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The New Beetle

While the first few cars will fly out of dealerships—some nostalgic Beetle buffs have already put down deposits—the long-term picture for the car is dicey. VW has only vague notions of who might buy it, and a puny ad budget to tout it. . . . For the agency [and marketing team] creating the ad campaign for the New Beetle, there's the added challenge: following in the tread marks of the old Beetle ads of the 1960s and 1970s; which are widely regarded as some of the best in history. Put it all together and it seems like a marketer's version of "Mission: Impossible."

—Daniel McGinn, “New Legs for a Bug,” *Newsweek*, January 12, 1998

On March 10, 1998, with an hour to prepare before her marketing strategy meeting, Liz Vanzura (HBS ‘90), marketing director for Volkswagen, reflected on the challenge confronting her—one that had been so aptly described in a recent *Newsweek* article as “Mission: Impossible.” By the end of the day, a team including Vanzura; Charlie Waterhouse, director of product development; and Steven Keyes, director of public relations, would have to finalize the marketing plans that would position Volkswagen’s New Beetle with one foot in the past and the other on the accelerator heading directly into the future.

Just a few weeks earlier, on January 5, 1998, Detroit’s Cobo Hall had housed the 1998 North American International Auto Show—the country’s leading automotive press event—where Volkswagen (VW) had unveiled a dynamic multilevel stand that featured its new lineup of cars. Throngs of journalists and visitors had crowded the lower level of the display to catch a glimpse of the show’s unexpected star, the New Beetle. Six brightly colored cars smiled out at onlookers from under the spotlights. One popular model with heat-sensitive paint even invited visitors to press its flesh and make different patterns appear on the body.¹ As people walked by, they smiled and touched the characteristic curves of the car, reminisced about how they had named and painted their “Bug”² many years ago, and marveled at how the icon of the 1970s and “flower power”³ had been transformed into a car for the new millennium.

¹ Matt Delorenzo, *The New Beetle* (Osceola, WI: MBI Publishing Company, 1998), p. 55.

² A nickname given to the Beetle for its shape and insect-based name.

³ A movement among hippies in the 1960s and 1970s, expressing counterculture or antiestablishment beliefs and ideals. Dictionary.com.

Professor Rajiv Lal and Research Associate Neela Pal (HBS 2000) prepared this. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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While VW had much to celebrate with the recent success of the show, the company knew that the success of the New Beetle was still far from guaranteed. From its heyday as the automotive icon of the 1960s counterculture, VW had seen sales in the United States decline precipitously from over half a million cars in 1970 to less than 50,000 cars by 1993. However, with the support of a new advertising campaign targeted to a younger generation of drivers and product introductions such as the New Passat, VW of America had steadily rebounded with an annual sales growth of 29% over the 1993 to 1997 period. In 1998, VW of America had targeted sales of 200,000 units, a 45% increase over the 1997 sales of 137,885 cars. To propel the company to this sales level, VW expected the New Beetle to contribute to at least 25% of the 1998 goal by selling its entire first-year production quota of 55,000 cars. The VW marketing team knew that meeting this challenge would rely on their ability to successfully define a target audience, position the product, and develop an innovative advertising and media campaign—all in time for the New Beetle's arrival at dealers' showrooms in late spring.

With the car in production for nearly four years, VW of America had had time to conduct research to aid in developing the New Beetle marketing strategy. Initial research had indicated that the New Beetle appealed to a number of different consumer segments. While targeting a single segment such as baby boomers would be a more focused strategy, Vanzura wondered whether the full potential of the car would be realized if it were sold to such a narrow customer base. Once the target audience had been determined, there was still a question of how to position the New Beetle. Vanzura knew from qualitative research that many consumers perceived the New Beetle as a "toy car," and so a key element of the car's positioning would be to communicate it as a "real, driveable car." Beyond this message, the marketing team had been debating about the car's unique selling proposition. Discussions both internally and at Volkswagen's advertising agency, Arnold Communications, had focused on how much of the car's heritage the new positioning should leverage. While the body—"rounded shape, distinct fenders, single head and tail lamps, and a face that looked like it smiled"—played to the nostalgia of the original Beetle, the new car was no replica.⁴ Vanzura asked herself, "How retro should we go in our marketing efforts?"⁵ The answer to this question would impact not only the image of the New Beetle but also how consumers would perceive the broader Volkswagen product lineup.

The team's marketing strategy was also important to the company's senior management in Germany. There was concern that the choice of brand positioning would either define the New Beetle as another faddish, niche product or again define Volkswagen as the Beetle car brand. Dr. Ferdinand Piech, chairman, Volkswagen AG Board of Management, had succinctly summed up his perspective on the New Beetle's role in the VW universe: "Despite all the high expectations we have for the New Beetle, one thing is for sure, Volkswagen will never be again the one-car company."⁶

The Rise and Fall of Volkswagen in America

Volkswagen faced significant challenges in creating a presence for itself when the company sold its first two cars, Type 1—VW's model name for the Beetle—in the United States in 1949. With the end of World War II, most Americans were cautious about buying imported cars. With a shortage of parts and costly repairs, foreign cars were a luxury few could afford.⁷ In addition, products from

⁴ Delorenzo, p. 58.

⁵ Daniel McGinn, "New Legs for a Bug," *Newsweek*, January 12, 1998.

⁶ Delorenzo, p. 54.

⁷ "Volkswagen Celebrates 50 Years on American Roads," VW Company press release.

Germany had an additional image problem that limited demand. Despite these pressures, Volkswagen's sales grew, and by the end of 1954, a total of 8,913 Volkswagens were traveling America's streets.

In 1955, the company was incorporated and officially became Volkswagen of America, a subsidiary of Volkswagen AG. Dr. Carl H. Hahn, then head of Volkswagen of America, decided that the company needed a unified corporate image and began an advertising campaign to market the Volkswagen brand. The first advertisement appeared in *The New York Times* in the spring of 1959. The full-page photo depicted a scene from a New York Volkswagen dealership: a customer, sitting in an armchair with a cup of coffee in hand, watching his Beetle being serviced.⁸ The ad became distinctive for its message—not about selling cars but, rather, its focus on the quality of service a Volkswagen owner could expect from his dealer. The print copy marked the inception of a unique and effective advertising campaign, produced by Doyle, Dane, Bernbach, Inc.,⁹ that would help Volkswagen eventually become one of the best-known car brands in the United States.¹⁰

In addition to his marketing initiatives, Hahn, after visiting VW dealers nationwide, decided to organize nationally rather than within smaller geographic regions.¹¹ By 1962, a new national Volkswagen of America organization was created and dealerships were expanded into a national network.¹² On October 18 of that same year, the company opened its headquarters in Englewood Cliffs, New Jersey, and the one-millionth Volkswagen arrived in the United States.¹³

Beginning in the late 1950s, Volkswagen experienced a string of single-product successes in the U.S. market. The Beetle, which achieved almost cult status among U.S. consumers in the 1960s, was followed by the Rabbit (which ultimately became the Golf), a fuel-efficient car that enjoyed instant popularity among energy-conscious American consumers (**Exhibit 1**).¹⁴ By 1968, with the help of other models such as the Volkswagen Microbus and the Karmann Gia sport coupe, Volkswagen was selling over a half million cars annually in the United States.

Over the next several years, a series of events brought the company's booming sales to a halt. During the 1970s, the appreciation of the Deutsche mark against the dollar threatened to price VW's cars—most of which were low- or midrange models—out of the market. In early 1975, VW was losing money on nearly every car sold in the United States, and falling sales threatened to break up the company's U.S. distribution network as dealers began defecting, particularly to new Japanese brands.¹⁵ To insulate its prices from further exchange rate volatility, the company acquired an unfinished manufacturing facility in Westmoreland, Pennsylvania, from Chrysler in 1976, and the first U.S.-manufactured Rabbit appeared on the market in 1978. Predating Japanese transplants, the new subsidiary represented the first modern attempt by a foreign automaker to produce cars in the

⁸ Ibid.

⁹ Doyle, Dane, Bernbach, Inc. (DDB) was the predecessor to New York advertising agency DDB Needham, which was Volkswagen's agency in the United States until 1995.

¹⁰ "Volkswagen Celebrates 50 Years on American Roads," VW Company press release.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

¹⁴ Gordon Hanson and Helen Shapiro, "Volkswagen de Mexico's North American Strategy (A)," HBS Case No. 794-104 (Boston: Harvard Business School Publishing, 1994), p. 2.

¹⁵ Steven Tolliday, "Rethinking the German Miracle: Volkswagen in Prosperity and Crisis, 1939–1992," unpublished paper, Harvard Business School, 1991, pp. 29–30.

United States. But the Rabbit's fortunes proved to be short-lived. The 1982 recession, the drop in oil prices, and the declining popularity of hatchbacks¹⁶ contributed to declining sales. During the same period, VW also experienced problems with the Beetle. Unable to comply with the requirements of new environmental legislation, VW had stopped selling the Beetle in the United States. Finally, by the mid-1980s, facing stiff competition from the onslaught of Japanese brands, VW saw its sales, for the first time since 1958, dip below 100,000 units.¹⁷

Maryann Keller, an auto industry analyst, summarized VW's rise and fall as a failure to keep in step with American consumers' ever-changing demands: "VW had a generation of lovers and lost them. They allowed the Japanese to seduce this generation. The VW product line is tired and old."¹⁸ By the early 1990s, Volkswagen's sales had fallen to 20% of their 1970 peak (**Exhibit 2**). By 1993, with sales of 49,533, trade magazines even began reporting rumors of a Volkswagen pullout from the U.S. market.¹⁹

Relaunching Volkswagen in America

In fall of 1994, VW's marketing team, including Waterhouse and Keyes, met to discuss the lackluster performance in the U.S. market and began laying out a strategic recovery plan to reinvigorate the Volkswagen franchise. Waterhouse recounted the situation:

In 1993, sales were at an all-time low for Volkswagen. Although sales volume was expected to pick up once car supply constraints were lifted with our new plant in Mexico operating at full capacity, it still would not be enough to get back to selling the number of cars we did in the '70s and '80s. We asked ourselves how Volkswagen could bring back the excitement it once had in the marketplace while still updating the brand's image to appeal to a new generation of consumers. We knew we would have to do things differently.

Arnold Communications

One of the most significant changes VW made was hiring a new advertising agency. After a hotly contested agency review, VW ended its 35-year relationship with DDB Needham, one of Madison Avenue's most prominent agencies. Volkswagen surprised many in the industry by hiring a small Boston-based firm, Arnold Communications. The Volkswagen team explained the challenge facing their new agency:

When we hired Arnold, we gave them the task of making the Volkswagen brand important again and relevant to the '90s car buyer. We knew that the heritage of German engineering and the car's more fun, pleasurable driving experience were powerful strengths of the brand. Surely, these strengths could be better leveraged with consumers. However, we also knew the brand had some serious weaknesses to overcome. Despite our continuous marketing efforts, the brand's image had been slowly eroding, and there was a perception in the minds of consumers of poor quality and reliability. Even our recent *Farfegnugen* campaign had done

¹⁶ A car having a sloping rear door that is lifted to open. Dictionary.com.

¹⁷ Paragraph taken from Gordon Hanson and Helen Shapiro, "Volkswagen de Mexico's North American Strategy (A)," HBS Case No. 794-104, p. 2.

¹⁸ *Automotive News*, November 30, 1987.

¹⁹ Paul Gordon, "VW Updates Classic Beetle," *Peoria Journal Star*, November 29, 1994, p. C1.

very little to strengthen our brand equity. And our weak sales had also eroded confidence among our dealer organization.

To obtain a more in-depth understanding of consumer and dealer perceptions, the Arnold team undertook its own research and conducted extensive consumer interviews, visited 95 of the top 100 dealers, and drove Volkswagens for over 50,000 miles to experience the cars for themselves. Fran Kelly (HBS '83), chief marketing officer at Arnold Communications, summarized what they uncovered about the Volkswagen consumer:

From a standard demographic analysis, we found that Volkswagen consumers were younger, slightly more affluent, and more educated than the average car purchaser. But more interesting were the attitudes of these consumers. We found that Volkswagen owners enjoyed a more *active* role in driving. They enjoyed driving on challenging winding roads, didn't always obey speed limits, and saw the car as more than just a way to get from place to place. We also found that these consumers had a unique attitude towards life. Well informed, more adventurous, creative, confident, self-sufficient, experimenters, Volkswagen drivers seemed to want to make and take the most out of their lives.

Our interviews also highlighted how the brand was perceived versus the competition. In comparison to other European brands such as BMW and Mercedes, Volkswagen was perceived as its namesake the "people's car" and found appealing for its affordability. It also offered a more unique, individualistic driving experience versus Japanese cars such as Honda and Toyota.

With this fresh insight about the target market, the Arnold team recommended a new product positioning and brand essence that would become the foundation for the Drivers Wanted campaign. Kelly recalled the presentation:

The brand essence statement captured the rational and emotional benefits that Volkswagen provided its consumers. We knew that to be distinct and appealing in a highly competitive marketplace, we had to take advantage of how people both *thought* and *felt* about the brand. The rational benefit of Volkswagen was that it was the only brand that offered the benefits of German engineering *affordably*. Emotionally, the car represented a completely different driving experience—more connected to the road—and a different way of living—more connected to the world.

And as we thought about our positioning, we gave consideration to not only what we wanted to stand for but also what we did *not* want to stand for. For example, we wanted the Volkswagen brand to be invitational and approachable, *not* exclusionary like some of the other European car brands. We wanted to sell our consumers on VW's unique driving experience, *not* just on the car's ability to get people from one point to another, faster or cheaper—a focus of several Japanese competitors [Exhibit 3].

In June 1995, Arnold launched the first of its new advertising under the Drivers Wanted campaign (Exhibit 4). One of these early ads featured young executives trapped in their busy workday, escaping into Jettas and Golfs for after-work exhilaration.²⁰ The voiceover, "On the road of life, there are passengers and there are drivers," and the tag line, "Drivers Wanted," aptly captured the spirit that Volkswagen wanted to convey to its consumers. With no new-product introductions planned, the objective of the advertising campaign for the balance of 1995 and 1996 became to "get Volkswagen back on the consumer's shopping list."

²⁰ Daniel McGinn, "New Legs for a Bug," *Newsweek*, January 12, 1998.

Initial measures indicated that the advertising was proving successful, and Volkswagen's unaided awareness and loyalty numbers began to improve. More importantly, sales began to rebound as 1995 and 1996 both experienced an annual 16% increase versus their respective previous years. With this momentum, in 1997 Volkswagen of America turned its attention to extending the Drivers Wanted platform to a younger generation of consumers. Under the new objective to "invite in new and different drivers," the marketing team launched its first cobranding effort. Public relations director, Keyes explained:

The Trek/K2 promotion came to us opportunistically. We had an availability of models with sunroofs, spoilers, and alloyed wheels, and we were thinking of implementing an after-market price promotion to push these cars out. But we knew that this price promotion would go against the very image we were trying to build. So, Arnold suggested that we approach Trek—a mountain bike company—and K2—a ski products company—about a comarketing opportunity. In our initial conversations, both Trek and K2 expressed some hesitancy in working with us. They didn't think that Volkswagen had the image they wanted to be associated with. But we finally convinced them, and in April '96, we introduced the "Jetta Trek," and it was a hit. We decided that instead of putting a monetary incentive on the car, we would put a total package around the car that would help reinforce the lifestyle image of the drivers we were targeting. By giving away a Trek mountain bike or K2 snowboard with a specially designed vehicle, we were able to expand the brand's consumer base and invite in a younger audience of drivers.

In addition to innovative promotions, Arnold Communications developed advertising that would appeal to the hip Gen-X driver. In April 1997, Arnold debuted the acclaimed spot in which two young men drove aimlessly in a Golf as a narrator told how VW "fits your life, or your complete lack thereof."²¹ The commercial became so popular that its theme music, "Da Da Da," from an obscure German song, was released as a single and its quirky plot parodied by television shows such as "Spin City." Along with attractive lease-financing deals, this effort enabled the company to achieve its sales target and, more importantly, begin a relationship with a new generation of VW drivers.

While the marketing organization of Volkswagen of America had been busy with its efforts to reinvigorate the brand, the product development and engineering group had been working on a completely redesigned product line consistent with the new platform strategy developed and articulated by Piech. With the launch of the New Passat in November 1997, the company finally had some real product news, and the focus of the brand's advertising shifted to supporting the launch. The reviews for the New Passat praised the car's styling and heralded the brand as a real contender in the midsize car market, although many questioned whether Volkswagen had the image to market a car that was priced over \$20,000. But despite a limited marketing budget and the higher price tag, the New Passat helped to strengthen VW's image while improving profits for both the manufacturer and dealers—who sold more cars at a higher margin.

By the end of 1997, Volkswagen was selling 137,885 cars, a 178% increase from its nadir of 1993 sales. It appeared that VW was back on track in the U.S. market. But the events of the first few months of 1998 would test the sustainability of this comeback and answer the question of whether the 1990s would be the start of a new era for Volkswagen in the United States.

²¹ Ibid.

The Beetle Phenomenon

The Original Beetle

The Volkswagen Beetle was born in the mid-1930s, when Ferdinand Porsche began drawing up plans for “Volksauto,” a people’s car.²² Built in a plant located in Wolfsburg—a town midway between Berlin and Hamburg—the car was conscripted into World War II and served as Germany’s equivalent to the Jeep during the late 1930s and early 1940s. Although originally named the *Kraft durch Freude* or “Strength through Joy” car, people quickly adopted the car’s more endearing appellation, the Beetle, when one of the prototypes was so dubbed by *The New York Times* in 1938.²³

From its humble beginnings, the Volkswagen Beetle would soon become the most successful car model ever, selling over 21 million automobiles (**Exhibit 5**).²⁴ Americans first saw the car in 1949, and the Beetle quickly began to attract a cult-like following. With its distinctive round shape, face-like front end, and low price, the car stood out from the cookie-cutter stylings of the oversized, over-priced domestic cars and appealed to a new generation of Americans. For many, the Beetle was their first car. It was particularly popular with budget-minded students as well as drivers who sought to express their individuality and personal style through the car.²⁵ And despite the inconvenience of an air-cooled engine that could not generate enough heat to keep the windows from frosting inside, or the choice between cooling off the car or climbing hills, Beetle owners were intensely loyal to their “bugs.”²⁶ These owners found the car’s flaws to be endearing. And stories about “Beetle-stuffing” contests—to see how many people could fit into a Beetle—and cross-country road trips where “Herbie”²⁷ served as car, home, and friend were abundant. As one owner once described, “[The car is] a member of the family that just happens to live in the garage.”²⁸

A large part of the car’s success in the United States was also attributable to the memorable advertising campaign created by Doyle Dane Bernbach, which captured the unique essence of the Beetle in simple and humorous ads. “Buy low. Sell high” recommended one print ad, suggesting the Beetle as a solid investment as it required “very little upkeep” and retained its value over time (**Exhibit 6**). Another famous advertisement pictured a Volkswagen over the word “Lemon”²⁹ and went on to explain how VW refused to ship the car because of some blemished chrome (**Exhibit 7**). By 1970, Beetle sales had peaked at 405,615 units, and the car had become a true American icon (**Exhibit 8**).

In 1979, the Beetle’s run in America came to an abrupt stop. Volkswagen’s inability to meet the requirements of two pieces of legislation—the National Highway Safety Act of 1966 and the Clean

²² Roger Thurow, “Post Script: Volkswagen Beetle: The Ubiquitous Bug Turns 50,” *The Wall Street Journal*, October 18, 1985.

²³ Delorenzo, p. 18.

²⁴ Thurow, “Post Script: Volkswagen Beetle: The Ubiquitous Bug Turns 50.”

²⁵ Robyn Meredith, “Beetle-juiced Volkswagen Hopes to Recapture Love of Original Bug,” *The Fort Worth Star-Telegram*, January 4, 1998.

²⁶ Ibid.

²⁷ Name of the magical Beetle featured in a series of Disney movies, “Herbie the Love Bug.”

²⁸ Thurow, “Post Script: Volkswagen Beetle: The Ubiquitous Bug Turns 50.”

²⁹ Vernacular description for something that is unsatisfactory or defective. Dictionary.com.

Air Act of 1970—forced the company to stop selling the car in the United States. However, America's love affair with the Beetle did not end.

The Reincarnation of the Beetle

More than 10 years after the last Beetle was sold in the United States, J. Mays, then head of Volkswagen's newly established Simi Valley, California design center, and Freeman Thomas, chief designer, with the full support of Helmut Warkuss, director of Design Center for Excellence, Volkswagen, began toying with the idea of designing a new Beetle as a way to revive slumping sales of the VW franchise.

The designers' vision for the car combined the equity of the past with the design geometry of the future.³⁰ By reinterpreting the original Beetle using the classic elements and basic shapes that made the car so popular and adding cutting-edge technology and modern detail, the designers hoped to create something that would capture the Beetle's spirit and sense of history while still being a distinctively new model for the 1990s.³¹ Trying to reflect the Beetle philosophy, the team identified four design principles—honest, simple, reliable, and original—for the new concept.³² But even with all the attention to design, Mays and Thomas knew that the only way to sell the car to German management would be for the New Beetle to include the most up-to-date elements of German engineering and to offer superior driving performance. By 1993, their final designs convinced the company to move forward with what was now called Concept 1.

For its first public showing, the manufacturer decided to display the car at the 1994 North American International Auto Show in Detroit. On the last press day of the show, journalists received their first glimpse of the new concept as a banana-yellow car rotated proudly on the display stand. An emotional video developed by the car's designers played in the background:

It's funny the things we remember. The things we hang on to. The first day of school. A first dance. A first kiss. A first car. Some things are simply unforgettable. . . . What if quality never went out of style? What if originality still meant something original? What if simplicity, honesty, and reliability came back again? Imagine a new Volkswagen. A concept that defines the automotive icon. Imagine a vision of high technology and advanced engineering. An expression of innovation, safety, and performance. Imagine the descendant of an enduring original. Different, unmistakable, yet true to its heritage in style and in spirit. Every line, every curve, every memory. Not just the evolutions of a cherished classic, but the continuation of a worldwide love affair that began 21 million cars ago. Innovation embodied in tradition. A new Volkswagen concept. One look, and it all comes back. But then, it never really left. The legend reborn. A friendship rekindled.³³

Following the show, *Chicago Tribune* automotive reporter Jim Mateja wrote a letter to Piech in his February 13, 1994 column that appropriately captured the enthusiastic reception the car had received and directly called for the car's prompt production.

³⁰ Delorenzo, p. 24.

³¹ Ibid.

³² Ibid., p. 35.

³³ Ibid., p. 13.

Dear Dr. Piech,

What are you waiting for Doc? Bring back the Beetle. And hurry.

In case you haven't noticed, VW has been in the latrine since you stopped selling the Beetle in the United States. Unless you come up with a new, small, dependable, inexpensive car like the old Beetle real quick, you're going to find that Volkswagen, once a household word, is soon going to be the answer to a Trivial Pursuit question.

You have the opportunity to get what most people in life don't—a second chance to regain the fortune you once enjoyed when the VW Beetle was one of the most popular cars in the universe despite being butt-ugly, cramped, and lacking most of the essentials of vehicle motoring, from gas gauge to radio.

So take a close look at the Concept 1 car that was shipped from your Simi Valley, California design studios. Then let the board of directors give it a glance before you call for the formal vote—All in favor say "jawohl!" and get on with it. People are waiting.³⁴

Waterhouse too remembered the strong reactions from the public and press:

This was a car that was never meant to be. But from the day it debuted, consumers really linked emotionally to the car and were the force in bringing it to the market. In Detroit, it was touted as the automotive darling of the show. At the same time, the industry press *did* question if this was a "real" driveable car and whether the retro look would be totally passe by the time the car came to market. We took all the feedback and made some significant changes to the original design. We knew we had to get it right because the New Beetle would be crucial to turning around the company's image in the world's largest automotive market.

With this introduction, there was no turning back. The outpouring of emotion and the enthusiastic reception from the press, dealers, and the general public were most encouraging. Volkswagen of America executives and the board member in charge of the North American region, Dr. Jens Neumann, a visionary who recognized the power and potential of the car, convinced VW's management in Germany to make a real car out of the concept.

By the time Concept 1 had transformed into the New Beetle, the car had been thoroughly overhauled from its original older brother. Based on the recently reengineered top-of-the-line Golf platform, the New Beetle housed an engine that was now in front and water cooled,³⁵ offered front and side airbags and air conditioning in the standard package, and emitted music from a six-speaker sound system. Access to the 12 cubic feet of storage space in the rear hatch was hidden beneath a large VW badge on the back.³⁶ The change to the Golf platform also meant that the New Beetle would be larger and more spacious than the Concept 1 design. Finally, the brakes were upgraded from drum brakes to four-wheel disc brakes to ensure that in all aspects of the car, the New Beetle would handle as well as the VW Golf. Yet the shape, although more refined and modern than its predecessor, was instantly recognizable. And in a tribute to the original Beetle, Volkswagen had

³⁴ Ibid., p. 15.

³⁵ In the original Beetle, the engine was rear mounted and air cooled.

³⁶ Delorenzo, p. 58.

mounted a bud vase on every dash. "The new car puts the original seat in a modern package [Exhibit 9]."³⁷

Marketing a Classic

With the design work complete and initial positive reactions from the market, VW now faced the daunting task of turning the excitement surrounding the car into actual sales. Vanzura, Waterhouse, Keyes, and Arnold Communications knew that their first step in identifying a target market and developing a compelling value proposition for the car would be to talk to consumers. Arnold Communication's Kelly explained the research process:

We went across the country and conducted man-on-the-street interviews with men and women, young and old, rich and struggling, highly educated to life educated, and hip to conservative—a very diverse group of people. Our conversations centered on exploring the relationship people had with the original Beetle and the potential relationship they could have with the new model. In our quest to learn more about the New Beetle, we also interviewed industrial designers and sociologists to capture multiple perspectives about the car.³⁸

Target Audience and Positioning

The research that the group conducted revealed polarizing opinions about the car. While many people saw the car as more of a toy, the New Beetle had its fair share of fans. These fans, however, were from a wide spectrum of consumer backgrounds—crossing the boundaries of age, income, and gender. In fact, the target market appeared to encompass both VW's new core audience of 18- to 34-year-olds and baby boomers. While consumers were demographically diverse, potential buyers did have some common characteristics. Specifically, potential New Beetle drivers embodied qualities such as confidence, individualism, and a desire to be the center of attention. Moreover, they loved to drive and appreciated a spirited design and German engineering.

Interviews with both sets of consumers highlighted the fact that Americans had cherished memories of the original Beetle and that those memories came welling up at the sight of the New Beetle. Baby boomers shared their recollections of the car:

- Beetles are repositories of personal history as well as practical transportation.³⁹
- I went on my honeymoon in a VW Beetle 20 years ago. "Just Married" was scrawled in shaving cream on the side. And a few years ago, when my wife and I went sailfishing, we found ourselves carting a 7 ½ foot sailfish in the front-end trunk of another Beetle, one of four we've owned.⁴⁰

³⁷ "Beetlemania set to make a comeback with the car," *The Plain Dealer* (Cleveland, Ohio), December 10, 1995, p. 3H.

³⁸ From Arnold Communications internal Beetle case study.

³⁹ Linda Stahl, "Beetlemania: Volks Folks are going buggy over vintage VWs," *The Courier Journal* (Louisville, Kentucky), December 3, 1994, p. 04S.

⁴⁰ Ibid.

- My affection for the Beetle can be traced to my college days at the University of Louisville. I think I was attracted [to the car] because I saw them as an underdog, and I like underdogs.⁴¹

While the younger generation did not have past experiences to draw from, the car's strong heritage enabled them to have an emotional connection to the New Beetle:

- My job is very conservative, but that's not really the way I am. Everybody thinks, "Gee this guy is conservative—he works in Finance, he's boring." But when I get out of work, I'm not that. I mean it's fun, it's a fun car.
- I see myself in it without having to justify it to anybody. I see it for someone who is unique—who knows they will attract attention without being pretentious. There is no sense of snobbishness about it, but it's for someone who is daring enough to step out. . . . Yes, they have confidence.
- The person is not going to make [i.e., define] that car—the car is definitely going to make the person. . . . My clients would laugh at me.

Using product photography and miniature models, designers also offered unique insight into the importance of the shape and design of the car:

Through the research we uncovered people's love of round shapes in our world. Circular shapes represent human forms, such as eyes, faces, and heads. Also, unlike squares and triangles, circles are inviting and friendly due to the fact that no sharp edges exist. Finally, circular objects represent a completeness, a wholeness that many people were drawn to. The New Beetle's shape embodied many of these qualities and in doing so, evoked many feelings associated with circles.⁴²

What do you want to be seen in? It's about how I present myself to the world. It's not only about how I feel behind the steering wheel but it's also about how people look at me when they pass by when I am sitting at a traffic light. We need to design a car that people will want to be seen in—feel good to be seen in.⁴³

Finally, the sociologist interviewed provided an in-depth understanding of the history and connection that Americans have with the Beetle:

In the '60s, it took on added meaning that the "Bug" was seen as the counterculture car. One of the things that emerged from that time was "small is beautiful," and the Beetle was seen as a beautiful car. Today, in American society, on one hand there is this move to standardizing everything, and on the other hand, you have this quest for individuality. For many drivers, this car will enable them to express themselves. The Beetle is no longer about being the *people's* car but rather about being a *personal* car.⁴⁴

In addition to the positioning, VW had to determine whether or not to introduce the New Beetle under the existing Volkswagen Drivers Wanted campaign. The team analyzed the effect of the Drivers Wanted campaign on advertising recall, unaided brand awareness, overall brand opinion,

⁴¹ Ibid.

⁴² From Arnold Communications internal Beetle case study.

⁴³ From interviews in VW Brand Essence company video.

⁴⁴ From interviews in VW Brand Essence company video.

and intent-to-purchase measures. Although an initial review of the data revealed that results were trending positively, the numbers were well below those of the competition on several strategic measures (**Exhibit 10**). Advocates of Drivers Wanted argued that the campaign had the creative legs to support the New Beetle launch and would become the consistent theme that brought all the separate VW models together under one umbrella. However, some in the company felt that leveraging the nostalgia surrounding the car demanded a distinctly new and different campaign—one that would be on par with the advertising campaign that made the original Beetle so beloved.

Competition and Pricing

As part of the analysis in determining a target market and product positioning, the VW team also had to assess the New Beetle's pricing and competitive place in the market. In 1997, a total of 8,272,043 cars were sold across four segments: small, midsize, large, and luxury. The small-car segment, the second-largest segment after midsize, made up 27% of the market and had experienced a 5% decline to end 1997 with sales of 2,217,813 cars. While VW had yet to define the New Beetle's competition, the car's size would automatically place it into this segment. Domestic brands, such as Chevrolet's Cavalier and Ford's Escort and Saturn, cumulatively sold over one-third of the segment's cars and would be the New Beetle's immediate competitive set. Japanese car manufacturers Toyota and Nissan were also contenders in the category with their Corolla and Sentra models, which combined held a 15.4% market share (**Exhibit 11**).

Prices for key players in the small-car segment ranged from a low of \$11,035 for a two-door Saturn coupe to a high of \$17,239 for a Sentra SE four-door sedan (**Exhibit 12**). With a base price tag of \$15,200, most New Beetles would probably list out in the \$17,000–\$18,000 price range with extras such as a CD player and sunroof, making it one of the more expensive cars in the small-car segment, a description inconsistent with the car's heritage of affordability. In fact, pricing had been a debate since the car began its engineering overhaul and adopted more of the Golf platform. The VW team realized that a premium-price strategy could be a potential issue. If the car was priced too high, consumers might tradeup into a higher-priced segment of cars, expanding the New Beetle's competitive set. Of course, priced too low, the car might not be attractive enough to dealers due to lower margins and thus fall short of the company's profitability goals.

Dealers

In 1998 there were 600 Volkswagen dealers in the United States, 10% of them exclusive, with both numbers growing. Over the 1980s and 1990s, these dealers had seen the boom and bust cycle of the brand, and while several had dropped the VW line, most dealers had added other brands and correspondingly reduced the amount of time and effort they dedicated to the VW franchise. While the recent results of the Drivers Wanted campaign and the New Passat's successful introduction had encouraged many dealers, the company still needed to prove the true value of the franchise.

To improve relationships with the dealers, Volkswagen had undertaken two organizational efforts. In September 1997, the company had flown its entire base of dealers to the company headquarters in Wolfsburg, Germany.⁴⁵ The trip allowed dealers to hear German management's vision for Volkswagen, to visit the plant and technical facilities, and to see the new lineup of Volkswagen cars to be introduced in the United States. In addition, the dealers were included in a companywide training session at the Disney Institute in early spring 1998 designed to help Volkswagen employees understand the value of creating a total brand experience for consumers.

⁴⁵ Delorenzo, p. 68.

On the heels of these efforts to build loyalty to the franchise, the launch of the New Beetle would test the company's relationship with its dealers. Most dealers were excited about the new car and encouraged by the number of pre-orders they had received. However, dealers also questioned if this popularity would be sustained or if the New Beetle would become another retro fad with sales quickly tapering off after the initial fanfare.

The Launch

Reaching across her desk, Vanzura picked up the three documents that would be reviewed at her team's strategy meeting. The first, a review of 1997 results, was encouraging and suggested that the Volkswagen brand was well poised for its new-product initiatives in 1998 and beyond—the New Beetle, New Jetta, New Golf, and New Cabrio. From a sales perspective, while a supply issue had once again hampered the company's ability to reach its sales target, efforts to build the brand had paid off generously. In fact, most quantitative measures had reached their highest levels in 1997. Total advertising recall crossed the 50% mark to 53%, image attributes for the brand had made positive gains, and the Passat's awareness with consumers had reached an all-time high in the fourth quarter of 1997.

A report on the recent public relations effort, the second document in the pack, highlighted some of the critical events that had contributed to the motor press's euphoric reception to the New Beetle. This reception had been carefully orchestrated to create an early and overwhelmingly positive consensus among North America's most influential automotive journalists about the "magic" of the New Beetle. In December of 1997, a select group of journalists were invited to Wolfsburg, Germany to meet with management and preview the New Beetle. Similar to the visit by dealers, the visit by the press provided the group with unique insights into the New Beetle's design and development process and offered them a better understanding of Volkswagen's new-product lineup. In January 1998, the dramatic unveiling of the New Beetle had stolen the show at the car industry's most important event. And then most recently, journalists had been given an opportunity to drive the New Beetle for at least one day and one night through different communities in the country in order to experience firsthand the outpouring of public excitement about the car. Reading the article that was to appear in the April issue of *Automobile Magazine*, Vanzura realized that the PR efforts had been successful in achieving their objectives. (See **Exhibit 13** for excerpts from Jean Jennings's article in *Automobile Magazine*, which chronicled consumers' reactions to the New Beetle as the car was driven from San Francisco to New York City.)

But Vanzura knew that positive press coverage alone would not be enough to sell the New Beetle. The marketing team would have to decide whom to target and how to communicate the car's benefits. Targeting the baby boomers with a value proposition of "indulging in nostalgia" appeared to be the most appropriate strategy for the New Beetle. In addition to their personal history and emotional ties to the Beetle brand, these buyers could afford the \$15,000-plus price tag for the car. But the decision was not that easy. Consumer trends among the baby boomers revealed changing preferences to larger cars—sedans, SUVs, and pickups. And of course, Volkswagen had shifted its strategy, positioning the brand behind the driveability of its cars to target a younger generation of drivers.

Once the positioning for the car had been decided, Vanzura had to maximize the impact of the brand's limited advertising budget. Although the competition had been spending upwards of \$100 million in advertising behind the launch of a single car—with 80% of the budget going to television, 15% to print mediums, and 5% to radio and billboards—Vanzura could not spend this much on the New Beetle launch. In fact, she had to contend with something less than 25% of a typical budget—a

percentage that could be even smaller with requests to allocate any remaining dollars to supporting the New Passat, which had debuted just five months earlier. If the audience for the car was too broad, would the advertising agency have adequate resources to reach everyone with its messages? A targeted strategy would allow the company to speak to a specific audience more frequently.

Picking up the final document, a proposed media plan, Vanzura wondered if television or print advertising would be more effective in reaching the target market. The advertising agency had explained that building brand awareness among a broader customer base would be best executed with a television campaign. Another option, print advertising, would enable the New Beetle to reach a specific demographic, such as baby boomers, more cost-effectively. If both mediums were used, Vanzura would have to allocate the dollars. Finally, once these media vehicles were decided, the team would have to identify the specific shows and magazines in which to advertise the car. As the New Beetle was a unique product introduced to the automotive market, it was impossible to utilize standard purchase consumption data as a reference in media planning. Rather, the team had to think about the target audience it wanted to reach and then evaluate each magazine or TV show for the right environment to not only showcase the creative product but also position the brand. Vanzura explained the media-buying rationale: "When we look at where to buy our media, it is important for us to align our target audience strategy, with the creative execution, and the editorial voice of the magazine or television show—thereby creating a synergy between medium and message. Unlike other automotive advertisers, we never buy solely on CPM or coverage."⁴⁶

Looking at the print options, Vanzura was certain that advertising should be purchased in *Car & Driver*, *Motor Trend*, and *Automobile* magazines. However, with the limited budget, she wondered if a buy in magazines such as *Architectural Digest*, *Entertainment Weekly*, *Spin*, *Life*, *Sports Illustrated*, *Glamour*, and *Vogue* would be appropriate. (**Exhibit 14** lists magazines compiled by Arnold as options for the media plan.)

As Vanzura came closer to making these decisions, she remembered a recent article in *Newsweek* that had aptly captured the task at hand: "We have the opportunity to re-introduce the most loved car in America's history; a car with nostalgia, fond memories, and some of the best advertising this country has ever seen. Yet 1998 is a very different setting, a very different audience, and a very different time. And the New Beetle for all intents and purposes is a very different Beetle."

Vanzura picked up the documents and began walking to her meeting. In the next few hours, Vanzura, Waterhouse, Keyes, and the advertising agency would have to finalize the marketing strategy for the New Beetle. This would be one "Mission Impossible" that the VW marketing team and the advertising agency would have to accept.

⁴⁶ Arnold Communications media-rationale document.

Exhibit 1 Volkswagen Rabbit



1975 Volkswagen Rabbit VW 3134-75

Source: Volkswagen company document.

Exhibit 2 Volkswagen Sales History

	Type 1	Total VW
1949	2	2
1950	328	330
1951	367	417
1952	887	980
1953	1,139	1,214
1954	8,086	8,913
1955	32,662	35,851
1956	42,884	49,550
1957	54,189	72,555
1958	61,507	85,985
1959	96,892	129,315
1960	127,159	162,037
1961	162,960	186,260
1962	194,508	226,649
1963	232,550	270,788
1964	276,187	313,426
1965	314,625	357,144
1966	318,563	411,956
1967	339,971	443,510
1968	423,008	569,292
1969	403,016	551,366
1970	405,615	569,696
1971	354,574	522,655
1972	358,401	485,645
1973	371,097	476,295
1974	243,664	334,515
1975	92,037	267,730
1976	27,009	201,670
1977	19,245	260,702
1978	9,932	239,300
1979	10,681	292,019
1980	4,572	293,595
1981	33	278,513
1982		171,281
1983		166,915
1984		177,709
1985		218,042
1986		217,231
1987		191,705
1988		168,800
1989		133,650
1990		136,357
1991		96,736
1992		75,873
1993		49,533
1994		97,043
1995		115,114
1996		135,907
1997		137,885

Source: Volkswagen company document.

Exhibit 3 Volkswagen Competitive Position



Source: Volkswagen company document.

Exhibit 4 Volkswagen Drivers Wanted Advertisement

Golf Lease :30 TV Retail

Scene: Cityscape. Woman: 20 - 40. Cool and unpretentious. She's telling us about her Golf and all the things she can do with it. We see her driving around in the city. The driving scenes are fun, energetic and full of life. She sells and distributes fine industrial cappuccino and espresso machines and she drinks a lot of coffee.

Woman: I recently moved to the city. And I needed a real flexible car.

Scene: Driving shot of car in the city.

Woman: So I leased a Volkswagen Golf.

Super: The Golf Lease.

Woman: 0 down. \$179.00 a month...Really excellent lease.

Super: 0 down. \$179.00 a month.

Woman: I sell and service cappuccino machines. Sometimes I need to move big things.

Scene: Shots of her stopping in front of a restaurant, waiting in and out of traffic.

Woman: Sometimes little things. And I always need to move.

Scene: Shot of car with bike on top, heading out of town.

Woman: It's got dual air bags... daytime running lights...Everything fits into it.

Scene: Holding open hatch back.

Woman: Hello. (echo)

Scene: Car parking in small space.

Woman: And it fits into everything.

Scene: Another car tries to get her parking spot. We see her coffee in the cup holder.

SFX: Horn.

Woman: Hey!.. I gotta cut back on the caffeine.

Super: Own the road. Lease the car.

Super: Lease price information and legal super.

Anna Voice: On the road of life, there are passengers, and there are drivers.

Tag: Drivers Wanted.

**The Golf lease.
\$0 down. \$179 a month.**

Details & restrictions apply. Excludes options above. Dealer participation required. Actual rates based upon approved credit. Actual rates will vary based upon individual qualifications. Not all lessees will qualify. Option to purchase at lease end. Taxes, license fees, title fees, insurance, maintenance, and other fees extra. See dealer for details. © 1994 Volkswagen of America, Inc.

Drivers Wanted

Source: Arnold Communications.

Exhibit 5 Volkswagen Beetle—1958



Source: Volkswagen company document.

Exhibit 6 Beetle, "Buy Low. Sell High" Print Advertising**Buy low. Sell high.**

The day you sell your car could very well be Black Tuesday.
Which is why we'd like to let you in on a good thing.

A common Volkswagen Beetle.

According to the Official Used Car Directory,* a 1969 Beetle that sold new for only around \$2,000 still sells used for around \$1,550 in 1971.

Our tip really isn't much of a revelation.

Seasoned traders have known that since a Beetle requires very little upkeep, you don't have to make a big investment in oil and gas issues.

And every Beetle is sealed underneath so the bottom won't suddenly fall out of your market.

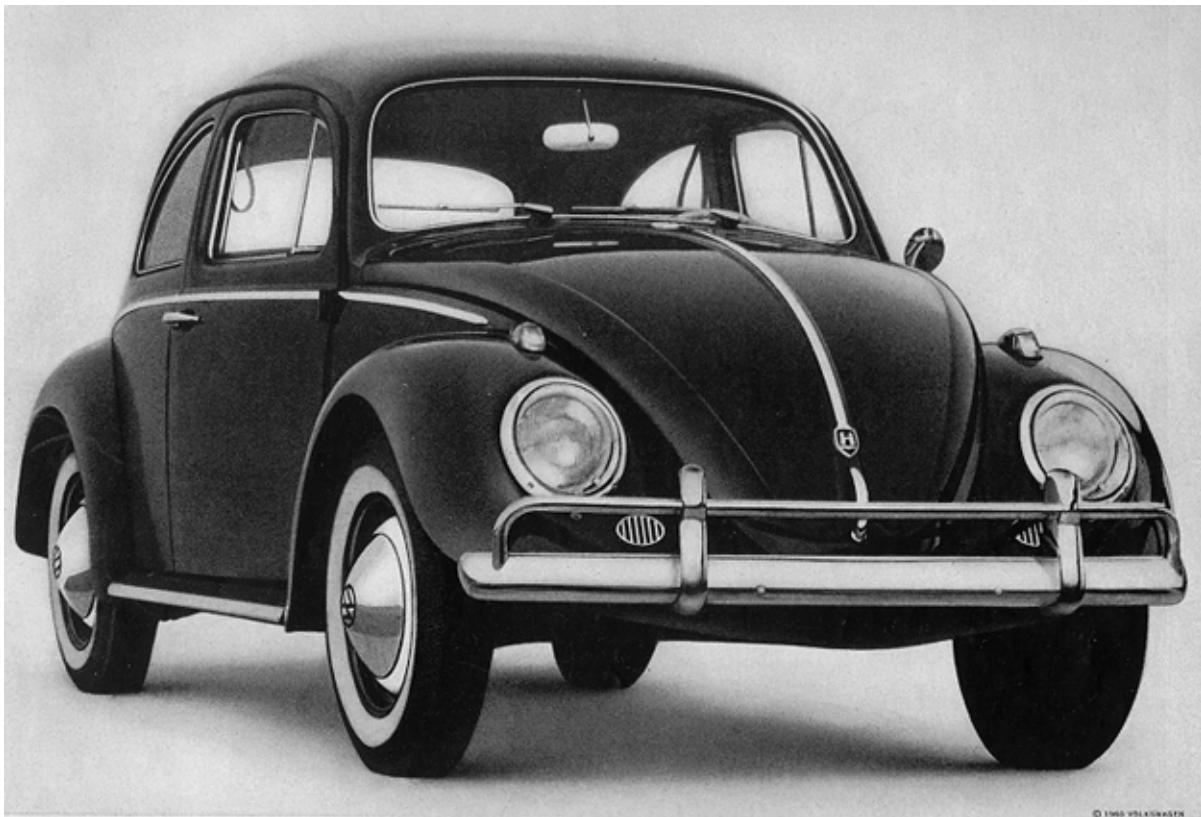
And what other 3-year-old car can be sold honestly with the words: "It looks just like new."

When we introduced the Beetle in 1949, a lot of car makers did sell us short.

Now they're trying to make their own.

We'd guess after 23 years and 18 million Volkswagens, somebody out there has spotted a trend.

Source: Arnold Communications.

Exhibit 7 Beetle, "Lemon" Print Advertising© 1960 VOLKSWAGEN

This Volkswagen missed the boat. The chrome strip on the glove compartment is blemished and must be replaced. Chances are that you wouldn't have noticed it; Inspector Kurt Kroner did.

There are 3,389 men at our Volkswagen factory with only one job: to inspect Volkswagens at each stage of production. (3,000 Volkswagens are produced daily; there are more inspectors than cars.)

Every shock absorber is tested (spot checking won't do), every windshield is scanned. VWs have been rejected for surface scratches barely visible to the eye.

Final inspection is really something! VW inspectors run each car off the line onto the Funktionsprüfstand (car test stand), tote up 189 check points, gun ahead to the automatic brake stand, and say "no" to one VW out of fifty.

This preoccupation with detail means the VW lasts longer and requires less maintenance, by and large, than other cars. (It also means a used VW depreciates less than any other car.)

We pluck the lemons; you get the plums.

Source: Arnold Communications.

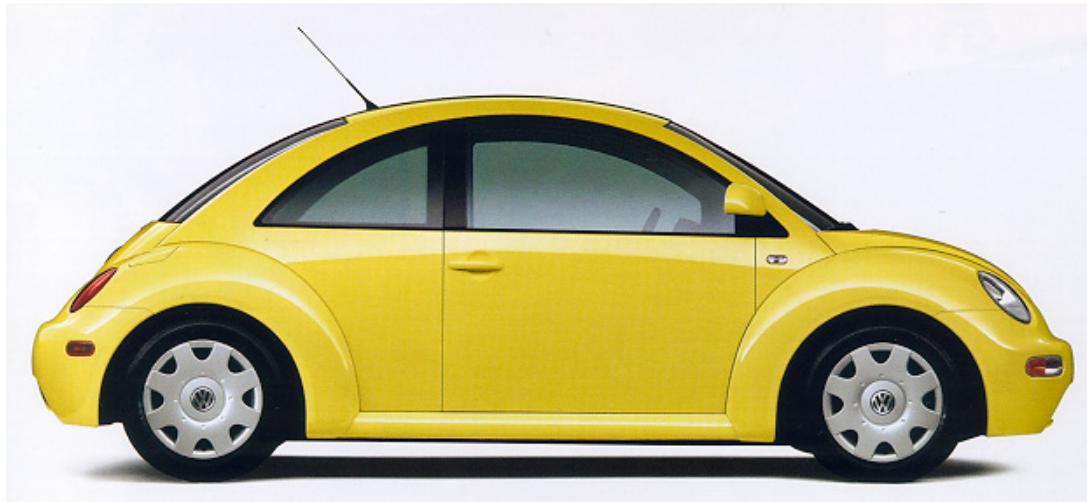
Exhibit 8 Beetle—1975



1975 VW Beetle VQ 3170-75

Source: Volkswagen company document.

Exhibit 9 The New Beetle



The New Beetle



The New Beetle

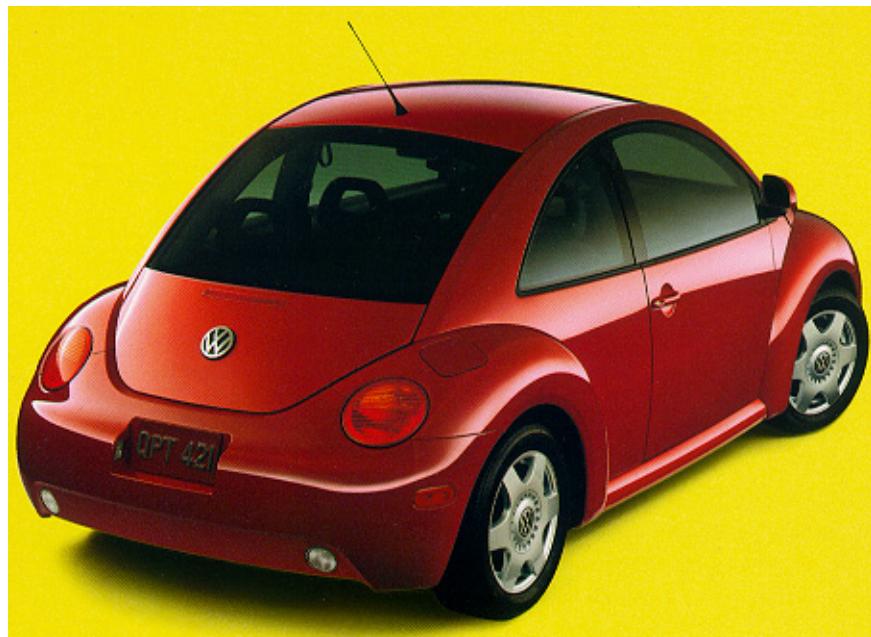
Exhibit 9 (continued)



Drivers wanted. 

The New Beetle

Exhibit 9 (continued)



The New Beetle

Source: Volkswagen company document.

Exhibit 10 Summary of Key Marketing Measures vs. Competition

<u>Volkswagen Trends - United States</u>									
<u>In Percents (%)</u>	<u>Dec-95</u>	<u>Mar-96</u>	<u>Jun-96</u>	<u>Sep-96</u>	<u>Dec-96</u>	<u>Mar-97</u>	<u>Jun-97</u>	<u>Sep-97</u>	<u>Dec-97</u>
Total Ad Recall	45	44	44	47	46	45	44	52	53
Overall Opinion	49	48	40	45	49	46	46	49	51
Unaided Brand Awareness	15	16	16	14	15	13	14	13	17
Unaided Purchase Consideration	4	4	4	5	3	4	4	5	6
<u>Total Ad Recall - Volkswagen and Key Competitors - United States</u>									
<u>% Seen/Heard Ad</u>	<u>Dec-95</u>	<u>Mar-96</u>	<u>Jun-96</u>	<u>Sep-96</u>	<u>Dec-96</u>	<u>Mar-97</u>	<u>Jun-97</u>	<u>Sep-97</u>	<u>Dec-97</u>
Volkswagen	45	44	44	47	46	45	44	52	53
Nissan	69	74	73	78	82	78	72	82	83
Saturn	85	89	91	91	86	90	85	82	87
Toyota	83	85	88	84	86	85	79	77	89
<u>Overall Opinion - Volkswagen and Key Competitors - United States</u>									
<u>% Excellent/Good</u>	<u>Dec-95</u>	<u>Mar-96</u>	<u>Jun-96</u>	<u>Sep-96</u>	<u>Dec-96</u>	<u>Mar-97</u>	<u>Jun-97</u>	<u>Sep-97</u>	<u>Dec-97</u>
Volkswagen	49	48	40	45	49	46	46	49	51
Nissan	65	73	68	67	71	67	71	73	74
Saturn	74	76	76	73	69	77	76	74	74
Toyota	84	83	85	84	85	83	86	84	89
<u>Unaided Brand Awareness - Volkswagen and Key Competitors - U.S.</u>									
<u>% Aware</u>	<u>Dec-95</u>	<u>Mar-96</u>	<u>Jun-96</u>	<u>Sep-96</u>	<u>Dec-96</u>	<u>Mar-97</u>	<u>Jun-97</u>	<u>Sep-97</u>	<u>Dec-97</u>
Volkswagen	15	16	16	14	15	13	14	13	17
Nissan	46	51	44	45	36	46	47	54	53
Saturn	32	27	31	28	23	29	30	29	25
Toyota	78	72	79	74	66	77	75	70	76
<u>Unaided Purch. Consideration - Volkswagen and Key Competitors - U.S.</u>									
<u>% Considering</u>	<u>Dec-95</u>	<u>Mar-96</u>	<u>Jun-96</u>	<u>Sep-96</u>	<u>Dec-96</u>	<u>Mar-97</u>	<u>Jun-97</u>	<u>Sep-97</u>	<u>Dec-97</u>
Volkswagen	4	4	4	5	3	4	4	5	6
Nissan	21	22	19	19	16	22	21	25	26
Saturn	15	13	15	15	10	17	16	15	21
Toyota	48	40	42	49	46	49	47	46	50

Source: Allison-Fisher, Inc. Volkswagen tracking study.

Exhibit 11 1997 Small-Car Segment Sales

	1997 Cars Sold	Percent of Segment	1996 Cars Sold	Percent of Segment	1997 Diff. vs. 1996
LOWER SMALL	198,054	8.9%	241,533	10.4%	241,533
UPPER SMALL	1,907,160	86.0%	1,955,056	84.2%	1,955,056
Chevrolet Cavalier	302,161	13.6%	277,222	11.9%	24,939
Dodge Neon	121,854	5.5%	139,831	6.0%	(17,977)
Ford Escort	283,898	12.8%	284,644	12.3%	(746)
Geo Prizm	62,992	2.8%	79,288	3.4%	(16,296)
Honda Civic ^a	42,190	1.9%	11,673	0.5%	30,517
Hyundai Elantra ^a	41,303	1.9%	39,801	1.7%	1,502
Isuzu Stylus ^a		0.0%		0.0%	-
Mazda Protege ^a	53,930	2.4%	59,644	2.6%	(5,714)
Mercury Tracer	43,589	2.0%	47,797	2.1%	(4,208)
Nissan Sentra	122,468	5.5%	129,593	5.6%	(7,125)
Nissan Sentra		0.0%		0.0%	-
Plymouth Neon	86,798	3.9%	105,472	4.5%	(18,674)
Pontiac Sunfire	102,160	4.6%	95,783	4.1%	6,377
Saturn	250,810	11.3%	278,574	12.0%	(27,764)
Suburu Impreza 4wd ^a	24,241	1.1%	23,968	1.0%	273
Suzuki Esteem ^a	6,968	0.3%	6,996	0.3%	(28)
Toyota Corolla	217,207	9.8%	202,417	8.7%	14,790
Toyota Corolla ^a	1,254	0.1%	6,631	0.3%	(5,377)
Toyota Tercel	31,651	1.4%	56,492	2.4%	(24,841)
VW Golf	20,702	0.9%	24,208	1.0%	(3,506)
VW Jetta	90,984	4.1%	85,022	3.7%	5,962
SMALL SPECIALITY	112,598	5.1%	125,432	5.4%	(12,834)
TOTAL SMALL CAR	2,217,812	100.0%	2,322,021	100.0%	(104,209)
TOTAL SMALL CAR	2,217,812	27%	2,322,021	27%	(104,209)
TOTAL MIDDLE CAR	4,050,825	49%	4,212,703	49%	(161,878)
TOTAL LARGE CAR	782,148	9%	843,191	10%	(61,043)
TOTAL LUXURY CAR	1,221,257	15%	1,147,116	13%	74,141
TOTAL CARS	8,272,042	100%	8,525,031	100%	

Source: Adapted from 1998 *Ward's Automotive Yearbook*, pp. 224–225.

^aDenotes imports.

Exhibit 12 U.S. 1998 Model Car Prices for Top Five Small-Car Brands

Make and Series	Style	Retail Price
Chevrolet		
Cavalier	2-dr coupe	\$12,110.00
Cavalier	4-dr sedan	\$12,310.00
Cavalier RS	2-dr coupe	\$13,370.00
Cavalier LS	4-dr sedan	\$13,370.00
Cavalier Z24	2-dr convertible	\$19,910.00
Cavalier Z24	2-dr coupe	\$16,210.00
Ford		
Escort LX	4-dr sedan	\$11,745.00
Escort SE	4-dr sedan	\$13,045.00
Escort SE	4-dr wagon	\$14,245.00
Escort ZX2	2-dr coupe	\$12,995.00
Saturn		
SC1	2-dr coupe	\$13,035.00
SC2	2-dr coupe	\$15,295.00
SL	4-dr sedan	\$11,035.00
SL1	4-dr sedan	\$11,735.00
SL2	4-dr sedan	\$13,195.00
SW1	4-dr wagon	\$12,735.00
SW2	4-dr wagon	\$14,695.00
Toyota		
Corolla VE	4-dr sedan	\$12,328.00
Corolla CE	4-dr sedan	\$14,208.00
Corolla LE	4-dr sedan	\$15,218.00
Nissan		
Sentra	4-dr sedan	\$11,989.00
Sentra XE	4-dr sedan	\$14,189.00
Sentra GXE	4-dr sedan	\$15,389.00
Sentra GLE	4-dr sedan	\$16,239.00
Sentra SE	4-dr sedan	\$17,239.00
Dodge		
Neon Competition	2-dr coupe	\$11,400.00
Neon Competition	4-dr sedan	\$11,600.00
Neon Highline	2-dr coupe	\$11,755.00
Neon Highline	4-dr sedan	\$11,955.00
Neon R/T	2-dr coupe	\$13,895.00
Neon R/T	4-dr sedan	\$14,095.00

Source: Adapted from 1999 *Ward's Automotive Yearbook*, pp. 262–270.

Exhibit 13 Coast to Coast Love Bug Fest with Volkswagen

San Francisco to Phoenix – 839 miles

Out on the highway people are letting us change lanes. They're letting us charge off exits we see at the last second. They're smiling. They're waving. They're letting us out of gas stations in front of them. They're giving us the thumbs up. The Culligan man pulls up next to us at a light in Pasadena. "Is it for sale? What platform, front-drive?" he shouts from his truck. "Those Germans," he shakes his head. "The Bug. They really did it right!" We pay a surprise visit to Art Center College of Design. Every kid going by on the sidewalk stops and turns toward our Beetle as we pull up along the curb and park. Amazingly, one student opens her portfolio to reveal her senior project product design. Is it a line of accessories for the New Beetle? More kids come out of the building and don't go anywhere. I head for the bathroom and when I return, there are twice as many people, and now all of the doors (and hood and trunk lids) are open or up. Transportation-design student Art Osborne: "What's the curb weight? Is it 150-horsepower DOHC four or is it the engine that's in the seat?" "Some suggestions? The front door is hitting the front fender and the hood prop is at the wrong angle." Jonathan Duncan: "What's the record for stuffing one?" An opening we're not about to miss. With some coaxing, we manage seventeen. The crowd grows. One kid whips out a Hasselblad and starts crawling around on the ground taking pictures. Duncan: "Where were all these girls when we were stuffing the Beetle?"

Phoenix to Amarillo – 805 miles

We're in a mall in Tucson on Sunday. The usual pack of mall rats is hanging out front. "That is the coolest car!" they say in the universal squirrelly Valley dialect of teenagers everywhere. . . . I am explaining the convenience of the folding rear seat. "So you really can do the Love Bug thing in there," says one sly cutie. "Can two couples do the Love Bug thing?" . . . Two guys in a pickup pull alongside us on I-40 just outside of Amarillo, Texas and can only be described as absolutely ecstatic when they spot us, nearly bobbing up and down right through the roof of their truck. This is getting to be old hat.

Amarillo to Little Rock – 608 miles

Andrea Hayes emerges from our hotel on crutches as we finish packing at the curb. She jabs both crutches over her head and shouts, "Oh my God!! It's so cute, I'm gonna cry." You're healed. Yes, you can walk now. "I had a 1300 that I had to rebuild before I could drive it across the country. I loved it. It was my favorite car. I loved it. The defroster was like, you look to the left to drive to the right. It was easy to fix. Oh my God! There are sixteen-inch tires! That's so expensive."

Little Rock to Cincinnati – 652 miles

Into the station comes a faded vinyl-roof Lincoln Town Car from which pops a very tall Jonathan Frierson and Roanna LaCour. "A doo-doo Bug!" he yells. "I had a '73 that I bought off my brother for \$230. These cars are just great. They look like the most innocent cars on the road, you know? If one of these ran into you, you'd probably forgive him, you know? I mean, you're not going to get in trouble in this car. I love the car that much." "What is it?" I ask him. "I don't know. I just love 'em. A lot of nostalgia, you know. Is the engine back here? What? The engine's in the front? Huh." "Look at the front. It looks like it's smilin! The happiest car on the road! This car looks happy! I like it! I like it! I love it! I love. That's all I can say."

Cincinnati to Cleveland – 248 miles

Conventioneers walk home to the hotel after dinner backwards so they can see the Bug a little longer. An old white bald guy with a name tag on his pink blazer says, "I'd drive one," just as two young studs yell, "Tight!" Do you still wonder who will buy one?

Cleveland to New York – 489 miles

Guy and girl in a white Neuspeed Jetta see us coming in their rear-view mirror and upturned thumbs shoot out the window. Ah, but a twist on the road there: The driver of a big fuel tanker is honking, giving us the thumbs up, and reaching for his CB to send news of our coming down the road. And another. And another. We are honked down Interstate 76 to Philly by the Teamsters. The New Jersey Turnpike Authority: ". . . is that an imitation Volkswagen? You gotta be shittin' me! It can't be a '99. It's too early for a '99!" May I have a receipt please? Welcome to New York.

Source: Jean Jennings, "Coast to Coast Love Bug Fest," *Automobile Magazine*, April 1998.

Exhibit 14 New Beetle Magazine Options

	Architectural Digest	Spin	Glamour	Entertainment Weekly	Life	Vogue	Sports Illustrated
Page Cost	\$60,270.00	\$35,935.00	\$81,580.00	\$63,945.00	\$71,630.00	\$72,230.00	\$170,000.00
Circulation	741,452	535,392	2,208,926	1,431,886	1,500,744	1,125,585	3,269,917
Cost Per Thousand	\$81.29	\$67.12	36.93	\$44.66	\$47.73	\$64.17	\$51.99
Simmons Descriptor ^a	161	406	185	242	172	252	144
J.D. Powers ^b Driver's Profile ^b	122	NA	108	114	NA	108	116

Source: Volkswagen company document.

^aSimmons Descriptor

Index of 161 = Readers of *Architectural Digest* are 61% more likely than adults ages 18+ to *agree to all of the following descriptions:*

Affectionate, Passionate, Loving, Open-minded, Liberal, Sociable, Friendly, Cheerful, Likable,
 Humorous, Amusing, Inviting, Creative, Inventive, Imaginative, Enjoys taking risks, "Left-of-center,"
 I like to behave as I please without worry, Don't mind standing out in a crowd, Slightly irreverent,
 Very much an individual, Funny, Broad-minded

^bJ.D. Powers Driver Profile

Index of 122 = Readers of *Architectural Digest* are 22% more likely than adults ages 18+ to *agree to 2 of the 3 following statements:*

Does not like to obey the speed limit
 Prefers to drive on challenging roadways
 Views a car as more than transportation from A to B