primary and secondary data. Secondary data is a easier way of collecting information. The secondary research method enables that the subject narrowed in the primary research more efficiently and the results of the research would be more in depth. (Kumar 2002, 73)

The information demonstrated in this thesis depends on secondary data from various ways. Secondary data sources can be classified into internal record and external sources

Internal records are data from company’s internal sources including data received from sales or investment result and so on which are company’s marketing activity, cost information as well as distribution reports. On the other hand, the external sources provide information outside of the company, either from the internet or a standardized source of marketing and published data. (Kumar 2002, 73-110)

According to Kumar (2002) the best way to proceed is to begin with general information and continue with more detailed information. In this thesis, I will focus on external data including media texts, digital materials etc.
4 GEELY’S ACQUISITION ANALYSIS

4.1 Case Introduction

Economic crisis in 2008 swept the global. Many famous auto companies have chosen to sell its part of well-known brand to ease the financial pressure. This brought good opportunities to Chinese brand in the process of internationalization. Chinese private enterprises are eager to merger or acquire foreign brands to enhance their competitiveness in global market.

In August 2, 2010, China’s auto manufacturer Zhejiang Geely Holding Group Co. Ltd, one of the fastest growing auto manufacturers in China announced it has completed the acquisition of 100% equity stake of Volvo Car Corporation (“Volvo Car”) from Ford Motor Company. As signed stock purchase agreement on 28th March, Geely has agreed to pay $ 1.8 billion for Volvo Cars, which included 200 million credit notes, with the balance paid in cash and raised $ 900 million to keep Volvo running which took the total tab to $ 2.7 billion. To finance this deal, Geely received supports from Chinese institutions including Bank of China, China Construction Bank and Export-Import Bank of China, and its own balance sheet as well as international capital market resources. (Lin 2010)

The process had attracted lots of attention globally, because a rarely known Chinese automobile company bought such a well known automobile brand in west. In fact, it was the largest cross border acquisition by a Chinese company in record. Although it is not news that acquisition happens between automobile companies, Geely acquired Volvo Car break the stereotype that acquirer is always the strong party. Opinions toward the acquisition vary, some people and media are very skeptical about the marriage between Geely and Volvo Car. Since it was a very controversial topic in business field, how this could happen and why it had happened interest me very much.

In the following text, the various reasons behind the acquisition decision making will be explained and assessed from internal and external aspects with those strategic management tools which were mentioned before. Meanwhile, the performance after Geely’s acquisition of Geely will be evaluated as well.
Company Profiles

Zhejiang Geely Holding Group is a holding company and parent of Geely Automobile Holdings Ltd, a private automobile manufacturer. Founding in 1986 as a refrigerator maker, Geely launched its auto manufacturing business in 1997. Geely is headquartered in Hangzhou, capital of Zhejiang Province. It operates six car assembly and power-train manufacturing plants in China which enable a production capacity of approximately 300,000 cars per year. (Geely 2008)

Over past ten years, Geely has developed very fast in Chinese automobile industry and became one of China’s top ten auto manufacturer. In 2005, Geely Automobile Holding Limited which is responsible for majority of Geely’s manufacturing operation was listed on the Hong Kong Stock Exchange (SEHK: 0175). (Geely 2010)

After becoming the largest shareholder of the British cab maker Manganese Bronze Holding (UK) in 2006 and acquiring Australia gearbox maker Drivetrain Systems International (DSI) in 2009. Geely Group acquired all shares of Volvo Car in August 2010, making a great leap forward for Geely’s global ambition. (Geely 2010)

Volvo Car Corporation is a Swedish automobile manufacturer found in 1927 in Gothenburg, Sweden. Volvo Car was owned by AB Volvo until 1999, when it was acquired by Ford Motor Company as part of Premier Automotive Group (PAG). Geely Holding Group took it over from Ford in 2010. (Volvo Car 2010)

Volvo is one of the world’s 20 largest automobile companies and enjoys high prestige in excellent quality and performance in northern Europe, especially known for its safety and environmental protection. At present, Volvo has nine series of automobile brands, three new intellectual property platform and more than 2000 sales outlets worldwide. (Volvo Car 2010)

Volvo following four series of products: SUV (XC60, XC70 and XC90), versatile estates (V40, V50 and V70), saloon car (S40, S60 and S80L), roadster with double doors (C30 and C70). United States is the largest market of Volvo Car, followed by Sweden, Britain, Germany and China. (Volvo Car 2010)
4.2 Environment Scanning

In undertaking environmental scanning, corporate must aware of the external environmental variables within a corporation’s societal and task environment. The societal environment includes general forces that don not directly touch on the short-run activities but influence long-run decision. Those are shown in blow as PEST analysis. The task environment consists of those elements or groups directly affect a corporation illustrated as follow in Five Forces. (Wheelen & Hunger 2006, 73)

PEST Analysis of Geely

Political Forces

1. International Relations
Sweden was the first Western country to establish diplomatic relations with China. The bilateral relations have been developing steady in political, economic, cultural and other fields. The achievements in exchange and cooperation levels are remarkable. Swedish Prime Minister expressed welcome to the final alliance between Volvo and Geely. Meanwhile, Chinese government also encouraged the Geely-Volvo acquisition by offering a lot of supports in finance and policy. (Wang 2010)

2. Government Intervention
“Bring in and going out” develop strategy launched by Chinese government aimed at internationalizing Chinese private enterprises. The State Council encourages and supports the qualified private enterprises to invest overseas with preferential policies. China domestic banks increased the financial support for foreign investment and simplify the approval procedures for private enterprises in China which provided good economic insurance for this acquisition. China released an “Automobile Industry restructuring and revitalization plan” which clearly states the merger and acquisition of auto corporate policy. Geely benefit from the acquisition with the good policy conditions. (Wang 2010)

Economic Forces

1. International economic environment
Since September 2008, the Wall Street was experiencing a tremendous change; bankruptcy became the key words for Wall Street. Lehman Brother with 158 years of
glorious history crashed down. Merrill Lynch was now in Bank of America’s hand. Morgan Stanley also sought to merge. Suffered from the economic crisis, Ford is in debt. (Bertel 2010)

2. Domestic economic environment
Although the financial crisis affected China’s economy to some extent, it did not reach the core of China’s economy. The economic growth in China was slowed down by the economic turmoil, but the sales in Geely still maintained a stable increase. With the implementation of strategic reform formulated by Geely in 2007, the future development of Geely seems promising. (Zheng & Xing 2011)

Social Forces
From the social point of view, the prospect of China’s automobile industry is hopeful since the auto market is far from saturation. The demand of automobile keeps increasing. Meanwhile, consumer concerned more of the safety and environmental care of the car. To acquire Volvo which has a reputation for safety and environmental features will enhance Geely’s competitiveness in automobile industry. (Zhao 2005)

Nowadays, more and more people with national consciousness prefer to choose domestic made car. Under the support of Chinese automobile consumers, the sales of Volvo in China will rise.

Technology Forces
The technology of automobile in China fall behind many developed countries, most of Chinese automobile manufacturer compete with low price strategy. The Chinese automobile industry is hunger for advanced core technology. Through M&A of Volvo, Geely can absorb Volvo’s patented technology and expertise to enhance its technical strength and development capabilities. (Wang 2010)

Geely abandoned the low cost strategy for an internationalized strategy to comply with high technology, high quality and high efficiency after its new strategy transition launched in July 2007. Geely devoted to make good cars that are the safest, most environment-friendly and most efficient. Volvo Car is known for its high safety and environmental fuel standards which are the priority qualities Geely are looking for. (Geely 2008)
Task Environment Analysis

Geely-Volvo will face the challenge from local car manufacturers, such as Chery FAW, BYD and Dongfeng etc that are launching high-end brands to win a piece of the government procurement market. (See TABLE 1)

TABLE 1 Top Ten Automobile Manufacturers in China in 2010

<table>
<thead>
<tr>
<th>Manufacturers</th>
<th>Sales (units)</th>
<th>Growth rate (%)</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shanghai Automotive Industry Corporation</td>
<td>2,705,500</td>
<td>57,2</td>
<td>19,8</td>
</tr>
<tr>
<td>First Automobile Works Group Corporation</td>
<td>1,944,600</td>
<td>26,9</td>
<td>14,3</td>
</tr>
<tr>
<td>Dongfeng Motor Corporation</td>
<td>1,897,700</td>
<td>43,7</td>
<td>13,9</td>
</tr>
<tr>
<td>Changan Automobile Corporation</td>
<td>1,869,800</td>
<td>117,1</td>
<td>13,7</td>
</tr>
<tr>
<td>Beijing Automotive Industry Holding Co.Ltd</td>
<td>1,243,000</td>
<td>61,1</td>
<td>9,1</td>
</tr>
<tr>
<td>Guangzhou Automobile Industry Group</td>
<td>606,000</td>
<td>15,3</td>
<td>4,5</td>
</tr>
<tr>
<td>Chery Automobile Co. Ltd</td>
<td>500,300</td>
<td>40,5</td>
<td>3,7</td>
</tr>
<tr>
<td>BYD Automobile Co. Ltd</td>
<td>448,400</td>
<td>162,4</td>
<td>3,3</td>
</tr>
<tr>
<td>Huachen Auto Group</td>
<td>348,300</td>
<td>22,1</td>
<td>2,6</td>
</tr>
<tr>
<td>Geely Holding Group</td>
<td>329,100</td>
<td>48,4</td>
<td>2,4</td>
</tr>
</tbody>
</table>

Source: Company official reports and Chinese auto news 2010

Geely-Volvo also face the competitors existing luxury brands such as Audi which controls the lion’s share of the institutional and official car market and other high-end brands from global players. (See TABLE 2)
TABLE 2 World Motor Vehicle Sales by Brand in 2010

<table>
<thead>
<tr>
<th>Brands</th>
<th>Sales(units)</th>
<th>Growth rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Motor</td>
<td>2350,000</td>
<td>28.8%</td>
</tr>
<tr>
<td>Volkswagen</td>
<td>1510,000</td>
<td>36%</td>
</tr>
<tr>
<td>Hyundai-Kai</td>
<td>1093,000</td>
<td>24%</td>
</tr>
<tr>
<td>Nissan</td>
<td>1020,000</td>
<td>36%</td>
</tr>
<tr>
<td>Toyota</td>
<td>8460,000</td>
<td>19.4%</td>
</tr>
<tr>
<td>Honda</td>
<td>6466,000</td>
<td>12.2%</td>
</tr>
<tr>
<td>Ford</td>
<td>5820,000</td>
<td>40%</td>
</tr>
<tr>
<td>Peugeot-Citroen</td>
<td>1510,000</td>
<td>35.3%</td>
</tr>
</tbody>
</table>

Source: Company official reports and Chinese auto news 2010

Before the 1990, the majority of the automobile market in China was constituted by public buyers such as social group, state companies. The fast economic growth in China has triggered a trend in purchasing power and sophistication level of local customer. The emergence of private consumption modifies the profile of buyers. Moreover, Chinese government policies can directly and indirectly affect the conditions in various ways, such as the credit system and environmental safety regulation. (Zhao 2005)

Automotive major component suppliers are located in two cities and three provinces: Shanghai, Tianjin, Hubei, Zhejiang and Hebei. Standards in product development are weak and there are a few local suppliers could able to operate on a modular or system basis. The technology gap is increasingly being filled by global part suppliers. In addition, nearly all the world leaders in automobile equipment industry are installed on Chinese market. Automobile makers will continue to stock up from the increasingly competitive local market and bring better quality products to market. (Zhao 2005)
FIGURE 6  Five Force Analysis of Geely-Volvo

Internal Factors Analysis

Strengths

1. Geely made full preparation of the acquisition, Early in 2002, Li Shufu, the president of Geely, began to study the Volvo business and in-sighted into the possibility of acquisition in 2007. After talked several times with Ford Motor concerning the acquisition, Li Shufu made his determination to take over Volvo. At the same time, Geely hired a professional group to deal with the acquisition case. (Morcidclo 2010)

2. Geely had previous experiences in merger and acquisition. In October 2006, Geely participated in a joint-venture with Manganese Bronze Holding (UK) and bought DSI Pty Ltd, a global transmission developer in 2009 which provided Geely precious examples of business negotiation and capital operation.
3. Geely possesses the low cost advantage in exporting. It is widely recognized that most Chinese products compete with the low price in market. Even though the labor cost is increasing in these years, compare to other developed countries, the labor cost is still relatively low. The China’s luxury car market is booming, Geely will assemble Volvo cars in China using cheaper manufacturing to play with other automobile manufacturers in the market. (Zhao 2005)

**Weaknesses**

1. Cultural integration
   Volvo, a Swedish brand with over 80 year’s history which rooted in Nordic culture. Geely, a barely known brand which only has developed for 13 years will face a struggle integrating the two corporate cultures. Swedish trade union are known as “the world’s toughest workers”, whether Geely can lay down reasonable regulation according to the legal and culture difference will be the key to success after the early period of acquisition. (Lin 2010)

2. Management difference
   Volvo has been a top brand in global automobile industry, But Geely targeted in low-end market. How to minimize the divergence in management principle would be a challenge for Geely.

3. Financial risks
   According to the financial report of Geely in 2009, its total liabilities and assets are 7.0 billion RMB and 12.67 RMB, the debt ratio was 51.2%; the liquid capital was 1.88 billion RMB. After financing from Goldman Sachs in the United States, Geely’s debt ratio was higher than international alert level of 65%. If Geely could not deal with debt finance after acquisition, it will trouble itself. (Geely 2009)

According to the scanning of external and internal factors of Geely’s acquisition, we could refine the analysis into form shows as below. EFAS table and IFAS table organized those variables with the company’s management (rating) to response these specific factors in light of perceived importance (weight)
### TABLE 3 EFAS Analysis of Geely’s Acquisition

<table>
<thead>
<tr>
<th>Key External Factors</th>
<th>weight</th>
<th>rating</th>
<th>weighted score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Opportunities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Supports from China government</td>
<td>0.16</td>
<td>3</td>
<td>0.48</td>
</tr>
<tr>
<td>2 Demand is increasing</td>
<td>0.15</td>
<td>4</td>
<td>0.60</td>
</tr>
<tr>
<td>3 Experience in merger and acquisition</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
</tr>
<tr>
<td>4 New clear energy emerging</td>
<td>0.13</td>
<td>2</td>
<td>0.26</td>
</tr>
<tr>
<td>5 Good frameworks in iron and steel market</td>
<td>0.08</td>
<td>4</td>
<td>0.32</td>
</tr>
<tr>
<td>6 financial supports from various institutions</td>
<td>0.10</td>
<td>4</td>
<td>0.40</td>
</tr>
<tr>
<td>7 Rapid development of economy</td>
<td>0.08</td>
<td>3</td>
<td>0.24</td>
</tr>
<tr>
<td><strong>Threats</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Doubts about domestic made car in market</td>
<td>0.05</td>
<td>4</td>
<td>0.20</td>
</tr>
<tr>
<td>2 High standards of importing and exporting</td>
<td>0.04</td>
<td>4</td>
<td>0.16</td>
</tr>
<tr>
<td>3 Fierce competitions with other auto brands</td>
<td>0.08</td>
<td>3</td>
<td>0.24</td>
</tr>
<tr>
<td>4 Imperfect management systems in market</td>
<td>0.02</td>
<td>4</td>
<td>0.08</td>
</tr>
<tr>
<td>5 Constraints of consumption conditions</td>
<td>0.02</td>
<td>3</td>
<td>0.06</td>
</tr>
<tr>
<td>6 Weak brand influences</td>
<td>0.02</td>
<td>6</td>
<td>0.12</td>
</tr>
<tr>
<td>7 Increasing environment concerns</td>
<td>0.02</td>
<td>2</td>
<td>0.04</td>
</tr>
<tr>
<td><strong>Total Scores</strong></td>
<td>1.00</td>
<td></td>
<td>3.35</td>
</tr>
</tbody>
</table>
### TABLE 4 IFAS Analysis of Geely’s Acquisition

<table>
<thead>
<tr>
<th>Key Internal Factors</th>
<th>weight</th>
<th>rating</th>
<th>weighted score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strengths</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Sufficient production facilities and patents</td>
<td>0.18</td>
<td>3</td>
<td>0.54</td>
</tr>
<tr>
<td>2 High price performance ratios</td>
<td>0.19</td>
<td>3</td>
<td>0.57</td>
</tr>
<tr>
<td>3 Customer loyalties in labor and market</td>
<td>0.04</td>
<td>3</td>
<td>0.12</td>
</tr>
<tr>
<td>4 A series of automobile product lines</td>
<td>0.02</td>
<td>4</td>
<td>0.08</td>
</tr>
<tr>
<td>5 Increasing market shares</td>
<td>0.08</td>
<td>3</td>
<td>0.24</td>
</tr>
<tr>
<td>6 Multiple financing channels</td>
<td>0.06</td>
<td>3</td>
<td>0.18</td>
</tr>
<tr>
<td>7 geographic locations in southern China</td>
<td>0.08</td>
<td>4</td>
<td>0.32</td>
</tr>
<tr>
<td><strong>Weaknesses</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Scale of enterprises is not the biggest</td>
<td>0.14</td>
<td>2</td>
<td>0.28</td>
</tr>
<tr>
<td>2 Weak positioning ability of uncertainty</td>
<td>0.05</td>
<td>3</td>
<td>0.15</td>
</tr>
<tr>
<td>3 Imperfect manufacturing techniques</td>
<td>0.04</td>
<td>3</td>
<td>0.12</td>
</tr>
<tr>
<td>4 Non-widely spread marketing networks</td>
<td>0.03</td>
<td>2</td>
<td>0.06</td>
</tr>
<tr>
<td>5 Immaturity of corporate management</td>
<td>0.04</td>
<td>4</td>
<td>0.16</td>
</tr>
<tr>
<td>6 Slow upgrade rate</td>
<td>0.02</td>
<td>3</td>
<td>0.06</td>
</tr>
<tr>
<td>7 low financial fluency</td>
<td>0.03</td>
<td>4</td>
<td>0.12</td>
</tr>
<tr>
<td><strong>Total Scores</strong></td>
<td>1.00</td>
<td></td>
<td>3.00</td>
</tr>
</tbody>
</table>

Source: EFAS Table and IFAS Table of Geely is based on the statistic assessment of “China Automobile Industry year book” and analysis of Geely’s Financial Statement

**Note:**

1. List opportunity and threat in Column 1
2. Weight each factor from 1.0 (Most Important) to 0.0 (Not Important) in Column 2 based on that factor’s probable impact on the company’s strategic position. The total weights sum to 1.00
3. Rate each factor from 5.0 (Outstanding) to 1.0 (Poor) in Column 3 based on the company’s response to that factor.
4. Multiple each factor’s weighted scores to obtain each factor’s weighted score in Column 4
5. Add the individual weighted scores to obtain the total weighted score for the company in Column 4. This tells how well the company is responding to the factors in its external environment.
6. The total weighted score for an average company in an industry is always 3.0
According to Table 3 and Table 4, we can see that the EFAS weighted score of Geely is slightly above the average and IFAS weighted score is right on the average which indicate that Geely could react to external and internal factors.

Volvo as one of the world’s largest automobile companies, it has a huge market capacity and high market increase rate. Nevertheless, affected by financial crisis, the total sales of Volvo were only 218.4 billion SEK (Swedish currency) which reduced by almost 30% compare to 2008.

In 2009, the global sale of Volvo Car was 334,808; top five distributions by country are shown in Table 5. The Volvo Car sale in 2009 in most countries are either increase a little or lower than in 2008. But the exception is in China where the sale is increased by 77.3%. Although Volvo Car is one of the top brands in the world, the market share in Chinese market is not as strong as other American, Germany and Japanese car brands which are amount to an overwhelming majority. (See Table 5)

Thus for Geely, Volvo belongs to the “Question marks” with a low market share and high market growth and need a large amount of capital input. With the regard to the source of Geely’s acquisition, the purchase price of Volvo is 1.8 billion dollars plus the follow-up liquid capital, Geely has to provide total 2.7 billion dollars which were funded through domestic financing and foreign capital. (Volvo Car 2010)

TABLE 5 Five Biggest Markets for Volvo Car and the Share in Chinese Market

<table>
<thead>
<tr>
<th>Country</th>
<th>Year 2008</th>
<th>Year 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>73,078</td>
<td>61,426</td>
</tr>
<tr>
<td>Sweden</td>
<td>47,775</td>
<td>41,826</td>
</tr>
<tr>
<td>Britain</td>
<td>33,341</td>
<td>34,371</td>
</tr>
<tr>
<td>Germany</td>
<td>27,053</td>
<td>25,221</td>
</tr>
<tr>
<td>China</td>
<td>12,640</td>
<td>22,405</td>
</tr>
<tr>
<td>Year</td>
<td>Brand</td>
<td>2008</td>
</tr>
<tr>
<td>------</td>
<td>-------</td>
<td>------</td>
</tr>
<tr>
<td>GE</td>
<td>19.8%</td>
<td>23.2%</td>
</tr>
<tr>
<td>Volkswagen</td>
<td>20.7%</td>
<td>21.1%</td>
</tr>
<tr>
<td>Hyundai-Kai</td>
<td>9.4%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Nissan</td>
<td>8.7%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Volvo</td>
<td>5.2%</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: Company official reports and Chinese auto news 2010

If the demand for Volvo car is growing after acquisition, the production capacity will increase substantially, the new Volvo production base will be built as well. With the condition that Geely can solve the market digestive problems, its relative market share will be greatly improved and the product will become “Stars”. At this time, the product may be advanced “absorber” or “producer”, which primarily depends on the investment on the market. If the product can achieve a certain economic scale, it will eventually change into “Cash cows”.

4.3 Performance Assessment

No matter in product, brand, technology or corporate culture, there are huge differences between Geely and Volvo Car. Why Geely interested in acquiring Volvo Car. There are reports analyzing these reasons of acquisition as well as official response concerning the intentions from Li Shufu who is the CEO of Geely.

First, by the acquisition of Volvo Car, Geely could strengthen its brand in China as well as abroad. Although Geely is one of top ten Chinese domestic automobile brand, compare with other top brands in China, Geely’s market share which amount to 2.4% in 2010 is still relatively small. Since Volvo Car is a well-known brand, acquiring Volvo Car will definitely enhance Geely’s brand image. Geely, as a private automobile manufacturer in China, target customers are in low-end market which limits the entrance in the playground with other world famous luxury brand such as GE, Volkswagen and Hyundai in Chinese market. With Volvo Car for support, it is possible for Geely to penetrate into high-end brand competition. (Cai 2010)
Second, through acquisition of Volvo Car, Geely could get access to the advanced technology. There is no doubt that Volvo Car owns one of the most advanced technologies as an automobile manufacturer. Both in safety design and environment technology, Volvo Car is a pioneer in the automobile industry. When Volvo was a part of Ford Motor, Ford had spent billions to develop new energy technology which is the trend of future automobile industry. Meanwhile, the complete product research and development process and world-wide customer management also attracted Geely. Geely as a young company in automobile industry is not equipped with advanced car technology and new investment on technology and development is very limited. By acquiring Volvo Car, Geely can save lots of time and money on the technology research and development phase to reach a level Volvo Car has own right now. (Cai 2010)

Third, Geely was confident with the high possibility of profitable Volvo Car in Chinese market. As mentioned earlier, the sale of Volvo Car in major distributions were decreased in 2009. While in China, even though affected by economic recession, the sale of Volvo Car increased 77% in 2009 compare with the amount in 2008. So Geely saw the potential of Volvo Car in Chinese market. Once acquired Volvo Car, Geely would establish new plants in China to produce Volvo Car which is an efficient way to reduce cost and expand local supply chain. (Cai 2010)

The main strategic concerns of acquisition are from the point of Geely’s development. But when it came to acquisition, there were two more advantages appeared.

Geely participated in Frankfurt Motor Show in September 2005 and presented its 5 models then. One year later, Geely appeared in the Detroit Auto Show with several models. In 2003, Geely started to export cars overseas. In 2009, about 5% of its sales was from abroad, but mostly are developing countries. Geely had great ambition to enter European and American market. When Geely decided to acquire Volvo Car and eventually succeed has gained attention in the world media. The whole process was a good advertisement Geely designed. Even some people in west had not seen Geely’s product, they already know the brand which helps Geely’s overseas expansion in near future. (Geely 2010)
Moreover, Geely’s net profit in 2009 reached 1.3 billion RMB (188 million USD) which is definitely not enough to acquire Volvo Car. However, if Geely would acquire Volvo Car, it would open a channel for Chinese automobile industry to the world which fit with Chinese government’s great strategic significance in enhancing national automotive brand. So with the financial support of Chinese government, Geely do not have too much financial pressure once it acquired Volvo Car. (Zhang & Lin 2009)

In regard with intentions addressed above, passionate entrepreneurship from Li Shufu and advantageous internal and external economic environment made the acquisition between Geely and Volvo Car possible. However, the success of acquiring Volvo Car cannot be considered as an end of Geely’s acquisition. It has been more than one year after Geely made its landmark purchase of Volvo from Ford. What have the two companies gained?

As Geely has promised, Volvo keeps headquarter and manufacturing presence in Sweden and Belgium, besides, Volvo’s board owns autonomy to execute its strategic plan. The decision to make Volvo be an independent subsidiary from Geely was a smart move to avoid cultural and management integrating problems. (Volvo Car 2010)

According to the statistic released, Volvo’s performance in 2011 in China under its Geely ownership has been worthy of praise.

In the first half year of 2011, Volvo Car’s global sales rose a healthy 20% totaled 230,746 units over a year earlier, with lifting an operating profit of 190 million USD. Moreover, Volvo’s China sales rose 36%, representing 21,000 vehicles in that period. (Volvo Car 2011)

Geely planned to increase its dealer in China to 220 by 2015 from the current 106, boost annual sales to 200,000 units and take 20% of the premium car segment in the next five years. (Geely 2008)

With the Chinese government’s seal of approval, Volvo car will build new plants in Chengdu, Sichuan province and Daqing, Heilongjiang province which cover the western and north-eastern market of China, respectively, in accordance with the
China’s economic development policies to “open up the western area” and “rejuvenate the North-eastern China’s old industrial base” (Lin 2010)

The Volvo’s Torslanda plant in Sweden and Ghent plant in Belgium will serve the mature market while new plants in China responsible for domestic market, along with the emerging market around the country. (Geely 2011)

What’s more, R&D work has begun at the Shanghai centre on two models scheduled for local production in 2013 and 2014. In the coming five years, Geely-Volvo will focus on product planning and development, sales and marketing, product localization and human resource, etc. Meanwhile, it will continue investigation into Chinese market to get a better understanding of the need from consumers as well as competitors like Audi, BMW and Mercedes-Benz. (Geely 2011)

Volvo Car sold slightly over 30,000 units in China in 2010, and the target to increase sales by approximately six fold to 200,000 in five years seems very challenging. (Zheng & Xing 2011)

The premium automobile market in China is booming; continue to have at least 30% annual growth. Volvo has to expand its local portfolio to meet objective set by 2015. Volvo now imports only C30 and C70 coupes, S60 sedan and the XC 60 and XC 90 SUVs to China. Meanwhile, with the joint-venture between Ford Motor Company and Chongqing Chang’an Automobile Company, Volvo also makes S40 and S80L models. Volvo plan to formally launch the V60, the estate version S 60 in China in 2012. (Zheng & Xing 2011)
5 DISCUSSION

There is a dreadful record of merger and acquisition in auto business, most of acquisition between world famous brands did not work well. I think it is too early to draw a conclusion of Geely’s acquisition; from the perspective of strategic achievement, acquiring Volvo Car is a rational decision made by Geely in the certain development phase.

As I mentioned in the theoretical part, there are four principles have to be taken into consideration when the company decides to invest overseas. Let’s check this acquisition in comply with those principles one by one:

Principle of effectiveness. Geely has planned to establish new plants in China which aim to make most use of automotive technology of Volvo Car. Meanwhile, the running of two separate companies could work in an effective way to defend Volvo’s brand in short term.

Principle of security. When Geely decided to acquire Volvo Car, it had considered the business risks which contain difference between East and West of management style and employee welfare. Full autonomy of Swedish headquarters and high freedom to operate independently is essential to keep Volvo’s brand image. Moreover, keeping the workforce and high labor costs in Sweden also avoid the clash between management team and labor union.

Principle of liquidity, one of the most important reasons for Ford to divest Volvo Car was its massive debt. Fresh capital made it possible for Ford to concentrate on its remaining two core brands. However, compare to 6.45 billion USD Ford paid when it acquire Volvo Car in 1999. To buy Volvo Car with 1.8 billion USD from Ford Motor is not a bad deal for Geely. Nevertheless, the acquisition still burdened Geely who only made profit of 188 million USD in 2009.

Principle of integrity. According to the long term strategy of Geely, it will increase 40 more automobile models in 5 technical platforms and establish 15 manufacture bases with sale of 2 million cars. Acquire Volvo Car is a short-cut for Geely to realize its global ambition by 2015 instead of spending decades to build a renowned brand.
When the deal of acquisition closed on August 2010, Geely acquired Volvo Car’s 100 percent equity stake which is the core of negotiation and Geely owns the right to use all intellectual property of Volvo Car including brand, patents etc. The acquisition list contains 9 series models and 3 platforms which cover almost all the automobile model sold worldwide by Volvo Car.

With the development of so many years, Volvo Car has 2500 distribution channels among 100 countries which mainly based on Europe and North America market. The acquisition of Volvo Car made it possible for Geely to get access to overseas market.

By increasing market share and expanding product range to grow revenue is the primary objective of horizontal acquisition. Geely and Volvo both manufacturers in automotive industry, the acquisition fell into horizontal category. According to agreement reached by Geely and Volvo Car, the acquisition fulfills the strategic goal of Geely to increase market share and expend product range.

In March 2012, Geely and Volvo signed a technology transfer deal. The deal allows Chinese maker of low-cost cars to enrich Volvo’s product portfolio to be competitive in Swedish market. Under the agreement, Geely gained full access to develop a new premium brand for Chinese market. The agreement has eased many concerns about the core technology protection of Volvo Car. Meanwhile, Geely’s plans to set up a joint venture with Volvo Car to develop and produce self-owned brand and new energy cars in China.

However, the ultimate goal of horizontal acquisition is to gain revenue. When Geely acquired Volvo in 2010, it promised to return Volvo to profit in two years. Based on the sales report released by Ford, Volvo Car sold 30,000 units in China in 2009 and made a loss of $ 934 million worldwide in 2009. Geely with great ambition to boost Volvo’s sale in China between 200,000 and 300,000 cars seems very challenging. Since Geely manufactured 329,000 units with revenues 2.4 billion in 2009, the acquisition made its debt surged to $ 11 billion. Turing around Volvo Car needs a large amount of input which will definitely burden Geely in the initial investment period. Once the new plant start to function in 2013, the sale of Volvo Car will go to a normal track, and by then the sales report will tell if the acquisition works well or not.
The acquisition of Volvo Car by Geely is a direct outcome of worst recession result from the economic crisis. But it also reflects the economic balance between China and western countries. Although Volvo Car did not have too many choices in the acquisition since it was owned by Ford, for Geely, it acquired the world-class technologies in automobile, the brand value of Volvo Car, the distribution channel as well as promising rapid expansion of Volvo Car in Chinese market.

In summary, the acquisition of Volvo Car by Geely seems very shocking from conventional wisdom because of big differences between two brands. However, I do give a lot of hope for the success of the acquisition.

This thesis started from November 2011 and ended in April 2012, the whole writing is a find-and-learn process. Thanks very much for the guide of my supervisors during the entire process. The acquisition of Volvo Car by Geely as an intensive case did not avoid the limitation of data source and time frame.

The thesis was carried out by collecting secondary source instead of a primary research, all the empirical data are gathered from the official websites, newspaper and internet reports. It is not practically possible to distribute questionnaires and conduct interviews in both companies to select internal information which limited the quality of statistics used in this thesis writing. Moreover, because the case study is a relative new business activity, the result of research is not so easy to assess from its starting point.

For the future development, the thesis should enrich by multi-case study and diversify data source from different information channels. In regard of author self, learning more theoretical and practical skills of business case analyzing process would be very necessary and critical.
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