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# VOLKSWAGEN

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## Management summary

Volkswagen is currently in a treacherous position. In September, 18<sup>th</sup> Volkswagen's diesel scandal erupted resulting in huge image losses all over the globe, causing sales to decline significantly. However, as the global market is very complex this report focuses mainly on Germany but has same implications for other countries which are dealing with an immense sale decline. The problem statement is therefor:

In 2016 Volkswagen's sales dropped with 3.7% in Germany compared to 2015 (VW AG, 2016) due to image loss resulting from the emission scandal. The sales should be incited to prior-scandal levels by 2020 in order to increase profitability, competitive advantage and image.

Due to the immense importance of this matter one major solution was found after having analysed the strategic management position in part one:

- The **external** analysis showed that more and more emphasis amongst the civilization is on Electrical and green Vehicles(EV's).
- The **five forces** analysis showed that the car market is very saturated and that there are rarely new entrants, meaning Volkswagen is ensured to keep up their current performance if they are able to compete in changing markets.
- The **internal/resources** pointed out VW's Strengths, Weaknesses, Oppertunities and Threats. Also after having analysed the corporate, business and network strategy the main findings consisted of having to adapt to more environmentally friendly markets and increasing VW's image by stepping in the emerging markets and using their powerful brand.

In part two the marketing position was central. After having analysed the current segmentation, targeting and positioning strategy and the micro-environment with whom VW has to deal including a competitors analysis, a marketing mix was made together with a new segmentation for our solution. The solution generally includes banning the production of all diesel cars by 2030 and focus on the emerging electrical vehicles market.

- The **product** will be EV's with extended battery life.
- The **place** will include dealers and a new platform for direct sales.
- The **price** is competitively based on Tesla, which is leader in the EV market.

Volkswagen electrical cars should not be much more than € 30,000.

- The **promotional** part will include a plan to ban subsidies on diesel cars and to increase subsidies on electrical vehicles to make them more attractive to buy for customers. Also, the promotional campaign should consist of putting emphasis of Volkswagen's incredibly reliable past and core competencies with modern technology. There are various ways in which the communication with the audience should take place, namely via billboards, television advertisements or digital media.

The **target group** will be commuters and individuals traveling short distances, under the maximum amount one can drive with an electrical battery without charging. This is nowadays under 500 kilometers each day, but the span will increase to 600 kilometers according to Volkswagen's investment plan.

Putting emphasis on being green and being environmentally sustainable, people will regain trust and see Volkswagen as a reliable car manufacturer once again. Not only people in Germany, but having a world wide trust Volkswagen will after all be leading in the car manufacturing industry.

## 1. Introduction

Our project case organization is Volkswagen. Volkswagen is one of the biggest car manufacturers in the world which was founded in Germany on the 4th of February 1937 by the German Labour Front. Today it is one of the leading automotive firms in the world closely followed by Toyota. With the global car sales on a rise, Volkswagen has grown since 1947 diversifying and acquiring a large number of other brands such as Audi, Porsche, Bugatti, Ducati, Skoda, and many more forming the Volkswagen Group (Volkswagen, 2015).

However, due to the emission scandal, which arose when the Environmental Protection Agency (EPA) found out that there was a software embedded in multiple Volkswagen cars sold in the U.S allowing them to cheat on the emissions test, caused irreparable damage to the company's image and brand reputation (Hotten, 2015). This resulted in a drop in sales not only in the U.S but around world, a problem that this report will mainly focus on.

As the global market is huge and extremely complex, we mainly focus on the country in which the headquarters are located: Germany. However, as Volkswagen has to deal with a worldwide economy we cannot simply neglect the global situation. The problem statement which will be explained next is therefore focused on Germany but could extend to other countries.

The **problem statement** is as follows (SMART): In 2016 Volkswagen's sales dropped with 3.7% in Germany compared to 2015 (VW AG, 2016) due to image loss resulting from the emission scandal. The sales should be incited to prior-scandal levels by 2020 in order to increase profitability, competitive advantage and image.

The **research question** therefore is: How could Volkswagen incite their sales to prior scandal levels in order to increase profitability, competitive advantage and image?

In this report, we will be focusing and analysing Volkswagen as a separate entity, thus separate from the group and only looking at the company namesake. The report is divided into two parts, the strategic plan and the marketing plan. The first part will have as main focus an internal and external analysis of Volkswagen consisting of Macro-economic analysis, industry and market analysis along with its resources and competencies. The second part will be focussed mainly on marketing, with a market segmentation, a micro-environmental analysis and market assessment, a marketing mix, the marketing communication, promotion and channels as main points of interest.

After the detailed the analysis of each part there will be a consultation of the plan of action and the steps that Volkswagen should take to repair its brand image ultimately increase its sales.

### Part I Long term – Strategic Plan

## 2. Mission and Vision of the Volkswagen group

Volkswagen is now a corporate parent that has acquired quite a few car manufacturing companies, a few of which are Audi and Porsche. Due to its diversification it is now known as the Volkswagen Group. The closest thing to a **mission** and **vision** statement can be found as the group's goal. As of 2013, the group's goal is to "offer attractive, safe and environmentally sound vehicles which can compete in an increasingly tough market and set world standards in their respective class." (Jurevicius, 2014) (Volkswagen, 2016).

The company Volkswagen's **mission** is to achieve "lasting success in tomorrow's world of mobility and its evolution into the world-leading provider of sustainable mobility" (Volkswagen, 2016), which is their adjustment from the previous goal of 2013.

### 3. Internal and External Analysis

In order to evaluate the strategic position of Volkswagen, an internal and external analysis of the company is done. A PESTEL determines the external analysis while the 5 forces determine the internal analysis of the company. These will be the main point of focus along with an analysis of key resources and competences. The analysis will only be made around the Volkswagen's headquarter, which are in Wolfsburg, in Germany.

#### 3.1 Macro-economic analysis: PESTEL

In this part a so-called PESTEL analysis will be performed. The separate parts of PESTEL are also sometimes called 'drivers of change'. That means, a company needs to continuously keep track of these factors and if one changes, the company should adapt to fulfil changed needs. A visual representation of the PESTEL analysis can be found in the appendix (*See appendix A.1*)

**Political:** A company is found to be more stable if the headquarters are located in a more stable country. Germany is a CRT-1 country and thus has a very low economic, political and financial risk. CRT stands for Country Risk Tier, with scales from CRT-1 to CRT-5 (ABM Country Risk Report, 2016). Germany is also a member of the EU and WTO; hence international trade is simplified. It is also part of the TTIP and CETA, Transatlantic Trade and Partnership; and Comprehensive Economic Trade Agreement which would allow free trade from Europe with the USA and Canada respectively. CETA is only recently confirmed and TTIP is still pending. (Jobber & Ellis-Chadwick, 2013). Moreover, with respect to cars Germany has plans about banning Diesel cars by 2030 are gaining momentum (Beckwith, J. 2016). Also, there is a presence of Environmental zones. Meaning cars ought to have a certain type of sticker on its back, and when entering certain zones or cities cars should have the kind of sticker that is required in that specific zone (howtogermany, n.d.).

**Economical:** Germany's real GDP has been growing now since 2011 (after the severe housing crisis) and is expected to continue growing due to a robust labour market and low oil prices which underpin private consumption. The many refugees entering Germany expectedly will join the labour market slowly, after being trained to assure a good skills match (OECD, 2016). Due to an (low) expected growth of the export sector to emerging countries and other EU countries and a growth in domestic demand, the employment will rise even more meaning more refugees which will enter the labour market will not result in higher unemployment rates (Germany is one of the EU's best countries with respect to (un)employment rates).

As the ECB (European Central Bank) is trying to increase the inflation rate up to 2%, which is expected to be achieved by 2019 according to Draghi, the president of the ECB (Nunnenkamp, 2016), they keep buying governmental bonds for billions of Euro's throughout the EU, meaning money supply is rising. The ECB is also keeping interest rates very low, or even negative, meaning borrowing money is relatively attractive. The housing sector is therefore gaining momentum together with other forms of consumption and investment, which plays a major role in GDP. With a large current account surplus, the signs for Germany's economy are positive.

As discussed during the G-20, the EU is shifting from an austerity policy towards more fiscal stimulus, especially Germany who was hugely favouring austerity resulting in fear of many countries (Kirkegaard, 2016). This could lead to a higher GDP, for example due to the multiplier effect. A Keynesian or Post-Keynesian strategy can be used by Germany. (higher government investment/consumption for higher private investment/consumption).

**Societal:** The human population is aging, meaning that there need to be more cars with special features such as higher entry and seats. Volkswagen's emission scandal could have harmed people's faith in the manufacturer and the image of the brand. The middle class income group declines as the higher class income group increases (but less than the decline) (Bershidsky, 2016). Today we have a highly educated population with a high demand for premium small and company size cars. There is also a rising amount of sales in China.

**Technological:** Some of the technological advancements are that engines need to be made more sustainable, i.e. less emission and less fuel consumption. More and more people are aware of the current environmental situation and want to reduce their carbon footprint resulting in more and more people buying electrical cars. Self-driving cars are also an area of research and development that is emerging.

**Environmental:** Cars should live up to emission standards. The focus should be more and more on electrical cars and alternative ways of transport, in order to reduce the necessary greenhouse gasses such that climate change influence is minimized (Davenport, 2015). Air quality standards have raised therefore, environmentally friendly emission is a high priority.

**Legal:** There are tax reduction plans in place where electrical cars will be exempted from vehicle tax for 10 years (Government, 2016). There are strict regulations regarding health and safety for working conditions as well as cars themselves, such as the Paris climate Agreement which says the temperature rise due to climate change caused by greenhouse gasses ought to be reduced by significant levels in the very near future (Davenport, 2015), meaning other ways of transport and living need to be looked at. Another legal restriction that Volkswagen is currently experiencing are the lawsuits due to the emission scandal.

### 3.2 Industry and market Analysis: 5 Forces + Strategic Group

One of the most common tools to analyse an industry and market is Porter's Five Forces. Porter's Five Forces model (Analysis of Industry and Competition, 1980) considers five different forces which all shape the structure of an industry. Those forces are intensity of rivalry, threat of entry, supplier power, buyer power and threat of substitutes.

In the following, Porter's model (*See appendix A.2*) will be used to analyse the automotive industry with a special focus on Volkswagen.

**Threat of entry:** When entering the automotive industry one has to invest quite heavily compared to the industry, since one has to first invest in plants, machines and at the same time in a designing team. Furthermore, one has a cost advantage when taking advantage of economies of scale, meaning if one wants to enter they have to either build up economies of scale or already enter with it to be able to compete on the price level. Besides the brand identity is also of importance to be able to make a distinction to competitive cars. Switching costs for consumers are quite high since buying a car is usually a large investment, however nowadays one can also lease a car which decreases switching costs. Finally, the access to distribution also displays a problem because usually car manufacturers have their own distribution channels or long-lasting contracts with distributors. However, when taking a look at Tesla this shows that this company just got rid of a distribution channel, which solve this problem and also add to brand identity because it is an innovative change (*see Appendix A.3, Table 2*). Volkswagen has a great market share of 12.1% in 2016 in the German market, which is much higher than the other car brands (*see Appendix B.3*).

**Power of suppliers:** When taking a look at the power of suppliers one can identify that when purchasing at a high volume the price of purchased goods drops. The supplier concentration is quite high and there are not a lot of substitutes and switching costs to new

suppliers can be decreased when standardizing the parts, therefore power of suppliers used to be very low. However, the power keeps increasing due to the fact that suppliers add increasing value over the years (Kallstrom, 2015)(see Appendix A.4, Table 3).

**Power of buyers:** The buyer concentration is mediocre however globally it is increasing especially in Asia, meaning the global demand will keep growing. However, the buyer volume is quite low and the switching cost quite high due to the fact that usually buying a car is a long-term investment, meaning one doesn't buy a lot of cars and is not willing to buy a new car after a year due to a special design. When looking at the impact on quality this is mediocre to high which can best be displayed at the recent scandal of Volkswagen. In the media it seemed that this incident could have destroyed Volkswagens reputation due to the extensive discussion of the public, however, Marten Peer Nickoleit stated in Antecedents of evaluation and customer loyalty in times of crisis -a case study of the Volkswagen Group: "customers of the Volkswagen Group expressed a positive level of trust, corporate image, future intentions and word-of-mouth towards the Volkswagen Group" (Nickoleit, 2016)(See Appendix A.5, Table 4). As stated in the 'study concerning customers' loyalty in the auto market' brand "loyalty toward the German cars is much higher than the [brand] loyalty for the cars from other countries". Volkswagen is perceived as a sporty, practical car with a reasonable price (*Leftlane*, see Appendix B5) and Honda is associated with the same attributes but with a higher quality, meaning consumers would be likely to change to this brand. Especially among young people the brand loyalty is lower since they can't afford their 'dream car' right away meaning, brands should offer cheap cars for younger people to assure they will stay loyal when their income increases. Another aspect is that the greater the number of choices at a brand, the more a customer is likely to purchase another car of the same brand.

**Threat of substitutes:** When considering the substitutes which are right now offered on the German market the relative price of taking the train or a bus (e.g. Flixbus) or when choosing for a lift (e.g. Blablacar) is quite low meaning not a lot of people choose those services, however this increased since the government allowed bus long-distance services, which changed the market since it improve the infrastructure. Besides the switching costs are low, when one sells their car one does not have immense expenses any longer (the costs of gas, taxation, damages and the time spend in traffic jams) (See Appendix A.6, Table 5).

**Intensity of rivalry:** Finally, we take a look at the intensity of rivalry in the automotive industry with the focus on Volkswagen. The direct rivalry is mediocre, which can be seen in the figure below, because Volkswagen competes with only six other automotive companies which are in the same strategic group, consisting of Opel, Toyota, Honda, Volvo, Ford and VW (Cunningham & Harney, 2012) (See Appendix A.7, Figure 3). However, when considering the indirect rivalry this is a more intense rivalry because Volkswagen not only competes with Audi or Porsche, which are also in the automotive industry but different strategic group, but also at the same time with the public transportation (see Appendix A.7, Table 6: Intensity of rivalry Table 6).

**Conclusion:** To conclude one can say that the industry in which Volkswagen is operating has a medium to high barrier of entry, low to medium power of suppliers, medium power of buyers, low to medium threat of substitutes and lastly a medium to high intensity of rivalry. This means the factors making the automotive industry less attractive for new entrants is the relatively high barrier of entry and the competitive pressure which one has to face when entering this industry. In general, we can say that most likely there is a rare amount of new companies entering the automotive sector, which is an advantage for Volkswagen



### 3.3 Internal Analysis: resources and competencies.

**Competencies:** A metaphor used in (Cunningham & Harney, 2012) best describes the concept of competencies; an organization is a tree of competencies; resources are the leaves and core competencies are the roots. Volkswagen is a major competitor in the automotive industry; excelling in both personal and commercial vehicles. Several subsidiary brands, or branches in terms of the metaphor, are owned by Volkswagen and allow demands to be met in multiple differentiated customer segments. In the personal vehicle market, the organization owns Audi, Bentley, Bugatti, Lamborghini, Porsche, Skoda, SEAT and, of course, Volkswagen. In the motorcycle market, Volkswagen owns Ducati and for commercial vehicles brands such as MAN and Volkswagen. As mentioned on the Volkswagen Group website, future competencies are currently being developed such as self-driving vehicles and fully electric vehicles.

**Core Competencies:** Often referred to as the roots of an organization, core competencies are the 'edge' or competitive advantage that a company has over its competition. These are often difficult to imitate and tend to be either brand name, availability of capital, intellectual property, human resources or a combination of these. One of Volkswagen's core competencies is its TDI Diesel Technology. A newly introduced BlueTDI Passat is considered as the most fuel-efficient in its class due to its 90% reduction in nitrogen oxide emissions. Another core competency is the environmentally friendly initiative of Volkswagen brands called the EcoFuel technology. According to a presentation by (Joseph, 2013), this technology reduces personal vehicles' CO<sub>2</sub> emissions by up to 23% and is a response to the increasing demand of fuel-efficient petrol cars. The BlueMotion technology, as mentioned earlier, is oriented towards the design and components of the vehicles. More economical design and effective engines are manufactured to target both fuel efficiency and affordable pricing. A crucial core competency of Volkswagen is its recycling efforts as it has become essential for organizational sustainability. Vehicles equipped with recycled materials and using refined fluids both cut costs and reduce harm inflicted on the environment. Overall, Volkswagen's core competencies consist of research and development in its technology with a prime focus of being continuously more environmentally friendly.

**Resources:** According to (Cunningham & Harney, 2012), a resource can be defined as "the tangible and intangible assets an organization uses to conceive and implement strategies." Tangible assets are mostly physical and financial while intangible are human and relational capabilities. Organizational assets can be either tangible or intangible as it focuses on the organization's structure, planning and systems. According to the Volkswagen Group website, the organization's success is based on the 600,000 dedicated employees working at the company, thus Volkswagen's human resources are a valuable asset. Secondly, the intellectual property held by Volkswagen is a valued resource as the unique designs of Volkswagen brands and vehicles are not legally allowed to be copied or imitated in the market. Thirdly, A brand name provides customers with a sense of expectation in terms of quality, price and the driving experience. For Volkswagen vehicles, customers can expect high-quality automobiles for a competitive price. Depending on the 'line', brand or type of vehicle purchased, a customer can have an idea prior to purchase as to what the driving experience will be like. For example, the Volkswagen GTI is a performance hatchback for which the customer can expect a powerful engine, less economical miles per gallon and an exceptional exterior and interior design. Another resource of Volkswagen is its company's image. The company image resembles the general public's opinion towards Volkswagen cars. Customers purchase Bugatti or Lamborghini vehicles to resemble their status, interests and likely their success. Subsequently, customers purchase Audi, Bentley or Porsche to experience

a luxury vehicle and a superior driving experience. For Volkswagen, SEAT and Skoda target customers focusing on fuel economy and quality of the product. Generally, Volkswagen stands for quality as they employ highly skilled, innovative workers that are strategically oriented towards meeting customer demands. Volkswagen's competitive advantage is a result of its employee capabilities, motivation and innovation. All members of Volkswagen are expected to involve themselves and provide entrepreneurial contributions. Also, because Volkswagen has the financial resources to sustain multiple brands and satisfy the majority of customer segments in the automotive market; ranging from exotic vehicles to cost-effective cars.

**SWOT Analysis:** A SWOT analysis identifies a company's strengths, weaknesses, opportunities and threats that may pose to its organizational performance. In Appendix A.8, a table visualizing (MarketLine, 2015) Volkswagen's SWOT analysis can be found.

Firstly, Volkswagen's strengths are its extensive portfolio consisting of various automotive brands, research and development efforts to satisfy future demands and constantly improve products and its global presence. As stated previously, Volkswagen owns a variety of brands enabling it to compete in different markets, customer segments and overall satisfy customer demand(s). This is directly related to its global presence as in vehicular preferences differ in countries. For example, SEAT vehicles are relatively popular in Europe, but not very common in the United States. Owning multiple brands allows Volkswagen to avoid being overly dependent on one brand's success.

Secondly, the organization's weaknesses are mostly a result of the recent fuel-emissions scandal in which the fuel economy statistics for mostly TDI vehicles were significantly biased. This caused sales to take a hit along with the overall company image. Also, product recalls are a consistent weakness to not only Volkswagen, but all competitors in the automotive industry. If a product is below the expected (or promised) quality, it will have to be replaced.

Thirdly, Volkswagen has identified opportunities such as the constantly growing industry market and the market trend towards hybrid or electric vehicles. Since Volkswagen is researching and developing quality hybrids, it is able to meet future demands for these vehicles.

Lastly, the threats that Volkswagen currently has to endure are the competition in the automotive market, increasing prices of raw materials and the possibility of government regulations becoming stricter.

#### 4. Strategic Choices: Corporate Level

The Growth Share matrix is a chart developed by the Boston Consulting Group to help companies analyzing their business units and deciding which products to keep, sell or invest in. The matrix divides products into four categories: Star, Cash Cow, Question Mark and Dog (see appendix B.9). Following the matrix, if a company's product has low market share and low market growth opportunity, it is considered a "dog" and should be sold. A product with high market share and low market growth is called a "cash cow" and the company should "milk" them as long as possible. Products that score high in both measures are "stars" and should be further invested in. Lastly, products with low market share and high market growth ("question mark") should be analyzed more in depth.

By looking at the matrix and the company's portfolio, it can help determine which products (in this case, cars) should be invested in. It can be already thought that the products that are considered "stars" and a few "question" marks should be invested in. For example,

some of the “stars” at Volkswagen can be Volkswagen and Audi. These two brands are extremely popular not just in Europe and America but also in Asia. Volkswagen and Audi are both innovative and deliver new models to the market every year. It must be noted that the two brands make the most units sold out of all the Volkswagen brands. The “question” marks would be considered such as Fiat which relaunched the Fiat 500 in the American market and as it is still new, it is undetermined whether it will be a success or not.

This matrix is very useful to decide how to allocate resources, on the other hand there are some limitations and should be used with caution. First, this matrix classifies two measures in only two categories which is either high or low. In reality, business is not just black and white, it could have a medium market share or moderate growth. Second, it is difficult to analyze the “question” marks if it is appropriate to invest further or divest. Lastly, high market marks do not immediately lead to high profits, there are other factors that should be considered such as high costs.

The parenting matrix developed by M. Goold, A. Campbell and M. Alexander is based on creating a fit between the ways the parent operates and improvement opportunities existing in their businesses. In fact, even though business could be attractive, it is not useful unless it adds value to the company. A more in depth explanation of this matrix can be found in the appendix (*see appendix B.10*).

The matrix has four quadrants which are alien territory businesses, value trap businesses, ballast businesses and heartland businesses. The alien territory businesses have very few value-adding opportunities and are not understood by the parent company. Unlike the value trap businesses have a lot of value-adding opportunities but is still not understood by the parent company. The ballast businesses have few to none opportunities but are well understood by the parent company. Lastly, the heartland businesses are the best of both worlds, it is well understood by the parent company and have a lot of value-adding opportunities. This matrix is considerably reliable when it comes to assisting the parent companies in deciding whether to acquire or retain businesses.

This is considered a reliable approach to assist parent companies in deciding whether to acquire or retain businesses.

Volkswagen Group has acquired Audi, Bentley, Bugatti, Lamborghini, Porsche, SEAT (Fiat), Skoda and others. Using the matrix, it can be determined that that the Volkswagen Group has invested and acquired business that they could understand very well and provide good opportunities.

The parenting matrix is very simple; however, it has its own drawbacks which have to be taken into account when applying to a company. One for example is that it is not necessarily required that the parent company needs to understand the business for the deal to be profitable. It is mainly important to understand the aim of the acquisition; it is important that business is well understood in order to exploit the parenting. However, if the parent’s company’s intentions were to acquire a company but to resell it for a higher price to make a profit, the parent company does not have to understand the company that is acquiring.

#### 4.1 M&A, alliances, and network Effect

When a company aims to grow to be able to compete more effectively, it must choose one of the following M&A strategies. Merging occurs when two similar sized companies combine. Acquisition is when a company purchases all the assets of another company, thus this company becomes a subsidiary (Duggan, J., 2011).

There are two types of merging and acquisition strategies; related and unrelated. Related strategy occurs vertically or horizontally. Vertical merging or acquisition is the purchasing of a supplier or customer; horizontal occurs when you merge or acquire a competitor. The main reasons behind M&A activities are to achieve a synergy through economies of scale (being able to produce in higher volumes to spread the fixed costs) and scope (using competencies and resources for more than one product). Naturally it is also used to reduce the competition in the market.

Interestingly Volkswagen itself does not partake in any mergers or acquisitions. This is left to its parent company, the Volkswagen Group. This allows synergy between multiple brands within the group, making a merger or acquisition more effective as resources can be shared between more brands rather than just Volkswagen itself. The Volkswagen Group has made some high profile acquisitions since its foundation. Most notably Audi (formally known as Auto Union), Skoda, Seat, Bentley and Porsche. When the Volkswagen Group acquired Porsche in 2012, it became the largest car manufacture in the world by number of sales (Financial Times, 2012). When the Group acquires a new car company, it also inherits all of its intellectual property. This information is useful for all sub-business units, including Volkswagen.

Throughout the years, the Volkswagen Group acquired different firms and businesses to vertically integrate the production of Volkswagen commercial cars. One example is the acquisition of Karmann, which until 2009 was the largest independent manufacturer of motor vehicles. Karmann had been a production plant for many iconic Volkswagen cars such as the Beetle, Golf and Scirocco. They were also manufacturing other Volkswagen Group cars such as Audi and Porche, as well as competitor's vehicles such as Mercedes, Renault BMW. In 2010 The Volkswagen Group acquired Karmann's European division thus inheriting its factory in Osnabruck (European Commission, 2012). Volkswagen has since produced many of its vehicles at this plant, namely the Tiguan production and assembly has totally shifted to the plant in Osnabruck (Volkswagen, 2016).

Another way to expand your business is strategic alliances: In recent years Volkswagen has been very active on this front, especially in the development of "greener" cars. In 2015 a strategic alliance was announced between Ballard and Volkswagen (Ballard, 2015). Ballard produces Hydrogen Fuel Cells which is a clean alternative to carbon based fuels, the deal involves transfer of automotive relative intellectual property. Prof. Dr. Ulrich Hackenberg, the Coordinator of the Technical Development at Volkswagen stated that the alliance "will underpin our ability to play a leading role in fuel cell automotive development and commercialization" (Ballard 2015).

Another such strategic alliance is between Volkswagen and Varta, a German company manufacturing batteries for global automotive, industrial, and consumer markets. According to the 2014 annual report of Volkswagen, this strategic alliance focuses on the ongoing development of high-voltage battery systems for electric and plug-in hybrid vehicles. Volkswagen has stated that together they have "achieved important research results in the field of electric vehicle batteries" (Volkswagen Annual Report, 2014). These strategic alliances will be critical to Volkswagen in building greener fleet, and moving from the environmental scandals they have faced in recent years

One of Volkswagens most prominent strategic alliance is with one of their main competitors, Daimler. Volkswagen uses the Mercedes Sprinter platform to build their van, the Volkswagen Crafter since 2005 (Reuters, 2013). Volkswagen has also invested €300m in Gett, an on-demand mobility company operating in 60 cities around Europe. "Alongside our

pioneering role in the automotive business, we aim to become a world leading mobility provider by 2025,” says Matthias Müller, Chairman of the Board of Management of Volkswagen. Shahr Waiser, Gett’s founder and CEO said “The pay-per-ride domain is growing rapidly. In that context, Gett provides VW with the technology to expand beyond car ownership to on-demand mobility for consumers and businesses” (Volkswagen, 2016)

The network effect is defined as a value adding process to the fact that a good or service becomes more valuable by the number of people using it. This is incredibly important in the future of the automotive industry and the shift from hydrocarbon based fuels into more sustainable cars. This is clearly outlined in Volkswagen Strategy 2025, where Dr. Herbert Diess, the CEO for Volkswagen Passenger Cars, has stated the transition from diesel technologies into electrification (Volkswagen Strategy 2025, 2016). The network effect is important to electric vehicles due to the infrastructure required to make it a seamless experience. Current Volkswagen Group CEO Matthias Muller has stated that "A true breakthrough for electric mobility will only be achieved if politics, society and authorities work together more closely". Europe's unfit charging infrastructure was cited as the biggest hindrance to this (Auto Express, 2016). The more electric vehicles used, the better the infrastructure will become, thus making electric vehicles more convenient and valuable.

Aside from the future development of cars, Volkswagen takes advantage of the network effect by having a myriad of service stations around the world. As more people purchase their vehicles, they are able to expand this service and make their brand more valuable.

## 5. Strategic choices: Business level

The competitive advantage of a company are the attributes and strategic positions that allow it to outperform its competitors. This can be determined by the way which it brings value to customer, which in turn leads to profit. Porter's framework of generic strategy (1980) help describe how a business may position itself in the market to obtain a competitive advantage. Porter identifies four main standard strategies, these include cost leadership, differentiations, cost focus and differentiation focus. Porter also argues that the key to competitive advantage is the ability to clearly position oneself by using a coherent strategy.

For Volkswagen, their focus lies with the concept of cost leadership. According to Gary Wolfram in an article published by the Harvard University Press, the automotive industry is incredibly price sensitive (Wolfram, 1997). Meaning that customers purchasing behaviours are highly influenced by the price of the product. This is mainly due to the abundance of substitutes on the market. Thus to gain a competitive advantage, Volkswagen looks to be a cost leader.

They achieve this through various operational innovations. The most important of which is the modular toolkit strategy, which allows for a reduction in investment, development and unit costs (Volkswagen Group, 2012). The modular toolkit allows for cars within the Volkswagen group to share elements or parts between different brands and models. This can range from cars sharing the same engines, software that runs the car, to buttons on the dashboard. Volkswagen estimates that they are able to drop unit costs by 20%, one off expenditures by 20% and reduce engineering hours per vehicle by 30%. Additionally, they also claim it reduces the weight of their vehicles and product lifecycle emission (Volkswagen 2012). Volkswagen is offering their customers better quality and cars with higher reliability at prices similar to their competitors through this platform. Their main competitive advantage is that they are able to do this, while reducing overall cost per unit. In order to

further develop their cost leadership strategy, Volkswagen must look to continue technology sharing and Joint R&D, not only between the Volkswagen brand, but throughout the Volkswagen Group.

### 5.1 Business Model

The business model canvas is a strategic management tool helps visualize elements of a firm including its value proposition, infrastructure, customers, and finances. (Osterwalder, A., 2008). Volkswagen as a firm highly concentrated on providing convenience at everyday pricing. The main points of their business model can be found in Appendix A9.

## Part II Short Term – Marketing plan

### 6. Segmentation and targeting of positioning of current situations

Market segmentation is the division of consumer into groups with similar needs and wants. The process reduces uncertainty and increases marketing efficiency by addressing and appealing to the similar needs of the segment. A company can target customer segments in terms of business to customer (B2C), by the usage of behavioral, psychographic and profile criteria or the market can be segmented in terms of business to business (B2B) purchase behavior, where the macro and micro segmentation is taken into account.

**Business to business:** When segmenting the market in terms of business to business (B2B) one focuses on the macro and the micro segmentation. When taking into account the macro segmentation size, industry and geographic location of the targeted business is considered. Volkswagen's most important costumers are car dealerships of diverse sizes and capacities. When taking a look at the industry Volkswagen focuses on the automotive industry (whereas Volkswagen Group has a more diversified portfolio). Volkswagen offers their cars within 153 countries (Volkswagen, 2016), however every sold car in the different countries not only differs in quality and features but also the way of approaching the market differs from country to country, but within this report the focus is laid on the German market. The micro segmentation is focusing on the key choice criteria an organization uses when purchasing cars, which includes price, demand and availability. However, dealerships usually purchase through straight rebuy unless a customer is demanding special features of a certain model. In general dealerships have a database where they see which cars are available and which ones have to be requested. Volkswagen dealerships usually use the same marketing mix maybe slightly altering it to the demand of the buy class and location, for example all dealerships might have some kind of promotion during Christmas but the type of promotion might be customized to the demand and needs which are especially encountered in the certain region and buy class. The adoption of the Volkswagen dealerships to be more efficient, which is called 'Blaues Autohaus – Vorfahrt für Ökoeffizienz' (Volkswagen, 2014), shows that the diverse dealers throughout Germany try to create the same brand image of eco friendliness, which is a good example of the same marketing strategies in different companies.

**Decision-making process:** As stated by the 'Institut für Automobilwirtschaft' the course of decision-making when buying a car is as follows. Firstly, there is the passive information retrieving which happens through unplanned events like a friend showing you their new car and telling you all about the special features, followed by the active information retrieving which means you are actively searching for new car-related information. Than the customer or consumer creates a preference on brand, model and channel. The last phase is the actual buying process and the utilization phase. The most important criteria when buying



a new car are reliability, purchase price, fuel consumption, design, standard equipment, and maintenance and repair costs (DAT Group, 2016)

**Behavioural:** As stated in the DAT report (2016) reasons for owning a car are mobility, dependency on having a car due to their place of residence or job, time saving, comfort, enjoyment of driving a car, cheaper costs, status, expression of lifestyle and they perceive it as a part of their lives. 60% of the time consumers use their car only for private matters, like going on vacation, 33% of the times the car is used to get to work and back, and 7% of the car usage is related to business. 37% of the German consumers will replace their car within 2 years and the most common models are compact and middle/intermediate (Accenture, 2015). When retrieving information to buy a new car it can be divided into offline and online information. In the offline sector 56% use information from the current dealer, 54% use colleagues or friends as a source, 52% use brochures, 45% visit diverse dealers, 30% use test reports, and 19% use advertisement in the media. When using online sources 54% use online dealerships, 39% use the manufacturer's page, 27% use search engines, 27% use online test reports, 11% use social media, and 11% use online advertising. 22% of the 18-49 years old consumers use online dealerships. 71% of the German consumers rate their purchasing experience as (extremely) satisfying (Accenture, 2015). The average German car bought has 132 horsepower, costs approximately 28590€ and has 1666 cm cubic capacity. 44% of the times is customized, 20% of the cars are leased, 19% of the cars are 'estate cars', and 4% of the cars are reimported (DAT Group, 2016).

**Geographic:** Volkswagen operates in 153 countries all over the world, however the focus of this geographic segmentation is going to be Germany, which is the location of the headquarter. Within Germany one can subdivide the market into metropolitan, suburban and rural areas. Volkswagen has diverse models which are designed for different geographic divisions. In the metropolitan area one would choose for small, fuel-efficient cars, since the parking space is limited and there is usually a lot of traffic. For these aspects small cars like the Polo, Golf or Beetle were designed. When considering suburban areas one has more space, usually a lot of families and therefore more space is needed when selecting a car, which is considered in the models Passat, Touran, Polo, California. A big, rough car with a strong motor is needed in rural areas which can be found in the Tiguan, Touareg, Amarok and California. With these different models and the different features which are possible in the diverse models Volkswagen tries to respond to multiple need of different geographic locations (*see table in Appendix B.7*).

**Demographic:** The CETELEM survey showed that in Germany the average new car buyer is 50.6 years old. 10% of the new car buyers are under 30 years, 60% of the new car buyers are between 30 and 59 years old, and 30% are above 60 years. In the group 'under 30' 68% buy second hand cars and 32% buy new cars. Whereas in the group 'above 50' 52% buy second hand cars and 48% buy new cars. Therefore, we can conclude that a company active in the automotive industry in Germany is more likely to target buyers which between 30 and 59 years old. With models like the Passat, Touran, Gold and Jetta Volkswagen tries to attract customers in this age segment, since they have diverse advantages. For example, the Passat has enough space for a family with two children, but at the same time is very convenient for unconstrained couples<sup>1</sup> and empty nesters<sup>2</sup>.

**Psychographic:** Considering the psychographic segmentation base the consumer groups family/utility, comfort driven, status, sport, trend, responsibility and enthusiast were

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<sup>1</sup> TGI lifestage segmentation groups; 35–54, married/living as couple, do not live with son/daughter

<sup>2</sup> TGI lifestage segmentation groups; 55+, married/living as couple, and do not live with son/daughter (Appendix 3.1)

selected. Each one of those groups makes the decision to buy a certain car due to their most important feature. Family/utility is mostly focused on having enough space in a car, since it has to fit more people or goods. This criterion is fulfilled in models like the Passat or the Tiguan. The 'Passat Variant Comfort line' is especially focused on consumers who want their car to be comfortable. Whereas the Volkswagen Exclusive is certainly focused on the segment 'status' which is already highlighted with the name of the car. Volkswagen offers an 'e-line' like the e-Golf which is focused on a very low CO<sub>2</sub> emission to address consumers in the 'responsibility' group. Finally, enthusiasts might consider to buy a Volkswagen car since there are features like the 'Car-net e-Remote', which makes it possible to connect the cell phone to the car (see table in Appendix B.8).

**Targeting:** Currently Volkswagen is targeting the young people and the 'family/utility' segment since they are mostly focused on technology-driven, relatively cheap but comfortable cars with enough space, which is underlined in the best-selling car the 'VW Golf'. "We wanted the Golf Estate to be aspirational and not just a load lugger from Volkswagen. The target market was 'thirty-something' with young families whose lifestyle required an estate. These people were currently driving hatchbacks as the image of estate cars was not for them" (Bignell, 2002).

**Positioning:** Volkswagen simply uses 'Volkswagen' as a marketing slogan trying to focus more on the consumer itself, which was also an act of modesty after the emission-cheating scandal. The brand is perceived as a relatively low price but good quality and is seen as a sportive and practical car (Rockstarsbm, 2014, Appendix B.5). The most common associations with the brand are technology and price, meaning they are aiming to deliver high quality cars for a relatively low price.

**Conclusion:** Volkswagen is mostly focused on 'utility vehicles' (Volkswagen, 2015) meaning Volkswagen positions themselves in the segment appealing to family, utility and comfort driven. Even though the company tries to appeal to diverse customers with different features or models of cars their main association is technology and utility driven. When taking a look at perceptual maps Volkswagen's consumers perceive the cars within a good mix of price and quality and associate sportive and practical aspects with the brand. In general, one can say that Volkswagen is successful since they have the highest market share as well as the highest brand ranking (leftlane, June 3, 2016, Appendix B.3, Appendix B.4), which is due to the fact that they have a broad range of products and position the brand VW on a wider scope than other car brands (Volkswagen Group, December 2009, Appendix B.2, Appendix B.6).

## 7. Macro-environment analysis and marketing assessment

Besides the macro/external environment that was analysed in the first chapter the micro-environment analysis is one of the core analyses. The micro-environment is also a driver of change, as it includes factors as markets, customers, competitors, distributions and suppliers. Afterwards a marketing assessment/audit will be made

### 7.1 Micro Environment analysis

**Market analysis:** As Volkswagen is not merely focussed on luxury cars but instead on various types, the market in which they are operating can for convenience be seen as the car market. The market size in which they are operating is huge and consisting over the whole globe. The market size in Germany (as we analyse the country of the headquarters) is around 5.7 million cars produced. The car market is currently slowly growing to its pre-crisis levels. German cars are exported to a great extent, accounting for around 3/4<sup>th</sup> of the total domestic production.



The export is expected to grow for around 2% year on year (GTAI, 2015). It is expected according the Germany Trade & Investment (2015) that the premium car market will grow rapidly, meaning higher demand for high value, premium small and compact-sized cars and premium SUV's. Also, there is more emphasis on technological developments. Cars are made more (fuel) efficient and there is higher demand for electrical vehicles(EV's). Volkswagen's is the leading car manufacturer, with a market share of around 12% (see *Appendix B.4*). Toyota, General Motors and Ford are Volkswagen's biggest competitor on global level, with minimal differences. These competitors will be analysed at the 'competitor analysis'. We don't merely take VW's competitors in Germany as this is such a small part of the whole market and the car markets geographical reach is indefinite. It is a crucial aspect for VW (also their headquarters in Wolfsburg).

**Customer analysis of buying behaviour:** Customers are more aware of the current climate change that is due to the emission of greenhouse gasses, resulting in more and more people trying to reduce their carbon footprint. On the one hand customers value more (fuel) efficient but on the other hand more and more people are seeking alternatives, such as EV's (Transparency Market Search, 2014). Contradictory to this general growing belief among the civilization, Volkswagen has come in a treacherous position with their emission scandal. However, when comparing sales levels to prior-scandal levels, it seems the effects in Germany are not insurmountable (-3.7%) (VW AG,2016) (see *appendix B.13*). Especially in America the decline in sales are immense but this is to some extent compensated by an inciting Chinese vehicle market. The segmentation of customers is based to a great extent on image. For example, an VW Polo/golf is popular for the ages around 20-25, while for example Mercedes cars are often seen as cars for older people. This has a lot to do with the theory of planned behaviour (Baines et al, 2013), where the subjective norm - how others think and feel about it - plays a big role which has an influence on the intention and behaviour of an individual.

**Competitor analysis:** Volkswagen's main competitors on a global base but moreover in Germany are Toyota and Ford. However, as the industry is so saturated, Volkswagen has to deal with lots of competitors. Asiatic car manufacturers are emerging, such as Nissan, Hyundai and Kia but of course they also have to deal with other German car manufacturers such as BMW and Mercedes. As Volkswagen is subsidiary of Volkswagen AG and they are a corporate parent of famous car brands as Audi, Seat, Skoda, Bentley and others, they are not in competition but this enables to benefit from more segments in the market and even to collaborate when needed (synergy). We will analyse the two main competitors - which compete on a global basis but also in Germany itself - briefly.

Nowadays, where there is more and more emphasis on electrical cars mainly **Tesla** is becoming very popular. This emerging electrical vehicle market could take away potential customers from the fissile fuel market, making Tesla potentially one of the main competitors of VW. Entry barriers for new car manufacturers were already discussed in chapter one at the 5 forces analysis of Porter.

**Distribution analysis:** Volkswagen group has a large distribution channel, with 12 brand under its name it has 99 production sites and 120 different vehicle models globally (Ludwig, 2012). This large scale organization has a variety of distribution channels. Volkswagen, in particular can procure multiple distribution channels. It could either sell its products directly from the production sites, or via a retailer, a distributor or even a wholesale distributor. There are multiple ways to reach the customers. As a brand, one of the most effective ways to reach customers is through showrooms. They are a directly link between the company and the customers which is an advantage. Another distribution channel can be

the use of car rental service which allows the customers the experience of owning the car. A representation of the distribution channel can be found in the appendix. (See *appendix B.11*)

**Supplier analysis:** Two of the main suppliers of Volkswagen are Car Trim and ES Automobilguss. They provide interior systems and gearbox components of the car respectively (Huggler, 2016). Car Trim is located in various regions in Germany, as well as in Wolfsburg, the headquarters of Volkswagen. They provide their services to multiple other car companies such as Daimler, Ford, Audi, Porsche, etc (Car Trim, 2016). ES Automobilguss have their headquarters in Schönheide and provide a wide range of products such as rocker levers, breaking plates and many other customised products produced in either small batches or are mass produced (EsGuss, 2016). The Volkswagen supply chain can be found in the appendix (See *appendix B.12*)

**Technology:** Among other automotive companies, Volkswagen has been looking into the production of electric cars. It recently unveiled its first long distance electronic car which will form the basis for the production car that has a range of up to 600 km on a single charge set to reach the markets in 2020. This will be followed by the driverless car in 2025 (Campbell, 2016). Other innovations consist of adaptive cruise control, blind spot sensor, emergency braking, park pilot and many more (Volkswagen, 2016).

## 7.2 Marketing Assessment

A marketing assessment is in other words a marketing audit, which can be defined as: “a systematic examination of a business’s marketing environment, objectives, strategies and activities, with a view to identifying key strategic issues, problem areas and opportunities.” (Jobber & Ellis-Chadwick, 2013)

This assessment can be split up into an organization’s external and internal factors, or its macro-environment and micro-environment. In section 0 of the report, a PESTEL analysis was conducted elaborating upon Volkswagen’s macro-environment. The organizational micro-environment has also already been evaluated previously in section 0 of the report. However, more details about marketing mix and communication mix are in the following section **Error! Reference source not found.** and 9 of the report respectively.

Volkswagen’s marketing strategy is based on the company’s innovation, sustainability and high quality standards. In terms of Ansoff’s matrix; Volkswagen is currently working on market penetration and product development. Market penetration focuses on generating more sales and revenue in an existing market; this can be done through advertising and promotional efforts. The company has recently expanded into the private leasing plans and brings more attention to this ownership method by providing relatively low monthly costs. For example, the Polo Payment Plan, as listed on the website (Volkswagen, 2016), allows a customer to lease this vehicle for just \$259 per month. All the customer pays for is gas.

Product development focuses on innovation and developing new products. Volkswagen has been researching and producing hybrid vehicles as a response to a recent trend in demand for environmentally-friendly and fuel efficient cars. Programs such as the BlueMotion technology, EcoFuel vehicles and TDI Diesel Technology are designed to meet the customer’s needs. However, the company is recommended to slowly shift away from Diesel technologies as stated in the recommendation section. More information about these sustainability approaches are discussed in section 3.

Overall, Volkswagen has been able to establish an effective marketing mix, despite recent trends of switching from regular vehicles to hybrid or fuel efficient cars. The company adjusts its product’s specifications to meet customer demand and in doing so maintains a positive global image. This image is also part of the reason for the organization’s success, as

the prices of vehicles are similar to the competition, and customers-particularly in Germany-experience added value in driving a Volkswagen over an imported brand.

## 8. Marketing Mix: 4P's and segmentation choice

### 8.1 Segmentation choice

In determining which customer Volkswagen should target, the criteria “daily commuters” will be adopted to segment the market. In this criterion, subjects are grouped by their way of living such as their proximity to the city, their jobs and the specific stickers (environmental zones, see PESTEL political analysis) needed to enter the cities. Volkswagen should try to aim at people who live in cities and travel short distances, people who commute daily into cities for their work, and people who require certain stickers from the cities regarding emission levels. The maximum distance one travel's in one day should be under 500 kilometers as this is today's maximum distance on a single charge set. This is the best segment that Volkswagen can target because in terms of adorable, one could think of efficient and clean cars which Volkswagen could use to their advantage as rebranding their image of becoming very efficient, affordable and clean.

### 8.2 Marketing Mix: The product, price, place and promotion

In this part we will introduce the solution for VW in order to overcome image loss.

We will use the marketing mix to introduce what the product should look like, what the price should be, how it should be distributed and how it should best be promoted. However, the segmentation and targeting choice will be explained first.

**Product:** Volkswagen has already stated its intention to shift from their controversial diesel cars to electric vehicles (Volkswagen Strategy 2025, 2016). Currently they already have two full electric cars, the e-UP and e-Golf, as well as two hybrid vehicles, the Golf GTE and Passat GTE (Volkswagen, 2016). To fully move away from hydrocarbon fueled cars, Volkswagen needs to further develop their electric cars. The e-Golf and e-Up are cars that were designed to house internal combustion engines and were later adapted to become full electric. The product Volkswagen should produce is a medium sized electric car. Volkswagen has had success in this specific market, with their Golf and previously the Beetle. It is key that this product is developed with their modular toolkit strategy, so a majority of its components and technologies can be used in their future fleet, and reduce overall unit costs in the future. It will also allow Volkswagen to build on this platform to develop other cars for other markets more rapidly. This shift to producing electric cars will improve Volkswagens image, which around the world has been tainted after its Diesel scandal. The new product will bear the name Volkswagen E-Line, and will mark the first of many cars in this class.

**Price:** As mentioned earlier, the car industry is incredibly price sensitive due to the options available. Thus Volkswagen needs to price their new medium sized electric vehicle in response to its competitors. Namely the Tesla Model 3, which in May 2016 had 373,000 pre-orders and price starts at \$35,000. It is fair to assume that due to lengthy delivery time, Volkswagen can undercut Tesla and pry away some of their customers in the queue. In order to do this, Volkswagen needs to price its vehicle in the same price class, around €30,000. With Volkswagens industry name, reliability and quality, they can really tap into Tesla's Model E market.

**Place:** Volkswagen has already a huge and strong distribution network with high collaboration with the distributors. We propose to use the same network with some

adjustments. Car dealers will remain to be the largest source of sales. However, unlike the USA, in Germany, car manufactures are allowed to use direct sales. Thus Volkswagen should create a platform easier for customers to buy cars directly from them, such as physical stores in highstreets and even online service where potential customers can choose a location to test drive and eventually make a purchase online.

More emphasis needs to be placed in the B2B market, with collaborations with car sharing and car hailing companies. The increase of Volkswagen cars as a car sharing, taxis, and car hailing is outlined in their 2025 strategy. Partnerships such as Gett, needs to be further invested in so that companies will choose Volkswagen cars above their competitors.

**Promotion:** In order to obtain the best result from promotion, Volkswagen should adopt the integrated marketing communications approach, focusing on “developing relational and coordinated communication strategies” and “bringing together communication tools, techniques, messages and media channels favored by a particular target audience” (Jobber & Ellis-Chadwick, 2012). The elements of the integrated marketing communication approach are the message, the tools, the media channels, the people and the context.

The chosen message for the campaign that should be sent to the target customer, is one incorporating Volkswagen core competencies in the past with modern technology. A message that is nostalgic and informational. As far as the nostalgic message, Volkswagen needs to emphasis its past of being the incredibly reliable, great performance and delivering quality at average prices. The informational message should convey the idea that their technologies have advanced to meet the modern need to be sustainable and meet zero-emission targets. The message should be consistent with the mission and vision of Volkswagen mentioned earlier in this report. Volkswagen should use different tools and media channels to promote the product and these concepts will be further discussed in the next chapter.

## 9. Marketing communication/promotion/channels

### 9.1 Getting to the market

In order to get into the market, a number of management considerations and challenges have to be taken up if Volkswagens E-Line is to maximize the potential advantages when adopting the Integrated Marketing Communication (IMC) approach.

As identified in the first part of the report, the main objective for Volkswagen is to “offer attractive, safe and environmentally sound vehicles which can compete in an increasingly tough market and set world standards in their respective class” (Volkswagen 2016). These objectives help to further guide the campaign and identify communication opportunities. The brand positioning statement for Volkswagens new car should be along the lines of making quality electric cars available for everybody.

After this, communication objectives should be set. Specific objectives need to be distinct for every channel, as they have their unique features. As this is a new product, their main communication objective should be to push awareness and inform their target audience on the E-Line. This should encourage them to test the vehicle and possibly purchase it.

As the objectives have been set, the use of an advertising agency is crucial to get their message to the market. Volkswagen has just established a new \$3 billion deal with global media agency Omnicom PHD (Adweek, 2016). Thus they will also be in charge of the new product. Finally, the marketing plan can be developed and implemented through constant

interaction with the agency. The following pages will elaborate on the most effective communication mix for Volkswagens E-Line (*See appendix B.15*).

## 9.2 Communication mix

To promote Volkswagens E-Line and bring awareness towards the brand to its target group, a combination of Mass media channels, digital promotion and social media communication will be used to create a consistent marketing campaign. Through repetition and the use of various channels, the new product and its concept can be communicated more effectively and enable clarity, credibility, consistency, and competitiveness.

Volkswagen new advertising campaign will mainly focus on the theme of the company going green, creating the car of tomorrow, and available for average car buyer. Currently within Europe Volkswagen invest heavily in TV advertisements. This has the advantage of sending a non-personal message to a very large audience. This tactic should continue to be used with the E-Line. However, to create a coherent strategy, they should only run ads for their electric car and not the internal combustion cars. Huge sporting events should be targeted to reach an even larger demographic. Events such as Champions League, World Cups and even the Olympics are heavily watched by the German population. Although these spots are costlier, it does ensure a high and quick reach which should increase awareness into the new vehicle and the ideology behind it (*See appendix B.16*).

A more personal way of communication is through digital media. Digital promotion and social media communication enable a dialogue between the brand and their target group through interactivity. This allows Volkswagen to be very specific into choosing which demographics it targets at a comparatively low cost. The interactivity of a social media promotion can play an important role when launching new product campaign, especially as an evaluation tool and mean of gaining feedback for future products improvement (*See appendix B.17*).

Print ads have the advantage to inform the consumer about the features and benefits of the E-line. Volkswagen can promote through advertisements in the myriad of car magazines printed throughout Germany and Europe, an example of this being Top Gear Magazine. This targets the car enthusiast and informs them about their new products.

Billboards and posters are largely a visual media and often used as a support medium alongside others. The simplicity of the ad is important, because most people will only take a short glance at it. However, this form of media is good for creating more awareness for their certain product, or even reminding viewers who have seen any other form of media (*See Appendix B.18*).

Car manufactueres have always invested heavily in motorsport and Volkswagen has not been any different, with particular success in the Dhakar Rally. However, Volkswagen can complement their promotion of their E-Line by entering Formula E. A relatively new Formula on par with Formula 1, however with full electric cars only racing in street circuitis around the world. Joining this growing race will bring more attention to the work Volkswagen is doing in electric mobility while showcaisng its brilliance in engineering. This is a very costly form of promotion however will target a very wide audience while promoting the entire brand, not just a specific product.

All in all, the selected media channels interact with each other efficiently and even up the disadvantages of some channels with the advantages of other. This enables to launch an effective and awareness-building campaign. Examples of advertisements can be seen in the appendix.

## 10. Conclusion

To conclude from Volkswagen's internal and external analysis and the strategic choices the drop of sales are related to the diesel emission scandal with the consequence of a reputation damage. Although Volkswagen tried to recover from this scandal by for example changing their slogan from 'Das Auto', which states a superiority and high quality, to simply 'Volkswagen', which was a drastic change and shows humility, the brand is still associated with the emission scandal and sales have not quite recovered.

In the recommendation, Volkswagen is advised to slowly shift marketing away from diesel motorized cars to electric cars until 2030 that the company slowly builds up a new focus, making customers forget about these cars and redirecting them to associate Volkswagen with the positive values. The new car line 'E-Line' should target short distance commuters and individuals travelling short distances, since the battery of an electrical car has a limitation of a certain amount of kilometres, however this capacity keeps increasing, for example the Tesla model 3 can reach up to 400-500 km without the need to charge the battery. The new line should be highly promoted through media channels and sales promotion should focus on the changing of the automotive future in Germany.

By setting the focus on electric cars Volkswagen's reputation might not only recover but furthermore be more associated with innovative and future-oriented. The brand will not only be aligned with the changing law of abandoning diesel motorized cars within 2030 in Germany but also adapt to already existing environmental changes, since customer preferences increasingly directed towards an eco-friendly and healthy lifestyle.

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## 13. Appendix

### Appendix A

#### A.1: PESTEL Analysis:

Table 1: PESTEL Analysis of the Automotive Industry

<b>Political:</b> <ul style="list-style-type: none"> <li>- member of EU and WTO</li> <li>- CETA &amp; TTIP</li> </ul>	<b>Economical:</b> <ul style="list-style-type: none"> <li>- Many refugees</li> <li>- Low inflation rate</li> <li>- High money supply/low interest rates</li> </ul>	<b>Societal:</b> <ul style="list-style-type: none"> <li>- Aging human population</li> <li>- Faith of potential customers (VW's scandal)</li> <li>- middle class income decline</li> <li>- highly educated population</li> <li>- Higher demand for premium cars</li> </ul>
<b>Technological:</b> <ul style="list-style-type: none"> <li>- more sustainable engines</li> <li>- Electrical cars &amp; self driving cars</li> </ul>	<b>Environmental:</b> <ul style="list-style-type: none"> <li>- Emission standards</li> <li>- Alternatives to fossil cars</li> <li>- Air quality standards</li> </ul>	<b>Legal:</b> <ul style="list-style-type: none"> <li>- Tax reduction plans</li> <li>- Paris Climate Agreement</li> <li>- Law suits(scandals)</li> </ul>

#### A.2 5 Forces Analysis

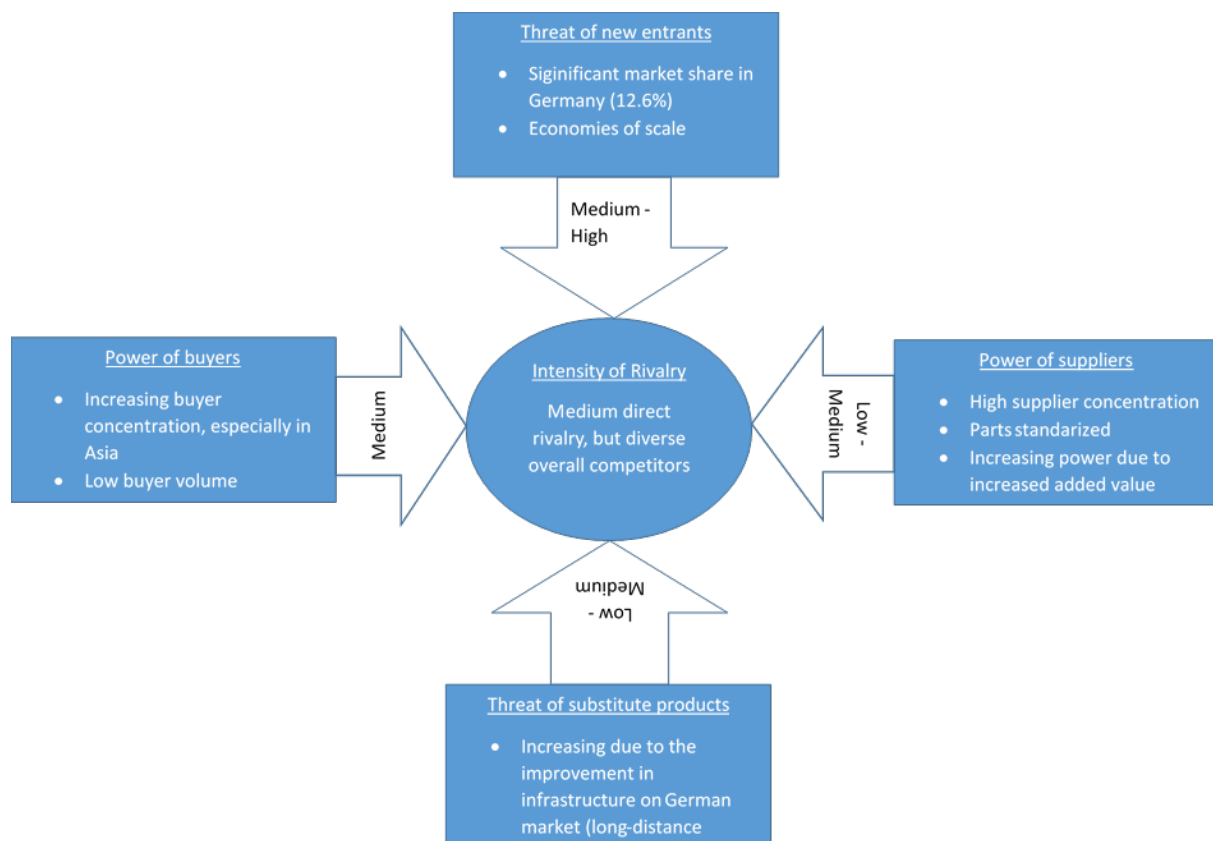


Figure 1: Porters 5 Forces analysis

### A.3 Threat of Entry

Table 2: Threats of Entry

Cost advantage (economies of scale/scope)	High
Brand identity	Medium
Switching costs	High
Access to distribution	Medium

### A.4 Power of supplier

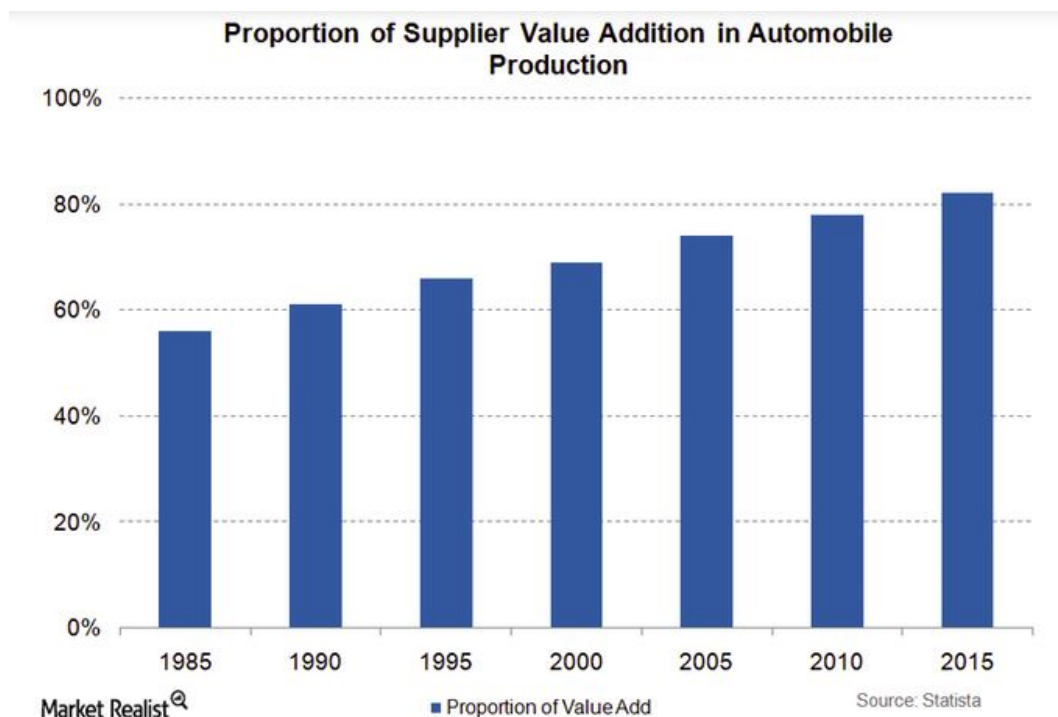


Figure 2: Proportion of supplier value addition in automobile production

Table 3: Power of Supplier

Switching costs	Medium
Substitute products	Low
Supplier concentration	Low
Cost advantage through volume	High

### A.5 Power of Buyer

Table 4: Power of buyers

Buyer concentration	Medium to High
Buyer Volume	Low
Buyer switching costs	High
Impact on quality/performance	Medium to High

#### A.6: Threat of substitutes

Table 5: Threat of substitutes

Relative price of substitutes	Low to medium
Switching costs	Low

#### A.7: Intensity of rivalry

Table 6: Intensity of rivalry

Number of competitors	
Direct competitors	Medium
Indirect competitors	High

Figure 6.4 Strategic group map for European car industry








Figure 3: Strategic Group Map for European Car industry

#### A.8: SWOT Analysis

Table 7: SWOT Analysis of Volkswagen. Based on the Volkswagen AG Company Profile by (MarketLine, 2015)

STRENGTHS	WEAKNESSES
Extensive portfolio	Emission scandal
Research and Development	Product recalls
Global presence	
OPPORTUNITIES	THREATS
Growing market	Competition
Growing demand for electric/hybrid vehicles	Raw material prices
	Government regulation

## A.9: Business Model Canvas

<b>Key Partners</b>  Advertisement Agencies Distributors Car dealers Metal suppliers Design firms Component suppliers	<b>Key Activities</b>  Assembly Manufacturing R&D Distribution	<b>Value Propositions</b>  Convenience in everyday pricing Modern Design High Tech Worldwide service	<b>Customer Relationships</b>  Worldwide service centers Promotion and ads Strong cooperative relation with distributors	<b>Customer Segments</b>  Daily commuters looking for quality cars with average car pricing.
	<b>Key Resources</b>  Manufacturing/Assembly plants and factories Distribution centers IP "German Engineering"		<b>Channels</b>  Direct selling Car Dealerships	
<b>Cost Structure</b>  Marketing Expansion of assembly plants Raw material (metals) Component costs			<b>Revenue Streams</b>  Car Sales Parts Sales Car servicing Lease Agreements	

## Appendix B

### B.1 Segmentation Groups

**Table 6.3** Kantar Media: TGI lifestage segmentation groups

Lifestage group	Demographic description	% of adults
Fledglings	15–34, not married/living as couple and have no son or daughter, living with own parents	10
Flown the nest	15–34, not married/living as couple, do not live with relations	4
Nest builders	15–34, married/living as couple, do not live with son/daughter	5
Playschool parents	Live with son/daughter and youngest child aged 0–4	13
Primary school parents	Live with son/daughter and youngest child aged 5–9	7
Secondary school parents	Live with son/daughter and youngest child aged 10–15	8
Mid-life independents	35–54, not married/living as couple, do not live with relations	4
Unconstrained couples	35–54, married/living as couple, do not live with son/daughter	7
Hotel parents	Live with son/daughter and have no child aged 0–15	10
Senior sole decision-makers	55+ not married/living as couple and live alone	10
Empty nesters	55+, married/living as couple, and do not live with son/daughter	19
Non-standard families	Not married/living as couple, live with relations, do not live with son/daughter, and do not live with parents if aged 15–34	3
Unclassified	Not in any group	0.28



### B.2: Positioning of the brand

**With One of the Broadest Product and Segment Coverages of any OEM, Volkswagen is Well Positioned to Capture Profitable Growth**

World 2010

	Hatchback	Saloon	Estate	MPV	SUV	Coupé	Convertible	Roadster	City Van	Pick-Up
E										
D										
C										
B										
A										
A0										
A00										

<sup>1</sup> 40.0% stake since 7 December 2009  
Source: Volkswagen Group

Product to be  
launched in 2010

### B.3 Ranking of the brand

April 2016 brand ranking

	Brand	April 2016	April 2015	change	2016 share	2015 share
1	Volkswagen	157.621	153.489	2,7%	12,1%	12,8%
2	Renault	94.522	86.987	8,7%	7,2%	7,2%
3	Ford	88.979	87.925	1,2%	6,8%	7,3%
4	Opel/Vauxhall	81.407	76.211	6,8%	6,2%	6,3%
5	Peugeot	78.483	73.457	6,8%	6,0%	6,1%
6	Audi	76.740	69.863	9,8%	5,9%	5,8%
7	Mercedes-Benz	72.834	59.075	23,3%	5,6%	4,9%
8	Fiat	67.846	58.991	15,0%	5,2%	4,9%
9	BMW	67.538	60.690	11,3%	5,2%	5,1%
10	Skoda	59.063	54.819	7,7%	4,5%	4,6%

Figure 4: Brand ranking



#### B.4: Market Share of Volkswagen



Figure 5: Market share of Volkswagen (leftlane, n.d.)

#### B.5 Consumer Perceptions

### Consumer perception by Type of Cars

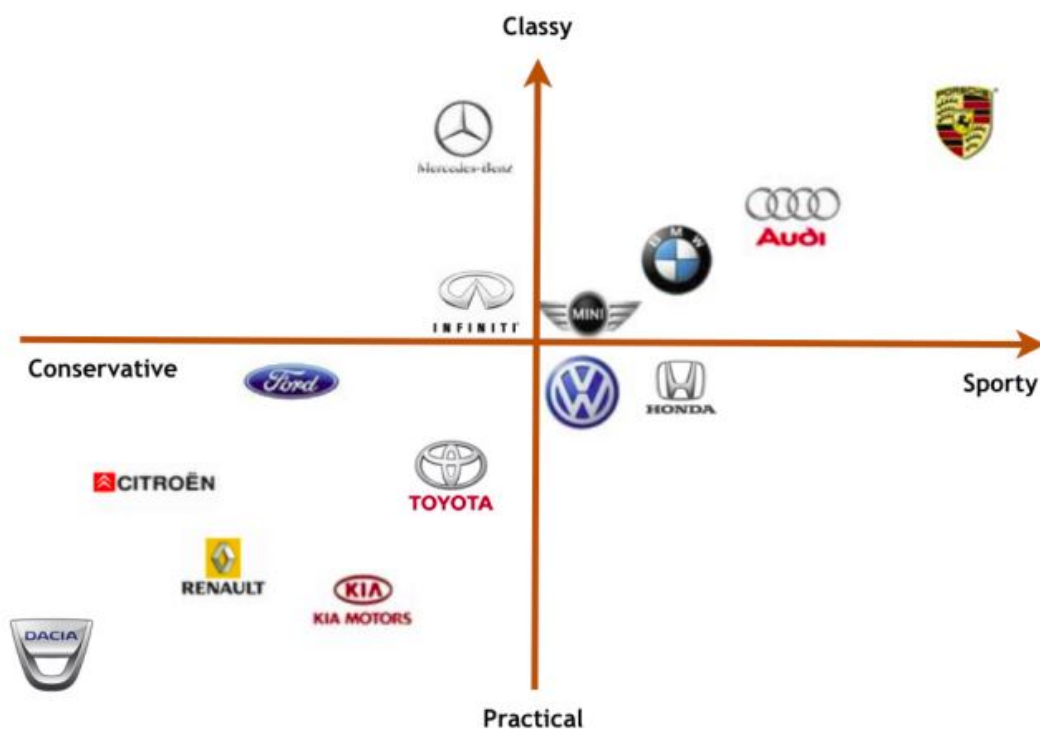


Figure 6: Consumer perception of types of car based on brand

## Consumer perception by Price and Quality

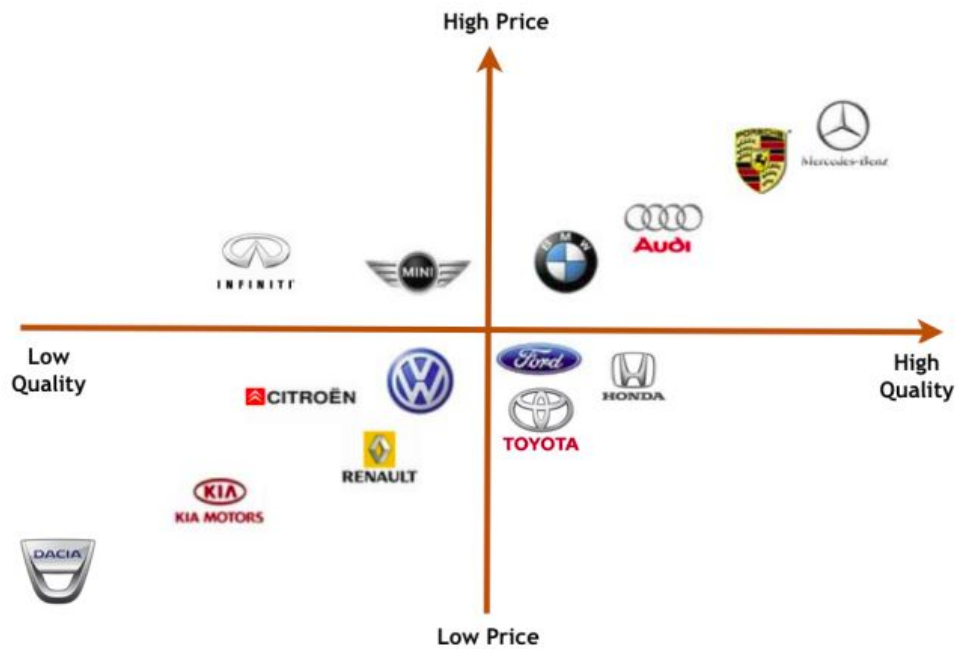


Figure 7: Consumer perception of cars based on price and quality

### B.6. Volkswagen vehicle sales for various models

Fahrzeuge	2015	2014
Caravelle/Multivan, Kombi	96.341	94.336
Transporter	82.509	83.947
Amarok	81.019	69.695
Caddy	76.048	71.535
Caddy Kombi	74.302	76.564
	<b>410.219</b>	<b>396.077</b>

Fahrzeuge	2015	2014
Golf	1.095.553	1.011.124
Jetta/Sagitar	844.907	926.277
Polo	754.546	753.754
Passat/Magotan	724.018	747.583
Tiguan	501.712	515.349
Lavida	462.748	481.740
Santana	279.583	295.485
Bora	202.964	226.006
Gol	192.841	300.629
up!	172.345	217.278
Touran	120.507	126.567
Lamando	103.573	3.080
Fox	85.161	106.991
Saveiro	75.397	96.420
Beetle	64.035	91.464
Touareg	59.190	63.741
CC	56.796	85.591
Sharan	53.423	49.498
Suran	24.691	23.332
Scirocco	16.251	23.573
Eos	4.559	6.567
Phaeton	2.924	4.061
XL1	59	106
	<b>5.897.783</b>	<b>6.156.216</b>

### B.7: Geographic Segmentation

Table 8: Geographic Segmentation for Volkswagen

Geographic division	VW's car options
Metropolitan	Polo, Golf, Beetle
Suburban	Passat, Touran, Polo, Golf, California
Rural	Tiguan, Touareg, California, Amarok, Passat

### B.8: Psychographic Segmentation

Table 9: Psychographic Segmentation for Volkswagen

Type of consumer	Most important Feature	VW Model/Feature
Family/Utility	Space/Volume of a car	Passat, Jetta, Volkswagen CC, Tiguan, Touareg, California, Amarok
Comfort driven	Convenient features which make driving easier/ more comfortable e.g. park assistant, automatic cars	e.g. Passat Variant Comfortline
Showing off (Status)	Nice interior, nice design, a lot horsepower	e.g. Volkswagen Exclusive
Sporter	A lot horsepower, aerodynamic	Golf GTD, Golf GTE, Golf GTI, Amarok
Responsible	Social responsibility, low CO <sub>2</sub> emission	e.g. e-Golf (CO <sub>2</sub> emission = 0g/km <sup>2</sup> )
Enthusiast	Exceptional technological features e.g. autopilot	Passat GTE Variant → Car-Net e-Remote; connect cell phone to car

### B.9: The growth share matrix

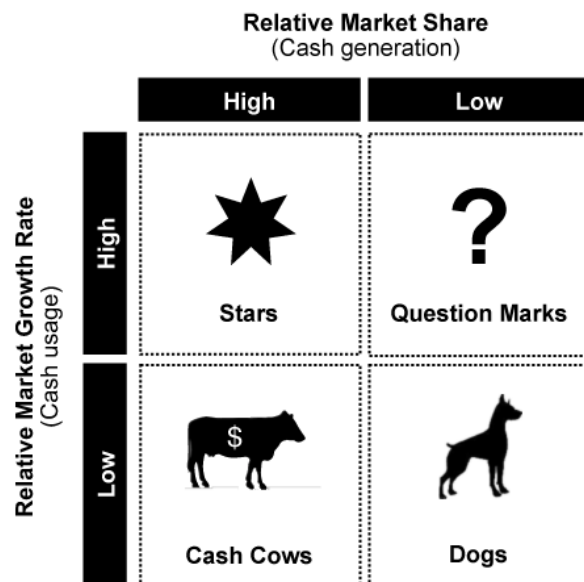


Figure 8: The growth share matrix

### B.10: Parenting matrix

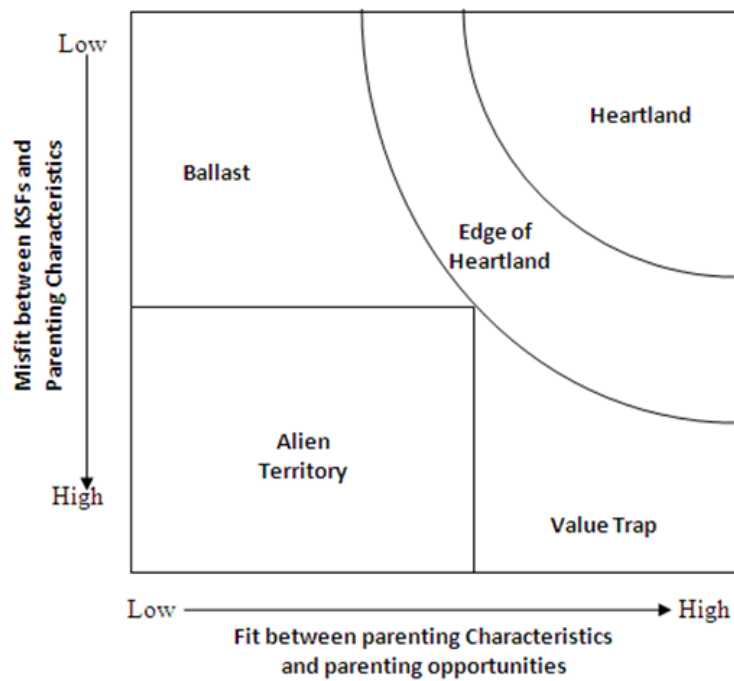


Figure 9: Parenting Mix

### B.11: Distribution Channel

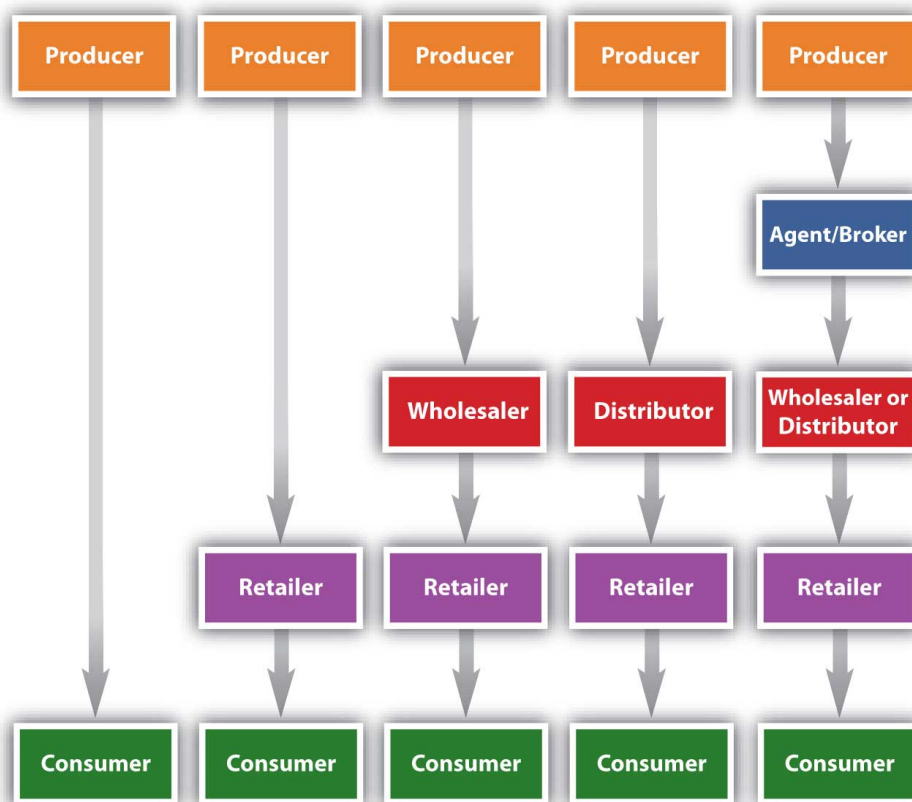
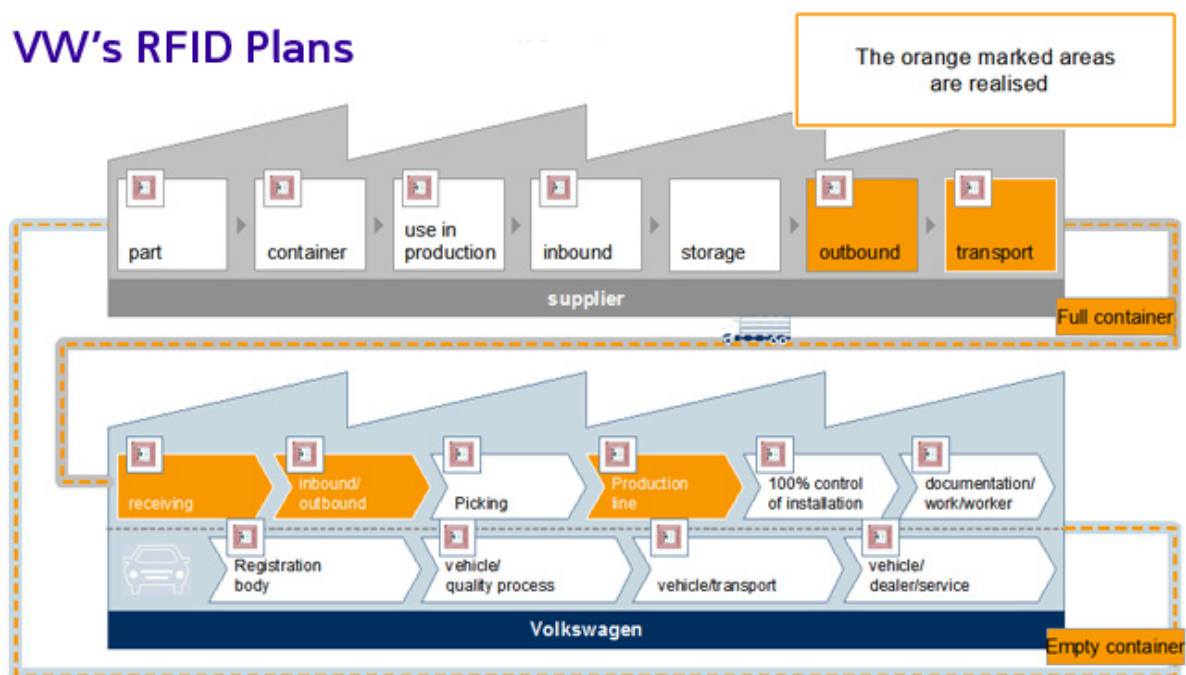


Figure 10: Distribution Channel for B2C (Tanner & Raymond, 2012)

## B.12: Supply Chain Volkswagen

### VW's RFID Plans



The system will track containers from suppliers into receiving and back again; additional tracking applications are planned

Figure 11: Supply chain of Volkswagen (Supply Chain Digest, 2009)

## B.13: Sales Volkswagen

### Overview of deliveries by the Volkswagen Passenger Cars brand:

Deliveries to customers by markets	September 2016	September 2015	Change (%)	Jan. - Sep. 2016	Jan. - Sep. 2015	Change (%)
Europe	160,400	158,000	+1.6	1,288,400	1,298,800	-0.8
Western Europe	141,000	140,400	+0.4	1,125,300	1,146,800	-1.9
Germany	48,300	49,100	-1.5	431,800	448,500	-3.7
Central and Eastern Europe	19,400	17,600	+10.4	163,100	152,000	+7.3
Russia	7,000	6,800	+2.9	52,700	56,000	-5.9
North America	45,600	45,900	-0.7	423,900	443,300	-4.4
USA	24,100	26,100	-7.8	231,300	264,200	-12.5
South America	20,500	38,900	-47.2	254,200	363,900	-30.2
Brazil	9,900	27,400	-63.7	164,400	267,500	-38.5
Asia-Pacific	303,700	253,400	+19.8	2,264,900	2,077,100	+9.0
China	288,800	235,300	+22.8	2,133,100	1,914,000	+11.4
Worldwide	547,700	513,500	+6.7	4,374,900	4,349,600	+0.6

Figure 12: Overview of deliveries of Volkswagen (Volkswagen AG, 2016)



### B.14 EV's interest

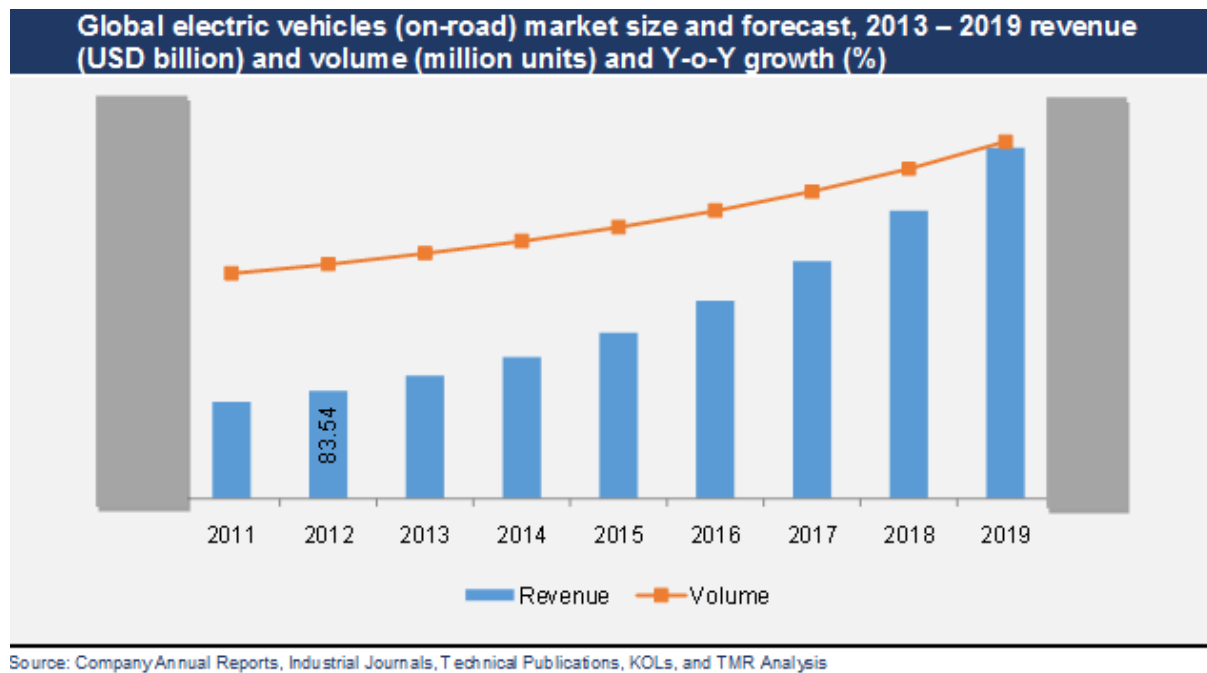


Figure 13: Global electric vehicles market size forecast (*Transparency Market Search, 2014*)

### B.15 Marketing Channels Example: Advertising conveying objective



B.16 Marketing Channels Example: Sporting events to reach customers



B.17 Marketing Channels Example: Social media awareness





**SOME FEAR CHANGE.  
OTHERS DRIVE IT.**



**E-LINE**



