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INSIDE THE MIND OF THE CEO

Chinese cars go global

An Conghui, president of Zhejiang Geely Holding Group and CEO of Geely Auto Group, explains the future of flying cars and the value of an international brand.

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As more Chinese companies move into global markets, their chief executives are gaining a larger presence on the world stage. In China's auto industry, one of the most prominent leaders is An Conghui, president of Zhejiang Geely Holding Group and president and CEO of Geely Auto Group, a US\$16 billion motor vehicle enterprise known for its Geely automobile brand in China, its acquisition of Volvo in 2010, and its growth as a global auto conglomerate.

The auto industry is international in scope; its companies depend on consumer markets, supply chains, and innovations from multiple countries. It is thus an industry in which companies with ambition can rapidly establish themselves on the global stage. Geely has done exactly that over the last 10 years, using the momentum of the Chinese market to turn Geely into a worldwide, customer-oriented car manufacturer. Founded in 1986 by Li Shufu as a family business that manufactured refrigerators, it rapidly diversified into consumer products, then motorcycles, vans, and automobiles.

In 2017, Geely bought a controlling stake in British sports car company Lotus, and in 2018, a 9.7 percent interest in Daimler-Benz. In March 2019 it announced a new joint venture with Daimler to produce electric Smart cars in China for the global market. And it is on the threshold of a decades-old goal: introducing a new line of automobiles to Western Europe and the United Kingdom. It will do this under the brand name Lynk & Co, developed by Volvo and Geely Auto as a premium brand positioned between the mass-market and luxury market segments. Geely is also aggressively pursuing leading-edge technology: It is working on autonomous vehicles and flying cars, or "intelligent spatial

mobility terminals,” as An calls them. And it is looking closely at technology-related partnerships that can help it develop electric cars and fuel-cell powertrains.

Since 2012, when An became president of Zhejiang Geely Holding Group, Geely Auto has grown to be one of the leading automakers in China, after General Motors and Volkswagen. This is the first time a domestic automaker has held that role in the world’s fastest-growing motor vehicle market. Like Haier in the appliance business, Geely is reframing the world’s concept of what a Chinese company can be and how it can enter global markets. Recently, strategy+business interviewed An by email.

S+B: PwC’s 22nd Annual Global CEO Survey found executives generally less confident about their own company’s growth prospects for 2019 than they had been the year before. How do you feel about growth prospects for your own company, and for the industry?

AN: Given the overall macro environment, the market outlook for automobiles through the coming year is not optimistic. During the entire year of 2018, China’s automobile market saw a steady decline in monthly sales volume. At the same time, the global economy is experiencing a wave of shocks from new technology.

The automobile industry is now entering a phase of transformational change. The automobile of the future is an intelligent spatial mobility terminal with a high degree of online–offline integration. Thus, we are increasing our investments in digital technology, so that we can develop our own intelligent spatial mobility products, with our own system of online–offline integration. For example, we are currently developing capabilities for servicing vehicles online.

At the same time, to achieve solid growth in the current challenging market environment, we have to reach customers today — through focused marketing, a quantum leap in benchmarking, and quality upgrading. We project that Geely Auto Group will achieve annual sales of 2 million cars in 2020, up from about 1.5 million cars in 2018.

S+B: And over the next five years?

AN: Dramatic changes are underway in the industry’s intrinsic business models,

and in customer demand. We believe more companies need to collaborate on developing future technologies and universal systems. The key to winning the future will be for companies to band together, and build their own shared digital platforms.

By 2020, Geely Holding Group will have gone from being a satisfier of customer demand to being an industry leader. We will have nearly 40 products that use hybrid electric vehicle (HEV) and all-electric powertrains. Bolstered by new energy sources, autonomous driving, and ride sharing, we will transform from a traditional automobile manufacturer into a global technology corporation oriented toward transportation and mobility.

S+B: How do you view the current U.S.–China trade friction, and the uncertainties associated with it?

AN: I believe in markets, so I support global free trade and oppose protectionism. The overriding trend is toward globalization. Protectionism and unilateralism are temporary, I believe, and the future of international trade will still be based on cooperation and sharing.

At present, the U.S.–China trade friction is developing in a positive direction. I believe that this will have a good effect on both countries and even the global economy. China is now completely integrated into the global system. It has become the world's second-largest economy and the largest trading nation in terms of goods. In the future, China can only open up further, and become more intertwined and interdependent. We at Geely are part of that trend.

Car buyers in China and abroad

S+B: How do you see market demand evolving in China in the future?

AN: Market demand changes very fast, and we are always keeping up with the latest market changes. The trend toward electric-powered and intelligent vehicles will continue. Automakers will have to ramp up investment, constantly break through technological bottlenecks, cultivate R&D talent, enhance their R&D capabilities, and build core competitive advantages and innovation capacity from the ground up.

For example, in 2015 Geely Holding Group invested in the mobile ride-hailing service startup Cao Cao, making Geely the first Chinese carmaker to foray into the shared-travel market. This year, we are establishing a joint venture with Daimler to explore the premium ride-sharing field. This will be a key step in our transformation.

Ride sharing is not the only cutting-edge travel method we are exploring. That's because every visionary motor vehicle technology today — such as self-driving cars and flying cars — can lead the industry's development tomorrow. At the end of 2017, Geely Group acquired the U.S.-based flying car company Terrafugia, marking the formal launch of exploration into combined land-air transport.

We are also in several cooperative ventures exploring future modes of travel: with Tencent on Wi-Fi platforms for high-speed trains (and other potential connected-mobility services); with China Aerospace Science & Industry Corporation in areas such as super-high-speed trains and the Industrial Internet; and with China Telecom on such areas as remote computing, connected cars and connected houses, and 5G-based systems. This could pave the way for three-dimensional intelligent travel.

In addition, we will put major effort into developing electric cars. We expect that by 2020 Geely will have nearly 40 products that incorporate HEV and all-electric drive solutions. Electric cars and high-efficiency internal combustion engines are the “two wheels” (they need to turn cooperatively and in tandem) by which China can lower oil consumption, decrease dependence on foreign oil, and cut down on environmental pollution.

Finally, Geely is constantly exploring R&D on self-driving vehicles. The Bin Rui compact sedan, launched in China in August 2018, is the Geely brand's first car model to be equipped with the intelligent cruise control system.

S+B: What are the differences between the Chinese automobile market and other markets, and what are the future trends worth keeping an eye on?

AN: By 2017, China's automobile market had already been the world's largest for nine years in a row. Following a period of explosive growth in sales volume, the rate of growth is currently slowing down. Nonetheless, China will still have one

of the world's largest automobile markets for many years to come. As China's car consumers become increasingly mature and the ride-sharing field continues to expand, there is much potential still waiting to be tapped. Chinese brands now account for less than 40 percent of China's passenger car market, so there is considerable room for Chinese automakers to exert themselves and grow. At the same time, given the population's steadily rising incomes, car consumption in China will be characterized by pronounced upgrading over the next several years.

A global corporate culture

S+B: What were the most important factors that led Geely to buy Volvo, and how did the purchase affect your thinking?

AN: Acquiring Volvo Cars was one of the most important turning points in Geely's development. It helped us lay a foundation for building a global corporate culture. Automobiles are an international industry, and that calls for being more open and inclusive. Our ultimate aim is to produce win-win solutions for global markets. Integration and openness allow a company to de-emphasize or break down national, ethnic, religious, linguistic, and regional [differences], and to gradually foster a culture of respect, adaptation, inclusiveness, and integration.

Geely helped Volvo find a strategic direction, and achieve product standardization and conceptual upgrading. We brought Geely's successful experience in cost control to bear, helping Volvo cut costs. The close collaboration and cooperation between Geely and Volvo produced results in 2011 as performance started to improve, and sales volume and earnings have increased almost every year since. Geely also received technical support from Volvo. The two sides collaborated in developing the CMA [compact modular architecture] platform. It was on this basis that Volvo produced the XC40 model, which received the prestigious "European Car of the Year" award in 2018. And the Lynk & Co cars, which use CMA, have received favorable attention ever since they hit the market.

The Volvo Cars Group is also a pioneer and leader in self-driving technology. The mission the company has set for itself is to have a zero rate of fatalities or serious injuries from accidents in new Volvo cars by 2020. Volvo does have a

reputation for safety, but it also has considerable advantages in environmental protection and health.

S+B: Why did you buy nearly 10 percent of Daimler and develop a strategic partnership?

AN: Geely Holding Group is determined to become a global technology group with an entrepreneurial spirit. There are very good prospects for cooperation with Daimler in such areas as digital technology, online services, new energy technology, and shared travel. In October 2018, Daimler Mobility Services and a Geely Holding Group subsidiary we call “Geely Group (New Business)” established a domestic joint venture in China, with each side holding 50 percent of the equity. The new company will provide high-end ride-hailing services, and this is also a key step in Geely’s transformation from a car manufacturer into a global automobile technology group.

S+B: How do you build close working connections between companies with such different histories and, presumably, different corporate cultures?

AN: The global enterprise culture that Geely champions spans national boundaries, ethnicities, and religious beliefs. It seeks to actively shoulder corporate social responsibilities, take on the most daunting technical challenges, and pursue best practices in business. This is the foundation for cooperation with Daimler as well as other international corporations.

In addition, Geely and Daimler have common goals. Faced as we are with a constant stream of disruptive technologies and ever-changing products, we believe that more companies need to collaborate.

S+B: Do you expect to continue to pursue deals with other global automakers?

AN: We have an open attitude, but whether specifically we will take equity stakes or acquire car companies will depend on development trends in the overall market and Geely’s own needs.

S+B: Tell us a little bit about your Lynk & Co brand, which is expected to enter the European and U.S. markets around 2020.

AN: The Lynk brand adopts European technology and design while being committed to achieving global manufacturing and sales. It competes with top-of-the-line, foreign-owned brands, focusing on consumers' actual demands from start to finish. By 2020 we plan to have a series of models available, forming a complete product lineup and global market coverage. The sales channels will integrate online and offline sales, reflecting our perception of the lifestyles and shopping habits of young urban consumer groups in the Internet age.

Autos of the future

S+B: How fast will electric cars gain consumers' acceptance, and how will that happen?

AN: In China, the government's promotion of electric car development has attracted worldwide attention. China has now ranked number one in new energy vehicle sales volume for three years running, and the acceptance level among consumers is high. But the speed of market penetration for electric cars also depends on supporting infrastructure and national policy support.

Based on our assessment of the future, Geely is already prepared. In 2015, we launched the "Blue Geely" action plan, promising that starting in 2020, new energy and electrified vehicles will account for 90 percent of yearly sales. We expect comprehensive breakthroughs in areas such as drive systems, [fuel] economy, and intelligence. In 2013, Geely Holding Group bought London Taxi Company. In 2017, we renamed it the London Electric Vehicle Company. It is committed to building a brand-new lightweight, zero-emissions-capable electric vehicle platform — a new energy segment for the urban commercial vehicle market.

S+B: Doesn't the growth of electric vehicles depend on building new infra-structure?

AN: Yes, charging stations and other infrastructure are important for promoting electric vehicle development and boosting range. But the construction of charging stations in China is continuing, and many partners in the industry are finding business opportunities in that area. I believe the build-out of supporting infrastructure will progress faster than we expect. I also hope to see bigger

breakthroughs and improvements in battery life along with faster charging times.

We also have R&D resources deployed in alternative fuel systems, such as those using hydrogen fuel cells. Geely is promoting the development and application of a range of core technologies in the new energy field.

S+B: What is your view of flying cars? How do you see your investment in them playing out?

AN: For many consumers, flying cars are still in the realm of fantasy. On the other hand, Terrafugia recently begun taking advance orders for its first product, a two-seater flying car that would switch between surface driving and flying modes in under a minute.

We think cars in the future will be capable of vertical takeoff and landing, and will fly freely through cities and rural areas. The potential market is very big, but the field is very much an emerging one. Most industry participants are working together to develop the industry, rather than directly competing with one another. We welcome even more participants to join the ranks of flying car research.

The general pattern of future transportation will be intelligent and three-dimensional, divided into three levels: at the surface, below ground, and between buildings. Different kinds of transportation tools will be interconnected, and travel will be more diverse. Geely is taking steps to position itself for this future travel ecosystem. +

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