

Volkswagen (V.W.) Case Study Report

Module name: Strategic Management and Sustainability

Module No: LCBB6004

Lecture's name: Dr Hossein Shokri

Student ID: 1916909

Student name: Milena Petrova

Table of Contents

1.	Introduction	3
2.	Company Background	3
3.	Strategic Analysis	4
3.1.	SWOT Analysis	4
3.1.1.	Strengths	4
3.1.2.	Weaknesses	4
3.1.3.	Opportunities	5
3.1.4.	Threats	5
4.	Strategic Choice	6
4.1.	Generic Strategy	6
4.2.	ANSOFF	7
4.2.1.	Market development	7
4.2.2.	Diversification	7
4.2.3.	Market penetration	8
4.2.4.	Product development	8
5.	Strategy Implementation	9
6.	Conclusion and Recommendation	11
7.	References	12
8.	Appendices	14
	Appendix 1 - Volkswagen Annual Report, 2021	14
	Appendix 2 - Volkswagen Sustainability Report, 2020	14

1. Introduction

Volkswagen (V.W.) A.G. is one of the most famous and iconic brands of Deutschland AG. In 2014 (Tanner andGroos, 2022), Volkswagen was the world's leading automobile manufacturer by volume. However, during the same year, Volkswagen was also reported to be dealing with many difficulties related to financial and strategic decisionscaused bycontinuing low profitability and the inability to get a strong foothold in major markets like the United States.

In April 2015 (Tanner andGroos, 2022), U.S. International Council on Clean Transportation reported that some V.W. cars' Nitrogen oxide emission levels were more than 40 times (Tanner andGroos, 2022) what is considered permitted level. And although Volkswagen initially denied this news, U.S. Environmental Protection Agency issued a Notice of Violation highlighting its complaints against nitrogen oxide emissions. This DieselGate issue had a severe negative impact on Volkswagen's status. This report will highlight the relevant concepts and strategies of Volkswagen and how they shape the company and its operations.

2. Company Background

Volkswagen, one of the leading car manufacturers, is based in Wolfsburg, Niedersachsen, Germany. The company designs cars and motors and has production units worldwide. In 1934 (Pullen and Rhodes, 2021), the company started its operations under the name of Käfer, and in 1938 (Pullen and Rhodes, 2021), its name changed to Volkswagenwerk GmbH. Volkswagen's sudden rise began in the 1950s (Pullen and Rhodes, 2021) when the company became a symbol of Germany's economic progress. It continued in the 1970s(Tanner andGroos, 2022) when the company embraced new and flexible manufacturing methods.

The Group's main business activities are designing vehicles and selling them globally. The Group has two different segments, Automotive and Financial Services. The Automobile business deals in passenger cars, business cars, lorries, and buses. Financial Services include financing and leasing for dealers and customers, banking and insurance operations, car rental, and fleet management.

3. Strategic Analysis

3.1. SWOT Analysis

Internal	<u>Strengths</u> Product Range, High Quality Manufacturing, & Sales	<u>Weaknesses</u> Company Culture
	<u>Opportunities</u> Production Capacity & Electric Cars	<u>Threats</u> <u>DieselGate</u> Issue
External	Positive	Negative

Figure 1: SWOT Analysis

3.1.1. Strengths

The Volkswagen brand is known for its product diversity, high-quality manufacturing, and huge global sales. As the largest automaker in Europe and the second largest worldwide, it is a powerhouse in the industry. The Volkswagen Group also invests a lot of money in research and development (R&D) (Olabi et al., 2022). Volkswagen's best qualities are how much it can make and how much it sells. But Volkswagen has had a lot of trouble with productivity as of late. For example, Volkswagen and Toyota make more than 10 million cars each year (Olabi et al., 2022). Volkswagen makes a 6% profit margin with a staff of more than 600,000 individuals. On the other hand, Toyota only needs 300,000 workers to make 10% more money (Olabi et al., 2022).

3.1.2. Weaknesses

The main weakness of the company is its culture. The study conducted by Che, Katayama and Lee (2022) mentioned that Volkswagen's management is arrogant, competitive, and closed off. The company's senior management knows only one way of working: "to be aggressive at all times" (Che et al., 2022, 21).

3.1.3. Opportunities

Production and sales have given Volkswagen an edge over rivals. Volkswagen manufactured more than 100 million cars between 2011 and 2020, about 10 million cars annually on average (Olabi et al., 2022). Volkswagen has recently shifted its focus to digital and electric car technologies, and the company has promised to spend £75 billion (Che et al., 2022, 21). This risky bet on electric vehicles will require a lot of money to go into the technical side. Analysts in the field are sceptical because it is very hard to quickly make big changes in culture and products while lowering costs simultaneously. Volkswagen might face a divide in loyalty in Europe if it decides to sell its popular diesel cars and the electric cars it plans to make.

3.1.4. Threats

In September 2015 (Olabi et al., 2022), the EPA found that some Volkswagen cars sold in the U.S. had something called a ‘defeat device’ (Olabi et al., 2022) in their diesel engines. This kind of software could tell when the car was being tested and change the performance emissions reading to get better results. During testing, the program picked up on changes in speed, engine speed, air pressure, and even how the steering wheel was turned. It was found that engines may pass emissions tests even though they put out 40 times the amount of nitrogen oxide pollution that is allowed by law.

After an internal investigation began, more than 11 million cars were recalled globally (Olabi et al., 2022). As a result of the emissions scandal, Volkswagen had to call back 8.5 million cars across Europe (Che et al., 2022, 21), including 2.4 million in Germany and 1.2 million in the U.K. (Che et al., 2022, 21). For this purpose, more than £6 billion was set aside (Olabi et al., 2022). This caused the company to have its first quarterly loss of £2.3 billion in 15 years (Olabi et al., 2022). There is no doubt that the controversy over Volkswagen's emissions testing hurt the company's reputation all over the world.

4. Strategic Choice

4.1. Generic Strategy

Michael Porter introduced the cost leadership, differentiation, and focus strategies in 1980 (Reyes, Dennis and Dahlgaard, 2021). These are three general ways to help a company gain a competitive edge in a market. A pure cost player may be able to undercut a hybrid competitor's prices, while the hybrid's unique selling points may attract customers who care more about quality.

The auto industry is a great example of Porter's theory because it shows how all factors that lead to success work together. Companies with powerful strategies, like Porsche and Toyota, tend to do better than those with more indirect approaches, like Volkswagen. But Porter's argument does not help much when you want to know why Volkswagen uses a hybrid approach (Poth et al., 2021). The people in charge at Volkswagen probably know that companies that do business more straightforwardly tend to do better. Porsche and Toyota are at opposite ends of the strategic spectrum from Volkswagen. Volkswagen has been struggling for years because its products do not appeal to consumers who care about quality or value. The company can make enough money to keep its position as the biggest automaker in Europe without being tied down to any one end of the strategic spectrum (Poth et al., 2021).

Automakers like Volkswagen have used platform solutions to speed up the technological parts of the production process (Reyes et al., 2021). Because of this, the manufacturing process is more productive. What makes these platforms differ from each other is the "body frame, front and rear axles, wheels, engine, gearbox, steering, brakes, seats, and heating" (Reyes et al., 2021, 51). The platforms fall into four market groups: first, the luxury group; second, the upper-level and upper-middle-level group; third, the typical middle-market Group; and fourth, the lower-level and entry-level segment.

4.2. ANSOFF

As a strategic tool, the Ansoff matrix was made to help and guide businesses as they made decisions about growth. Within the framework of the Ansoff matrix, businesses can choose to make new products, branch out into new markets, or diversify.

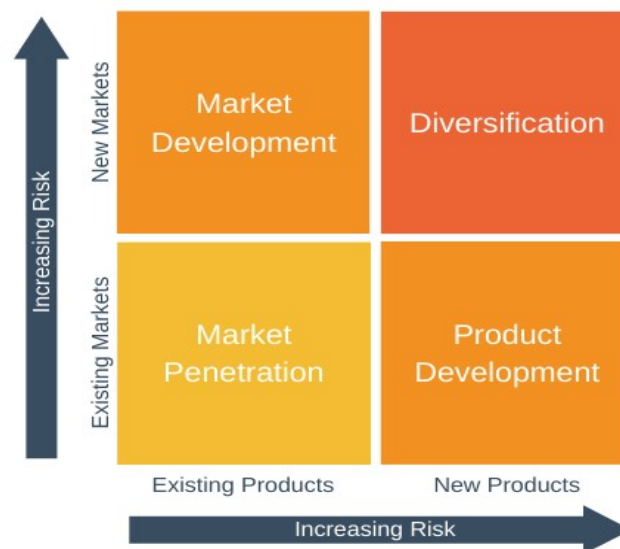


Figure 2: ANSOFF Matrix

4.2.1. Market development

Volkswagen needs to spend money on R&D to find new customer niches and grow in those areas. Focusing on how current market cultures, trends, and consumer behaviours differ from possible market behaviours should be the main goal of R&D (Simon, 2022).

4.2.2. Diversification

Vertical diversification

Volkswagen uses vertical diversification by making its current product categories bigger. Any new products Volkswagen makes or brings out would fit nicely into existing categories (Jeong et al., 2021).

Horizontal diversification

Volkswagen uses horizontal diversification when it starts working on and releases new products that have nothing to do with its current products. However, it is helpful to talk about new

products and improvements for things that work in the same or a similar economic context as the products that are coming to visit (Jeong et al., 2021).

4.2.3. Market penetration

Increase production capacity

Expanding production capacity would lead to better efficiency and productivity, especially when it comes to keeping costs down. If costs were lower, prices could go down, which would be good for customers in the same market. Increased sales and consumption within the same market can make it more attractive and make prices more competitive, leading to a bigger market share (Kremer and Park 2021).

Increased marketing investment

Volkswagen may start investing more in advertising and marketing. Volkswagen can reach more customers in the market it is already in by investing in and talking to its current customers (Kremer and Park 2021).

4.2.4. Product development

Research and development

Volkswagen always puts money into research and development, especially in market research and how customers to act (Andersen, Brunoe and Nielsen, 2022). Volkswagen's investments in research and development (R&D) have helped the company stay competitive by bringing new ideas to its products and other areas of business, such as marketing, operations, and finances (Andersen, Brunoe and Nielsen, 2022). Because of technological changes, Volkswagen is now better at doing everyday things.

Strategic partnerships

The Volkswagen Group investigates possible new products and markets by forming strategic alliances. Strategic alliances give Volkswagen access to cutting-edge research and manufacturing techniques. This lowers the company's financial risk regarding new products and manufacturing techniques that could be both profitable and risky ((Andersen et al., 2022). Before starting full-scale production of their own, Volkswagen needs to know how the new product was made and how the market reacted to it.

5. Strategy Implementation

Over the last century, vehicle manufacturers across the globe have worked hard to develop and introduce improved versions of their products. Automakers spend three to four years and employ thousands of people on a single model yearly. To succeed, automakers must adapt to the rapidly evolving digital landscape. Automobiles have turned into cultural icons in recent decades. The software development phase currently accounts for 50% to 70% of total development expenditures (Reyes et al., 2021). Shorter innovation cycles are required in today's data-driven culture. After a vehicle has been sold, the ability to update its software is crucial for manufacturers. Volkswagen Group's efforts in this regard and its sustainability strategy are in complete harmony with the United Nations Sustainable Development Goals.

The new Group Environmental Policy provides a coherent approach to climate change for the business and its stakeholders. Volkswagen takes environmental protection seriously in all its operations, from product development and manufacturing to after-sales service and recycling (Reyes et al., 2021). The role of suppliers cannot be understated. To combat climate change, Volkswagen will adhere to the guidelines outlined in the Paris Agreement. The company's goal for 2050 is to have zero carbon emissions in its financial statements. The target is a 30% reduction (Zhang, Atwal and Kaiser, 2021) in greenhouse gas emissions from vehicles and light trucks from 2015 levels by 2025 (Zhang et al., 2021). The corporation is committed to accelerating the transition to renewable energy sources across its operations.

Environmental consideration: Volkswagen has implemented and is closely monitoring effective management systems that cover the environmental impact of its mobility solutions over their entire life cycle (Zhang et al., 2021). This is all part of the company's effort to prove itself as an environmentally responsible, progressive leader in the business world.

Reducing air pollution: To help control air pollution, Volkswagen is advancing e-mobility. 25% to 27% of the Group's offerings will be battery-electric vehicles by 2025 (Escobar, 2022). At least 40% of the Group's vehicles will be electric by 2030 (Escobar, 2022). The Group greatly values achieving the 2°C target in the Paris Climate Agreement. Volkswagen Group intends to eliminate all emissions by 2050 (Escobar, 2022). Reducing greenhouse gas emissions is key to the 'goTOzero' environmental mission statement.

Efficient supply chain management: The Volkswagen Group is wholly dedicated to corporate responsibility in every one of its relationships, across every one of its divisions, and in every one of its facilities (Turna, 2022). Thus, the Group is instituting a rigorous framework for controlling business and human rights.

Circular economy concept: Volkswagen hopes to enhance the circular economy concept by, among other things, making more efficient use of resources, including materials, energy, and water. By 2025 (Turna, 2022), the business aims to reduce its carbon dioxide, energy, water, garbage, and volatile organic compound emissions by 45% per vehicle compared to 2010 (Turna, 2022). As part of its mission to aid the environment and advance circular business models, the Volkswagen Group has devised strategies for recycling and reusing automobile components. Reducing carbon emissions is a long-term goal for the Group, and this goal serves as a primary motivation for the circular economy (Klein, 2022). This is because the business has drastically cut its carbon dioxide emissions thanks to its increasing usage of secondary materials and the construction of closed material loops.

Transforming workforce: The company has begun the transitional process that has helped most of its employees replace by the beginning of 2020 (Zhilkin andKiryukhina, 2021). Budgets for training have been increased, with the entire workforce receiving the relevant training as traditional factories are converted into electric vehicle factories. Moreover, the impact of e-mobility and digitalization on employment policy has been studied systematicallyZhilkin andKiryukhina, 2021), and strategic staff planning has been broadened as part of this initiative.

An environmental policy, as well as policies for project management and environmental performance, have been formulated by the corporation to direct its environmental choices. Five primary categories are addressed in the policy change process: leadership, compliance, environmental preservation, stakeholder involvement, and continual improvement (Zhang et al., 2021).

By 2028, the Group aims to have more than 70 new electric vehicles on the market (Turna, 2022), having invested nearly £26 billion in electric mobility by 2023 (Turna, 2022). The Group is also contributing to the establishment of charging infrastructure and providing its customers with the Elli Volkswagen Naturstrom.

6. Conclusion and Recommendation

This report offered insight into Volkswagen's internal and external strategic analysis and decisions. Although the company's operations might have changed during the last couple of years, owing to the DieselGate incident, Volkswagen has already started regaining its previous prestigious position in the market.

Considering how Volkswagen tried to use ineffective ways of handling the emerging problems, it can be recommended that whenever a transgression occurs, the most appropriate strategy is to accept the fault and try to be more receptive toward response strategies instead of avoiding the problem by blaming inefficient strategies.

7. References

- Andersen, R., Brunoe, T.D. and Nielsen, K., 2022. Platform-based product development in the process industry: a systematic literature review. *International Journal of Production Research*, pp.1-24.
- Che, X., Katayama, H. and Lee, P., 2022. EXPRESS: Product-Harm Crises and Spillover Effects: A Case Study of the Volkswagen Diesel Emissions Scandal in eBay Used Car Auction Markets. *Journal of Marketing Research*, p.00222437221115616.
- Escobar, L.F., 2022. The sustainability solution in MNEs: understanding the impediments to its implementation. *The Role of Multinational Enterprises in Supporting the United Nations' SDGs* (pp. 79-99). Edward Elgar Publishing.
- Jeong, B., Ko, N., Son, C. and Yoon, J., 2021. Trademark-based framework to uncover business diversification opportunities: application of deep link prediction and competitive intelligence analysis. *Computers in industry*, 124, p.103356.
- Klein, I., 2022. *Analyzing the case of Volkswagen and the transition to electric vehicles in 2020-autonomous driving* (Doctoral dissertation).
- Kremer, P. and Park, S., 2021, July. Detection and Mitigation of Safety Critical Lane Changes in Partially-Connected Vehicles. In *2021 IEEE Intelligent Vehicles Symposium (IV)* (pp. 409-414). IEEE.
- Olabi, A.G., Wilberforce, T., Sayed, E.T., Abo-Khalil, A.G., Maghrabie, H.M., Elsaid, K. and Abdelkareem, M.A., 2022. Battery energy storage systems and SWOT (strengths, weakness, opportunities, and threats) analysis of batteries in power transmission. *Energy*, 254, p.123987.
- Poth, A., Kottke, M., Mahr, T. and Riel, A., 2021. Teamwork quality in technology-driven product teams in large-scale agile organizations. *Journal of Software: Evolution and Process*, p.e2388.
- Pullen, A. and Rhodes, C., 2021. *Organizing Corporeal Ethics: A Research Overview*. Routledge.

- Reyes, L., Chen, C.K., Sosa Diaz, D.A. and Dahlgaard, J.J., 2021. Investigation of industry 4.0 implementation challenges: an exploratory case study of Volkswagen. In *Key Challenges and Opportunities for Quality, Sustainability and Innovation in the FOURTH INDUSTRIAL REVOLUTION: Quality and Service Management in the Fourth Industrial Revolution—Sustainability and Value Co-creation* (pp. 47-72).
- Simon, H., 2022. Target Market America. In *Hidden Champions in the Chinese Century* (pp. 91-97). Springer, Cham.
- Tanner, C. and Groos, A.S., 2022. The Dynamics of Escalation in Cheating: Lessons from the Volkswagen Emissions Scandal. *Available at SSRN 4191411*.
- Turna, G.B., 2022. How “Dieselgate” Changed Volkswagen: Rushing to Erase the Traces of Greenwashing. In *Socially Responsible Consumption and Marketing in Practice* (pp. 255-273). Springer, Singapore.
- Zhang, M., Atwal, G. and Kaiser, M., 2021. Corporate social irresponsibility and stakeholder ecosystems: The case of Volkswagen Dieselgate scandal. *Strategic Change*, 30(1), pp.79-85.
- Zhilkin, O. and Kiryukhina, S., 2021. Automotive industry: trends in the implementation of modern corporate strategies. In *SHS Web of Conferences* (Vol. 114). EDP Sciences.

8. Appendices

Appendix 1 - Volkswagen Annual Report, 2021

<https://annualreport2021.volkswagenag.com/>

Appendix 2 - Volkswagen Sustainability Report, 2020

<https://www.volkswagenag.com/en/sustainability/reporting-and-esg-performance/sustainability-report.html>