Geely Auto: Leading the Chinese automobile market in the future?

A case study of Geely’s strategy after acquiring Volvo Cars

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Abstract

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Title: Geely Auto: Leading the Chinese automobile market in the future? A case study of Geely’s strategy after acquiring Volvo Cars

Problem Statement: How Geely Auto to gain a sustainable development after acquiring Volvo Cars in Chinese automobile market?

Purpose: To prove that through enhancing the innovation of products from a long-term perspective is a proper sustainable strategy which would help to strengthen the competitive advantages for a company at present market by relating to our case company ZheJiang Geely Auto.

Method: The method of this case study is mainly based on the primary and secondary information. The primary information mainly comes from the interview with the manager and questionnaires from the respondents. The books, articles and internet are used as the secondary information.

Conceptual Framework: the theoretical framework includes four aspects which consist of Five Forces, Innovation, Needs, Strategic Positioning.

Conclusion: Aiming the innovation product could seen as a sustainable way currently to ensure Geely win in a long-term as well as depending acquiring Volvo Cars.

Key words: Innovation, Sustainable development, strategic positioning, auto industry
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1. Introduction

Introduction consists of five aspects which are background, problem statement, and purpose, targeted group and method. They display the general overview of this thesis.

1.1 Background

Since our study starting at the point of acquisition issue between two companies, Zhejiang Geely Holding Group and Volvo Cars, it is necessary to firstly profile backgrounds of two companies respectively.

Established in 1986, Geely launched its auto manufacturing business in 1997 and over the past ten years Geely has grown fast as one of China’s top ten auto manufacturers today. Geely said that their rapid growth has been built on careful planning and innovation and Geely’s independent R&D in vehicles, engines, transmissions and hybrid technologies had meant that the firm is the only Chinese car manufacturer to have developed its own range of engines – including eight series of engines between 1 litre and 1.8 litres supporting both manual and automatic transmissions – plus other valuable technologies. (Geely.com, 2011) However, Geely is described by some foreigners as a Chinese upstart and barely known outside China, partly because its range of mainly cheap, small cars is not yet capable of meeting the rich world’s more stringent safety and environmental regulations. (The Economists, 2010)

On the other hand, Sweden’s Volvo is seen as the epitome of good middle-class taste; its slightly dull but hugely safe and practical cars are the default choice on many a suburban driveway in America and Europe. (The Economists, 2010) Even though with strong brand image in the world, the destiny of Volvo Car seems quite contrary with its high reputation in the past years. As a division of Volvo Group based in Sweden, Volvo Cars was sold by Volvo to Ford Motor Company for $6.45 billion in
1999. (James, 1999) Since Volvo Cars was none profitable in the world market long time, in August 2010, Ford completed its sale of Volvo Cars to the parent of Chinese motor manufacturer Geely Automobile for $1.8 billion (NYDailyNews, 2010) Relating this case, we would like to briefly state some trends in automobile industry in past year to let readers know the current situation generally. The viewpoints are mainly from the Infosys.com and we think that Infosys.com is reliable as it is a professional business study forum including the latest idea from specialists.

**Acceleration in Merger and Acquisition**

As cash-strapped organizations in US and Europe look for “saviors” for some of their brands or subsidiaries, there will be an emergence of “Young Turks”, which group is considered as progressive and seek prominence and power, from fast-growing markets like India (Tata Motors, Mahindra etc.) and China (Geely, Chery etc.). (Infosys, 2010)

**Entry into new geographies**

New markets like India (with 11% growth) and China (9% growth) holds strong promise. There is a shift in focus to these emerging markets. (Infosys, 2010)

**Reducing time-to-market for alternate energy vehicles**

Cornered by the “green revolution”, most automotive OEMs are forced to look for alternate energy sources like hybrids, electric vehicles, ethanol, bio-diesel etc. (Infosys, 2010)

**Procurement collaboration**

Automotive OEMs are coming closer to collaborate. (Infosys, 2010)

**Focus on vehicle SCM**
As credit availability becomes elusive and OEMs start depending more and more on their internal cash flows to finance investment opportunities, supply chain optimizations become quite imperative for OEMs to perpetuate sustenance. (Infosys, 2010)

It is seemed that Ford’s sale of Volvo to a Chinese upstart ought to be a marriage made in heaven. (The Economists, 2010) “In theory, the Chinese market could be an opportunity for Volvo,” Nomura’s auto specialist Michael Tyndall said. "It's a well-known brand, has a good heritage and a range of products that should appeal to the Chinese consumer." (BBC News, 2009) But for Geely, acquiring Volvo is both an extraordinary statement of intent and a huge gamble. The deal could help Geely realize the dream of its founder, Li Shufu, the self-styled Henry Ford of China, to become a big international carmaker. Moreover, Geely could not only have access to the core intellectual property owned by Volvo such as the critical area of safety which will lend credibility to its cars as its range expands in both scope and scale but also learn from Volvo about how to run a global supply chain and an international dealer network. (The Economists, 2010) Nonetheless, the record of cross-border carmaking mergers is not always well going. Geely intends to allow Volvo to operate with a high degree of autonomy on design and innovation, but cultural clashes based on totally different countries are almost certain. (The Economists, 2010) Within China, there are worries that Geely lacks the expertise to take on the management of a famous but ailing foreign company. (The Economists, 2010)

Since Geely agrees that Volvo is still independent for designing and innovation of products, it is easily to generate the conflicts of propositions among the top management which is appeared internationally consisting of elites based on different nationality, gender and cultural background. Actually, the contradictions from two companies based on different cultural context are already emerging in the board concerning what kind of company’s marketing position of Volvo Cars should be used
for Chinese auto market. For Geely, they hold the idea that the products must be primary localized according to the proper marketing needs over other features such as energy-efficiently and environmental-friendly. Moreover, Geely also wants to rapidly expand the share in Chinese domestic automobile market within a short-term depending on the top-range type of Volvo to compete such as S-series of Mercedes and 7-series of BMW. Quite contrary to Geely’s view, Volvo insists on keeping the core value of products in terms such as safety and environmental standards which would involve much more time for innovation of new features of product to compete with other strong rivals in the long-term. (Sohu.com, 2010)

Thus our study being started from these contradictions between Geely Auto and Volvo Cars is to research why Geely Auto insists current strategy and How the innovation on the products could affect the company’s competitive advantages positively in order to suggest how Geely Auto to gain a sustainable development in the Chinese auto market.

1.2 Problem statement

In fact, our case company ZheJiang Geely Auto is only a commonplace car maker among the numerous automobile makers who are competing fiercely in the large Chinese automobile market. However, what makes Geely Auto be different from other rivals is that it has acquired Volvo Cars that is known as world-class brand. Apparently, this is a rare opportunity for a moderate carmaker to settle the leader role instantly in the Chinese automobile market. Since the environment of Chinese automobile market is so tough that what kind of specific strategy adopted by a car maker is playing an essential role to determine it is whether failure of successful in the market.

Actually the emerging contradiction not just simply only reflected general problems of acquisition case between two different cultural-based companies, but also
represented the different core value among two companies respectively which would profoundly affect a company’s development in a long-term perspective. In our view, we mainly argue that Geely’s current market attitude is not helpful for improving its competitive advantages which are the essential factors to ensure its role in the current and coming future competition. Thus how should to realize long-term sustainable development is becoming the most vital problem for the ZheJiang Geely Auto. In this paper, we detect the innovation as a strategy to enhance the competitive advantages of Geely to research a sustainable development after acquiring Volvo Cars in the Chinese market.

1.3 Purpose

The purpose of this thesis is to through describing why Geely insist current strategy and analyzing how can innovation play a positive role for strengthening Geely’s competitive advantages at present market in order to strongly suggest that innovation is a feasible way to help Geely Automobile to gain a sustainable development in the Chinese auto market. In another word, we try to research rigorous and useful frameworks that effectively bridge the gap between theory and practice for the Geely Auto to realize long-term sustainable development in the Chinese automobile market. Thus we can summarize our strategic question and research question as follows:

**Strategic question: How Geely Auto to gain a sustainable development after acquiring Volvo Cars in Chinese automobile market?**

Then two **research questions** could be helpful to analyze the strategic question are:

**Why Geely insist current strategy?**

**How can innovation play a positively role to enhance the competitive advantages of a company?**
1.4 Target group

As we mainly to detect how innovation could positively affect an auto maker’s competitive advantages in current and coming markets by arguing the case company of Geely Group that all academic study relating in terms of innovation, strategy and competition within business field should be our primary target group. Moreover, all auto manufacturers existing in Chinese automobile market could be another important target group since they can make use our findings, analysis and recommendation for their own development. Depending on the useful features of our study which will concern sustainable strategy for the company we think that some manufactures in other industries such as textile or construction equipment that pursues the sustainable way of development within particular industries could also be beneficial from our work.

1.5 Method

The method of this case study is mainly based on the primary and secondary information. The primary information mainly comes from the interview with the managers and questionnaires from the respondents. The books, articles and internet are used as the secondary information.

2. Methodology

In this part, we specifically explain the reasons of topic choosing and related theories. Moreover, we state the methods used for researching process. The analyzing method also is included in methodology.

2.1 Topic selection and company selection

In this part, we would mainly explain why we choose the topic of this paper and state some thoughts from us about how the case company Geely Auto relate to the topic. Actually, our topic concerning sustainable development strategy was generated from
the acquisition issue between Zhejiang Geely Holding Group and Volvo Cars. In August of 2010, Ford sold Volvo Cars to Chinese motor manufacturer Geely Automobile for $1.8 billion. In fact, this is not the first time that Chinese automobile company purchased the global brand; in 2009 China's Sichuan Tengzhong Heavy Industrial Machinery Sichuan acquired Hammer from General Motors. (Lavrinc, 2009)

Since the dramatically increasing demands of auto in China domestic market caused mainly by high speed of economic development, more capital and assets from the society are flowing into the automobile industry. More and more Chinese individual firms are appearing their aggressive target in the automobile market not only in the Chinese market but also global depended on their tremendous capital and considerable supports from government who already aware that by strengthening the manufacturing industry could play an essential role in order to improve national competitive advantage in the global. It is said that China surpassed the United States as the world's largest auto market with the sales volume 13.5 million units at the end of 2009. (ChinaDaily, 2010)

However, we think that merely depending on the strong financial strength and large scale merging of global brands are not enough to essentially improve these automotive companies’ competitive advantages while to enhance the competence of the entire industry compared with leading rivals in the world wide. As the inevitable worldwide megatrends in technology, societies and economies, almost every aspect of automobile would be affected by these factors in order to fulfill the high lever requirements in the future. That is also why we choose our topic that we try to research a sustainable way for the existing automobile companies in China. Hereby, the sustainable way we researched mainly refers to how to keep the competitive advantages of company through the innovation used on the products. Adopting the innovation on the product is one of the significant important strategies in a company who would like to compete in the global level. Thus, we decide to take the perspective of innovation as our specific research field to illustrate the sustainable way for a
company. As mentioned above that our idea is evoked from the issue of which Chinese Geely Auto acquiring world well-known Volvo Cars, and based on the contradictions being emerged between decision makers, we really would like to make a deep study not only for gaining more detailed knowledge about related theories but also for providing valuable recommendations to the company we studied. Moreover, after gathering preliminary information about the Geely Auto, we find that it indeed has some confusion about to choose what kind of proper strategies for its products meeting China domestic automotive market after acquisition. Thus, we think that our study is valued simultaneously accompanied with possible recommendations for the company. Furthermore, strong personal relationship with the company that a partner’s friend working in the HQ based in Hangzhou China also contributes convenience for us to collect the valuable primary data prepared for further research.

2.2 Analyzing method

In this paper, we decide to use the quality method to analyze the research problems by relating to our findings and theories. In Fisher’s view, quality in business writing is often referred as validity and reliability. In order to well explain our view of this study, we choose the quality method in our analysis.

2.3 Theory Selection

After the company and the field of study were identified, we focused on working for the relevant theories. Since our mainly aim is involving the strategy of the company that is to investigate how much extent of the effects of innovation for enhancing the competitive advantages of Geely Auto to help them realize a sustainable development in the Chinese market, we choose mainly two core theories from Michael Porter’s perspective which are *Five Forces Model* and *Strategic positioning*. The two concepts we adopted are very suitable and feasible as they are regarding the company’s competitive advantages and strategy respectively which would strongly support our
case study in this paper. Another core theory is innovations. We decide to borrow innovation in the perspective from marketing approach which has been defined particularly as new products that appropriately regarding our aim to detect the influence of innovative products of Geely Auto. The last theory we used for researching is from the perspective of consumer behavior that is need, which would help us to detect the interaction between the customer’s needs and the innovative products of Geely Auto. Thus it would effectively explain the influence of innovation product for the customer’s needs in automobile market.

2.3.1 Five Forces Model

Since our aim is involving the competition of Geely Auto in Chinese automobile market, it is very necessary to bring up Michael Porter’s Five Forces Model for analyzing the nature of Geely’s competitive interaction within automobile market. The Five Forces, consisting of the bargaining power of buyers, the bargaining power of suppliers, the threat of new entry, the threat of substitutes, and the intensity of rivalry, allows the long-term profitability of any industry to be understood, as well as how companies can influence industry competition in their favor. (Porter, 2008, p.xiv) Thus the Five Forces Model should be the first factor to consider which the basic element for our analysis offers us a general and clear picture to understand and research the competitive advantages of Geely Auto in particular industry.

2.3.2 Strategic positioning

Frankly speaking, in this paper, we decide to detect the effects of innovation on Geely’s products for its sustainable long-term development in Chinese automobile market. Expressed differently, we want to research that whether the innovation of products is negative or positive influence for enhancing the competitive advantages of Geely Auto within the Chinese auto industry. So the Strategic Positioning is adopted by us to use as the theoretical illustration of what kind of positing implemented by
Geely Auto for their products which would meet the various needs from complicated market. However, after gathering the general theories jungle, we found that the theory of Strategic Positioning is extremely a broad and sweeping concept which involves the positioning of an organization (unit) in the future, while taking into account the changing environment, plus the systematic realization of that positioning. (OD Toolkit, 2011) It is no doubt that the broad concept of Strategic Positioning would not only potentially make us aimless for the research but also even worthless for the whole work if we focus it unconsciously. Fortunately, both of us are really appreciate the book On Competition, also wrote by Professor Michael Porter and both of us are familiar with theories in the book since it was the primary literature of previous academic semester. In this book, Porter specifically explained the concept of Strategic Positioning compared with another concept of Operational Effectiveness which is concern the strategy of a company concretely. Obviously, we will concentrate on the concept of Strategic Positioning from Porter’s view as it is more narrowed and feasible which would help us clearly research the case of Geely Auto. Until now, we have adopted two theories both from the viewpoint of Professor Michael Porter which are the Five Forces Model as well as Strategic Positioning respectively. We consider that it is convinced and well close related to do the research by connecting two different theories from one authoritative scholar. In spite of this, we will also review other perspectives from other scholars within the business field.

2.3.3 Innovation

The term innovation is a multidimensional concept which generally is defined as to renewal or improvement, with novelty being a consequence of this improvement. Innovation can be seen as a change in the thought process for doing something, or the useful application of inventions or discoveries. (McKeown, 2008, p. 26) However, in this paper, we mainly focused on innovation from the marketing view which is based on the book International Marketing, written by Pervez N. Ghauri and Philip Cateora.
The theories concerning the characteristics of innovative products would help us to use for Geely’s product to examine the extent in which market can accept the new product.

2.3.4 Needs

Following the sequence of thinking, we are aware of that it is not sufficient merely referring to the standpoint from company if they want obtain the sustainable development in the market. It is also necessary to research the problems from the customer’s aspect. Thus, another book, Consumer Behavior co-wrote by Martin Evans, Ahmad Jamal and Gordon Foxall is worthy since it helps the managers of a company to well understanding the customers in many aspects that customers are very important for the survival of a company in the market. This book was also a literature in the past academic semester of us and we will well use the theory from it depending on acquired knowledge by us from it. As mentioned above, we choose needs which is defined as that understanding of customer need is one of the major underpinning constructs of the marketing concepts. (Evans, Jamal, Foxall, p.3) Regarding this choice, we had compared with another important concept of marketing that is attitude. The reason that we finally use needs instead of attitude is that by explaining the needs not only could help Geely Auto being market-orientated but also we argue in this paper that it will make Geely initiatively to dominant the future market using a strategic position by thoroughly understanding the requirements from automobile market. This is well related to our aim to examine the influence of innovative products for sustainable development. Whereas, we consider that the attitude merely reflect the perception of existing products on market from customer.

2.4 Information collection

In order to make sure the information collected is valuable, we divided the method of information and data collection into two parts which are primary information and
secondary information. No doubt that the process of collecting data as our practical research step is really important to make us study convinced for the reader.

2.4.1 Primary Information

This part is about the primary research phase of our study. It deals with how we to find things concerning the research questions out by research rather than discovering things by reading the literature. Fisher mentioned that there is a great variety of means to carry out the primary research phase of Master’s dissertation. A useful distinction that can be made to help people get a grasp of the range of possibilities is to contrast open, or unstructured, forms of research with pre-coded or structured ones. In the former case the answers people are likely to give to the researcher’s questions are not anticipated. The researcher is open to whatever people say. In the latter case the researcher has a good idea of the likely range of answers and is more interested in the relative frequencies with which the various options are expressed. (Fisher, 2007, p.158) Depending on our aim, we choose open or unstructured method for us interview with the managers from Geely Auto and we adopt pre-coded or structured forms for our questionnaire respectively.

In fact, the interview and questionnaire are related to our two research questions respectively that the interview is concerning the current strategy of Geely while the questionnaire is about detecting the influence of innovative products for the company in the market from the consumer’s view.

2.4.1.1 Interview

The purpose of interview is for obtaining primary and valuable information directly from the manager. Since we would like to know about their current strategy for products to aim domestic automobile market in coming years after acquiring Volvo Cars, no other choice is more suitable than to obtain the initial overview from Geely’s
manager to make evidence convinced. Due to the distance and time reasons, we cannot interview the manager who is working in the HQ of Geely based in HangZhou of China in person. Fortunately, we remain could adopt another method that is telephone interview which is also available according to Fisher to solve our problems. (Fisher, 2007, p.169) The interview was made in Chinese, and then it was translated into English by Bo Tian. Since our special situation to using telephone interview, we conducted it in two steps. First, we made an appointment with the manager Mr Liu who is an executive officer of strategy management of Geely Group before the formal telephone interview. The second step was our real interview involving the prepared questions we would like to ask for the manager. The more details about interview are as following table.

<table>
<thead>
<tr>
<th>Time for interview</th>
<th>Purpose and Content</th>
</tr>
</thead>
</table>
| May 6, 2011        | Purpose: to make an appointment  
Content: made the basic introduction of our master thesis such as our plan, mainly purpose and wants. We made an appointment to ensure the implementation of interview, as well we promised to compress the interview within 10 minutes through the telephone. |
|                    | Purpose: to obtain the viewpoint concerning mainly our first research question from the manager  
Content: ask the manager the questions relating to our research subject include |
such as Geely’s current product strategy, the perspective in a long-term market, and the idea of innovation on product. Due to the time reason, we controlled the whole time at 9.5 minutes while we acquired our wanted information

Form 1 the Schedule and purpose of interview

2.4.1.2 Questionnaire

According to Fisher, the questionnaire-based survey is considered as been largely pre-coded, completed by a sample taken from a particular population, and to be analyzed quantitatively. (Fisher, 2007, p.189) We have mentioned that the questionnaire is used for our second research question concerning the influence of innovative products for the company in the market from the consumer’s view. Specifically speaking, we decide to know to what extent are acknowledged by the consumer of innovative products from Geely Auto. Thus it is further hopefully to assist us to prove that not only the innovative products could be accepted by the market but also could well enhance the company’s competitive advantages.

Since our topic is about the automobile, the more appropriate group we target, the more valuable the feedbacks from the respondents are. Considering this, we decided to target mainly two groups, one is white-collar and another is middle-class family respectively. In order to calculate the data briefly and conveniently at last, we deliberately prepared 100 copies of questionnaire for each group. The reason for targeting the white-collar, which is considered as well-educated with comparative stable salaried, has become the majority in China at present. They are the most active group in the society leading the social values and beliefs in various aspects such as economy, politics and entertainment. Meanwhile, they are the most potentially people
who is involved in concerning automobile connected with interests and knowledge. No doubt that this group is seen as the main force to affect China profoundly in coming generation. Due to the outstanding features of this group, we cannot especially ignore their constructive perspective of innovation on the automobile. For this group, we got help from Bo Tian’s girlfriend XiZhang, who was graduated from Lund University last year but now is working as a consultant for Chia Tai Group in Shanghai China. She helped us to assign the questionnaires to other white-collars who work in the same office building in where there are many other business companies. For the middle-class family, we choose it due to the consideration that the car is playing important role in their daily life and they could evaluate a car in a more rational way. The cognition of innovative automobile from them might be more objective. We also got the help from Miss XiZhang to assign another 100 copies of questionnaire to a residential district based in Shanghai randomly. The following figure is the structure of our questionnaire plan could help understand it clearly.

![Figure 1 the structure of questionnaire plan](image)

We decide to use quantitative ways to analyze the responses from respondents.

### 2.4.2 Secondary Information

Traditionally, there are many methods to collect the secondary data, which including the books, articles, and websites from internet. Especially as the rapidly spread use of
information technology, the internet is contributing more values for collecting the data which are necessary for study in nowadays. In followings, we state our secondary resources in terms of books, articles and websites respectively.

Books

The first one is *Researching and writing a dissertation: a guide book for business students* (Fisher, 2007) as our guide book providing the basic methods to make the business thesis. As mentioned in related theories chapter, we dominantly use the book *On Competition* (Michael E Porter, 2008) providing the mainly theories for our study. The term innovation is come from the marketing approach, thus *International Marketing*, written by Pervez N. Ghauri and Philip Cateora is also our theoretical source. As connected with needs theory, the book *Consumer Behavior* (Evans, Jamal, Foxall 2009) constitute the last one for this paper.

Articles

The articles we used are mainly concerning innovation and strategy of business. Most of our articles are searched from JSTOR database through the access of MDH’s e-library.

Websites

Apart from a mass of useful website for collecting the related information, the primary secondary information about Geely Auto is mainly from the homepage of Geely Auto which is considered as well-trusted by being used often as a primary source to acquire the necessary information about company. That is Geely.com.cn.

3. Theoretical Framework

This part is concerning the framework of related theories we adopted as our
theoretical basis. As mentioned in Methodology that our theories jungle consists of *Five-Force Model, Strategic positioning, innovation and needs*. Every concept will be defined from the academic literatures’ viewpoint sequentially within this part.

### 3.1 Five Forces

![Diagram of Five Forces Model](Source: Harvard Business Review 2008)

Porter's Five Forces is a framework for industry analysis and business strategy development formed by Michael E. Porter of Harvard Business School in 1979. The five forces diagnostics, consisting of the bargaining power of buyers, the bargaining power of suppliers, the threat of new entry, the threat of substitutes, and the intensity of rivalry, allows the long-term profitability of any industry to be understood, as well as how companies can influence industry competition in their favors. (Porter, 2008)

#### 3.1.1 Threat of entry

New entrants to an industry bring new capacity and a desire to gain market share that
puts pressure on prices, costs and the rate of investment necessary to compete. The
threat of entry puts a cap on the profit potential of an industry. When the threat is high,
incumbents must hold down their prices or boost investment to deter new competitors.
(Porter, 2008)

3.1.2 The power of suppliers

Powerful suppliers capture more of the value for themselves by charging higher prices,
limiting quality or services, or shifting costs to industry participants. Powerful
suppliers, including suppliers of labor, can squeeze profitability out of an industry that
is unable to pass on cost increases in its own price. (Porter, 2008)

3.1.3 The power of buyers

Powerful customers-the flip side of powerful suppliers-can capture more value by
forcing down prices, demanding better quality or more service, and generally playing
industry participants off against one another, all at the expense of industry profitability.
(Porter, 2008)

3.1.4 The Threat of substitutes

A substitute performs the same or a similar function as an industry’s product by
different means. If an industry does not distance itself from substitutes through
product performance, marketing, or other means, it will suffer in terms of
profitability-and often growth potential. (Porter, 2008)

3.1.5 Rivalry among existing competitors

Rivalry among existing competitors takes many familiar forms, including price
discounting, new product introductions, advertising, campaigns, and service
improvements. High rivalry limits the profitability of an industry. The degree to which
rivalry drives down an industry’s profit potential depends on the intensity with which
companies compete and on the basis on which they compete. (Porter, 2008)

3.2 Strategic positioning

This concept mainly refers to the strategy issue of a company. Before explaining the strategic positioning, we would like to follow Porter’s thought that firstly to distinguish strategic positioning with another notion Operational Effectiveness which is considered as often confused by managers between each other.

3.2.1 Operational Effectiveness

In Porter’s opinion, he stresses that the Operational effectiveness is not strategy. Although the resulting operational improvements have often been dramatic, many companies have been frustrated by their inability to translate those goals into sustainable profitability. The most obvious reason for that is the rapid diffusion of best practices. Competitors can quickly imitate management techniques, new technologies, input improvements, and superior ways of meeting customers’ needs. Operational effectiveness means performing similar activities better than rivals perform them. It refers to any number of practices that allow a company to better utilize its inputs. In contrast, strategic positioning means performing different activities from rivals’ or performing similar activities in different ways. (Porter, 2008, p.38) The figure bellow can explain two notions.
Figure 3 Operational Effectiveness Versus Strategic positioning

Source On Competition (Porter, 2008, p.39)

**Strategic positioning**

Strategic positioning is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value. The essence of strategy is in the activities—choosing to perform activities differently or to perform different activities than rivals. Otherwise, a strategy is nothing more than a marketing slogan that will not withstand competition. (Porter, 2008, p.43)

Positioning choices determine not only which activities a company will perform and how it will configure individual activities but also how activities relate to another. While operational effectiveness is about achieving excellence in individual activities, or function, strategy is about combining activities. (Porter, 2008, p.57-58) However, choosing a unique position is not enough to guarantee a sustainable advantage.

### 3.2.2 A Sustainable Strategy Position Requires Trade-offs

A strategic position is not sustainable unless there are trade-offs with other positions. A trade-offs means that more of one thing necessitates less of another. Trade-offs
occurs when activities are incompatible. In fact, from Porter’s view, trade-offs is seen as one dimension to answer the question what is strategy. Thus, strategy is making trade-offs in competing. The essence of strategy is choosing what not to do. Without trade-offs, there would be no need for choice and no need for strategy. (Porter, 2008, p.57)

3.3 Innovation

The notion of innovation in marketing term refers to product, service, or idea that is perceived by consumers as new. (Business Glossary, 1999-2011)

From the international marketing perspective, an important first step in adapting a product to a foreign market is to determine the degree of newness perceived by the intended market. How people react to newness and how new a product is to a market must be understood. (Ghauri & Cateora, 2010, p.359) We think that this viewpoint about innovation is also available for a domestic market. Whether or not a group accepts an innovation, and the time it takes, depends on its characteristics. The following list the characteristics of innovations

<table>
<thead>
<tr>
<th>1 relative advantage</th>
<th>The perceived marginal value of the new product relative to the old</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 compatibility</td>
<td>Its compatibility with acceptable behavior, norms, values, and so forth</td>
</tr>
<tr>
<td>3 complexity</td>
<td>The degree of complexity associated with product use</td>
</tr>
<tr>
<td>4 Trial ability</td>
<td>The degree of economic and/or social risk associated with product use</td>
</tr>
</tbody>
</table>
5 Observe ability

| The ease with which the product benefits can be communicated |

Form 2 the characteristics of innovations (Ghauri & Cateora, 2010, p.364)

### 3.3.1 Degree of Newness

As perceived by the market, varying degrees of newness categorize all new products. Within each category, myriad reactions affect the rate of diffusion. The names of these categories are as following.

- **A congruent innovation**

  Refers that the innovativeness is typically one of introducing variety and quality, or functional features or style

- **A continuous innovation**

  Usually alteration of a product rather than creation of a new one

- **A dynamically continuous innovation**

  This may mean the creation of a new product or considerable alteration of an existing one

- **A discontinuous innovation**

  Involves the establishment of new consumption patterns and the creation of previous unknown products

It introduces an idea or behavior pattern where there was none before. (Ghauri & Cateora, 2010, p.362)

### 3.4 Needs
The understanding of customer needs and wants is one of the major underpinning constructs of the marketing concept. (Evans, Jamal, Foxall, 2009, p. 4) The nature of being market-orientated requires organizations to consider who their customers might be, where they are, how to target them and with what. An important starting point is to understand what it is they really “want”. (Evans, Jamal, Foxall, 2009, p. 4) By satisfying customer needs could lead to competitive advantage in increasingly crowded marketplace. In order to well understand need, the concept of motivation is indispensable.

3.4.1 Motivation

Motivation can be described as the driving force within individuals that moves them to take a particular action. (Evans, Jamal, Foxall, 2009, p. 6)

3.4.1.1 Positive and Negative Motivation

As positive motivation, people are looking for positive situation, positive mood, pleasure, sensory gratification, intellectual stimulation, social approval and comfort: things that may enrich their lives and are worthwhile to strive for and goals that they want to reach.

With negative motivation, people are motivated to escape from negative situation, negative mood, pain, illness and discomfort: they want to avoid and remove problems. (Evans, Jamal, Foxall, 2009, p. 10)

3.4.1.2 Internal and External Motivation

Motivation is either internal (from within a person) or external (from the environment). Internal motivation is concerned with instinct, need, drive or emotion. It often has a physiological base. In contract, external motivation is based on an attractiveness of environmental stimuli such as products and service and often
becomes internal motivation in the form of preference for products, services and situations. (Evans, Jamal, Foxall, 2009, p. 11)

Combining positive and negative motivation with internal and external motivation gives the four types of motivation.

<table>
<thead>
<tr>
<th>Motivation</th>
<th>Internal</th>
<th>External</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive</strong></td>
<td>• Pleasure, comfort</td>
<td>• attractive goods and services, attractive situations</td>
</tr>
<tr>
<td><strong>Negative</strong></td>
<td>• pain, discomfort</td>
<td>• unattractive goods and services, unattractive situations</td>
</tr>
</tbody>
</table>

Figure 4 Different kinds of motivation (Evans, Jamal, Foxall, 2009, p. 11)

4. Findings

This part is all our practical findings according to theoretical frames. These findings are the evidences to help us analyzing connected with theories.

4.1 Five Forces

We detect the five forces following the every aspect including new entrant power, buying power, supplier power, and substitute threat, as well as existing rivals.

4.1.1 New entrants

The threat of new entrants for Geely Auto is very high and has many contributing
factors. Generally speaking, factors to examine for this threat include all barriers to entry such as upfront capital requirements (it costs a lot to set up a car manufacturing facility!), brand equity (a new firm may have none), legislation and government policy (think safety, EPA and emissions), ability to distribute the product and so forth. (CF, 2010) However, due to China is experiencing tremendous growth that specific conditions create more threats from new entrants to Geely Company. Three mainly reasons could decline the height of entry barriers of automobile market in China. The first and the most obvious factor is the dramatically increasing demand of auto that attract numerous potential competitors both from domestic and abroad, with the high speed of economy development in China. It is said that China surpassed the United States as the world's largest auto market with the sales volume 13.5 million units at the end of 2009. (ChinaDaily, 2010)

![China Automobile Sales](image)

**Figure 5 China Automobile Sales**

Source Fiat Economics.com (2009)

According to a report from Bloomberg, the demand for autos in China is so intense, that factories that are cranking them out almost 24-hours per day cannot meet demand. (Bloomberg, 2010) China's demand for automobiles in 2020 is expected to reach
20.74 million units, including 20.43 million sedans, and the total number of cars in China by then will top 156 million. (China Automobile Association, 2009)

Moreover, another factor to strength the entrants force is that high private capital are emerging in market also as affected by the national economy growth, thus these private capital could easily flow into the attractive industry such as automobile. The private capital has become a critical growth engine and driven force in the rigorous economic development of China.

4.1.2 Rivalry among existing competitors

The threat from existing rivals is the most intensive force for Geely Auto as an automobile manufacture. The following table is profiles of leading automobile manufactures in China.

<table>
<thead>
<tr>
<th>No.</th>
<th>Name</th>
<th>Output</th>
<th>Ratio of output (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shanghai Automobile industry Corporation (Group)</td>
<td>1561167</td>
<td>17.58</td>
</tr>
<tr>
<td>2</td>
<td>China FAW Group Corporation</td>
<td>1464908</td>
<td>16.49</td>
</tr>
<tr>
<td>3</td>
<td>Dongfeng Motor Corporation</td>
<td>1154867</td>
<td>13.00</td>
</tr>
<tr>
<td>4</td>
<td>Chana Automobile (Group) Liability</td>
<td>87749</td>
<td>9.88</td>
</tr>
<tr>
<td>5</td>
<td>Beijing Automotive Industry Holding</td>
<td>706396</td>
<td>7.95</td>
</tr>
<tr>
<td>6</td>
<td>Guangzhou Automotive Industry Holding</td>
<td>514012</td>
<td>5.79</td>
</tr>
<tr>
<td>7</td>
<td>Chery Automobile</td>
<td>387880</td>
<td>4.37</td>
</tr>
<tr>
<td></td>
<td>Company Name</td>
<td>Output</td>
<td>Market Share</td>
</tr>
<tr>
<td>---</td>
<td>--------------------------------------------------</td>
<td>---------</td>
<td>--------------</td>
</tr>
<tr>
<td>8</td>
<td>Brilliance Automobile Holding</td>
<td>293588</td>
<td>3.31</td>
</tr>
<tr>
<td>9</td>
<td>Hafei Automobile Group</td>
<td>231488</td>
<td>2.61</td>
</tr>
<tr>
<td>10</td>
<td>Geely Group Holding</td>
<td>216774</td>
<td>2.44</td>
</tr>
<tr>
<td>11</td>
<td>Anhui Jianghuai Automobile (Group)</td>
<td>209880</td>
<td>2.36</td>
</tr>
<tr>
<td>12</td>
<td>Great Wall Motor Company</td>
<td>122605</td>
<td>1.38</td>
</tr>
<tr>
<td>13</td>
<td>Changhe Automobile Co. Ltd</td>
<td>112083</td>
<td>1.26</td>
</tr>
<tr>
<td>14</td>
<td>BYD Auto Co. Ltd</td>
<td>100376</td>
<td>1.13</td>
</tr>
<tr>
<td>15</td>
<td>China National Heavy Duty Truck Group</td>
<td>100202</td>
<td>1.13</td>
</tr>
</tbody>
</table>

Form3 Top 15 manufactures by output of China Automobile industry in 2007

Source Wheelon Co., CNAIC (2011)

From above profiles, it is not difficult to find that Geely was only ranked at the 10th within the merely domestic auto manufactures, dominating at 2.44% of total auto output in 2007.

4.1.3 The bargaining power of buyers/customers

By related to the previous force of intensive competitors within auto industry, the bargaining power from Geely’s customers should be also fairly high. Customers are not stuck with one or two manufacturers to choose from. These include both Chinese and foreign manufacturers.
Based on official China Association of Automobile Manufacturers (CAAM) data, Bo Tian especially made the chart of the best selling cars in China 2010 to make the sense intuitively. Unfortunately, Geely was not among the best selling manufactures in 2010. Apparently, with so many strong competitors customers have more bargaining power on Geely’s products.

4.1.4 The bargaining power of suppliers

Quite the same with the customers in the market, the suppliers also have many choices with whom they would like to deal depending upon their interests and benefits. According our own experience and research, we consider the chain of suppliers in auto manufacture industry is not variable but also quite complex that to make Geely meeting fairly strong bargaining power from its suppliers.

4.1.5 The threat of substitute products

Mass-transit could hurt some car sales, but not much as most Chinese who have
recently come into wealth may end up buying a car anyway. People see cars as status symbols, especially when they may have not grown up with one, and therefore might want to buy one as soon as they are financially able to, despite cheaper options like mass-transit or even bicycles.

4.2 Strategic positioning

The strategic positioning is essential for a company and it is about being different from rivals. In this part, we acquired the primary findings about Geely’s specific position of their products from the interview of Mr. Liu who is the executive officer of strategy manager in Geely Group. Since our interview is mainly used for our first research question relating Geely’s current strategy, we also especially designed the questions which were involving the market position for the manager to gain what we want to. The following table is all the feedback from our telephone interview that we sorted them out as findings here for the coming analysis use.

<table>
<thead>
<tr>
<th>Question Topics</th>
<th>Feedback</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 What is current position and why</td>
<td>larger (displacement and space) and more expensive cars to compete in premium market depending upon the perceived needs of automobile market</td>
</tr>
<tr>
<td>2 the development of strategy for position</td>
<td>Low-cost win strategy to technology leadership, quality leadership, customer satisfaction (See following figure)</td>
</tr>
<tr>
<td>3 The attitude of innovation (mainly for the hybrid car)</td>
<td>Positive, agree that the innovation is very essential for modern auto industry</td>
</tr>
</tbody>
</table>
4 Feeling after acquisition
Well-related but remain existing conflicts among managers (mainly on the product position)

5 perspective for the future
Dominant the domestic market with well-known brand image while going into global

Form4 the interview from the executive officer of Geely Group

Due to the limited time of our telephone interview, the officer could not give us more detailed information in one question in order to answering other questions thoroughly. Thus we made the following figure according the secondary data to stress the strategic goals from 2007-2015 of Geely within China automotive market which we considered is very helpful for our research and analysis.

Figure 7 the strategy plan from 2007-2015 of Geely Group

Source China Daily (2007)

4.3 Innovation

In this part, we firstly will show the most two innovative models among Geely’s
product line. Following this, we will continue to illustrate these two models’ performance in Chinese market to examine the extent of acceptance from costumers. Secondly, we find some current status of Hybrid and Electric Cars developing in China, which are considered as innovative products compared with traditional gas-oil auto.

4.3.1 Emgrand EC7

Geely Emgrand EC7-RV was awarded "Independent Brand Passenger Car of the Year" on the Sixth CCTV Annual Domestic Vehicles. The car’s exterior design adopts cream and grey colors. It is also equipped with advanced technologies such as automatic climate control system, navigation system, and electric leather seats, so on. Emgrand EC7 achieved 46.8 points at the C-NCAP test on January 7, becoming another 5-star AOO vehicle after Geely Panda, the only 5-star AOO model in 2009. It also scored the highest among Chinese autos. Adopting the concept of manufacturing the safest, most environmentally-friendly and energy-saving vehicles, EC7-RV occupies the first place in the China auto market. Produced according to C-NCAP 5-star standard and E-NCAP 4-star standard, the model is equipped with a cellular bodywork, four airbags and inflatable curtain on each side. Emgrand EC7 is also superior in environmental protection as it reaches the European emission standard and the car is made of retrievable materials, all of which guarantee 95 percent of complete car recovery rate and 85 percent of recycle rate. (Global Times, 2011)
Based on the data from China Association of Automobile Manufacturers, Bo Tian made the pie above to show the proportion of Emgrand EC7 among the Geely’s total sales in 2010. The sales volume of Geely reached 400,000 units, of which Emgrand sold 8,000 units per month, totalizing 80,000 units in 2010. According to an employee with Geely, the company plans to sell 450,000 vehicles in 2011 and EV7-RV will continue making great contributions to Geely's strategic transformation. (Global Times, 2011)

**Geely Panda**

Geely Panda is another representative outstanding model which was released at 2008 among Geely’s products.

Geely Panda was titled “the king of safety” by its prominent score (45.3) in C-NCAP test and it became China’s first independently-researched mini-car achieving five-star performance in collision test. Therefore, Geely Panda is regarded as the safest mini-car in China. (Geely, 2011)

**4.3.2 Hybrid and electric cars in China**

Most of first-line cities of China are suffering the serious air pollution which is not only detrimental to inhabitants’ health but also would damage ecological environment.
The vehicle exhaust emission are seen as the mainly reason which also would be convinced by a response from our questionnaire. (Checking the chart of result Q 13 in following needs part)

Fortunately, the Chinese government, determined to become a world leader in green technology, says it plans to invest billions of dollars over the next few years to develop electric and hybrid vehicles. The government said a group of 16 big state-owned companies had already agreed to form an alliance to do research and development, and creates standards for electric and hybrid vehicles. The plan aims to put more than a million electric and hybrid vehicles on the road over the next few years in what is already the world’s biggest and fastest growing auto market. (New York Times, 2010)

The Chinese firm BYD (Build Your Dream) has leapt dramatically into the electric car market with the introduction of the F3DM at the end of 2008, a commercially available plug-in hybrid that can travel for 60 miles without using its gasoline engine. It is said that the F3DM is the first delivered commercially available plug-in hybrid in China. (Stein, 2008)

4.4 Needs

In the finding parts about entrant’s threat, we have noted that China’s dramatically increasing demand of cars as the result of fast economy development. However, in this part, we mainly decide to find the concrete motivations behind customers which drive them large amount needs of auto. Hereby, we would like to get the findings from the feedback of our research questionnaire in which we especially designed a few questions relating the kinds of motivation behind customers. We will also show two geographic questions connected to this research.

Here are the details of responses from 200 completed questionnaires of two mainly
groups, “white-collar” and family.

**Q1 What age are you?**

1. 25-35
2. 35-45
3. 45-55
4. 55 and over

![Age Distribution Chart]

**Q2 Are you?**

1. Male
2. Female

![Gender Distribution Chart]
Q4 What is the mainly utilization of your car?

1. As a transport of going to school or work
2. Mainly used for purchasing in the shopping mall or daily use
3. Mainly for entertainment or vacation in holiday
4. For business

Q5 How much extent to which you accept that a car would increase your social status?

1. Very much
2. Much
3. Little
4. Nothing with status
Q8 How much extent have you been affected by the knowledge of innovative vehicle and the purchase behaviors of innovative vehicle consumed by the people around you?

1. Very much
2. Much
3. Little
4. Never

Q13 Do you agree that the vehicle exhaust emission is one of the most influential factors for damaging environment?

1. Strongly agree
2. Agree
3 No view

4 Strongly disagree

Q14 Do you worry that the raw oil will be exhausted in the future?

1 Very much

2 Hard to say

3 Little

4 Never

These questions in our questionnaire are mainly aim to detect potential motivation from consumers which could affect the consumer behavior for the new product in Chinese auto market. Above charts are merely the responses from respondents, and
we will analyze these data in detail in our analysis part.

5 Analysis

The analysis is the most essential part among the entire study. In this part, we would explain the strategic problem that is trying to survey a sustainable way for Geely Group by analyzing our practical findings, in which involved two research questions, and theories jungle which is used as our academic guidance. As we want our analysis logically connected with each topic, we decide to do it to follow the sequence from five forces, needs innovation to positioning. The below figure show this process.

5.1 Five Forces

Porter’s Five-Force model is normally used to analyze a firm’s competition condition within a particular industry in order to enhance a firm’s own competitive advantages by understanding the competition environment. One proverb from *The Art of War* state that know the enemy and know yourself then you can fight a hundred battles with no danger of defeat.

Through researching, we know that the competition among Chinese automobile manufactures is likely cut-throat and brutal. Every force which would affect a firm in different way is unfavorable for Geely Group. However, the huge potential demands
with the high speed development of national economy attract numerous investors to defy all difficulties and dangers. Regardless of all visible and invisible challenges existing in the market, none of these business warriors come into this battle field without ambition including both foreign auto giants and domestic personal-owned companies such as Geely group.

5.1.1 Threats from existing rivals

Apparently, whenever saying the norm of amount in context of China, it is no doubt that the first feeling would be huge and countless. The broad territory with one fifth of total world population is the nature condition for numerous business companies could exist in Chinese market. Thus the existing rivals in the automobile manufactures become the most obvious and forced threats for Geely Group.

According to our related findings show that Geely Group was only ranked at the 10th among the Chinese domestic auto manufactures, accounting at merely 2.44% of total automobile output in 2007. However this statistic just compared between domestic manufactures not including more competitive foreign competitors which are in fact dominating the mainly Chinese market share with strong brand image and competitive advantages.

If considered another sensitive statistics we found that about the best selling cars in 2010, unfortunately we cannot see Geely’s name among the top ten best selling brands. Even though Geely Auto fortunately attracted more attention from public than other domestic rivals in 2010 since it acquired the world famous auto brand Volvo Cars, it has not help Geely to change its market performance to sell more products in home country.

No one doubts the ruthless environment of Chinese automobile market due to the huge amount existing competitors is an apparent reason for Geely meeting difficulties
and challenges. However, in another side, disadvantages can become advantages under certain conditions if Geely is compelled by the forced circumstance would like to innovate and upgrade to compete with other rivals.

5.1.2 The threat of new entry

This is another important threat for Geely to compete in China auto industry due to some similar reasons in terms of amount relating the most forces threats mentioned above. Apart from the natural factor to enhance this force, some other particular reasons also contribute the strength of new entrant.

Generally, the threat of entry in an industry depends on the height of entry barriers that are present and on the reaction entrants can expect from incumbents. If entry barriers are low and newcomers expect little retaliation from the entrenched competitors, the threat of entry is high and industry profitability is moderated. (Porter, 2008, p. 8)

Even though the traditional thought that the entry barriers of automobile industry are still very high such as costing lots of upfront capital for car manufacturing facility, it would not enough to resist more and more new companies trying to share the benefits from Chinese customers with ambitious dreams. Just one statistic would not let them rejecting going into Chinese auto market. The fact is that China surpassed the United States as the world’s largest auto market with the sales volume 13.5 million unites at the end of 2009. The most attractive place for a firm would like to go is in where there is huge potential market to let them gain profit. China is a good choice for the auto manufactures regardless of high conditions to entry it.

Since the national development especially at economy, the private capital is also increasing dramatically which could relatively reduce the height of the enter barrier to auto industry. When Geely went into auto industry, it was also a private-owned
company with tremendous capital base. Now, Geely are meeting more and more competition from these new ambitious entrants who are not care about financial problem.

Actually, the more tough threats for Geely from new entrants are their competitive advantages at technology. Due to the fast development of technology currently, not only new entrants often have fundamental capital basis but also are armed with advanced intelligent resource. They could easily get well-knowledge employee and valuable information since they start at a higher point compared with those incumbents.

There is no other choice for Geely but to face the challenges from new entrants if Geely wants survive in Chinese market. However, that is not to say that Geely is in a weakened position. Geely is more mature relied on much valuable market experience than new entrants. What is Geely needed is to beat new arrivals through a different way which we emphasize in the whole study as a sustainable way. As long as Geely insists innovating and upgrading to satisfy the market needs with more innovative and attractive products, it will keep their advantage than other rivals to acquire more market share within Chinese auto industry.

5.2 Needs

Understanding the needs of customers is the most important agenda for any profit-organization in order to offer appropriate products or services for customers to ensure the considerable profits. Motivation is the essential factor to stimuli all kinds of needs of individual. Thus well understanding the motivation means the precondition of well understanding of needs.

For automobile, except the traditional function of transport, various new utilizations would motivate people’s need of a car since the development in many aspects of
society. The merely basic function of car of using as a vehicle is not the only reason to motivate an individual purchasing it at present. However, such as a car with the beautiful appearance, the good quality, or the famous reputation with specific brand image could become the new motivations of consumer behavior.

Though the companies do not create the needs instead to try to satisfy the needs with benefits from using of their products, they can perceive the potential needs or new trends within a particular product through well knowing the current market’ needs. Expressed differently, the new needs and trends could be seen as the new market in some extent. Obviously, the earlier to perceive the new market, the less existing rivals will be met for a firm who would gain more profits within a particular market sustainably. Depending upon this, we especially designed a few questions in our questionnaires to probe motivations behind the customers. We mainly divided into two forms of questions in order to detect positive and negative motivation influence respectively. The followings are the analysis of related questions with responses from researching.

Q1: the age group.

As there were two mainly target groups consist of “White-Collar” and family, we had expected results for this question. Actually, depending our finding, the 25-35 age group dominated the younger “White-Collar” at 62% totally while 55% of respondents from family were belonged to 45-55 age group.

The younger “White-Collar” group represents the current life style and they can accept the new things more easily depending on their rapidly acquired knowledge and information. However, quite different from young people, the family group would make consumer decision more rational because they usually consider too much before buying. It means that they may not appear as interesting as “white-collar” to new things and the more practical values they will be consider.
The Q3 and Q 4 are used as to detect normal motivation for purchasing a car. The findings show that most of families used their car for daily life such as shopping at weekend with 35% occupied. In contrast, the “White-Collar” group would like to use a car for entertainment, arrived at 42%. But for the Q4, both of two groups mostly agreed that a car could increase personal social status in some extent, with 47% from “White-Collar” and 37% from family respectively.

We think that the results of Q4 is very important to explain why Geely’s adopt current position that they remain interesting to manufacture more expensive and big displacement capacity model in domestic market.

The negative motivation is the mainly interesting points we want to research in this questionnaire since we argue that purchasing a hybrid or more innovative car could due to some negative consideration such as concerning the deceasing amount of raw oil and increasingly environmental pollution problem nowadays. Q6 and Q7 are related to these negative factors which would potentially influence the consumer behavior for the innovative auto.

The results show that both of “White-Collar” and family strongly agree that the vehicle exhaust is one of the most influential reasons for damaging the urban environment, with nearly 60% and 45% respectively. Q7 is to detect the extent of anxiety in which people worry the raw oil resource will be exhausted in the future. 37% “White-Collar” believe this will happen in the future while 30% of families hold this idea.

Actually, this is a consensus that vehicle exhaust emission is important reason for damaging the air environment. Moreover, finding more alternatives such as electricity and biological energy instead of oil for the power of auto has being the main stream since two decades ago. More and more global auto manufacturers are paying a lot attention to the innovative model with new energy. This change not only based on the
high speed development of technology but also mainly for the changing motivation which are in some extent transferred from traditionally attitude to some negative factors for consuming a car. It is important for Geely Group to aware this change from customer’s needs in order to develop in a sustainable way. If not, we assume that maybe it is possible to keep the short-term considerable profits instantly for Geely but it is difficult for them to realize a sustainable alive in a long-term perspective constantly.

5.3 Innovation

In our findings about innovation, we exampled two advanced model of Geely’s products as their comparative innovative represents and provided the state of hybrid and electric car development in China. We also especially used questionnaire to research the extent to which Chinese customers recognize the innovation product compared with traditional car. Thus, we would like firstly to analyze this topic connecting our primary data from respondents. Then the current situation concerning the innovative products in auto industry will be followed.

Q 7 Do you understand hybrid or environmental-friendly vehicle?

1 Very much

2 Much

3 Little

4 Nothing
From the data above, it is obvious that “much” dominated the most part within total respondents which means the knowledge of hybrid or environmental-friendly car is not unacquainted yet already have come into Chinese people’s thought. However, we remain can note the different extent of perception between “White-Collar” and Family group in which “White-Collar” is higher with 55% than Family at 35%. This may also be contributed by the active role of “White-Collar” group that they are likely to be interested with knowing new things in many aspects.

**Q8** Will you intent to buy a traditional car (gasoline vehicle) or an innovative car (hybrid or environmental-friendly)?

1 Traditional

2 Innovative
Even though the answer of this question seems no doubt that the traditional car would be the proper choice. However, we are pleasant and surprised to find out that nearly 20% of younger “White-Collar” group gave us answer on Innovative car. Some of them even noted the reason why they preferred hybrid car to a traditional car following the question. We acquire the reason from who supported innovative products generally as they considered a hybrid car would not only present their different lifestyle and personal value but also could save the money on the increasing price of oil. This question should be followed with Q9 which we think putting them together could be more logically to explain the problem.

Q9 Depending on your own well-knowledge of innovative vehicle if you have, will you accept an innovative car rather than traditional car supposed that there is no price gap among them.

1 Of course yes
2 Depended
3 Hard to say
4 Absolutely no
If our assumption was real, does it mean the hybrid have the ability to alternative the gasoline? One response is definitely not sufficient to convince it; however, at least it is no doubt that it shows us younger generation has the intention to prefer the new generation automobile potentially most based on their correlative knowledge.

The number of practical environmental-friendly car supporters is poor compared with the huge traditional supporters, but after all, the younger “White-Collar” group is considered as the dominant power in coming generation and it is no doubt that their idea or perception about particular products could show the trends of needs in some extent. This would help the companies to well understand the need in order to fulfill customer’s satisfaction. Geely have to look the market need as dynamic instead of static in a long perspective.

**Current Situation**

In our findings about this topics, we profiled the most two featured models from Geely Auto, EC7 and Geely Panda respectively. Meanwhile, the two models also are the best selling within Geely’s product lines based on their comparative higher advanced features than other normal model. Both of these two models gained some rewards and recognitions from either market or within auto industry due to the higher standard of safety and efficiently-emission than previous products.
However, it is embarrassed for Geely if compared the market performance with existing rivals in China. First, Geely Group was outside the top ten best selling cars 2010 in China. Second, Geely only ranked at 10th of annual output compared with merely domestic competitors. Obviously, the market performance is not the only index to prove a firm’s achievement but is a very directly barometer referring to a firm’s current advantage within an industry. Geely’s market performance objectively warned that they have no apparent competitive advantages among the numerous rivals in China until now.

Moving to Geely’s rival, BYD, another strongly increasing personal-owned auto manufacture of China is considered as a leader of hybrid and electric car development in China. Even though its annual output only listed at 14th following the Geely, BYD’s F3 model was the number one bestselling car in 2010 China defeating all rivals including abroad and home competitors existing in Chinese auto market. According our findings, BYD are playing more attention to hybrid and electric car market. It decides to enlarge investment on the innovation and development of new generation car which is already seen as their strategic position in coming years in China. No doubt that, long-view perspective would improve BYD’s competitive advantages in the competing automobile market.

Moreover, Chinese government have been aware that the negative effects for the city environment and economy caused by vehicle emission. The revise policy for this year, with tripled subsidies to encourage the replacement of outdated vehicles with high emission and unstable driving performance, will contribute to an environmentally friendly society in which the automobile industry has a heavy responsibility. More serious regulation for eliminating the exhaust emission and huge financial subsidiaries for supporting to development new generation automobile are enforcing the car manufactures like Geely need to change the strategic position to realize long-term development.
5.4 Positioning

A few years ago, Geely was known as the cheaper and lower quality of automobile manufacture by most of Chinese inhabitants. When Geely went into vehicle industry in the beginning, they declared that Geely aimed to produce the car with the acceptable price for every Chinese people. It is sounded a bit absurd with this simple and unreasonable position nowadays. They just wanted to produce a car which can be afforded by most customers without any other deliberate thinking about the market characteristics. Due to this, Li shufu, the founder of Geely was ridiculed by the inner industry as a peasant-entrepreneur which means that he was just a parvenu without strategic mind needed by a successful business man.

After nearly a decade hardly development, Geely not only improved its solid capital but also accumulated the more valued market experience according the Chinese huge market. However, at more and more new entrants coming into competition sharing the huge market, Geely has been aware that it is really difficult to compete within tough environment depending on the puerile cheaper price without quality concern strategy.

From our interview for Geely’s strategy officer we can also acquired this intension to rebuild its brand image in the market. They told us Geely are changing from low-cost win strategy in the past to technology leadership, quality leadership and customer satisfaction. However, we find that actually Geely are not implementing the position as they stated on their strategy decision. The officer told us that Geely remain focusing on the current market with expected comparative large displacement and more expensive car. Does Geely go to another extreme side compared with lower price product before?

Either, this is the mainly point in where there are contradictions between Geely and Volvo after acquisition. Geely would like to dominant the Chinese market instantly according the Volvo’s world-class famous brand with large displacement and higher
price products. Quite contrary, Volvo Cars still emphasize the high quality of product but also intend to pay attention to the hybrid and electric car market. Even the officer did not avoid telling us the conflicts existing among managers.

According our research, when chairman Li shufu defends Geely’s viewpoint being different from Volvo, he explains that Geely is better than Volvo to understand the Chinese market traits. He considers Volvo lack the experience of understanding Chinese market which is totally different from US or European market. It sounds feasible and reasonable to convince the executives to implement the strategy from Geely’s perspective. In additional, the response of Q5 showed that considerable customers feel that a car could increase a person’s social status in China. Thus the more expensive price a car has, the higher degree of social status of a person should be. This attitude may be one of the important reason to let Li shufu feel he is better than Swedish to understand Chinese market. But, whether this is a sustainable way is our core argued problem throughout the whole work.

We can understand that Geely is still indulging in the huge current market demands in China as the large amount of population with high speed economy development. No doubt that countless demands are indeed inevitable attraction for most existing and potential competitors. But, Geely have to clearly understand that the market is not static but dynamic. Needs could be changed as the development of both technology and ideology. Even the respondents tell us they hope Geely will improve the quality through innovation with considering the fuel efficiency and environmental-friendly instead of just keeping producing cheaper products. No one is merely care about the price without any value, what could let them feel satisfaction is what benefits they could acquire from the featured products. If Geely want survive in a long-term by competing numerous rivals, it must choose an appropriate strategy from long-term perspective in order to realize the sustainable development. Sometimes, this choice needs Geely abandon immediate interest in some extent to gain the future return
which is very necessary for a successful company.

6 Conclusion

The core argued problem of this paper is to find a sustainable development way for Geely Group among the tough competition in Chinese automobile industry after the milestone of acquiring Volvo Cars. Most of observers consider the acquisition is a precious opportunity for Geely which would not only potentially help it to build the leading role within the domestic auto industry but also be expected to accelerate the speed of Geely going to global according Volvo’s world famous reputation. Apparently, Geely also dreams this considerable influence could happen as soon as possible to realize the huge profits instantly based owning the Volvo Cars. However, others think that the acquisition is double-edged sword which may be negatively affect Geely’s development as there must be lots of differences in terms such as culture, values between two different cultural based companies. Definitely, the acquisition should become a valued opportunity for Geely but must be under some specific conditions. Otherwise, it would not turn out as Geely’s wishes.

Generally, by through our research and investigation, we proved the particular positively role of innovation for enhancing the Chinese carmakers’ competitive advantages within domestic automobile industry which is mostly considered as lower technology involved and lower competitive.

According our analysis about Geely’s Five Forces, we know that every aspect is strongly unfavorable for Geely’s development. Expressed differently, the environment in which Geely is competing with its rivals is extremely tough that makes Geely meets tremendous threats both from in terms of existing rivals, new entrants, customers, suppliers and substitutes of Five Forces. Unfortunately, but the fact is that Geely does not have more competitive advantages to ensure its competition compared
with other competitors in Chinese automobile market. Neither the market performance nor the public reputation of Geely could be considered as affirmative to prove Geely’s competitive state. It is necessary for Geely to clearly understand the current competition situation in order to ensure where they should go.

Based on our findings and analysis, the motivations of buying a car is changing from traditional attitude to more negative considerations due to such as the increasingly oil price and high pressure from the regulation. The hybrid and electric car which are seen as more effectively and environmental-friendly are already going into market with more attention and focus. They are considered as the mainly concept of next generation car in coming future. It is important for Geely Group to aware this change from customer’s needs in order to develop in a sustainable way. If not, it is possible to keep the short-term considerable profits currently for Geely but it is difficult for them to realize a sustainable alive in a long-term perspective constantly.

Actually, we can see the coming trends of needs about hybrid or innovative car in Chinese automobile market. More and more young “White-Collar” who are seen as the elite and driven force in current society would like to accept cleanly car instead of gasoline car depending on their perception and knowledge of new products. Some sharp-sighted companies such as BYD have already known this opportunity and initiatives lead the innovative product market in China. Compared with Geely, they abandon to mainly compete in the traditional market instead to change into the higher standard market with only few rivals even few profits. In additional, support for the high-tech innovative car from Chinese government is another not negligent factor to mention when considering the new product positioning. Thus, the conclusion above could strongly support our second research question that the innovation production could no doubt positively improve the competitive advantage of a car manufacture.

For answering our first research question, we got the answer both from the primary
and secondary data. Geely believes that the more expensive and bigger displacement model are still the mainly needs in Chinese automobile market. They decide to remain target these kinds of needs in the market according the increasing quality products compared with before. Geely says that the reason why they adopt this position is they well understand either the characteristics or the needs of Chinese market. In fact, no one could prove Geely’s current position is wrong. However, the core argued problem of this paper is to find a sustainable development way for Geely in future. In other word, how to improve Geely’s competitive advantages to support them survive in long-term perspective is mainly study aim of this paper. Thus, our conclusion that we consider that aiming the innovation product could seen as a sustainable way and play a very positively role to ensure Geely win in a long-term as well as depending acquiring Volvo Cars is well explained.

7 recommendation

The aim of this paper is not to support the evidence to let Geely abandoning their current strategy but to suggest a constructive perspective to enhance Geely competitive advantages to go far away in Chinese market. We respectively affirm the achievement Geely have gained these years. Otherwise, they would not have the ability to acquire Volvo Cars. However, Geely remain have many problems when they are meeting the challenges which come from both internal and external in extremely complex Chinese market especially completing acquire Volvo Cars.

According to our findings and analysis, we strongly recommend Geely in three aspects both are aiming to realize sustainable development based in specific conditions in Chinese market.

Fist and the most important, Geely have to well acknowledge that market is dynamic but no static. Geely have to well understand the changing needs and motivation
related their products. Well-understanding the market need is precondition doing business.

Secondly, according our conclusion, we suggest Geely should pay more attention on the innovation product such as hybrid and electric car, not only still target the traditional vehicle. This means that they need increase the investment on the research and development. It is necessary for Geely as currently most competitive company win depending on the high technologies.

Finally, Geely should learn more from Volvo Cars not only concerning the higher technology using for product but also the value and concept about how they see the market. Apparently, appropriate thought is the fundamental guarantee for a successful implementation in practice.
Reference list

Books and Articles


Martin Evans, Ahmad Jamal and Gordon Foxall, (2009), *Consumer Behavior*, Second edition, John Wiley & Sons Ltd, The Atrium, Southern Gate, Chichester, West Sussex PO198SQ, England


Websites from Internet


Appendix 1

Interview

The following are the description of interview we made on May 9, 2011 with Mr Liu, the executive of strategy management in Geely Group Hangzhou China by telephone. The interview was done using Mandarin. Hereby are the English version translated by Bo Tian.

1 what is Geely’s current product position and the reason?

Mr Liu: Based on our perceived research and knowledge of needs in market, we decide to put some new model cars which are especially with large displacement and higher price than before in market. We want to compete with those stronger manufactures in Chinese market such as Mercedes Benz and BMW. We believe that as long as the fast speed development of economy, customers are likely to buy larger car without money concern. That means we would like to go into premium market.

2 Could you please briefly descript the development of Geely’s product position?

Mr Liu: We admit that in the past, most Chinese people thought Geely represented the cheaper car manufacture with lower quality condition. Definitely, from the beginning, we went into market indeed with lower cost win strategy to ensure our market role. However, we aware that this is no longer a suitable strategy for current competitive market according our accumulated market experience. Thus, we plan to change from lower cost strategy to technology leadership, quality leadership, customer satisfaction in Chinese market.

3 Could you please take about the feeling after acquiring Volvo Cars?

Honestly, everyone in Geely sees the acquisition as the extremely valued opportunity
for company’s development. Both of us think this is a milestone for Geely’s future development. As we promised before, Geely remain to ensure the independent right for Volvo to design the product. Actually, we are well related with each other with keeping in many routine discussing between us. However, we also admit that there are indeed some contradictions among us mostly about the market positioning. But we believe that these contradictions could be eliminated through the talk among two companies.

4 Could you please talk about the future perspective in market of Geely?

As I mentioned above, everyone in Geely think acquiring Volvo is a milestone for company. Our strategic aim is to dominant the domestic market with well-known brand image through our efforts while going into global market. We believe that Geely will play a leader role within Chinese automobile industry.
Appendix 2

Here is our English version of questionnaire

Q1 What age are you?
   1 25-35
   2 35-45
   3 45-55
   4 55 and over

Q2 Are you
   1 Male
   2 Female

Q3 How much you annual income? (RMB: Chinese unit of currency)
   1 50,000-100,000 RMB
   2 100,000-150,000 RMB
   3 150,000-200,000 RMB
   4 200,000 and over RMB

Q4 What is the mainly utilization of your car?
   1 As a transport of going to school or work
   2 Mainly used for purchasing in the shopping mall or daily use
   3 Mainly for entertainment or vacation in holiday
   4 For business

Q5 How much extent to which you accept that a car would increase your social status?
1. Very much
2. Much
3. Little
4. Nothing with status

Q6 Which factor is your most concern when you purchase a car?
1. Price
2. Brand
3. Performance
4. Appearance
5. Displacement capacity

Q7 Do you understand hybrid or environmental-friendly vehicle?
1. Very much
2. Much
3. Little
4. Never

Q8 How much extent have you been affected by the knowledge of innovative vehicle and the purchase behaviors of innovative vehicle consumed by the people around you?
1. Very much
2. Much
3. Little
4. Never

Q9 Will you intend by a traditional car (gasoline vehicle) or an innovative car (hybrid or environmental friendly)?
1 Traditional

2 Innovative

**Q10** What is your mainly factor considered when you choose a traditional car or an innovative car?

1 Price

2 Performance

3 High-efficiency

4 Environmental-friendly

**Q11** Depending on your own well-knowledge of innovative vehicle if you have, will you accept an innovative car rather than a traditional car supposed that there is no price gap among them?

1 Of course yes

2 Depended

3 Hard to say

4 Absolutely no

**Q12** Compared to the price of traditional vehicle, how much could you accept that the price of innovative car is higher than traditional car?

1 10,000-30,000 RMB

2 30,000-50,000 RMB

3 50,000-100,000 RMB

4 Over 100,000 RMB

**Q13** Do you agree that the vehicle exhaust emission is one of the most influential factors for damaging environment?

1 Strongly agree

2 Agree
3 No view
4 Disagree
5 Strongly disagree

Q14 Do you worry that the raw oil will be exhausted in the future?
1 Very much
2 Depends
3 Little
4 Never

Q15 Please tell us what you expect from performance of Geely’s auto in the future no matter how much extent you understand Geely Group
1 Keeping producing cheaper products without considering the quality and competitive features.
2 Improving the quality of product through innovation with considering the fuel efficiency and environmental-friendly.
Appendix 3

Here is our original Chinese version questionnaire

Q1 您是属于以下哪个年龄组的？
1 25-35
2 35-45
3 45-55
4 55 and over

Q2 您的性别
1 男性
2 女性

Q3 您的年收入是多少？
1 5 万 - 10 万
2 10 万 - 15 万
3 15 万 - 20 万
4 20 万以上

Q4 您买车的用途是什么？
1 作为上学和上班用的交通工具
2 主要用于日常商场购物和日常所有
3 主要用于娱乐，例如节假日出去游玩
4 商务用途

Q5 你多大程度的认为一个汽车能够提升一个人的社会地位？
1 非常认同
2 很认同
3 有点认同
4 根本不认同
Q6 当您买车的时候，下面哪个因素是你最关心的

1. 价格
2. 品牌
3. 性能
4. 外观
5. 汽车排量

Q7 你对混合动力车（环保车）有多少了解？

1. 非常了解
2. 一般
3. 很少
4. 几乎不了解

Q8 依据你对混合动力车（环保）的了解，你周围的朋友对新能源车型消费的行为对你影响大么？

1. 非常大
2. 一般
3. 很少
4. 没什么影响

Q9 你会买传统车（汽油车）还是混合动力车？

1. 传统车
2. 混合动力车

Q10 影响你选择传统车还是混合动力车的主要因素是什么？

1. 价格
2. 性能
3. 高效
4. 环保

Q11 假如混合动力车和传统车没有价格差距，依照你对混合动力车的了解，你会消费混合动力车么？

1. 当然
2. 还是有其他考虑因素的
3. 比较难说
4. 绝对不会

Q12 与传统车型的价格相比，混合动力车比传统车贵多少钱你能接受？

1. 1万-3万
2. 3万-5万
Q13 你认同汽车尾气的排放是污染环境的重要因素么？

1. 绝对认同
2. 认同
3. 没概念
4. 不赞同
5. 坚决不赞同

Q14 你担心未来有一天石油会枯竭吗？

1. 很担心
2. 不一定
3. 有点担心
4. 从不担心

Q15 给我们中国的吉利汽车点建议吧

1. 继续生产廉价车，不用考虑汽车质量和产品竞争力
2. 提高产品质量，考虑未来的市场需求