

Swot analysis of geely automotive essay sample

[Technology](#), [Innovation](#)



The main strength of the Geely Automotive Holdings, Ltd. is their focused research and development initiatives. They invest roughly “ 10% of their annual sales revenue (which is significant when compared to Toyota’s 5% investment)” in research and development and focus much of their company’s efforts on their Geely Automobile Research School and the Geely Engine Research School (Dess, Lumpkin, and Eisner, 2010). These schools allow them to make improvements pertaining to gas efficiency (a huge competitive advantage in the U. S. and European markets), the meeting of EPA standards, design innovation, as well as feature innovations. These are all important things to consider for any company in the automotive industry, but due to their founder’s (Shufu Li) visionary belief that “ by mastering technology, Geely would be able to maintain its competitive advantage when facing foreign rivals,” Geely has taken the necessary actions to increase their total sales revenue as well as total profits from 1997 (the year they started their research and development for automobiles) to present day (Dess, Lumpkin, and Eisner, 2010).

Geely has built upon this strength by showcasing their technological innovations in the heavily marketed and world renowned Detroit Auto Show. They also tied for first prize in the 2009 State Science and Technology Award for its innovation and received an award that has, for the past 5 years, has been received by only 12 out of the more than 5 million candidate companies (Min, 2005). Awards like this as well as Geely’s industry celebrated technology advantages (such as the Blow-Out Monitoring and Brake System, Electronic Equal Balance System, and overall safety improvements that allow Geely to meet the international F1 technical car

raising safety standards) are part of what helps will help in generating more customer trust in the quality of their product and will in allow Geely obtain a larger scope of economy (Zhao, 2009). This strength will allow them to diminish their weakness of perceived poor quality as well as bring them closer to achieving their long-term goals of owning a competitive brand (Zhao, 2009). From 2004-2008, Geely was able to sustain strong financial growth in their unit sales and revenues through their cost saving methods and technological innovations.

Their first major cost-saving method is their implementation of vertical integration (Dess, Lumpkin, & Eisner, 2010). Since they produce “ many of their components in-house,” they are able to avoid the cost of purchasing through a middle-man as well as the cost of paying employees to scout for cheap suppliers (Dess, Lumpkin, & Eisner, 2010). They have also been able to sustain strong financial growth by building specialized manufacturing bases in areas that focus on producing cars that match the incomes of the locals (Dess, Lumpkin, & Eisner, 2010). For example, Geely’s manufacturing plant in Shanghai (a large metropolis in China in which consumers have higher incomes) focuses mainly on mid-ranges automobiles (in the price range of \$6, 580 to \$9, 200), while the manufacturing plant in Taizhou (a smaller city in the Zhejiang Province that includes lower income customers) in Zhejiang Province focuses mainly on lower-end (in the price range of around \$3, 950) automobiles (Dess, Lumpkin, & Eisner, 2010).

The implementation of strategic idea has allowed Geely to expand the entire automobile market in China due to the fact that many of their customers

who purchase the lowest-end models couldn't afford a car before the arrival of the Geely plant and are now able to own a car. Technological advances have also kept them growing financially as their overseas consumers are attracted to their energy saving (for their alternative-fuel automobiles) and practical innovations (for example the McCar which is the world's first small sized sedan designed to accommodate the physically disabled) (Geely, 2012). These advances in technology not only expand their product portfolio, they help build the company's brand and bring them one step closer to achieving their long-term goal of obtaining a competitive brand (Geely, 2012). Since 2008, they have had some ups and downs due to their acquisition of Volvo, but they are still relatively strong when in comparison to their Chinese competitors.

Weaknesses

China has long been considered a nation that produces poor quality products. All Chinese products have long had "a reputation for shoddy workmanship" in the eyes of overseas consumers and the abysmal failure of the "Landwind SUV, made by Chinese automaker Jiangling Motors," during its international "safety test that scored 0 out of 5 in passenger-cab protection" surely didn't create an exception for their automobile products (Dess, Lumpkin, Eisner, 2010). This puts Geely automotive at an extreme disadvantage when compared to their industry competitors (such as Toyota, Chrysler, and Volkswagen etc.) in overseas markets as they will need to work hard to differentiate their brands from the detrimental brand recognition of other Chinese product-based company's. They have not attempted to remedy this

weakness directly (by advertising industry crash test comparisons, promoting the life span of their vehicle in comparison to competitors etc.); however, they have attempted to work around it by focusing on their research and development which increases product innovation and gives Geely unique and hard to imitate competitive advantages. This weakness of perceived poor quality by their overseas consumers will certainly be a tough obstacle to overcome, but they are gradually shifting their focus from short-term revenue growth to long-term branding (Dess, Lumpkin, & Eisner, 2010). Geely is continually attempting to expand their narrow (in comparison to other Chinese automobile competitors who of course are bigger because of their joint-ventures with foreign companies) demographic of consumers. They targeted lower income consumers when they first entered into the automobile market (Dess, Lumpkin, & Eisner, 2010). This was a necessity at the time as they were the first privately owned automobile manufacturer, allowed and encouraged by the Chinese government, and needed to attain a significant share of the market quickly to hurdle over the value offerings entry barrier and establish a steadily growing company. This worked very well at generating quick revenue and distributing their brand as Geely quickly grew to the ranks of “ Top-10 Auto Producers” in China (Dess, Lumpkin, & Eisner, 2010). This was good for the short-term, but they needed to increase their “ razor thin profits” in order to be considered competitive with the other Chinese automakers (Dess, Lumpkin, & Eisner, 2010). They have combatted this weakness of only holding a small demographic that is very likely to be competed with as other privately owned company’s follow Geely’s example by increasing their product portfolio (Dess, Lumpkin, &

Eisner, 2010). Their plan of introducing “ 5 new models a year from now until 2015” is a direct action designed to combat their revenue concentration (Dess, Lumpkin, & Eisner, 2010). Their innovations is what will help improve brand credibility when attempting to sell to higher income consumers which in turn shrink this weakness and promote their long-term goal of owning a strong competitive brand (Dess, Lumpkin, & Eisner, 2010). Opportunities

The growth of China’s automobile market is and will continue to be an opportunity that the fast growing company Geely needs to take advantage of. Fortunately for Geely, “ car sales increased by 21 percent in China in the first quarter of 2008, and were showing no signs of slowing after five years of 20 to 30 percent annual growth (Dess, Lumpkin, & Eisner, 2010).” This is a big reason why China is included in the BRIC economies that are expected to be the largest economy’s in the world by 2050. Geely’s market share of the Chinese automobile industry is roughly 2% at present, but with the increase in the overall market capacity they don’t need to look outside of their borders for an increase in revenue and sustainable growth (Gao, 2004).

China’s steady economic growth presents a serious opportunity that Geely will need to continue to take advantage of when trying to meet their long-term goals. They have hopes of entering the “ potentially lucrative U. S. market” sometime in the near future, but they need to first improve their brand image (through the increase of appearances at U. S. and European auto shows) a great deal overseas before they can realistically enter the U. S. market (Dess, Lumpkin, & Eisner, 2010). The best way for Geely to establish a competitive and trusted brand value for both foreign and domestic consumers is the utilization of their already well-established

distribution channels and consumer market base in China to steadily increase revenues which in turn allows Geely to spend more cash on their Research and Development which should allow more ways of Geely to create more reasons for U. S. consumers to buy Geely automobiles (Dess, Lumpkin, & Eisner, 2010). Now that Geely has grown by almost 900% over a four year period (2004-2008) they have much greater buying power which has created the opportunity to acquire strategic assets; an example of this Geely's 2010 acquisition of Volvo (Dess, Lumpkin, & Eisner, 2010). Geely seized the opportunity of acquiring a company that would not only give them new ideas for advancements in car safety, but would improve the average overseas car consumer's opinion of Geely's quality. The term is brand association and now that Geely owns the "safest car company in the world (at least this is the perception in my and many of my fellow American consumer's minds)," they have attempted to indirectly remedy their weakness of perceived poor quality (Ferrari, 2009). Unfortunately, Geely will have to do a little more than buy a brand (as famous and successful as it may be) as the perception of quality won't go up until they improve their "zero stars received in the first-ever round of Latin American NCAP crash tests (Zhao & Lv, 2009)." Another opportunity is for Geely to purchase SAAB. As of right now, Geely is still known for producing mainly lower-end automobiles, but an alliance or acquisition with a company of this caliber could change the perception of Geely's brand and allow them to introduce products that can sell for a higher profit (Kaufman, 2009). The downturn of the Western World's economies has left Geely with the opportunity expand their global knowledge and better prepare themselves to

enter the U. S. and other overseas markets. These opportunities need to be acted on now as the economies don't stay down forever. Threats

The policy reforms of government agencies can threaten to reduce the overall growth of Geely. When speaking of Geely's sales on the mainland, they have a few threats that include, but are not limited to: government instated quotas, increases in tariffs, and a more accurate valuation China's currency (when pertaining to the exchange rate) which would increase the price for overseas consumers " which would marginally decrease Geely's competitive edge (Dess, Lumpkin, & Eisner)." These government instated policies can pose serious threats for Geely as political decisions are even harder to predict than economic changes. Consequently, these threats can't be dealt with proactively, only reactively. However, there are some threats that Geely can be proactive in attempting to protect themselves from. The two most notable are safety standard requirements and the emission's test requirements. In the mainland (China), these aren't much of a threat as there are very liberal safety standards as well no emissions test requirements (Min, 2005). However, these standards create a challenge and potential threat to the company's plans of entering into the U. S. market. Geely has gone through past failures in regards to both emissions and safety (Dess, Lumpkin, & Eisner, 2010). Since that time, they have increased their efforts to research and develop new ways of enhancing safety so as to ensure that none of their models are kept out of the market (Dess, Lumpkin, & Eisner, 2010). An example is the invention of Geely's Blow-out Monitor Brake System which is featured on the majority of its models to help detract the consumer's attention from Geely's weakness and instead create a unique

element about the product that entices the customer and makes it hard for their competitors to imitate or copy. As long as Geely continues to meet all of their market's government's standards and stay in touch with economic trends, they should be able to sustain their already stable competitive advantages. The fluctuation of economies always presents a threat to product-based companies and the increase in revenue plague of slow economic growth is no exception for Geely Automotive. The economic downturns in most of Western society's national markets created a shrinkage of market potential for the auto-industry's company's both foreign and domestic. The U. S. market alone suffered a 22% decrease in market potential and with other European countries (particularly countries in which Geely has manufacturing plants and operational interest) hurting as bad or worse, Geely must avoid this overseas threat by using their global strategy of finding out which markets would be the best to focus on their marketing and sales efforts (Dess, Lumpkin, & Eisner, 2010). Keeping these threats in mind will hopefully give Geely's top management team the protection they need to avoid a decrease in liquidity as well as guide them in choosing the best geographic regions to focus their company's efforts. A socio-cultural segment that would enhance the threat for when Geely tries to expand into America and other largely nationalistic consumer markets is the idea of "buying American (which can of course be applied to other nations that are hurting economically)." This is a factor that Geely will need to consider as even the already strongly trusted and widely appreciated brand of Toyota's long-lasting quality isn't immune to this socio-cultural trend. This factor

alone makes me feel that Geely shouldn't enter the U. S. market until at least a few years after the U. S. has gotten back on its feet to ensure that they'll be protected from a deficit in their business venture. Geely will need to remain aware of their economic surroundings as well as develop ways to reduce revenue concentration by increasing their product portfolio which is something they have recognized and acted on consistently since 2005 (with the production goal of putting five new successful models into the market until 2015) (Dess, Lumpkin, & Eisner, 2010).