Branko Rakita[1]
Dusan Markovic[2]

THE PROSPECTS OF INTERNATIONAL ACQUISITIONS IN CAR INDUSTRY DURING THE GLOBAL ECONOMIC CRISIS - THE CASE OF GEELY VOLVO

Abstract

Significant technological, social and economic changes on the global level marked the beginning of the 21st century. Growing importance of Chinese economy stands out as one of the most important among these changes. Accelerated economic development of China was first based on FDI inflow and the export of low-cost less technology intensive products. However, a gradual alternation to Chinese economic policy and the growth of outward FDI followed by a global breakthrough of some Chinese companies operating in technology intensive industries (Huawei, Lenovo, Mindrey, Haier etc.) has been marked in the past few years. Further economic development of China will to a large depend on the positioning of Chinese car manufacturers. In this paper the stress will be put on high technology intensity in car industry, on its global character, high concentration within the industry and on market saturation in developed countries due to global economic crises. Basic characteristics of automotive industry and its development will be considered regarding prolonged economic crisis. Current local character of Chinese car manufacturers and its going global prospects will be observed. In order to become global players Chinese car manufacturers could implement the acquisition strategy of some key competitor from developed countries. Chinese car companies aimed at relatively small targets in the previous period because they were inexperienced in acquisitions and restructuring management and tended to decrease risks. The last and the most important is the acquisition of Swedish Volvo by Chinese Geely. These are the companies significantly differing in the level of technology, corporate and national culture, brand perception and geographic orientation of business operations. Potential risks that follow these differences as well as potential synergetic effects, supposing that the acquisition process is properly managed, will be considered in the paper.

Keywords

Acquisitions, Auto industry, China, Synergy

1. Introduction

The globalization process, having been intensified over the last two decades, has had profound impact on the international business environment. One of the most important results of this process is the integration of national economies into global economy. According to some research Chinese economy was the fastest globalized national economy between 1975 and 2000 (Dreher, 2006, pp. 1091−1110). Deregulation of Chinese economy and integration into global economy set the bases for its strong economic growth. Despite the poor starting point, China has become the second world economy for only two decades. China GDP has shot up in the past two decades and was multiplied more than eleven times.

[1] National Research University, Higher School of Economics, Russia, e-mail: ivashkovskaya@yandex.ru
[2] National Research University, Higher School of Economics, Russia, e-mail: Dm.shcherbakov@gmail.com

Likewise, GDP per capita was multiplied 9.5 times. Some researchers believe that without structural reforms and stimulation of domestic demand China will very soon hit the peak of its economic growth. Global economic crises and falling demand for Chinese products in their main export markets (i.e. European Union) support these ideas. The World Bank's latest research expects Chinese economy to cool off, but in spite of the slowdown it forecasts strong GDP growth rates, compared with developed economies (World Bank, 2012, p. 81).

China's development in the last two decades has been based on strong FDI[3] inflow, which rose from USD 4 billion to USD 185 billion. Big MNCs[4], usually from developed economies, have used its subsidiaries in China as export-platform FDIs. Strong presence of export-oriented MNCs and deregulation of economic policy have allowed Chinese companies go global. The first wave of the internalization comprised work intensive industries. Nevertheless, in the past few years a number of Chinese companies performing in high technology industries have become global competitors (Lenovo, Huawei, Haier, ZTC, Mindray etc). These companies are still exception rather than the rule, and it seems clear that more players from China will enter the global field in the years to come.

Due to large R&D investments and high market saturation in the global auto industry market, new entrants cannot easily penetrate it. Today's Chinese car industry is not globally competitive, though some companies strive to internationalize their business operations. Several Chinese car companies made international acquisitions to achieve this goal. The last and the most important has been the acquisition of Swedish *Volvo* by Chinese *Geely*. This acquisition is estimated to be very risky due to its size, investor's lack of experience in acquisition management, and the differences between national and corporate culture of the investor and the target.

This paper consists of three parts. The first part offers theoretical explanation of horizontal acquisitions. The motives behind the acquisitions of enterprises operating in the same industry will be examined. The second part of the paper gives a review of the present situation in auto industry and its future prospects. The focus will be on the market position and the future role of Chinese car manufacturers. The third part of this paper offers the analysis of the motives behind *Geely*'s acquisition of *Volvo*, potential benefits and risks involved in it.

2. The role of cross border acquisitions in contemporary business environment

Before the global economic crisis international acquisitions recorded constant, though unsteady growth. In this period both the number and the value of international acquisitions increased. In 2007 the value of international acquisitions was more than USD 1,000 billion and they reached the historic peak, while in the next two years they suffered a sudden downturn, and in 2009 their value was USD 250 billion. In 2010 and 2011 an appreciable growth of international acquisitions was recorded, though its value accounted for something

[3] Foreign Direct Investments

[4] Multinational Companies

more than the half of its historic peak (UNCTAD, 2012, pp. 177−180). The dynamics of international acquisitions varied from industry to industry. Its dynamics in car industry did not entirely correspond to global economic trends.

	Value of transactions	*Number of transactions*
2005	8.524	78
2006	7.475	84
2007	3.099	86
2008	11.608	95
2009	8.753	74
2010	7.488	84
2011	5.370	87

Table 1: *The value of international acquisitions in car industry in million USD (UNCTAD, 2012, p. 185)*

According to Table 1 international acquisitions in car industry reached its peak exactly in the crisis period. These relatively unexpected trends regarding the global economic trends must be observed through the comparison between pre-crisis and post-crisis structure of the industry. This is to say that a considerably high market concentration in auto industry before the crisis did not leave much room for further acquisitions. Some car manufacturers were, however, severely hit by the crisis and had to seek restructuring through bankruptcy, while the others had to divest some of its operations. Car companies that successfully survived the first wave of the crisis (*Volkswagen and Fiat*) and companies from emerging markets (*Geely*) seized the opportunity stemming from the competitors' unfavorable position and took over some or all of their operations. In the last two decades, in the Fifth Wave mergers and acquisitions, the number of horizontal acquisitions has rapidly increased. In this period companies tended to utilize the positive economic trends in the West as well as deregulation of world economy (Gaughan, 2007, p. 59). The Fifth Wave acquisitions are to a large the consequence of the MNCs' strategies of focusing on the cornerstone of competitive advantage and divest from highly diversified business operations. This applies to car industry too.

In business economics acquisitions have been analyzed from different aspects with the aim of identifying the motives behind them, effects they produce, the causes of success or failure, and how to advance the acquisition process itself. In spite of extensive theoretical and practical researches into this field failure rate of acquisitions remains high. Most analyses show that more than 50% of acquisitions fail and the often quoted research carried out by KPMG shows that on average 53% of acquisitions is value destroying, 30% have no effects on value, and only 13% of acquisitions create value (Kelly, Cook and Spitzer, 1998, p. 2). The most recent research in this field shows that the success rate of acquisitions is much higher if investors from emerging markets acquire targets from developed markets. This is because intangible resources possessed by companies from developed markets complement country specific advantage of emerging markets multinationals (Gubi, Aulaks, Ray, Sarkar and Chittoor, 2009, pp. 397–418).Considering the high failure rate of acquisitions it is necessary to classify them according to their goals: (1) acquisitions by which companies try to advance its business performance without changing the business model (2) acquisitions by which companies try to reinvent their business model (Christensen, Alton, Rising and Waldeck, 2011, pp. 49−57). Through the first type of acquisitions companies try to maintain their strategic position and it is more frequent than the second one. Investors often have high expectations about these acquisitions and the premiums paid for them can be very high. On the other hand, less frequently the goal behind acquisition is to reinvent the existing business model and to create a new strategic position. Acquisitions of targets from developed markets by investors from emerging markets fall under the second type of acquisitions. The motive behind all acquisitions is to achieve synergy. Synergy can be achieved via operational and financial synergy. The effects of operational synergy through acquisition will not be produced equally fast and do not have equal prospects of success (Cullinan, Le Roux and Weddigen, 2004, pp. 97–104). Figure 1 shows operational synergy map that can be represented in the form of concentric circles.

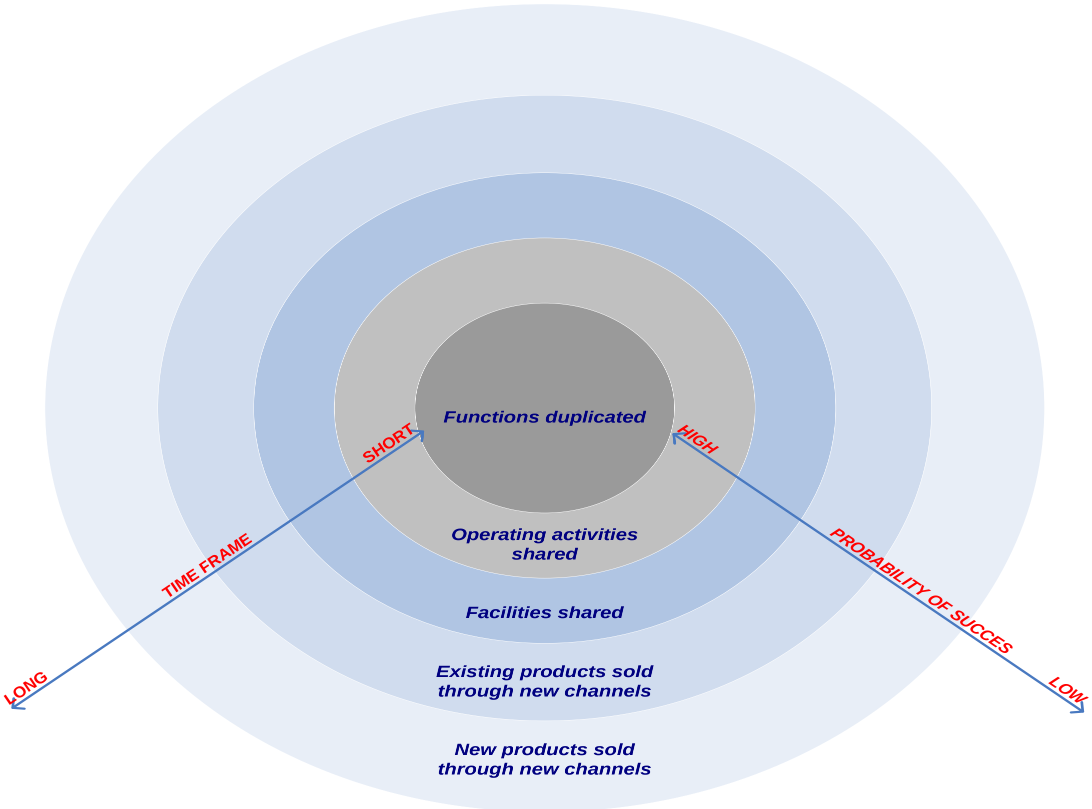

Figure 1: *Operational synergy map (Cullinan, Le Roux and Weddigen, 2004, pp. 97–104)*

During Due Dilligence process, but also in post-acquisition period, cost reduction is investor's top priority. There are several reasons for this. Cost reductions can be quiet easily identified and quantified, and most often they can be easily achieved in short term. Rapidly achieved considerable cost reduction contributes to so called "early victories". "Early victories" must be promoted among the stakeholders, especially among the investors and creditors (Habeck, Kroger and Tram, 2000, p. 68). Cost reductions especially gain in importance in consolidated industries such as car industry. The main characteristic of consolidated industries is overcapacity. One of the first measures investors in these industries take after acquisition is elimination of surplus capacities. Investors thus eliminate fixed costs, and consequently decrease pressure on prices and increase profit margins (Sudarsanam, 2003, p. 106). This is a one-time cost reduction. These measures concern both production and nonproduction employees and entire production facilities. Acquisitions in car industry often include these measures, primarily closing production facilities in countries with expensive labor force.

Elimination of overcapacity is closely related to economy of scale. Economy of scale can be achieved in almost any area starting from R&D, production, distribution channels and advertising. It gains in importance in industries with high fixed costs, such as car industry. Building competitive advantage only through economies of scale is a high-risk strategy in the world of hypercompetition and constant technology innovations.

Apart from economies of scale, economies of scope can contribute to cost reduction too. Economy of scope is the use of available resources not only in current business operations but also in similar business operations. In auto industry economy of scope can be achieved through usage of a flexible production line. Economy of scope is, however, expected to be the most effective in R&D. Considering that 88% of innovations do not achieve expected investment return, and a large number of them are soon after its implementation successfully imitated by competition, companies tend to apply their innovations in production of as many products as possible. *Honda,* for example, applied internal combustion engine innovations in production of motorcycles, automobiles, but also loan mowers and artificial grass cleaners (Ireland, Hoskisson and Hit, 2009, p. 188). Acquisitions offer new opportunities to achieve economy of scope, though it is quiet hard to identify and quantify them.

In addition to cost reduction, the motive behind many horizontal acquisitions is revenue above the simple sum of investor and target’s revenues. In Due Dilligence investors pay little regard to revenue increase opportunities. Revenue-based synergy can be achieved through complementary products, reputation spillover, usage of the existing channels for new products, development of new products and distribution channels etc. Revenue-based operational synergy involves considerable risks, and it can be achieved in the long run (see Figure 1). Revenue-based operational synergy through acquisitions within consolidated industries is extremely hard to achieve. Many companies, therefore, must seek growth opportunities in geographic segments with low market saturation.

Another motive behind horizontal acquisitions can be financial synergy, which contributes to lower cost of capital. If there is not a high level of correlation between the cash flow of investor and target, creditors can perceive the acquisition as an instrument of financial risk management. Possibilities of cash flow diversification are fairly limited because car industry is globalized and the manufacturers face hypercompetition. Cost of capital can, however, be lowered via acquisitions of companies that generate the majority of its cash flow in different markets or by different segments. Case study presented below proves this statement.

Investors sometimes make acquisitions to reinvent their business models. By this investors try to set a new long-term growth basis, and thus advance its competitive position (Christensen, Alton, Rising and Waldeck, 2011, pp. 49−57). These acquisitions are made if investors lack capacities to keep up with technology innovations or beat off severe competition. When investors estimate that the present production portfolio or market portfolio cannot provide for long-term growth, acquisition of a company possessing the lacking resources is necessary. This can mean penetration into new geographic markets, new market segments or launch of an entirely new product. This radical change of the existing business model made through acquisition involves considerable risks. Identification of the resources essential for business model reinvention, that is to say identification of target, is of crucial importance. Integration process, which usually requires changes both in target and investor's organization structure, must be carefully planned and implemented. Evaluation of target via quantification of the effects acquisition brings about is quiet challenging. *Geely's* acquisition of *Volvo* is a typical example of an acquisition made to reinvent investor's business model.

3. The development of global auto industry and the prospects of Chinese companies

Car manufacturers have been severely affected by the global economic crises, although not equally in all markets. The biggest drop in production happened in the USA. The production of all vehicles down fell from 10,780 thousand in 2007 to 5,709 thousand units in 2009 (OICA, 2012). The falling demand and overcapacity in the industry created huge problems for the "Big three" from Detroit. In June 2009 General Motors filed for bankruptcy protection and the USA government acquired 60% of its shares. In the same year Chrysler filed for bankruptcy protection and after several investments in it, Fiat gradually became major shareholder of the company in July 2011. Ford evaded the bankruptcy but had to restructure business operations and sell some brands and affiliates. The crises very soon overflowed to the other side of the Atlantic and hit European markets. The production of vehicles in Europe dropped from 22,856 thousand in 2007 to 17,009 thousand units in 2009 (OICA, 2012). European new passenger car registration fell by 7.8% to 14,713 thousand units in 2008, recording the sharpest decline since 1993 (ACEA, 2009). The negative trend continued in 2009 and new passenger car registration dropped by 1.6% comparing to previous years, despite significant financial support by governments. The sharp decrease in demand puts a lot of pressure on the companies to sell off business units and lay off workforce.

The crisis has affected the emerging auto markets as well, though to a lesser extent than it struck car manufacturers from developed countries. Car industry experts forecast that the sale in both developing and developed countries will equalize and reach the level of 35 million units. Growing demand in emerging markets has attracted significant investments made by both developed and domestic companies. This increased the production, especially in China. Despite the crises car production increased from 8,886 thousand units in 2007 up to 18,419 thousand units in 2011, which brought China to the very top of the list of global auto producers (OICA, 2012). China owes the lion share of its car production to foreign subsidiaries, although domestic companies have made huge steps forward.

Today's new business environment created global expansion opportunities for Chinese car companies. Overcapacity in the industry, financial problems of some important competitors and global focus on clean energy work in Chinese manufacturers' favor. If China's companies manage to exploit these trends, they will be able to go global and challenge the industry leaders. Consolidation on domestic and global markets is relevant to China's auto industry. The fact that there are about 150 domestic car companies in China made central and regional governments put soft pressure on the companies to consolidate their operations. Consequently, there were two China-China acquisitions on the list of top 10 deals – vehicle manufacturers in 2011, worth more than USD 4.8 billion (PriceWaterHouseCoopers, 2012, p. 14). Car industry overcapacity on the global market is the consequence of falling demand in developed markets and huge improper investments in the pre-crisis period. In the KPMG survey some 41.5% of respondents consider the USA to be overbuilt market, even though the USA manufacturers have reduced capacity in the last four years by more than 1 million vehicles. Respondents believe that overcapacity of German and Japanese markets is between 11% and 20% (KPMG, 2012, p.46). The overcapacity is a precondition for the wave of China's cross border acquisitions in the industry. By acquiring the assets of a distressed but well known international manufacturer, China's auto companies are hoping to significantly accelerate their development and market penetrations (Russo, Tse, Ke and Peng, 2009). The structure of global auto industry in the future will depend on the technology innovation in construction of hybrid or electric cars and their commercialization. The development of green vehicles and consumers' favorable response to them is important to every country, but most of all to China. Significant progress in this field will help China decrease its dependence on foreign oil, with wobbly prices, and reduce pollution and greenhouse emissions, as some of the main obstacles to its medium term strong growth. According to China's five year plan production of green vehicles is going to be a strategic industry which will receive over USD 15 billion of investments in a bid to have one million cars on the road by 2015. The significant part of the investment will be in the rapid development of necessary infrastructure, more than 2,000 charging stations and 40,000 charging poles (KPMG, 2012, p. 14). However, the first results of the initiative are disappointing (Krieger, Rathke and Wang, 2012). Analyses of the above mentioned determinants give four possible scenarios of China's auto industry development until 2020 (see Figure 2).

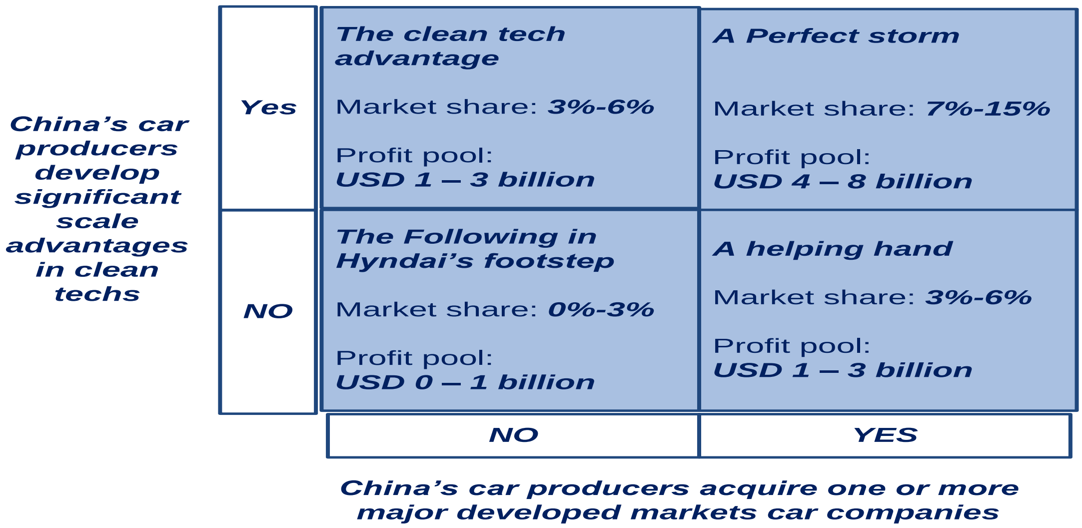

Figure 2: *Scenarios of China's car industry development (Barbosa, Hattingh and Kloss, 2010)*

The panelists in McKinsey survey saw 40% of likelihood that China's car companies will not grasp green car production or acquire any major car companies in the current decade. This implies that China's car companies will play a marginal role on the global market. On the other side is the scenario in which China's car companies aggressively enter developed markets, through one or more significant acquisitions and clean technology advantage. The panelists in the survey gave it 10 to 15% chance that this scenario will be realized during the current decade (Barbosa, Hattingh and Kloss 2010*)*. The future position of Chinese car industry will to a large depend on duration of global crises, its impact on China's economy and restructuring activities of key players in the industry.

4. Value creation through international acquisitions – case of Geely – Volvo acquisition

During the last decade Chinese car companies have achieved a strong growth. However, the level of internationalization of these companies is rather low because they use their own capacities or create joint ventures with leading MNCs to serve primarily the growing domestic market. Chinese government created incentives to accelerate consolidation of car industry and to help at least one car manufacturer from China become one of the top ten car manufacturers. These companies will not be able to achieve greater penetration into the global market via internal development, due to severe competition in the industry and lack of intangible resources (brand, technology etc.). As it was mentioned earlier the solution to this problem could be acquisition of targets that possess the lacking resources but are facing financial problems due to global economic crisis. In the last few years there have been made some attempts at acquisitions of car companies from developed countries but they were not fully successful or failed. *Geely* – *Volvo* acquisition worth USD 1,8 billion has been the most serious attempt at global positioning made by a Chinese car company. *Geely* is contractually obliged not to outsource company headquarters from Sweden, not to cancel production capacities in Sweden and not to lay off acquired employees.

Enormous differences between the investor and target are the peculiarity of this acquisition. *Geely* was a local Chinese company manufacturing cheap and poor quality vehicles. Total sale in the year of acquisition accounted for 400 thousand cars, and marked 29% growth in sales compared with the year before the acquisition was made (OICA, 2012). The net profit generated in the year of acquisition accounted for around USD 200 million, that is to say the net profit increased by USD 12 million compared with the year before the acquisition was made. These impressive results are primarily due to growing demand in domestic market, but also to business rationalization measures. On the other hand, *Volvo* is a global company producing high class and mid class cars. The company has built a worldwide reputation as a manufacturer of safe and high quality vehicles. In 2009, due to the global economic crisis, *Volvo*'s sale dropped by 30% and the company suffered more than USD 650 million net loss (Wang, 2011, p. 28). Since *Volvo* was part of *Ford's* group, these extremely poor results made *Ford* disinvest from *Volvo.*

Because there are considerable differences between these two companies' competitive position, corporate and national culture, organizational structure and the strategic approach they take, it will be a great challenge to implement the acquisition and achieve synergy. According to the acquisition plan the companies will continue operating separately due to considerably different product lines, consumer segments and brands. This strategy is aimed at: (1) growth in sale of *Volvo* vehicles in Chinese market (2) reduction in operational costs (3) internationalization of *Geely's* operations and growth in *Volvo's* global sale. This is the type of acquisition which is made to radically change business model used by investor.

Because *Volvo* produces luxury cars the production itself involves high fixed costs. The largest proportion of *Volvo's* fixed costs is comprised of R&D costs and wages, due to rather restrictive labor laws in Sweden. To overcome this problem it is necessary to increase production and sale, meaning to achieve economies of scale. The goal set in the acquisition plan is to reach the production of 600 thousand *Volvo* vehicles by 2015, and around 800 thousand vehicles by 2020 (Volvo, 2012a). This goal can be achieved only through increased sales in emerging markets, primarily in Chinese market. The strategic goal is to sell more than 200 thousand *Volvo* vehicles in China by 2020. To reach this goal *Volvo* has already invested in two assembly plants and one engine plant (Volvo, 2012b). The positive results were soon achieved. In 2010 *Volvo* sold 31 thousand vehicles and increased sales by 50% compared with 2009 (Volvo, 2010). Sales growth continued in 2011 when the sales in Chinese market amounted to more than 47 thousand vehicles, and China became one of the three markets of utmost importance to *Volvo*. In the first half of 2012 *Volvo's* sales in Chinese market recorded almost negligible growth. Growth in sales will to a large depend on application of *Geely's* local knowledge, development of local dealer network and on whether *Volvo* is included in government car procurement list, dominated by *Audi* and *Mercedes*, since government car procurement accounts for about 8% of national car sales (*Wang*, 2011, p. 44). European brand enjoying good reputation that have recently acquired local dimension, which is of special importance to ethnocentric consumers, is especially useful for further expansion.

Quiet high costs considerably eroding profit margins have been one of the main problems *Volvo* faced with in the previous period. *Volvo*'s assembly and production plants being built in China, whose capacities are beyond the expected sales in China's market, will significantly contribute to cost reduction. This will reduce labor force costs but also transportation costs involved in export to other countries in East and Southeast Asia. Additionally, already developed *Geely's* distribution network in China will reduce the costs of developing a new one. This strategy also involves establishment of R&D centre in China. The motive behind R&D outsourcing is cost reduction through cheaper highly qualified workers. In 2009 more than 2/3 of goods and services were sourced from Sweden, France and Belgium (countries with high costs of production) and there was no local sourcing. Employment of local suppliers that are experienced in cooperation with multinationals and meet quality standards can reduce costs. According to *Volvo's* China market entry strategy in a locally produced *Volvo* car around 60% to 80% will be sourced from China. Local sourcing will to a large depend on *Geely's* network of suppliers. The China market entry strategy is based on exploitation of location specific advantage combined with high safety standards and recognizable brand (Rugman, 2009, pp. 42−63). Apart from operational synergy, financial synergy is expected to be achieved through this acquisition. Because *Geely* and *Volvo* serve different consumer segments and markets there is a low correlation between their cash flows, which has positive effects on cost of capital (Zhou and Zhang, 2011, pp. 5−15).

Finally, the major goal behind the acquisition is internationalization of *Geely's* business operations. Safety standards were a big obstacle for *Geely's* penetration into the Triad markets (Zhou and Zhang, 2011, pp. 5−15). Because car industry is technology intensive, considerable investments are necessary. Internally generated technology innovations would soon prove insufficient for a more aggressively internationalization of *Geely's* operations. Through this acquisition *Geely* acquired the right to exploit technology innovations in safety, and technology innovations in highly efficient engines developed by *Ford* and *Volvo*. Due to this, the model Emgrand EC7 has received four star ratings out of maximum five, which was a precondition for *Geely's* expansion to European market (Wautom, 2012).

Although this represents a huge step forward, further success of the company will to a large depend on its capacity to develop and commercialize its own technology innovations. This can be achieved only through investments in R&D, and engagement of lacking experts. Lack of global experience and undeveloped channels of distribution can be a big obstacle to international expansion. *Volvo* management can actively participate in the development of organizational structure most suitable to *Geely's* global expansion, and *Volvo's* experience and network of contacts in developed markets will contribute to establishment of distribution channels. The biggest challenge facing *Geely* is development of its own brand. In the domestic market *Geely* brand has the reputation of being cheap and of poor quality and it is quiet unknown in global market. Improvements in the quality of products through acquisition of *Volvo*'s technology innovations can improve the reputation *Geely* has. Brand development must be focused on "value for money" consumer segments because this segment has been neglected due to KIA and Hyundai's shift to segments with higher purchasing power. Because this brand is fairly unknown in the global market it is possible to introduce it in developed markets as innovative, safe and affordable. To achieve international success it is highly important to promote *Geely* brand without any reference to *Volvo* brand, otherwise, *Volvo*'s reputation might be damaged.

Due to different national and corporate cultures, *Geely* decided to give *Volvo* great managerial autonomy. *Volvo's* top management was retained, and the company is run by the board of directors comprised of local managers and only one director from China. By not integrating *Volvo* into its business system *Geely* maybe did not fully exploit cost reduction opportunities, however, through this strategy it avoided making mistakes common to international acquisitions (Prashant, Singh and Raman, 2009, pp. 119−115). The first analysis of abnormal returns of each company's stocks during the announcement period shows that the value was not created through acquisition (Chandera and Windjojo, 2012, pp. 129−143). The fact that at the end of 2012 The China Development Bank granted *Volvo* EUR 922 million loan through *Geely's* mediation, for the purpose of paying off its matured liabilities and with the maturity of 8 years supports this statement. Before making final conclusions about the success of this acquisition it should be pointed out that investors from emerging markets are often confused about short-term goals, hence the impression that no value is created through acquisition. However, acquisitions based on clear vision and long-term orientation will certainly create value in its last instance (Kumar, 2009, pp. 2–9).

5. Conslusion

Global economic crisis created favorable conditions for more intensive acquisitions in car industry. In the previous period there were several acquisitions of small low performing car companies from developed countries by investors from Chine. The last and the most significant due to value of transaction and high brand awareness was *Geely – Volvo* acquisition. Chinese investors try to reinvent their business models and improve competitive position through acquisitions of companies from developed countries. Future competitiveness of Chinese car manufacturers will depend on their capacities to grasp production of electric cars or perhaps on acquisition of another big car company from developed countries.

Geely – Volvo acquisition will show whether Chinese car companies have capacities to manage international acquisitions. Investor's lack of experience in international acquisition management, financial position of the target and differences between investor and target's national and corporate culture significantly increase the risks involved in this strategy. Revitalization of the target via economies of scale achieved through increased sales is one of the two main tasks *Geely* has taken on. This can be accomplished only through penetration into emerging markets. The first step towards this goal is establishment of two assembly plants and one engine plant in China that will serve both domestic and neighboring markets. *Geely's* local contacts and investments will allow *Volvo* penetrate local distribution channels. The second task *Geely* has taken on is to grasp technology innovations in safety in car industry considering that *Geely* vehicles failed crash tests, which are a precondition for expansion to European market. *Geely* increased its safety standards through application of the acquired technology innovations and in 2012 NCAP model received four star ratings out of maximum five in the crash test. Through advancements in quality and design of its products *Geely* should gradually build up and position its brand as "value for money".

To decrease the risks involved in integration of target *Volvo* has been given a great managerial autonomy. Potential disagreements that may arise from different corporate culture have been thus evaded and a great stimulus to the acquired management came from it. Finally, by not integrating these two brands management prevented a spillover of *Geely* brand poor reputation to *Volvo* brand. The analysis shows that there was no short-term value creation through this acquisition. However, this acquisition should not be regarded as unsuccessful because the goal behind it is not to achieve short-term financial effects but to radically change *Geely's* business model in the long run.

6. Bibliography

1. ACEA. (2009). Passenger cars: European market posts fifteen-year low in 2008: -7.8%. Retrieved 10.12.2012 from http://www.acea.be/index.php/news/news_detail/passenger_cars_european_market_posts_fifteen_year_low_in_2008_78.
2. Barbosa, F., Hattingh, D. and Kloss, M. (2010). Applying Global Trends: A Look at China's Auto Industry. Retrieved 10.12.2012 from https://www.mckinseyquarterly.com/Applying_global_trends_A_look_at_Chinas_auto_industry_2643.
3. Chandera, Y. and Widjojo, H. (2012). Value Creation through Acquisitions Strategy: A Study of Volvo's Acquisitions by Geely. International Research Journal of Business Studeis, 5(2), 129−143.
4. Christensen, C., Alton, R., Rising, C. and Waldeck, A. (2011). The M&A Playbook. Harvard Business Review, 89(2), 48–57.
5. Cullinan, G., Le Roux, J. and Weddigen, R. (2004). When to Walk Away from a Deal. Business Harvard Review, 82(4), 97–104.
6. Dreher, A. (2006). Does globalization affect growth?: Evidence from a new index of globalization, Applied Economics, 38(10), 1091–1110.
7. Gaughan, P. (2007). Mergers, Acquisitions and Corporate Restructuring. Hoboken (NJ): John Wiley & Sons.
8. Gubi, S., Aulaks, P., Ray, S., Sarkar, M. and Chittoor, R. (2009). Do International Acquisitions by Emerging Economy Firms Create Shareholder Value?: The Case of Indian Firms. Journal of International Business Studies, 41(3), 397–418.
9. Habeck, M., Kroger, F. and Tram, M. (2000). After the Merger: Seven Strategies for Successful Post Merger Integration. London: Prentice Hall.
10. Ireland, D., Hoskisson, R. and Hitt, M. (2009). The Management of Strategy, Concept and Cases. New York: NewSouth Western, Cengage Learning.
11. Kelly, J., Cook, C. and Spitzer, D. (1998). Unlocking Shareholder Value. Retrieved 10.12.2012 from www.dur.ac.uk/p.j.allen/kpmgm&a_99.pdf.

12. KPMG (2012). KPMG's Global Automotive Executive Survey 2012. Retrieved 10.12.2012 from http://www.kpmg.com/global/en/issuesandinsights/articlespublications/press-releases/pages/global-automotive-survey-2012.aspx.
13. Krieger, A., Rathke, P. and Wang, L. (2012). Recharging China's Electric Vehicle Aspirations. Retrieved 10.12.2012 from http://www.mckinseychina.com/2012/04/20/recharging-chinas-electric-vehicle-aspirations/.
14. Kumar, N. (2009). How Emerging Giants Are Rewriting the Rules of M&A. Harvard Business Review, 87(5), 2–9.
15. OICA. (2012). Production statistics. Retrieved 10.12.2012 from http://oica.net/category/production-statistics.
16. Prashant, K., Singh, H. and Raman, A. (2009). Don't Integrate Your Acquisitions, Partner with Them. Harvard Business Review, 87(12), 109–115.
17. Price Water House Coopers. (2012). Driving Value Automotive M&A Insights 2011. Retrieved 10.12.2012 from http://www.pwc.com/gx/en/automotive/publications/mergers-acquisitions-insights-2011/driving-value-automotive-ma-insights-2011.jhtml.
18. Rugman, A. (2009). Theoretical Aspects of MNEs from Emerging Economies. In A. Rugman, Emerging Multinationals in Emerging Markets (pp. 42−63). Edinburgh: Cambridge University Press.
19. Russo, B., Tse, E., Ke, T. and Peng, B. (2009). The Eight Overarching China Automotive Trend that are Revolutionizing the Auto Industry Retrieved 10.12.2012 from www.booz.com.
20. Sudarsanam, S. (2003). Creating Value from Mergers and Acquisitions. Kuala Lumpur: Pearson Education.
21. UNCTAD. (2012). World Investment Report: Towards a New Generation of Investment Polices. Blue Ridge Summit: United Nations Publications
22. Volvo. (2010). Volvo Corporation 2010. Retrieved 10.12.2012 from https://www.media.volvocars.com/global/enhanced/en-gb/Media/Preview.aspx?mediaid=35963.
23. Volvo. (2012a). Volvo Car Group Financial Report January – June 2012. Retrieved 10.12.2012 from https://www.media.volvocars.com/global/enhanced/en-gb//Search/Results.aspx?searchFormType=3&allWords=financial+report&mediaTypeIds=-1.
24. Volvo. (2012b). Volvo Group Annual Report 2011. Retrieved 10.12.2012 from http://www.volvogroup.com/group/global/en-gb/investors/reports/annual_reports/Pages/annual_reports.aspx.
25. Wang, L. (2011). A Case Study of The Acquisitions of Swedish Volvo by Chinese Geely. (Master Thesis). Karlskrona: [L. Wang].
26. Wautom. (2012). Geely Emgrand EC7 Euro NCAP 4 Stars. Retrieved 10.12.2012 from http://www.wautom.com/2012/04/crash-test-geely-emgrand-ec7-euro-ncap-4-stars/.
27. World Bank. (2012a). Global Economic Prospects: Managing Growth in Volatile World. Washington (DC): World Bank.
28. World Bank. (2012b). Databank. Retrieved 10.12.2012 from http://databank.worldbank.org.
29. Zhou, X. and Zhang, X. (2011). Strategic Analisis of Synergistic Effect on M&A of Volvo Car Corporation by Geely Automobile. iBusiness, 3(1), 5–15.