Summary

With Chinese economy achieving rapid growth for consecutive 30 years, Chinese private enterprises have also kept growing and expanding. As far as now, many Chinese private enterprises are going abroad for international operation and pursuing global market shares. Compared with Chinese state-owned enterprises, major private enterprises usually pay more attention to acquiring key technologies, brand building and exploiting overseas market through more flexible and diversified investments. However, due to a short history in development and lack of modern strategic management, Chinese enterprises are still relatively weak in accumulation of core
competencies. Therefore, these private enterprises prefer to target at foreign companies with high
technology and brand value when they carry out cross border M&A. Core competencies are the
fundamental source of competitive advantages, as they are valuable, rare, inimitable, sustainable and
innovative. Many existing cases and empirical experience could testify that Chinese private
enterprises could accelerate process of their core competencies through selective M&A, but need to
pay more attention to the Post Merger Integration (PMI).

This thesis briefly introduced the background and challenges facing Chinese private enterprises
development; summarized theories and literatures relating to core competencies, strategic
management and M&A; and then selected GEELY (吉利) Holding Group (Hereinafter referred as
GEELY), one typical Chinese private enterprise specializing in car manufacturing, as the study case.
In case study, this thesis reviewed the whole process of GEELY’s strategic management on core
competencies, including its cost leadership competition strategy at start-up stage, analysis on
external and internal environment for design transition strategy for 2007-2015, implementation
through three major cross border M&A. Based on these research, the thesis also evaluate impacts on
GEELY’s core competencies resulting from these M&A and pointed out problems that need to be
solved. In the last chapter, some recommendations on GEELY’s future issues were provided and the
conclusion was made for development direction of GEELY and other Chinese private enterprises.

**KEYWORDS:** Strategic management, Core competence, M&A, GEELY
RESEARCH ON CORE COMPETENCE STRATEGY MANAGEMENT OF CHINESE PRIVATE ENTERPRISES
——Case Study on GEELY

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CHAPTER 1 Introduction

SECTION 1 Research Background

Currently, Chinese economy has deeply integrated into the global market. Since 2013, China became the largest country in trade volume, and has maintained this rank until 2015, although the volume of trade in goods of China in last year decreased by 8%, which is 3.96 trillion US Dollars. In 2015, China’s inflow Foreign Direct Investment (FDI) reached 126.3 billion US Dollars, and was ranked the tenth with its outflow FDI of 118 billion US Dollars.\(^1\) During China’s integration into globalization, Chinese enterprises also receive the new historic opportunity of self-development and expansion in the vast global market through foreign trade, direct investment and international operation.

Particularly, after China’s accession into the World Trade Organization (WTO) in 2001, the Chinese Private Enterprises started to rise on the stage of China’s economy and global market.\(^2\) Now many Chinese private enterprises, depending on their internal accumulation on knowledge and resources from nothing, and taking full use of the opportunities from China’s rapid economic growth and globalization tide in the past 30 years, have not only occupied the major share in domestic market, but also have potentials to exploit the global market, which make them become one of the most important driving forces for China’s comprehensive strength. On the other hand, China’s economy has slowed down since 2012 after rapid growth for more than 30 years, and now is

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\(^1\) 《商务部通报 2015 年商务运行情况》, [http://www.gov.cn/xinwen/2016-01/20/content_5034716.htm](http://www.gov.cn/xinwen/2016-01/20/content_5034716.htm).

\(^2\) Author’s note: As there is no explicit definition on private enterprises in Chinese relevant laws and regulations, this thesis follows the most-used definition by Chinese academia, which refers to all Chinese local private enterprises excluding non-state owned and foreign enterprises.
suffering the upgrading and transition period, which means those enterprises which are not be able to
cultivate and improve their core competence will inevitably be eliminated in the future.

However, the reality which has to be admitted is that, among all Chinese private enterprises,
only a small portion of them have real advantages in the global market. More other enterprises still
fall behind those in many developed countries in terms of core technology, R&D, brand, and
management, etc. Until now, many Chinese enterprises still stay in the mid and low end in global
value chains of many industries, and their overall competitiveness are not strong enough. 3

Core competencies are the sources of competitive advantages for one enterprise. For the
Chinese private enterprises, the way to high-end of global value chain can never rely on low price
products or OEM production. They need to substantially establish their own core competencies at
first and then seek opportunities to upgrade their level in global value chain. In the future
globalization, only core competencies could generate competitive edge and higher profit margin for
enterprises. Therefore, establishing core competencies based on global operation has already become
consensus by all Chinese private enterprises with ambition to compete globally under the
background of integration between China’s domestic market and global market. Some excellent
enterprises have made great success in recent years and acted as the “shepherd” on Chinese private
enterprises’ way to global market, among which GEELY Group is regarded as one typical case.
GEELY, a Chinese local car manufacturer, originated from a small motorcycle company, developed
the biggest local car brand in China and became one of the 500 Tops of the world within 15 years
since its foundation. How did GEELY make it? GEELY’s success is largely attributed to its

continuous desire for improvement on core competence. Depending on its self-R&D\(^4\) to cultivate core competence at its early development stage, and then expedite this process through successful cross-border M&A and PMI, GEELY obtained the core competence it needed and then incorporated into its own core competence system, which made GEELY achieve the above success. For other Chinese private enterprises, GEELY’s experience and lessons on strategy management of core competence could become the typical case and provide some useful recommendations for other enterprises during theirs future sustainable development.

SECTION 2 Research Purpose

This thesis aims to analyze how the core competence strategy could change the advantageous position of one company in the market. Through case study on GEELY Car, this thesis will review its whole process of strategy management on core competence, including identifying and developing the strategy based on internal and external factors, implementing the strategy to cultivate and acquire core competence, then evaluating its core competence framework to find problems and proposals for improvement. Moreover, in this thesis, the author will come up with some conclusions and also attempt to provide general recommendations for Chinese private enterprises on how to conduct strategic management of core competence in the future.

\(^4\) Self-R&D usually means Chinese private enterprises conduct R&D by their own resources and possess fully independent intellectual property rights.
SECTION 3 Research Methodology

1. Based on theories and literatures. Through looking up relevant literatures on strategic management and core competence, including textbooks, journals, newspapers and industry news, to summarize definition, characteristics, factors of core competence as the assumed theory foundation of this thesis.

2. Based on strategic management model and case study. Through applying some famous analysis tools in strategic management such as PEST, SWOT to case study on GEELY, and based on the factual data and cases, to make comprehensive analysis on GEELY’s core competence at different stages, with a view to coming up with some findings on how to conduct successful strategic management on core competence.

3. Inductive method for general recommendations. On the basis of research and conclusions on the theory and case study, to provide some general or common recommendation for other Chinese private enterprises on how to improve competitive advantages in the market through effective strategic management.

SECTION 4 Research Framework of This Thesis

This thesis will review relevant theories and literatures on core competence, corporate strategic management and M&A, and then select GEELY as the typical case company, considering its success experiences in strategic management on core competence through effective M&A. The thesis will concretely review and examine GEELY’s each strategic management process at different stages
including strategy identification, strategy formulation, strategy implementation and strategy evaluation and control, focus on evaluation for impacts on its core competence along with problems to be solved, and finally attempt to propose some recommendations on GEEL Y’s future development.

Exhibit I-1: Framework of This Thesis

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Focus Cost Leadership Strategy (1997-2006)
Impacts on GEEL Y’s Core Competence and problems to be solved
Recommendations for GEEL Y’s Future Strategy and Development
CHAPTER 2 Literature Review and Theory Summary

SECTION 1 Evolution of Theories about Core Competencies

Studies on core competence of enterprises started by the classical economics since 18th century, when Adam Smith and David Ricardo realized that division of production could improve the efficiency and enhance competitive advantages of enterprises, because division of labor made labor more proficient and promoted productivity. Alfred Marshall thought that each company’s advantages came from the division of labor among the companies not within each of them.

By 1980s, Michael Porter in Harvard University, based on the SCP (Structure – Conduct - Performance) research model in modern industrial economics, raised the famous Five Forces Model. He thought, to the great extent, competence of one enterprise depends on the overall industry structure and its competitive situation, and this enterprise could win the market only by appropriate self-positioning in its industry. According to this conclusion, he designed three generic competitive strategies, which are overall cost leadership, differentiation and focus.\(^5\) In 1985, he further introduced the theory of value chain, and pointed out that “competitive advantage cannot be understood by looking at a firm as a whole. It stems from many discrete activities a firm performs in designing, producing, marketing, delivering, and supporting its product.”\(^6\) This means he started to seek for the source of competitive advantage of a firm from the internal.

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With continuous development of enterprise strategic management, in 1990, Prahalad and Hamel at the first time raised the concept of core competence in their paper “the Core Competence of the Corporation”, in which they regarded the core competence as the root and source of competitiveness. Since then, the academic circle started to accept the concept of core competence, and core competence became important internal elements for study on companies’ competitive advantages in the market. “In the short run, a company’s competitiveness derives from the price/performance attributes of current products…But in the long run, competitiveness drives from an ability to build, at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products.” From Prahalad and Hamel’s point of view, continuous accumulation of capabilities, knowledge and also resources within the corporation would build on sustainable foundation for companies’ long-term profits and advantages.

SECTION 2 Definition of Core Competence Used in This Thesis

1. **Core competence is a kind of capability on integration and coordination.** As the inventors of this concept, Prahalad and Hamel thought the core competencies are “the collective learning in the organization, especially how to coordinating diverse production skills and integrate multiple streams of technologies.” That is to say, core competencies are the knowledge, skills and their combination reflected in the products and services which could create more effective value for

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the customers than competitors.

2. **Core competencies are unique knowledge and skills.** Core competencies are the capabilities to apply one or several key technologies or skills into diverse products, and make these products not only more valuable than competitors, but also inimitable for the competitors. In this process, innovation capability is the priority among priorities, as innovation is dynamic and changing, which could guarantee the advantages and inimitability of the products. ⑨

3. **Core competencies can be reflected by the advantages in value chain.** According to Michael Porter, Real core competencies of one corporation could be found through the added values activities in the value chain. Stronger core competencies could contribute one corporation’s value-added activities to be accomplished at lower costs than competitors and bring higher value for the customers.

SECTION 3 Characteristics of Core Competence

Reviewing relevant research literatures, the characteristics of core competence could be included but not limited to the following:

1. **Valuable.** Do a firm's resources and capabilities add value by enabling it to exploit opportunities and/or neutralize threats? This might be the first and basic question which any company management need to consider when talking about core competence. Despite changes of market environment, the companies which could offer appropriate products and services through

core competencies would create value that customers need, and these companies tend to possess competitive advantages. The value could be brought by merely lower price, more value at the same price or expected value at higher price, although competitors stay in the same industry.\textsuperscript{10}

2. \textbf{Rare.} According to Jay Barney, valuable is only first basic feature for a company’s resource and capability to form competitive advantage, “if a particular resource and capability is controlled by numerous competing firms, then that resource is unlikely to be a source of competitive advantage for any one of them. Instead, valuable but common (i.e., not rare) resources and capabilities are sources of competitive parity.”\textsuperscript{11} That’s to say, a company’s core competencies based on resource and capability should be unique and rare. If too many competitors also have the same or even similar core competencies, it means no one has the real competitive advantages and there are no core competencies.

3. \textbf{Inimitable.} Jay Barney pointed out that valuable and rare resource and capability could only let a company possess a temporary advantage, but inimitable competence has the ability to generate sustained competitive advantage.\textsuperscript{12} Prahalad and Hamel also emphasized that one important test for identification on a core competence was that it should be difficult for competitors to imitate. “A rival might acquire some of the technologies that comprise the core competence, but it will find it more difficult to duplicate the more or less comprehensive pattern of internal


coordination and learning.”  

4. Extensible. Prahalad and Hamel thought that the core competence should be able to provide a company with potential access to a wide variety of markets, and they also used the example of Casio’s competence in display system as the proof. Here it could be seen that core competence has the diffusing effect which could not only keep the company’s sustained competitive advantage but also promote the company exploit new market through innovating new products.

5. Dynamic. A corporation’s core competencies derive from its internal accumulation, which is a gradually developing process together with fierce competition in the market. Similar to some kind of product and technology; it has the life cycle, from emerging, acquiring, expanding, stable and then declining. Core competence could not be possess by a company eternally, but it could be revived through effective reform and adequate reinvestment.

SECTION 4 Elements Framework of Core competencies

According to academic research and management practice, more than 50 capabilities have been identified as the elements of core competencies. In this thesis, these elements fall into four categories:

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1. **Knowledge for Technology or Skills——Source of Core Competence.** Usually, knowledge could become one corporation’s unique competitive advantages as long as it is be effectively mastered and utilized. If the knowledge, either through internal accumulation or acquiring from outside, could be successfully learned, absorbed and innovated, it could be transformed into the core technologies or skills which keep offering new strength to raise the level of one corporation’s core competencies. So when core technology frequently mentioned as the source of core competencies, knowledge should be the truth behind.

2. **Resources——Infrastructure of Core Competencies.** During the establishment of core competencies, the corporation needs plenty of resources, which not only refer to the tangible assets recorded in the accounting book, but also include intangible resources such as human resources, brand, goodwill, and control on external resources like customers, suppliers, sale channels, etc. When judging core competencies of one corporation, it is inappropriate to only focus on how much resources the corporation possess for now, but deeply examine how this corporation accumulated, maintain and will expand these resources. For example, R&D ratio which is closely related to advantages of technologies and products, investment ratio on sophisticated equipment, inputs and control on sales channels, performance evaluation and compensation reforms, appropriate training expenses for capacity building, etc.

3. **Corporate Culture——Intangible Driving Force of Core Competencies.** Corporate culture consists of many factors, including vision and value, mission, system, employees’ behavior and spirit, entrepreneurship, etc. Excellent corporate culture could consolidate the coherence within the corporation and keep consistency in implementing corporate strategy. This is the reason that
many famous century-old corporations could maintain vitality even experiencing several transitions of core competencies.

4. Management and Integration—Adhesive of Core Competencies. Regardless of core technologies, unique capabilities or rare resources, the ‘house’ of core competencies could not be built up without effective ‘adhesive’—management integration, and the corporation will still lose its competitive advantages. That is to say, only by interference with management could all elements of core competencies be coordinated and synergized to create multiplication effects.

SECTION 5 Strategic Management on Core Competencies

The cultivation and establishment of core competencies could be regarded as the process of strategic management, which involves in various aspects inside and outside the corporation with comprehensive and visionary considerations. Establishment of core competencies should be synergized with the corporation’s strategy management. Successful operation on core competencies strategy is crucial to whether the corporation could acquire the core competencies it needs.

In some academic research, the strategic management on core competencies is usually divided into five phases: 1) Accurate positioning on core competencies (including existing and potential); 2) Developing and acquiring core competencies; 3) Integration on elements of core competencies; 4) Developing new core products and exploiting new market; 5) Consolidation, renovation and sustainable development.\(^\text{16}\)

Among successful strategy management process, acquiring core competencies turn to be the substantial part. In practice, many corporations usually take the following approaches: 1) **Internal cultivation.** This approach depends on independent accumulation within the corporation, whose strengths are stability, proper planning and high control, but it needs long time to study and accumulate based on massive investments in resources and knowledge, moreover, the future is also risky due to many uncertainties, not any corporation could guarantee its inputs and accumulation could result in profitable outcomes. 2) **External M&A.** This approach could help a corporation acquire or enhance its core competencies by a convenient and effective way. However, without appropriate PMI on resources and capabilities between the acquiring corporation and the acquired, or if the acquiring corporation could not absorb and innovate the core competencies it already obtained from the acquired through M&A, then this approach will prove to be a failure. 3) **Joint R&D.** In this approach, different corporations usually set up joint venture companies or strategic alliance to improve their core competencies through process cooperation and outcomes sharing. This approach could be regarded as a middle way between internal cultivation and externa M&A.

In real business reality today, no corporation relies on any single approach above in the course of cultivating its core competencies. Various hybrid approaches are employed just for the ultimate purpose—core competencies.

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17 徐阳华， “企业核心竞争力研究综述与前瞻”[J], East China Economic Management, 2005 Vol.19, No.11, P34.
SECTION 6 M&A and PMI--Accelerating Core Competencies

Roughly speaking based on the prospect of core competence, two major conditions cause occurrence in M&A. One is abundance in resource and capability, which usually stimulates a company’s M&A to extend product lines and diversify markets. The other is scarcity in core competence, which causes M&A aiming to acquire or complement core strategic assets that the acquiring company needs, in order to cultivate and establish the company’s core competence. Observing from current reality, motivation of M&A for most of Chinese private enterprises falls into the second category.¹⁸

During the course of cross border M&A, unlike Chinese state-owned enterprises purchasing tangible strategic resources, the private enterprises usually focus on core technologies, brand, global sales channels and management process, etc., most of which are very important to cultivate and improve their core competencies. Due to short history and lack of internal accumulation, many Chinese private enterprises are not be able to expend business internationally, so it is clear that these elements relating to core competencies are really valuable core assets contributing to their success in fierce competition in global market. Under the above background, Chinese private enterprises are very eager to accelerate construction of core competencies, so strategic and selected M&A become their priority options. According to the survey findings by G. J. Stigler, the winner of Noble prize in economics in 1982, any company in United States could not grew into giant without by some

appropriate or some kind of M&A, and few companies could keep growing completely by internal accumulation.  

However, according to relevant statistics regarding M&A cases in history, not all but just some of M&A cases were successful. “Most research indicates that M&A activity has an overall success rate of about 50% — basically a coin tosses.” “Would you risk your life savings on a coin toss? Of course you wouldn’t.” In Deloitte report of 2011, failure rate of 50%-80% occurred within three years after overall cross border M&A activities by Chinese enterprises. Fortunately there are still some positive outcomes about the cross border M&A. During 1991-2008, cross-border acquisitions among emerging countries have created positive effects to the overall market and made shareholders wealth increase. But the above data and reality show that most difficult thing is not M&A itself, but smooth integration after the M&A, which is known as PMI, usually involves many parts including integration on strategy, brand, human resources, core technology, operation process, marketing channels, corporate culture, and so forth.

The author’s opinion in this thesis is that, as the new force in the global M&A circle, what Chinese private enterprises has to do is to ensure a stable PMI process after accurately targeted acquisition as it might bring substantial impacts on the construction of core competence. This is the foundation for success of PMI. The second thing is to ensure PMI implement process aligned with the goal of strategic management on improving core competence. PMI should synergize and

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21 白少君, “中国企业在海外并购整合分析”, 开发研究[J], 2013, [2], P35.
22 张玉兰, “民营企业跨国并购价值创造研究-基于核心竞争力视角”, 会计之友[J], 2016, [10], P49.
optimize all elements to reach the best strategic structure with a view to increasing added value at each level at the corporation’s value chain, and acquire the unique and inimitable competencies, not only in short term but also in the sustainable future.
CHAPTER 3 Introduction on Evolution of GEELY’s Strategy

Management on Core Competence

SECTION 1 Company Profile

Section 1.1 General Introductions

Founded in 1986 and headquartered in Hangzhou (杭州) of Zhejiang (浙江) Province, GEELY Holding Group (here in after referred to as “GEELY”) started car manufacturing in 1997, and went public in Hong Kong in 2004. Since 2012, GEELY Group was listed into “Fortune Global 500” the first time, with sales income of 23.4 billion US dollars. GEELY was the only Chinese private car corporation in the above list, and also the only private enterprise among the top 10 car manufactures in China. In 2015, with total assets of 24.99 billion USD, GEELY was ranked into “Fortune Global 500” for the fourth consecutive year, and “China Top 10 Car Manufactures” for the 11th consecutive year. GEELY is now awarded as the “National Innovative Enterprise of China” and “National Vehicle Export Base of China”.

Section 1.2 GEELY’s Production and Sales

GEELY has been making efforts to accumulate its independent core technology and aiming to construct comprehensive core competencies system. Now GEELY has 10 Completely Built Vehicle (CBV) manufacturing bases not only in Zhejiang Province, but also in northwest, northeast and southwest of China, considering the convenience in terms of production and sales in local province,
along with support from the local provincial governments. In foreign countries, through acquisition, GEELY has DSI automatic gearbox R&D center and manufacturing factory in Australia, and Volvo Car Corporation in Sweden and London Taxi Corporation in the U.K. GEELY’s product portfolio consists of more than 30 types of CBV with a full range of engines from 1.0 L to 3.5 L, as well as manual and automatic transmissions to match them.

GEELY has established a complete sales network comprised of about 1000 dealers (4S) and nearly 1000 service stations in China, supported by a first-class call center offering 24-hour services to all customers in China. GEELY also has over 500 sales and service outlets in the global market. Based on excellent ERP (Enterprise Resource Planning) management system and after-sales service information system, GEELY can make prompt response to customer demands and quickly process customers’ information. By the end of 2015, GEELY has sold more than 4 million cars into the automobile market.

Section 1.3 GEELY’s R&D and Human Resources

GEELY has set up GEELY Automobile Technology Center and GEELY Automobile Research Institute in Zhejiang Province and built up strong capacity to develop complete vehicles, engines, transmissions and automotive electronics. A special laboratory of automobile safety technology was established in Zhejiang Province, which is able to do crash tests based on NCAP regulations for all automobile models under the systems of China and EU. GEELY also set up R&D centers based in Australia, United States and Europe after its cross border acquisitions.
GEELY has over 19,000 employees, including over 6100 engineers and technicians including several hundreds of foreign experts, among whom 8 experts are listed in the “National Recruitment Program of Global Experts” supported by Chinese central government, which makes GEELY become the private enterprise having the most high-level talents listed in the “Recruitment Program of Global Experts”.

GEELY established Beijing GEELY University (北京吉利大学), Sanya College in Hainan province(海南三亚学院), Zhejiang Automotive Vocational and Technician College (浙江汽车职业技术学院), and Hunan GEELY Auto College (湖南吉利汽车学院), which have enrolled over 40,000 students and provided nearly 10,000 graduates annually to China’s automobile industry. GEELY also established Zhejiang Automotive Engineering Institute (浙江汽车工程研究院), which is the first institute cultivating masters and doctors specializing in automotive engineering in China.

Section 1.4 Corporate Culture

Mission: Build the safest, most environmentally-friendly and most energy-efficient cars, and bring GEELY cars to the world. GEELY has always sought the most suitable path for its development, with the mission to make the safest, most environmentally-friendly and most energy-efficient cars, made continuous breakthroughs, and manufactured premium products for every customer.

Vision: Bring GEELY to the world! GEELY is a forward-looking company, committed to pushing technology boundaries and becoming a world-leading automobile manufacturer. Our vision
is not only to bring GEELY to the whole world and add value for our customers; we also want the world to feel the GEELY spirit of happiness.

**Core Value:** Happy Life, GEELY Drive! GEELY’s corporate culture and values are concentrated on happiness. Through mutual understanding and respect, along with open and transparent cooperation between our upstream and downstream businesses, GEELY has been able to create value-added products and services for customers while shaping a happy and inspirational corporate culture.  

Section 1.5 Introduction on GEELY’s President

Mr. LI Shufu (李书福), the founder and president of GEELY, was born in 1963 in a farmer’s family in Zhejiang province of China. He started his own small business at the age of 19. From small photograph studio, refrigerator factory, engineering construction materials to motor vehicles, LI Shufu experienced countless failures, but he finally overcame the difficulties and made a great fortune. When others assumed that he could enjoy his life with money and sense of success, he made a shocking decision in 1997 that almost all people thought impossible: making cars. At that time, either external or internal conditions did not allow LI Shufu to make cars, but he insisted on his own idea and put it into action. He was so crazy about making cars that he was called as “car nut”. It was just this “car nut” who created a series of miracles afterwards, including making GEELY the leading role in Chinese local car brand and globally well-known company through a series of cross border

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23 GEELY’s official website: http://global.geely.com/
M&A. Therefore, LI Shufu, the first private entrepreneur making cars in China, was also awarded as “the Henry Ford of China” by Wall Street Journal in 2006. 24

SECTION 2 Review on GEELY’s Strategies in Three Stages (1997-2020)


The first two strategy stages focused on competition in traditional gasoline cars market, reflecting GEELY’s different strategic choices based on its analysis on external and internal environment. As a newcomer and a private company into Chinese car market with intense competition, GEELY concentrated its resources on the low end cars. With low cost production and independent R&D and manufacturing on core components, GEELY provided cheap but quality cars to Chinese customers and occupied rapid growth in the low end car market. In order to further develop and exploit global car market, GEELY conducted transition strategy since 2007 and accelerated its core competence through cross border M&A.

To follow the trend of New Energy Vehicle (NEV) development, GEELY declared its new energy vehicle strategy (2015-2020) at the end of 2015, which is called “Blue GEELY Campaign”. In the following 5 years, GEELY will achieve three major targets no later than 2020: 1. Average oil

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consumption of all cars manufactured by GEELY lowered to 5.0 (L/ 100km); 2. Make the price of NEVs same with traditional cars; 3. Sales volume of NEV accounts for 90% of GEELY’s total.\textsuperscript{25}

Exhibit III-1: GEELY’s Three Stages of Strategy Management from 1997-2020

\begin{center}
\textbf{Focus Cost Leadership Strategy (1997-2006)}
\end{center}

\begin{center}
\textbf{Technology Leadership Strategy (2007-2015)}
\end{center}

\begin{center}
\textbf{New Energy Vehicle Strategy (2016-2020)}
\end{center}

Source: Developed by Author.

SECTION 3 GEELY’s Cost Leadership Strategy at Star-up Stage (1997-2006)

Since specializing in automobile manufacturing in 1997, GEELY chose “Manufacturing automobiles affordable for Chinese People” as its initial strategy goal at the early stage. This strategy can be interpreted as focusing on producing cars with low price but with sound quality based on internal R&D and cost control. At this stage, GEELY’s only competitive advantage against other state-owned vehicle enterprises and joint venture companies was the price. According to Michael Porter’s competitive strategy theory, GEELY used the internal cost control, focus on niche products (low-end and small-sized family car), independent R&D and production on core components as its core competencies to cultivate, and followed the cost leadership strategy. GEELY’s strategy option was based on the external and internal environment GEELY was facing at

\textsuperscript{25} GEELY official website, \url{http://www.geely.com/news/news/info/10417.html}
that time.

Section 3.1 External Environment

3.1.1 Political Environment

Until 1997, private enterprises in China were not permitted to manufacture automobiles. According to various industrial regulations developed by the Chinese government, only state-owned vehicle enterprises and Chinese-Foreign joint-ventures are eligible to manufacture cars. What GEELY could do at that time was just to cooperate with or purchase shares of the above enterprises so as to join production of automobiles. This kind of unfair competition and incomplete legal status caused much inconvenience and restrictions to GEELY.

Opportunities came in 2001, when the Chinese government accorded to domestic and foreign enterprises equitable treatments after China’s accession into WTO. Since 2001, GEELY was listed into the Automobile Manufacturers Category issued by Chinese government, and was recognized as the national automobile production base, which provided a fair and stable political and legal environment for GEELY.

3.1.2 Macroeconomic Environment

Firstly, old local car brands were phasing out. Foreign brand cars like Volkswagen and Toyota gradually drove Chines traditional local brands like Hong qi (红旗) and Shanghai (上海) out of Chinese domestic market through joint-ventures and overwhelming control on core components like engine, chassis, gearbox, and electric system. These Chinese local car manufacturers, all of
which were state-owned car companies before GEELY’s foundation, had to abandon their original brands if they chose to manufacture the joint-venture cars because they had no core technologies.

Secondly, average price of cars in Chinese domestic cars were high. Before China’s accession into WTO in 2002, the tariff rate on imported cars were 100% (cars with engine emission for 3.0L and above) and 80% (cars with engine emission lower than 3.0L), so the unit price of imported cars in Chinese market was more than double as that in global market. For joint venture cars and local brand cars manufactured by state-owned companies, as mentioned above, core components equipped into them had to be procured from foreign companies, which means pricing power was accordingly controlled by foreign companies. Additionally, many complicated kinds of vehicle taxation items further raised the price of cars.

3.1.3 Social Environment

Having resisted influences by the Asia financial crisis in 1997, Chinese economy had been maintaining rapid growth for many consecutive years especially after accession to WTO. Chinese people’s income level also kept stable growth, and their demands for family cars accordingly started to boost. Of course most of them still had difficulties in affording the expensive foreign brand cars, however, compared with higher demand for expensive cars with brand prestige, more advanced car technology, most of Chinese average customers from 1997 to 2006 cared more about cheap but sound quality, because small family cars were mainly driven for as the transportation substitutes for bicycles and public vehicles.

Section 3.2 Internal Environment

GEELY independently developed the core components for its cars, including engines, transmissions, EPS (Electric Power Steering), and so forth. All these helped GEELY not to depend on outside suppliers any more, and also lower the cost of the completed built car. For example, GEELY independently developed its first 1.3L engine (model code: MR47QA), whose average manufacturing cost (including allocation of R&D expenses) was 8000 RMB less than purchasing from outside. Also, GEELY independently developed and manufactured the first transmission among all Chinese local car companies in 2002. 27

Secondly, GEELY had successful internal cost control during production process and high efficient after-sale service with cheap parts and accessories. With these advantages in cost and price, GEELY’s average price of one car should be 30,000 RMB lower than those manufactured by joint-ventures. GEELY’s unique advantages in cost broke the dominance controlled by the join-ventures cars and state-owned cars, and helped GEELY occupy growing market share step by step. For example, in 2004, GEELY sold 101,611 cars, which accounts for 5% of domestic car market and 24% of domestic segment market of subcompact cars, 28 which made GEELY ranked in top 10 of Chinese local auto brands. Moreover, with the excellent performance-price ratio in economy cars, in the same year, GEELY’s exported cars to overseas markets accounted for 63.7% of the total of China. 29

28 According to Society of Automobile Engineers of China, Subcompact cars include A0 cars and A cars classified by Volkswagen.
Section 3.3 GEELY’s Competition Strategy (1997-2006)

As was expected from the above analysis, GEELY employed focus cost leadership strategy, focusing on the inexpensive but quality economy cars, and in order to seek for growth space in this niche segments and made a great success. For example, at the end of 1999, GEELY’s first type of subcompact car was introduced with a unit price of only for 58,000 RMB, but the average price of similar products produced by other state-owned auto manufacturers were 90,000 RMB.

To summarize, causes that made such a big price gap were: firstly, most of state-owned auto manufacturers relied too much on foreign car manufacturers especially in terms of core components; secondly, before China’s accession to the WTO, few car brands competed with each other in domestic market and led to a relatively high monopoly level. As both stated-owned and foreign auto manufacturers pursued excess profits, GEELY actually found an opportunity to enter the market segment of low end cars. In 2005, GEELY achieved a geometric growth in sales volume of 200,400 cars which was over 20 times more than that in 2000.\(^{30}\)

GEELY’s success at this period could be attributed to its low cost production and high efficiency operation, plus independent R&D on core technology. These could be regarded as GEELY’s only core competencies at its early stage. Just as Barney said, “the resources and capabilities of different firms can be valuable in different ways. This can be true, even if firms are competing in the same industry.”\(^{31}\) Having accurately found opportunity through analyzing the market environment, GEELY identified its internal strength mentioned above and used them to

generate its own competitive advantages in low end cars market. However, GEELY’s core competencies in high-end core components, brand prestige in global market, global marketing network and others still lay much distance from those major auto manufacturers. Especially for core technology and brand, GEELY could never chase up by itself in a short time.

**Exhibit III.-2: GEELY’s Competition Strategy (1997-2006)**

<table>
<thead>
<tr>
<th>Uniqueness perceived by customers</th>
<th>Low Cost Position</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industrywide</strong></td>
<td></td>
</tr>
<tr>
<td>Differentiation</td>
<td>Overall Cost Leadership</td>
</tr>
<tr>
<td><strong>Specific Segment</strong></td>
<td></td>
</tr>
<tr>
<td>Focus</td>
<td><strong>GEELY’s Focus Strategy (Low cost with quality low end cars)</strong></td>
</tr>
</tbody>
</table>

Source: Made by author based on Michael Porter’s Strategic Advantage of three generic strategies

SECTION 4 Analysis on environment for GEELY’s Strategic Transition: Technology Leadership Strategy (2007-2015)

Section 4.1 External Environment

4.1.1 Political and Economic Environment

In the global market, the financial crisis in 2008 led many long-history auto companies to the edge of bankruptcy, including FORD, and their market value sharply declined. Chinese currency RMB had been going up since exchange rate reform by China in 2005. The average exchange rate of
RMB had revalued against USD from 8.27:1 in July of 2005 to 6.84:1 by the end of 2008. These two key external factors brought opportunities for GEELY to accelerate its own core competencies through acquiring foreign famous automobile brands. Of course another reality was that financial crisis also shrank aggregate demand in the global automobile market.

In domestic market, Chinese economy had kept two digit growths for more than 30 years, and the same trend also occurred in people’s income level. Although also affected by financial crisis, compared with the shrinking market in developed countries, the strong demand in domestic market still existed due to the huge market size, increasing income level and purchasing desire shift to high-end products.

Chinese government issued “the Plan on Adjusting and Revitalizing the Auto Industry” in 2009 with a view of preventing negative effects by financial crisis. This plan included several major stimulating policies for domestic auto industry: 1) Reduction on taxation relating to automobile purchase and subsidies on accelerated depreciation and upgrading; 2) Promotion on restructuring auto industry, including M&A; 3) Support for independent innovation and technology R&D and launching new energy vehicle strategy. 4) Encouragement and Support on self-owned auto brands.

On the other hand, there were also heavy burdens coming from automobile taxation and a variety of administrative regulations, which could not be eliminated overnight. The more serious problem was that due to lack of competitive advantages in technology, brand, and quality management in high-end automobile sector, local car enterprises besides GEELY could only stay in

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32 http://www.360doc.com/content/12/0321/16/9133414_196341521.shtml
33 http://cctvenchridion.cctv.com/special/C22908/20090323/101590.shtml
endless price competition in middle and low-end car markets unable to establish higher-level system of core competence.

4.1.2 Social and Cultural Environment

Usually many Chinese people have much concerns about social status and “Mian Zi(面子)” while implicit and modest in getting along with others. As Chinese people have been educated and influenced by Confucianism, their measurement criteria for happiness are moderate and harmonious life with quality. All these cultural characteristics lead to their inclination to the autos with brand prestige, high quality but with practicability and versatility, as long as the autos are affordable under Chinese people’s income level. Additionally, although most of Chinese people have strong nationality and preference to local brands, there is still much gap between local brands and foreign brands largely due to core technology and quality management in high-end autos. Except low price, local brands hardly have advantages compared with foreign brands.

Since 2007, in auto purchasing of Chinese auto market, GEELY started to pay more attention to three kinds of emerging potential purchasing powers:

The first is the urban generation born in 1970s. Most of them have families and decent jobs with relatively high salaries. Moreover, with the potential promotion in their future career and growing income, this group of people, especially those who have desire to buy the second car, would have more options to the cars with trustworthy safety, high-grade appearance and sound brand recognition.

34 “Mian Zi(面子)” in Chinese usually refers to a person’s dignity and reputation among his or her community of life.
The second purchasing power is the urban generation born after 1980s. Most of them grow up in well-off families and influenced by modern education which is a mixture of Chinese traditional and western culture. They clearly know about the importance of saving money and investing for the future, and also insist on their own personality and inner desire. Under rapid growth of Chinese economy during the past years, people in this group have become the pillar of Chinese new middle class. Most of them could enjoy relatively high income when they started their first job, therefore, when they decided to buy their first car, their consumption habits made the decision different from their parent generation and they usually are more interested in cars with perfect combination of quality technology, well-known brand and also fashionable appearance for the purpose of personality.

The third purchasing power is the middle class families in the western provinces of China.\textsuperscript{35} Since 2005, growth rate of auto purchasing in these provinces/areas exceeded eastern areas, which turned to be the huge emerging auto market segment in China. In this segment, families usually are the purchasing unit, they have more concerns about safety, fuel-economy and maintenance cost. As cars are not fast moving consumer goods but durable goods, and due to lack of professional expertise in auto technology, these families’ purchasing rationality and prudence is mainly based on the brand.

To summarize, as more and more Chinese customers have more and more disposable income, they are no longer satisfied to buy cheap cars as the substitutes for walking and public vehicles, GEELY’s position should start to move into higher end brand.

\textsuperscript{35} Western Area of China includes 12 provinces of China: Guangxi, Chongqing, Sichuan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Ningxia, Inner Mongolia, Qinghai and Xinjiang.
4.1.3 Technical Environment

**Smart Car:** With development of auto electronic technology, the intelligent technologies are being utilized into auto manufacture which simplifies vehicle handling, enhances driving power and safety. Examples regarding intelligent technology are Vehicle Dynamic Control (VDC), Intelligent Driving Information System (IDIS), Intelligent Tire, Intelligent air bag, Intelligent Management on Electric System (IMES), etc.

**Multi-functions of Car.** Application of diverse high scientific technologies results in gradual evolution of autos today. Now one auto is able to exchange information with outside media with itself as the center of telecommunication, entertainment besides driving. Various kinds of Vehicle On-board Equipment, with access to Internet, successfully realize multi-functional driving and relaxation for the customers and no longer a simple transportation substitute for them.

**Green Car.** Automobile industry has been regarded as one of causes for environmental deterioration and climate change, and forced many governments to release many supervision laws and raise green standards for the purpose of environmental protection. Transferring to R&D, designing and manufacture of Green Car becomes not only a social responsibility for auto enterprises, but also their only survival path and the basic threshold for the future competition. Examples in green technology are configuration improvement on fuel efficiency for engine, R&D on new energy vehicles, green materials and equipment, and green manufacturing process flow, etc.

Section 4.2 GEELY’s Competition Environment by Five Forces

4.2.1 Potential New Entry
First, as mentioned before, auto industry has high threshold for capital and technology, and Chinese government lists it as one national pillar industry, and many approval procedure and supervision regulations exist.

Secondly, auto industry could make profit only after achieving scale economy, market share, and sustainable capital input together with technology outcome. It is difficult to enter this industry without huge capital foundation and technology reserve.

Thirdly, “the Plan on Adjusting and Revitalizing the Auto Industry” issued by Chinese government in 2009 strongly encouraged large scale M&A among domestic auto manufacturers. The objective of M&A set in the plan was that top 14 manufacturers with 90% of domestic market share would decrease to less than 10 through M&A. That means new potential entrant will face intense competition and also stricter administrative limitation.

**Conclusion:** it was hard to enter the automobile market of China after 2006 and the competition mainly existed among the existing automobile companies including state-owned companies, Joint-ventures and local private companies.

4.2.2 Suppliers

Most of auto manufacturers’ suppliers are components suppliers. According to statistics from Chinese Automobile Engineering Academy, there are about 30,000 auto component suppliers in China. But two fatal factors make them have almost no bargaining power. One is too many suppliers and homogeneous products lead to extremely intense competition. The other is none of them has the capability to develop and manufacture core components.
On the other hand, international automobile component suppliers not only have core technology but also mainly act as the exclusive suppliers for foreign auto brands, and they even set up factories in China. So for GEELY, the bargaining power with the above two kinds of suppliers are totally different.

**Conclusion:** local components suppliers almost had no bargain power because they could only produce low added value products, while many foreign exclusive component suppliers mastered core components with strong bargain power.

4.2.3 Buyers

First, automobiles belong to durable goods and the price accounts for a large portion of most Chinese people' annual income. Once buying a car, it is very difficult to buy one more in several years. So for buyers, the switching cost is high in the short term.

Secondly, Chinese automobile consumers have not formed influential organizations to collectively bargain with the auto suppliers, although there are already many suppliers competing with each other to sell more cars to consumers. For consumers themselves, what they could do is just to carefully make comparison among different brands before the purchase, or wait and switch to another brand at next purchase option if disappointed with the previous brand.

**Conclusion:** most of Chinese consumers were powerless in buying automobiles because of the factors analyzed above.

4.2.4 Substitutes

In developed countries, automobile industry has already stepped into the declining stage (also
called Sunset industry). But for many developing countries, the demand for auto still keeps growing. In many case study reports or consultation papers on auto industry, airplane and train are usually regarded as substitutes for auto, but they could not become substitutes in most specific situation, for example, in people’s daily life.

In China, the main substitutes for auto are public vehicles (subway, bus) and bicycles, and the cost of using them are very low. But apparently, automobile has incomparable advantages in terms of convenience, speed and comfort over the public vehicles and bicycles, if automobile is affordable by people.

**Conclusion:** although substitutes were cheaper than automobile, Chinese customers still preferred to buying automobile with their income level growing.

4.2.5 Industry Competitors (Rivalry among existing competitors)

Most of Chinese local automobile companies fell far behind the international automobile giant companies in terms of scale, production capability, sales volume and brand prestige. According to statistics by The International Organization of Motor Vehicle Manufacturers (OICA) in 2009, Toyota’s total production output was ranked the first with 7.24 million autos, but the total output of Chinese top 7, excluding joint-venture brands, only accounts for 65% of Toyota’s.\(^{36}\) Secondly, major foreign automobile companies had entered Chinese market and seized major market share with their control on core components, quality auto products and well-known brand prestige. Most of Chinese state-owned auto enterprises could join share the bulk of the market only through joint production

and reliance on core components supply by foreign auto enterprises. Local brands like GEELY could only survive in mid or low end segments under this market structure. The competition in Chinese auto market actually occurred among foreign brands.

As to the industry structure, in 2006, among the top 10 Chinese auto enterprises, only two local brands, GEELY and CHERY (奇瑞) entered this list, and the other eight enterprises were all joint-ventures. Of the total market size of 7.22 million cars, GEELY’s share was less than 3% although its rank was the tenth. After 2003 and 2006, overall sales volume in Chinese automobile market kept growing, the market growth rate started to slow down and seemed impossible to restore booming growth as the year of 2003.

**Exhibit III-3: Chinese Cars market from 2003-2008**

![Chinese Cars market chart from 2003-2008](http://auto.gasgoo.com/)

Source: Collected and edited by author based on data from GASGOO Automobile Website, [http://auto.gasgoo.com/](http://auto.gasgoo.com/)

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Section 4.3 Internal Environment（GEELY’s Core competencies by 2007）

4.3.1 Resource Power

Asset, production capability: By 2007, GEELY’s total asset was 390 million USD, sales revenue 17.58 million USD. GEELY had established 4 production bases in China focusing on manufacture of completely built vehicles. GEELY’s total annual production capability by 2007 reached 300,000 autos, 300,000 engines and 300,000 gear boxes.

Marketing power: GEELY had set up relatively comprehensive marketing network in China with 400 4S dealer shops and 500 after-sale service stations. In the foreign market, GEELY had
expanded production and sales plan through CKD/SKD\textsuperscript{38} in Ukraine, Russia and Indonesia, and established more than 200 sales service stations with 30,000 GEELY autos sold.

**Human Resource:** By 2007, GEELY had 8000 employees, of which more than 1500 were technical experts specializing on R&D, accounting for 18% of total. GEELY set up 5 research institutions aiming to cultivate professional talents in technology and management.

4.3.2 R&D Power:

By 2008, GEELY had successfully developed more than 10 types of completely built vehicle, a series of engine from 1.0L to 1.8L, 8 types of manual/automatic transmissions suited with the engines, and relevant automobile electronics technologies. With these R&D capabilities, GEELY could introduce 4-5 new types of auto per year.

With over 320 patents, GEELY independently developed its newest 1.8L engine (code: 4G18CVVT) with a power output of 57.2 kW per liter, and stands at the leading level among Chinese local automobile companies before 2007. GEELY independently developed Z series of automatic transmissions in 2006, which is the first independently developed and manufactured automatic transmission in local automobile industry of China. GEELY independently developed its own EPS ((Electric Power Steering) products, which was also the first case in local auto industry.

\textsuperscript{38} CKD (Completely Knocked Down) refers to completely built vehicles assembled by the local manufacturers after importing all the original components of cars. SKD (Semi-Knocked Down) refers to completely built vehicles assembled by the local manufacturers after importing semi-finished components of cars such as finished engines and transmissions products. CKD and SKD are usually used in developing countries, as the tariff rates on components are lower than the finished products and CKD/SKD could also promote local employment, which are encouraged by the host countries.
Compared with other local auto enterprises, GEELY’s (GEELY has?) overwhelming competitive advantages in independent R&D capabilities. Even in 2008 financial crisis, GEELY’s annual average R&D input still kept a high level accounting for 10% of its annual sales. But as the late entrant into auto industry with a history of only ten years by 2007, GEELY’s R&D capabilities mean almost nothing when facing the foreign auto giants with a long history in auto manufacturing. Even competing in domestic market, GEELY also had high pressure coming from those state owned auto enterprises joint-ventured and supported by the foreign auto giants, although these state owned enterprises almost had no independent R&D.

4.3.3 Corporate Culture and Entrepreneur Leadership

Like many other Chinese local private enterprises, GEELY developed from a small unknown village factory into one of the Top 10 enterprises in Chinese domestic automobile industry within 10 years, which mostly depends on the employees’ spirit and the founder’s leadership. Usually, successful start-up companies are never short of passion and leader’s vision, GEELY is also no exception. However, after the growing stage and facing the transition crossroads, GEELY and the president, LI Shufu could no longer rely on their past experience to seek for next growth opportunity, what they need is to adapt themselves into global market and cultivate inclusive corporate culture for future global management.

39 Collected and edited based on GEELY’s annual financial reports in 2008.
Exhibit III-5: SWOT Analysis on GEELY before 2007

<table>
<thead>
<tr>
<th>Internal Environment</th>
<th>Strength:</th>
<th>Weakness:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. GEELY is the local brand receiving more and more support from Chinese central government. 2. Comprehensive independent R&amp;D and learning capability. 3. Flexible marketing capability and excellent corporate culture. 4. Strong capability in cost control and production.</td>
<td>1. Shortage in high-end core technology and therefore no high-end products. 2. Brand recognition and brand prestige are weak in global market. 3. Lack of enough experience in global operation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External Environment</th>
<th>Opportunity:</th>
<th>Threat:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1. Support from government’s industry policies. 2. People’s income level is rising. 3. Opportunity of M&amp;A caused by financial crisis.</td>
<td>1. Domestic market growth slowed down and competition became intense. 2. Consumers have more concerns about performance of car, not only price. 3. Competition on core technology and brand tends to be major trend in the future.</td>
</tr>
</tbody>
</table>

|                      | 1. Expansion and global operation through M&A. 2. Learn and absorb core technology through successful PMI. | 1. Accelerate M&A and enter global market. 2. Develop high end cars with quality performance and reverse consumers’ perception on GEELY brand. |
|                      | 1. Accelerate M&A and enter global market. 2. Develop high end cars with quality performance and reverse consumers’ perception on GEELY brand. | 1. Further exploit domestic market through more marketing inputs to keep share in low end market. 2. Continue to develop higher cost-performance cars. |

|                      | 1. Raise brand prestige. 2. Sustainable investment and innovation on new products including next generation vehicle (New energy vehicle). |

Source: Developed by the author based on above analysis.

SECTION 5 Formulation of GEELY’s Transition Strategy (2007-2015)

Based on the above analysis, and guided by the theory of core competencies, GEELY realized that under more and more intense competition environment and rapid innovation changes in auto market, it needs to implement transition strategy to accelerate upgrading of core competencies,
especially in core technology, brand prestige, and quality management control with the aim to become globally well-known auto brand. Therefore, in 2007, GEELY officially decided to launch its transition strategy (2007-2015), converting from cost-leadership to technology-leadership, and cross border M&A would be the main approach for improvement of core competencies and realization of transition strategy goals.

Exhibit III-6: Comparison between GEELY’s new and old strategy program

<table>
<thead>
<tr>
<th></th>
<th>Before 2007</th>
<th>After 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>GEELY’s Core Value</td>
<td>—</td>
<td>Happy life, GEELY drive</td>
</tr>
<tr>
<td>GEELY’s Vision</td>
<td>—</td>
<td>Let GEELY be a widely known brand around the world.</td>
</tr>
<tr>
<td>GEELY’s Corporate Mission</td>
<td>Make cars affordable by Chinese people.</td>
<td>Make good cars that are the safest, most environmentally friendly and most efficient and let GEELY cars go around the whole world</td>
</tr>
<tr>
<td>GEELY’s Brand Mission</td>
<td>—</td>
<td>Making refined cars for everyone.</td>
</tr>
<tr>
<td>Competitive Strategy</td>
<td>Focus cost leadership</td>
<td>High Tech, high quality, high efficiency, and globalization.</td>
</tr>
<tr>
<td>Strategic Development Plan</td>
<td>Survive in the low and mid end car market, and then strive for further growth and development.</td>
<td>Overall following, partial surpassing, key breakthrough, talent pooling and comprehensive cooperation to achieve overall advantages</td>
</tr>
</tbody>
</table>


From GEELY’s new strategy program, it is very distinctive that GEELY puts core technology and brand value as two key pillars in its core competencies framework. Following its Strategic Development Plan, GEELY developed specific targets for the next strategy period.
Exhibit III-7: GEELY’s Concrete Targets during transition strategy Period (2007-2015)

<table>
<thead>
<tr>
<th>Core technology, Production capacity and brand competitiveness</th>
<th>2007-2009</th>
<th>2010-2012</th>
<th>2013-2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>➢ 42 types of Completed Built Vehicle in compliance with global standards.</td>
<td>➢ 8 series of engines, 7 series of manual and automatic transmissions, and 3 types of ECVT transmissions.</td>
<td>➢ To establish 15 overseas production bases</td>
<td>➢ Overseas sale accounting for two third of total.</td>
</tr>
<tr>
<td>➢ R&amp;D on New Energy Vehicles.</td>
<td>➢ R&amp;D on New Energy Vehicles.</td>
<td>➢ To become the auto brand with global competitiveness.</td>
<td>➢ To become the auto brand with global competitiveness.</td>
</tr>
<tr>
<td>Sales target</td>
<td>480,000 (160,000 for overseas sales)</td>
<td>1,050,000 (550,000 for overseas sales)</td>
<td>2,000,000 (1,300,000 for overseas sales)</td>
</tr>
</tbody>
</table>


SUMMARY

At the start-up stage, it was necessary and sensible for GEELY to take a focus cost leadership strategy as GEELY did not have enough foundation in terms of strong core technology and brand value. Fortunately, through analysis on external and internal environment, GEELY accurately targeted the low end family automobile segment market.

With the change of environment together with GEELY’s long term development goal, GEELY needs to enhance its core competence through transition strategy: from cost strategy to technology leadership strategy. Based on accurate strategic identification, GEELY formulated its transition strategy from 2007-2015 with many ambitious objectives. To really achieve these objectives in a short time, GEELY should not only rely on its independent accumulation by internal learning step by step, some other approach like cross border M&A could also be the accelerator.

During implementing the transition strategy, GEELY initiated much technical cooperation, joint R&D, and direct M&A to improve its own core competencies. Among all of these activities, three M&A targeting three world-known corporations were milestone events for GEELY’s success today. They are M&A on London Taxi Company, Australia DSI Company, and VOLVO Car Corporation.

SECTION 1 Acquiring London Taxi Company (LTC).

Section 1.1 Background and Introduction

London Taxi Company is a listed company in the U.K., which is famous for manufacturing and selling fully accessible, purpose-built London taxis. This company produced the car body and provided quality control service for Rolls-Royce. The core competencies of this company are manufacturing skills and process management on luxurious cars. But due to lack of diverse types of products, that lead to decline of production and sales, this company started to fall in bankruptcy.

GEELY’s acquisition of LTC experienced two stages. At the first stage, GEELY just acquired 20% of LTC’s share in 2006 and became the biggest shareholder. Then the two sides established a joint-venture called in Shanghai of China to manufacture high-end cars with brand name of ENGLON and black London taxis. At the second stage, GEELY acquired the whole LTC with 11.04 million pounds in 2013, and then obtained all tangible and intangible assets of LTC.
Section 1.2 Evaluation on Improvement on GEELY’s Core Competencies

1.2.1 Production process and quality management capability of High-end car

As the classic London taxis manufacturer with more than 100 years history, LTC has accumulated abundant skills and experiences in production of high-end cars. LTC still maintains excellent human resources on quality control and management on production process of high-end cars. GEELY’s first acquisition helped GEELY start production of its own high-end car (brand name: ENGLON) with capabilities learned from LTC.

1.2.2 Expansion of sales channels at low costs

At the first acquisition stage, although GEELY realized shares holding to LTC through becoming LTC’s biggest shareholder, LTC’s sales network was still controlled by LTC itself. To further exploit European market, GEELY finished the second acquisition for full control on LTC with a relatively low cost when LTC had to declare bankruptcy. The second round acquisition made GEELY able to further promote GEELY’s cars into European market based on LTC’s sales channels. For example, LTC has 40 existing dealers just in the U.K., and also has exiting experienced human resources on sales and services. Costs for setting up 40 new dealers plus recruitment and training will be much higher than the acquisition cost of 11.04 million pounds.

1.2.3 Mutual-benefits on survival and brand awareness

LTC was acquired by GEELY due to bankruptcy, but GEELY successfully saved LTC after the full acquisition. Compared with LTC, GEELY in 2013 already had strong capabilities on cost
control, new technology application and marketing. After GEELY’s acquisition and PMI, LTC achieved profits at the end of 2013 and increased LTC’s employment for 5000 jobs, which also brought positive reputation to GEELY brand in U.K. These achievements raised GEELY’s brand awareness in local people’s mind and contributed to promotion of GEELY’s car.

SECTION 2 Acquiring DSI

Section 2.1 Background and Introduction

Drivetrain System International (DSI) Company in Australia was the second largest independent automatic transmission manufacturer in the world. This more than 80 years old company has annual production capacity of 200,000 automatic transmissions, and excellent R&D and manufacturing capabilities in new transmission products such as DCT (Dual Clutch Transmission), CVT (Continuously Variable Transmission), and those transmissions suited for new energy vehicles. DSI had always been major automatic transmission supplier of FORD (Australia), Chrysler, and SsangYong Motor of Korea, etc. But the depression in global auto market caused by the financial crisis in 2008 resulted in DSI’s bankruptcy in 2009. Shortly after DSI’s close-down, GEELY fully acquired DSI at the cost of about 32.9 million USD and made it the subsidiary of GEELY.

http://auto.163.com/13/1204/09/9F87O3FO00084TV0.html
Section 2.2 Evaluation on Improvement on GEELY’s Core Competencies

2.2.1 Upgrading of Core technology

GEELY had independent technology and manufacturing capability of automatic transmission before, but this series of AT (Automatic Transmission) products could only be equipped for three engines (1.0L, 1.3L and 1.5L). GEELY had already developed 1.8L engine products, so the lag in technology of transmission made GEELY decide to acquire DSI Company. After this acquisition, GEELY integrated the two R&D teams, with more and more transmission experts joining GEELY from DSI, and sharing key technical data bases. With improvements in manipulating stability, convenience and fuel efficiency, GEELY’s independently manufactured transmission was successfully upgraded into a new generation level. Following these progress with DSI, GEELY successfully caught up with R&D in new generation of transmissions like DCT, CVT and transmission suited for new energy vehicles.

Moreover, the R&D integration lowered GEELY’s expenses on transmission R&D, accelerated R&D cycle of new products. Therefore, cost and quality of new car were substantially improved. Just as Ph.D. CHEN Yong, the vice dean of GEELY Research Institute pointed out, “With DSI’s participation, GEELY had taken full use of R&D strength in transmission products, and made GEELY’s own technology and products achieve great-leap-forward development.” 41

2.2.2 Upgrading of Brand Image

Famous automobile brands are backed up by the core technologies. DSI is well-known due to its advanced technology and excellent transmission products. It was accepted by almost all Chinese people that foreign automobile companies had the advantages in core technologies. It was explosive news in China when this brand name with a long history was acquired and incorporated into GEELY. Due to this acquisition, GEELY’s brand image in consumers’ perception also started to upgrade onto a higher level. People were gradually convinced that GEELY could also produce high-end cars and GEELY owners are no longer low-end brand owner. Actually, absorbing DSI’s technology is more important than directly using DSI’s products. One example could explain it. In 2009, GEELY equipped one of its small car products (sub-brand name: Panda) with a new transmission (upgraded based on DSI technology), which is cheaper than DSI original products. Before introducing new Panda cars into market, GEELY advertised with the slogan of “New panda incorporated with DSI technology” to make it highlighted by advanced core technology. The sales result was that 41,044 Panda cars were sold in the single year of 2010 with a growth rate of 46% higher than that in 2009. This rate was historic record in the past five years for GEELY.  

2.2.3 Integration of human resources

First, GEELY kept most of key members in DSI management. There were 3 Australian persons in the new 8-person director board, and 2 of them from original DSI. This arrangement ensured the stable transition during integration process. Secondly, maintaining independent operating and management framework of DSI. GEELY did not interfere with DSI’s daily operation,

but just set the overall budget task, business performance targets and new development goals based on GEELY’s whole strategy. Therefore, the corporate culture, excellent R&D power and manufacturing capability of DSI had not been affected. Thirdly, GEELY kept all employees through restoring and expanding DSI’s production capacity not only to DSI’s old clients but also to Chinese auto manufacturers. Under GEELY’s operation, DSI overcame income loss and made net profit of 3.1 million AUD (about 2.79 million USD) just in the next year after acquisition by GEELY. These efforts and achievements won active support from local trade unions in Australia.43

SECTION 3 Acquiring Volvo

Section 3.1 Background and Introduction

Volvo Car Corporation (Volvo) was founded in 1927, used to be a subsidiary of Sweden Volvo Company, and later was acquired by FORD Car Group in 1999 with 6.45 billion USD. Volvo used to be the biggest car manufacturer in northern Europe, and also the biggest manufacturing group in Sweden, ranked in the top 20 automobile enterprises in the world. Volvo car is very famous for its unique technology in quality and safety and was regarded as the safest car in the world since 1966.44 However, Volvo under FORD did not resist the impacts from the financial crisis in 2008, and the sales started to decline since that year, with global sales volume decreasing by 18.3% in 2008 and 10.6% in 2009. To cope with this crisis, Ford Group initiated “One Ford” strategy in 2009 to slash

43 http://qq.taizhou.com.cn/a/20100108/content_141024.html
44 http://auto.sohu.com/20110822/n316980950.shtml
overall budget and sub-brands. As one of Ford’s sub-brands, Volvo was put into the “list to be sold” due to its high operating cost and income deficit for consecutive years.

In 2010, GEELY and FORD reached the final agreement on acquisition for Volvo. GEELY spent 1.8 billion USD to obtain 100% shares of Volvo. Since then, Volvo, this world class luxury auto brand was formally incorporated into a Chinese local brand and became integral part of GEELY, which made GEELY the first real global enterprise in Chinese local automobile industry. Through this acquisition, GEELY not only obtained Volvo brand, but also took over 9 complete built vehicle production lines, 3 newest technical platform, more than 2000 global marketing network, major supplier network, R&D teams and other human resources. Before this acquisition, it was estimated that Volvo’s net assets exceeded 1.5 billion USD but the value of brand was worth more than 10 billion USD.45

Section 3.2 Evaluation on Improvement on GEELY’s Core Competencies

What this acquisition could bring to GEELY is not whether Volvo could make profits in a short time, but Volvo’s CBV technology and manufacturing capability, brand value and overall R&D capability, as these are important elements of core competencies in the long run.

3.2.1 Capabilities in R&D and Innovation

According to the acquisition agreement between GEELY and FORD, FORD still kept some platforms of Completely Built Vehicles (CBV) in Volvo as FORD had already invested and developed. Volvo would also keep the IPR (Intellectual Property Rights) of its own technologies. It was acceptable for GEELY. First reason is GEELY already acquired Volvo including its technologies, brand and IPR. GEELY’s consideration was that it was necessary to maintain Volvo’s internal core resources and capabilities if GEELY would keep the brand value of Volvo. After all, GEELY is only a small and unknown brand in the world before acquisition. Second reason was that GEELY was very clear that core competence could be learned, not be acquired. M&A was just an accelerator to help GEELY learn more quickly. GEELY’s president, LI Shufu pointed out that, “GEELY’s acquisition for Volvo could be regarded as a kind of strategic cooperation under the framework of strategic acquisition. Unlike other cooperation between two independent companies, what we care more about is how GEELY could improve its own core technologies along with Volvo’s revival.”

Guided by this strategy, GEELY successfully built many smooth bilateral channels with Volvo to learn and share Volvo’s technologies. In 2012, under the whole GEELY Group framework, GEELY set up an affiliation called “Bilateral Technical Dialogue Committee”, within which Volvo was responsible for new technology development and training for GEELY’s R&D team. Unlike technical cooperation and joint R&D between two independent corporations, this is actually an internal research and training institute exclusively for GEELY’s capacity building. With this Committee, Volvo shared advanced technologies with GEELY, and after GEELY had completely grasped them, the two sides start to jointly develop new technical platform of CBV (Completely Built Vehicle) with

http://auto.qq.com/a/20150613/007757.htm
risks and returns equally shared. This approach could not only promote GEELY’s R&D up to the same level with Volvo, but also lower cost of platform R&D and new cars due to investment equally shared.

Other similar cases in this approach are China-Sweden Traffic Safety R&D Center, China-Euro Vehicle Technology Center set up within GEELY Group in 2013. Under these mechanisms, the high end car platform like CMA (C-segment Modular Architecture) was born and served for new cars introduced by Volvo and GEELY respectively. Moreover, GEELY also manufactured the latest version of DCT transmission by integrating technical resources from Volvo and DSI, another huge investment in R&D on transmission suited with new energy vehicles was also in progress.

3.2.2 Brand Prestige

As mentioned before, core technology contributes to the brand image. Through successful integration in technology with Volvo, GEELY’s R&D capabilities level has been approaching to Volvo, so has GEELY’s brand. With these successes, GEELY entered “Fortune Top 500” since 2012 and stayed in this list for consecutive four years. As GEELY’s name had become a global brand, GEELY in 2014 employed “One Brand, One Logo, One platform” campaign, combining its three sub-brands into one GEELY brand (a combination of blue and grey color), started its global brand strategy.
3.2.3 Strategy and Culture Integration

During the process of PMI with Volvo, GEELY accumulated much experiences of corporate culture integration and also finally built its own corporate culture framework, which are consolidation and hard-struggling, flexibility and innovation, inclusiveness and incorporation. Actually, shortly after acquisition, GEELY found it is totally different from and more difficult than the integrations with LTC and DSI. Volvo is a comprehensive automobile company, and as the global top 20 car company with a long history, the inherent pride and unique adamant personality of northern European people made it not so open to foreign parent company, it is said that the same case also occurred after Ford’s acquisition of Volvo in 1999. When GEELY realized this problem, the management kept Volvo’s independence on management and operation, and also managed to get support from local trade union in Sweden. But it never means GEELY leaves Volvo alone without any interference. GEELY delivered its inclusiveness culture to Volvo people especially the management, made them aware that GEELY and Volvo is the community of shared destiny.

In GEELY’s corporate culture, incorporation refers to diverse cultural factors that stay together and interact with each other, share and absorb each other’s virtues and advantages, and then reach a higher and better outcome. (author’s summary based on GEELY’s corporate culture, http://www.geely.com/introduce/mission/index.html)
With this awareness, GEELY took various concrete actions to support Volvo’s development. GEELY invested 15 billion RMB in China to build two car production bases, one engine production base and one R&D center for Volvo, which could lower cost and provide sustainable R&D capital for Volvo and also expand sales in the huge market in China. These win-win programs resulted in Volvo’s revival: after acquisition, Volvo’s sales volume, sales income and operating profits had kept growing for consecutive 4 years since 2012. In 2015, Volvo’s operating profits hit a historic record of 6.62 billion Swedish Krona (about 770 million USD), 3 times more than that in 2014, and its sales volume in 2015 was 500,000 cars.  

With these achievements, GEELY set an example in international M&A with successful PMI. Since Success with Volvo for now, GEELY’s core competencies will not just focus on how to acquire the core technology or upgrade brand value, but also enhance its influential power in the global automobile market.

SECTION 4 Problems to be solved

Section 4.1 Coordination in Core technology integration and cooperation

GEELY almost one hundred percent absorbed core technology of LTC and DSI through acquisition, but it was not so smooth after acquisition on Volvo. According to the agreement between GEELY and FORD, some core technologies in engine and auto electronics of Volvo still were owned by FORD Car as it had invested too much capital and human resources and possessed the IPR of

these technologies. It is understandable that Ford had owned Volvo for 10 years, but GEELY did not well solve this complicated relation. GEELY also established technical cooperation channel with FORD, but just like mentioned in the Chapter 2 of this thesis, this kind of cooperation between two independent and also mutually-competing companies was dominated by the side owning core technologies. To some extent, this kind of leftover problem restricts GEELY’s efforts in cultivaing its own R&D capability by PMI.

Section 4.2 Impacts on Strategy Synergy Deriving from Difference of Culture

Unlike LTC and DSI, GEELY faced more challenges in strategy synergy with Volvo. During the PMI process, two sides had divergence on the future positioning strategy on Volvo car. Whether Volvo should keep its original Swedish tradition: simple but safe and reliable, or change into the image of luxurious, ambitious or aggressive.

GEELY’s President, LI Shufu proposed to develop a new high-end luxurious car similar to BMW, Audi and Benz. LI’s proposal was based on how to let Volvo increase sales and make profits as soon as possible. His rationale focused on the potentials in Chinese market. Just for a single year of 2011, 1.2 million luxurious cars were sold, most of which were luxurious brand from Germany. Rich Chinese consumers had a special preference to expensive cars with luxurious appearance besides high-end technology in order to reflect their social status. With the brand image transition, Volvo could boost sales in China with support from GEELY parent company, and realize profits-making target as soon as possible.
But managers of Volvo did not agree with Li Shufu, as they thought it very risky to abandon Volvo’s traditional image for many decades and too much new investments into highly luxurious cars would also increase costs but without quick returns. Immature decision might cause the “all eggs broken” result.

This “dispute of Volvo’s future” has not come into result yet, and neither side could prove itself right as far as now. Sales performance of Volvo cars has satisfied the management of Volvo and GEELY. But regarding alternative between two elements of corporate culture (inclusiveness and incorporation), it is more important for GEELY and Volvo to operate under the overall strategy framework than continuing endless discussion under inclusiveness. After all, Volvo’s future can only been created by visionary decision and quick implementation, not through brain-storming.

Section 4.3 Long Term Relation between GEELY Brand and the acquired Brands.

GEELY’s ultimate goal is to develop into the high-end auto brand, which was already declared in its transition strategy. With growth and expansion for almost ten years since 2007, GEELY has successfully been regarded one of the globally well-known auto brand especially after acquiring Volvo. Since 2011, GEELY’s sales volume, excluding Volvo’s cars, has kept nearly 500,000 cars per year for consecutive four years, and this average number is the best number of Volvo until 2015. According to global ranking by sales volume in 2015, GEELY entered the top 20 list.

It has to be admitted that GEELY brand still has gap compared with Volvo brand in prestige, and value by consumer perception. However, it is only the gap for today, not future. Now GEELY
still pays more attention to manufacturing of mid end cars, while keeping Volvo still focus on high
end cars for the sake of best allocation and utilization of existing resources and capabilities. GEELY
has great potentials to upgrade a high-end brand and that is also the goal GEELY is striving for. In
the future, if GEELY successfully upgraded to be the high end, it needs to consider and balance the
relations with Volvo brand. For example, if Volvo brand image is still positioned as safe, comfort and
modest luxurious cars, then what about GEELY when it also enter into the high end category? To
avoid cannibalization from homogenous competition within GEELY Group, brand of GEELY might
consider to be positioned differently such as success, decent or elegant, etc. Of course, the hierarchy
of one automobile brand can never been changed overnight, but it has been very urgent for GEELY
to do this thing as early as possible.

Therefore, if GEELY could not forecast or even ignored the above problem, its competitive
advantages might be jeopardized as real core competencies are based on long term capabilities.

SUMMARY

Through accurate and successful M&A activities, GEELY substantially accelerates the
construction of core competence which would have taken more time through internal learning on its
own, especially in terms of core technology and brand prestige, and made GEELY become one of the
globally well-known automobile brands. However, sustainable technology innovation, culture
incorporation and strategy synergy will still remain challenges for GEELY during the long term PMI
in the future.

Recommendations on GEELY’s Future Choice

SECTION 1 Current Situation of New Energy Vehicles Industry

Section 1.1 Technology Environment

New Energy Vehicles could include three (or four) types of different technologies used for driving the cars: 1) PHEV (Plug-in Electric Vehicles), also including EREV (Extend-Range Electric Vehicles); 2) BEV (Battery Electric Vehicles); 3) FCEV (Fuel Cell Electric Vehicles). The fourth HEV (Hybrid Electric Vehicles) are usually listed as only the energy-saving vehicles. But it could also be regarded as NEV by extensive definition. (Exhibit 5.1) Currently, NEV market is still regarded to be under developing stage, either in technology or in the market. Various technical routes about NEV’s future coexist and compete with each other as each of them has its strengths and weakness.

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49 NEV in this thesis refers to the definition in the Development Plan on Energy-saving Vehicles and New Energy Vehicles (2012-2020) enacted by Chinese central government: NEV refers to the vehicles using new power system, totally or largely driven by new energy, including BEV, PHEV and FCEV, etc. HEV is listed into the category of energy-saving vehicles.

50 As there has no strict, common and standardized definition about new energy vehicles, for the sake of discussion in this thesis, the author classified the above technical routes of NEV.
Exhibit V-1: Comparison among HEV, PHEV, EREV, BEV and FCEV

<table>
<thead>
<tr>
<th></th>
<th>Driving Device</th>
<th>Power Source</th>
<th>Driving Mode</th>
<th>External Charging possible or not</th>
</tr>
</thead>
<tbody>
<tr>
<td>HEV</td>
<td>Engine &amp; E-engine</td>
<td>Fuel oil</td>
<td>Oil/battery → Fuel Power (Supplemented with Electric Power)</td>
<td>Not possible</td>
</tr>
<tr>
<td>PHEV</td>
<td>Engine &amp; E-engine</td>
<td>Fuel oil &amp; Battery</td>
<td>Oil/Battery → Fuel Power &amp; Electric Power</td>
<td>Possible</td>
</tr>
<tr>
<td>EREV</td>
<td>E-engine</td>
<td>Fuel oil &amp; Battery</td>
<td>Oil/Battery → Electric Power</td>
<td>Possible</td>
</tr>
<tr>
<td>BEV</td>
<td>E-engine</td>
<td>Battery</td>
<td>Battery → Electric Power</td>
<td>Possible</td>
</tr>
<tr>
<td>FCEV</td>
<td>E-engine</td>
<td>Hydrogen</td>
<td>Fuel cell → Electric Power</td>
<td>Not possible</td>
</tr>
</tbody>
</table>

Source: Developed by author.

Section 1.2 Brief Summary on NEV Market

China has become the biggest country in sales volume of NEV (mainly refers to BEV & PHEV). In 2015, the sales volume was 188,000 cars, in which Chinese brands accounted for over 30%. BYD (比亚迪), the earliest and biggest electric vehicle company of China which started up from battery business, with sales volume of 58,834 cars.

51 For the sake of discussion in this thesis, relevant statistics about NEV in this thesis are based on the definition in the Development Plan on Energy-saving Vehicles and New Energy Vehicles (2012-2020) enacted by Chinese central government. FCEV is also included into NEV, but this thesis mainly discusses BEV and PHEV due to FCEV has not formed relatively mature market currently.
Exhibit V-2: Global Sales of NEV by Brand Origin, 2015

Source: http://www.cnautonews.com/tt/201603/t20160310_452842.htm

Exhibit V-3: Top 10 Chinese Automobile Enterprises in 2015

Section 1.3 Policy Environment about NEV

There is no consensus on common or single global standard regarding NEV, and each country or region like European Union has its own consideration and industry policy priority on NEV.

In the United States, President Barack Obama put PHEV technology as the priority in his economic plan. PHEV has the better efficiency in energy saving than HEV and more convenience than BEV under current technology level. Therefore, besides stimulating the economy and reviving domestic automobile industry, PHEV could also accelerate accomplishment of US national plan on energy saving and emission reduction. In Japan, the government promulgated many special laws like *Special Law on Promotion on Utilization of New Energy* and *Law on Recyclable Energy Quota*, offered preferential treatments in taxation and allocated exclusive financial capitals to support development of HEV, BEV and FCEV. European Union also issued similar common laws and decrees within the community with priority on the development of future FCEV.

In China, the government issued the *Development Plan on Energy-saving Vehicles and New Energy Vehicles (2012-2020)*, and the key points of this development plan are:

1) NEV sector is positioned as national strategic industry. Before 2020, China aims to accomplish industrialization of BEV and PHEV, expedite the development of FCEV technology, and achieve the market size of NEV to be 5 million automobiles.

2) HEV falls into the category of energy-saving vehicle with exclusion from NEV list. The strategy development goal for energy-saving is to become the biggest market with market size of 15 million by 2020.

3) Relevant preferential treatment on taxation and subsidies on purchasing and using NEVs will be arranged in due time.

Exhibit V-4: Brief Summary on NEV Policies by Major Global Economies

<table>
<thead>
<tr>
<th>Policy Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>U.S.A.</strong></td>
</tr>
<tr>
<td>1. Put PHEV as the priority in economic stimulation plan;</td>
</tr>
<tr>
<td>2. Preferential laws and regulations to encourage “miniaturization” and “low energy consumption” in vehicles products.</td>
</tr>
<tr>
<td><strong>Japan</strong></td>
</tr>
<tr>
<td>1. “Green taxation” on new generation vehicles including HEV, BEV, FCEV, etc.</td>
</tr>
<tr>
<td>2. Preferential laws and regulations on technology exploitation and products relating to new energy and energy saving.</td>
</tr>
<tr>
<td><strong>European Union</strong></td>
</tr>
<tr>
<td>Further focus on encouraging R&amp;D and manufacturing on FCEV besides BEV.</td>
</tr>
<tr>
<td><strong>China</strong></td>
</tr>
<tr>
<td>1. Accomplish industrialization of BEV and PHEV, expedite development of FCEV by 2020;</td>
</tr>
<tr>
<td>2. HEV is listed into the energy saving vehicle category, and Chinese HEV market to be the biggest market by 2020.</td>
</tr>
<tr>
<td>3. Preferential taxation and subsidies on purchasing and using NEVs.</td>
</tr>
</tbody>
</table>

Source: Summarized by author.

SECTION 2   Recommendations on GEELY’s Future Development

Therefore, next five years is a turning-point opportunity for GEELY to realize its next goal—become the global top 10 automobile company.

Therefore, GEELY needs to further accelerate to restructure its core competencies strategy, and the following are some pragmatic recommendations proposed for GEELY’s next development stage.

**Firstly, make balance among various technical routes of NEV and establish core competence in NEV technology as early as possible.** GEELY had already conducted R&D on each
technical route since 2007. Considering nature of NEV’s development, any technical route might become the leading role in the future NEV’s era. Moreover, different countries also have their respective priorities on each NEV technology. Putting eggs in different baskets are considerate decision and it is useful to exploit diverse markets, but it is not beneficial for concentrating its all resources available to establish distinctive competitive advantages.

Considering R&D in several technical routes in parallel cost too much resource, GEELY should make Balance among them. It could be an option to make quick decision and select one route as the priority, and manufacture marketable NEV products as soon as possible.

Secondly, in corporate culture, GEELY should make a real balance between inclusiveness and incorporation. Inclusiveness means independence in terms of management style and operation model, but incorporation requires all parts of the whole GEELY Group to chase for the common goal guided by one single overall strategy. It is crucial and urgent for GEELY to make everyone be aware of it so as to get ready for the upcoming competition in NEV time with all the internal resources integrated. For example, in April of 2016, GEELY launched a new joint project for R&D and manufacture of high-end BEV. In this project, GEELY has already shortened distance with Volvo in terms of technology and manufacturing quality through huge investments and technical reserve in battery-driven powertrain system (including engine, transmission and clutch, etc.). Apparently joint R&D and manufacturing under the common parent group could lower cost and shorten R&D cycle, but how to incorporate each other’s advantages and synergize with corporate strategy will be the key success factors.
Thirdly, GEELY also needs to pay much attention to balance the stable transition from traditional cars to NEV cars. GEELY’s original target of sales volume by 2015 was 2 million cars, and GEELY established more than 10 production bases to guarantee the production capacity. However, GEELY’s real sale volume by 2015 only exceeds 50% of its target, which means GEELY’s production bases still have much capacity left. In the meantime, GEELY’s new target in its NEV strategy is NEV’s sale volume accounting for 90% of total. Considering intense competition in current traditional cars market and NEV’s replacement in near future, GEELY should first ill its production capacity through more efficient marketing strategy.
CHAPTER 6 Conclusion and Limitation

SECTION 1 Conclusion

Core competencies are the source and guarantee for competitive advantage in the market. The acquisition and cultivation of core competencies should be achieved by strategic management. M&A could be used as an effective tool or even shortcut for construction of core competencies, but both have no relation of cause and effect, which is just like one person who has enough money to buy fishes might not be the one who can fish. The measurement for whether core competencies improved through M&A is PMI.

Reviewing through the above chapters, it could be concluded that GEELY’s core competencies strategy through M&A has been done well as far as now, measured by three major measurements criteria (profits, shareholders return and synergy especially in the field of R&D). More importantly, by effective strategy management, successful M&A and PMI, GEELY accelerates construction of its own core competencies.

SECTION 2 Research Limitations and Considerations on Future Study

Section 2.1 Research Limitation

Firstly, Due to author’s limited academic capability in core competence and limited timeframe, this thesis could only discuss some key elements in framework of core competence, such as
knowledge, technology, brand, etc. Other key elements like corporate culture, organizational structure are short of in-depth discussion.

Secondly, more empirical research based on more concrete data and information about the automobile market in China and the world should be conducted, especially analysis on the industry structure of New Energy Vehicles.

Moreover, as lack of professional expertise in automobile technology, the author could not well explain the core technology during the course of cultivating core competence.

Section 2.2 Future Study

In future study, it is recommended that the technology about New Energy Vehicles be researched in detail and relevant market structure be analyzed, in order to identify opportunities, threats, strengths and weaknesses that GEELY is facing.

Last but not least, it is recommended that more elements regarding core competence like corporate culture, organizational structure and strategy synergy be studied more, with a view to formulating comprehensive research framework on strategic management on core competence of one company.

* * *
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