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Volvo steers course around auto giants

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Gunnar Engellau, Volvo managing director, stands with pride before the new 164, the company's first luxury automobile.

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By catering to buyers who put longevity and performance first, car maker becomes Sweden's biggest earner of dollars. Tax, investment policies secure its position

Like Greta Garbo and Ingmar Bergman, auto maker AB Volvo is something of a Swedish national institution.

It's the country's biggest manufacturer and top foreign exchange earner, accounting for more than 6% of Sweden's total exports. Together with its suppliers, it provides a livelihood for 2% of all Swedes. As such, the company is a major prop to the economy.

Among the giants of the international automobile industry, Volvo's output of around 170,000 cars this year won't cut a very wide swath. But Swedes are proud of the car's worldwide reputation for quality and durability.

Volvo is carving a profitable niche for itself in the automotive world by stressing these virtues in a medium-priced car and letting the behemoths battle for the mass markets.

Healthy climate

Whatever the fears of other Swedish businessmen (page 137), ruddy-faced Managing Director Gunnar Engellau can't complain much about how his company has fared under the Social Democrats. Volvo paid for its new Torslanda factory, planted among the granite hills near Gothenburg, out of tax-free earnings.

Under a government system designed to smooth out business cycles, Volvo and other companies are allowed to set aside up to 40% of their pre-tax profits as investment reserves. Whenever the economy needs extra stimulus, the government releases the funds for capital outlays which are immediately depreciated by as much as 100%.

This instantaneous write-off helps keep Swedish companies competitive with their bigger rivals in international markets. For Volvo, parliament even passed a special law permitting it to stretch spending of reserve funds for the Torslanda plant over four years. Currently Volvo is speeding up expansion plans to take advantage of the government's decision last year to release more of the funds.

Says Engellau: "During the past 10 years we have had a fairly healthy climate for industry. We have had inflation, but we have had no devastating strikes. Peace has had its price, but so far it has been worth it. Now, with the angry young men pushing forward, it might be that a new wind is going to blow."

Shipshape. If there is rough weather ahead, Volvo is in better shape than most Swedish companies to ride it out. It has been boosting sales by an average 13% annually over the past 10 years to $660-million in 1967. Volume was up another 8.3% in the first half of this year. Cars and trucks account for three-fourths of the total; the rest comes from products ranging from printing presses to supersonic jet engines.

Profits are keeping pace with growth. Earnings before taxes, after a dip in 1966, rebounded to $62-million in 1967, equivalent to 9.3% of sales. In the first six months this year, pre-tax profits jumped 45% over the same period in 1967, helped by rising efficiency as the company breaks in its Torslanda factory.

Setting sights. Volvo keeps a fat profit margin by aiming at a special segment of car buyers at home and abroad: those who are less impressed by styling and prestige than by a down-to-earth combination of performance, longevity, and operating economy, and who are willing to pay a good price for them.

Such motorists are more numerous in Scandinavia and other European countries than in the U. S. But an estimated 40,000 Americans will buy well over $100-million worth of Volvos this year—up from 33,000 in 1967. In the U. S., list prices range from $3,020 for a 2-door sedan to $3,600 for a station wagon with automatic transmission.

Healthy profits enable Volvo to keep a big cushion of cash and liquid assets on hand, besides financing rapid expansion out of earnings. At the moment, the company has around $120-million of ready money.

Says Engellau: "To my knowledge, no other company in Sweden is in such a position. It gives us tremendous strength."

Independent course. What dictates this strategy of self-financing and corporate liquidity is not financial conservatism, but the frequent shortage of capital in Sweden and Engellau's determination to keep his freedom of management. Companies that want to get long-term financing in Sweden must apply to the central bank, the Riksbank, for permission to sell bonds. In times of tight money policy, the Riksbank's approval is hard to get.

Equally important, financial self-reliance has saved Volvo from falling into the clutches of the banking and family groups that control much of Sweden's industry. Of the top eight industrial companies, Volvo is the only one that's not controlled by the Wallenberg family.

"We don't rely on any one bank and there's no special group of stockholders that can tell management what to do," says Finance Director Per Ekstrom. "And a good healthy cash position is insurance."

Fighter. Engellau, outspoken and combative at 60, doesn't mind a scrap when it comes to keeping Volvo clear of financial strings. By threatening a protracted legal battle, he got Volvo out of a contract which gave ball-bearing maker SKF a royalty on every car Volvo built, in return for financing provided by SKF in the company's early days before World War II. Volvo eventually bought its way out of the arrangement with a $4-million lump payment. (Among Swedish companies, Volvo is second to SKF, but Volvo

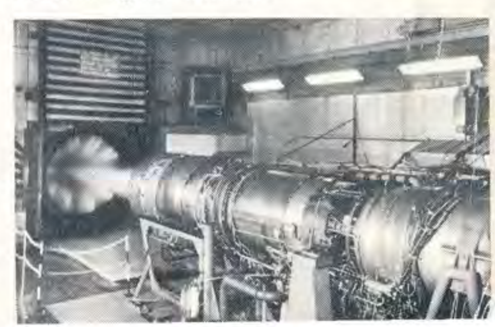
Women constitute about 20% of Volvo's force of workers.

Agricultural equipment is produced by Bolinder-Munktell, a Volvo subsidiary.

Marine engines are built by Penta, another company unit.

Heavy equipment is assured plentiful markets by Sweden's forests.

Jet engine is tested for Swedish fighter-bomber.



has more of its manufacturing in Sweden.)

Volvo's biggest stockholder is Custos, a holding company linked with Skandinaviska Bank, with about 3.5% of Volvo's 6.8-million outstanding shares. Engellau sits on the bank's board, but neither the bank nor Custos is represented on Volvo's board. "They have never tried to bring pressure," Engellau says.

Volvo's swift growth and solvency make it a perennial blue-chip among Swedish investors. Its stock is up 400% over the past five years, and has been a dynamic performer again this year. Shares dropped briefly over fears that Ford's low-priced Delta, when it bowed, might squeeze Volvo out of the U. S. market. Engellau scoffed at the prospect, pointing out that Volvo is in a different price class. "Ford is out after Volkswagen," he asserted.

Slow start

It took two decades of forced-draft expansion for Volvo to get where it is. The company was organized in 1926 by former SKF executives, with SKF as a shareholder. The ball-bearing company later distributed its shares to its stockholders.

By 1950, Volvo's combined car and truck output was still a minuscule 18,000 annually. But the company rode the postwar swell of pent-up demand and rising prosperity with a basic design that lasted, with modifications, for nearly two decades. The production run of the PV 444 and a later version called the PV 544 stretched from 1947 to 1965 and totaled 440,000 units.

The latest series, the 140, started coming off the assembly line in a 4-door version in 1966, with a 2-door sedan and a station wagon added last year.

Last month, Volvo moved into the luxury class by bringing out the 164, a 6-cylinder, 4-door sedan priced between $5,000 and $5,600 in Sweden and designed to compete with similarly-priced models of Mercedes and Jaguar. Stockholm newspapers promptly dubbed it "Volvo's snob car"; it will be introduced in the U. S. sometime next year.

Head man. Engellau, an engineer, moved up to head Volvo in 1956 after running Svenska Flygmotor, the aircraft engine subsidiary. He added an emphasis on safety, and in 1959 the company was the first to install seat belts as standard equipment.

By the time the U. S. Congress started its hearings on auto safety, Volvo already had such things as a collapsible steering column, interior crash padding, burst-proof door latches, and energy-absorbing front and rear ends.

"When I heard about Ralph Nader," Engellau recalls, "I thought 'this man is sent to me from heaven.'"

Volvo asserts it could sell more cars if it could produce them—and the company's fast growth seems to bear out the claim.

Too few hands. The limiting factor on production is the labor shortage. Increased output has to come mostly from "rationalization" of production and measures to step up worker output.

Outside of automobiles, Volvo joined with armaments maker Bofors to take over the Flygmotor aircraft engine factory during World War II at the request of the government. It will build the engine for Sweden's supersonic Viggen fighter bomber, under an initial order for 175 units.

It also makes engine components for Rolls-Royce and for Pratt & Whitney's JT8D turbojet. Other major subsidiaries are Penta, maker of marine engines and inboard-outboard motors, and Bolinder-Munktell, which produces a variety of agricultural, lumbering, and materials handling equipment.

The emphasis will remain on autos, though. Engellau knows that Volvo must grow to survive. "Two hundred fifty thousand is a figure we have to reach," he says.

Looking abroad. Like other Swedish companies, Volvo can only achieve size by exporting—currently around two-thirds of its output. Volvo's sales strategy is to allocate as many cars to the Swedish market as it can sell there—about 45,000 last year—in order to maintain a solid home base.

Sweden is no cozy sheltered market: to get and hold a 26% share, Volvo has had to battle GM's Opel and Vauxhall, British and German Ford, VW, and other European competitors, as well as Sweden's smaller car maker, Saab.

The rest of production is divided among export markets—mainly other Scandinavian countries and Britain, Continental Europe, and the U. S. Engellau's aim is to spread the risks by holding any one market to not more than 20% of Volvo's output—though the U. S. this year will exceed that share.

In any case, Engellau has no qualms about Volvo's ability to compete. "Volvo was born and fostered in this harsh climate of competition in Sweden," he says. "We have had to fight and compete like hell."