Devolving Volvo

For both buyer and seller, the deal is worth the risks.

IT TOOK more than a decade for Ford to create what it called its Premier Auto Group around a bunch of classy European brands—starting in 1987 with its purchase of Aston Martin, followed by the acquisitions of Jaguar, Volvo and then Land Rover. It all proved a terribly expensive distraction. Now, it has taken Ford three years of tricky negotiations to dismantle the group, selling the European marques at a considerable loss. Aston Martin went to a British-led consortium in 2007, Jaguar Land Rover (JLR) was snapped up by Tata of India in 2008 and, on March 28th, a deal was signed to sell Volvo to Geely, a small but vastly ambitious Chinese carmaker.

The sticker price is $1.8 billion, a fraction of the $6.45 billion that Ford paid for Volvo in 1999. The cost to Ford is worse even than those figures suggest: it has had to support the Swedish carmaker through years of losses and even now it faces further expenses associated with the sale to Geely that will eat up much of the meagre sum it is getting for Volvo.

Over the years Volvo's design and production have been closely integrated with Ford's, so much so that it will take years to unstitch them. The sale agreement, which both sides hope to finalise in the third quarter of this year, includes a promise from Ford to continue providing Volvo with such things as engine and powertrain technology for the time being, just as it promised Tata that it would continue to support JLR.

When Geely's interest in Volvo was made public in the middle of last year, there were some doubts about whether Ford would want to take the risk of letting its technology and other intellectual property leak out to a fast-growing Chinese firm that could one day be a serious rival. The announcement of Volvo's sale says "safeguards" have been agreed to stop this happening. But it also says Volvo will be able to sublicense some of Ford's technology to others, including Geely.

Although Volvo represents only a small part of Ford's output, swallowing it will be a big challenge for Geely: last year it sold just 330,000 cars—most of them in China—which is about the same as Volvo sold worldwide. Unlike most big Chinese carmakers, Geely is privately owned and, in recent weeks there had been some doubts about whether it would get the financing needed for the purchase. However, those doubts were dispelled when Chinese state banks (and hence, it is assumed, the government in Beijing) said they would back it.

Geely’s chairman and founder, Li Shufu, calls himself the Henry Ford of China. He and his managers like to talk big, promising to increase output to 2m vehicles by 2015. However, Mr

Li's talk about entering the European market in 2007 and breaking into North America by the following year proved to have little substance.

The harsh truth is that most cross-border takeovers of carmakers have been disappointments (to name but a few, Daimler and Chrysler, BMW and Rover, and indeed Ford's purchase of Volvo and the other European marques). It will be a remarkable achievement for Geely if it bucks that trend. But for Volvo the deal has several attractions: it will gain access to China's rapidly growing car market; and, if Geely keeps its promises, it will retain its current management and its factories in Sweden and Belgium. Volvo, having lost so much money under Ford's wing, might do better under a more focused and autonomous management. If so, Geely will get a good return on its investment and a jump-start on entering the international market, as well as gaining an attractive range of premium-priced cars to sell at home.

Ford's focus

For Ford, its failed attempt to build a European-led range of premier marques has been a drain of both cash and management time. This is still true of Volvo, even though it is no longer doing as badly as it was in the depths of the economic downturn. Having struggled through the financial crisis without a government bail-out, Ford has the moral high ground over its archrivals, GM and Chrysler. But its noble abjuring of handouts has left it with a weaker balance-sheet than perhaps any of the world's top ten carmakers. The meagre proceeds from the Volvo sale will be little help in themselves, although at least Ford will earn profits from selling key parts to Volvo for the next few years, while being spared from having to pump investment into the Swedish firm. And at least it can say it has been more successful in its European divestments than GM, which struggled to offload Saab and decided in the end not to sell Opel.

Ford's management can now devote more time to greater priorities: rebuilding their core American market; and making progress on a strategy called "One Ford", under which all the company's models worldwide will be built on a small number of common platforms. Success on this is vital if Ford is to adapt to consumers' shift in tastes away from big gas-guzzlers toward smaller cars on which the profit margins are slender.

Unfortunately, the deal does little to solve the motor industry's biggest problem: growing overcapacity, especially in mature markets. Indeed, as with the JLR sale, Ford is handing production capacity to an ambitious emerging-market rival with plans to grow big in Ford's core rich-country markets. That said, neither Volvo nor JLR is big enough to matter much either way in denting Europe's overcapacity.

Perhaps a bigger worry for Ford should be the risk of intellectual property leaking out to Volvo's Chinese buyers. But this risk already exists in the joint ventures Ford has entered into in China with Chang'an, another Chinese manufacturer. Privately, Western motor-industry bosses assume that whatever safeguards have been agreed on paper, some of their technology will leak out to their Chinese business partners. But they see this as a part of the price for doing business in, and with, China. Given the vast growth potential of its market, it is assumed to be a price worth paying.

Fonte: The Economist. Disponível em: <www.economist.com>. Acesso em: 30 mar. 2010.