Analyzing Strategy for Volkswagen

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**Strategic issues at Volkswagen**

**1: Introduction to Volkswagen**

Volkswagen is one of the largest automobile companies in the world and is located in Germany. Volkswagen has three cars listed in the top ten best selling cars around the word. The cars are the Volkswagen Golf, Passat and Beetle. Volkswagen is a German word that means the “People’s car”, in English. The slogan of Volkswagen is “Das Auto”. Ferdinand Porsche founded Volkswagen in 1937. Volkswagen’s Headquarters is in Wolfsburg, Germany. Martin Winterkorn is the Current chairman of the company. According to Statista.com Volkswagen’s revenue in euro’s for 2016 was 217 billion, 213 for 2015, and 202 billion in 2014 (Statistica). Volkswagen employs more than 658,500 employees. Volkswagen’s competitors are Toyota, General Motors, and Honda. Volkswagen has used many strategies to keep their leading position in this industry. This study discusses some strategies to help Volkswagen to become the leader in automobile industry.

Volkswagen is a huge multinational group divided into three categories of cars according to its brands. These three categories are listed below:

**Category 1:** The “Classic” brands are Volkswagen, Skoda, and Seat.

**Category 2:** The “Luxury” brands are Bentley, Bugatti, Audi, Lamborghini, and Porsche.

**Category 3:** The “Commercial” brands are Volkswagen Commercial Vehicles, Ducati Motor, Man S.E, and Scania AB.

Volkswagen implemented its company all over the world with all its successful brands to more than 150 countries. This means that Volkswagen covers all the important areas of the world. Their goal is to provide safe, attractive and environmentally sound cars in accordance to the different standards of the world. Currently the main markets of VW group are in Western Europe, Brazil, China, USA, Mexico and Russia. Volkswagen has good potential to grow in Asia.

**2: Environmental analysis of Volkswagen**

# Decision making of a company is made up of many factors in an organization. In the automobile industry there are Political factors, Economic factors, Social factors, Technological factors, Environmental factors and Legal factors. PESTEL analysis is the study of all factors.

# Volkswagen PESTEL analysis

**Political Factors:**

Volkswagen faces different challenges based on the country. Because of the different political situations in different countries, they must make their strategies according to location. For example, their strategies in Europe are different than the strategies in Asian countries. The vehicle industry is sensitive for policies made by each government. For instance, some countries put tariff or taxes on products that come from certain countries due to political issues.

**Economic Factors:**

The automobile industry plays a vital role in the income of the manufacturing country. Also, it is closely related to improving the transportation sector in any country. Volkswagen supports total GDP for Germany. This industry helps other industries like steel, glass, etc.

There is also another side of economic factors which is uncertainty in the economic condition of the world. For example, European Debt crisis is a big problem for the car manufacturing companies. People will not have the money to purchase a new car, because of their financial situations. We have seen a decline in the sales of Volkswagen cars in South America in 2011 which is due to the economic uncertainty. To deal with decline of sales due to lack of money and other problems Volkswagen has a range of brands which are in the higher bracket price range as well as the more affordable models. The cars in the affordable range will tend to do better in times of economic struggle. The Price of fuel also affects car sales. To deal with this difficulty Volkswagen can focus on alternatives of diesel and petrol.

**Social Factors:**

Volkswagen delivers to a wide range of diversification. Volkswagen provides jobs for people in these different cultured countries in manufacturing of cars. Total numbers of direct employees in Volkswagen are more than 502,000 worldwide. But there are millions of people working in Volkswagen directly and indirectly. The automobile industry increases the quality of the society and changes the lifestyle of the people.

**Technological Factors:**

Technology has an important role for the success of a company. Volkswagen is a company with a variety of technology advantages in the models of their cars; like classical, sporty, luxurious and economical. They also offer high performance cars like Audi, Bentley, and Skoda, which are brands of Volkswagen. The latest motion scenery equipment, anti-skid controls and safety standards are what Volkswagen has to its advantage in competing with its competitors.

Technology is a major factor in the production of their cars. Each week millions of cars are produced all over the world, and quality control can become tedious. Volkswagen Company uses many production techniques like ‘just in time’ management strategy. which is a real time production accounting of quality of product. Another plus that helps Volkswagen is it’s after sales services to better help with the recalls in cars.

**Environmental Factors:**

Car manufacturing companies have a greater role on the impact of the environment of a nation. The environment gets polluted due to the use of petrol and diesel as fuel. There are many raw materials used to make cars for example steel is made from iron and to make the steel the air is polluted, as well as the water. Volkswagen needs to take care of the natural environment of its plants because they have many plants in different parts of the world and from these plants smoke is emitted in the air and wastage is thrown in the water.

**Legal Factors:**

Following legal requirements is a big challenge in the automobile industry. Volkswagen needs to follow the requirements of 150 countries, which is different in every country. The legal requirements on which Volkswagen needs to focus are competition law, consumer protection law, intellectual property law, labour law, emission laws and taxation laws.

**SWOT Analysis**

SWOT analysis is a management method to study strength, weakness, opportunity, and threats face the company and its products.

**Strengths**

1. Global presence. Volkswagen operates in 150 countries worldwide and was the third biggest auto manufacturer in 2012, down from the 1st place in 2011. The company manufactures its cars in 100 plants in Europe, North and South America, Asia, Africa and Oceania. With the exception of GM and Toyota, no other automotive company is capable to compete with Volkswagen in terms of global presence.

2. Strong brand portfolio. The business owns and sells 13 automotive brands: Audi, Bentley, Bugatti, Lamborghini, Porsche, SEAT, Škoda, Volkswagen, MAN, Scania and other commercial vehicles. With such a wide range of vehicle models the company satisfies nearly all consumer needs and has access to an immense consumer market.

3. Synergy. Volkswagen Group benefits from the synergy created between all 13 separate automotive brands. All 13 separate companies share a part of R&D and servicing costs. In unison they learn from each other what best practices and shares distribution channels to go with.

4. Strong presence in China. China is the largest automotive market and is an emerging economy that grows steadily. It is also the biggest market for Volkswagen vehicles where the company captures nearly 20% of the market, mainly with its Audi and Volkswagen brands.

5. Well performing brands. Without its namesake brand, the company owns a few other very successful brands, including Audi and Porsche. Audi brand is valued at $7 billion, while Porsche is valued at $5 billion. Audi is also the second biggest brand in the firm’s portfolio and is growing impressively.

**Weaknesses**

1. Weak position in the US passenger car market. In 2012, Volkswagen had only about 5% market share in the US passenger car market. US are the second largest automotive market in the world and weak Volkswagen’s position there results in comparably lower sales.

2. Most cars are not environment friendly. Volkswagen owns three sport car brands Porsche, Lamborghini and Bugatti that emit high amount of CO2 and are fuel inefficient. Volkswagen group is strongly opposing legislation requiring tighter regulations on CO2 emissions and energy efficiency in preserving the production of their high octane cars.

**Opportunities**

1. Changing customer needs. Volkswagen could introduce more fuel-efficient models that also emit much less CO2 across all its automotive brands, thus meeting new customer needs (environment friendly cars) and increasing brand reputation.

2. Increasing fuel prices. Consumers are very sensitive to rising fuel prices and when prices go up, their demand tends to grow for fuel-efficient and hybrid cars.

3. Positive attitude towards “green” vehicles. Cars that emit large quantities of CO2 and fuel inefficient cars pollute air and negatively affect the environment. Consumers are aware of this negative impact and are more positive to “green” vehicles that emit much less CO2 and are fuel-efficient.

4. Growth through acquisitions. So far, Volkswagen Group was very successful in acquiring other auto manufactures and getting access to larger consumer markets as well as faster than organic growth. To continue growth at current rates and to access vital US markets, Volkswagen should continue acquiring competitors.

5. Increasing global demand for buses. Demand for buses is expected to grow by 5% annually until 2016. Volkswagen being a major bus supplier has an opportunity to expand its manufacturing and increase sales.

**Threats**

1. New emission standards. Volkswagen strongly opposes stricter regulations for lower emission standards. If such legislation would be passed the business would have to make huge investments to engineer newer engines that emit less CO2.

2. Fluctuating fuel prices. Due to increasing extraction of shale gas, future fuel prices should drop and make hybrid cars less attractive. Volkswagen’s investments to hybrid and electric cars would be treated as losses, rather than perspective future cars. On the other hand, steeping fuel prices would make current Volkswagen models less attractive to cost conscious consumers, as they demand smaller cars that consume lower amounts of fuel.

3. Rising raw material prices. Rising prices for raw metals will lift the costs for auto manufacturers and result in squeezed profits for the companies.

4. Growing euro exchange rate. The business earns more than 70% of its revenue outside the euro zone. Exchange rate fluctuations threaten Volkswagen's profits if the euro will start depreciating against other currencies.

5. New technology in electrical cars and self-driving cars are a costly endeavor.

**3. Strategic management of Volkswagen**

**a) Strategies executed identified and evaluated**

A good Strategic management strategy of choice is organization structure, primary people matters and organizational culture range. Volkswagen differentiated their strategy. It involves positioning the group on top of motor manufacturing by the year 2018 with increased service delivery and customer satisfaction. They are practising their strategy by doing quality products, new designs and always improving and expanded services above the normal standards. To compete with competitors in this field they need greater effort in maintaining revenue, market, costs, and to keep their existing customers.

To increase quality management, effective service distribution, innovation and responsiveness to customers Volkswagen Group management assigns employees to particular value creation tasks and roles that are linked together to create a unified framework. This motor manufacturing group has achieved in joining the efforts of all employees across all company structure, functions and business sections so that specific sets of strategies are achieved. All duties clearly indicated here for the structure of Volkswagen organization is flexible. All employees are trained to know their job in detail and assumption. The structure of the Volkswagen Group is one of the contributing factors to effective implementation of previous strategies.

To achieve production of good quality products and quality services to guarantee customer satisfaction, Volkswagen Group has trained all its human resources pre and after a strategy is arranged and completed. The selection of staffs is a complete process. They select staff with good qualities and that are compatible with the manufacturing company.

To implement the business model and strategies, Strategic choice, organizational design, culture and principals are what shape employee beliefs, behaviours, values and norms.

**b) Strategic issues and problem discussed**

A Strategic Issue is an issue - an unresolved question needing a decision or waiting for some clarifying future event. Strategic issue has major impact; it is strategic and has major impact on the development and direction of the business. It possibly relates directly to one or more of the fundamental “Three Strategic Questions”:

* + - What are we going to sell?
    - To whom are we going to sell it?
    - How will we beat or avoid our competition?

Strategic Issues lie right at the heart of the business. Correspondingly, the dealing of strategic issues lies at the main aim of strategic planning.

Strategic issue of Volkswagen is mainly competition among other manufactures like Ford, GM and Toyota, and domestic rivals Mercedes-Benz. There has always been strong competition in the car industry, but a lot of customer base is from repeat customers. Serving your customer’s right and giving good service not just sales it will increase the goodness of this company. Most of Volkswagen's competition is from the Japanese production line which carries similar size vehicles at good prices. The Japanese cars have also provided for themselves a good name in style, and price. To stay in competition you need to prepare regularly and not let competitors take your deals away from you. Giving consumers a different, good quality and price competitive vehicle is what will keep them coming back to you.

One of the major examples of failure of strategy of Volkswagen is America. It marks the failure in sales of VW cars in the United States in November. At the same time, total car sales in the American market rose by almost nine per cent. But foreign competitors Ford, GM and Toyota, and domestic rivals Mercedes-Benz and BMW are all selling more cars.

Then the CEO Martin Winterkorn said that “We're facing a headwind," ( ). That's an understatement to the Volkswagen company. The sales drop in the US could even threaten his big goal of making VW the world's biggest carmaker by 2018.

**c) Role of CEO and Sound leadership in solving strategic problems**

The strategic management process of today contributes to be managed by the **chief executive officer (CEO)**. The main role of a CEO is to endure and deal with the capabilities and failings of the organization; and the personal style of the leader is crucial to its success.

The role of the CEO in strategic management is as follows:

1. The CEO must understand that strategic management is his responsibility. Parts of this task, but certainly not all of it, can be delegated.

2. The CEO is responsible for establishing a climate in the organization that is favourable to strategic management.

3. The CEO is responsible for ensuring that the design of the process is appropriate to the unique characteristics of the company.

4. The CEO is responsible for determining whether there should be a corporate planner. If so, the CEO generally should appoint the planner (or planners) and see that the office is located as close to that of the CEO as practical.

1. The CEO must get involved in doing planning.

2. The CEO should have face-to-face meetings with executives for making plans and should ensure that there is a proper evaluation of the plans and feedback to those making them.

3. The CEO is responsible for reporting the results of the strategic management process to the board of directors.

The chief executive officer (CEO) is responsible for the final decisions, but its decisions should be are the completion of the ideas, information, and analyses of others.

**4: Solutions Suggested**

An important action that would be taken by Volkswagen is to develop new innovations by investing some capital into research and design, to find new distinct qualities that are efficient and pleasant to consumers. This could be achieved by the Volkswagen research team or from ideas of other companies in the business relationship exchange for making capital in that area. Volkswagen should watch their positions and find where they could improve production and their marketing mix in production ad sales.

**5: Conclusion**

Strategic management contains the establishment and implementation of the important goals and actions taken by a company's top managementon the side of the owners, based on consideration of resources and an evaluation of the internal and external environments in which the organization competes. In the organization Volkswagen, it is not just a car manufacturing company but it is a big group which can be divided into two groups: first automobile and second financial services. It has a range of successful brands which help it in achieving its strategic objectives. The main brands of the company are Volkswagen, Audi, Bugatti, Skoda, Bentley, Seat and Lamborghini. The strategic objective of Volkswagen is to position itself as a global leader in economic and environmental terms. The group has decided to achieve the four goals to become the global leader in car manufacturing by 2018:

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