



Beijing Auto's Acquisition of Saab Automobile's Technologies

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Executive Summary

In 2009, Beijing Automotive Industry Holding Co Ltd (BAIC), a state-owned holding company, acquired intellectual property rights and production equipment from Saab Automobile, a Swedish carmaker owned by General Motors (GM) that had fallen to hard times. To understand the motive and process of the acquisition, we interviewed two senior managers in BAIC in March 2011. We found that although BAIC was offered ownership of Saab's entire operations, BAIC decided to purchase only the technology that they needed in order to achieve their goal of creating their own brands. BAIC learned from the mistakes made by previous Chinese acquisitions and pushed for technology acquisitions rather than operations acquisitions with Saab. The success of the acquisition, for the most part, was credited to several members of the purchasing team who had prior experience working internationally for Western automobile companies. They played a key role in identifying the technologies required for BAIC to reach its goal of developing its proprietary car.

Company Background

BAIC

BAIC is a state-owned enterprise and holding company of several Chinese automobile and machine manufacturers. The companies are sometimes referred to collectively as the Beijing Automotive Group. BAIC's lineage can be traced back to 1958 when the First Accessory Factory was renamed to Beijing Automobile Works during the planned economy era. In the wake of the Chinese economic reform, BAIC was formed as a modern company after a series of mergers and corporate restructuring, and now it is the fifth-largest domestic Chinese automaker.^[1]

BAIC's main subsidiaries include Beijing Automobile Works, producing light off-road vehicles and trucks, and Beiqi Foton Motor, making trucks and agricultural machinery. Foton Motor is a listed company and has R&D branches in Japan, Germany, Taiwan and the Philippines. Furthermore, Foton plans to build several assembly plants in Russia, Mexico, India, Brazil, and Thailand, in order to answer the growing demand of emerging markets for light commercial vehicles.^[2]

BAIC currently has several joint ventures with Daimler-Benz AG and Hyundai, which makes Hyundai and Mercedes-branded autos for sale in the Chinese market. Beijing Hyundai, an equally owned joint venture with Korean Hyundai Motors, was established in 2002^[3]. Beijing Hyundai, once a latecomer to the Chinese market, sold 703,000 vehicles in 2011^[4], which had surpassed those in the Hyundai auto's

home market. This stunning performance owes its success to Beijing Hyundai's design strategy with a focus on small, fuel-efficient cars^[5]. Ranked as the seventh most-productive Chinese automaker, Beijing Hyundai is about to introduce new models, including a new brand designed specifically for the Chinese market.

Daimler AG makes Mercedes-Benz models and trucks with Beijing Auto Group, and has two joint ventures with the company. Foton and Daimler AG formed a joint venture in July 2010, that is, the Beijing Foton Daimler Automobile Co Ltd, which makes commercial trucks.^[6] The second venture Beijing Benz was established in 2005. While this joint venture assembles and manufactures the Mercedes-Benz E-Class and C-Class, it does not produce all the Mercedes-branded autos sold in the Chinese market. Certain models still enjoy a reputation for high quality and luxury and so remain exclusively Mercedes-Benz imports. Its sales in 2010 exceeded 50,000 units, representing an 80% improvement from the prior year.

BAIC more than doubled its annual production in three years to 1.5 million vehicles in 2010, while profits increased about 700%. With revenues at RMB160 billion, BAIC became the largest and most profitable company in Beijing.

Saab Automobile

Saab Automobile is a Swedish-based carmaker that was founded in 1937 originally as the automobile manufacturing division of Swedish Airplane Limited. In 1947 Saab Automobile was separated from the parent firm. With its origins in airplane manufacturing, safety is a high priority in the design of Saab cars. Saab now is active in more than 50 countries worldwide and the most important markets are the USA, the UK, Sweden, Germany, Italy, Australia, France, the Netherlands and Norway.^[7]

After acquiring Saab in 1990, GM sold Saab to the current owner Dutch high-end car manufacturer Spyker Cars NV in 2010 because GM was heavily affected by the automotive industry crisis from 2008 to 2010 and needed to reorganize its brand portfolio. During this time, Saab's total world production plummeted from 125,397 in 2007 to 32,048 vehicles in 2010.

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After several unsuccessful attempts to buy struggling European automakers, such as Opel, as well as to buy technology from the American Chrysler,^[8] Beijing Auto noticed an opportunity for acquisition from Saab Automobile.

GM announced that the Saab brand was "under review" in December 2008, a process which included the possibility of selling or shutting down the carmaker. When GM's support receded, Saab slid toward bankruptcy, and the Swedish government turned down the bailout requests from both GM and Saab. On 16 June 2009, serious talks started with the most prospective bidders, Koenigsegg, which was backed by a group of Norwegian investors, and the BAIC. In the following months, the talks progressed seemingly well until November when Koenigsegg suddenly announced that it was withdrawing its bid.^[9]

Undeterred, on 14 December 2009, BAIC succeeded in a separate bid for assets related to older versions of the Saab 9-5 and 9-3 models. Reportedly BAIC acquired the intellectual property rights and production equipment worth about US\$197 million and would integrate this Saab technology into its future vehicles. Analysts said the acquisition was in line with the Chinese government's policy of developing more Chinese owned brands and building a strong home-grown car industry.^[10]

The final arrangement seemed excellent for all parties involved. Saab avoided shutdown, GM offloaded part of its lossmaking Swedish unit, and BAIC could develop its own brand around the purchased technology and obtain "a good brand image" in the highly competitive Chinese market, which is now the largest in the world.^[11]

Interviewees

Dazong WANG

Dr. Wang was former CEO of BAIC and is current Senior President of Beijing Auto Group. He graduated from Huazhong University of Science and Technology in 1981 with a Bachelor of Science degree in engineering and then went on to Cornell University, earning a Masters of Science degree in 1983 and a doctorate degree in 1985. Wang began his career in GM as a product engineer and finally became the Director of R&D division of GM. In April 2006, he left GM and returned to China, serving as vice president of Shanghai Automotive Industry Corporation for two years. Convinced by the persistent and good natured invitation of Heyi Xu, the president of Beijing Auto Group who was seeking a proper CEO for BAIC, Wang joined BAIC as CEO in February 2008, and was in charge of overseas acquisitions with the ultimate goal of developing BAIC's proprietary brands.

Lei GU

Dr. Gu is Senior Vice President of BAIC Motor, a subsidiary of BAIC Group, and Director of Beijing Automotive Research Institute, a subsidiary aiming at developing BAIC's proprietary brands based on Saab's vehicle platforms. He holds two doctorate degrees in engineering from the University of Science and Technology of China in 1989 and Northwestern University in 1993. With fruitful research outcomes in car safety and structure design, he joined Ford in 1994 as a product engineer and became a senior expert, engaging in new product research and development. Attracted by the burgeoning Chinese auto industry, which is in short supply of well-trained overseas returnees, Gu started to work for the Chinese carmaker, Chery Automobile, as assistant general manager and Director of Chery Automotive Engineering and Research Institute in 2005. In July 2009, he joined BAIC. As a key player during the acquisition of Saab technology, he continues to lead his team in taking on the responsibility for developing BAIC's proprietary car brands.

Summary of the Dialogue

Notwithstanding the pleasant and profitable collaboration with Daimler and Hyundai, BAIC was still interested in acquiring Saab's technology. While the two joint ventures helped BAIC improve its production and sales capabilities, BAIC still needed technology from Saab in order to improve its ability

to develop new products through portfolio planning, R&D and purchasing management. Such knowledge was not readily available in the joint venture partnerships that BAIC was engaged in.

Therefore, when BAIC entered into negotiations with Saab and its owner GM, it knew very well what it needed and had a very clear objective: to obtain Saab technology. Saab, however, proposed to sell the technology, along with its whole operation to BAIC. BAIC was faced with an attractive, yet risky decision. In the end, BAIC decided not to take over Saab's operations because of its many liabilities. It was doubtful that BAIC would be able to overcome Saab's liabilities within an acceptable period of time. BAIC also learned from Shanghai Auto's experiences. In December 2007, Shanghai Auto acquired Rover's operation but did not secure the "Rover" brand. As a result, after the acquisition, Shanghai Auto did not benefit much in terms of developing its own products. Another similar example is of Shanghai Auto's purchase of SsangYong Motor. Shanghai Auto again acquired operations of the company, but not the right to access any of SsangYong's intellectual properties. These lessons taught BAIC to acquire part of Saab's products and technology rather than to take over Saab's whole operation. Furthermore, BAIC bought not only the platforms, engines, and transmissions to make cars, but also the soft knowledge in product design and evaluation, quality control, production system, and supply chain management.

Successful acquisition, to a large degree, could be credited to BAIC's overseas returnees as the purchasing team had seven overseas returnees who all had experience working for world famous automobile companies such as GM and Ford. They understood western culture and had knowledge in product development systems. Therefore, they played a key role in identifying what to purchase from Saab. When Saab initially offered to sell their production platforms and engines, the purchasing team knew that these were not enough to improve BAIC's ability to develop its proprietary brands. They insisted on purchasing other complementary technologies such as product design and evaluation systems, quality control systems, production systems, and supply chain management systems. All these laid a solid foundation for BAIC's young R&D team to utilize products and technologies acquired from Saab. R&D staff discovered problems, looked for documents from Saab to solve the problem, in order to internalize knowledge acquired from Saab. If they encountered difficulty in understanding the documents, they consulted engineers from Saab. This had saved the team lots of time compared with starting everything from scratch. Based on newly purchased Saab technology, BAIC aims to produce "Beijing" branded vehicles, which will be the first passenger cars the company produces aside from those made by its Chinese-foreign joint ventures.

Nonetheless, there is threefold challenge ahead of BAIC's international expansion related to overcoming weak competitive advantages of its products, lack of international experience, and lack of qualified managers with international management experiences.

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Notes:

1. For Beijing Automotive Industry Holding Co Ltd holdings, see Instruction and Group Structure BAIC Official Site
2. For Foton Motor Group, see information Instruction Foton Official Site
3. For ownership and company information, see BEIJING HYUNDAI OPENS NEW PLANT, ADDS NEW MODEL Hyundai Official Site
4. Ben Klayman (April 19, 2011), Beijing Hyundai sees 2011 China car sales at 720,000 units, Reuters.com.
5. Norihiko Shirouzu and Evan Ramstad (August 27, 2010), Hyundai's China Sales Near Turning Point, The Wall Street Journal.
6. Daimler aims to nearly triple China sales by 2015 reuters.com, Fri Oct 22, 2010.
7. For Saab information, see about Saab Saab Automobile Official Site
8. Daniel Schäfer and John Reed (July 4, 2009), China's BAIC submits late Opel bid, Financial Times.
9. Patricia Jiayi Ho (November 26, 2009), Beijing Auto Absorbs a Dent with Collpase of Saab, The Wall Street Journal.
10. Nelson D Schwartz (December 14, 2009), Chinese Company Buys Rights to Make Old Saab Models, New York Times.
11. Norihiko Shirouzu (October 9, 2010), Big Hurdle for Small Chinese Car Brand, The Wall Street Journal.