

# ***Analyzing Geely's Acquisition of Volvo in Terms of Motivation, Risk and Competitive Markets***

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**Abstract:** In recent years, the global automobile industry continues to develop, and mergers and acquisitions between enterprises have become an important strategic means of the industry. Geely's acquisition of Volvo has become one of the focal points of the global auto industry. This paper examines the Geely acquisition of Volvo, analyzing its motivation of acquisition and strategic goal, financing, potential risk, competition, and achievement. The study found that Geely's acquisition of Volvo enhanced Geely's position in the global market, strengthened the competitiveness of Chinese automakers, and accelerated the development of its own brands. At the same time, Volvo also gained a broader market and resources from Geely's acquisition, which helped to enhance brand value and market share. The research offers empirical insights for the automotive industry, guiding decision-making and providing policy recommendations. Investors should monitor industry dynamics, while leaders should evaluate strategies and enhance cross-cultural management capabilities. Governments can support domestic firms' global competitiveness and promote industry sustainability. In summary, this paper contributes to the understanding of the Geely-Volvo acquisition and offers guidance for stakeholders.

**Keywords:** Geely, Volvo, Motivation, Risks, Achievement

## **1. Introduction**

Under the shadow of the global economic downturn triggered by the 2007 subprime mortgage crisis, major consumer markets worldwide experienced a slump, particularly the automobile industry characterized by limited supply elasticity and high demand elasticity. The downward trend in demand led to an accumulation of inventory for manufacturers, increasing liquidity risks. Moreover, the industry faced the challenges of high financing and operational costs, placing many automotive companies on the brink of survival. However, different from the general situation, due to Chinese government's strict financial regulation and controls, Chinese domestic automobile market insulated from financial risks and exhibited robust domestic demand. Benefiting from the booming domestic market and leveraging its focus on low-end products, the relatively unknown Geely company seized an opportunity to pioneer in the field of M&As. The target, the Volvo is one of the industry leaders with highest advanced technologies and it is well-known as the safest car maker in the world. Nonetheless, Volvo's consecutive substantial losses and dwindling market share, exacerbated by the

downturn in the economy, rendered it rational for Volvo's parent company, Ford, to sell Volvo to the Geely. On March 28, 2010, Geely Group and Ford Motor Company finalized a substantial equity acquisition agreement, outlining the terms of the transaction valued at 1.8 billion US dollars. The agreement specified that a portion of 200 million US dollars would be settled through promissory notes, while the remaining balance would be satisfied in cash [1].

Based on the above research background, the purpose of this paper is to analyze Geely's motives and objectives in acquiring Volvo, to analyze its cash liquidity risk and debt service risk through Geely's financing channels, and finally to provide some policy recommendations to Geely and potential investors based on the competitive market before and after the acquisition.

The following sections of this paper are organized as follows: Section 2 analyze Geely's acquisition motivations and strategic objectives; Section 3 introduce financing methods and potential risks; Section 4 shows Geely's Market Competition and Achievements.

## **2. Motivation of Acquisition and Strategic Goal**

### **2.1. Motivation of Acquisition**

#### **2.1.1. global downturn in the Automotive Market**

The gloomy market atmosphere has plunged Volvo into a liquidity crisis, leading to undervaluation of its worth. Ford Motor Company acquired Volvo for a high price of \$6.5 billion, but Ford did not achieve the expected high returns [2]. Since the acquisition, Volvo's sales have been declining year by year. Due to the impact of the global economic crisis, Volvo's total revenue dropped from \$18 billion in 2007 to \$14 billion in 2008. Ford also stated in its "One Ford" strategy that it wants to divest from Volvo to rid itself of the burden and prepare for a sale [3]. And Geely seized this opportunity.

#### **2.1.2. Volvo's Great Potential for Development in the Chinese Market**

Volvo started to incur significant losses from 2006 onwards. Its global sales experienced a sharp decline, dropping from 458,300 units in 2007 to 334,800 units in 2009. In addition to the decrease in sales volume, Volvo's market share in the global luxury car market also declined year after year, falling from 12.6% in 1998 to 7.2% in 2009 [4]. However, During the crisis period, although the growth rate of China's automotive sales declined, it still maintained a growth rate of 15% [5]. This is because many Chinese households did not own cars, and there was a continuous growth of new demand due to the country's booming economy. The enormous domestic market and significant consumer potential in China meant that Volvo can find opportunities here. By leveraging Geely's local advantages, the prospectus for Volvo is expected to become even more optimistic.

#### **2.1.3. The Fierce of Domestic Competition and Stringency to Go International**

Under the pressure of domestic and international established automobile manufacturers, Geely's low-price and low-quality strategy will no longer be an advantage. Geely's domestic market share remained stagnant between 2.5% and 4% from 2006 to 2010, without significant breakthroughs. In terms of the overseas market, Geely was just starting to make its mark. In 2009, the proportion of export volume to total sales for the year was only around 5%. Therefore, Geely needs to leverage Volvo's upscale image and its extensive sales network, consisting of over 2,500 dealerships in more than 100 countries worldwide, to expand into broader mid- to high-end markets as well as overseas markets.

#### **2.1.4. Chinese Government's Substantial Support to the Automotive Industry**

The Chinese government not only implemented a series of incentive measures and policies to support domestic automobile manufacturers but also vigorously promoted technological innovation and research and development (R&D) investment. It encouraged domestic automobile brands to increase R&D investment or introduce foreign technologies to enhance their technological capabilities and drive independent innovation. Early in 2015, Chinese government unveiled its 11th five-year plan, which showed its intention of achieving the goal of cultivating a multinational automotive conglomerate in China with strong technological innovation capabilities and independent core technologies, and striving to achieve a growth of over 30% in automobile exports during 2006 to 2010 [6].

### **2.2. Strategic Goal**

#### **2.2.1. To Forge a More High-end Brand Image**

Over the years, Geely Automobile has had a brand image associated with the low-end market. While the low-cost and affordable pricing strategy has brought substantial profits to Geely, it has also left consumers with an impression of low-quality and inferior products. To expand its market and support the development of high-end technologies, Geely needs to establish a premium image.

#### **2.2.2. To Acquire Volvo's Advanced Technology and Advantages in Global Market**

Due to its relatively short history in the automotive industry, Geely faces limitations in terms of its own accumulated resources to seize a dominant market position. However, Volvo is an expert in automotive technologies. Its safety technologies such as the "Automatic Braking System" and "Driver Fatigue Warning System" are among the global leaders. Volvo also possesses robust R&D capabilities in low-carbon environmental protection, with three types of engines that meet the Euro VI and Euro VII emission standards. Volvo has also invested heavily in the development of new energy vehicles and launched hybrid vehicle projects. This means that the acquisition of Volvo can not only help Geely enhance product quality and introduce advanced technologies in the traditional field but also enable them to take a leading position in the field of new energy vehicles, seizing the high ground in future automotive competition.

### **3. Financing and Potential Risk**

#### **3.1. Financing Method**

##### **3.1.1. Geely's Own Capital**

The three major shareholders of Shanghai Geely Zhaoyuan International Investment Co., Ltd. created by Geely to acquire Volvo: Kaisheng International Investment Co., Ltd. contributed 4.1 billion RMB, Daqing State-owned Assets Management Co., Ltd. contributed 3 billion RMB and Shanghai Jiaerwo Investment Co.

In 2009, current assets were 12.22 billion RMB, current liabilities were 8.9 billion RMB and working capital was 3.3 billion RMB. The current ratio was 1.37 and the quick ratio was 1.30.

In 2010, current assets were 15.68 billion RMB, current liabilities were 11.81 billion RMB, working capital was 3.87 billion RMB, current ratio was 1.33, and quick ratio was 1.28. Current ratio was between 1 to 2 in both years, which is a medium level, with average liquidity and short-term solvency. The quick ratio is greater than 1 for both years, indicating that Geely has sufficient inventory in its current assets that can be immediately liquidated to pay off current liabilities.

The cash ratio was 0.50 in 2009 and 0.37 in 2010, which may have payment difficulties.

### **3.1.2. Financial Support from the Government**

The three cities of Shanghai, Beijing and Chengdu showed their goodwill to Li Shufu in the race for the site of Geely's factory in China. Yu Jianhua, director of Shanghai's Jiading Development Zone, and Tan Bing, deputy director, went to Hangzhou to meet with Li Shufu and agreed to provide an unprecedented 12 percent investment; Beijing left a piece of land open for Geely in Yizhuang, a valuable location with many local businesses, and agreed to provide Geely with 3 billion RMB in the form of debt issuance; the Chengdu municipal government issued a notice to the local Bank of Chengdu and the Chengdu branch of China Development Bank to actively cooperate with Geely in financing the acquisition. The Chengdu municipal government issued notices to local banks and the Chengdu branch of China Development Bank ordering them to actively cooperate with Geely's financing for the acquisition. In addition to the 3 billion RMB that Geely financed, Geely was granted 1,700 acre of land. Geely President Li Shufu is grateful for the full support from the local government, because it is something that cannot be bought with money [7].

The Swedish government supports Geely's acquisition of Volvo because China and the surrounding areas will certainly have a place in the future of the automobile manufacturing industry. Although Geely is not a company that produces high-end brand cars, there is no problem in controlling the quality of cars. Geely's brand philosophy is to build a good car that people can afford, in terms of quality and price control, Geely can be all out.

Liping Yu, President of Rothschild Bank (Rothschild International Investment Bank) in China, helped Geely navigate with the Chinese government; Onof Olsen, formerly Chief Executive Officer and Chairman of Volvo and then Chief Marketing Officer of Ford, helped Geely communicate with Volvo employees and suppliers as an advisor to Rothschild International Investment Bank; Merek Cox, formerly a partner at Goldman Sachs and then in charge of the automotive business within Rothschild International Investment Bank, helped Geely play a key role in negotiating intellectual property rights.

### **3.1.3. Overseas Capital Market Financing**

Geely issued \$330 million worth of convertible bonds and warrants to GS Capital Partners, a Goldman Sachs Group company, through corporate bond and derivative financing, which will allow Geely to reap \$330 million in acquisition financing after Goldman Sachs approves the subscription and obtains implementation. China Construction Bank's London branch financed \$200 million for Geely, and Ford acted as seller to finance \$200 million for Geely.

### **3.1.4. Domestic Bank Loans**

Geely raised around \$2.7 billion for the Volvo acquisition, of which \$1.8 billion was used to acquire 100% of Volvo and \$900 million was used to secure subsequent operations of Volvo. Net cash from financing activities 2009, 3.97 billion RMB. Bank loans in 2009 included bank loans secured by the Group's assets of 1.3 billion RMB, bank loans guaranteed by the ultimate holding company of 1.04 billion RMB, other bank loans of 522.8 million RMB and secured borrowings of 47.75 million RMB, for a total of 2.83 billion RMB.

### 3.2. Potential Risks

#### 3.2.1. Financing Risks

From Figure 1, we can see that Geely's total debt and owner's equity from 2007 to 2011, the debt increased sharply from 2008 to 2010 because Geely was financing borrowing for the acquisition of Volvo. In terms of debt to capital ratio, it is 14.66%, 112.25%, 164.95%, 167.73% and 171.89% from 2007 to 2011, respectively. The normal range of debt to capital ratio should be maintained at 40% to 60% and the ideal range is 10% to 20%, while Geely exceeded 100% in the last four years, which shows that Geely's ability to repay its debt is not good.

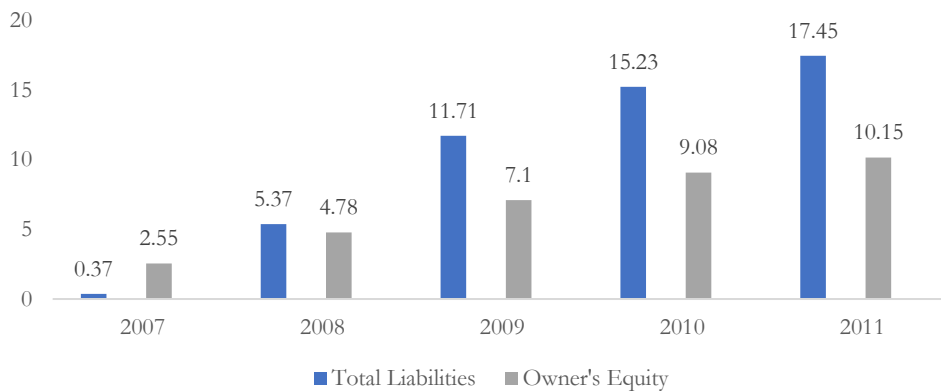


Figure 1: Geely Capital Structure Chart (unit: billion RMB)  
 Data source: Geely 2011 Financial Statement (Photo credit: Original)

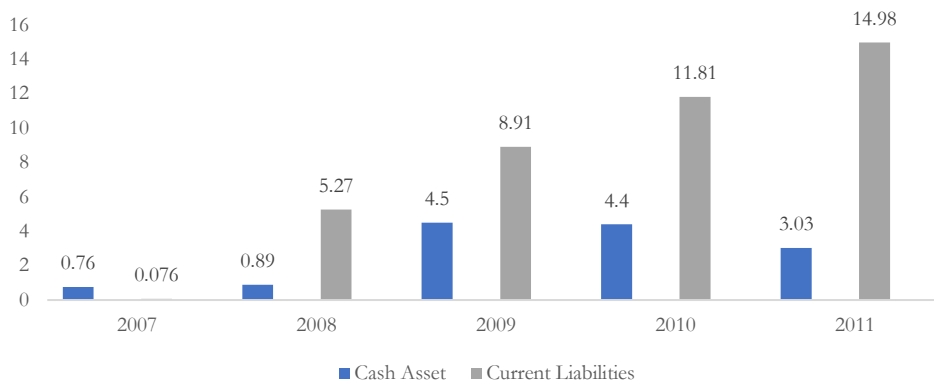


Figure 2: Geely Assets and Current Liabilities (unit: billion RMB)  
 Data source: Geely Financial Statement from 2007 to 2011 (Photo credit: Original)

Figure 2 shows the cash assets and current liabilities of Geely from 2007 to 2011 [8], and the cash ratio can be obtained by the ratio of the two data, which are 997.26%, 16.87%, 50.50%, 37.19% and 20.22% from 2007 to 2011 respectively. The cash ratio is generally around 20%, and more than 20% is considered to be a good state of cash reserves, but if the ratio is too high, it also means that the company's capital is not properly allocated and used. From the data collected, Geely's cash reserves are in a normal state, in the higher two years, 2007 was the most well-funded year before Geely acquired Volvo, and in 2009, after borrowing from the government and domestic and foreign banks and markets, the funds reached a peak again. The acquisition of Volvo started normal operations, so the cash ratio is also back to the average value.

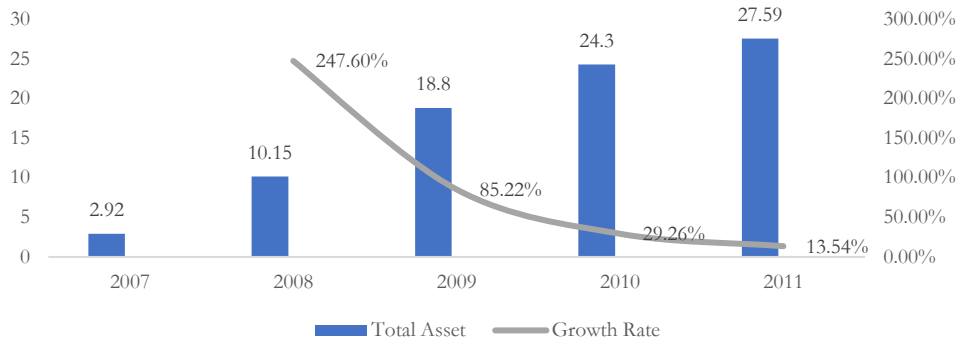


Figure 3: Geely's total asset and growth rate (unit: billion RMB)  
 Data source: Geely 2011 Financial Statement (Photo credit: Original)

According to the total assets and growth rate of Geely from 2007 to 2011 shown in Figure 3, the total assets are growing steadily year by year, but the growth rate decreases because the growth amount from 2007 to 2008 is too large, which leads to the growth of the following years is very little. In Figure 4, Volvo's total assets and growth rate from 2007 to 2011, there was a slight decrease in the amount of assets in 2009 due to the economic crisis in 2008, and the total assets showed a reversal trend in 2011 after the acquisition by Geely. Early on, through the comparison of Geely and Volvo's assets, Volvo is more than ten times of Geely, and most people opposed to Geely's acquisition of Volvo. The rise in Geely's total assets and the rebound in Volvo's growth rate means that Geely's acquisition of Volvo was the right decision, and helped both companies come back from the dead.

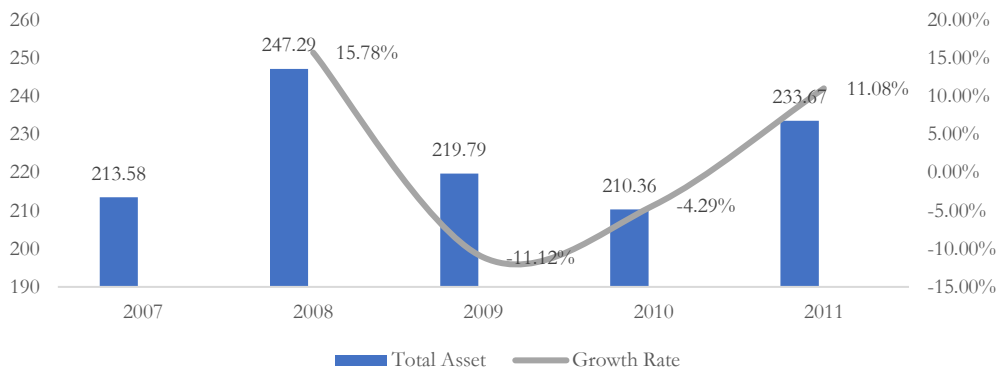


Figure 4: Volvo's total asset (unit: billion RMB)  
 Data source: Volvo financial Statement 2007-2011 (Photo credit: Original)

### 3.2.2. Brand Reputation Risk

Geely was founded in 1986, only 37 years ago, and only started building cars in 1997, while Volvo was founded in Gothenburg, Sweden in 1927. Geely started out with refrigerator parts, then switched to high-end upholstery materials, then entered the motorcycle manufacturing industry, and in August 1998 the first Geely car was built. Geely is to let the people buy a good car with high cost performance as the main objective, not only to ensure the quality of the car is excellent, to protect the safety of the car occupants in case of dangerous situations, but also to make the customer can afford to buy the car.

Volvo belongs to the European high-end car brand, can be compared with Maserati, Lamborghini, Porsche, etc., Geely wants to buy Volvo once the news was published encountered the sound of all walks of life is not optimistic, known as "snake swallowing elephant" acquisition. Volvo's total assets

in 2009 were 10 times more than Geely's, and the difference in capital strength between the two companies was so great that Geely was doubted to be able to run Volvo successfully.

### **3.2.3. Cultural Integration Risk**

After Geely acquired Volvo, Geely president Li Shufu said that Geely is still Geely and Volvo is still Volvo, there is no hierarchical relationship, and the concept of "maintaining independence and deepening cooperation" can eliminate the hostility of Volvo employees to the maximum extent. Before the acquisition, firstly, the consumer groups of the two companies are different, Geely mainly serves the lower income masses while Volvo mainly serves the rich people; secondly, Geely is a Chinese company while Volvo is a Swedish company, the cultural gap between China and foreign countries is something that Geely's PR team needs to pay special attention to when discussing the acquisition with Volvo. Geely's corporate culture is not only to create economic value, but also to create social value and fulfill social responsibility. Only by taking both into account can a company develop sustainably. Divided into four categories: product, "safety, energy saving, environmental protection", Geely cars can be said to be the first choice of cost performance, in terms of quality and price for customers in advance, in order to obtain customer trust; economic, operating in accordance with the law, abide by business ethics, and create value for the company; social, to provide space for employees to grow and do for social welfare Environment, advocating green operation, energy saving and emission reduction, minimizing the pollution of the environment in car manufacturing [9].

And Volvo corporate culture is not only the need to have the spirit of innovation and enterprising thinking, but also the ability to continue to develop, and to have confidence and courage to act. There are five categories: Customer Success, understanding customers, listening to their requirements and customizing customer winning transport solutions; Trust, being open and transparent and respecting all decisions made; Passion is taking pride in the company's achievements and learning from mistakes; Change, being curious about the world, actively innovating and using change and transformation as a source of energy; Performance, having professional skills, knowledge and keen business instincts and knowing when it's time to quit [10].

After Geely acquired Volvo, Volvo's headquarters was still set up in Sweden, so Geely's management needed to establish a complete communication system to ensure rapid and accurate communication between the two sides.

## **4. Competition and Achievement**

### **4.1. Automobile market competition pattern**

After Geely acquired Volvo, it stepped into the mid-to-high-end market step by step. In terms of automotive technology, Volvo has a high reputation for safety. Geely applies these technologies to its own models to improve product quality and technical level. After the acquisition, Geely launched a series of brand-new models, such as XC90, S90 and so on. These models adopt Volvo's design concept and technology, and pay more attention to luxury and high-end configuration, making the Geely brand more competitive in the mid-to-high-end market and strengthening the development and promotion of the international market. The Volvo brand has a large reputation and market share in the world. Geely has used this advantage to increase its penetration in the mid-to-high-end market and further expand the international influence of the Geely brand.

Since 2013, Geely acquired Manganese Bronze Holding (MBH), Emerald Automotive, acquired 49.9% of Proton Holdings and 51% of the British luxury sports car brand Lotus Group, Terrafugia, 51.5% equity of Saxo Bank. After this series of mergers and acquisitions, Geely has perfected the direction of each of its brands. It covers the low-end, mid-end and high-end markets, and opens up the global market. This multi-level competitive landscape allows Geely to play to its strengths in

different market segments and meet the needs of different consumer groups. This is of positive significance for Geely Auto's further development and globalization strategy (please see Figure 5).

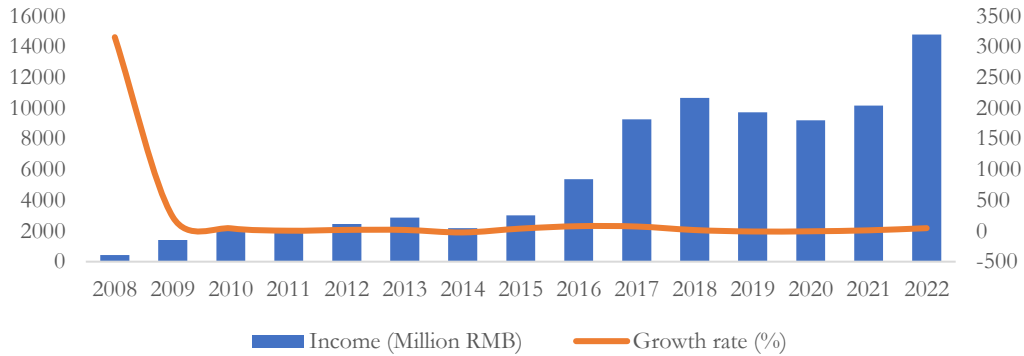


Figure 5: Geely's operating taking and growth rate over the past 15 years  
 Data source: Geely financial statement from 2008 to 2022 (Photo credit: Original)

#### 4.2. The Technical Achievement of Geely

Geely has made some achievements in technology since its acquisition of Volvo. From the engine, gearbox to the chassis, Geely has successfully borrowed and introduced Volvo's advanced technology through technical exchanges and cooperation with Volvo. Geely launched an engine family called "Drive-E" in 2014. The engine, jointly developed by Geely after acquiring Volvo, uses advanced turbocharging technology and a direct-injection combustion system designed to deliver higher fuel economy and lower exhaust emissions. This engine is widely used in Geely and Volvo brand vehicles. In 2016, Geely made a series of breakthroughs in gearbox technology. The most notable breakthrough is Geely's self-developed dual clutch transmission (Dual Clutch Transmission, DCT). This transmission adopts advanced electronic control technology and dual-clutch structure to realize smooth shifting and efficient power transmission. Compared with traditional automatic transmissions, dual-clutch transmissions have obvious advantages in shift speed and fuel economy.

In 2020, Geely has successfully broken through the three major industry problems that the development of automotive power platforms has always faced, namely, the difficulty of compatibility between multi-function and small space, the difficulty of balancing high performance and low fuel consumption, the difficulty of large torque and strong impact reliability unique to hybrid, and successfully created a power platform with high compatibility, high energy efficiency and high reliability with internationally leading technology. Power platform can be derived from 6 different models, transmission coverage of 300 to 450 nm, to achieve the world's first single platform to cover efficient traditional power, to MHEV, HEV, PHEV, REEV a variety of hybrid power of five technical routes, to meet the power needs of A0 to B-class models, high scalability. And Geely Emgrand L Raytheon Hi·P, its high-performance hybrid engine BHE15 won the "China Heart" 2022 Top Ten engine award. Compared to other companies, Geely's engine technology focuses on providing efficient and low-emission solutions to meet increasingly stringent emission standards. It has carried out independent research and development in key technical areas such as engines and gearboxes and has continuously made breakthroughs. This independent research and development capability allows Geely to better control the direction of technological innovation and gives the company a competitive advantage. Compared with some high-end car brands, Geely Auto is positioned more to provide cost-effective products. Through independent research and development and cost control, Geely is able to maintain a certain competitive edge in technology and offer products to the market at more competitive prices.



In general, Geely has made certain achievements in technology after the acquisition of Volvo, adding more strength and competitive advantages to its own development.

## 5. Conclusion

This paper aims to provide an in-depth analysis of Geely's acquisition of Volvo, including the background and motivations behind the acquisition, Geely's financing structure, the risks it faced, and the achievements made after the acquisition. It can be concluded that this acquisition was a result of the severe recession caused by the 2008 global financial crisis, which left Ford unable to manage Volvo, and it was also driven by Geely's desire for transformation, expansion, and access to advanced technology. However, due to the heavy debt incurred in the acquisition, Geely faces potential liquidity risks, and doubts about its ability to successfully operate a high-end brand like Volvo reflect brand reputation risks. Furthermore, the stark cultural differences between China and Sweden as a result of this Chinese acquisition of a Swedish company also present cultural risks. Nevertheless, after the acquisition, Geely has successfully achieved technological breakthroughs in areas such as engines and automotive power platforms, entered the mid-to-high-end market, and continuously developed its overseas markets, earning a favorable reputation worldwide.

To mitigate financial risks, Geely should focus on financial management and strengthen its cash management practices. Geely should timely adjust and optimize its asset-liability structure, appropriately reduce the proportion of total liabilities, and adjust its capital structure to maintain a reasonable ratio of short-term and long-term debt. This would help reduce financial risks, operational costs, and the negative impact on profitability while meeting the company's operational funding needs.

To strengthen cross-border operational management, Geely Auto should enhance its management capabilities and absorb Volvo's advanced operational management experience and excellent corporate culture.

To enhance technological integration and improve R&D capabilities. To further advance in the high-end market and establish a solid position in the competitive international automotive market, Geely not only needs to strengthen its ability to absorb and digest Volvo's technology but also deepen its technical cooperation with Volvo. It is crucial for Geely to continue enhancing its research and development capabilities and promoting independent innovation. Strengthening talent incentive mechanisms, fostering institutional collaborations, and making continuous and sustained investments in technology will be beneficial in strengthening Geely's R&D capabilities.

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