

MarketLine Case Study

Volvo witnesses a reversal of fortunes under Geely ownership

Emphasis on safety and made in Sweden brand boosts growth

Reference Code: ML00028-008

Publication Date: March 2018

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The MarketLine logo is located at the bottom right of the page. It features the word "MarketLine" in a bold, white, sans-serif font. The "Line" part of the logo is stylized, with the letters "l", "i", "n", and "e" connected in a way that suggests a continuous line or path. The logo has a slight 3D effect with a dark blue shadow underneath.

OVERVIEW

Catalyst

In 2010 Volvo was acquired by Geely from the Ford Motor Company. Volvo, which struggled financially in the latter years of Ford's ownership, has seen a strong reversal in its fortunes under the ownership of Geely in recent years.

Summary

Volvo Cars (Volvo) was acquired by the Ford Motor Company in 1999 yet despite initial optimism the partnership never developed positively. Volvo's financial performance only worsened as the years dragged on. The final nail in the coffin was the financial crisis of 2008/2009 which resulted in Ford divesting its assets in order to sail through the financially difficult period in question. This allowed Chinese Geely to acquire Volvo from Ford at a relatively cheap price of \$1.8bn, a sum which was \$4.7bn less than Ford had paid the Volvo Group to acquire Volvo.

Volvo's financial performance under Geely has witnessed a strong reversal. Despite some difficult years initially, the company's growth in revenue and net income in recent years has been very impressive. Volvo has been able to achieve this growth due to a number of reasons. A major factor is Geely being able to attract experienced European leaders to take over control of Volvo following the acquisition from Ford. Despite initial "honeymoon frictions" these European leaders were then able to convince the Chinese owners to grant Volvo a large amount of autonomy and deemphasize Volvo's Chinese links, which was very important since the largest sales market for Volvo was Europe, and European buyers are traditionally suspicious of Chinese manufactured vehicles.

Another major reason why Volvo has been able to grow at impressive rates in recent years is the company emphasizing the Volvo brand's links to Sweden and intelligently utilizing the positive connotation foreign buyers have of Sweden. Since Volvo has traditionally manufactured safe and reliable family cars, the company has been able to merge this traditional focus with the foreign view of Sweden as a safe and reliable country.

Other major reasons for Volvo's growth include an accommodating government, cheap electricity reducing manufacturing costs as well as healthy growth in the wider car manufacturing industries of Europe and China, the two major retail sales destinations for Volvo cars.

Volvo's growth in the coming years will also be boosted by the company being heavily involved in the development of other Geely brands. Some of these like the Lynk & Co cars will be electric and experience of being involved in the development of these brands will ultimately benefit Volvo as well, as it will successfully be able to integrate the technologies used in these brands without having to put its own cars out in the market as the guinea pigs for this new technology. At the end of the day Volvo's immediate future is of an electric nature, and the company is looking to establish an early position in the electric vehicle manufacturing industry. State level incentives and support from Geely will allow Volvo to do just that in the near future.

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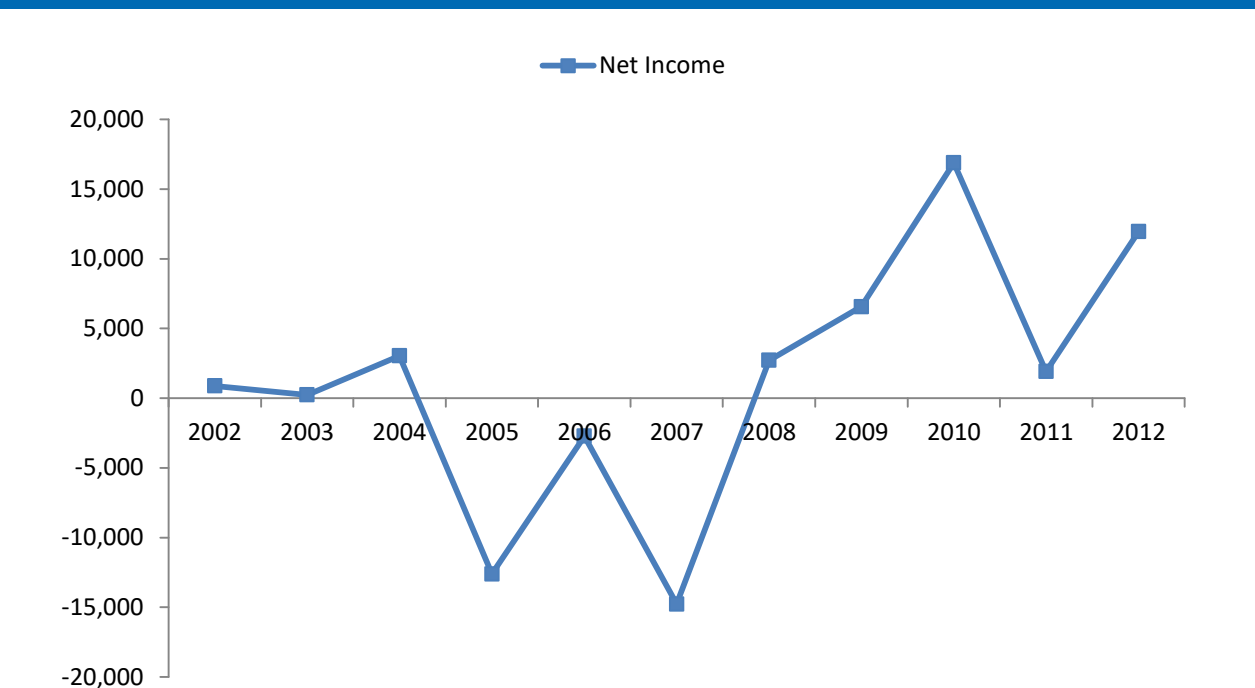
GEELY PURCHASED VOLVO FROM FORD FOR \$1.8BN IN 2010

In 2010 the Ford Motor Company decided to sell Volvo to Chinese manufacturer Geely. Ford had purchased Volvo as part of a project whereby it sought to solidify and grow its position in the European market. Already owning Jaguar and Land Rover brands, Ford had the potential to turn Volvo into a major brand globally and in Europe. However due to the consolidated nature of the car manufacturing industry Volvo struggled financially. The onset of the global financial crisis in 2008 further worsened Ford's economic stability, pushing the company to sell Jaguar and Land Rover in 2008. Volvo followed suit two years later. These sales helped Ford sail through the financial crises with a positive net income. However Ford did end up selling Volvo for \$4.7bn less than what it had purchased Volvo for back in 1999.

Volvo was troubled under Ford and last managed to make a profit in 2005

In 1999 the Volvo Group decided to sell the car manufacturing division of its group to the Ford Motor Company in a deal valued at \$6.45bn. The Volvo Group retained the truck manufacturing, bus manufacturing and construction equipment divisions. The deal was seen largely as Ford attempting to challenge the dominance of Volkswagen in the European market. Since Volvo was a well-established and respected brand and Ford possessed large financial muscle, the combination was expected to boost the fortunes of both parent and subsidiary. This scenario however never materialized. Following its purchase of Volvo in 1999, Ford's market share on the continent car market increased from 10.1% to 11.7%. However by 2007, according to the European Automobile Manufacturers' Association, the company's market share in Europe had actually shrunk to 10.5%, due to stiff competition in an increasingly consolidating industry. Notably Chrysler Corporation had merged with Daimler AG a couple of months prior to Ford's acquisition of Volvo, while in the Scandinavian market, General Motors acquired a 100% share in the now defunct car manufacturing unit of Saab Automobile. The consolidated nature of the market resulted in Ford witnessing consecutive negative net income rates between 2005 and 2007 (see Figure 1)

Figure 1: Net income of Ford Motor Company, \$m, 2002-2012

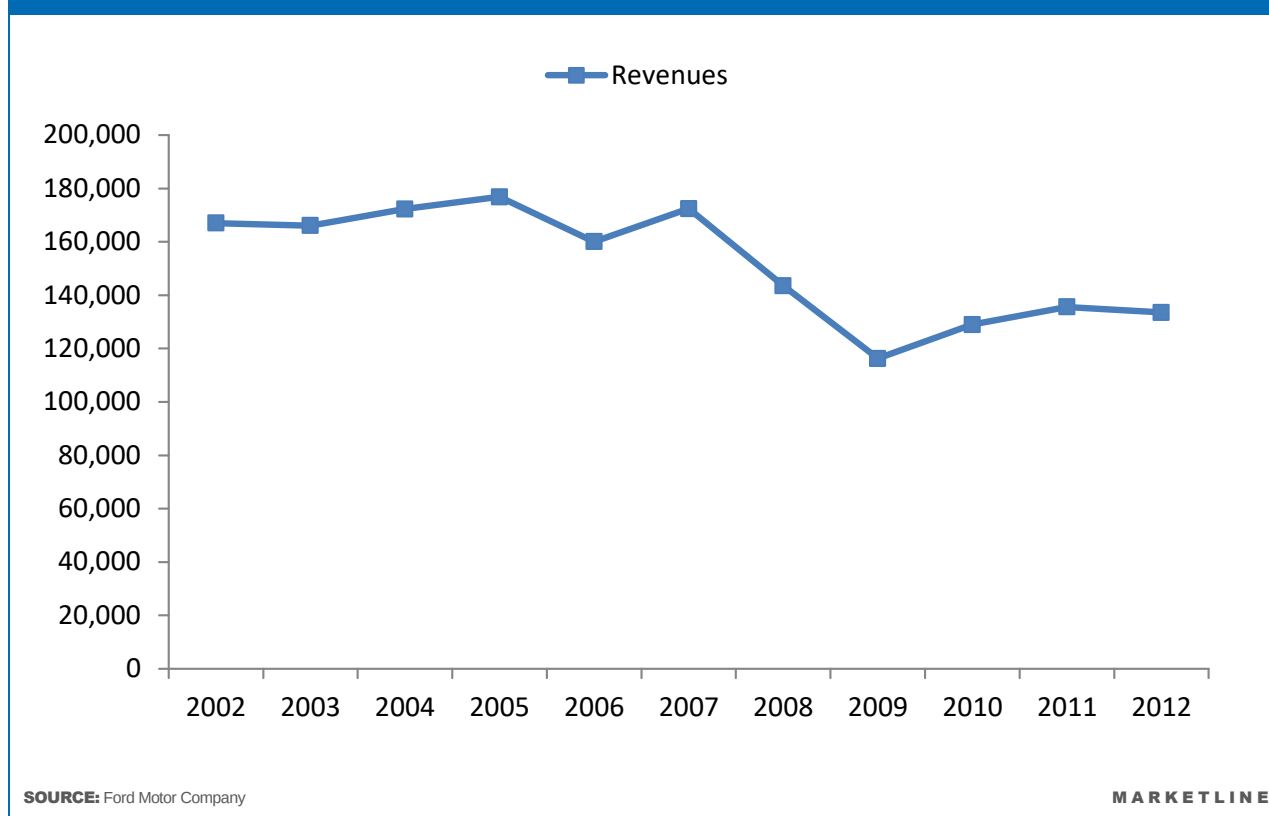


SOURCE: Ford Motor Company

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As the company was recovering from its difficult financial situation, disaster struck the wider car manufacturing industry in the shape of the global financial crisis in 2008. Around 2.5 million fewer cars were manufactured in North America in 2008 compared to the preceding year and Ford like most of the other major players in the market witnessed a decline in revenues (see Figure 2).

Figure 2: Revenue of Ford Motor Company, \$m, 2002-2012



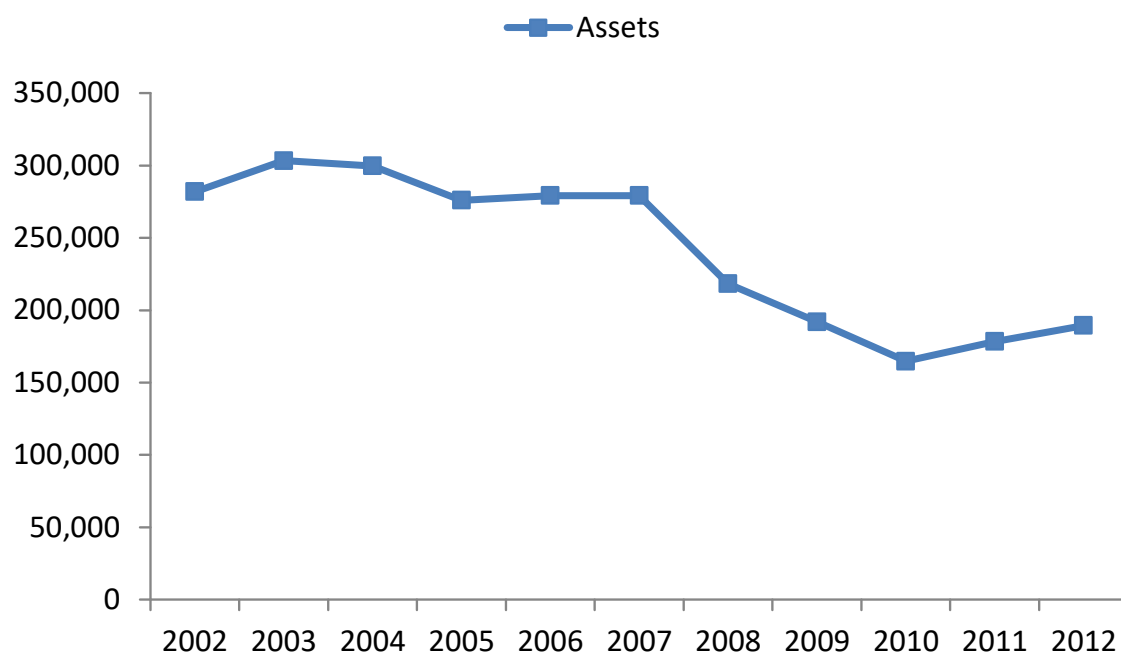
Ford's response to this worsening economic climate was to divest its assets. In 2008 it sold the struggling Jaguar Cars and Land Rover businesses to Tata Motors, strongly reducing its presence in the European market. Therefore despite a decline in revenues, the company was still able to post positive net income again. Meanwhile Ford's presence in Europe was further reduced when it finally decided to sell Volvo as well in 2010.

Ford sold Volvo for \$4.7bn less than it paid

The financial crisis of 2008 put Ford in a difficult position. For three consecutive years prior to the emergence of the crisis, the company had witnessed negative net incomes. The onset of the global financial crisis only made things go from bad to worse. Geely knowing fully well the predicament that Ford was in therefore managed to purchase Volvo at a price far lower than what Ford had paid to purchase Volvo from the Volvo Group back in 1999. In total Geely paid \$4.7bn less for Volvo than what Ford had paid.

Geely's position was strengthened by the fact that Volvo had been unable to post an annual profit since 2005. In 2009 alone the company posted a loss of \$934m. The Scandinavian car manufacturing industry in general was also struggling, with Saab Automobile in an even worse state of affairs than Volvo, leading to the company declaring bankruptcy in 2011. The economic climate around the time that Geely purchased Volvo was as such very much in its favor, with Ford keen to divest its assets in order to pull itself through the financial crisis. In both 2008 and 2009, Ford's assets declined strongly (see Figure 3), which put Geely in a strong position as it knew Ford was very keen to divest Volvo as soon as possible following the trend of the preceding two years. Ultimately Geely was able to secure a \$2.1bn loan from the Bank of China, Export-Import Bank of China, Geely Automobile Holdings, China Construction Bank and the local government of Gothenburg (the city in Sweden where Volvo is headquartered).

Figure 3: Assets of Ford Motor Company, \$m, 2002-2012



SOURCE: Ford Motor Company

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VOLVO'S FINANCIAL PERFORMANCE HAS IMPROVED UNDER GEELY

Following Geely's acquisition of Volvo in 2010 from the Ford Motor Company, the Chinese company introduced an experienced and diverse team to lead Volvo. Whilst initially there were fears that the Chinese parent company would attempt to Sinicize Volvo, these fears were largely unfounded with Geely announcing that an experienced European dominated team would take over. This was an ideal choice given that Europe is the largest sales market for Volvo. With the dynamics of the Chinese and European market being very different, not trying to centralize their control over Volvo and instead maintaining its Swedish and European character has helped the company return to growth. Overall Volvo's growth under Geely's ownership has been very impressive and a true financial reversal of fortunes has taken place. Revenue, net income, car sales and the number of employees have all been on the increase in recent years.

Geely introduced an experienced team to take over Volvo after acquisition from Ford

Following the acquisition of Volvo from the Ford Motor Company in 2010, Geely decided to introduce a diverse and experienced team which took over leadership of the company. Initially, many feared and suspected that Geely would Sinicize Volvo, eroding its Swedish and European character. However four of the six new board directors of Volvo were non-Chinese. These included Volvo CEO between the years 2000 and 2005 Hans-Olov Olsson as well as MAN AG Chairman and CEO Hakan Samuelsson. Stefan Jacoby, a former CEO of the Volkswagen Group of America was announced as the president and CEO of Volvo, whereas Li Shufu would go on to serve as the Chairman of the company. Geely clearly understood that the dynamics of the European market were very different from the ones it was used to in its native Chinese market. The decision to take on board experienced European leaders was therefore an excellent decision as the largest sales market for Volvo was and still is the European market. The decision to not Sinicize and instead decentralize power to an experienced and diverse leadership team paved the way for Volvo's recovery under Geely's ownership.

Figure 4: Geely managed to attract experienced leaders like Stefan Jacoby to Volvo following the acquisition



SOURCE: Volvo

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Volvo's revenue and net income continues to increase under Geely ownership

In the latter half of Ford's ownership of Volvo, the company underwent deep financial struggles. The global financial crisis especially hit the company hard, reducing the number of cars sold by the company from 458,323 in 2007 to 374,297 in the following year. By 2009 this figure had further dropped to 334,808 (see Table 1). Meanwhile the worsening financial situation also resulted in the company having to fire an increasing number of employees. The number of staff employed by Volvo for example declined from 28,159 in 2003 to 27,339 in 2005. This figure further dropped to 19,650 in 2009 when the full effect of the global financial crisis had taken effect.

Table 1: Number of cars sold by Volvo per annum between 1999 and 2009

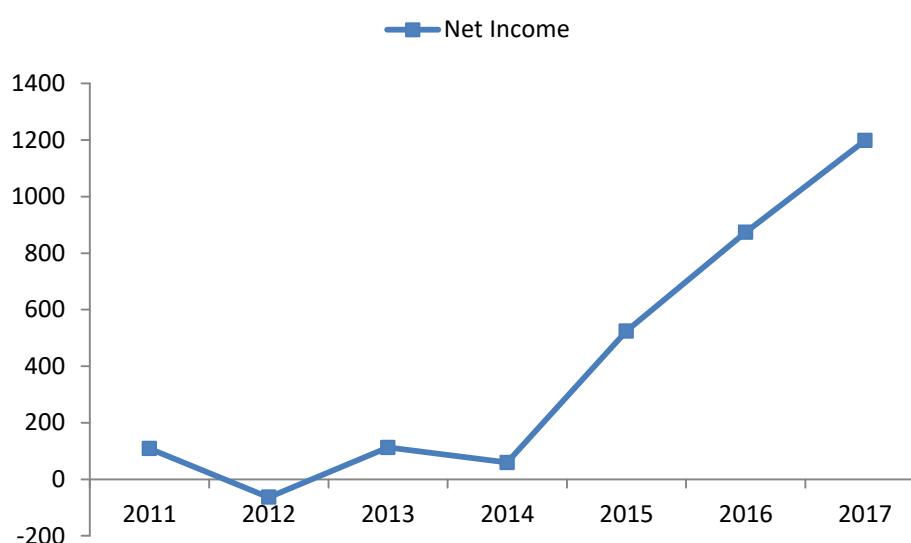
Year	Cars sold
1999	401,509
2000	409,059
2001	412,390
2002	406,695
2003	415,046
2004	456,224
2005	443,947
2006	427,747
2007	458,323
2008	374,297
2009	334,808

SOURCE: Volvo

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Geely as such had a difficult task at hand when it decided to acquire Volvo in 2010. Volvo however has performed admirably under the guidance of its new owners and has been able to reverse this downward trend strongly in the past several years. Indeed the company's net income after undergoing a decline in the transition period following the acquisition has seen healthy growth rates, especially from 2015 onwards (see Figure 5).

Figure 5: Net Income of Volvo, \$m, 2011-2017

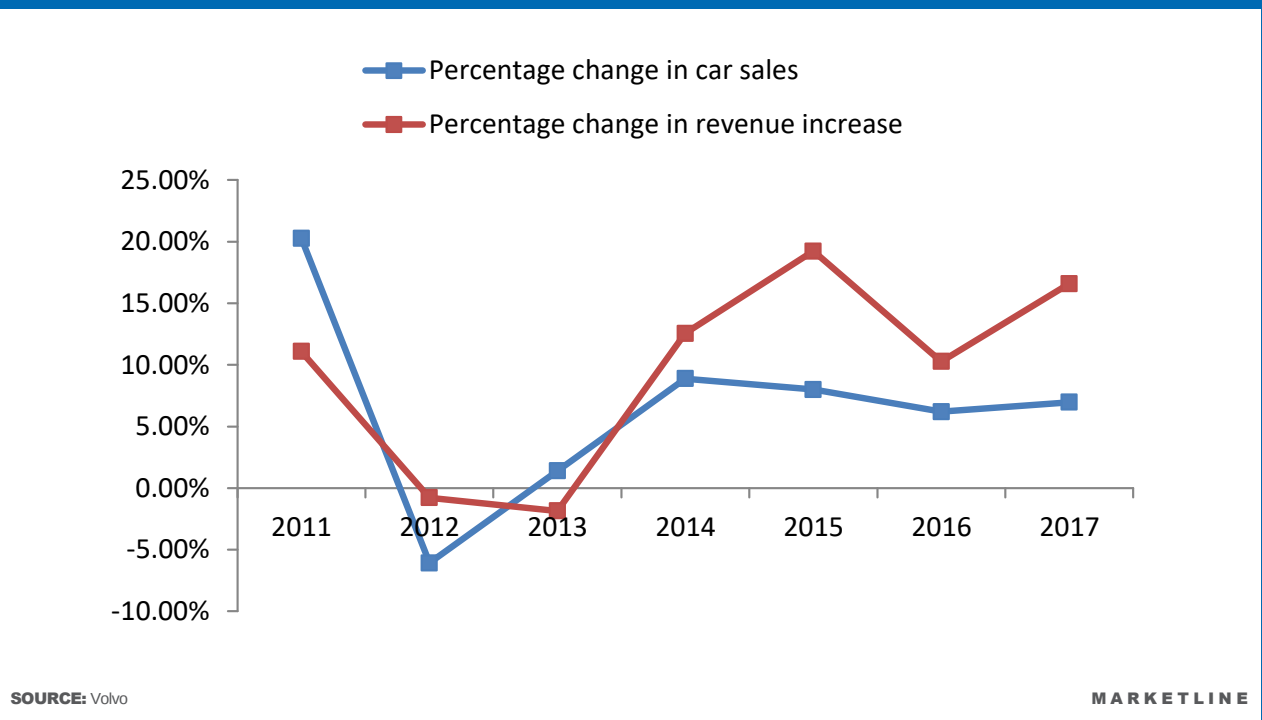


SOURCE: Volvo

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Meanwhile the number of employees is also on the rise again, increasing from 19,494 in 2010 to 24,000 in 2014. By 2017 this figure had further increased to 38,000 employees. Sales of cars also have increased, rising from 373,525 units sold in 2010 to 465,866 units in 2014. By 2017 this figure had further risen to 571,577, meaning the number of cars being sold by the company per annum has increased by more than 50% in the past seven years under the guidance of the company's new Geely appointed leadership. Strong growth in sales figures has naturally boosted revenue growth as well (see Figure 6). On top of this revenue growth has also been bolstered by the company managing to sell an increasing number of its premium high end vehicles especially the XC series. In 2013 for example the XC series accounted for 37.9% of all sales made by Volvo. In 2014 and 2015 this figure rose to 40% and 47% respectively.

Figure 6: Volvo percentage change in car sales and revenue, 20



RESURGENCE DOWN TO FOCUS ON SAFETY, SWEDEN BRAND AND IMPROVING INDUSTRY CONDITIONS

Since Chinese car manufacturers do not enjoy a positive reputation in the main retail sales market of Volvo, namely Europe, Geely has been key to emphasize the “Swedishness” of Volvo. Volvo regularly produces advertisement campaigns in which Swedish celebrities participate and the “made in Sweden” logo is emphasized. The company’s focus on safe and reliable cars also works in perfect conjunction with the general positive opinion that most foreigners have regarding Sweden. This has boosted Volvo’s reputation and sales of its cars. Meanwhile improving industry conditions due to stabilizing macroeconomic conditions have also helped Volvo’s healthy economic performance in recent years. Low electricity prices and an accommodating government have also boosted growth.

Geely has adopted a decentralized approach encouraging the Volvo brand’s ties to Sweden

Western car buyers generally have been suspicious of the quality of Chinese made cars. On top of this, many buyers also view Chinese cars as cheaper copies of Western cars - a notable example being the cars manufactured by Landwind, which bear a striking resemblance to Land Rovers. For expensive purchases such as automobiles European buyers have as a consequence stayed away from Chinese manufactured cars. Major Chinese players like SAIC Motor, FAW and BAIC Motor have a negligible presence in the European market, despite repeated attempts by them in recent years to break into it. Geely understood the hesitance European buyers have with regards to Chinese brands, and therefore has done little to emphasize Volvo’s Chinese connections post 2010. In fact contrary to this ,Volvo has actively sought to popularize its Swedish image, emphasizing in advertisement campaigns its Swedish character. It has hired globally known Swedish personalities such as footballer Zlatan Ibrahimović, DJ Avicii as well as house music group Swedish House Mafia to appear in its advertisements and also represent the brand at motor shows abroad.

Figure 7: Zlatan Ibrahimovic and Håkan Samuelsson, CEO of Volvo Cars at the 2014 Paris Motor Show



SOURCE: Volvo

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The “made in Sweden” brand as Geely and Volvo have correctly understood has a strong positive connotation around the world today due to a number of reasons ranging from the high living standards and general equality in the Scandinavian nation, to its neutral non-militaristic foreign policy making it a likeable country for people from other parts of the world. International rankings related to happiness, innovation and technology will almost always place Sweden in the top ten countries of the world.

Table 2: Sweden’s rankings on various international rankings measuring for example innovation or competitiveness

Ranking	Global Innovation Index 2017	The Good Index 2017	Country	The Competitiveness Report 2017-18	Global
1	Switzerland	Netherlands	Switzerland		
2	Sweden	Switzerland	United States		
3	Netherlands	Denmark	Singapore		
4	USA	Finland	Netherlands		
5	UK	Germany	Germany		
6	Denmark	Sweden	Hong Kong		
7	Singapore	Ireland	Sweden		
8	Finland	UK	United Kingdom		
9	Germany	Austria	Japan		
10	Ireland	Norway	Finland		

SOURCE: Global Innovation Index, The Good Country Index and The Global Competitiveness Report

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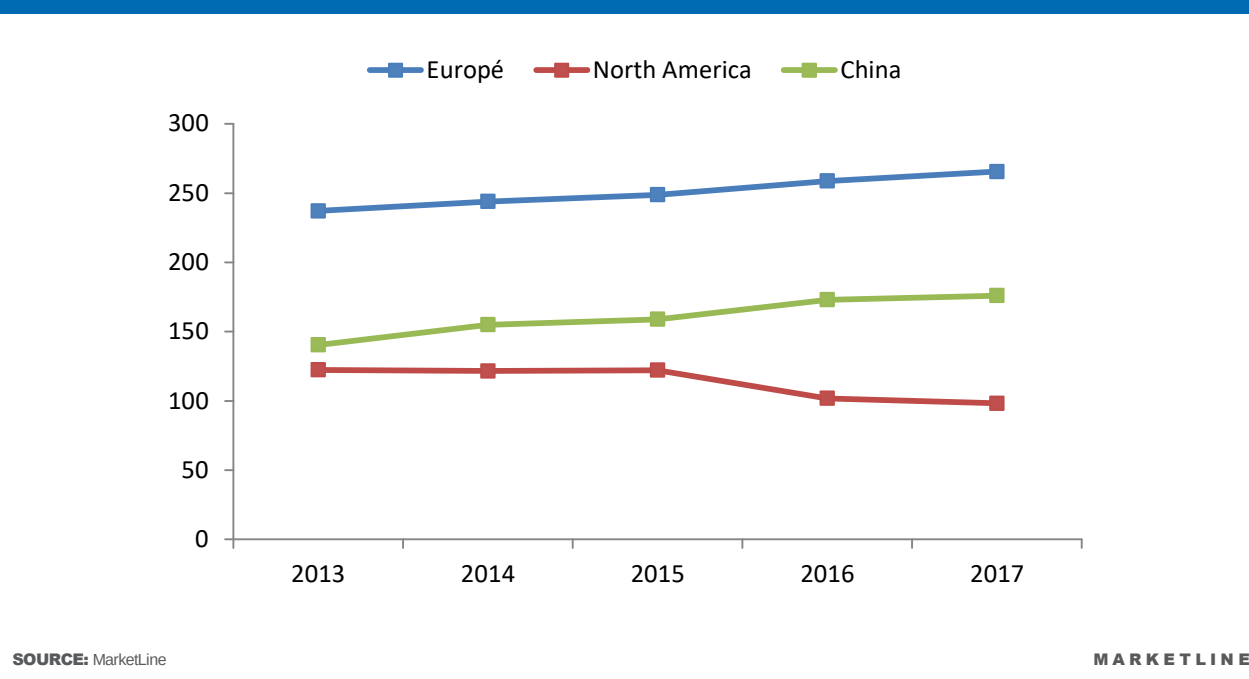
Volvo has therefore if anything strengthened its “Swedish” image, almost as a reaction to not risking being perceived as Chinese in recent years which has assisted the company in its growth. Another factor which relates to the company’s Swedish image has been its focus on producing safe and reliable cars. Where the Ford Mustang has become a symbol of American muscle and strength, Volvo has sought to utilize the safe and neutral Swedish image in its cars, attracting customers who are looking to purchase reliable family cars. In an interview with Swedish media outlet “Dagens Media” in April 2017, the CEO of Volvo Håkan Samuelsson stated that “our priority is clear, we show care and protect that which is most important”. The company does not shy away from explicitly marketing its cars as “family cars” and has even set itself an ambitious 2020 goal of manufacturing cars that are never involved in any death or serious injury causing accidents. Volvo cars repeatedly win awards related to car safety which only bolsters its demand amongst family car end-buyers. Its XC60 model won the 2017 safest car of the year award at the Car Tech Awards 2018. The European New Car Assessment Programme which tests and measures the safety of cars being driven in Europe, placed three Volvo cars in the top five list as the safest cars when driven by adults in 2017. These include number one XC60, third placed V90 and fourth placed S90. Volvo as such has sought to mirror the safe and reliable image of Sweden into its products as well, successfully boosting demand for its cars and clearly understanding that emphasizing the company’s link to China would serve to decrease its brand image and demand.

Improving situation in the car manufacturing industry has boosted growth

Whilst Volvo’s performance under Ford in its initial years was not very impressive, the financial crisis of 2008-2009 only made things go from bad to worse. Under Geely however Volvo has prospered in comparison partially due to the company investing in its image as a safe and reliable car manufacturer just like its country of origin Sweden. However Geely’s purchase of Volvo has also been fortunate in the sense that the major retail sales destinations for Volvo’s cars have witnessed strong growth in recent years, largely due to improving macroeconomic conditions. 298,948 of the 571,577 retail sales made by Volvo in 2017 for example took place in Europe. China is also a major retail sales market for Volvo accounting for 114,410 of all retail sales made by Volvo in 2017.

As Figure 8 shows, the European and Chinese car manufacturing industries have witnessed strong growth in value in recent years, which has boosted Volvo's revenues and net income. The North American industry's growth has been less impressive but the region accounted for only 24,541 of the 571,577 retail sales made by Volvo in 2017.

Figure 8: Value of European, Chinese and North American car manufacturing industries, \$ bn, 2013-2017



Meanwhile the Scandinavian car manufacturing industry has also witnessed strong growth in recent years with the Swedish and Norwegian markets alone accounting for around 86,000 of the 298,948 retail sales made by Volvo in Europe in 2017.

Another factor which has boosted Volvo's activities in recent years especially in its main center of production and manufacturing, which is Sweden, is the fact that the Swedish government has been very accommodating to Volvo and its interests. An investigation conducted by the country's national television network Sveriges Television (SVT) in 2016 found that of the 20 largest companies operating in Sweden, eight paid "none or very little company tax". Volvo Cars was one of these eight companies. On top of this Sweden's diverse power mix which includes a mixture of hydropower, biofuels, fossil fuels and increasingly renewables has ensured generation costs are relatively low and potential for generation especially in relation to renewable energy is maximized via increased usage of battery storage. The result is that the price per kWh for industrial consumption in the country is far lower than the EU average (see Table 3).

Table 3: Price of electricity in \$ per kWh for industrial consumers of various European countries

	2014	2015	2016
EU28	0.14	0.13	0.13
Sweden	0.08	0.07	0.07
United Kingdom	0.15	0.17	0.14
Germany	0.17	0.17	0.17
Italy	0.20	0.18	0.18

SOURCE: Eurostat

On average a Swedish industrial consumer will pay around half the electricity price that a German, Italian or British industrial consumer would pay. This also boosts Volvo's financial competitiveness and reduces manufacturing costs.

DESPITE INITIAL DIFFERENCES WITH GEELY LEADERSHIP, VOLVO FUTURE LOOKS STABLE AND ALSO ELECTRIC

As can be expected there was some friction between the Geely leadership based in China and the European dominated leadership of Volvo in the initial years after Volvo's acquisition. Ultimately however despite conceding on some points to demands from China, Volvo has successfully managed to maintain its Swedish and European character. However being owned by Geely will also benefit Volvo in the coming years since Volvo is currently involved in the development of new Geely brands heavily focused on electric cars. Experience gained from the development of these brands will ultimately assist Volvo as well when it decides to only manufacture hybrid and electric vehicles from 2019. This will allow the company to put itself in a strong position early on as the electrification of the car manufacturing industry will only intensify in the coming years. Already a number of countries have announced they will outright ban the sales of fossil fuel driven cars by the year 2040, whereas others have introduced strong financial incentives for this transition to take place.

Differences emerged initially between Volvo leadership and Geely over the direction of the company

Even though Volvo's performance following its takeover by Geely has been impressive overall, this does not mean that differences have never emerged between its leadership located in Sweden and Geely's leadership located in China. Cultural differences were inevitably going to cause rifts and on top of that the Geely leadership also wanted to divert Volvo's traditional focus on manufacturing safe and reliable cars away in favor of manufacturing more flashy and luxurious vehicles aimed at China's growing elite class. Early on in their relationship Geely was able to convince Volvo to reduce the long midsummer holidays in Sweden from the traditional four weeks to two weeks.

The Chairman of Geely and Volvo Li Shufu is also reported to have stated that the interior of Volvo cars were "too Scandinavian" and needed to be adapted to Chinese tastes. Whilst the Volvo leadership has conceded in certain segments like interior designing and installing air filters in cars it retails in China due to poor air quality, in general the company leadership was able to convince the Geely executives to afford the subsidiary greater autonomy and maintain Volvo's tradition of focusing on the manufacturing of safe and reliable cars.

Geely eventually caved into this Volvo demand and the results since then have been impressive to say the least. Today the initial frictions between the two parties have been described as "normal honeymoon frictions". Volvo CEO Håkan Samuelsson for example has stated that at the "operational level" Geely does not interfere and contradict the Volvo leadership. However he did concede that the Geely leadership does require Volvo to remain within the "strategic" goals of the parent company. Nevertheless as Volvo has continued to manufacture cars that are focused on end buyers looking to purchase safe and reliable cars for their families, the core traditions of Volvo have been maintained and this is largely thanks to the Geely leadership taking a step backwards and allowing an experienced European team of leaders to develop and run the operations of Volvo. The level of autonomy provided to Volvo is ultimately one of the main reasons why the company has been able to micromanage itself into profitability again.

Electrification and increased partnerships with Geely owned companies is the future for Volvo

A number of major announcements have been made by Volvo in recent months which outline the strategic direction of the company in the coming years. Firstly it has been one of the first major automobile manufacturers to declare that all the cars it manufactures from 2019 onwards will be either hybrids or fully electric cars. Other major car manufacturers like General Motors have since made similar announcements. Volvo is therefore looking to cement its position in the electric vehicles market early on so as to grant itself an advantage against its other competitors who will all sooner or later follow suit, as EU legislation increasingly toughens up on the pollution caused by fossil fuel driven automobiles. Already several EU member states like the UK and France have announced they will completely ban the sale of fossil fuel driven cars in their countries by the year 2040.

Sweden, although not having made any decision on outright banning fossil fuel driven cars, has introduced a number of measures to strongly encourage consumers to voluntarily opt for electric or hybrid cars. From 2018 onwards for example the annual vehicle tax that all car owners in the country have to pay is interlinked with how much pollution their vehicles cause. Cars that emit more than 95g of carbon dioxide per km will have to pay SEK 77 (\$9) per gram of carbon dioxide above the 95g limit in the first three years after a car is registered. If above 140g this tax further increases to SEK 100 (\$12). On the other hand new cars that emit less than 60g of carbon dioxide per km will get a one-off bonus that can go up to SEK 45,000 (\$5,272) six months after a new car is registered.

Partially due to its own incentive of being one step ahead of its competitors and partially due to strong government led pressure both home and abroad, Volvo will increasingly electrify in the coming years. Being part of a wider Group will however work to its benefit. Already Geely has announced a new car brand Lynk & Co whose development Volvo is also heavily involved in. With most Lynk & Co being electrified, this gives Volvo the opportunity to experiment with new technologies without necessarily harming its own brand image in any shape or form until the technology is perfected. The expertise gained from being involved in Geely's new project will also inevitably help Volvo as well once it decides to go completely hybrid and electric.

Figure 9: Volvo is heavily involved in the production of new Lynk & Co cars



SOURCE: Expressen

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CONCLUSIONS

Impressive growth made possible by high level of autonomy, focus on Swedish identity, and improving market conditions

Impressive growth made possible by high level of autonomy, focus on Swedish identity, and improving market conditions. Whilst Volvo's performance under Ford's ownership was far from impressive, the reversal in its fortunes in recent years is largely thanks to the experienced European dominated team that took over the reins of control following Geely's acquisition. Geely wisely did not attempt to Sinicize Volvo even though there was some friction in the initial years between the Geely leadership based in China and the Volvo leadership. Allowing Volvo to focus on the manufacturing of safe and reliable family cars whilst heavily emphasizing the car brand's ties to Sweden has allowed Volvo to sell an increasing number of cars in recent years.

Growth has also been boosted by an accommodating government as well as cheap electricity allowing Volvo to cut down on manufacturing related costs. Ultimately Volvo will become increasingly involved in Geely related projects, as the parent company will be keen to use Volvo's knowledge of the European market to its benefit. Volvo also however will be able to experiment in the electric brands Geely is developing to its own benefit, so that when it starts producing only hybrid and electric cars in 2019 it is in a far stronger position to do this than it were if cars under its own brand were fitted with this new technology.

APPENDIX

Sources

Volvo Car Corporation, Pocket Guides 2010/2009/2004

Analysing the image of Sweden

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Volvo repairs flaws in marriage to Geely

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Further Reading

MarketLine Company Profile – Volvo Car Corporation

MarketLine Company Profile – Geely Automobile Holdings Limited

MarketLine Company Profile – Ford Motor Company

MarketLine Industry Profile – Car Manufacturing in Sweden

MarketLine Industry Profile – Global Car Manufacturing

Ask the analyst

We hope that the data and analysis in this brief will help you make informed and imaginative business decisions. If you have any questions or further requirements, MarketLine's research team may be able to help you. The MarketLine Research team can be contacted at ReachUs@MarketLine.com.

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