



## Should BMW Buy Volvo?

### Despite denials of formal talks, an acquisition of Volvo would make sense for BMW and help struggling current owner Ford

by **David Kiley**

Executives at both Ford Motor (**F**) and BMW said on May 29 that there have been no formal discussions between the two companies about the German carmaker acquiring the ailing U.S. automaker's Volvo car business. The possible sale was initially reported by Swedish daily newspaper *Göteborgs-Posten* and then *Financial Times* of London.

Executives talked to *BusinessWeek* on and off the record about the reports, insisting that there have been no deal discussions at the top of the company. But a BMW executive speaking not for attribution said it was "certainly possible that BMW had been studying an acquisition of Volvo as a matter of normal business planning when we know a business is potentially for sale."

Ford spokesman Tom Hoyt said: "Ford is not in discussions with BMW or any other company regarding Volvo. We have seen this kind of speculation for the past year, as Ford has been assessing our operations and portfolio—as any good business does and we will continue to do."

#### "Exploratory" Communication

Ford is undergoing a massive restructuring after losing \$12.6 billion last year. Its Premier Auto Group (PAG), which is made up of Volvo, Jaguar, and Land Rover, lost \$327 million last year. Last year's results also included Aston Martin, but Ford sold 90% of that brand to an investment group, Prodrive, earlier this year (see *BusinessWeek.com*, 3/13/07, "[After Aston, Could Jaguar Be Next?](#)"). Ford does not break out profit figures for its individual brands, but Ford executives say privately that Volvo closed out last year around break-even. Jaguar lost money. Land Rover posted an operating profit.

Executives at Ford and BMW described any communication between the two companies as "exploratory." Of the three PAG brands, Volvo is the most valuable to Ford, according to industry consensus. Merrill Lynch (**MER**) estimates that all three brands could bring Ford more than \$9 billion. Between \$7 billion and \$8 billion of that would come from Volvo.

The reasons for potentially low prices for Jaguar and Land Rover are their expensive labor contracts as well as a strong currency in Britain, where all the vehicles are all made. That makes them undesirable from a financial standpoint to Ford as well as to potential suitors.

#### Looking for Efficiencies

Ford Chief Executive Officer [Alan Mulally](#) has defended ownership of the three brands, including endorsing their future product plans. But executives inside Ford who spoke off the record regard that stance as mere posturing to keep potential buyers interested. Mulally, said one Ford executive close to the CEO, views the luxury brands as "expensive hobbies for Ford." Mulally, who came to Ford from Boeing (**BA**) last September, has talked consistently about building up the Ford brand globally, creating huge money-saving efficiencies, and instituting a single worldwide brand strategy as the best means for taking on Toyota (**TM**).

Ford and Mazda—in which Ford owns a 37% controlling stake—have been creating engineering and purchasing efficiencies with Volvo since Ford bought the Swedish automaker in 1999. The current Volvo S40/V50, Mazda3, and European Ford Focus, for example, all share engineering development and other costs. Ford currently builds three models—the Ford Five Hundred, Mercury Montego, and Ford Freestyle—off the engineering platform of the Volvo S80. Ford plans two more vehicles, the Ford Flex and a Lincoln crossover sport-utility vehicle, off the same platform.