Geely has clear view of road ahead

Carmaker's founder has been making the most of opportunities presented by China's opening-up policies

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The production plant of Zhejiang Geely Holding Group at Ningbo, East China's Zhejiang province. PROVIDED TO CHINA DAILY

In the 1990s, Li Shufu, already a founder of a small-size motorcycle company in China, said he wanted to make cars next. People thought he was crazy.

Even then, China was a developing economy. For most people, a car was an unaffordable luxury. The local automobile market was not big. Indigenous manufacturing technologies were not world-class. So, a foray into cars was not only fraught with risk but bordered on reckless fantasy.

Or so it seemed. But, time has shown Li is an astute businessman, perhaps even a visionary.

Now 55, Li has turned Zhejiang Geely Holding Group into one of China's top three carmakers by sales. For the seventh consecutive year, Geely figured among the Fortune Global 500 companies this year.

Li attributes Geely's transformation to the country's reform and opening-up policies, which have offered many Chinese companies more market-oriented and flexible economic policies to grow. More importantly, they were enabled to participate in global trade.

Founded in 1986, Geely now owns several brands in both domestic and overseas markets. Among its stable are Volvo and London Electric Vehicle Co.

Geely made headlines recently for picking up a nearly 10 percent stake in Germany's Daimler AG, thus becoming the largest single shareholder in the company that produces famous car brands such as Mercedes-Benz.

The sights of this carmaker based in Hangzhou, East China's Zhejiang province, now stretch far and wide. Its goal is to become globally competitive, riding the opportunities presented by the deepening of reform and opening-up.

"If we at Geely want to achieve sustainable development in the future, global collaborations and technology advancements are extremely important," said Li, who is now chairman of Geely.

"It is a current trend that global automobile companies shake hands with each other to form strategic partnerships, which is an ideal way of reducing costs on things like research and development," Li said.

That philosophy informed Geely's $1.8 billion acquisition of Volvo in 2010, which marked the former's first step toward going global.

"Some people have a misunderstanding that Geely invested a large sum of money in Volvo. In fact, it has not. Instead, we reckon it more as a strategy upgrade and an adjustment of our business direction," Li said.

"During this process, both companies are working together to improve. Volvo mainly helped Geely to improve quality and research and development, while Geely helped Volvo in things like cost management."

Latest financial data confirmed the deal was "fruitful". Volvo sold more than 317,000 vehicles worldwide in the first half of this year, a record in its 91-year history. This has helped the company to maintain its business vitality.

Geely Automobile Holdings Ltd, the automobile unit of Geely, sold more than 766,000 cars in the same period, up 44 percent year-on-year.

According to the China Association of Automobile Manufacturers, industry-wide sales in China reached 14 million units in the same period, up 5.6 percent year-on-year.

Among the cars sold, 412,000 were new energy vehicles, up 111.5 percent year-on-year.

In line with the current trend, Geely is shifting focus from traditional gasoline-powered cars to new energy vehicles that are artificial intelligence-enabled.

"We will step up our efforts to make AI-enabled, internet-connected smart cars. Such cars will become more intelligent where mobile terminals can be connected to the internet and drivers can talk to the system in the car," said Shen Ziyu, vice-president of the Geely Automobile Research Institute.

"Moreover, we are making it an open platform for developers, where developers including Baidu Map (a navigation app from online search firm Baidu) and Ximalaya FM (an online audio content platform) can cooperate with us to codevelop more functions in the car."

In terms of new energy vehicles, Geely launched the Blue Geely Initiative, which industry experts see as one of the most ambitious campaigns to shift from conventionally powered-engines to electric cars, hybrids and plug-in hybrids.

Despite the rapid development of Chinese automotive companies like Geely, China still has a long way to go before it can lead the world's automobile sector, Li said.

He also said that in China right now, most automobile companies use different components from across the world while the proportion of homegrown components remains relatively low.

"A competitive automobile company is, and must be, based on a well-rounded industry chain in both upstream and downstream channels. To this end, developing car components on one's own is vital," Li said.

Toward this end, Geely is cooperating patiently with Chinese component enterprises. For instance, it invites them to do business with the company to create a collaboration-friendly ecosystem.

"Like this, we are building China's own system of making a complete vehicle and hope it can contribute to the country's independent innovations in the automotive segment."

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in Shandong, Henan and Hebei to its fuel retail portfolio.

Bloomberg New Energy Finance believes more cooperation between foreign companies and teapot (or independent) refineries could be created under the new policy. "We'd expect more of this kind in the future," said Bloomberg's Min.

According to Min, the opening-up of the gas station sector would also bring more competition to the doorstep of State-owned oil companies. The latter have been dominating China's fuel retail, but once the market opens up, their profit margins may fall in the short term.

As of now, however, sales and profits of PetroChina and Sinopec dwarf those of private and foreign competitors, said Li Yan, an analyst from Oilchem, an online tracker of the energy and petrochemicals industries.

By the end of this year, PetroChina will likely have 22,000 gas stations nationwide, or 22 percent of the total, while Sinopec will own 31,000, accounting for 31 percent.

"These companies are vertically integrated, and are experienced in operating in this industry. They still have their competitive advantage in the China market," she said.

"In addition, as the world's largest auto market, demand in China is still growing, and different companies could all benefit from a bigger pie."

Li Li agreed, saying that while many oil giants, including BP, Shell, ExxonMobil, Total, Chevron and Rosneft, have been keen to enter China's petroleum retail market in the past decade, the entry threshold is much higher now compared with years ago. That is because China's gas stations have seen their valuations soar in recent years.

While the anticipated developments may present more opportunities than challenges for foreign oil giants, instant expansion right from the word go is easier said than done, considering that the existing players have established themselves for many years, securing a good geographical layout, she said.

Min believes more market players could bring more innovation to the industry.

"Some of the international oil companies have acquired (electric vehicle) charging businesses. Shell has purchased Dutch-based NewMotion, the owner of one of Europe's largest electric vehicle charging networks. BP has acquired the UK's largest electric vehicle charging company, Chargemaster, which operates over 6,500 charging points across the country," she said.

"Considering that China is the world's largest EV (electric vehicle) market, this combination of factors could bring more innovative business models to the industry in the long term."

As electric vehicle sales are expected to boom around 2025, all gas stations are expected to see a slump in sales around that time. Multinationals eager to enter China's fuel retail business may want to factor this aspect in, Min said.