

Geely, a Latecomer Catching Up with Cross-Border M&A Features

Lixia Zhou^{a,*}, Linglin Zhang^b

Shanghai University, Shanghai, China

^a 1025971758@qq.com, ^b 779712608@qq.com

*corresponding author

Abstract: *This case study of Zhejiang Geely Holding Group Co., Ltd (hereinafter referred to as Geely)), China's first automotive multinational enterprise, analyzes how a latecomer in an emerging country, in a disadvantaged position, continuously seeks to surpass itself despite its own lack of innate resources and technological conditions, uses cross-border M&A as a lever to leapfrog its capabilities, dynamically integrates and utilizes internal and external resources , which has evolved from a locally based enterprise to a global enterprise and successfully caught up with the industry leaders in some fields, using internal and external resources to cross the technological innovation gap and promote strategic transformation.*

Keywords: *Latecomers, Cross-border M&A, Dynamic Capabilities, Technological Innovation.*

1. Introduction

The longest history of Chinese automobile enterprises is more than 60 years, while the shortest is only a few years. All auto companies have one goal: to become a world-class auto company. However, according to the development rules of the world automobile industry, it is not realistic to rely on rolling development on their own, and relying on overseas acquisition has gradually become an important path for Chinese car companies. Geely, the subject of this paper, has completed the transformation from "laggard" and "catcher" to "leader", and has emerged from many luxury cars and joint venture brands. It has successfully crossed the technological innovation gap when it was at a disadvantage by virtue of its many overseas mergers and acquisitions, promoted strategic transformation, pushed itself to the world-class stage through global layout and integration of resources, and changed the shackles of people's "low-end" image of Geely Automobile.

2. Theoretical Background

2.1. Catch-up Theory for Latecomers

Hobday (1995) defines latecomers as manufacturing firms that face both a technological and a market competitive disadvantage while trying to compete internationally. Among them, technological disadvantage stems from the lack of cutting-edge technological capabilities of latecomers due to their distance from international sources of technology and R&D and their isolation from the world's technology and innovation centers; market disadvantage is mainly due to the weakness of latecomers' own technological capabilities to effectively serve developed markets and high-end users, and thus isolate them from mainstream international markets. Lee et al. (1988) further suggest that in the early stages of technology catch-up, the rate of product innovation is high while the rate of process innovation is low; in the transition stage, market buyers dominate design while suppliers focus on specific process technologies; and in the third stage, product design matures and competition focuses on improvements to the process. Dutrénit (2004) has also proposed a catch-up stage model for latecomers, as the technological capabilities of latecomers continue to improve, the knowledge base they face gradually changes from simple to complex, and can then be divided into three different stages: the initial catch-up stage, the beyond catch-up stage, and the innovation frontier stage.

Mathews (2002) proposes the LLL model, arguing that it is through the iterative application of the "linkage-leverage-learn" process that MNCs are able to overcome their initial disadvantages and establish a strong competitive position in the global market. Tung R (2007) attempt to describe the

internationalization behavior of emerging market firms from a springboard perspective, where firms use international expansion as a springboard to access strategic resources and reduce institutional and market constraints in the home country.

2.2. Dynamic Capacity Theory

The resource-based view assumes that a firm's competitive advantage is derived from valuable, scarce, inimitable and irreplaceable resources, and focuses on the internal organization of the firm. Dynamic capability theory is an extension of the resource-based view, which specifies its core "resources" as knowledge and capabilities, and takes into account the dynamic nature of capabilities. Teece (2007) breaks down dynamic capabilities into three types of capabilities: (1) the ability to recognize and specify opportunities and threats; (2) the ability to seize opportunities; (3) the ability to sustain competitiveness by enhancing, combining, protecting, and, if necessary, reconfiguring the firm's tangible and intangible assets. In an open economy where rapid innovation and the sources of invention, innovation, and manufacturing capabilities are dispersed globally, dynamic capabilities enable firms to create, deploy, and protect intangible assets that support superior performance over time (Teece & Pisano, 1994).

3. Overview of Geely's Catch-up Process

3.1. Imitation and Innovation Phase (Initial Catch-up: 1997-2003)

Geely was founded in 1986, and Li Shufu started Geely's business journey with refrigerator parts. Through the initial capital accumulation, Geely invested 500 million yuan into the automobile industry in 1997 and became the first private automobile enterprise in China. At this stage, Geely did not have relevant technical knowledge and experience, no R&D staff, no manufacturing drawings and molds. Li Shufu bought several imported Xiali cars and dismantled them one by one to study and analyze the internal parts supporting system of the car as well as the details of the transmission, chassis and other core components, imitating mature foreign products and processes by means of reverse engineering, and gradually upgrading them in production. The company will gradually improve worker proficiency, production efficiency and economy of scale, reduce production costs, gradually increase its market share and reduce its dependence on imported technology.

Geely put forward the slogan of "making good cars that the people can afford" and quickly entered the market with a low-price strategy. Its first car, the 6360 (launched in 1998, then known as the "twin" of the Xiali), had a significant price advantage over other cars on the market, selling for as little as 35,000 yuan. Geely's target customers were also the large number of individual traders and entrepreneurs in the early stages of business at the time, and the low price made up for the gap in the market at the time, avoiding head-to-head competition with large car companies. Through the low-price strategy, Geely successfully opened up the domestic market and achieved a sales volume of several thousand cars in just one year, breaking through the price monopoly and market monopoly of joint ventures and turning cars from "luxury" to consumer goods that people could afford, and successfully ranking among the top ten in China's auto industry and successfully gaining a foothold in China's auto industry.

3.2. Creative Imitation (Beyond the Catch-up Phase: 2004-2007)

Low-price strategy has compressed Geely's profit margin, at this time Geely core components supplier manufacturers and began to ask for price increases, more will be compressed its profit margin left few, Geely tried to transform, take the road of independent research and development.

The purpose of this stage is to focus on process innovation, introducing and developing technology, and imitation results in the company being able to reduce its dependence on the technology exporter and establish its own R&D capability. In this stage, Geely Automobile has built up its own R&D system and introduced talents to develop core components such as gearboxes and engines, and has improved its vehicle development capability, completely changing the dilemma that Geely lacked car drawings and relied on sheet metal workers for design in the first stage.

3.3. Improved Innovation (Beyond Catching Up to the Cutting Edge: 2008 - Present)

For quite a long time, the cheapest cars in China were made by Geely. The strategy of entering the market with low-priced cars made Geely cars fall in the minds of many consumers with the impression of cheap and low-end. After 2007, Geely clearly proposed a strategic transformation to abandon the price war and promote Geely cars to truly go global.

In this phase, cross-border M&A is the key word that has always been around Geely, and it has made several cross-border M&A during this phase, acquiring companies such as British Manganese Copper Group, Australian DSI and Volvo. A number of important international mergers and acquisitions and the construction of a global synergy network prompted Geely to achieve rapid technology accumulation, the establishment of a technology platform and a leap in technological capability, creating the Lynk&Co series with transcendent significance and the ability to cross the line against high-end joint venture brands, and successfully catching up with the industry leaders in some areas, and even surpassing them in some areas.

Table 1: Geely's catch-up journey

Staging	Imitation of innovation	Creative imitation	Improved innovation
Time	1997-2003	2004-2007	2008-present
Catch-up status	Initial catch-up	Overtake and catch up	Moving beyond catching up to the forefront of the industry
Product lines	"The Old Three": the Haoqing, the Meiri, the Youliou	The "New Three": Ziyoujian, Jingang, Yuanjing	In addition to Global Hawk, Emgrand, Bo Yue and Bo Rui, the company has created a representative product with transcendent significance "Lynk&Co"; the new energy brand Geometry A was launched into the market
Product positioning	Low-end products	Low to mid-range products	Full line of products (High school low coverage)
Market	Domestic market	Global market (Developing countries)	Global market (Developed countries)
Ways (Typical incident)	Through the introduction of mature international technology, imitation innovation such as reverse engineering, gradually improve the technical capacity of enterprises, and launch the representative products of the stage "old three".	By establishing our own R&D system and introducing talents, we are developing core components and launching our representative products, the "New Three", with process innovation as the main focus and introducing and developing technologies.	The company acquired the British Manganese and Copper Group, Australian DSI, and Volvo to establish a global R&D system and create the "Lynk&Co" series, a representative product with transcendent significance.

4. Analysis on The Causes Of Geely's Multiple Cross-border Mergers and Acquisitions

Geely started to build cars by imitating "Xiali", digesting and absorbing mature technologies through "reverse engineering", and then embarked on the road of independent innovation. Cross-border M&A is the keyword for the accumulation of Geely's technological capability. Looking at Geely's important acquisitions, the main motivation comes from Geely's own internal drive and external factors. The internal factors include the lack of key technologies, the low-end brand image, the fierce competition in the domestic auto market, the gradual loss of cost advantage, and the need for market share expansion; the external factors coincide with the financial crisis, the foreign auto industry has been hit hard and the valuation has dropped significantly, which brings opportunities for M&A. Meanwhile, the domestic economic development and the government's encouragement of cross-border M&A provide a good environment for Geely's cross-border M&A.

4.1. The acquisition of British Manganese Copper

British Manganese Copper is an old automotive company with a century-old history of influence in mid-range cars, and its production of black taxis is part of the British manufacturing heritage. In 2012, the recall of more than 400 new vehicles due to a steering failure further damaged cash flow.

With the development of China's economic environment, Geely is constrained by the difficulty of low-end brand image and tries to transform and upgrade its brand. However, the transformation is extremely difficult for a company. The most convenient way is to invest in the existing foreign brands and inject "noble blood" into the company. The acquisition of manganese copper by Geely is based on long-term strategic considerations. As a dying enterprise, manganese copper has no technology, no capital and no talents. What is most meaningful to Geely is the brand value of manganese copper with a history of 100 years. After the merger and acquisition, manganese copper can also better play its synergistic effect with Geely brand, and Geely can also take this opportunity to expand the field of professional taxis. The TX4 of manganese copper still has great market potential in the United Kingdom, and its ownership is also large. The after-sales maintenance field is also a market opportunity. Therefore, Geely began to test the water merger to enhance the brand effect.

4.2. Acquisition of Australia's DSI Company

DSI Automatic Transmission Company is a professional company integrating research, development, manufacturing and sales of automatic transmissions in Australia. It is one of the only two automatic transmission companies in the world that are independent of the entire automobile enterprise. DSI Company has a group of world-class outstanding engineers, whose products cover four-speed and six-speed front-rear drive and full-drive high-torque automatic transmissions. DSI is also researching and developing the world's leading eight-speed front-rear drive automatic transmissions, dual clutch automatic transmissions (DCT) and continuously variable transmissions (CVT). However, due to the impact of the global financial crisis in 2008, the demand for DSI products dropped sharply, which seriously affected the normal operation and forced DSI to enter bankruptcy proceedings.

Under such circumstances, Geely considers its own needs. First, Geely currently has small-displacement and small-torque transmission, but lacks large-displacement and large-torque transmission. Merger and acquisition of DSI Company can complement Geely's short board in the field of high-end transmission and further develop into the high-end field. The second is to reverse the doubts of consumers. At that time, Geely independently developed the cvvt engine, which is a very leading engine technology. However, due to the first-cause effect, the majority of consumers were skeptical. In order to upgrade its core technology and allow consumers to recognize its own technology, Geely made a decisive acquisition.

4.3. Acquisition of Volvo Cars Company

Volvo Cars Company is a subsidiary of Volvo Group. Volvo Cars manufactures luxury models and brands high-end cars, which are well recognized by Chinese consumers. In 1999, Volvo Group sold its Volvo car business to Ford Motor Company of the United States. Volvo Car Company began to fall into years of huge losses in 2005, and the financial crisis in 2008 was even worse. Ford intends to sell Volvo out of concern of improving its debt and overstretching the Ford brand, throwing off a burden and focusing on the "one Ford" strategy.

Volvo is very attractive to Chinese consumers, and its brand effect in China has been among the top five foreign car brands for many years. Geely's goal and strategy at this time is to develop into a higher-end brand. Volvo is higher-end and more famous, which will undoubtedly increase Geely's influence and help Geely enter the high-end automotive field. Volvo not only has the technology and brand that Geely needs, but also has the international marketing channels that Geely needs. Geely can use the sales channels of Volvo cars to "go out" faster. For this reason, Geely promoted the acquisition process. On March 28, 2010, in Gothenburg, Sweden, Geely and Ford reached an agreement on the acquisition of Volvo brand. Geely finally acquired 100% equity interest of Volvo Car Company and related assets at a price of US\$ 1.8 billion.

4.4. The Subsequent Sceleration of Globalization

The acquisition of Volvo by "Snake Eats Elephant" is not the end of Geely's pursuit of catching up.

In May 2017, Geely acquired 49.9% of the shares of Baoteng Motor. Geely is committed to the full recovery of Proton Motors, striving to build it into a national automobile brand with the largest market share in Malaysia and a leading brand in the Southeast Asian market. At the same time, Geely will further enhance its market position with the influence of Proton. On June 23, 2017, Geely acquired 51% of the world famous luxury sports car and racing brand Lutes. Lutes has a British national sports car brand, Lotus, which has profound knowledge in automotive engineering and lightweight technology. After the acquisition of Lotus, these technologies will be used by the Geely brand to realize the "sports car dream" of the Geely brand. In February 2018, Geely announced that it had acquired 9.69% of the voting shares of Daimler AG through its overseas corporate entities. After the acquisition, Geely became Daimler's largest shareholder and held its equity interest for a long time. In 2020, Geely announced that Geely Motor and Volvo Motor will continue to promote technological innovation by integrating and collaborating in such business areas as powertrain, tri-electric technology and highly autonomous driving around the car's new four modernizations forward-looking technology. The two companies merged into a new powertrain business company through equity merger.

5. Geely's Technological Capability Catching Up after The Merger

Many mergers and acquisitions have enabled Geely to "stand on the shoulders of giants" for development. However, Geely's cross-border M&A is not the first in China's auto industry. SAIC's takeover of South Korea's Ssangyong and BAIC's acquisition of Sweden's Saab all preceded Geely's cross-border M&A, but they all turned into huge losses in the end. Therefore, how can Geely stand firm after the merger, take advantage of the situation to create momentum and make use of the situation, carry out open innovation and integration on the existing resources, and further enhance its competitive advantage? Geely can only rely on its own efforts to find its own way out.

After the merger, Geely divided the technology catch-up into "technology transfer" and "technology upgrading" two stages. Geely has taken a series of measures to ensure the smooth implementation of technology transfer and to ensure that it reaches the technological level of the acquired party. The key to this stage is to focus on formulating development plans, protecting the research and development capabilities of the acquired enterprises and integrating the resources of both parties (Wu Xianming and Su Zhiwen, 2014). First, establish a clear development plan, which can not only win the favorable impression of the target enterprise, but also lay the foundation for the smooth transfer of technology. Taking the acquisition of Volvo as an example, Geely has set up a "global transformation project" team within Volvo to formulate a new strategic vision, so that Geely and Volvo can operate independently and be positioned in different markets. While consolidating and stabilizing the existing mature markets in Europe and the United States, Volvo will actively explore emerging markets represented by China, and will be able to turn a profit within a short time after the acquisition. Second, after the merger and acquisition, it is necessary to protect the technological capabilities of the target enterprises. Geely has reserved the core personnel of Volvo, especially the technical personnel, and confirmed an investment plan of USD 11 billion to ensure the continuation and renewal of Volvo's original technical capabilities by respecting each other's customary culture and incentives to the greatest extent and increasing research and development investment. Third, integrate the technical resources of both parties. Integration measures include reasonable allocation of resources of both parties after the merger according to the technical characteristics of both parties, so as to give full play to the technical advantages of both parties. Before the merger, 80% of Volvo's value-added services depended on outsourcing, so Geely, by sharing suppliers, enabled Volvo to integrate procurement with manufacturing and better manage the process of design and supply chain. Geely also learned its safety technologies and concepts from Volvo and made good use of them in its products. Geely Bo Rui is one of the representatives. It adopted the seven-in-one active intelligent safety system developed by Volvo, including the city pre-crash system. It also borrowed Volvo's concepts in terms of design, safety and air quality management in the car. This is also a benchmark work created by Geely by integrating global resources.

It is still not enough to share technology. Enterprises must also upgrade their technology and cultivate new technologies and capabilities. In terms of technological upgrading, Geely established the European Research and Development Center (CEVT) in 2013 to integrate the resources of its Volvo cars and Geely cars and create a new generation of mid-class car modular structure and related components, with the intention of meeting the future market demand of Volvo cars and Geely cars. In the cultivation of research and development capability, local research and development personnel come into contact with Volvo's advanced technology and gradually participate in the process of product research and development, accumulate experience in practice, accept training, and gradually from

participating in research and development projects to undertaking simple research and development tasks, and then undertake more tasks. The research and development capability is gradually strengthened and finally transformed into the main research and development force. During the technology upgrading stage, Geely pays great attention to upgrading technology and developing new generation of technology to meet the future market demand, and let local employees become the main force of research and development in order to cultivate their own technology and capabilities.

6. Summary

Geely's cross-border M&A, as a typical technology-seeking M&A behavior of latecomers to enterprises in developed countries, is of great significance not only in that latecomers should be good at grasping the development opportunities brought by different opportunities, instead of being constrained by the slow growth of the enterprises themselves, and dare to overtake others by means of cross-border M&A, so as to promote the technological catch-up in the stage of globalization. More importantly, after cross-border mergers and acquisitions, enterprises must scientifically plan, take effective measures to promote technology transfer and technology upgrading, establish research and development teams with international standards, and form sustainable innovation capabilities.

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