

# The 'Volvo King Kong' And Geely's Cheeky Past

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SHANGHAI (AP) — Chinese tycoon Li Shufu's car company Geely has a knack for giving its vehicles oddball names: Gleagle, King Kong, Englon.

Not as memorable for buyers of the King Kong and its stablemates is a standard of quality that's so-so even by the Chinese auto industry's standards.

Zhejiang Geely Holding Co.'s \$1.8 billion acquisition of Sweden's iconic Volvo Cars from Ford Motor Co. could offer a shortcut to recognition and better quality for Li's auto empire. But there are growing doubts over the odds for success for a deal that in China is likened to a "snake swallowing an elephant."

Experts working in mergers and acquisitions question Geely's ability to successfully meld corporate cultures so alien to each other — one a private business manned by migrant Chinese workers with modest expectations and the other a much bigger, union-dominated work force used to a more democratic managerial style.

And despite Beijing's apparent support for Li's daring foray into the European auto market — China's first major takeover of an international automaker — the government planning agency whose approval is required for the deal to go through remains noncommittal.

"If the company proposes a reasonable plan, we will take a positive attitude," Zhang Xiaoqing, a deputy minister of the National Development and Reform Commission, China's economic planning agency, told a recent government conference. NDRC officials would not comment further.

Officials vetoed another unlikely auto deal — heavy equipment maker Sichuan Tengzhong's bid for GM's gas-guzzling Hummer brand.

Geely says it is cobbling together \$2.7 billion, using a melange of loans, overseas investments, local government funds and its own cash hoard, to cover the \$1.8 billion deal and operating costs after it takes over.

"I would be happy to see Geely do a great job, but I have my doubts. Li Shufu should realize that he cannot solve every issue just with money," said Zhang Xin, an auto analyst at Guotai Jun'an Securities in Beijing.

Some of the financing is bound to come from the local government wherever Geely sets up its Volvo China headquarters. On Monday, an official in Shanghai's Jiading district confirmed the automaker was considering putting a factory in its industrial zone — a move that would boost the city's own automaking aspirations and put Volvo at the heart of China's most affluent region.

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Geely would not comment on the plan, which would also require NDRC approval.

Li has far more than his reputation as a sharp businessman riding on this deal. In Volvo, Geely gains a coveted foothold, albeit a shrinking one, in Europe, and an immediate doubling in its overall capacity — moving it closer to the 1 million unit annual output that experts say is key for profitability.

Volvo workers also have much at stake. After four straight years of annual losses, the 80-year-old Swedish brand must weather the transition to Chinese ownership without losing its reputation for building safe and sturdy cars.

Many believe it can only do so if Geely honors its pledge to keep a major share of production in Europe.

"If it turns out that they move things from Sweden as soon as possible, I think that will be seen as some kind of betrayal and people will get angry," said Viktor Bolin, a 30-year-old Stockholm PR consultant who drives a Volvo C30. "Volvo won't be Swedish if they have only eight employees in Sweden."

Geely lacks experience in managing Europeans, though it has patiently built up its relationship with Manganese Bronze Holdings PLC, setting up a joint venture to make boxy London Taxis in western Shanghai.

"The formula for success will be to embrace and learn from the existing Volvo management instead of to dominate it, not trying to smother or conquer it," said John Bonnell, an analyst with J.D. Power in Bangkok.

Li has come a long way since he started out making refrigerator parts and then motorcycles, turning Geely into a major domestic manufacturer without the government support and partnerships with big foreign manufacturers enjoyed by its state-run rivals.

Thirteen-year-old Geely was China's 10th largest automaker last year, with 330,000 units sold in 2009, up by nearly 50 percent from 2009. But its success has hinged on selling inexpensive sedans in booming China and other developing markets; forays into premium markets have so far fallen flat.

Geely's quality has improved, analysts say, but it still lags some of its Chinese peers. A 2009 survey by the Beijing-based private research group Lansion rated it 14th among 35 brands in China — below its domestic rivals BYD and Shanghai Roewe.

Following the raft of recalls at Toyota Motor Corp., quality problems would be disastrous for any brand, so keeping Volvo's expertise intact will be essential to preserving and expanding its market share in the U.S. and Europe — its biggest markets.

With Geely's support, though, Volvo could gain a potentially much bigger foothold in China, now the world's biggest auto market with sales at 13.6 million vehicles last

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year.

The Swedish automaker sold 22,400 vehicles in China last year, up 80 percent from the year before, but it trails behind rivals like BMW and Audi.

"Having Geely as a partner definitely will help the Volvo brand to have larger operations in this fast-growing market," said Yale Zhang, an analyst for CSM Worldwide in Shanghai.

"It's a good time, as people are starting to upgrade their vehicles. People want to upgrade to luxury cars. It's a very good chance to catch that trend," Zhang said.

Volvo must ramp up sales if it is to operate profitably.

"We will find a way to let Volvo's technology play a better role and to expand their scale in order to lower the costs," Li said at the March 28 deal signing in Goteburg, Sweden.

But analysts question how Li can cut costs enough without breaking his promise to keep Volvo's production mostly in Sweden, rather than lower-cost China.

Ford failed to do much with Volvo Cars after buying it in 1999 for \$6.45 billion — sales remained mostly flat, peaking at 458,323 units in 2007 and falling to about 335,000 last year.

Busy nurturing its core business, Ford in 2008 also sold off Jaguar Land Rover, to India-based Tata Motors, which saw the troubled luxury brands swing to profitability in the last quarter of 2009.

"Some are positive and say it cannot get any worse than it was under Ford," said Marcel Marttila, a 47-year-old Finn who has worked in a variety of jobs at Volvo over the past 25 years and is now a test driver.

"I am skeptical. I would have preferred a Swedish or European owner," Marttila said.

Zhang and other analysts say they expect Geely to eventually build a new factory that might produce Volvos as well as its other brand cars — though it remains unclear where.

Initially, Geely will keep production arrangements in Europe and contracts for assembling 15,000 cars a year by a Ford joint venture, Changan Ford Mazda Automobile Co., in Chongqing. The longest of those contracts runs until 2018.

For now, Li says he intends to keep the brands separate.

"Geely is Geely, while Volvo is Volvo. Geely will not produce Volvo, and Volvo will not produce Geely," he said.

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